CAFR

SUSAN COMBS

TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE STATE OF TEXAS FOR THE FISCAL YEAR ENDING AUGUST 31, 2010

The State of Texas

Comprehensive Annual Financial Report

Fiscal Year Ending August 31, 2010

Susan Combs

Texas Comptroller of Public Accounts

Acknowledgments

The Comprehensive Annual Financial Report was prepared by the
Financial Reporting section of the Texas Comptroller of Public Accounts with
assistance from other sections within the Fiscal Management and Data Services Divisions.

Irene Lee, CPA, Financial Reporting Supervisor
Wiley Thedford, Assistant Supervisor
Amanda Landry, CPA, Team Lead

Lynn Gunn, CPA
Wallace Lankford, CPA
Rami Legha, CPA
Laurel Mulkey
Stacy Parker
Shirley Perry
Oanh Pham, CPA
Aurora Ramirez
Angela Slutz, CPA
Stephen Stewart, CPA
Lori Williams, CPA
Brittany Wisdom, CPA
Linda Yarbrough
Tom Zapata, CPA

Other Sections:
Gary Bryant
Armando Cantu
Francine Fowler, CPA
Minh Phan
David Heffington
Bruce Holmstrom
Terri Whaley

Suzy Whittenton, CPA, Fiscal Management Division Director
Phillip Ashley, CPA, Fiscal Management Assistant Director
Rob Coleman, Fiscal Integrity Manager

Data Services, Graphics Team:
Brad Wright, Layout
Dan Lynch, Cover Design

Special appreciation to:
All accounting and budget personnel of state agencies and institutions of
higher education whose extra time and effort made this report possible.

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

State of Texas
Comprehensive Annual Financial Report

For the Year Ended August 31, 2010

Table of Contents

1: INTRODUCTORY SECTION

Letter of Transmittal 3
Elected State Officials 13
Government Structure of Texas 14
Certificate of Achievement 16

2: FINANCIAL SECTION

Independent Auditor's Report 19

Management's Discussion and Analysis

Management's Discussion and Analysis 25

Basic Financial Statements

Government-wide Financial Statements
- Statement of Net Position 40
- Statement of Activities 42

Fund Financial Statements
- Governmental Fund Financial Statements
  - Balance Sheet 44
  - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position 45
  - Statement of Revenues, Expenditures and Changes in Fund Balances 46
  - Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities 47
- Proprietary Fund Financial Statements
  - Statement of Net Position 48
  - Statement of Revenues, Expenses and Changes in Fund Net Position 50
  - Statement of Cash Flows 52
- Fiduciary Fund Financial Statements
  - Statement of Fiduciary Net Position 54
  - Statement of Changes in Fiduciary Net Position 55

Notes to Financial Statements 57

Required Supplementary Information Other Than MD&A

Budgetary Comparison Schedule 150
Modified Approach to Reporting Infrastructure Assets 153
Schedules of Funding Progress 155

2: FINANCIAL SECTION (continued)

Other Supplementary Information – Combining Financial Statements and Schedules

Governmental Funds
- Nonmajor Governmental Funds
  - Combining Balance Sheet . . . 161
  - Combining Statement of Revenues, Expenditures and Changes in Fund Balances . . . 162
- Nonmajor Special Revenue Funds
  - Combining Balance Sheet . . . 164
  - Combining Statement of Revenues, Expenditures and Changes in Fund Balances . . . 165
  - Budgetary Comparison Schedule . . . 166
- Nonmajor Debt Service Funds
  - Combining Balance Sheet . . . 170
  - Combining Statement of Revenues, Expenditures and Changes in Fund Balances . . . 171
- Nonmajor Capital Projects Funds
  - Combining Balance Sheet . . . 174
  - Combining Statement of Revenues, Expenditures and Changes in Fund Balances . . . 176
- Nonmajor Permanent Funds
  - Combining Balance Sheet . . . 180
  - Combining Statement of Revenues, Expenditures and Changes in Fund Balances . . . 181

Enterprise Funds
- Nonmajor Enterprise Funds
  - Combining Statement of Net Position . . . 186
  - Combining Statement of Revenues, Expenses and Changes in Net Position . . . 190
  - Combining Statement of Cash Flows . . . 194
- Colleges and Universities – Major Enterprise Fund
  - Schedule of Net Position . . . 200
  - Schedule of Revenues, Expenses and Changes in Net Position . . . 204
  - Schedule of Cash Flows . . . 208

Fiduciary Funds
- Pension and Other Employee Benefit Trust Funds
  - Combining Statement of Fiduciary Net Position . . . 216
  - Combining Statement of Changes in Fiduciary Net Position . . . 218
- Private-Purpose Trust Funds
  - Combining Statement of Fiduciary Net Position . . . 222
  - Combining Statement of Changes in Fiduciary Net Position . . . 223
- Agency Funds
  - Combining Statement of Fiduciary Net Position . . . 227
  - Combining Statement of Changes in Assets and Liabilities . . . 228

Discretely Presented Component Units
- Combining Statement of Net Position . . . 234
- Combining Statement of Activities . . . 240

3: STATISTICAL SECTION

Financial Trends Information
Net Position by Component 247
Changes in Net Position 248
Fund Balances – Governmental Funds 252
Changes in Fund Balance – Governmental Funds 253
Revenue Capacity Information
Taxable Sales by Industry 254
State Tax Collections and Retail Sales 255
Total Retail Sales, 2000-2010 255
Texas Gross State Product by Industry 256
Debt Capacity Information
Legal Debt Margin Information 257
Ratio of Outstanding Debt by Type 258
Ratio of General Bonded Debt Outstanding 259
Pledged Revenue Bond Coverage 260
Demographic and Economic Information
Texas Nonfarm Employment Detail: Number of Jobs 262
Texas and U.S. Selected Statistics 264
Texas and U.S. Employment and Unemployment Rates 264
Operating Information
Full-Time Equivalent Employees by Function 265
Capital Asset Statistics by Function 266
Operating Indicators by Function 267

Section One

Introductory Section

February 28, 2011

To the Citizens of Texas, Governor Perry
and Members of the 82nd Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the state of Texas for the fiscal year ended Aug. 31, 2010, 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 are included.

The reporting approach established by the Governmental Accounting Standards Board (GASB) was 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. The state auditor 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 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, 2010, with the opinion expressed by KPMG, will be issued separately.

Profile of the Government

This report includes financial statements for the state of Texas reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by GASB. The criteria include 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 generally 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.

The management discussion and analysis (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.

Accounting System and Budgetary Controls

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 the General Appropriations Act becomes law. The General Appropriations Act 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 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

The Texas economy has emerged from recession and has now regained more than half the jobs lost during the 2008-09 recession. Over the 12 months ending in November 2010, the number of Texas nonfarm jobs increased by 1.9 percent. Texas' nonfarm employment totaled 10.4 million in November 2010, for a year-to-year increase of 192,100 jobs. The state recovered more quickly from the "Great Recession" than the nation, as the nation recovered only 13 percent of its lost jobs as of December 2010, compared to 55 percent in Texas.

The relative advantage of the Texas economy during the recent recession and recovery continues a long-standing trend. Not only did Texas add more jobs than any state over the past year, but only one state—New Hampshire—had a faster rate of job growth than Texas. Three of the 10 most populous states continued to lose jobs during the year. With substantial growth in the labor force due to internal population growth and net migration gains, Texas' unemployment rate, however, remained at its highest annual average rate since 1987. At 8.3 percent as of December 2010, the state's jobless rate is still the lowest among the 10 most populous states and remains 1.1 percent below the national average of 9.4 percent. A big challenge remaining is that many of the replacement jobs added in the last year pay less than the jobs that were lost, and total wages in Texas remain almost 2 percent lower than the peak during the fourth quarter of 2008.

Another indicator the state's economy was comparatively healthy was the U.S. Bureau of the Census report that Texas added more people (nearly 4.3 million) than any other state between the census counts of 2000 and 2010. Among all states, Texas ranked fifth in the rate of

population growth, with a faster rate of growth than all states except the much less populous states of Nevada, Arizona, Utah and Idaho. According to the U.S. Bureau of the Census count, Texas (with 8.1 percent of the U.S. population) accounted for nearly 16 percent of the nation's total population growth during the decade. Net migration of approximately 2 million people accounted for 47 percent of Texas' population increase over the 10 year period.

Closing the Book on the Great Recession

The nation experienced its worst recession in 2008 and 2009 since World War II. While the nation's real Gross Domestic Product (GDP) fell by 4.1 percent from its peak in the fourth quarter of 2007 to its low point in the second quarter of 2009, Texas' real Gross State Product (GSP) dropped by a comparatively milder 1.6 percent from peak to low point. Estimates from IHS Global Insight, Inc., and the Comptroller's economic forecast model, show that both Texas and the nation returned to economic growth in 2010, with the nation increasing its GDP by 2.8 percent and Texas increasing its GSP by 3.4 percent. The mix of Texas industries, a comparatively healthier housing market and robust export growth allowed the state to grow faster than the nation. In its position as the nation's largest exporting state, Texas accounts for a comparatively large one-seventh of the total value of U.S. exports, which is a plus as international economies strengthen.

Texas' personal income increased by 4.7 percent over the past year, based on data from the U.S. Bureau of Economic Analysis for the third quarter of 2010. This is markedly improved from a 1.3 percent loss of personal income in 2009. The nation's latest personal income growth rate is 3.6 percent, following a loss of 1.7 percent in 2009.

Even as the economy began to grow again, consumer optimism for both the Texas region and the nation was lower in December 2010 than a year earlier, based on the Consumer Confidence Index from The Conference Board, a monthly measure of the level of optimism consumers have in the economy. Although the index for the region containing Texas and its neighboring states closed well above its low of 46.4 in March 2009, the December 2010 level of 67.9 was beneath its level of 72.1 a year earlier. The continuance of high unemployment, a weak market for job seekers and uninspiring per capita wage levels kept consumers uncertain about current conditions and the economic outlook.

The Job Picture by Industry

Nine of the state's 11 major industries added jobs from November 2009 to November 2010. The fastest job growth rate was in mining and logging, which is dominated by the oil and natural gas industry, and the industry with the poorest performance was information, which includes broadcast media, telecommunications and Internet-based services. While private (non-government) employment dropped by 405,000 statewide in the year ending November 2009, private employment increased by 186,400 jobs during the 12 months ending in November 2010, a 2.2 percent growth rate. Government employment increased by just 0.3 percent, with the gains related to hiring by local governments, including school districts.

In the year ending November 2010, the industry that added the most jobs was professional and business services, at 61,200 jobs added. Along with having the most negative rate of change, information also lost the most jobs—12,900—among Texas industries. Professional and business services advanced largely due to hiring in administrative and support services, including employment services, a sector that often adds temporary and part-time jobs when the economy begins to emerge from a recession. Employers still not confident enough to hire full-time employees often hire additional help first through employment service agencies.

The number of oil and natural gas drilling rigs operating in Texas dropped to a low of 329 in mid-2009, but by the end of calendar 2010, the count had more than doubled, to 750. Although far from its record level, this increase was indicative of a turnaround in the state's oil and natural gas industry. The drilling activity contributed to a robust 14.5 percent employment growth from November 2009 to November 2010, adding 28,600 mining and logging jobs. This industry is more than five times as concentrated in Texas as it is nationally, as measured by the industry's share of total wages paid in Texas and the U.S. In addition to the economic impact from exploration activities within the state, Texas is the headquarters for many of the nation's oil and natural gas firms. The broader oil and natural gas industry, which includes mining, petrochemicals, petroleum refining and oil/natural gas-related manufacturing, accounts for a 15 percent share of the total Texas economy, and this serves as a buttress for the state economy when increasing oil and natural gas prices hinder the industries consuming those energy sources. In November 2010, the state's mining and logging industry job count stood at 226,300.

Sustained weakness in the building of multi-family residences and public highway and bridge construction was counterbalanced by renewed investment in single-family housing and business structures. Most sectors of construction continued to lose jobs, but hiring for building construction indicated that renewed optimism was returning to the Texas construction industry as 2010 came to a close. After losing 107,300 jobs between November 2008 and November 2009, the severe downturn turned into the net gain of 13,400 construction jobs from November 2009 to November 2010.

Mortgage foreclosures in Texas were slightly higher than normal during 2010, but were still less than half the national rate. With a recovering market and a federal tax credit for many first time buyers of single-family homes, Texas permits for single-family houses increased by an annual 6 percent, based on a 12-month moving average ending in October 2010. Multi-family housing permits remained in a slump, at 7 percent lower than a year earlier. According to the Texas A&M Real Estate Center, median prices for single-family houses sold in Texas increased 2 percent over the past year and the number of sales of single-family houses remained stable. According to McGraw Hill Construction and the Comptroller's economic forecast model, Texas nonresidential construction of offices, fabrication facilities and warehouses declined another 22 percent in 2010, but the rate of decline has slowed.

As in other industries, Texas is faring better than the many states where housing was overvalued and prices cratered. The U.S. construction industry saw another year of job declines (down 2 percent), while Texas' total construction employment increased by 2.4 percent. Construction employment statewide totaled 575,100 in November 2010. After two years of job losses grounded in a national recession, weak international markets, subdued oil and natural gas drilling activity and continued growth in productivity per worker, the Texas manufacturing industry saw the recovery of a substantial number of jobs during the past year. The improvements took root, in particular, in the demand for oil and natural gas drilling rigs, with an increase of 18,500 jobs in the fabricated metals sector, a robust 16.4 percent increase from November 2009 to November 2010. With continued and often substantial losses in many manufacturing sectors, these jobs were the lion's share of the 22,700 net manufacturing jobs added statewide. Increased drilling activity also boosted employment for agricultural/construction/mining machinery, which grew by 10.3 percent. Relocation of some automobile manufacturing to Texas boosted hiring in motor vehicle manufacturing, which increased by 4.5 percent. With a 4 percent growth rate, aerospace manufacturing added a net 2,000 new jobs in Texas.

On the downside, there were double-digit percentage losses in the manufacturing of communications equipment (down 10.8 percent) and in furniture manufacturing (down 10.2 percent), as weak homebuilding and consumer spending failed to stimulate demand for home furnishings. Employment in printing dropped by 9.6 percent as newspapers struggled to maintain subscription volume and advertising.

Although the domestic demand for Texas goods and services remained weak in 2010, Texas export markets more than recovered from severe losses in 2009. Texas exporters faced a 16 percent sales decline a year ago, but had a renewed 28 percent increase through the first three quarters of 2010, compared to the same three quarters of 2009, to reach a new all-time high in Texas export sales. With a preliminary estimate of $222 billion in exports from Texas in calendar 2010, exports accounted for 16.5 percent of the state's GSP, with chemicals, electronics, nonelectrical machinery and petroleum products accounting for about two-thirds of the total. Texas led all other states in the value of export trade since 2002 and saw a larger percentage increase during 2010 than the nation, according to the World Institute of Social and Economic Research.

Texas manufacturing production, as measured by real GSP, jumped up by 2.8 percent in 2010, attributable primarily to the resurgence of oil and natural gas drilling in the state. The GSP from the Texas manufacturing industry was $157 billion in 2010.

Manufacturing jobs in Texas totaled 838,400 in November 2010, an increase of 2.8 percent over the past year. The industry's employment growth in Texas was better over the last year than it was nationally (at 0.8 percent growth).

Texas' service-providing industries, which account for more than 84 percent of the state's total nonfarm employment, uncharacteristically underperformed the goods-producing industries in the rate of job growth over the past year but still accounted for 66 percent of all jobs added statewide. Six of the eight service-providing industries had job expansions during the year, but the growth rates were muted by historical standards, particularly when compared to previous periods when the economy was emerging from a recession. Over the past 20 years, average annual job growth in service-providing industries was 2.2 percent. The 1.5 percent rate of job growth from November 2009 to November 2010 was comparatively weaker.

The lackluster employment and wage situation during most of 2010 kept consumer spending lukewarm. Texas saw a 0.3 percent increase in sales tax collections during calendar 2010, following a decline of 8.2 percent during calendar 2009.

Motor vehicle sales tax collections, which had retrenched by 20.7 percent in calendar 2009, largely recovered by 9.9 percent in 2010, but still remained well below 2008 sales levels.

Outlook for 2011 and 2012

Based on the *2010-2011 State Economic Forecast*, the Texas economy will continue to recover in 2011, but the recovery will be slower than is typically seen in economic recoveries. Seven of the Comptroller's 10 leading economic indicators for Texas point toward a stronger Texas economy in the upcoming months, but three indicators suggest continued weakness. Leading indicators in both Texas and the nation gradually improved in 2010, but the recovery will be comparatively slow, grounded in an economy that continues to be restrained by high unemployment rates, cautious consumer spending and tight credit markets. The economic indicator's overall index value have not recovered to the levels of 2007 and 2008, suggesting a period of relatively uninspiring growth in 2011 and 2012.

Federal tax incentives enacted at the end of calendar 2010 should help the economy fire on more cylinders. The provision included an extension of the current federal personal income tax rates, a 2 percent cut in

the employee Social Security tax rate and a two-year extension of federal depreciation incentives for business investment. The federal tax changes should provide an economic boost in 2011 and 2012. The longer term outlook is more optimistic, and the Texas economy is expected to completely recover by 2013.

The Texas outlook is marginally more positive than that for the nation, in line with Texas GSP growth having outperformed U.S. GDP growth in all but one year since 1991. Texas real GSP is expected to grow by 2.5 percent in 2011 and 3 percent in 2012, marginally faster than U.S. growth rates. The state's population will increase by an average of 1.7 percent per year in 2012 and 2013. About two-fifths of the growth will be due to net migration into the state, as job seekers elsewhere respond to a healthier Texas economy. During 2011, the state's population will average 25.8 million.

Texas will see ongoing employment growth in calendar 2011, forecast to average 1.4 percent for the calendar year. Economic activity will gather strength through the year and recharge to a more typical 2.2 percent rate of growth in 2012. In comparison, U.S. nonfarm employment is expected to increase by 0.9 percent in 2011 and 2.2 percent in 2012. Conditions indicate the unemployment rate will remain tenaciously high in both Texas and the nation in 2011, with only fractional improvement through the year, and stay above 2009 averages. Although higher than usual, Texas' jobless rate throughout 2011 and 2012 will remain between 1 and 2 percent better than the nation's.

Growth in total personal income in Texas is forecast to average 4.3 percent annually in 2011 and 2012, followed by slightly stronger growth in 2013. In 2011, the non-wage component of personal income (such as dividends, investment income, rents and proprietor income) is expected to grow the fastest, as wage gains will be held down by abundant available workers. In 2012, wage income will grow more quickly than non-wage income. From 2002 to 2008, Texas' total personal income advanced by an average 7.5 percent annually before losing 1.3 percent in 2009 and increasing only 3.7 percent in 2010.

National economic forecasters expect the dollar's value to continue its slide relative to major world currencies and for emerging world markets to grow briskly. Those factors mean exports will continue to fuel the state's economy in 2011 and 2012. Texas exports are expected to grow at about 9 percent annually in 2011 and 2012, to total more than $240 billion in 2012.

Export sales, business investment and capital spending on equipment will have respectable gains in 2011, and interest rates are expected to remain low until broader economic growth returns. Even with the continuing economic headwinds, the national economy is recovering, and Texas should outpace the U.S. This will occur for the same reasons that Texas outperformed the national economy in recent history, including continued net migration into the state, a location at the heart of the nation's healthiest economic region, an experienced workforce, a growing energy industry, a comparatively healthy housing market and a relatively attractive business environment characterized by a lower cost of doing business.

SECO American Recovery and Reinvestment Act Funding

In February 2009, the U.S. Congress passed and the President signed into law the American Recovery and Reinvestment Act (ARRA), which was created to preserve and create jobs and promote economic recovery. ARRA funds are used to invest in infrastructure, energy efficiency and science and for state and local fiscal stabilization.

The State Energy Conservation Office (SECO), which is part of the Comptroller of Public Accounts, received more than $290 million in formula grant funding from the U.S. Department of Energy (DOE) through four separate programs as a result of ARRA. These include $218.8 million in funding for the

State Energy Program (SEP); $45.6 million in funding for the Energy Efficiency and Conservation Block Grant (EECBG) Program; $23.3 million in funding for the State Energy Efficient Appliance Rebate Program (SEEARP); and $2.4 million in funding for the Enhancing State Government Energy Assurance Capabilities and Planning for Smart Grid Resiliency ("Energy Assurance" or EA) Program.

The ultimate goal of these four programs is to preserve and protect domestic energy supplies and related infrastructure through energy efficiency, renewable energy, transportation efficiency and energy emergency planning projects. SECO was required to apply to DOE and receive approval before being awarded ARRA funding. DOE provided approval for all four of SECO's applications and SECO began its process of providing funds to support projects in Texas in the fall of 2009.

Under SEP, a competitive request for applications process was used for SEP sub-programs, including a Building Efficiency and Retrofit revolving loan program; a Distributed Renewable Energy Technology grant program; a Transportation Efficiency grant program (alternative fuels and traffic light synchronization); and an Energy Sector Training Centers grant program. Further, a public education and outreach campaign is being conducted to educate Texans on the benefits of energy efficiency and renewable energy in addition to providing information and tools for Texas homeowners to make more informed decisions. Under EECBG, SECO reallocated its $45.6 million based on population to cities and counties in Texas not receiving direct EECBG allocation from DOE. Approximately 1,100 local governmental entities are the beneficiaries. Grant amounts range from approximately $23,000 to $172,000. Eligible projects include building energy audits and retrofits, installation of distributed energy technologies, installation of energy efficient traffic signals and street lighting and installation of renewable energy technologies on governmental facilities. SEEARP provided homeowners rebates for the purchase of Energy Star® appliances when they replace old, less efficient but functional appliances.

All four DOE ARRA grants to SECO are three-year grants and expire in fiscal 2012. More information on these programs can be found at: www.secostimulus.org.

Jobs and Education for Texans (JET) Grant Program

In 2009, the 81st Legislature passed the Jobs and Education for Texans (JET) legislation to train skilled workers for technical positions in high-demand occupations in engineering, science, precision production, mechanical, health care and other industries.

During fiscal 2010, the Comptroller's office established three funds under the JET program umbrella and an advisory board to help administer the $25 million appropriated by the Legislature for the 2010-11 biennium.

The job building fund awarded 61 grants for a total of $10 million. The program funded 39 community college districts, three state colleges and two public technical colleges. An estimated 28,606 students are projected to be served by JET equipment grants. Programs in the fields of health, engineering, precision production or mechanical and repair technologies were allocated 86 percent of the equipment funds.

The career and technology scholarship fund awarded a total of $5 million to community colleges and public technical institutes to provide scholarships for students in high-demand-occupation training programs. Every community college and public technical institute in the state received funding, and an estimated 5,189 students are projected to receive JET scholarships. Programs in the fields of health, engineering, precision production or mechanical and repair technologies were allocated 90 percent of the scholarship funds.

The launchpad fund awarded grants to nonprofit organizations to prepare low-income students for careers

in high-demand technical occupations. A total of 18 grants were awarded during fiscal 2010 for approximately $6 million. Grant recipients included 12 unique nonprofit organizations, of which six were community college nonprofit foundations. An estimated 2,400 low-income Texans will be trained by the grants for jobs in high-demand occupations in health, computer sciences, precision production, mechanical and repair technologies and engineering technologies.

Transparency

The Comptroller's office promotes openness in state and local government and financial transparency at all levels. The agency encouraged local governments in Texas to open their books to the public by posting their budgets, annual financial reports and check registers online. The *Texas Transparency* website displays the progress local governments are making toward this goal and allows taxpayers direct access to local government websites and their key financial documents. As of Dec. 31, 2010, the *Texas Transparency* website listed all 254 Texas counties, 116 cities, all 1,033 school districts and 23 special districts such as river and transit authorities. More than 76 percent of these local governments are posting at least one of the three recommended documents. This website was revised for 2011 to offer more information to taxpayers curious about financial transparency and local governments interested in opening their books to the public.

The Leadership Circle award program was renewed for a second year. At the end of the first program year, 280 local governments were recognized with Leadership Circle awards. Those awards were presented to 95 cities, 58 counties, 119 school districts and eight special districts. Of the awards, 214 were gold, 28 were silver and 38 were bronze. To earn a Leadership Circle award, local governments voluntarily posted on their websites three recommended documents: their annual budget, annual financial report and check register. The different award levels are based on the efforts made to post these documents and to meet related criteria. Taxpayers now have at their fingertips financial reports showing exactly how their tax dollars are being spent. Leadership Circle awards are also displayed on the *Texas Transparency* website. Outreach to promote the Leadership Circle award and financial transparency will continue with a focus on smaller cities, community college districts and a broader range of special districts. The *Texas Transparency* website will provide a monthly spotlight to showcase local governments that develop simple solutions to common problems or initiate innovative ideas that further transparency. We will also continue to collaborate with the Texas Association of Counties, the Texas Municipal League and other agencies to provide technical assistance and encourage more local governments to implement financial transparency.

Property Tax Value Limitations

In 2001, the 77th Legislature enacted House Bill 1200, creating 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 2009, the 81st Legislature enacted House Bill 3676, bringing a number of substantive and technical changes to the Act. The Comptroller was given clearer authority to determine project eligibility, as well as make more substantive recommendations to school districts. More information about the projects is required to be posted on the Internet, and the legislation establishes clearer performance standards and new penalties for non-performance. The bill also extended the program's sunset date from Dec. 31, 2011, to Dec. 31, 2014. As of August 2010, 68 school districts were parties to 98 value limitation agreements, with the bulk of projects involving manufacturing facilities and wind farms.

On Dec. 22, 2010, the Comptroller's office released a report titled *An Analysis of Texas Economic Development Incentives 2010*, which includes an assessment of the progress of each property tax value limitation agreement. On Dec. 30, 2010, the Texas Legislative Budget Board released a performance review of the program, which was included in the *Texas State Government Effectiveness and Efficiency: Selected Issues and Recommendations* report.

Event Trust Funds

The 2003, the Legislature authorized the first event trust fund program as an incentive tool to help Texas communities attract major sporting events such as the Super Bowl, NCAA Final Four tournaments and professional all star games. Other trust fund programs created since then established the incentive for smaller sporting programs, motor sports racing events and non-athletic events. Currently, four trust fund programs allow Texas cities and counties to request the creation of a trust fund for the reimbursement of costs relating to attracting and holding a wide variety of events in the state.

Both the state and the city or county requesting the trust fund contribute tax revenue to the fund. State law requires the revenue deposited in the trust fund for an event be the estimated gains in sales tax, hotel occupancy tax, motor vehicle rental tax and alcoholic beverage taxes from hosting the event. The state share of the trust fund can be up to, but not greater than, the amount of projected state revenue gain from these taxes. A local match is required to receive state funds. To receive the maximum amount of state funds available, the local entity or entities must deposit an amount equal to 16 percent of the amount of state money in the trust fund.

The number of trust fund requests grew significantly since the program began. In 2009, the Legislature broadened eligibility to include non-athletic events and eliminated population criteria for cities and counties to participate. In fiscal 2004, the first year in which events were eligible, the state funded event trust fund requests for three events. In fiscal 2006, four more events were authorized reimbursement funding. Three more events were approved in fiscal 2007 and seven more in fiscal 2008. The total jumped to 22 events in fiscal 2009 and 57 events in fiscal 2010. As of Jan. 1, 2011, a total of 68 events to be held in fiscal 2011 were approved for reimbursement funding. The amount of funding authorized for all events as of Jan. 1, 2011, totaled $161 million, of which $140 million came from state funds and $21 million from local funds.

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, 2009. The Certificate of Achievement is a presti-

gious 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 20 years (fiscal years ended August 1990 through 2009). 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 the Comptroller's Financial Reporting section and Fiscal Management Division; the chief financial officers, chief accountants and 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 of Public Accounts

Greg Abbott
Attorney General

Jerry Patterson
Land Commissioner

Todd Staples
Commissioner of Agriculture

Elizabeth A. Jones
David J. Porter
Michael L. Williams
Railroad Commissioners

Legislative

Lieutenant Governor David Dewhurst
President of the Senate

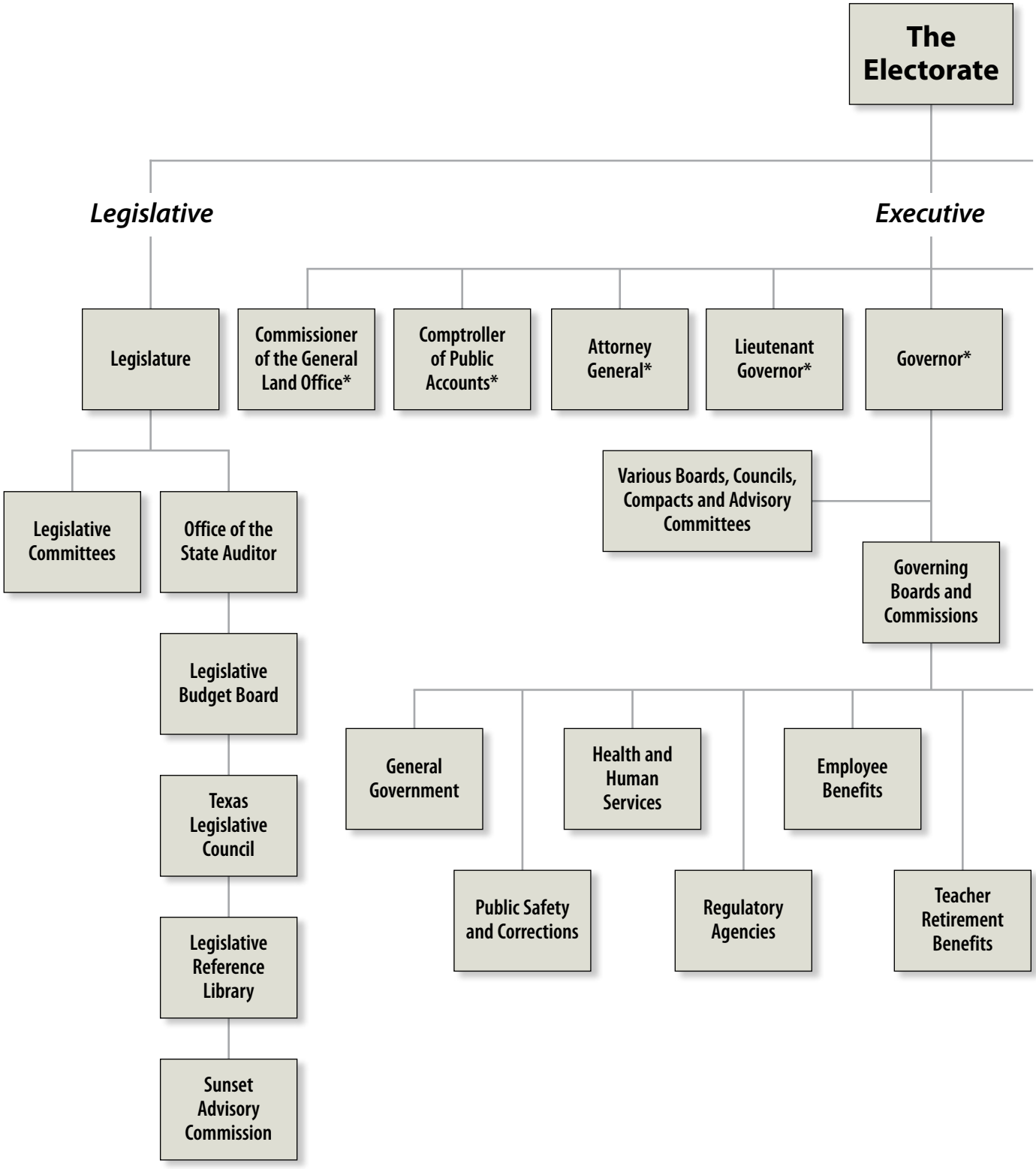
Joe Straus
Speaker of the House of Representatives

Judicial

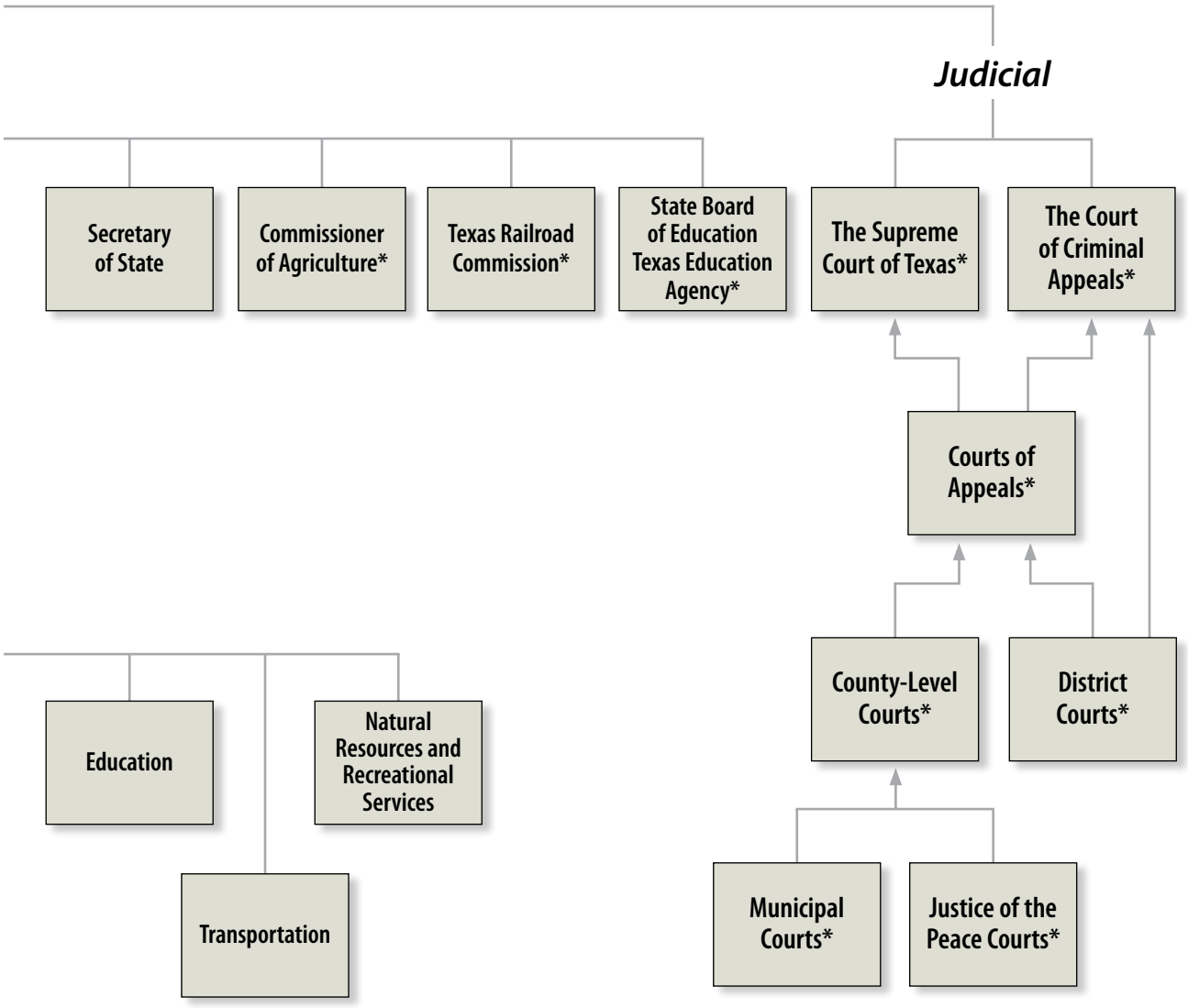
Wallace B. Jefferson
Chief Justice of the Supreme Court

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, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Section Two

Financial Section

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, 2010, 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 49 percent and 10 percent, respectively, of the assets of Colleges and Universities, a major enterprise fund. UTIMCO and UTMDACC also constitute 37 percent and 7 percent, respectively, of the assets of the business-type activities.

- The Texas Lottery Fund, a major enterprise fund, which constitutes 15 percent of the operating revenues of the business-type activities.

- The Texas Local Government Investment Pool (TexPool), a blended component unit, which constitutes 8 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.

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 Report No. 11-317

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 and TexPool were not audited in accordance with *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, 2010, 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, as listed in the Table of Contents, 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 other supplementary information - combining financial statements and schedules, 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, grant agreements, and 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 18, 2011

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, 2010. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2010 report.

Highlights

The state implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, in fiscal 2010. As a result, the state reports deferred inflows and deferred outflows of resources for changes in the fair value of hedging derivatives. Deferred inflows and deferred outflows are not assets or liabilities, but rather are an acquisition or consumption of net assets that is applicable to a future reporting period. With the introduction of deferred inflows and deferred outflows, the statement of net assets is no longer representative of the state's financial position. Net assets represented the difference between the state's assets and liabilities. The Comptroller's office decided to replace the term "net assets" with "net position" to clearly indicate the introduction of these new elements to the fiscal 2010 financial statements. Net position is calculated as assets, plus deferred outflows, less liabilities, less deferred inflows.

Government-wide

Net Position

The assets of the state of Texas exceeded its liabilities by $132.3. billion as of Aug. 31, 2010, an increase of $1.4 billion or 1.1 percent from fiscal 2009. The state reported $580.6 million of deferred outflows and $4.6 million of deferred inflows due to the implementation of GASB 53.

Fund Level

Governmental Funds

As of Aug. 31, 2010, the state's governmental funds reported a combined ending fund balance of $40.8 billion, an increase of $527.8 million or 1.3 percent from fiscal 2009. The state reported a positive unreserved fund balance of $6.6 billion in fiscal 2010, a decrease of $4.7 billion.

Proprietary Funds

The proprietary funds reported a net position of $37.4 billion as of Aug. 31, 2010, an increase of $2.4 billion or 6.7 percent from fiscal 2009.

Long-Term Debt

The state's total bonds outstanding increased by $4.2 billion or 13.5 percent during fiscal 2010. 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 $7 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 and schedules. 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 position 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 position 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, deferred outflows, liabilities and deferred inflows.

Net position represents 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 position and the statement of activities divide the state's activities into the following 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 institutions of higher education 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. The state includes 19 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 financial 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 financial statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information helps determine the level of resources available for the state's programs. The reconciliations following the fund financial statements explain the differences between the government's activities, reported in the government-wide statement of net position 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.

The employees life, accident and health insurance benefits fund is reported as an internal service fund and provides services on a cost reimbursement basis to other agencies of the financial reporting entity.

Colleges and universities, unemployment trust fund and the lottery fund are reported 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 position and changes in fiduciary net position. 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 Position

Total assets of the state on Aug. 31, 2010, were $209 billion, an increase of $15.4 billion or 7.9 percent. Total liabilities as of Aug. 31, 2010, were $77.3 billion, an increase of $14.6 billion or 23.2 percent. Net position was affected by a number of factors. Cash and cash equivalents increased by $5.4 billion from fiscal 2009 and investments increased by $4 billion. The issuance of tax and revenue anticipation notes in the latter part of 2010 amounted to $7.8 billion. Net capital assets increased by $4.3 billion. The major components of this increase were additions to the state's highway system and college and university building and building improvement projects. Current liabilities increased by $8.4 billion, from the tax and revenue anticipation notes and from increases in notes payable by the Texas Public Finance Authority and the Texas Department of Transportation. There was an increase in total bond debt of $4.2 billion as well, with increases to both general obligation and revenue bonds. The state's bonded indebtedness was $35.7 billion, which included new issuances of $7.1 billion in state bonds to finance new

Statement of Net Position

August 31, 2010 and 2009 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
ASSETS						
Assets Other Than Capital Assets	$ 63,799,804	$ 56,087,439	$ 51,278,165	$ 47,928,129	$ 115,077,969	$ 104,015,568
Capital Assets	72,418,557	69,946,975	21,475,474	19,633,273	93,894,031	89,580,248
Total Assets	136,218,361	126,034,414	72,753,639	67,561,402	208,972,000	193,595,816
DEFERRED OUTFLOWS			580,611		580,611	
LIABILITIES						
Current Liabilities	23,577,732	16,212,909	10,323,540	9,285,023	33,901,272	25,497,932
Noncurrent Liabilities	17,735,541	13,959,499	25,634,302	23,258,541	43,369,843	37,218,040
Total Liabilities	41,313,273	30,172,408	35,957,842	32,543,564	77,271,115	62,715,972
DEFERRED INFLOWS			4,618		4,618	
NET POSITION						
Invested in Capital Assets, Net of Related Debt	60,743,457	59,719,286	7,933,135	7,654,750	68,676,592	67,374,036
Restricted	26,136,214	32,664,185	22,209,032	18,743,589	48,345,246	51,407,774
Unrestricted	8,025,417	3,478,535	7,229,623	8,619,499	15,255,040	12,098,034
Total Net Position	$ 94,905,088	$ 95,862,006	$ 37,371,790	$ 35,017,838	$ 132,276,878	$ 130,879,844

construction, housing, water conservation and other projects. Approximately $2.8 billion in bonded debt was retired or refunded. Net position was $132.3 billion in fiscal 2010, an increase of $1.4 billion or 1.1 percent. Of the state's net position, $68.7 billion was invested in capital assets, net of related debt, while $48.3 billion was restricted by statute or other legal requirements and was not available to finance day-to-day operations of the state. Unrestricted net position was $15.3 billion, of which $8 billion was in governmental activities.

Changes in Net Position

The state's net position for fiscal 2010 increased by $1.4 billion. The state earned program revenues of $82 billion and general revenues of $39.5 billion, for total revenues of $121.5 billion, an increase of $22.9 billion or 23.2 percent. The major components of this increase were operating grants and contributions, which had an increase of $20.4 billion and charges for services with an increase of $1.7 billion. Increases totaling $10.1 billion in federal funding for unemployment assistance, Medicaid, nutrition assistance and from the American Recovery and Reinvestment Act (ARRA) were significant. Financial market recovery and improvement produced investment and income gains of $9.6 billion.

The expenses of the state were $120.1 billion, an increase of $10.9 billion or 10 percent. The expense fluctuations in governmental activities are largely attributable to the health and human services function and education, due to increased funding for Medicaid, nutrition assistance, ARRA state fiscal stabilization funds and other ARRA programs. In the business-type activities, unemployment benefit payments increased by $2.9 billion.

Further discussion of results for changes in the state's financial condition follows in the analysis of the state's funds. The state's two largest revenue sources changed in opposite directions. The largest source, taxes, declined, mostly due to lower sales tax collections. The second largest source, federal funds, however, reported large increases as noted above. The health and human services and education functions were the largest benefactors.

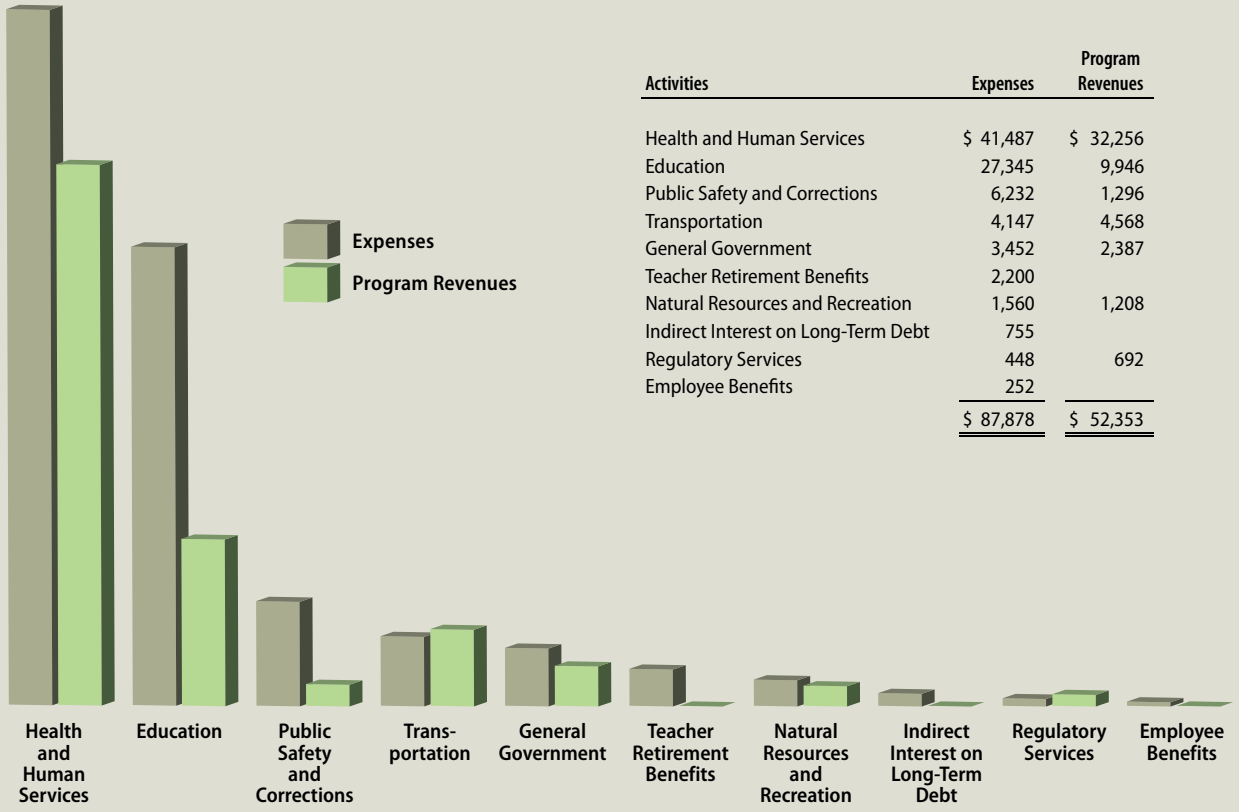
Changes in Net Position

For the Fiscal Years Ended August 31, 2010 and 2009 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
REVENUES						
Program Revenues:						
Charges for Services	$ 6,752,075	$ 6,838,996	$ 16,013,379	$ 14,248,537	$ 22,765,454	$ 21,087,533
Operating Grants and Contributions	43,148,227	32,410,929	13,292,594	3,613,083	56,440,821	36,024,012
Capital Grants and Contributions	2,453,183	2,619,631	305,669	95,889	2,758,852	2,715,520
Total Program Revenues	52,353,485	41,869,556	29,611,642	17,957,509	81,965,127	59,827,065
General Revenues:						
Taxes	35,590,034	35,928,793			35,590,034	35,928,793
Unrestricted Investment Earnings	575,642	178,470	134,195	129,445	709,837	307,915
Settlement of Claims	925,676	555,626	1,384	14,691	927,060	570,317
Gain on Sale of Capital Assets				609		609
Other General Revenues	2,017,783	1,769,051	241,013	156,903	2,258,796	1,925,954
Total General Revenues	39,109,135	38,431,940	376,592	301,648	39,485,727	38,733,588
Total Revenues	91,462,620	80,301,496	29,988,234	18,259,157	121,450,854	98,560,653
EXPENSES						
General Government	3,451,868	3,052,177	162,620	180,543	3,614,488	3,232,720
Education	27,344,876	24,952,375	20,943,292	20,135,452	48,288,168	45,087,827
Employee Benefits	252,457	220,272			252,457	220,272
Teacher Retirement Benefits	2,200,408	1,667,325			2,200,408	1,667,325
Health and Human Services	41,487,191	38,124,180	7,826,452	4,908,112	49,313,643	43,032,292
Public Safety and Corrections	6,231,847	6,026,868	87,120	83,498	6,318,967	6,110,366
Transportation	4,146,987	4,025,226	206,822	220,881	4,353,809	4,246,107
Natural Resources and Recreation	1,559,708	1,673,915	353,641	304,577	1,913,349	1,978,492
Regulatory Services	447,557	445,938			447,557	445,938
Indirect Interest on Long-Term Debt	755,314	525,648			755,314	525,648
Lottery			2,681,627	2,680,273	2,681,627	2,680,273
Total Expenses	87,878,213	80,713,924	32,261,574	28,513,336	120,139,787	109,227,260
Excess (Deficiency) Before Contributions, Special Items and Transfers	3,584,407	(412,428)	(2,273,340)	(10,254,179)	1,311,067	(10,666,607)
Capital Contributions	30,845	1,554			30,845	1,554
Contributions to Permanent and Term Endowments			136,577	120,404	136,577	120,404
Transfers	(4,491,627)	(4,268,014)	4,491,627	4,268,014		
Change in Net Position	(876,375)	(4,678,888)	2,354,864	(5,865,761)	1,478,489	(10,544,649)
Net Position, Beginning Balance	95,862,006	100,671,188	35,017,838	42,152,308	130,879,844	142,823,496
Restatements	(80,543)	(130,294)	(912)	(1,268,709)	(81,455)	(1,399,003)
Net Position, Beginning Balance, as Restated	95,781,463	100,540,894	35,016,926	40,883,599	130,798,389	141,424,493
Net Position, Ending Balance	$ 94,905,088	$ 95,862,006	$ 37,371,790	$ 35,017,838	$ 132,276,878	$ 130,879,844

Expenses and Program Revenues: Governmental Activities

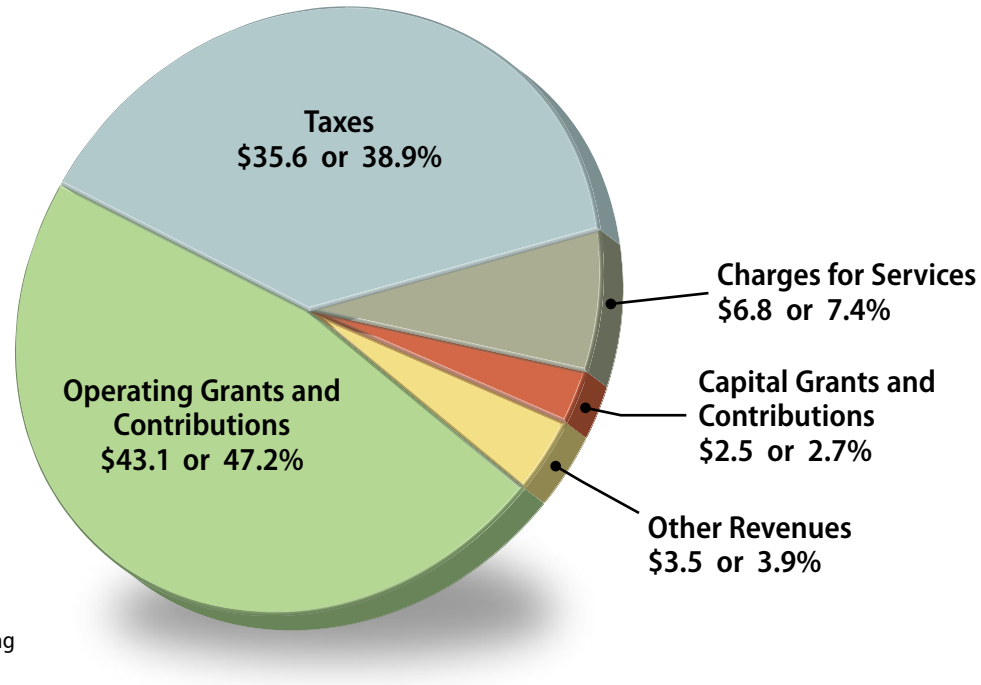
For the Fiscal Year Ended August 31, 2010 (In Millions)



Activities	Expenses	Program Revenues
Health and Human Services	$ 41,487	$ 32,256
Education	27,345	9,946
Public Safety and Corrections	6,232	1,296
Transportation	4,147	4,568
General Government	3,452	2,387
Teacher Retirement Benefits	2,200	
Natural Resources and Recreation	1,560	1,208
Indirect Interest on Long-Term Debt	755	
Regulatory Services	448	692
Employee Benefits	252	
	$ 87,878	$ 52,353

Revenue by Source: Governmental Activities

For the Fiscal Year Ended August 31, 2010 (In Billions)*

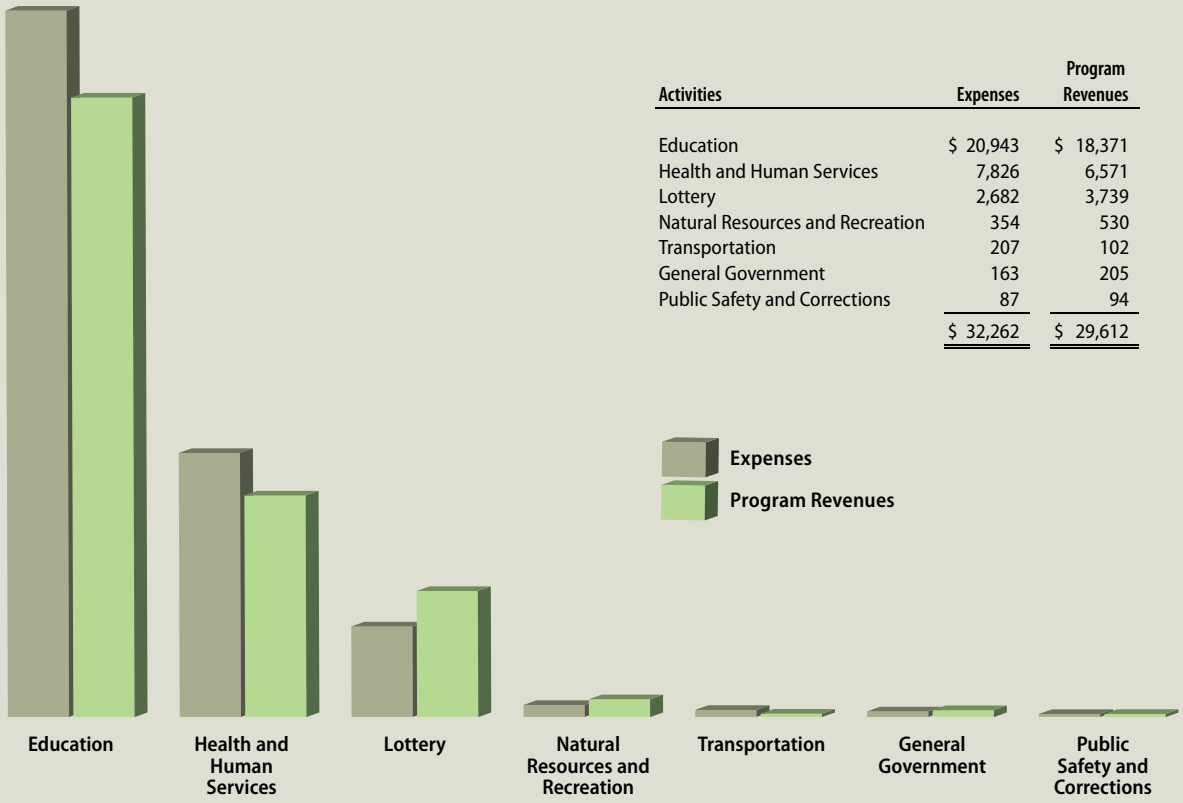


Total = $91.5 Billion

* Totals may not add due to rounding

Expenses and Program Revenues: Business-Type Activities

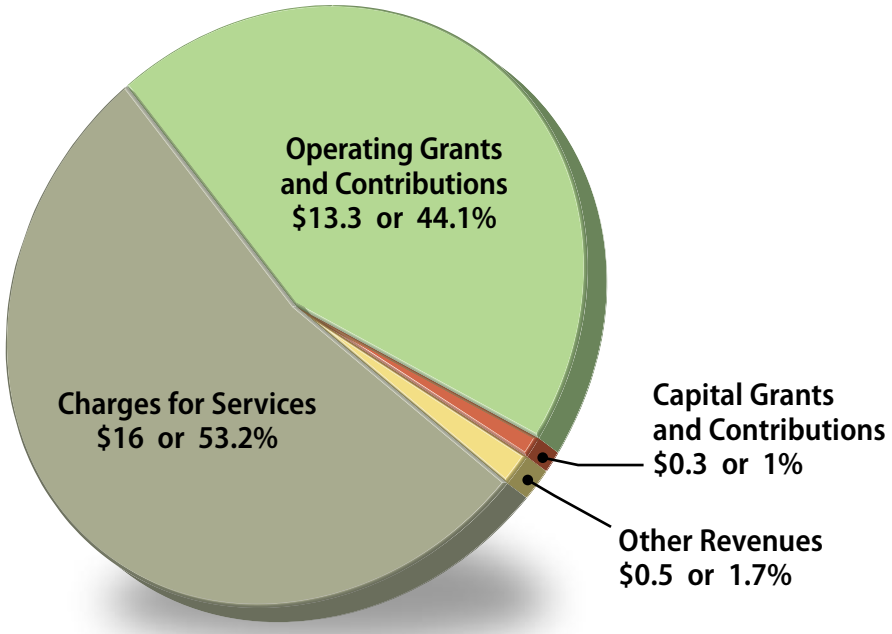
For the Fiscal Year Ended August 31, 2010 (In Millions)



Activities	Expenses	Program Revenues
Education	$ 20,943	$ 18,371
Health and Human Services	7,826	6,571
Lottery	2,682	3,739
Natural Resources and Recreation	354	530
Transportation	207	102
General Government	163	205
Public Safety and Corrections	87	94
	$ 32,262	$ 29,612

Revenue by Source: Business-Type Activities

For the Fiscal Year Ended August 31, 2010 (In Billions)*



Total = $30.1 Billion

* Totals may not add due to rounding

Governmental Activities

The governmental activities program revenue is $52.4 billion, including charges for services of $6.8 billion, operating grants and contributions of $43.1 billion and $2.5 billion reported in capital grants and contributions. The largest increase, $10.7 billion, was for operating grants and contributions, which includes revenues from federal funds. Changes in general revenue sources were relatively stable. Taxes had the only declines from general revenue sources, with the largest reduction in sales tax revenue.

Governmental activities expenses were $87.9 billion. All functions of governmental activities in the government-wide statement of activities have a net cost, except transportation and regulatory services functions, which report slight surpluses. The education and health and human services functions account for 78.3 percent of governmental activities expenses and 75 percent of the net cost. The tax collections of the state provide the primary source of funding, which when added to program revenues, support payment for governmental services.

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

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	$ 3,451,868	$ 1,064,925
Education	27,344,876	17,398,975
Employee Benefits	252,457	252,322
Teacher Retirement Benefits	2,200,408	2,200,408
Health and Human Services	41,487,191	9,231,122
Public Safety and Corrections	6,231,847	4,935,758
Transportation	4,146,987	(420,761)
Natural Resources and Recreation	1,559,708	350,917
Regulatory Services	447,557	(244,252)
Indirect Interest on Long-Term Debt	755,314	755,314
Total	$87,878,213	$35,524,728

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

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	$ 162,620	$ (42,361)
Education	20,943,292	2,572,432
Health and Human Services	7,826,452	1,255,114
Public Safety and Corrections	87,120	(6,614)
Transportation	206,822	104,931
Natural Resources and Recreation	353,641	(176,031)
Lottery	2,681,627	(1,057,539)
Total	$32,261,574	$ 2,649,932

Business-Type Activities

Business-type activities generated program revenue of $29.6 billion, including charges for services of $16 billion, operating grants and contributions of $13.3 billion and $305.7 million reported in capital grants and contributions. The total expenses for business-type activities were $32.3 billion. There was a total gain from the government's business-type activities of $2.4 billion in comparison to the prior year's net loss of $5.9 billion. The largest change occurred in the health and human services function, where there was an increase in unemployment benefit payments of $2.9 billion, due to federal legislation that extended benefits.

Financial Analysis of the State's Funds

Governmental Funds

As of Aug. 31, 2010, governmental funds reported fund balances of $40.8 billion. Of this total amount, $6.6 billion constitutes unreserved fund balances and $34.2 billion reserved fund balance. The general fund reported a positive $2.9 billion unreserved balance.

General Fund

The fund balance for the general fund as of Aug. 31, 2010, was $8.4 billion, a decrease of $557 million from fiscal 2009. Contributing to the lower balance were decreased tax collections, primarily sales taxes, and

necessary increases in spending for health and human services to meet needs due to reduced economic conditions. Increases in federal revenues of almost $6.9 billion, however, assisted funding in these areas. Primarily the increase was due to ARRA, which increased funding for supplemental nutrition assistance programs, children's health insurance programs, Medicare and other assistance programs.

State Highway Fund

The fund balance for the state highway fund as of Aug. 31, 2010, was $1.3 billion, an increase of $1.1 billion from $139.4 million as of Aug. 31, 2009, due to bond proceeds. Other financing sources increased by $1.9 billion from bond issuances and decreased by a reduction of $336.3 million in transfers from the Texas mobility fund. Highway construction projects begun in fiscal 2010 decreased by $652.1 million in comparison to projects begun in fiscal 2009. Cash and cash equivalents increased by $808.5 million.

Permanent School Fund

The fund balance for the permanent school fund (PSF) as of Aug. 31, 2010, totaled $24.4 billion, an increase of $1.8 billion, or 8 percent, since Aug. 31, 2009. This increase was primarily attributable to interest and investment income of $1.5 billion and a decrease of $655.8 billion or 91.5 percent in the amount transferred to support public education. The decrease in the transfer amount was necessary to be in compliance with the Texas Constitution, Article 7, which places limitations on total return payouts from the fund. Value in the fund provided $60.7 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, 2010, $49.3 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 position of $37.4 billion as of Aug. 31, 2010, an increase of $2.4 billion from fiscal 2009. The Texas Water Development Board and Texas Department of Transportation Turnpike Authority funds are now included in other non-major proprietary funds.

Colleges and Universities

Colleges and universities' net position as of Aug. 31, 2010, totaled $34.9 billion, an increase of $3.1 billion from Aug. 31, 2009. There were increases of approximately $1 billion for both operating revenues and operating expenses. There was a $6 billion positive change in investment and interest income, as there was overall interest and investment gains of $3 billion in fiscal 2010, compared to interest and investment losses of $3 billion in fiscal 2009. Improving market conditions produced better investment returns. The permanent university fund posted a net investment return of over 13 percent.

Unemployment Trust Fund

The unemployment trust fund reports activity related to the administration of statewide unemployment benefits in proprietary funds. The funds reported a net position of $(1.2) billion as of Aug. 31, 2010, a decrease of $911.3 million from $(303.8) million as of Aug. 31, 2009. During fiscal 2010, unemployment taxes collected increased to $2.1 billion as compared to $1 billion in 2009. While state funded benefits during fiscal 2010 remained essentially unchanged from the prior year at $3.4 billion, federally financed benefits increased to $4.4 billion from $1.4 billion in the prior

year. Texas continued to borrow funds interest free from the federal government in order to pay benefits. Notes and loans payable increased from $289.6 million in 2009 to $1.4 billion in 2010. Federal revenue increased from $1.6 billion in 2009 to $4.5 billion in 2010. Unemployment benefit payments increased from $4.9 billion in 2009 to $7.8 billion in 2010. The interest free provisions of the federal advances as outlined in ARRA expired Dec. 31, 2010. In December 2010, $2 billion in revenue bonds were issued to repay the federal advances and to provide state funded unemployment benefits. Payment of principal and interest will be funded by an obligation assessment tax on employers.

Lottery Fund

The Texas Lottery Commission operates on-line and instant ticket lottery games to generate revenue for the state's foundation school fund. The lottery fund had a net position of $112.1 million on Aug. 31, 2010, as compared to $71.1 million at the end of fiscal 2009, an increase of $41 million. Lottery sales for the year ended Aug. 31, 2010, totaled $3.7 billion, an increase of 0.5 percent over 2009. Distributions to the foundation school fund for fiscal 2010 totaled $989.1 million.

The majority of the lottery fund's net position consists of cash, cash equivalents and investments used to fund future installment payments. At Aug. 31, 2010, the lottery fund's assets included $57.3 million in cash and cash equivalents as compared with $123.8 million at Aug. 31, 2009. The lottery fund's short and long-term investments approximated $1.2 billion each year. The lottery fund's liabilities include amounts owed to the state's foundation school fund for August accrued sales for fiscal 2010, and to the Texas Treasury Safekeeping Trust Company for investment purchases, vendor payables and prize payment obligations. The amount due to the foundation school fund was approximately $2.8 million at Aug. 31, 2010, as compared with $14.1 million at Aug. 31, 2009.

Fiduciary Funds

Fiduciary funds reported $134.2 billion in net position as of Aug. 31, 2010, an increase of $6.1 billion from $128.1 billion in fiscal 2009.

Pension and Other Employee Benefit Trust Funds

Total net position for pension and other employee benefit trust funds was $117 billion, an increase of $7.6 billion from the $109.4 billion reported in fiscal 2009. The majority of plan assets are held as investments for the pension funds. The overall financial condition of the pension fund retirement plans improved during fiscal 2010, primarily from recovering market conditions affecting investment assets. Contributions from all sources increased $433 million from fiscal 2009, while benefit payments increased $540.4 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 10.7 percent and 6.7 percent, respectively, compared to the previous year's negative returns of 13.1 and 6.6 percent.

External Investment Trust Fund

The external investment trust fund reported total net position of $14.6 billion in fiscal 2010, a decrease of $1.7 billion from the $16.3 billion reported in fiscal 2009. The decrease of $1.7 billion in participant investments is due to withdrawals by local government entities as surpluses declined and local needs had to be addressed.

Private-Purpose Trust Funds

Total net position for private-purpose trust funds was $2.5 billion in fiscal 2010, an increase of $189.9 million or 8.2 percent from fiscal 2009. Increases to net position were due to a combination of factors including higher rates of return on investments due to market recovery, increases in participant contributions to the Texas college savings plans and increased claims settlements in the catastrophe reserve trust fund.

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 were $2 billion below the final budget number. The most negative revenue variance occurred with tax revenues, showing a $1.1 billion difference, actual below budget. Actual tax revenues declined from the prior year revenues by $1.2 billion. Budget mechanisms allow budget revisions for certain revenues when collections exceed the original budget. ARRA provided additional federal funds beyond the original budget. Accordingly, major revisions were made for programs such as nutritional assistance, Medicaid and ARRA state fiscal stabilization program.

Actual results for expenditures were $3 billion more than the final budget revision. Significant revisions were made to original budget amounts increasing expenditures in major functions for education, health and human services and public safety and corrections.

Capital Assets and Debt Administration

Capital Assets

As of Aug. 31, 2010, the state had $93.9 billion in net capital assets, of which $58.9 billion was infrastructure. This total represents an increase of $2.4 billion in infrastructure capital assets or 4.2 percent from fiscal 2009. Included in this amount are additions to the state's highway system of $2.3 billion by the Texas Department of Transportation (TxDOT). Institutions of higher education also added $984.2 million to buildings and building improvements.

To ensure future availability of essential services and finance highway capital improvements, TxDOT made commitments for construction contracts, comprehensive development agreements and pass-through toll agreements totaling an estimated $9 billion. These commitments extend beyond the end of the fiscal year and represent future costs to the state. This amount is not recognized as a liability because the terms of the contracts or agreements were not met and benefits were not received as of the end of fiscal 2010.

Capital Assets – Net of Depreciation and Amortization

August 31, 2010 and 2009 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land and Land Improvements	$ 8,296,693	$ 8,125,334	$ 1,503,215	$ 1,477,108	$ 9,799,908	$ 9,602,442
Infrastructure	56,541,708	54,194,424	2,357,321	2,341,644	58,899,029	56,536,068
Construction in Progress	4,208,127	4,206,962	3,175,537	2,639,472	7,383,664	6,846,434
Buildings and Building Improvements	2,387,651	2,436,851	11,058,779	10,078,703	13,446,430	12,515,554
Facilities and Other Improvements	78,337	83,252	834,709	767,142	913,046	850,394
Furniture and Equipment	228,618	237,375	1,306,460	1,423,110	1,535,078	1,660,485
Vehicles, Boats and Aircraft	406,739	402,586	65,323	66,582	472,062	469,168
Other Capital Assets-Tangible	105,106	260,191	889,861	839,512	994,967	1,099,703
Land Use Rights	78,985		19,992		98,977	
Computer Software-Intangible	71,550		264,277		335,827	
Other Capital Assets-Intangible	15,043				15,043	
Total Capital Assets	$72,418,557	$69,946,975	$21,475,474	$19,633,273	$93,894,031	$89,580,248

Note 2 provides detail about the state's capital assets and Note 15 details the state's significant commitments related to future capital expenditures.

Infrastructure Assets

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

The state accounts for its system of roads and highways using the modified approach. TxDOT 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 2010 reflect condition levels of 83.6 percent (81.4 percent in fiscal 2009) for the interstate system, 77.9 percent (76.5 percent for fiscal 2009) for the non-interstate system and 87.9 percent for the Central Texas Turnpike System (90.5 percent for fiscal 2009).

In fiscal 2010, the estimated maintenance expenditures required to maintain the highway system at or above the adopted condition levels for interstate highways were $568.5 million, $3 billion for the non-interstate system and $11.4 million for the Central Texas Turnpike System. Actual expenditures were $333.3 million for the interstate system, $1.4 billion for the non-interstate system and $7 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.

The state's general obligation bond issues were rated Aaa by Moody's Investors Service, AA+ by Standard & Poor's and AAA by Fitch Ratings as of August 2010. During fiscal 2010, Texas' state agencies and institutions of higher education issued $7 billion in state bonds to finance new construction, transportation, housing, water conservation and treatment and other projects. General obligation debt accounted for $1.3 billion of state bonds issued in fiscal 2010. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining $5.7 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 $503.2 million in general obligation bonds and $702.9 million in revenue bonds. Also, $428.7 million in general obligation bonds and $1.1 billion in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements and refundings as of Aug. 31, 2010, was $13 billion. This represents an increase of $357 million or 2.8 percent from fiscal 2009. An additional $13.2 billion of general obligation bonds were authorized but are unissued. Total revenue bonds outstanding were $22.7 billion, which is an increase of $3.9 billion or 20.7 percent from fiscal 2009. The net increase of $3.9 billion for revenue bonds includes issuances for the state highway fund of $1.5 billion to finance highway improvement projects. The net increase for revenue bonds also includes issuances of the state's institutions of higher education for campus improvements or associated with refundings to take advantage of lower interest

Outstanding Bonded Debt

August 31, 2010 and 2009 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
General Obligation Bonds Payable	$ 10,085,579	$ 9,745,220	$ 2,943,752	$ 2,927,153	$ 13,029,331	$ 12,672,373
Revenue Bonds Payable	5,620,060	3,287,121	17,042,975	15,487,970	22,663,035	18,775,091
Total Bonds Payable	$ 15,705,639	$ 13,032,341	$ 19,986,727	$ 18,415,123	$ 35,692,366	$ 31,447,464

rates. Note 5 discloses the details on the state's long-term liabilities and Note 6 provides detail information on the state's bonded indebtedness.

Economic Condition and Outlook

The Texas economic direction reflected a positive change in 2010, particularly with employment numbers. During the period from November 2009 to November 2010, Texas' nonfarm employment increased by 192,100 jobs. Even though the unemployment rate of 8.3 percent is at its highest since 1987, Texas still has the lowest rate of unemployment among the 10 most populous states and is 1.1 percent below the nation's unemployment rate of 9.4 percent.

Economic forecasts indicate that both Texas and the nation returned to economic growth in 2010. Texas' real gross state product (GSP) grew by 3.4 percent in 2010. The diversity of Texas industries, a relatively healthier housing market and strong export performance allowed the state to grow faster than the nation. On the downside, the continuance of high unemployment, a weak market for job seekers and new jobs paying less than jobs lost kept consumers uncertain about current conditions and the economic outlook.

Nine of the state's 11 major industries added jobs in 2010. The fastest job growth rate was in the mining and logging industry. The industry with the poorest performance was information, which includes the broadcast media, telecommunications and Internet-based services. Although there was little change in the domestic demand for Texas goods and services, export sales reached an all-time high and accounted for 16.5 percent of the state's gross state product. Texas continues to lead all other states in the value of its export trade.

The *2010-2011 State Economic Forecast* indicates continued improvement in 2011, but projects it will be slower than normal during economic recoveries. The recovery will be grounded in an economy that continues to struggle with high unemployment rates, cautious consumer spending and tight credit markets. Federal tax incentives may help. These include provisions to extend the current federal personal income tax rates, a 2 percent cut in the employee social security tax rate and a two-year extension of depreciation incentives for business investment.

Indications are that the unemployment rate will remain high for both Texas and the nation, although for Texas it will remain 1 to 2 percent lower than the nation's. Expectations that the dollar will continue its slide relative to major world currencies will continue to fuel Texas exports. Export sales, business investment and capital spending will show gains in 2011 and interest rates are expected to remain low. Texas' recovery should outpace the nation for the same reasons as in recent history. These include continued net migration to the state, location in the nation's healthiest economic region, an experienced workforce, a growing energy industry and a comparatively healthy housing market.

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 Position

August 31, 2010 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities*	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 25,147,467	$ 4,059,003	$ 29,206,470	$ 541,570
Short-Term Investments	495,101	1,230,677	1,725,778	786,583
Securities Lending Collateral	2,095,243	701,054	2,796,297	
Receivables:				
Taxes (Note 24)	1,972,188		1,972,188	
Federal	2,727,091	737,468	3,464,559	63,827
Other Intergovernmental	709,443	43,878	753,321	30,960
Accounts	797,810	1,450,323	2,248,133	108,549
Interest and Dividends	112,487	133,037	245,524	8,243
Gifts		162,012	162,012	
Investment Trades	28,617	370,022	398,639	
Other	79,992	316,127	396,119	177
From Fiduciary Funds	48,279		48,279	
Due From Primary Government (Note 12)				538
Due From Component Units (Note 12)		58	58	
Inventories	299,565	128,819	428,384	3,057
Prepaid Items	167	136,256	136,423	1,063
Loans and Contracts	107,821	320,013	427,834	3,832
Other Current Assets	70	328,316	328,386	2,933
Restricted:				
Cash and Cash Equivalents	193,787	2,295,544	2,489,331	76,684
Short-Term Investments		856,893	856,893	2,467
Loans and Contracts	62,883	75,188	138,071	2,038
Total Current Assets	34,878,011	13,344,688	48,222,699	1,632,521
Noncurrent Assets:				
Internal Balances (Note 12)	2,949	(2,949)		
Loans and Contracts	2,485,334	3,828,838	6,314,172	59,682
Investments	24,671,143	4,939,198	29,610,341	9,712
Receivables:				
Taxes (Note 24)	331,306		331,306	
Federal	28,821		28,821	
Gifts		241,810	241,810	
Other	263,026		263,026	2,575
Restricted:				
Cash and Cash Equivalents		206,926	206,926	210
Short-Term Investments		16,661	16,661	
Investments		25,113,143	25,113,143	231,214
Receivables		185,182	185,182	
Loans and Contracts	989,508	3,302,101	4,291,609	11,087
Other	91,578	2,229	93,807	
Assets Held in Trust		3,305	3,305	
Net Pension Asset (Note 9)	4,576		4,576	
Deferred Charges	39,918	50,487	90,405	
Hedging Derivative Asset (Note 7)		4,618	4,618	
Other Noncurrent Assets	13,634	41,928	55,562	5,046
Capital Assets: (Note 2)				
Non-Depreciable or Non-Amortizable	60,748,171	6,712,263	67,460,434	7,974
Depreciable or Amortizable, Net	11,670,386	14,763,211	26,433,597	58,425
Total Noncurrent Assets	101,340,350	59,408,951	160,749,301	385,925
Total Assets	136,218,361	72,753,639	208,972,000	2,018,446
DEFERRED OUTFLOWS				
Deferred Outflow of Resources (Note 7)		580,611	580,611	
Total Deferred Outflow of Resources	0	580,611	580,611	0

Concluded on the following page

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 Net Position (concluded)

August 31, 2010 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities*	Total	Component Units
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 4,895,349	$ 1,335,745	$ 6,231,094	$ 163,012
Payroll	656,543	693,092	1,349,635	667
Other Intergovernmental	668,864	14,955	683,819	
Federal	288	92,666	92,954	60,168
Investment Trades	81,623	415,329	496,952	
Interest	341,897	56,684	398,581	2,254
Tax Refunds (Note 24)	889,444		889,444	
Annuities		12,612	12,612	
To Fiduciary Funds	145,973		145,973	
Internal Balances (Note 12)	818,482	(818,482)		
Due To Primary Government (Note 12)				58
Due To Component Units (Note 12)	538		538	
Unearned Revenue	3,550,796	2,590,012	6,140,808	47,357
Obligations/Reverse Repurchase Agreement	75,912		75,912	
Obligations/Securities Lending	2,194,989	701,182	2,896,171	
Short-Term Debt (Note 4)	7,865,000		7,865,000	
Claims and Judgments (Note 5)	54,814	16,583	71,397	
Capital Lease Obligations (Note 5, 8)	2,609	2,588	5,197	48
Employees' Compensable Leave (Note 5)	477,680	333,063	810,743	3,649
Notes and Loans Payable (Note 5)	44,557	2,004,833	2,049,390	12,586
General Obligation Bonds Payable (Note 5, 6)	379,330	135,332	514,662	
Revenue Bonds Payable (Note 5, 6)	167,824	1,880,769	2,048,593	2,108
Pollution Remediation Obligation (Note 5)	39,881	22	39,903	
Liabilities Payable From Restricted Assets (Note 5)		473,131	473,131	
Funds Held for Others		124,342	124,342	292
Hedging Derivative Liability (Note 7)		7,467	7,467	
Other Current Liabilities	225,339	251,615	476,954	42,071
Total Current Liabilities	23,577,732	10,323,540	33,901,272	334,270
Noncurrent Liabilities:				
Claims and Judgments (Note 5)	101,676	50,951	152,627	
Capital Lease Obligations (Note 5, 8)	11,892	11,754	23,646	144
Employees' Compensable Leave (Note 5)	280,511	345,354	625,865	1,775
Notes and Loans Payable (Note 5)	716,043	1,097,728	1,813,771	87,600
General Obligation Bonds Payable (Note 5, 6)	9,706,249	2,808,420	12,514,669	
Revenue Bonds Payable (Note 5, 6)	5,452,236	15,162,206	20,614,442	359,661
Pollution Remediation Obligation (Note 5)	287,209		287,209	
Liabilities Payable From Restricted Assets (Note 5)		3,086,140	3,086,140	57,830
Assets Held for Others		714,541	714,541	
Net Pension Obligation (Note 9)	1,179,725		1,179,725	
Net OPEB Obligation (Note 11)		1,638,142	1,638,142	
Hedging Derivative Liability (Note 7)		573,144	573,144	
Other Noncurrent Liabilities		145,922	145,922	252,603
Total Noncurrent Liabilities	17,735,541	25,634,302	43,369,843	759,613
Total Liabilities	41,313,273	35,957,842	77,271,115	1,093,883
DEFERRED INFLOWS				
Deferred Inflow of Resources (Note 7)		4,618	4,618	
Total Deferred Inflow of Resources	0	4,618	4,618	0
NET POSITION				
Invested in Capital Assets, Net of Related Debt	60,743,457	7,933,135	68,676,592	54,404
Restricted for:				
Education	846,041	2,479,096	3,325,137	97,531
Debt Service	428,908	360,797	789,705	
Capital Projects	211,869	470,655	682,524	
Veterans Land Board Housing Programs		684,672	684,672	
Funds Held as Permanent Investments:				
Nonexpendable	11,012,187	11,619,866	22,632,053	
Expendable	13,397,965	6,548,727	19,946,692	
Other	239,244	45,219	284,463	21,198
Unrestricted	8,025,417	7,229,623	15,255,040	751,430
Total Net Position	$ 94,905,088	$ 37,371,790	$ 132,276,878	$ 924,563

STATE OF TEXAS

Statement of Activities

For the Fiscal Year Ended August 31, 2010 (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	$ 3,451,868	$ 984,639	$ 1,396,812	$ 5,492
Education	27,344,876	463,719	9,482,182	
Employee Benefits	252,457	135		
Teacher Retirement Benefits	2,200,408			
Health and Human Services	41,487,191	1,782,704	30,473,350	15
Public Safety and Corrections	6,231,847	336,134	959,955	
Transportation	4,146,987	1,891,247	230,235	2,446,266
Natural Resources and Recreation	1,559,708	605,751	601,630	1,410
Regulatory Services	447,557	687,746	4,063	
Interest on General Long-Term Debt	755,314			
Total Governmental Activities	87,878,213	6,752,075	43,148,227	2,453,183
Business-Type Activities:				
General Government	162,620	47,377	157,604	
Education*	20,943,292	9,907,344	8,186,347	277,169
Health and Human Services	7,826,452	2,107,474	4,463,864	
Public Safety and Corrections	87,120	93,734		
Transportation	206,822	73,312	79	28,500
Natural Resources and Recreation	353,641	44,973	484,699	
Lottery	2,681,627	3,739,165	1	
Total Business-Type Activities	32,261,574	16,013,379	13,292,594	305,669
Total Primary Government	$ 120,139,787	$ 22,765,454	$ 56,440,821	$ 2,758,852
COMPONENT UNITS				
Component Units	$ 2,064,693	$ 1,685,999	$ 314,713	$
Total Component Units	$ 2,064,693	$ 1,685,999	$ 314,713	$ 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
Transfers - Internal Activities (Note 12)
Total General Revenues, Contributions and Transfers
Change in Net Position
Net Position, September 1, 2009
Restatements (Note 14)
Net Position, September 1, 2009, as Restated
Net Position, August 31, 2010

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 Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (1,064,925)	$	$ (1,064,925)	$
(17,398,975)		(17,398,975)	
(252,322)		(252,322)	
(2,200,408)		(2,200,408)	
(9,231,122)		(9,231,122)	
(4,935,758)		(4,935,758)	
420,761		420,761	
(350,917)		(350,917)	
244,252		244,252	
(755,314)		(755,314)	
(35,524,728)	0	(35,524,728)	0
	42,361	42,361	
	(2,572,432)	(2,572,432)	
	(1,255,114)	(1,255,114)	
	6,614	6,614	
	(104,931)	(104,931)	
	176,031	176,031	
	1,057,539	1,057,539	
0	(2,649,932)	(2,649,932)	0
(35,524,728)	(2,649,932)	(38,174,660)	0
			(63,981)
0	0	0	(63,981)
19,558,426		19,558,426	
2,624,725		2,624,725	
3,060,246		3,060,246	
3,809,109		3,809,109	
2,157,334		2,157,334	
1,309,620		1,309,620	
1,394,122		1,394,122	
1,676,452		1,676,452	
575,642	134,195	709,837	14,710
925,676	1,384	927,060	
			481
2,017,783	241,013	2,258,796	1,885
30,845		30,845	
	136,577	136,577	
(4,491,627)	4,491,627		
34,648,353	5,004,796	39,653,149	17,076
(876,375)	2,354,864	1,478,489	(46,905)
95,862,006	35,017,838	130,879,844	971,429
(80,543)	(912)	(81,455)	39
95,781,463	35,016,926	130,798,389	971,468
$ 94,905,088	$ 37,371,790	$ 132,276,878	$ 924,563

STATE OF TEXAS

Balance Sheet – Governmental Funds

August 31, 2010 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	$16,751,189	$4,443,553	$ 1,203,897	$2,706,302	$25,104,941
Short-Term Investments	78,551		17,997	167,918	264,466
Securities Lending Collateral			2,084,320		2,084,320
Receivables:					
Accounts	487,867	125,229	84,111	2,080	699,287
Taxes (Note 24)	2,303,494				2,303,494
Federal	2,427,098	317,239		11,354	2,755,691
Investment Trades	5		28,084	528	28,617
Other Intergovernmental	645,878	63,565			709,443
Interest and Dividends	8,524	11,020	78,007	12,751	110,302
Other (Note 1)	342,799			219	343,018
Due From Other Funds (Note 12)	108,356	240,864	32	81,159	430,411
Interfund Receivable (Note 12)	9,869			17	9,886
Inventories	186,509	112,616		440	299,565
Prepaid Items	156		6	5	167
Investments	11,100		23,244,022	998,206	24,253,328
Loans and Contracts	451,080	292,587	3,625	1,845,863	2,593,155
Other Assets		5,633		8,071	13,704
Restricted:					
Cash and Cash Equivalents	5,901			187,886	193,787
Loans and Contracts	338,589			713,802	1,052,391
Other Assets	761			90,817	91,578
Total Assets	$24,157,726	$5,612,306	$26,744,101	$6,827,418	$63,341,551
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 3,443,410	$ 815,609	$ 6,061	$ 87,640	$ 4,352,720
Investment Trades	15		79,910	1,698	81,623
Other Intergovernmental	668,864				668,864
Tax Refunds (Note 24)	889,444				889,444
Payroll	553,042	94,899	1,566	7,036	656,543
Federal	288				288
Interest	18,692				18,692
Due To Other Funds (Note 12)	1,151,444	50,261	376	43,167	1,245,248
Due To Component Units (Note 12)	538				538
Interfund Payable (Note 12)	52			4,934	4,986
Deferred Revenues	981,620	3,244,106	76,809	428	4,302,963
Obligations/Reverse Repurchase Agreements	75,912				75,912
Obligations/Securities Lending			2,184,063		2,184,063
Other Liabilities	164,853	57,414		3,072	225,339
Short-Term Debt (Note 4)	7,800,000	65,000			7,865,000
Total Liabilities	15,748,174	4,327,289	2,348,785	147,975	22,572,223
Fund Balances/(Deficits):					
Reserved (Note 13)	5,459,299	589,604	24,395,316	3,207,913	33,652,132
Unreserved (Note 13):					
General	2,950,253				2,950,253
Special Revenue		695,413		2,647,486	3,342,899
Capital Projects				(203,972)	(203,972)
Permanent				1,028,016	1,028,016
Total Fund Balances	8,409,552	1,285,017	24,395,316	6,679,443	40,769,328
Total Liabilities and Fund Balances	$24,157,726	$5,612,306	$26,744,101	$6,827,418	$63,341,551

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 Position

August 31, 2010 (Amounts in Thousands)

Total Fund Balance – Governmental Funds		$ 40,769,328
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets less accumulated depreciation and amortization are included in the statement of net position (Note 2):		
Capital Assets - Non-Depreciable or Non-Amortizable	$ 60,748,171	
Capital Assets - Depreciable or Amortizable, Net	11,670,386	
		72,418,557
Some of the state's resources are not currently available and are not reported in the funds.		
Net Pension Assets (Note 9)	4,576	
Deferred charges for unamortized bond issuance cost	39,918	
Derivative Instruments (Note 7)	8,897	
		53,391
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.		752,654
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. These liabilities, however, are included in the statement of net position. (Note 5 and Note 9)		
Claims and Judgments	(156,490)	
Capital Lease Obligations	(14,501)	
Employees' Compensable Leave	(758,191)	
Notes and Loans Payable	(760,600)	
General Obligation Bonds Payable	(10,085,579)	
Revenue Bonds Payable	(5,620,060)	
Pollution Remediation Obligation	(327,090)	
Net Pension Obligation	(1,179,725)	
		(18,902,236) *
* current portion = $1,166,695 and noncurrent portion = $17,735,541		
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. These liabilities, however, are included in the statement of net position.		(323,205)
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 position.		136,599
Net Position of Governmental Activities		$ 94,905,088

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	$ 33,810,925	$ 40,356	$	$ 2,016,365	$ 35,867,646
Federal	39,742,696	2,676,700		63,484	42,482,880
Licenses, Fees and Permits	2,582,357	1,278,244		672,219	4,532,820
Interest and Other Investment Income	417,180	53,693	1,522,970	177,323	2,171,166
Land Income	17,445	6,409	360,521	15	384,390
Settlement of Claims	612,873	794			613,667
Sales of Goods and Services	1,550,622	208,231	49,544	7,919	1,816,316
Other	3,448,376	10,143	2	40,411	3,498,932
Total Revenues	82,182,474	4,274,570	1,933,037	2,977,736	91,367,817
EXPENDITURES					
Current:					
General Government	3,097,479	12,402		242,588	3,352,469
Education	26,417,992		74,367	838,656	27,331,015
Employee Benefits	1,721			13,424	15,145
Teacher Retirement Benefits	1,829,709				1,829,709
Health and Human Services	41,293,175	384		73,749	41,367,308
Public Safety and Corrections	5,341,480	568,455		95,828	6,005,763
Transportation	14,477	3,432,583		27,283	3,474,343
Natural Resources and Recreation	1,473,196			92,327	1,565,523
Regulatory Services	340,604			96,840	437,444
Capital Outlay	213,277	3,157,365	170	168,557	3,539,369
Debt Service:					
Principal	3,209	248		727,640	731,097
Interest	154,553			565,312	719,865
Other Financing Fees		13,241		27,525	40,766
Total Expenditures	80,180,872	7,184,678	74,537	2,969,729	90,409,816
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,001,602	(2,910,108)	1,858,500	8,007	958,001
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	6,452,719	2,532,927		2,479,070	11,464,716
Transfer Out (Note 12)	(9,277,867)	(410,827)	(60,700)	(6,237,113)	(15,986,507)
Bonds and Notes Issued	224,822	1,916,820		1,666,485	3,808,127
Bonds Issued for Refunding				385,077	385,077
Premiums on Bonds Issued				48,176	48,176
Payment to Escrow for Refunding				(214,417)	(214,417)
Sale of Capital Assets	9,874	4,532			14,406
Increase in Obligations Under Capital Leases	8,221	1,458			9,679
Insurance Recoveries	3,552	10,775		653	14,980
Total Other Financing Sources (Uses)	(2,578,679)	4,055,685	(60,700)	(1,872,069)	(455,763)
Net Change in Fund Balances	(577,077)	1,145,577	1,797,800	(1,864,062)	502,238
Fund Balances, September 1, 2009	8,966,412	139,440	22,597,516	8,538,156	40,241,524
Restatements (Note 14)	20,217			5,349	25,566
Fund Balances, September 1, 2009, as Restated	8,986,629	139,440	22,597,516	8,543,505	40,267,090
Fund Balances, August 31, 2010	$ 8,409,552	$ 1,285,017	$ 24,395,316	$ 6,679,443	$ 40,769,328

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, 2010 (Amounts in Thousands)

Net Change in Fund Balances		$ 502,238
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	$ 3,539,369	
Depreciation Expense (Note 2)	(913,985)	
Amortization Expense (Note 2)	(29,059)	
		2,596,325
The effect of various miscellaneous transactions involving capital assets (i.e., sales and trade-ins) is to decrease net assets.		(14,406)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(1,580,098)
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.		(145,885)
Bond proceeds provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net position 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 position.		
Bonds and Notes Issued	(4,193,204)	
Premiums on Bond Proceeds	(48,176)	
Increase in Obligations Under Capital Leases	(9,680)	
Repayment of Bond and Capital Lease Principal	945,514	
		(3,305,546)
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.		1,070,878
Transfers of capital assets are not reported in the governmental funds. Resource flows between fiduciary funds and governmental funds are converted to revenues or expenses on the statement of activities.		
Capital Asset Transfers	119	
Increase in Revenues	59	
Increase in Expenses	(30,104)	
Net Change in Transfers	30,045	
		119
Change in Net Position of Governmental Activities		$ (876,375)

STATE OF TEXAS

Statement of Net Position – Proprietary Funds

August 31, 2010 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund***
	Colleges and Universities*	Unemployment Trust Fund**	Lottery Fund**	Nonmajor Enterprise Funds	Totals	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 3,728,495	$ 613	$ 57,269	$ 272,626	$ 4,059,003	$ 42,526
Short-Term Investments	449,162			781,515	1,230,677	230,635
Securities Lending Collateral	546,076			154,978	701,054	10,923
Restricted:						
Cash and Cash Equivalents	889,731	32,854		1,372,959	2,295,544	
Short-Term Investments	609,924		206,211	40,758	856,893	
Loans and Contracts				75,188	75,188	
Receivables:						
Federal	656,217	73,452		7,799	737,468	221
Other Intergovernmental	40,204			3,674	43,878	
Accounts	1,180,937	215,607	41,704	12,075	1,450,323	98,523
Interest and Dividends	67,718			65,319	133,037	2,185
Gifts	162,012				162,012	
Investment Trades	118,740			251,282	370,022	
Other	313,458			2,669	316,127	
Due From Other Funds (Note 12)	829,740	6,833		13,537	850,110	318
Due From Component Units (Note 12)	58				58	
Interfund Receivable (Note 12)	20,245			169	20,414	
Inventories	110,689		9,570	8,560	128,819	
Prepaid Items	134,875		1,141	240	136,256	
Loans and Contracts	115,472			204,541	320,013	
Other Current Assets	327,948			368	328,316	
Total Current Assets	10,301,701	329,359	315,895	3,268,257	14,215,212	385,331
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents	187,100			19,826	206,926	
Short-Term Investments	16,661				16,661	
Investments	21,158,078		1,067,985	2,887,080	25,113,143	
Receivables	12,178			173,004	185,182	
Loans and Contracts	107,747			3,194,354	3,302,101	
Other				2,229	2,229	
Loans and Contracts	36,432			3,792,406	3,828,838	
Investments	4,940,869			(1,671)	4,939,198	408,918
Interfund Receivable (Note 12)	591,650			2,965	594,615	
Gifts Receivable	241,810				241,810	
Capital Assets: (Note 2)						
Non-Depreciable or Non-Amortizable	4,426,682			2,285,581	6,712,263	
Depreciable or Amortizable, Net	14,335,590		707	426,914	14,763,211	
Assets Held in Trust	362			2,943	3,305	
Deferred Charges	1,027			49,460	50,487	
Hedging Derivative Asset (Note 7)				4,618	4,618	
Other Noncurrent Assets	41,407			521	41,928	
Total Noncurrent Assets	46,097,593	0	1,068,692	12,840,230	60,006,515	408,918
Total Assets	56,399,294	329,359	1,384,587	16,108,487	74,221,727	794,249
DEFERRED OUTFLOWS						
Deferred Outflow of Resources (Note 7)	216,560			364,051	580,611	
Total Deferred Outflow of Resources	216,560	0	0	364,051	580,611	0
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	1,121,535	146,386	24,136	43,688	1,335,745	542,629
Payroll	687,861		1,796	3,435	693,092	
Other Intergovernmental	14,955				14,955	
Federal	92,666				92,666	
Investment Trades	153,483			261,846	415,329	
Interest	4,829			51,855	56,684	
Annuities			12,612		12,612	

STATE OF TEXAS

Statement of Net Position – Proprietary Funds (concluded)

August 31, 2010 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund***
	Colleges and Universities*	Unemployment Trust Fund**	Lottery Fund**	Nonmajor Enterprise Funds	Totals	
LIABILITIES (concluded)						
Current Liabilities (concluded):						
Due To Other Funds (Note 12)	$ 23,419	$	$ 2,871	$ 3,413	$ 29,703	$ 103,608
Interfund Payable (Note 12)	22,339				22,339	
Unearned Revenue	2,479,228	41,396		69,388	2,590,012	487
Obligations/Securities Lending	546,204			154,978	701,182	10,926
Claims and Judgments (Note 5)	16,583				16,583	
Capital Lease Obligations (Note 5, 8)	2,520			68	2,588	
Employees' Compensable Leave (Note 5)	329,326		1,256	2,481	333,063	
Notes and Loans Payable (Note 5)	636,634	1,356,699		11,500	2,004,833	
General Obligation Bonds Payable (Note 5, 6)	8,410			126,922	135,332	
Revenue Bonds Payable (Note 5, 6)	1,831,227			49,542	1,880,769	
Pollution Remediation Obligation (Note 5)	22				22	
Liabilities Payable From Restricted Assets (Note 5)			261,859	211,272	473,131	
Funds Held for Others	124,316			26	124,342	
Hedging Derivative Liability (Note 7)	7,467				7,467	
Other Current Liabilities	242,110		3,855	5,650	251,615	
Total Current Liabilities	8,345,134	1,544,481	308,385	996,064	11,194,064	657,650
Noncurrent Liabilities:						
Interfund Payable (Note 12)	597,564				597,564	
Claims and Judgments (Note 5)	50,951				50,951	
Capital Lease Obligations (Note 5, 8)	11,754				11,754	
Employees' Compensable Leave (Note 5)	343,348		958	1,048	345,354	
Notes and Loans Payable (Note 5)	90,715			1,007,013	1,097,728	
Liabilities Payable From Restricted Assets (Note 5)			963,180	2,122,960	3,086,140	
General Obligation Bonds Payable (Note 5, 6)	38,657			2,769,763	2,808,420	
Revenue Bonds Payable (Note 5, 6)	9,653,454			5,508,752	15,162,206	
Assets Held for Others	711,598			2,943	714,541	
Net OPEB Obligation (Note 11)	1,638,142				1,638,142	
Hedging Derivative Liability (Note 7)	209,093			364,051	573,144	
Other Noncurrent Liabilities	51,894			94,028	145,922	
Total Noncurrent Liabilities	13,397,170	0	964,138	11,870,558	26,231,866	0
Total Liabilities	21,742,304	1,544,481	1,272,523	12,866,622	37,425,930	657,650
DEFERRED INFLOWS						
Deferred Inflow of Resources (Note 7)				4,618	4,618	
Total Deferred Inflow of Resources	0	0	0	4,618	4,618	0
NET POSITION						
Invested in Capital Assets, Net of Related Debt	7,790,114		707	142,314	7,933,135	
Restricted for:						
Education	2,479,096				2,479,096	
Debt Retirement	57,021			303,776	360,797	
Capital Projects	470,655				470,655	
Veterans Land Board Housing Programs				684,672	684,672	
Funds Held as Permanent Investments:						
Nonexpendable	11,619,866				11,619,866	
Expendable	6,548,727				6,548,727	
Other		39,691	5,000	528	45,219	136,599
Unrestricted	5,908,071	(1,254,813)	106,357	2,470,008	7,229,623	
Total Net Position	$34,873,550	$(1,215,122)	$ 112,064	$3,601,298	$37,371,790	$ 136,599

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.

** The unemployment trust fund and the lottery fund were previously presented in the combining statement of net assets – nonmajor enterprise funds.

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

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund***
	Colleges and Universities*	Unemployment Trust Fund**	Lottery Fund**	Nonmajor Enterprise Funds	Totals	
OPERATING REVENUES						
Lottery Collections	$	$	$ 3,738,726	$	$ 3,738,726	$
Tuition Revenue	42,553				42,553	
Tuition Revenue – Pledged	4,151,054				4,151,054	
Discounts and Allowances	(960,757)				(960,757)	
Hospital Revenue – Pledged	7,289,132				7,289,132	
Discounts and Allowances	(3,856,238)				(3,856,238)	
Professional Fees	3,919,742				3,919,742	
Professional Fees – Pledged	13,205				13,205	
Discounts and Allowances	(2,514,973)				(2,514,973)	
Auxiliary Enterprises	3,283				3,283	
Auxiliary Enterprises – Pledged	1,044,633			93,507	1,138,140	
Discounts and Allowances	(30,555)				(30,555)	
Unemployment Taxes		2,107,474			2,107,474	
Other Sales of Goods and Services	3,914			16,670	20,584	
Other Sales of Goods and Services – Pledged	637,868			104,037	741,905	
Discounts and Allowances	(26,491)				(26,491)	
Interest and Investment Income	1,637		1	331,877	333,515	
Interest and Investment Income – Pledged	167			101,533	101,700	
Federal Revenue	2,215,949	4,463,864		26,342	6,706,155	2,268
State Grant Revenue	31,283				31,283	
Premium Revenue						1,650,471
Other Operating Grant Revenue	524,155				524,155	
Other Operating Grant Revenue – Pledged	823,932				823,932	
Other Revenues	27,913	238,545	938	47,166	314,562	1,087
Other Revenues – Pledged	156,064			42	156,106	
Total Operating Revenues	13,497,470	6,809,883	3,739,665	721,174	24,768,192	1,653,826
OPERATING EXPENSES						
Cost of Goods Sold	145,848			68,660	214,508	
Salaries and Wages	9,789,151		17,263	43,636	9,850,050	4,938
Payroll Related Costs	2,217,325		4,280	10,247	2,231,852	1,252
Professional Fees and Services	828,254		4,181	82,293	914,728	364
Travel	268,628		315	544	269,487	35
Materials and Supplies	1,734,527		1,854	8,763	1,745,144	446
Communication and Utilities	630,320		742	2,048	633,110	174
Repairs and Maintenance	404,363		526	14,244	419,133	222
Rentals and Leases	213,561		4,869	2,972	221,402	437
Printing and Reproduction	64,408		14,516	231	79,155	22
Depreciation and Amortization	1,238,886		308	22,887	1,262,081	
Unemployment Benefit Payments		7,826,452			7,826,452	
Bad Debt Expense	9,330		309	321	9,960	
Interest Expense	655		12	321,281	321,948	
Scholarships	959,761				959,761	
Lottery Fees and Other Costs			297,545		297,545	
Lottery Prize Payments			2,300,183		2,300,183	
Employee/Participant Benefit Payments				12,365	12,365	1,828,422
Claims and Judgments	33,057				33,057	
Net Change in Pension/OPEB Obligations (Note 11)	577,244				577,244	
Other Expenses	1,112,515		34,724	105,187	1,252,426	228
Total Operating Expenses	20,227,833	7,826,452	2,681,627	695,679	31,431,591	1,836,540
Operating Income (Loss)	(6,730,363)	(1,016,569)	1,058,038	25,495	(6,663,399)	(182,714)

Concluded on the following page

STATE OF TEXAS

Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund***
	Colleges and Universities*	Unemployment Trust Fund**	Lottery Fund**	Nonmajor Enterprise Funds	Totals	
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	$ 808,797	$	$	$ 182,457	$ 991,254	$
Gifts	411,061			87	411,148	
Gifts – Pledged	148,250				148,250	
Land Income	6,884			13	6,897	
Interest and Investment Income	2,689,916	123	55,539	125,088	2,870,666	36,609
Interest and Investment Income – Pledged	354,228				354,228	
Loan Premium and Fees on Securities Lending				419	419	121
Investing Activities Expense	(74,501)			(659)	(75,160)	
Interest Expense	(414,483)			(141,025)	(555,508)	
Borrower Rebates and Agent Fees	(3,969)			(155)	(4,124)	(59)
Settlement of Claims	1,384			2	1,386	158
Claims and Judgments	(1,739)			(9)	(1,748)	
Other Revenues	95,375			78	95,453	
Other Revenues – Pledged	34,671				34,671	
Other Expenses	(135,825)			(57,617)	(193,442)	
Total Nonoperating Revenues (Expenses)	3,920,049	123	55,539	108,679	4,084,390	36,829
Income (Loss) Before Capital Contributions, Endowments and Transfers	(2,810,314)	(1,016,446)	1,113,577	134,174	(2,579,009)	(145,885)
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS						
Capital Contributions – Federal	1,083				1,083	
Capital Contributions – Other	275,967			28,500	304,467	
Contributions to Permanent and Term Endowments	136,577				136,577	
Transfer In (Note 12)	5,841,662	105,160		54,046	6,000,868	
Transfer Out (Note 12)	(391,552)		(1,063,085)	(54,485)	(1,509,122)	
Total Capital Contributions, Endowments and Transfers	5,863,737	105,160	(1,063,085)	28,061	4,933,873	0
Change in Net Position	3,053,423	(911,286)	50,492	162,235	2,354,864	(145,885)
Net Position, September 1, 2009	31,809,726	(303,836)	71,141	3,440,807	35,017,838	282,484
Restatements (Note 14)	10,401		(9,569)	(1,744)	(912)	
Net Position, September 1, 2009, as Restated	31,820,127	(303,836)	61,572	3,439,063	35,016,926	282,484
Net Position, August 31, 2010	$34,873,550	$(1,215,122)	$ 112,064	$3,601,298	$37,371,790	$ 136,599

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.

** The unemployment trust fund and the lottery fund were previously presented in the combining statement of revenues, expenses and changes in fund net assets – nonmajor enterprise funds.

*** 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, 2010 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund**
	Colleges and Universities	Unemployment Trust Fund*	Lottery Fund*	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	$ 5,082,721	$ 2,018,345	$ 3,752,845	$ 214,924	$ 11,068,835	$ 419,234
Proceeds from Tuition and Fees	3,398,636				3,398,636	
Proceeds from Research Grants and Contracts	4,131,487	4,478,806			8,610,293	
Proceeds from Loan Programs	249,352			451,449	700,801	
Proceeds from Auxiliaries	995,639				995,639	
Proceeds from Other Revenues	703,868	211,481		100,574	1,015,923	1,266,444
Payments to Suppliers for Goods and Services	(5,773,237)		(360,256)	(209,105)	(6,342,598)	(2,071)
Payments to Employees	(11,929,091)		(21,544)	(54,836)	(12,005,471)	(6,912)
Payments for Loans Provided	(287,266)			(276,000)	(563,266)	
Payments for Unemployment Benefits		(7,882,758)			(7,882,758)	
Payments for Lottery Prizes			(2,341,447)		(2,341,447)	
Payments for Other Expenses	(991,884)			(212,959)	(1,204,843)	(1,780,521)
Net Cash Provided (Used) by Operating Activities	(4,419,775)	(1,174,126)	1,029,598	14,047	(4,550,256)	(103,826)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance				952,253	952,253	
Proceeds from State Appropriations	4,570,503			1,335	4,571,838	
Proceeds from Gifts	519,138				519,138	
Proceeds from Endowments	363,057				363,057	
Proceeds from Transfers from Other Funds	253,246	103,757		251,623	608,626	
Proceeds from Loan Programs		2,666,291			2,666,291	
Proceeds from Grant Receipts	585,819			180,570	766,389	
Proceeds from Interfund Payables				20,665	20,665	
Proceeds from Other Financing Activities	445,349		169,010	134,672	749,031	
Payments of Principal on Debt Issuance		(1,599,229)		(879,300)	(2,478,529)	
Payments of Interest	(72)			(330,847)	(330,919)	
Payments of Other Costs on Debt Issuance				(1,757)	(1,757)	
Payments for Transfers to Other Funds	(374,314)		(1,094,623)	(670,375)	(2,139,312)	
Payments for Grant Disbursements				(67,671)	(67,671)	
Payments for Interfund Receivables				(71,529)	(71,529)	
Payments for Other Uses	(85,298)		(180,521)	(386)	(266,205)	(97)
Net Cash Provided (Used) by Noncapital Financing Activities	6,277,428	1,170,819	(1,106,134)	(480,747)	5,861,366	(97)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	6,299				6,299	
Proceeds from Debt Issuance	3,479,019				3,479,019	
Proceeds from State Grants and Contracts	34,894			1,227	36,121	
Proceeds from Federal Grants and Contracts	195				195	
Proceeds from Gifts	14,318				14,318	
Proceeds from Other Financing Activities	105,954			218	106,172	
Proceeds from Capital Contributions	328,197			27,762	355,959	
Proceeds from Interfund Payables	70,156				70,156	
Payments for Additions to Capital Assets	(3,015,559)		(256)	(21,633)	(3,037,448)	
Payments of Principal on Debt Issuance	(2,083,257)			(375)	(2,083,632)	
Payments for Capital Leases	(362)				(362)	
Payments of Interest on Debt Issuance	(432,186)			(64,115)	(496,301)	
Payments of Other Costs on Debt Issuance	(99,664)			(5)	(99,669)	
Net Cash Used by Capital and Related Financing Activities	(1,591,996)	0	(256)	(56,921)	(1,649,173)	0

Concluded on the following page

STATE OF TEXAS

Statement of Cash Flows – Proprietary Funds (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund**
	Colleges and Universities	Unemployment Trust Fund*	Lottery Fund*	Nonmajor Enterprise Funds	Totals	
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	$ 16,795,441	$	$ 180,521	$ 6,100,993	$ 23,076,955	$ 132,100
Proceeds from Interest and Investment Income	847,980	565		312,729	1,161,274	
Proceeds from Principal Payments on Loans				554,633	554,633	
Payments for Nonprogram Loans Provided				(400,054)	(400,054)	
Payments to Acquire Investments	(17,655,710)		(170,249)	(5,552,306)	(23,378,265)	
Net Cash Provided (Used) by Investing Activities	(12,289)	565	10,272	1,015,995	1,014,543	132,100
Net Increase (Decrease) in Cash and Cash Equivalents	253,368	(2,742)	(66,520)	492,374	676,480	28,177
Cash and Cash Equivalents, September 1, 2009	4,551,633	36,209	123,789	1,189,238	5,900,869	14,349
Restatements	325			(16,201)	(15,876)	
Cash and Cash Equivalents, September 1, 2009, as Restated	4,551,958	36,209	123,789	1,173,037	5,884,993	14,349
Cash and Cash Equivalents, August 31, 2010	$ 4,805,326	$ 33,467	$ 57,269	$ 1,665,411	$ 6,561,473	$ 42,526
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	$ (6,730,363)	$ (1,016,569)	$ 1,058,038	$ 25,495	$ (6,663,399)	$ (182,714)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:						
Depreciation and Amortization	1,238,886		308	22,887	1,262,081	
Bad Debt Expense	298,974		309	321	299,604	
Operating Income (Loss) and Cash Flow Categories Classification Differences	446,809			28,235	475,044	(436)
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(510,335)	(90,262)	13,179	3,110	(584,308)	15,672
(Increase) Decrease in Due From Other Funds	306				306	878
(Increase) Decrease in Inventories	(553)		212	551	210	
(Increase) Decrease in Notes Receivable	633				633	
(Increase) Decrease in Loans and Contracts	(770)			66,567	65,797	
(Increase) Decrease in Other Assets	24,403		1,970	2,957	29,330	
(Increase) Decrease in Prepaid Expenses	(16,616)			13	(16,603)	
Increase (Decrease) in Payables	2,055	(55,204)	(44,418)	(121,186)	(218,753)	47,879
Increase (Decrease) in Deposits	4,956				4,956	
Increase (Decrease) in Due To Other Funds	(11,144)			12,192	1,048	14,811
Increase (Decrease) in Unearned Revenue	226,321	(12,091)		(1,585)	212,645	84
Increase (Decrease) in Compensated Absence Liability	14,486			(6)	14,480	
Increase (Decrease) in Benefits Payable	587,763				587,763	
Increase (Decrease) in Other Liabilities	4,414			(25,504)	(21,090)	
Total Adjustments	2,310,588	(157,557)	(28,440)	(11,448)	2,113,143	78,888
Net Cash Provided (Used) by Operating Activities	$ (4,419,775)	$ (1,174,126)	$ 1,029,598	$ 14,047	$ (4,550,256)	$ (103,826)
NONCASH TRANSACTIONS						
Net Change in Fair Value of Investments	$ 1,415,470	$	$ 55,538	$ 104,613	$ 1,575,621	$ 20,789
Donation of Capital Assets	$ 57,449	$	$	$ 365	$ 57,814	$
Borrowing Under Capital Lease Purchase	$ 3,003	$	$	$	$ 3,003	$
Other	$ 74,100	$	$	$ 33,591	$ 107,691	$

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

* The unemployment trust fund and the lottery fund were previously presented in the combining statement of cash flows – nonmajor enterprise funds.

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

STATE OF TEXAS

Statement of Fiduciary Net Position

August 31, 2010 (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	$ 7,840,235	$	$ 323,827	$ 1,267,359
Restricted Cash and Cash Equivalents			372	
Securities Lending Collateral	24,022,229			
Investments:				
U.S. Government	22,856,908	5,646,129	20,744	201,227
Corporate Equity	28,605,161		47,805	205,438
Corporate Obligations	2,925,437	553,438	28,596	140
Repurchase Agreements	213,530	8,692,145		35,034
Foreign Securities	26,205,653		192,797	
Externally Managed Investments	21,380,572		277,900	
Other	7,127,688		1,636,917	40,772
Receivables:				
Interest and Dividends	301,563	6,667	2,759	573
Accounts	274,295		541	7,222
Other Intergovernmental				2,230
Investment Trades	182,203		1,629	
Other	422		4,250	6
Due From Other Funds (Note 12)	151,922			192
Properties, at Cost, Net of Accumulated Depreciation or Amortization	41,701		920	
Other Assets	250		80,950	1,819,984
Total Assets	142,129,769	14,898,379	2,620,007	3,580,177
LIABILITIES				
Payables:				
Accounts	$ 299,298	$ 3,246	$ 16,859	$ 814
Investment Trades	148,061	259,960	3,828	
Payroll	4,086			
Other Intergovernmental				746,033
Interest			27	
Annuities	578,215			
Due To Other Funds (Note 12)	25,837		13	28,544
Interfund Payable (Note 12)				26
Unearned Revenue	23,648		156	
Employees' Compensable Leave	7,839			
Obligations/Securities Lending	24,002,548			
Funds Held for Others			80,950	2,804,750
Other Liabilities	2,363	660	178	10
Total Liabilities	25,091,895	263,866	102,011	3,580,177
NET POSITION				
Held in Trust for:				
Pension Benefits and Other Purposes	117,037,874			
Individuals, Organizations and Other Governments			2,517,996	
Pool Participants		14,634,513		
Total Net Position	$ 117,037,874	$ 14,634,513	$ 2,517,996	$ 0

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

* The activity of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) is reported as an external investment trust fund. Combining statements are not presented.

STATE OF TEXAS

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Fund*	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	$ 2,803,814	$	$
State Contributions	2,747,620		
Premium Contributions	821,611		
Federal Contributions	111,783		3,426
Other Contributions	720,083		115,569
Total Contributions	7,204,911	0	118,995
Investment Income:			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	8,275,497		94,054
Interest and Investment Income	2,454,723	46,594	54,373
Total Investing Income	10,730,220	46,594	148,427
Less Investing Activities Expense	161,332	8,911	1,252
Net Income from Investing Activities	10,568,888	37,683	147,175
From Securities Lending Activities:			
Securities Lending Income	170,831		
Less Securities Lending Expense:			
Borrower Rebates	39,271		
Management Fees	17,338		
Net Income from Securities Lending	114,222	0	0
Total Net Investment Income	10,683,110	37,683	147,175
Capital Share and Individual Account Transactions:			
Net Decrease in Participant Investments	0	(1,723,922)	0
Other Additions:			
Settlement of Claims	56		4,850
Other Revenue	3,349		270,214
Transfer In (Note 12)	103,090		
Total Other Additions	106,495	0	275,064
Total Additions	17,994,516	(1,686,239)	541,234
DEDUCTIONS			
Benefits	9,942,363		85,071
Refunds of Contributions	330,801		
Transfer Out (Note 12)	72,985		60
Intergovernmental Payments			51,418
Administrative Expenses	52,974		6,664
Depreciation and Amortization Expense	2,402		39
Settlement of Claims			69,228
Interest Expense	47		7
Loss on Sale of Properties	33		
Other Expenses	3,566		138,863
Total Deductions	10,405,171	0	351,350
INCREASE (DECREASE) IN NET POSITION	7,589,345	(1,686,239)	189,884
NET POSITION			
Net Position, September 1, 2009	109,448,529	16,320,752	2,328,112
Net Position, August 31, 2010	$ 117,037,874	$ 14,634,513	$ 2,517,996

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

* The activity of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) is reported as an external investment trust fund. Combining statements are not presented.

State of Texas
Notes to Financial Statements

	Page
NOTE 1 – Summary of Significant Accounting Policies	59
NOTE 2 – Capital Assets	68
NOTE 3 – Deposits, Investments and Repurchase Agreements	72
NOTE 4 – Short-Term Debt	86
NOTE 5 – Long-Term Liabilities	87
NOTE 6 – Bonded Indebtedness	90
NOTE 7 – Derivative Instruments	101
NOTE 8 – Leases	109
NOTE 9 – Retirement Plans	111
NOTE 10 – Deferred Compensation	120
NOTE 11 – Postemployment Health Care and Life Insurance Benefits	120
NOTE 12 – Interfund Activity and Transactions	125
NOTE 13 – Classification of Fund Balances/Net Position	129
NOTE 14 – Restatement of Beginning Balances	131
NOTE 15 – Commitments and Contingencies	133
NOTE 16 – Subsequent Events	135
NOTE 17 – Risk Management	136
NOTE 18 – Contested Taxes	138
NOTE 19 – Component Units and Related Organizations	138
NOTE 20 – Deficit Fund Balances/Net Position	143
NOTE 21 – Tobacco Settlement	144
NOTE 22 – Donor-Restricted Endowments	144
NOTE 23 – Extraordinary and Special Items	145
NOTE 24 – Taxes Receivable and Tax Refunds Payable	145
NOTE 25 – Termination Benefits	145
NOTE 26 – Segment Information	146

Note 1

Summary of Significant Accounting Policies

BASIS OF PRESENTATION

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

The state implemented the following GASB statements in fiscal 2010.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, requires all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets are applied to these intangible assets, as applicable. Examples of intangible assets include easements, computer software, water rights, timber rights, patents and trademarks. GASB 51 also provides guidance on recognizing the costs of internally generated computer software as an intangible asset. Retroactive reporting is required except for intangible assets with indefinite useful lives or those that were internally generated prior to the effective date of the statement. The state chose not to retroactively report internally generated intangible assets and intangible assets with indefinite useful lives.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement and disclosure of information pertaining to derivative instruments by state and local governments. It requires governments to measure most derivative instruments at fair value in the government-wide, proprietary and fiduciary fund statements of net position. If derivatives are recognized in the financial statements, consideration of hedge accounting is necessary.

FINANCIAL REPORTING ENTITY

For financial reporting purposes, the state of Texas includes all funds, agencies, boards, commissions, authorities, institutions of higher education 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 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 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 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 position 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 position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reflected on an accrual basis, economic resources measurement focus, which incorporates noncurrent investments, capital assets and long-term debt and obligations.

The statement of activities reflects both the gross and net cost per functional category (public safety and corrections, transportation, etc.), which is otherwise supported by general government revenues (sales and use taxes, franchise taxes, etc.). In the statement of activities, program revenues are netted against program expenses, which include depreciation and amortization, to present the net cost of each program. Program revenues are 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 are charged to the various functions of the state. These charges are paid from applicable funding sources and are reflected as direct expenses.

Program revenues include charges for services; operating grants and contributions; and 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 capital grants reflect 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.

Fiduciary funds are presented in the fund financial statements by type (pension and other employee benefit trust, external investment trust, private-purpose trust and agency). The assets of 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 resources measurement focus and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate compliance with legal and covenant requirements, the source and use of financial resources and 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. The reconciliation 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 legally restricted for specific purposes. Debt service funds account for the accumulation of resources 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 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 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 secured solely by a pledge of the net revenues from fees and charges of the activity;
- Laws or regulations require the activity's costs of providing services, including capital costs (such

as depreciation, amortization 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 are used to report any activity that provides goods or services, on a cost reimbursement basis, to other funds, departments or agencies of the reporting entity or other governments. The employees life, accident and health insurance benefits fund accounts for the services provided to state of Texas agencies and institutions of higher education that participate in the Texas Employees Group Benefits Program.

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. These institutions of higher education 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 **Unemployment Trust Fund** contains the activity of the state related to the administration of state and federally financed unemployment benefits.

The **Lottery Fund** receives fees from external users that are used to operate the state lottery, finance debt and make investments to meet future installment obligations to prize winners.

Fiduciary Fund Types

Fiduciary funds account for assets held 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.

External 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. These trusts include tobacco settlement money, reserve for insurance company liquidations, relief of catastrophic insurance losses, contributions of prison inmates, educational savings plans and others.

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. Agency funds include those funds established to account for the collection of sales and use tax for distribution to localities, bond escrow funds, deposits of insurance carriers, child support collections and other miscellaneous accounts.

Component Units

All component units of the state of Texas are reported as nonmajor component units. The combining statement of net position – component units and the combining statement of activities – component units are presented for all 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 entity, 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.

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 fiscal year-end and collected within 60 days thereafter.

In the governmental fund financial statements, a receivable 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 accrual basis of accounting, as used in the government-wide financial statements, proprietary fund financial statements and fiduciary fund financial statements, unearned revenue is recorded when cash or other assets are collected in advance before the revenue recognition criteria are met. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred. Amounts paid to acquire capital assets are capitalized as assets rather than reported as expenditures. Proceeds of long-term debt are recorded as liabilities 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 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, depreciation and amortization on capital assets. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Although agency funds use the accrual basis of accounting, they do not have a measurement focus because they do not recognize 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 (MD&A) 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 budget-

ary 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. The governmental funds with legally adopted annual budgets are the general fund, the state highway fund and all other nonmajor special revenue funds listed in 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 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.

Receivables and Payables

The major receivables for governmental activities and business-type activities are taxes and federal, respectively. Receivables represent amounts due to the state at Aug. 31, 2010, 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. All receivables are recorded net of allowances for uncollectible accounts.

Taxes receivable represent amounts earned in fiscal 2010 that will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered available is recorded as revenue; the remainder is recorded as deferred revenue. Taxes receivable are estimated based on collection experience. Tax refunds payable represent amounts owed to taxpayers for overpayments or amended tax returns. See Note 24 for details on taxes receivable and tax refunds payable.

Other receivables consist primarily of health care assistance and supplemental 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 or 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.

Investment trade receivables are reported for sales of investments pending settlement. Investment 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 costs of these items are 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 table identifying the capitalization threshold and the estimated useful life by asset type. It also provides information on the state's depreciation/amortization policy and other detailed information.

The state adopted the modified approach to report infrastructure assets. This approach 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 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 position 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 claims and judgments, capital lease obligations, employees' compensable leave 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 position. 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.

In the government-wide financial statements and proprietary fund financial statements, bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line, bonds outstanding or 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, discounts and 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

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employee. Benefits are earned when 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 is included in the calculation of current and noncurrent liabilities for each employee because 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. In 2009, the 81st Legislature passed House Bill 2559, which does not allow employees hired on or after Sept. 1, 2009, to apply unused sick or annual leave as service credit to meet retirement eligibility. State employees hired before Sept. 1, 2009, are 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 was not 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 8 provides details for capital lease obligations.

Deferred Inflows and Deferred Outflows

Changes in fair values of hedging derivative assets and liabilities are reported as deferred inflows and deferred outflows. Note 7 presents additional information about derivative instruments.

Net Position and Fund Balances

The state reports restricted net position when constraints placed on resources 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 position is designated as either expendable or nonexpendable. Expendable restricted resources are those that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations. Nonexpendable restricted resources are those required to be retained in perpetuity. Restricted resources include the state's permanent endowment funds subject to externally imposed restrictions governing their use.

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

Invested in capital assets, net of related debt, consists of capital assets including restricted capital assets, net of accumulated depreciation/amortization 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.

Fund balances for governmental funds are classified as reserved, unreserved/designated or unreserved/undesignated. Reserved fund balances are either funds legally segregated for a specific use or 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. 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. Note 13 presents disaggregated fund balances.

Interfund Activity and Transactions – Government-wide Financial Statements

The terms and definitions for interfund activity and requirements for reporting transfers are as follows.

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

Interfund payables and receivables are eliminated from the statement of net position except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the statement of net position. 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 are reclassified and reported as external activity.

Risk Financing

The state maintains a combination of commercial insurance and self-insurance programs. The state is self-insured for workers' compensation and unemployment compensation claims and funds the liabilities on a pay-as-you-go basis. The group insurance programs are

provided through a combination of insurance contracts, self-funded health plans 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 incurred but not reported. For additional information, see Note 17.

Note 2

Capital Assets

Capital assets, which include land, infrastructure, buildings, equipment and intangible assets, of governmental funds are recorded as expenditures at the time of purchase and capitalized in the governmental activities column of the government-wide statement of net position. Capital assets of the other funds and component units are capitalized in the fund in which they are utilized. Capital assets are assets with a cost above a set minimum capitalization threshold that, when acquired, have an estimated useful life of more than one year. The capitalization thresholds and useful lives of the state's various categories of capital assets are as follows.

Capitalization of Assets

Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	$ 0	Not applicable
Infrastructure, Nondepreciable	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		
(Library Books, Leasehold Improvements and Livestock)		
Depreciable	Various	3-22 years
Nondepreciable	Various	Not applicable
Internally Generated Computer Software	1,000,000	3-10 years
Other Computer Software	100,000	3-10 years
Land Use Rights – Permanent	0	Not applicable
Land Use Rights – Term	100,000	10-60 years
Other Intangible Capital Assets	100,000	3-15 years

All capital assets are capitalized at cost or estimated historical cost if actual historical cost is not available. Depreciation or amortization 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. Intangible assets with determinable useful lives are amortized. Donated assets are reported at fair value on the acquisition date. Assets are depreciated or amortized over their estimated useful life using the straight-line method.

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.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities. 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 state's capitalization policy regarding works of art and historical treasures is that capitalization is encouraged, but not required, for works of art and historical treasures that meet certain conditions. Works of art and historical treasures held for public exhibition, education or research in furtherance of public service, rather than for financial gain; protected, kept unencumbered, cared for and preserved; and subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for the collection are not required to be capitalized. Assets of this nature include the historical archives of the Texas General Land Office. This vast collection includes approximately 35 million records dating back to 1720, including approximately 80 thousand maps, sketches and plat maps.

Capital Asset Activity

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/09	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/10
GOVERNMENTAL ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 8,125,334	$ (112,666)	$ 1,779	$ 285,174	$ (2,928)	$ 8,296,693
Infrastructure	45,859,510	120,368	1,723,418	452,325		48,155,621
Construction in Progress	4,206,962	(6,930)	(2,553,276)	2,561,371		4,208,127
Other Capital Assets	181,301	(154,959)		24		26,366
Land Use Rights – Permanent		53,539		7,841	(16)	61,364
Total Non-Depreciable & Non-Amortizable Assets	58,373,107	(100,648)	(828,079)	3,306,735	(2,944)	60,748,171
Depreciable Assets						
Buildings and Building Improvements	5,397,191	5,893	100,341	19,510	(13,149)	5,509,786
Infrastructure	18,564,924	(120,368)	716,932	3,163	(130,593)	19,034,058
Facilities and Other Improvements	212,653	(144)	2,483	424	(175)	215,241
Furniture and Equipment	1,122,367	(247,831)	2,308	96,599	(47,178)	926,265
Vehicles, Boats and Aircraft	981,578	(398)	37	77,036	(55,160)	1,003,093
Other Capital Assets	133,320	(41)	3,527	3,489	(1,680)	138,615
Total Depreciable Assets at Historical Cost	26,412,033	(362,889)	825,628	200,221	(247,935)	26,827,058
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(2,960,340)	6,291		(174,284)	6,198	(3,122,135)
Infrastructure	(10,230,010)	64,597		(596,944)	114,386	(10,647,971)
Facilities and Other Improvements	(129,401)			(7,678)	175	(136,904)
Furniture and Equipment	(884,992)	204,729	161	(63,333)	45,788	(697,647)
Vehicles, Boats and Aircraft	(578,992)	(72)	7	(64,851)	47,554	(596,354)
Other Capital Assets	(54,430)	397		(6,895)	1,053	(59,875)
Total Accumulated Depreciation*	(14,838,165)	275,942	168	(913,985)	215,154	(15,260,886)
Depreciable Assets, Net	11,573,868	(86,947)	825,796	(713,764)	(32,781)	11,566,172
Intangible Capital Assets – Amortizable						
Land Use Rights – Term		31,450		3,833	(13,087)	22,196
Computer Software – Intangible		252,216	2,420	51,156	(8,843)	296,949
Other Intangible Capital Assets – Term				15,170		15,170
Total Intangible Assets at Historical Cost	0	283,666	2,420	70,159	(21,930)	334,315
Less Accumulated Amortization for:						
Land Use Rights – Term		(12,299)		(4,348)	12,072	(4,575)
Computer Software – Intangible		(209,508)	(18)	(24,584)	8,711	(225,399)
Other Intangible Capital Assets – Term				(127)		(127)
Total Accumulated Amortization*	0	(221,807)	(18)	(29,059)	20,783	(230,101)
Amortizable Assets, Net	0	61,859	2,402	41,100	(1,147)	104,214
Governmental Activities Capital Assets, Net	$ 69,946,975	$ (125,736)	$ 119	$ 2,634,071	$ (36,872)	$ 72,418,557

* Depreciation and amortization expense was charged to governmental activities as follows:

General Government	$ 52,947
Education	4,535
Employee Benefits	4
Health and Human Services	39,716
Public Safety and Corrections	165,137
Transportation	648,889
Natural Resources and Recreation	29,012
Regulatory Services	2,804
Total	$ 943,044

Continued on the following page

The table above and on the following pages presents the composition of the state's capital assets, adjustments, reclassifications, additions and deletions during fiscal 2010. The adjustment column includes assets not previously reported, accounting errors and other changes. The reclassifications column presents completed construction

Capital Asset Activity (continued)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/09	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/10
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 1,477,108	$ (10,442)	$ 1,294	$ 48,381	$ (13,126)	$ 1,503,215
Infrastructure	1,622,486	(11,376)	18,318			1,629,428
Construction in Progress	2,639,472	(136,568)	(1,627,227)	2,299,953	(93)	3,175,537
Other Capital Assets	354,408	(11)		33,525	(3,588)	384,334
Land Use Rights – Permanent		19,718		31		19,749
Total Non-Depreciable & Non-Amortizable Assets	6,093,474	(138,679)	(1,607,615)	2,381,890	(16,807)	6,712,263
Depreciable Assets						
Buildings and Building Improvements	17,780,287	158,259	1,376,100	183,678	(58,482)	19,439,842
Infrastructure	1,190,390	9,341	39,275	3,947	(2,154)	1,240,799
Facilities and Other Improvements	1,312,757	(30,201)	118,018	17,718	(5,291)	1,413,001
Furniture and Equipment	4,186,088	(622,727)	15,170	396,096	(155,888)	3,818,739
Vehicles, Boats and Aircraft	215,159	(490)	37	17,107	(7,314)	224,499
Other Capital Assets	1,315,100	1,973	12,436	70,088	(20,597)	1,379,000
Total Depreciable Assets at Historical Cost	25,999,781	(483,845)	1,561,036	688,634	(249,726)	27,515,880
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(7,701,584)	(27,055)		(685,334)	32,910	(8,381,063)
Infrastructure	(471,232)	(648)		(41,028)	2	(512,906)
Facilities and Other Improvements	(545,615)	13,680		(46,576)	219	(578,292)
Furniture and Equipment	(2,762,978)	430,697	(31)	(317,620)	137,653	(2,512,279)
Vehicles, Boats and Aircraft	(148,577)	344	(19)	(17,729)	6,805	(159,176)
Other Capital Assets	(829,996)	(826)		(59,658)	17,007	(873,473)
Total Accumulated Depreciation**	(12,459,982)	416,192	(50)	(1,167,945)	194,596	(13,017,189)
Depreciable Assets, Net	13,539,799	(67,653)	1,560,986	(479,311)	(55,130)	14,498,691
Intangible Capital Assets – Amortizable						
Land Use Rights – Term		255		255	(255)	255
Computer Software – Intangible		633,085	46,502	124,517	(12,827)	791,277
Total Intangible Assets at Historical Cost	0	633,340	46,502	124,772	(13,082)	791,532
Less Accumulated Amortization for:						
Land Use Rights – Term		(242)		(25)	255	(12)
Computer Software – Intangible		(442,928)	8	(93,380)	9,300	(527,000)
Total Accumulated Amortization**	0	(443,170)	8	(93,405)	9,555	(527,012)
Amortizable Assets, Net	0	190,170	46,510	31,367	(3,527)	264,520
Business-Type Activities Capital Assets, Net	$ 19,633,273	$ (16,162)	$ (119)	$ 1,933,946	$ (75,464)	$ 21,475,474

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

Education	$ 1,238,886
Transportation	17,409
Lottery	308
Other Business-Type Activities	4,747
Total	$ 1,261,350

Concluded on the following page

projects and transfers of capital assets between agencies. The additions column includes current year purchases, depreciation and amortization. The deletions column presents assets removed during the current fiscal year.

The state implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, in fiscal 2010. The state began capitalizing the costs of purchased computer software several years ago and, as

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/09	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/10
COMPONENT UNITS						
Non-Depreciable & Non-Amortizable Assets						
Land and Land Improvements	$ 3,701	$	$	$ 505	$	$ 4,206
Construction in Progress	227	(46)		3,587		3,768
Total Non-Depreciable & Non-Amortizable Assets	3,928	(46)	0	4,092	0	7,974
Depreciable Assets						
Buildings and Building Improvements	41,509	2		3,234		44,745
Infrastructure				15		15
Facilities and Other Improvements	442			18	(11)	449
Furniture and Equipment	43,367	(8,809)		2,630	(444)	36,744
Vehicles, Boats and Aircraft	16,615				(2,841)	13,774
Other Capital Assets	2	(2)				
Total Depreciable Assets at Historical Cost	101,935	(8,809)	0	5,897	(3,296)	95,727
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(9,428)	(854)		(895)		(11,177)
Infrastructure						
Facilities and Other Improvements	(41)			(305)		(346)
Furniture and Equipment	(24,129)	7,598		(3,624)	365	(19,790)
Vehicles, Boats and Aircraft	(12,201)	(8)		(7)	2,004	(10,212)
Other Capital Assets	(2)	2				
Total Accumulated Depreciation	(45,801)	6,738	0	(4,831)	2,369	(41,525)
Depreciable Assets, Net	56,134	(2,071)	0	1,066	(927)	54,202
Intangible Capital Assets – Amortizable						
Computer Software – Intangible		8,883		3,401		12,284
Total Intangible Assets at Historical Cost	0	8,883	0	3,401	0	12,284
Less Accumulated Amortization for:						
Computer Software – Intangible		(6,812)		(1,249)		(8,061)
Total Accumulated Amortization	0	(6,812)	0	(1,249)	0	(8,061)
Amortizable Assets, Net	0	2,071	0	2,152	0	4,223
Component Units Capital Assets, Net	$ 60,062	$ (46)	$ 0	$ 7,310	$ (927)	$ 66,399

a result, there was not a significant amount of restatement needed for GASB 51. Computer software was previously included as part of the furniture and equipment category of assets. The movement of computer software out of furniture and equipment and into the computer software category is shown as adjustments on the table. A similar procedure was needed to reclassify easements from land and land improvements to land use rights. Computer software, land use rights and a category for other intangible assets were added to the summary of changes in capital asset activity table.

Note 3

Deposits, Investments and Repurchase Agreements

Authority for Investments

All monies in funds established in the Comptroller of Public Accounts Treasury Operations Division (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 and its agencies and instrumentalities; 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 2010. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds, 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, public employee retirement systems and institutions of higher education are authorized to invest funds not deposited with the Treasury. At Aug. 31, 2010, the Teacher Retirement System of Texas (TRS), the permanent school fund (PSF), the Employees Retirement System of Texas (ERS) and the University of Texas System (UT) reported over 80 percent of the total investment fair value. TRS, PSF, ERS and UT make investments following the "prudent investor rule." Authorized investments include equities, fixed income obligations, cash equivalents and other investments.

Collateralization

State law requires 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 U.S. Treasury obligations, most federal 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 2010 no depository holding state funds failed.

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

External Investment Pool

The activity of the Texas local government investment pool (TexPool) and the Texas local government investment pool prime (TexPool Prime) is reported as an external investment trust fund. Separate audited financial statements for this activity may be obtained from the Trust Company.

Deposits

At Aug. 31, 2010, the carrying amount of deposits for governmental and business-type activities, fiduciary funds and discretely presented component units was $1 billion, $175.5 million and $91.9 million, respectively.

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 position as part of the "Cash and Cash Equivalents," "Securities Lending Collateral" and "Investments" accounts. At Aug. 31, 2010, the total bank balance for governmental and business-type activities, fiduciary funds and discretely presented component units was $1.1 billion, $173.1 million and $113.5 million, respectively.

***Custodial Credit Risk*:** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, deposits or collateral securities in the possession of an outside party will not be recovered. There is no formal deposit policy for managing 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. At Aug. 31, 2010, the bank balances exposed to custodial credit risk are as follows.

Bank Balances Exposed to Custodial Credit Risk

August 31, 2010 (Amounts in Thousands)

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution
GOVERNMENTAL ACTIVITIES		
Permanent School Fund	$ 2,170	$
Total Governmental Activities	2,170	0
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities	391	100,726
Other Nonmajor Funds	925	
Total Business-Type Activities	1,316	100,726
Total Governmental and Business-Type Activities	$ 3,486	$ 100,726
FIDUCIARY	$ 85,844	$ 0
COMPONENT UNITS	$ 1,267	$ 0

***Foreign Currency Risk*:** Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. There is no formal deposit policy for managing foreign currency risk. Foreign currency deposits are intended for settlement of pending international investment trades. At Aug. 31, 2010, the bank balances exposed to foreign currency risk are as follows.

Bank Balances Exposed to Foreign Currency Risk

August 31, 2010 (Amounts in Thousands)

	Governmental and Business-Type Activities	Pension and Other Employee Benefit Trust Funds	Component Units
Australian Dollar	$ 270	$ 2,336	$
Botswana Pula		31	
Brazilian Real	52	1,984	
Canadian Dollar	26	4,018	
Chilean Peso		160	
Costa Rica Colones			18
Colombian Peso		19	
Croatian Kuna		149	
Czech Koruna		293	
Danish Krone		113	
Egyptian Pound		239	
Euro	58	6,818	
Hong Kong Dollar	8	4,816	
Hungarian Forint		130	
Indian Rupee		323	
Indonesian Rupiah		279	
Japanese Yen	50	5,665	
Jordanian Dinar		37	
Kenyan Shilling		65	
Malaysian Ringgit	42	359	
Mauritius Rupee		35	
Mexican Peso	39	60	
Moroccan Dirham		68	
New Israeli Shekel		11	
New Taiwan Dollar	1,634	25,123	
New Turkish Lira		111	
New Zealand Dollar		13	
Nigerian Naira		74	
Norwegian Krone		77	
Pakistani Rupee		181	
Peruvian Nuevo Sol		90	
Philippine Peso		36	
Polish Zloty		242	
Pound Sterling		2,247	
Qatar Riyal	334		
Singapore Dollar	1	353	
South African Rand		554	
South Korean Won	132	1,071	
Swedish Krona		820	
Swiss Franc		1,143	
Thai Baht		440	
Total	$ 2,646	$ 60,583	$ 18

Investment Fair Value

August 31, 2010 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary	Component Units
U.S. Treasury	$ 15,928,357	$ 14,865,920	$ 330,846
U.S. Treasury Strips	304,736	29,245	
U.S. Treasury TIPS	250,184	8,020,309	
U.S. Government Agency	9,531,905	6,780,536	599,447
Corporate Obligations	2,900,650	1,959,254	109,392
Corporate Asset and Mortgage Backed	2,158,597	4,304,409	247,473
Corporate Equity	11,776,567	28,852,125	
International Obligations	1,466,118	182,855	362
International Equity	2,735,823	26,024,998	
International Other Commingled Funds	492,953	2,370,047	
Repurchase Agreements	5,371,926	11,814,544	77,324
Fixed Income and Bond Mutual Fund	4,172,918	1,790,102	29,941
Other Mutual Funds	2,496,497	815,070	33,200
Other Commingled Funds	2,414,738	2,231,666	77,174
Commercial Paper	1,733,293	1,172,799	18,842
Invested Collateral	2,563,608	24,022,229	
Securities Lending Collateral Investment Pool	232,690		
Real Estate	953,379	365,251	
Derivatives	32,209	(124,132)	
Externally Managed Investments	21,556,870	21,658,472	
Other Investments	2,339,296	3,116,334	43,210
Total Investments	$ 91,413,314	$ 160,252,033	$ 1,567,211

Investments

The fair value of the 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, 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 the time of purchase of one year or less may also be reported at amortized cost, provided 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 investments at Aug. 31, 2010, are shown in the table to the left.

TRS, PSF, 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 securities lending activity is disclosed in the "Securities Lending" section of this note. At Aug. 31, 2010, the investment type balances for the invested securities lending cash collateral is as follows.

Invested Securities Lending Collateral Fair Value

August 31, 2010 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary
U.S. Treasury	$ 8,536	$ 151,316
U.S. Government Agency	776	13,763
Corporate Obligations	7,471	679,973
Corporate Asset and Mortgage Backed	20,027	5,205,209
Corporate Equity		98,905
International Obligations	28,328	
International Equity		107,039
Repurchase Agreements	2,400,938	5,272,629
Commercial Paper	77,224	1,580,113
Real Estate		21,192
Other Investments	20,308	10,892,090
Total Investments	$ 2,563,608	$ 24,022,229

***Custodial Credit Risk*:** Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the value of its investments or collateral securities in the possession of an outside party will not be recovered. There is no formal investment policy for managing custodial credit risk. Consistent with the securities lending program, underlying securities on loans are subject to custodial credit risk.

At Aug. 31, 2010, the investments exposed to custodial credit risk are as follows.

Investments Exposed to Custodial Credit Risk

August 31, 2010 (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 Asset and Mortgage Backed	$ 20,027	$
Repurchase Agreements	2,064,293	
Total Governmental Activities	2,084,320	0
BUSINESS-TYPE ACTIVITIES		
Colleges and Universities		
Corporate Equity	1,835	2,989
U.S. Government Agency	12,636	
Corporate Asset and Mortgage Backed		1,237
Fixed Income and Bond Mutual Fund	8,121	
Other Commingled Funds	19,167	
Miscellaneous	5,321	
Other Proprietary Funds		
U.S. Government Agency	15,029	
Repurchase Agreements		114,999
Total Business-Type Activities	62,109	119,225
Total Governmental and Business-Type Activities	$ 2,146,429	$ 119,225
FIDUCIARY		
Pension and Other Employee Benefit Trust Funds		
U.S. Treasury	$ 3,225	$ 17,044
Corporate Obligations		832,903
Corporate Asset and Mortgage Backed		6,655,326
Corporate Equity		34,075
International Equity		8,412
Repurchase Agreements		6,741,528
Fixed Income and Bond Mutual Fund		19,436
Commercial Paper		2,020,316
Miscellaneous		13,926,513
Total Fiduciary	$ 3,225	$ 30,255,553

***Foreign Currency Risk*:** Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, PSF, 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. PSF and ERS do not have an investment policy for managing foreign currency risk. UT's investment policy has no limitation on investments in non-U.S. denominated bonds or common stocks.

At Aug. 31, 2010, the investments exposed to foreign currency risk are as follows.

Investments Exposed to Foreign Currency Risk

August 31, 2010 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary			
	International Obligations	International Equity	International Other Commingled Funds*	Other Investments	International Obligations	International Equity	International Other Commingled Funds	Other Investments
Argentine Peso	$	$	$	$	$ 3	$	$	$
Australian Dollar	123,477	68,118	2,308	226,183	497	816,509		640
Bermudan Dollar					3		52	
Botswana Pula						4,429		
Brazilian Real	28,514	146,592	9,539	148,225	3,690	994,437	346	
Canadian Dollar	87,031	69,512	2,062	318,006	7,072	1,274,988		10,870
Cayman Island Dollar					1			
Chilean Peso		5,049	3	11,321		75,524		
Chinese Yuan			5,459		3			
Colombian Peso	193			8,377	1,344	13,852		
Croatian Kuna						5,248		
Czech Koruna		4,945	392	4,204	7	38,231		
Danish Krone	2,105	1,943	691	27,599	29	80,694		
Egyptian Pound	114	6,196	462	3,338		62,540		
Euro	363,077	291,360	121,478	1,097,131	60,264	3,740,226	4,792	1,801,632
Ghanaian Cedi						2,878		
Hong Kong Dollar	2,621	287,615	(13,840)	240,182		1,874,435		4,625
Hungarian Forint	12,351	3,916	3	4,806	1,340	58,403		
Indian Rupee		18,406	1,805		3	374,025		
Indonesian Rupiah	22,606	23,812	2,729	21,905		301,045		
Jamaican Dollar					3			
Japanese Yen	106,149	151,713	11,769	614,583	14,231	2,542,720	3,795	10,730
Jersey Pound					2			
Jordanian Dinar						5,439		
Kazakhstani Tengre					6			
Kenyan Shilling						6,506		
Lithuanian Litas					8	2,050		
Malaysian Ringgit	33,519	40,396	1,060	30,470	1,465	165,284		
Mauritius Rupee						4,408		
Mexican Peso	21,160	25,854	2,779	39,298	3,254	319,390	292	
Moroccan Dirham		840	31	1,370		10,423		
New Israeli Shekel	6,043	166	698	13,692		33,934		
New Taiwan Dollar		47,004	5,621	83,979		707,829		
New Turkish Lira		24,494	1,975	15,816	3,262	287,819		
New Zealand Dollar	31,684	600	1	2,993		8,664	36	
Nigerian Naira					1	6,446		
Norwegian Krone	6,637	5,722	(1,449)	21,095	2	154,206		
Pakistani Rupee		2,060				13,446		
Peruvian Nuevo Sol		38	286		416	3,376		
Philippine Peso		3,894	38	4,672		35,209		
Polish Zloty	40,345	15,152	231	12,801	2,613	72,784		
Pound Sterling	132,716	209,948	9,424	596,984	57,589	2,943,739	1,864	123,669
Qatar Riyal						9,054		
Russian Ruble			263	46,250	22			
Singapore Dollar	3,785	32,523	2,509	47,630		203,812	45	7,927
South African Rand	18,982	59,304	3,754	70,981	3,596	622,187		
South Korean Won	30,223	133,316	5,871	123,898	68	991,992	201	
Swedish Krona	28,273	18,372	1,150	80,636	5,546	249,271	220	
Swiss Franc	89	60,541	(21,214)	224,256	24	1,049,390	616	
Thai Baht		34,935	2,163	16,412	1,380	213,991		
Trinidad and Tobago Dollar					2			
Ukrainian Hryvnia					2			
United Arab Emirates Dirham					3	4,089		
Other Currency**					78			
Total	$1,101,694	$1,794,336	$160,051	$4,159,093	$167,829	$20,384,922	$12,259	$1,960,093

* Includes investment receivables and payables related to spot currency transactions and swaps.

** Multi-national securities and does not represent a specific currency.

***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 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 resulting 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.

PSF'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 policy requires that non-cash 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 policy has no requirements or limitations for investment ratings.

At Aug. 31, 2010, the credit quality distribution for securities with credit risk exposure is as follows.

Investments Exposed to Credit Risk

August 31, 2010 (Amounts in Thousands)

	Governmental and Business-Type Activities								
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	$4,562,047	$ 393,295	$1,447,673	$ 712,576	$ 5,368,265	$	$	$ 99,017	$12,582,873
AA	85,977	528,682	67,026	200,270	12,831			346,712	1,241,498
A	65,911	1,029,166	204,100	299,352	420,678			42,296	2,061,503
BBB		779,007	122,201	67,559				18,530	987,297
BB		111,799	54,163	17,910					183,872
B		52,290	22,437	4,161				110	78,998
CCC		440	35,184	76					35,700
CC			4,627						4,627
C				949					949
D			5,589						5,589
AAAf						4,591,512			4,591,512
AAAm						922,263			922,263
Aaf						61,700			61,700
A-1							1,613,912		1,613,912
Not Rated	1,931,263	155,817	125,495	162,358	2,417,099	637,853	169,699	58,137	5,657,721
Total	$6,645,198	$3,050,496	$2,088,495	$1,465,211	$ 8,218,873	$6,213,328	$1,783,611	$ 564,802	$30,030,014

Continued on the following page

Investments Exposed to Credit Risk (concluded)

August 31, 2010 (Amounts in Thousands)

	Fiduciary Activities								
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	$6,860,464	$ 187,763	$5,758,123	$ 105,867	$ 9,511,980	$	$	$ 382,991	$22,807,188
AA		1,128,048	187,772	11,297				3,955,614	5,282,731
A	3	471,023	1,055,830	32,197	6,776,940			9,701,866	18,037,859
BBB		415,544	43,607	4,282					463,433
BB		123,232	103,935	5,756					232,923
B		164,197	73,158	4,794					242,149
CCC		35,089	537,446	134					572,669
CC		1,510	153,539						155,049
D			31						31
AAAf						251,017			251,017
AAAm						19,436			19,436
Aaf						14,276			14,276
A-1							2,702,595		2,702,595
Not Rated	214,626	149,116	261,260	15,034		371,903	594	1,695,197	2,707,730
Total	$7,075,093	$2,675,522	$8,174,701	$ 179,361	$16,288,920	$ 656,632	$2,703,189	$15,735,668	$53,489,086

	Component Units								
	U.S. Government Agency	Corporate Obligations	Corporate Asset/Mortgage Backed	International Obligations	Repurchase Agreements	Fixed Income/Bond Mutual Fund	Commercial Paper	Other Investments	Totals
AAA	$ 604,056	$ 103,642	$ 246,349	$	$ 68,750	$	$	$	$ 1,022,797
AA	21,377	2,482							23,859
A		3,268		362	4,684			30,488	38,802
BB								2,832	2,832
AAAf						33,200			33,200
A-1							18,842		18,842
Not Rated	28,382		1,124		3,890	7,620		6,400	47,416
Total	$ 653,815	$ 109,392	$ 247,473	$ 362	$ 77,324	$ 40,820	$ 18,842	$ 39,720	$ 1,187,748

***Concentration of Credit Risk*:** Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. At Aug. 31, 2010, governmental and business-type activities did not hold more than 5 percent of investments 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. TRS and PSF use the effective weighted duration method to identify and manage interest rate risk. ERS and UT 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. It incorporates the effect of embedded options for corporate bonds and changes in prepayments for mortgage backed securities. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of PSF mandates the average duration of the fixed income portfolio be consistent with the Barclay Aggregate Index's (formerly Lehman Bros. Aggregate Index) duration. At Aug. 31, 2010, the Barclay Aggregate Index duration was 4.12 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 is 180 days. The maximum weighted average interest rate exposure of the entire collateral portfolio is 60 days. TRS, ERS and UT do not have a formal investment policy for managing interest rate risk.

At Aug. 31, 2010, PSF's investments by investment type, fair value and the effective weighted duration rate are as follows.

Investments Exposed to Interest Rate Risk

August 31, 2010

PSF Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
Asset Backed Securities	$ 29,218	2.41
Commercial Mortgage Backed Securities	325,883	4.74
Corporate Obligations	1,138,151	1.76
Yankee – Corporate Obligations	151,186	4.83
Non Agency Mortgage Backed Securities	59,114	2.25
Private Placements - Corporate	106,175	5.08
Private Placements - Government	28,126	0.61
U.S. Government Agency Mortgage Backed Securities	1,959,602	1.34
U.S. Government Agency Obligations	671,186	4.38
U.S. Treasury Securities	789,329	4.98
U.S. Treasury Strips	34,352	15.91
U.S. Treasury TIPS	248,258	11.68
Total Fixed Income	$ 5,540,580	4.33

The following provides information about PSF'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, 2010 (Amounts in Thousands)

PSF Investment Type	Fair Value	Investment Maturities in Less Than One Year	Investment Maturities Greater Than One Year
Asset Backed Floating Rate Notes	$ 20,027	$ 5,429	$ 14,598
Repurchase Agreements	2,064,293	2,064,293	
Total	$ 2,084,320	$ 2,069,722	$ 14,598

At Aug. 31, 2010, TRS' investments by investment type, fair value and the effective weighted duration rate are as follows. The effective weighted duration calculation for TRS excludes the high yield limited partnerships, which are pooled instruments and not debt securities.

Investments Exposed to Interest Rate Risk

August 31, 2010

TRS Investment Type	Fair Value (In Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	$ 17,788,194	9.42
U.S. Government Agency Obligations	14,560	6.47
Asset and Mortgage Backed Obligations	1,230,852	3.93
Corporate Obligations	294,147	5.29
International Government Obligations	164,769	8.15
International Corporate Obligations	9,940	5.31
Total Interest Rate Risk Debt Securities	$ 19,502,462	9.00

At Aug. 31, 2010, ERS' investments by investment type, fair value and the modified duration rate are as follows.

Investments Exposed to Interest Rate Risk

August 31, 2010

	Fair Value (In Thousands)		Modified Duration Rate	
ERS Investment Type	Fiduciary Fund	Proprietary Fund	Fiduciary Fund	Proprietary Fund
U.S. Treasury Securities	$ 3,302,626	$ 186,211	5.63	5.63
U.S. Government Agency Obligations	1,481,099	83,509	2.09	2.09
Corporate Obligations	1,573,603	75,931	5.62	5.73
Corporate Asset and Mortgage Backed Securities	133,116	7,505	2.53	2.53
Cash and Cash Equivalents	2,520,901	283,315	0.01	0.01
Miscellaneous	55,401	3,124	13.15	13.15
Overall Interest Rate Risk Debt Securities	$ 9,066,746	$ 639,595	3.48	2.69

At Aug. 31, 2010, UT's investments by investment type, fair value and the modified duration rate are as follows.

Investments Exposed to Interest Rate Risk

August 31, 2010

UT Investment Type	Fair Value (In Thousands)	Modified Duration Rate
INVESTMENTS IN SECURITIES:		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	$ 302,267	9.95
U.S. Treasury Strips	11,352	1.07
U.S. Treasury Bills	16,696	0.12
U.S. Treasury Inflation Protected	1,926	22.11
U.S. Agency Asset Backed	13,279	4.84
Total U.S. Government Guaranteed	345,520	9.05
U.S. Government Non-Guaranteed:		
U.S. Agency	8,962	4.57
U.S. Agency Asset Backed	315,914	2.41
U.S. Agency Commercial Paper		
Total U.S. Government Non-Guaranteed	324,876	2.47
Total U.S. Government	670,396	5.86
Corporate Obligations:		
Domestic	845,350	5.46
Foreign	450,489	4.75
Total Corporate Obligations	1,295,839	5.22
Foreign Government and Provincial Obligations	784,180	6.15
Other Debt Securities	24,680	11.77
Total Debt Securities	2,775,095	5.69
Other Investment Funds – Debt	324,527	6.07
Fixed Income Money Market Funds	2,383,052	0.10
Total Investments in Securities	$ 5,482,674	3.29

Investments with Fair Values Highly Sensitive to Interest Rate Changes

In accordance with the applicable investment policies, TRS, PSF, 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, 2010, the fair value of investments in asset and mortgage backed obligations highly sensitive to interest rate changes for TRS, PSF, ERS and UT was $4.7 billion.

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested 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.

At Aug. 31, 2010, the Treasury's aggregate amount of reverse repurchase agreement obligations was $75.9 million, including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was $75.7 million. During fiscal 2010 there was no credit exposure.

Securities Lending

TRS, PSF, ERS, UT, the Texas A&M University System (A&M), the Veterans Land Board (VLB) and the Texas Prepaid Higher Education Tuition Board (TPHETB) participate in securities lending programs as authorized by state statute. TRS, PSF, ERS and UT established their own separately managed securities lending programs. A&M, VLB and TPHETB participate in collateral investment pools that commingle the cash collateral of several entities. 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, PSF may receive collateral in the form of other assets that it specifically agrees to with its lending agent. A&M may receive collateral in the form of fixed income securities and repurchase agreements. TRS, ERS, UT and VLB receive collateral equal to 102 percent of the value of domestic securities lent and 105 percent for international securities. PSF 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. 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. There is a simultaneous agreement to return the collateral for the same securities in the future.

The securities custodians are the security lending agents. The securities lending contracts do not allow the governmental entities to pledge or sell collateral securities unless the borrower defaults. The lending agents are required to indemnify TRS, PSF, ERS, UT, VLB and TPHETB if the borrowers fail to return the securities. For 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.

TRS, VLB and TPHETB loans are terminable at will. For PSF, maturities are defined by the lending agreement and the loans are terminable at will. For ERS, the relationship between the maturities of investments made with cash collateral generally matched the maturities of the loan agreements. UT manages its investments to maintain an average maturity and overnight liquidity. For A&M, cash collateral 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. 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.

Securities Lending Activity Summary

August 31, 2010 (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	$23,222,706	$ 61,037	$23,581,689	$23,601,465	$ 19,776
PSF	2,291,170	177,175	2,184,063	2,084,320	(99,743)
ERS	419,130		431,785	431,687	(98)
UT*,**	451,076		468,365	468,365	
A&M*	78,823	1,221	77,839	77,711	(128)
VLB**	27,489		28,075	28,075	
TPHETB	124,290	150	126,904	126,904	
Total	$26,614,684	$239,583	$26,898,720	$26,818,527	$(80,193)

* 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.

** UT and VLB 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, 2010.

Differences between the fair value of the invested cash collateral and the cash collateral liability are recorded as part of the net increase/(decrease) in fair value of investments. There is no credit risk exposure to the lender when the fair value of the security on loan is less than the cash collateral liability. At Aug. 31, 2010, the overall securities lending activity is summarized above.

Investment Derivative Instruments

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. These securities or contracts serve as components of certain state agencies, public employee retirement systems and institutes of higher education investment strategies and are utilized to manage and reduce the risk of the overall investment portfolio. Investment derivative levels and types are monitored to ensure that portfolio derivatives are consistent with the intended purpose and at the appropriate level.

All investment derivatives instruments are reported at fair value on the statement of net position and the statement of fiduciary net position. The changes in the fair value of investment derivative instruments are reported as investment revenue in the operating statements. At Aug. 31, 2010, TRS, PSF, UT, A&M, VLB and the Texas Department of Transportation (TxDOT) held investment derivatives (forwards, futures, options and swaps).

Forward foreign currency exchange contracts are entered for the purchase or sale of a specific foreign currency at a fixed quantity and price on a future date as a hedge against either specific transactions or portfolio positions. The contracts are in the currency native to the security transactions for settlement date and are marked-to-market daily with the change in market value recorded as an unrealized gain or loss. Realized gain or loss is recorded at the closing of the contract. Risks associated with such contracts include the potential inability of the counterparties to meet the terms of their contracts and unanticipated movements in currency exchange rates.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price and date. Futures contracts are used to facilitate various trading strategies, primarily as a tool to hedge against the increase or decrease of market exposure to various asset classes. Upon

entering into a futures contract, an initial margin deposit is pledged to the broker equal to a percentage of the contract amount. Contracts are marked-to-market, settled in cash with the broker and recorded as an unrealized gain or loss daily. The daily gain or loss difference is referred to as the daily variation margin. Realized gain or loss is recorded at the closing of the contract. Holders of futures contracts look to the exchange for performance under the contract and not to the entity holding the offsetting futures. Accordingly, the amount of risk posed by the nonperformance of counterparties to futures contracts is minimal. Risks due to movements in the value of the futures contracts and the inability to close out futures contracts due to a non-liquid secondary market remain.

Options are used to alter market (systematic) exposure without trading the underlying cash market securities and to hedge and control risks so the actual risk/return profile is more closely aligned with the target risk/return profile. Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. With written options, market risk arises from an unfavorable change in the price of the derivative instrument, security or currency underlying the written option.

Swaps represent contracts that obligate two counterparties to exchange a series of cash flows at specified intervals. The ultimate gain or loss depends upon the price or rate at which the underlying financial instrument of the swap is valued at the settlement date. Swaps are used to manage risk and enhance returns. At Aug. 31, 2010, swap investments entered were interest rate, credit default, commodity, equity and total return swaps.

UT, VLB and TxDOT invested in pay-variable, receive-variable and pay-fixed, receive variable interest rate swap agreements that are reported as investment derivatives because they are ineffective hedges. In late calendar year 2009, the slope of the 10 year London Interbank Offered Rate (LIBOR) swap yield curve had steepened, which allowed TxDOT to negotiate a fixed monthly cash flow annuity benefit on its three pay-variable, receive-variable constant maturity swaps. The suspension period began on Dec. 3, 2009. During the three year suspension period, the exchange of payments will cease and TxDOT will receive a fixed monthly annuity as consideration for the suspension.

***Foreign Currency Risk*:** TRS, PSF, UT and A&M have exposure to investment foreign currency risk in forwards, futures, options and swaps derivative investments. At Aug. 31, 2010, derivative investments exposed to foreign currency risk are as follows.

Derivative Investments Exposed to Foreign Currency Risk

August 31, 2010 (Amounts in Thousands)

	Governmental and Business-Type Activities				Fiduciary
	Swaps	Options	Futures	Forwards	Swaps
Australian Dollar	$ 299	$	$	$ 457	$ 48
Brazilian Real	88			3	
Canadian Dollar	167		82	231	
Chilean Peso				(1)	
Chinese Yuan				(857)	
Danish Krone				86	
Egyptian Pound				3	
Euro	78	(104)	3,322	(502)	
Hungarian Forint				210	
Indian Rupee				(3)	
Indonesian Rupiah				341	
Japanese Yen	719			2,209	
Malaysian Ringgit				103	
Mexican Peso				(104)	
New Taiwan Dollar				(49)	191
New Turkish Lira				1,367	
New Zealand Dollar				589	
Norwegian Krone				272	
Polish Zloty				1	
Pound Sterling	184	(1)	81	656	
Singapore Dollar				36	
South African Rand				97	
South Korean Won				(187)	66
Swedish Krona				(1,081)	200
Swiss Franc				278	(94)
Thai Baht				53	
Total	$ 1,535	$ (105)	$ 3,485	$ 4,208	$ 411

***Credit Risk*:** TRS and UT instituted policies to mitigate counterparty credit risk for investment derivatives by having master netting agreements and collateral posting arrangements. TRS and UT negotiated thresholds or limits for each counterparty above which collateral must be posted.

TRS investment policy limits the net market value of all over-the-counter derivative positions, less collateral posted, to an amount not exceeding $500 million for any individual counterparty. In addition, the net market value of all over-the-counter derivative positions, without consideration of collateral, may not exceed 5 percent of the total market value of the total investments in the TRS pension fund. TRS investment policy clarifies that termination of the transaction is allowed.

UT requires collateral to be posted on a daily basis by the counterparty to cover exposure to a counterparty above the limits set in place by the master netting agreement. Collateral posted by counterparties is held by UT in one of its accounts at their custodian bank.

TxDOT's basis swap agreements contain provisions for collateral posting by counterparties in the event of a credit rating downgrade. Acceptable forms of collateral include cash in the form of U.S. dollars, negotiable debt obligations issued by the U.S. Treasury Department and agency securities. Agency securities include negotiable debt obligations fully guaranteed as to both principal and interest by the Federal National Mortgage Association, the Government National Mortgage Association or the Federal Home Loan Mortgage Corporation. Collateral will be held by TxDOT and/or its designated custodian.

The aggregate fair value of investment derivative instruments in asset positions at Aug. 31, 2010, is $51.1 million. The investment derivative instruments were executed with counterparties that had a credit rating of no less than A using the Standard & Poor's rating scale. This represents the maximum amount of loss that would be recognized at Aug. 31, 2010, if all counterparties failed to perform as contracted. This maximum exposure is reduced by $164.8 million in liabilities included in netting arrangements with those counterparties, resulting in a reduced net exposure of investment derivative instruments to credit risk.

***Interest Rate Risk*:** TRS, UT, VLB and TxDOT are exposed to interest rate risk on swap transactions. TxDOT's interest rate risk on its constant maturity swap cash flows was eliminated during the suspension period by establishing the fixed annuity for that period. TxDOT also mitigates interest rate risk by maintaining the unilateral option to terminate any or all of the swaps at any time should interest rates cause sustained negative cash flows or fair values that warrant termination of the swaps.

Investment in pay-variable, receive-variable interest rate swaps ranged from payment of 100 to 134.4 percent of Securities Industry and Financial Markets Association (SIFMA) and receipt of 69.42 to 100 percent of one month to 10 year LIBOR. Investment in pay-variable, receive-fixed interest rate swaps ranged from payment of various foreign currency rate and receipt of 1.5 to 11.33 percent. Investment in pay-fixed, received-variable interest rate swaps ranged from payment of 3.5 to 4.63 percent and receipt of 67 to 100 percent of one month to three month LIBOR. At Aug. 31, 2010, the investment maturities for the state's swap contracts exposed to interest rate risk are as follows.

Derivative Investments Exposed to Interest Rate Risk

August 31, 2010 (Amounts in Thousands)

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1 - 5	11-15	More than 15
Interest Rate Swaps	$ (75,859)	$ (112,212)	$ (687)	$ (1,611)	$ 38,651

Investment Funds

Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. Risks associated with these investments include investment manager risk, liquidity risk, market risk and leverage risk. Investment manager risk is substantially dependent upon key investment managers; therefore, the loss of those individuals may adversely impact the return on investment. Also, some investment funds are not subject to regulatory controls. Liquidity may be limited due to imposed lock-up periods, with penalties to redeem units or restricting redemption of shares until a certain period of time has elapsed. Investment funds may employ sophisticated investment strategies using leverage, which could result in the loss of invested capital. At Aug, 31, 2010, the fair value of various investment funds was $43.2 billion.

Note 4

Short-Term Debt

On Aug. 25, 2009 (with an issue date of Sept. 1, 2009), $5.5 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2009, were sold to coordinate the cash flow of the state for the fiscal year ended Aug. 31, 2010. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the general revenue fund. The Series 2009 notes were repaid during fiscal 2010, bore interest at 2.5 percent and were priced to yield 0.479 percent.

On Aug. 24, 2010, the Comptroller's office sold approximately $7.8 billion of the state of Texas Tax and Revenue Anticipation Notes, Series 2010, with an issue date of Aug. 31, 2010, and a maturity date of Aug. 31, 2011. The notes bear interest at 2 percent and were priced to yield 0.34 percent. They are not subject to redemption prior to maturity. On Aug. 24, 2010, good faith funds in the amount of $78 million were received.

During fiscal 2010, 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 shortfalls for capital expenditures.

Short-term debt activity for the year ended Aug. 31, 2010, is shown below.

Short-Term Debt

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Beginning Balance 9/1/09	Issued	Redeemed	Ending Balance 8/31/10
Tax and Revenue Anticipation Notes	$	$ 13,300,000	$ 5,500,000	$ 7,800,000
Commercial Paper	300,000	205,439	440,439	65,000
	$ 300,000	$ 13,505,439	$ 5,940,439	$ 7,865,000

Note 5

Long-Term Liabilities

Long-term liabilities for fiscal 2010 are presented in the table below.

Long-Term Liabilities Activity

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Beginning Balance 09/01/09	Additions	Reductions	Ending Balance 08/31/10	Amounts Due Within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES						
Claims and Judgments	$ 162,958	$ 53,847	$ 60,315	$ 156,490	$ 54,814	$ 101,676
Capital Lease Obligations	8,073	9,679	3,251	14,501	2,609	11,892
Employees' Compensable Leave	811,984	781,473	835,266	758,191	477,680	280,511
Notes and Loans Payable	150,215	829,320	218,935	760,600	44,557	716,043
General Obligation Bonds Payable	9,745,220	904,993	564,634	10,085,579	379,330	9,706,249
Revenue Bonds Payable	3,287,121	2,527,351	194,412	5,620,060	167,824	5,452,236
Pollution Remediation Obligation	381,631	38,501	93,042	327,090	39,881	287,209
Governmental Activities Long-Term Liabilities	$ 14,547,202	$ 5,145,164	$ 1,969,855	$ 17,722,511	$ 1,166,695	$ 16,555,816
BUSINESS-TYPE ACTIVITIES						
Claims and Judgments	$ 155,609	$ 713,889	$ 801,964	$ 67,534	$ 16,583	$ 50,951
Capital Lease Obligations	12,545	4,414	2,617	14,342	2,588	11,754
Employees' Compensable Leave	661,623	242,444	225,650	678,417	333,063	345,354
Notes and Loans Payable	2,347,814	3,365,129	2,610,382	3,102,561	2,004,833	1,097,728
General Obligation Bonds Payable	2,927,153	383,881	367,282	2,943,752	135,332	2,808,420
Revenue Bonds Payable	15,487,970	3,190,748	1,635,743	17,042,975	1,880,769	15,162,206
Liabilities Payable From Restricted Assets	3,728,361	283,113	452,203	3,559,271	473,131	3,086,140
Pollution Remediation Obligation	341	12	331	22	22	
Business-Type Activities Long-Term Liabilities	$ 25,321,416	$ 8,183,630	$ 6,096,172	$ 27,408,874	$ 4,846,321	$ 22,562,553
COMPONENT UNITS						
Capital Lease Obligations*	$	$ 239	$ 47	$ 192	$ 48	$ 144
Employees' Compensable Leave	5,362	2,226	2,164	5,424	3,649	1,775
Notes and Loans Payable	133,088	86,399	119,301	100,186	12,586	87,600
Revenue Bonds Payable	332,306	73,640	44,177	361,769	2,108	359,661
Liabilities Payable From Restricted Assets	72,249		14,419	57,830		57,830
Component Units Long-Term Liabilities	$ 543,005	$ 162,504	$ 180,108	$ 525,401	$ 18,391	$ 507,010

* Beginning balance was restated to exclude assets not meeting capitalization threshold.

Notes and Loans Payable Debt Service Requirements Governmental Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2011	$ 44,557	$ 18,198	$ 62,755
2012	51,316	16,995	68,311
2013	50,613	15,757	66,370
2014	50,045	14,588	64,633
2015	49,101	13,448	62,549
2016 - 2020	241,191	51,221	292,412
2021 - 2025	161,754	27,083	188,837
2026 - 2030	104,523	9,299	113,822
2031 - 2035	7,500	37	7,537
Total Requirements	$ 760,600	$ 166,626	$ 927,226

Notes and Loans Payable Debt Service Requirements Business-Type Activities

(Amounts in Thousands)

Year	Principal	Interest	Total
2011	$ 2,004,833	$ 35,574	$ 2,040,407
2012	6,040	35,047	41,087
2013	6,032	36,839	42,871
2014	5,370	37,947	43,317
2015	5,016	39,230	44,246
2016 - 2020	34,000	248,192	282,192
2021 - 2025	16,414	317,539	333,953
2026 - 2030	50,047	334,645	384,692
2031 - 2035	44,696	290,079	334,775
2036 - 2040	267,420	199,908	467,328
2041 - 2045	895,354	32,552	927,906
Total Requirements	3,335,222	1,607,552	4,942,774
Unamortized Accretion	(232,661)		(232,661)
Total Requirements	$ 3,102,561	$ 1,607,552	$ 4,710,113

Notes and Loans Payable Debt Service Requirements Component Units

(Amounts in Thousands)

Year	Principal	Interest	Total
2011	$ 12,586	$ 2,961	$ 15,547
2012	11,466	2,812	14,278
2013	10,192	2,403	12,595
2014	9,403	2,062	11,465
2015	8,589	1,750	10,339
2016 - 2020	47,233	4,176	51,409
2021 - 2025	717	135	852
Total Requirements	$ 100,186	$ 16,299	$ 116,485

Notes and loans payable consist 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. The Texas Department of Transportation (TxDOT) entered into pass-through toll agreements with local entities as a means of financing state highway capital improvements and maintenance. In fiscal 2010, TxDOT capitalized roadways and recognized a pass-through toll payable as a long-term liability of $416.8 million for the completed projects and sections of pass-through projects in various cities and counties. See Note 15 for additional details. Debt service requirements for notes and loans payable in the long-term liabilities are shown to the left.

General obligation bonds and revenue bonds are described in detail in Note 6.

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 $50 thousand or numerous separate claims from the same individual or entity that in total exceed $50 thousand 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 8.

Long-term liabilities 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.

Pollution Remediation Obligations

Pollution remediation obligations are recognized in the financial statements for existing pollution sites after the occurrence of one or more of the following events:

- The pollution creates an imminent endangerment to public health or the environment,
- The state is in violation of a pollution prevention-related permit or license,
- The state is named as a potentially responsible party by a regulator,
- The state is named in a lawsuit that compels it to participate in remediation, and/or
- The state has commenced, or legally obligated itself to commence, cleanup activities.

Under applicable accounting standards, estimated expected recoveries from insurance policies and other responsible parties that are not yet realizable in the financial statements reduce the measurement of the pollution remediation obligation liability. A realized or realizable recovery involves the acknowledgment or recognition by the third party of its responsibility. Realized or realizable recoveries are recognized as assets. Recoveries from the federal government are considered nonexchange transactions and do not reduce the liability measurement, but are recognized separately as revenues when realizable. As of Aug. 31, 2010, the state is expected to recover $218 thousand to offset remediation costs related to various contaminated sites.

***Federal Regulatory Cleanup Requirements*:** Pollution remediation obligations are associated with projects initiated under federal regulatory requirements. Applicable federal laws and regulations include the Comprehensive Environmental Response, Compensation and Liability Act (also known as Superfund), the National Emissions Standards for Hazardous Air Pollutants and U.S. Environmental Protection Agency Class V Wells regulations.

The Superfund obligation estimates are based on budgeted projects to cover necessary activities for the upcoming fiscal year, along with estimated costs for future years and phases, plus direct salaries and benefits. Other obligations are calculated based on contractor estimates or historical costs as applicable.

Federal reimbursements are expected to offset a portion of these expected costs. The potential for changes due to price increases or reductions, technology or applicable laws or regulations was incorporated into these estimates.

***State Regulatory Cleanup Requirements*:** Other pollution remediation obligations are associated with cleanups required under state of Texas law. The Texas Commission on Environmental Quality operates as a regulatory agency to ensure cleanups are conducted within applicable state laws and regulations contained in the Texas Administrative Code, Title 30; Texas Water Code; Texas Health and Safety Code; Texas Occupations Code; and Texas Natural Resources Code.

***Other Pollution Remediation Activity*:** Texas Tech University remediation activities for land it owns in Carson County, Texas, could not be reasonably estimated as of Aug. 31, 2010.

Note 6

Bonded Indebtedness

DESCRIPTION OF BOND ISSUES

The state of Texas has 488 bond issues outstanding as of Aug. 31, 2010. During fiscal 2010 the state paid $423.6 million from the general revenue fund for debt service.

Bonds Issued and Issues Outstanding

(Amounts in Thousands)

	Bond Issues Outstanding 8/31/10	Bonds Issued
GOVERNMENTAL ACTIVITIES		
General Obligation Bonds	63	$ 11,657,594
Revenue Bonds	21	5,168,374
Governmental Activities Total	84	16,825,968
BUSINESS-TYPE ACTIVITIES		
General Obligation Bonds	89	$ 3,881,152
Revenue Bonds	288	21,603,084
Business-Type Activities Total	377	25,484,236
COMPONENT UNITS		
Revenue Bonds	27	$ 1,459,109
Total	488	$ 43,769,313

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	$ 11,657,594	1.50	6.07	1998	2045	07/01/03
Revenue Bonds	5,168,374	2.50	7.25	1991	2030	02/01/01
Governmental Activities Total	16,825,968					
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	3,881,152	1.37	8.06	1995	2047	02/24/94
Revenue Bonds	21,603,084	0.63	15.00	1988	2047	05/04/95
Business-Type Activities Total	25,484,236					
COMPONENT UNITS						
Revenue Bonds	1,459,109	5.25	7.50	1986	2041	10/08/86
Total	$ 43,769,313					

Changes in Bonds Payable

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Bonds Outstanding 9/1/09	Bonds Issued*	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/10	Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	$ 9,745,220	$ 904,993	$ 351,734	$ 212,900	$ 10,085,579	$ 379,330
Revenue Bonds	3,287,121	2,527,351	194,412		5,620,060	167,824
Governmental Activities Total	13,032,341	3,432,344	546,146	212,900	15,705,639	547,154
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	2,927,153	383,881	151,467	215,815	2,943,752	135,332
Revenue Bonds	15,487,970	3,190,748	508,528	1,127,215	17,042,975	1,880,769
Business-Type Activities Total	18,415,123	3,574,629	659,995	1,343,030	19,986,727	2,016,101
COMPONENT UNITS						
Revenue Bonds	332,306	73,640	44,177		361,769	2,108
Total	$ 31,779,770	$ 7,080,613	$ 1,250,318	$ 1,555,930	$ 36,054,135	$ 2,565,363

* Includes current year amortization of premiums, discounts and accretion.

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	General Obligation Bonds			Revenue Bonds		
Year	Principal	Interest	Total	Principal	Interest	Total
2011	$ 364,380	$ 451,492	$ 815,872	$ 161,750	$ 227,891	$ 389,641
2012	343,960	439,300	783,260	170,650	282,203	452,853
2013	342,735	423,850	766,585	172,015	274,770	446,785
2014	352,975	410,874	763,849	174,925	267,212	442,137
2015	333,465	398,297	731,762	162,130	259,466	421,596
2016 - 2020	1,319,315	1,798,626	3,117,941	848,160	1,177,918	2,026,078
2021 - 2025	1,411,570	1,488,115	2,899,685	1,201,905	947,974	2,149,879
2026 - 2030	1,656,930	1,115,738	2,772,668	1,629,205	612,966	2,242,171
2031 - 2035	1,797,340	706,487	2,503,827	391,990	303,978	695,968
2036 - 2040	1,869,815	242,397	2,112,212	581,825	135,312	717,137
2041 - 2045	45,000	653	45,653	41,185	1,441	42,626
	9,837,485 *	7,475,829	17,313,314	5,535,740 *	4,491,131	10,026,871
Accretion	(33,066)		(33,066)	(7,792)		(7,792)
Premium	281,356		281,356	111,049		111,049
Discount	(196)		(196)	(18,937)		(18,937)
Total	$ 10,085,579	$ 7,475,829	$ 17,561,408	$ 5,620,060	$ 4,491,131	$ 10,111,191

BUSINESS-TYPE ACTIVITIES	General Obligation Bonds			Revenue Bonds		
Year	Principal	Interest	Total	Principal	Interest	Total
2011	$ 134,244	$ 65,104	$ 199,348	$ 1,858,419	$ 653,026	$ 2,511,445
2012	116,907	61,846	178,753	771,321	633,349	1,404,670
2013	122,862	58,990	181,852	522,406	610,991	1,133,397
2014	130,450	56,015	186,465	547,644	586,729	1,134,373
2015	135,599	52,768	188,367	597,604	560,502	1,158,106
2016 - 2020	704,352	215,662	920,014	3,309,854	2,389,441	5,699,295
2021 - 2025	628,190	135,404	763,594	2,990,762	1,697,197	4,687,959
2026 - 2030	563,765	68,737	632,502	2,610,613	1,101,565	3,712,178
2031 - 2035	278,555	36,845	315,400	2,105,359	686,018	2,791,377
2036 - 2040	98,970	13,309	112,279	1,891,553	371,870	2,263,423
2041 - 2045	13,710	2,170	15,880	725,701	66,072	791,773
2046 - 2050	2,730	212	2,942	24,489	1,700	26,189
	2,930,334 *	767,062	3,697,396	17,955,725 *	9,358,460	27,314,185
Accretion	(1,801)		(1,801)	(1,284,054)		(1,284,054)
Premium	15,219		15,219	459,064		459,064
Discount				(16,835)		(16,835)
Loss on Refunding				(70,925)		(70,925)
Total	$ 2,943,752	$ 767,062	$ 3,710,814	$ 17,042,975	$ 9,358,460	$ 26,401,435

COMPONENT UNITS	Revenue Bonds		
Year	Principal	Interest	Total
2011	$ 2,108	$ 7,900	$ 10,008
2012	77,096	11,944	89,040
2013	3,644	11,755	15,399
2014	3,888	11,554	15,442
2015	4,092	11,340	15,432
2016 - 2020	22,385	53,215	75,600
2021 - 2025	30,856	45,975	76,831
2026 - 2030	105,680	35,002	140,682
2031 - 2035	65,580	19,370	84,950
2036 - 2040	34,981	3,191	38,172
2041 - 2045		1	1
	350,310 *	211,247	561,557
Premium	11,459		11,459
Total	$ 361,769	$ 211,247	$ 573,016

* 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** issues general obligation bonds to finance the acquisition, construction or renovation of buildings for the use of state agencies and institutions of higher education. The Texas Public Finance 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 **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 general obligation bonds to pay or reimburse the state highway fund for the payment of 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. Sources of pledged revenue for the Texas mobility fund include the United We Stand license plate fees, investment income, motor vehicle inspection fees, driver record information fees, driver license fees and certificate of title fees.

Constitutional Appropriation Bonds are issued in support of the construction programs of institutions of higher education not benefiting from the permanent university fund, which is dedicated to the University of Texas System and Texas A&M University System. 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, promote domestic business development, provide loans to finance the commercialization of new and improved products and processes and provide loans to defense-related communities for economic development projects. Debt service payments are funded from revenues of the Economic Development and Tourism Office, 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, 2010, the amounts of general obligation bonds, other than Constitutional Appropriation Bonds, 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	2,014,792
Water Development Bonds	727,436
College Student Loan Bonds	400,485
Texas Military Value Revolving Loan Fund	200,405
Total	3,843,118
NOT SELF-SUPPORTING	
Agricultural Water Conservation Bonds	164,840
Texas Public Finance Authority Bonds	3,536,743
Transportation Commission Transportation Bonds	5,000,000
Water Development Bonds -	
Economically Distressed Areas Program	236,854
State Participation Projects	179,466
Water Infrastructure Fund Program	204,599
Total	9,322,502
Total General Obligation Bonds	$ 13,165,620

Revenue Bonds – General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

Self-Supporting

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

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes by, or the construction of rental housing for, families with very low to moderate incomes. Loan payments provide the revenues for debt service payments. The agency 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 state 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.

University of Texas System and Texas A&M University System issue **Permanent University Fund** bonds to build, equip or buy buildings or other permanent improvements. The Texas Constitution limits each system's permanent university fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of permanent university fund assets, excluding real estate. Revenue from investments of the permanent university fund is pledged to secure the payment of principal and interest. The cost value of permanent university fund assets at Aug. 31, 2010, excluding real estate, was $9.9 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	$ 1,982,243	$ 1,476,380	$ 505,863
Texas A&M University System	991,122	561,895	429,227
Total	$ 2,973,365	$ 2,038,275	$ 935,090

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 not an obligation of the state of Texas.

The Office of the Governor is the oversight agency for the **Texas Small Business Industrial Development Corporation**, a discretely presented component unit of the state. The Texas Small Business Industrial Development Corporation bond program provides financing to state and local governments and to businesses and nonprofit corporations for the purchase of land, facilities and equipment for economic development. The bonds are not an obligation of the state and are payable from the repayment of loans and investment earnings on the bond proceeds.

The **Texas Water Resources Finance Authority**, a discretely presented component unit of the state, issues bonds to purchase the majority of existing political subdivision bonds held by the Texas Water Development Board. Principal and interest from political subdivision bonds are pledged for debt service requirements of the bonds.

The **Texas Department of Transportation** issues revenue bonds to finance state highway improvement projects. Pledged revenues include all revenues deposited to the credit of the state highway fund, including dedicated registration fees, dedicated taxes, dedicated federal revenues and amounts collected or received pursuant to other state highway fund revenue laws and any interest or earning 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.

The **Private Activity Bond Surface Transportation Corporation**, a blended component unit of the state, issued $1 billion of revenue bonds during fiscal 2010. The proceeds of these bonds were loaned to LBJ Infrastructure Group LLC and NTE Mobility Partners LLC to finance costs and construction of the Interstate Highway 635 Managed Lanes Project located in Dallas County and the North Tarrant Express Facility in Tarrant County and to pay certain costs of issuance of the bonds. Debt service is funded from loan and interest repayments from the borrowers.

Non Self-Supporting

The following revenue bonds are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

The **Adjutant General's Department** assumed the Texas Military Facilities Commission's responsibilities on Sept. 1, 2007. The Texas Military Facilities Commission's title to facilities, rental and other income pledged to the bonds was transferred to the Texas Public Finance Authority. Title will pass to the Adjutant General's Department upon final discharge of all bond obligations. Bonds are issued 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** issues bonds for infrastructure repairs and construction. The

bonds are payable from state appropriations funded rent payments made by the Texas Parks and Wildlife Department to the Texas Public Finance Authority.

Pledged Future Revenues

Pledged revenues are those specific revenues that are formally committed to directly secure revenue bonds. The table below provides information on pledged revenue and pledged future revenue for the state's revenue bonds.

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	$ 10,026,871	$ 27,314,185	$ 561,557
Term of Commitment Year Ending August 31,	2030	2047	2041
Percentage of Revenue Pledged	100%	100%	100%
Current Year Pledged Revenue	5,522,453	11,514,734	63,667
Current Year Principal and Interest Paid	316,286	1,185,590	47,956

Build America Bonds

The American Recovery and Reinvestment Act of 2009 (ARRA) was implemented in February 2009. As part of this federal legislation, a new bond program called Build America Bonds (BABs) was created. Taxable bonds may be issued by governmental entities, including state agencies and institutions of higher education, as Tax Credit BABs or as Direct Payment BABs. Tax Credit BABs provide a federal tax credit to investors equal to 35 percent of the interest received from the bond issuer. Direct Payment BABs provide a direct federal reimbursement to state and local governmental issuers equal to 35 percent of the interest paid on the bonds. Under the terms of ARRA, both types must be issued before Jan. 1, 2011.

The Texas Department of Transportation, the University of Texas System (UT) and the University of Houston System issued Direct Payment BABs in the amount of $2.1 billion during fiscal 2010. Except for $351.8 million of refunding bonds issued by UT, all was issued as new debt. No Tax Credit BABs were issued during the fiscal year.

Variable Rate Bonds

Ten state agencies had a total of 104 variable rate bond issues with outstanding balances as of Aug. 31, 2010. Most of the issues' interest rates reset every seven days. The remaining issues' interest rates reset daily or monthly. The potential volatility for related debt services increases with these interest rate reset provisions.

Demand Bonds

The Office of the Governor, the Veterans Land Board, the Texas Department of Housing and Community Affairs, the Texas Department of Transportation, the University of Houston System and the University of Texas System had outstanding demand bonds at Aug. 31, 2010.

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 a 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, 2010, there were no purchased bonds held by liquidity providers under the terms of the various agreements. Details are presented in the tables below and on the following page.

Demand Bonds

(Amounts in Thousands)

	Number of Demand Bond Issues 8/31/10	Standby Purchase Agreement	Letter of Credit	Other	Bonds Held By Liquidity Providers 8/31/10	Principal Balance Outstanding 8/31/10
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds						
Office of the Governor	2			2 b	None	$ 45,000
Texas Department of Transportation	2	3 a			None	235,400
	4	3		2	None	280,400
Revenue Bonds						
Texas Department of Transportation	1	1 a			None	100,000
Governmental Activities Total	5	4		2	None	380,400
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds						
Veterans Land Board	38	38 a			None	$ 1,475,635
	38	38			None	1,475,635
Revenue Bonds						
University of Texas System	4			4 b	None	1,405,700
Texas Department of Housing and Community Affairs	7	7 a			None	331,720
University of Houston System	1			1 b	None	12,310
	12	7		5	None	1,749,730
Business-Type Activities Total	50	45		5	None	$ 3,225,365
COMPONENT UNITS						
Revenue Bonds						
Office of the Governor	1		1 c		None	$ 60,000
Component Units Total	1		1		None	$ 60,000

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 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
Banco Bilbao Vizcaya Argentaria, S.A.	1	0.0875%	11/07/16
California Public Employees Retirement System	1	0.0500%	12/13/13
Comptroller of Public Accounts*	3	0.1200%	08/31/11
Comptroller of Public Accounts*	7	0.1200%	11/30/10
DEPFA Bank plc	1	0.0800%	04/08/12
Dexia Credit Local	9	0.0650%	11/15/11
Dexia Credit Local	1	0.1000%	11/15/11
Dexia Credit Local	1	0.3250%	09/11/10
Dexia Credit Local	1	0.0650%	11/15/11
J.P. Morgan Chase Bank	2	0.8800%	11/02/12
J.P. Morgan Chase Bank	1	0.8800%	11/16/12
Landesbank Hessen-Thuringen Girozentrale	5	0.5500%	06/11/11
Landesbank Hessen-Thuringen Girozentrale	4	0.5500%	12/31/15
Lloyds TSB Bank plc	1	0.4800%	12/20/12
State Street Bank and Trust Company	3	0.1100%	11/17/10
State Street Bank and Trust Company	4	0.2500%	02/01/12
State Street Bank and Trust Company	1	0.0500%	12/13/13
Sumitomo Mitsui Banking Corp	2	0.7500%	08/11/12
Sumitomo Mitsui Banking Corp	1	0.6000%	05/20/13
Total	49		

* Comptroller of Public Accounts Treasury Operations Division

Takeout agreements are used by the Texas Department of Transportation to provide an alternative debt instrument to replace any repurchased bonds that were not remarketed within the prescribed time constraints. The 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	$ 96,167	a	3.69%	Daily Fed Fds Rate + 1.25%
Series 2006B	160,680	b	5.34%	1% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Revenue Bonds				
Texas Department of Transportation				
State Highway Fund Revenue Bonds				
Series 2006B	110,567	c	6.34%	2% + the greater of: 0.5% + Daily Fed Fds Rate or Bank prime rate
Total	$ 367,414			

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 three years starting the first day of the sixth month of that period.

Early Extinguishment of Debt

Early debt extinguishments in fiscal 2010 are as follows. The source of funds used for the extinguishments included loan repayments and other available funds.

Early Extinguished Debt Issues

(Amounts in Thousands)

BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	$ 5,155
Veterans Land Board	3,390
Revenue Bonds	
Texas Department of Housing and Community Affairs	268,080
Texas Water Development Board	194,685
University of Texas System	4,300
University of Houston System	895
Business-Type Activities Total	$476,505

Refunding

The table below summarizes bonds refunded during fiscal 2010 to lower interest rates or to restructure debt service requirements for cash management purposes.

Refunding Issues

(Amounts in Thousands)

	Types of Refunding	Par Value of Refunding Issue*	Par Value Refunded	Cash Flow Difference Increase (Decrease)	Economic Gain
GOVERNMENTAL ACTIVITIES					
General Obligation Bonds					
Texas Public Finance Authority	Advance Refunding	$ 153,050	$ 156,360	$ 7,732	$ 7,140
Texas High Education Coordinating Board	Current Refunding	51,865	56,540	1,517	7,372
Governmental Activities Total		204,915	212,900	9,249	14,512
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Veterans Land Board	Current Refunding	151,230	149,515	4,965	2,386
		151,230	149,515	4,965	2,386
Revenue Bonds					
University of North Texas System	Advance Refunding	69,970	71,625	(5,885)	4,954
University of North Texas System	Current Refunding	3,455	3,585	(439)	382
Texas State University System	Advance Refunding	99,950	104,840	8,517	7,219
Texas A&M University System	Advance Refunding	79,220	82,125	4,364	3,541
University of Texas System	Advance Refunding	385,380	393,690	25,766	19,879
Stephen F. Austin State University	Current Refunding	3,415	3,390	529	353
		641,390	659,255	32,852	36,328
Business-Type Activities Total		792,620	808,770	37,817	38,714
Total		$ 997,535	$1,021,670	$ 47,066	$ 53,226

* The par value of refunding issue does not include bonds issued to refund notes payable, which had a par value of approximately $180 million.

Defeased Bonds

Texas 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 $180.6 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. The Texas Water Development Board defeased $57.8 million of business-type activity general obligation bonds this year. As of Aug. 31, 2010, the following amounts of defeased bonds, at par, remain outstanding for all bond issuers.

Defeased Bonds Outstanding

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	
General Obligation Bonds	
Texas Public Finance Authority	$ 156,360
Texas Water Development Board	49,340
Revenue Bonds	
Texas Public Finance Authority	55,440
Texas National Research Laboratory Commission	24,240
	285,380
BUSINESS-TYPE ACTIVITIES	
General Obligation Bonds	
Texas Water Development Board	74,365
Veterans Land Board	44,700
Revenue Bonds	
University of Texas System	1,844,388
Texas A&M University System	125,060
Texas State University System	108,160
Texas Tech University System	81,985
University of North Texas System	69,330
Stephen F. Austin State University	1,846
Texas Southern University	130
	2,349,964
Total	$2,635,344

Conduit Debt

The Texas State Affordable Housing Corporation (TSAHC), a discrete component unit of the state, is authorized to issue statewide 501(c)(3) tax-exempt multifamily mortgage revenue bonds under Texas Government Code, Section 2306.555. The 501(c)(3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to nonprofit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. TSAHC 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. TSAHC 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. TSAHC, the state and any political subdivision thereof are not 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, 2010, there were 19 series of multifamily housing revenue bonds outstanding with an aggregate $310 million principal amount payable. No bonds were issued in fiscal 2010.

INTEREST RATE SWAPS

Effective interest rate swap agreements are considered hedging derivatives. The state's pay-fixed, receive-variable interest rate swaps are considered effective hedges. The state's pay-variable, receive-variable swaps are considered ineffective hedges. The aggregate debt service requirements and associated net swap payments are detailed in this note. Refer to Note 7 for additional information on derivatives.

Estimated Debt Service of Swap Payments

Using rates as of Aug. 31, 2010, the debt service requirements of the state's variable rate and fixed rate bonds and associated net swap payments were estimated and presented in the following tables.

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
2011	$ 73,470	$ 8,539	$ 116,429	$ 198,438
2012	87,145	8,371	113,540	209,056
2013	93,935	8,126	110,185	212,246
2014	94,240	7,860	106,511	208,611
2015	105,555	7,593	102,847	215,995
2016 - 2020	585,950	32,943	445,515	1,064,408
2021 - 2025	624,540	24,329	325,510	974,379
2026 - 2030	609,740	15,505	210,287	835,532
2031 - 2035	487,520	7,838	106,892	602,250
2036 - 2040	382,675	2,294	32,508	417,477
2041 - 2045	1,025	1	11	1,037
Total	$ 3,145,795	$ 123,399	$ 1,670,235	$ 4,939,429

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
2011	$ 790	$ 548	$ 282	$ 1,620
2012	845	546	160	1,551
2013	890	543	51	1,484
2014	950	541	50	1,541
2015	1,010	538	49	1,597
2016 - 2020	6,055	2,640	222	8,917
2021 - 2025	18,495	2,487	173	21,155
2026 - 2030	175,785	1,959	86	177,830
2031 - 2035	5,315	20	(21)	5,314
2036 - 2040			(6)	(6)
Total	$ 210,135	$ 9,822	$ 1,046	$ 221,003

* Includes swap payments for swaps that overlay pay-fixed, receive-variable swaps on the same bonds. Principal and interest on these bonds is reported only in the pay-fixed, receive-variable swap table.

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
2011	$ 2,275	$ 66,215	$ (6,135)	$ 62,355
2012	3,215	66,122	(6,134)	63,203
2013	4,185	65,995	(5,321)	64,859
2014	5,115	65,827	(5,048)	65,894
2015	6,045	65,622	(5,048)	66,619
2016 - 2020	89,725	322,390	(25,241)	386,874
2021 - 2025	281,835	275,241	(25,571)	531,505
2026 - 2030	447,310	195,003	(5,144)	637,169
2031 - 2035	514,100	78,019	186	592,305
Total	$ 1,353,805	$ 1,200,434	$ (83,456)	$ 2,470,783

The tables were prepared assuming current interest rates and swap index relationships remain the same for their terms. As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Note 7

Derivative Instruments

Derivatives are financial instruments the value of which are derived, in whole or part, from the value of any one or more underlying assets or index of asset values. Derivatives include swap contracts, futures contracts, options, options on futures contracts and forward contracts.

Hedging derivatives are entered into to reduce the overall cost of borrowing long-term capital and protect against the risk of rising interest rates. The hedging derivatives primarily consist of interest rate swap agreements entered into in connection with long-term bonds. The derivative contracts enable the state to issue bonds at a cost less than what the state would have paid to issue conventional fixed rate debt.

Investment derivatives are entered into with the intention of managing transaction or currency exchange risk in purchasing, selling or holding investments. Ineffective hedges are also reported as investment derivatives.

Summary of Derivative Activity

The fair value of effective hedging derivatives is recorded as derivative instrument assets (positive fair value) and derivative instrument liabilities (negative fair value). The cumulative change in fair value of effective hedging derivatives is reported as deferred inflows and deferred outflows. As of Aug. 31, 2010, the state's cumulative derivative activity is summarized on the following page. When applicable, the notional values of certain swap contracts are presented in their local currency.

Summary of Derivative Activity

(Amounts in Thousands)

	Change in Fair Value	Fair Value	Notional Amount
GOVERNMENTAL ACTIVITIES			
Investment Derivatives			
Basis Swaps	$ 2,145	$ 8,897	$ 400,000
Futures	337		121,140
BUSINESS-TYPE ACTIVITIES			
Cash Flow Hedges			
Receive-Fixed Interest Rate Swaps	$ 1,623	$ 4,618	$ 21,895
Pay-Fixed Interest Rate Swaps	(221,507)	(569,217)	3,134,140
Commodity Forward	(11,394)	(11,394)	6,290,000/ MMBTUs
Investment Derivatives			
Pay-Fixed Interest Rate Swaps	$ (1,889)	$ (3,182)	$ 36,090
Pay-Variable Interest Rate Swaps			
Australian Dollar	299	299	5,800
Brazilian Real			39,600
Canadian Dollar	166	167	22,500
Japanese Yen	719	719	1,550,000
U.S. Dollar	173	173	2,500
Basis Swaps	(28,461)	3,049	825,335
Credit Default Swaps			
British Pound	8	(10)	1,780
Euro	(5)	(5)	2,100
U.S. Dollar	770	1,039	78,000
Equity Swaps			
Brazilian Real	88	88	681
British Pound	195	195	1,194
Euro	82	82	2,773
U.S. Dollar	(152)	(152)	236,902
Commodity Swaps	351	351	1,880
Forwards	4,209	4,209	1,002,381
Futures	20,498		550,784
Options	(21,490)	16,290	4,185,041
FIDUCIARY ACTIVITIES			
Investment Derivatives			
Pay-Fixed Interest Rate Swaps	$ (2,334)	$ (112,987)	$ 6,903,807
Total Return Swaps	54,310	163	12,452
Credit Default Swaps	604	(32)	1,515
Forwards	(20,548)	(11,276)	1,638,646
Futures	57,631		1,237,560
Options	42		

Derivative Instruments by Entity and Type

Entity/Type of Derivative Instruments

Veterans Land Board (VLB)
Hedging and investment derivatives

Texas Department of Housing and Community Affairs (TDHCA)
Hedging derivatives

University of Texas System (UT)
Hedging and investment derivatives

Texas A&M University System (A&M)
Hedging and investment derivatives

Texas Department of Transportation (TxDOT)
Investment derivatives

Permanent School Fund (PSF)*
Investment derivatives

Teacher Retirement System of Texas (TRS)
Investment derivatives

* The permanent school fund is jointly managed by the Texas Education Agency and the Texas General Land Office, but issues a separately audited standalone annual financial report.

Fair Value

Derivative instruments are recorded at fair value. The fair values of the interest rate swaps were determined using a combination of methods as outlined below.

VLB and UT used the zero-coupon method in determining the fair values of their effective interest rate swaps. Several of VLB's effective interest rate swaps contain a provision that provides for the state to be "knocked out" of the swaps by the respective counterparties upon the breach of certain predetermined barriers. In each of these cases, VLB was paid an up-front option premium by the respective counterparties. With regard to the swap associated with Vet Land Tax Ref Bds Ser '2000, the knock-out is permanent and is optional at the discretion of the counterparty. In the remainder of the swaps with knock-out provisions, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the respective barrier is breached. The knock-out provisions are an integral part of the associated swaps, and the fair values of the swaps include the effects of the knock-outs.

TDHCA based the fair value of its swaps on market conditions as of Aug. 31, 2010. Fair values were directly obtained by the counterparties to the transactions and separately verified by an independent third party. Valu-

ations are based on mid-market levels and may not reflect the amount a counterparty would have required in event of an early termination of the swap transaction on that date. For swaps with no pre-defined notional amortization schedule, a valuation was performed based on an assumed notional amortization.

Futures contracts are valued at closing market prices on valuation date. Futures contracts are marked-to-market daily. The net offsetting positions are reported as accruals, with a daily variation margin (the gain or loss) recorded between the daily value of the contracts and the value on the previous day. Options and swaps are valued using broker quotes, proprietary pricing agents or appropriate pricing models with primarily externally verifiable model inputs.

The fair value of forward currency contracts is estimated by adding the forward points to the corresponding spot rate. These rates are then applied to the outstanding currency exchange to derive a change in valuation.

HEDGING DERIVATIVES

The state entered into interest rate swap agreements with various counterparties, all of which are highly rated financial institutions, to manage various risks associated with the state's debt programs. Each of the state's interest rate swaps is a contractual agreement entered into between the state and a counterparty under which each party agrees to exchange periodic fixed or variable payments, based upon a stated notional amount, over the stated life of the agreement. The net differential paid or received is recognized over the life of the agreement as an adjustment to interest expense. Interest rate swaps determined to be hedging derivatives are designated as cash flow hedges. The state also entered into commodity forward contracts to hedge against the future purchase of natural gas. The specific objectives for each category of effective hedges are summarized as follows.

***Pay-fixed Interest Rate Swaps*:** The combination of these swaps and variable rate bonds creates synthetic fixed rate debt. The use of synthetic fixed rate debt has historically lowered the state's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed rate bonds.

***Receive-fixed Interest Rate Swaps*:** The state 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.

***Commodity Forward*:** The state enters into commodity forward contracts to meet the objective of hedging the risk that changes in the market price of natural gas will adversely affect the cash flows of the expected purchase of natural gas. The outstanding commodity forward contracts as of Aug. 31, 2010, include contracts with future expiration dates extending from September 2010 through August 2013. Contracts will be cash-settled on the expiration date based on New York Mercantile Exchange (NYMEX) market price.

Significant Terms and Credit Ratings

The significant terms and credit ratings of the state's hedging derivatives as of Aug. 31, 2010, are shown in the following tables. The variable rates are quoted in terms of a percentage of the London Interbank Offered Rate (LIBOR) or Securities Industry and Financial Markets Association (SIFMA) municipal swap index rates as noted. Standard & Poor's and Moody's Investor service credit ratings are disclosed for each swap and forward contract. The notional amount for the commodity forward is expressed as MMBTUs, which represents a million British thermal units.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
Vet Hsg Ref Bds Ser '95	$48,435	11/29/1995	12/01/2016	Pay 5.52%; receive Actual Bond Rate
Vet Land Ref Bds Ser '99A	25,180	06/01/1999	12/01/2018	Pay 5.112%; receive 68% of 6M LIBOR
Vet Land Tax Ref Bds Ser '2000	39,960	12/01/2000	12/01/2020	Pay 6.106%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2001A-2	20,000	03/22/2001	12/01/2029	Pay 4.3%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	12/01/2033	Pay 4.365%; receive 68% of 1M LIBOR
Vet Land Bds Ser 2002	17,390	02/21/2002	12/01/2032	Pay 4.14%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2002A-2	23,650	07/10/2002	06/01/2033	Pay 3.8725%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2002	27,685	12/01/2002	12/01/2021	Pay 4.935%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2002B	19,780	12/01/2002	06/01/2023	Pay 4.91%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2003A	36,420	03/04/2003	06/01/2034	Pay 3.304%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2003B	37,685	10/22/2003	06/01/2034	Pay 3.403%; receive 64.5% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2003	23,490	12/01/2003	12/01/2023	Pay 5.123%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2003	47,865	12/01/2003	06/01/2021	Pay 5.19%; receive 100% of 6M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2004	16,535	06/01/2004	12/01/2024	Pay 5.45%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2004B	40,685	09/15/2004	12/01/2034	Pay 3.68%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2004	22,235	12/01/2004	12/01/2024	Pay 5.455%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D	34,370	12/01/2004	06/01/2020	Pay 5.348%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2005A	40,300	02/24/2005	06/01/2035	Pay 3.279%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2005	20,780	12/01/2005	12/01/2026	Pay 6.517%; receive 100% of 6M LIBOR
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D	23,580	12/01/2005	06/01/2026	Pay 5.145%; receive 100% of 1M LIBOR
Vet Hsg Fund I Tax Ref Bds Ser 2005C	15,985	12/01/2005	12/01/2023	Pay 4.929%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2006A	42,040	06/01/2006	12/01/2036	Pay 3.517%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006A	28,125	06/01/2006	12/01/2027	Pay 6.54%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006C	20,285	06/01/2006	12/01/2027	Pay 5.79%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006B	38,570	06/01/2006	12/01/2026	Pay 5.83%; receive 100% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006B	21,895	06/01/2006	12/01/2026	Pay 4.61%; receive 100% of 6M LIBOR
Vet Hsg Fund II Bds Ser 2006D	44,145	09/20/2006	12/01/2036	Pay 3.689%; receive 68% of 1M LIBOR
Vet Land Tax Ref Bds Ser 2006C	36,525	12/01/2006	12/01/2027	Pay 6.513%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2006E	39,560	12/01/2006	12/01/2026	Pay 5.461%; receive 100% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2007C	41,655	12/01/2007	06/01/2029	Pay 4.658%; receive 100% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007A	44,465	02/22/2007	06/01/2037	Pay 3.645%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2007B	46,340	06/26/2007	06/01/2038	Pay 3.712%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008A	46,835	03/26/2008	06/01/2037	Pay 3.189%; receive 68% of 1M LIBOR
Vet Hsg Fund II Bds Ser 2008B	47,810	09/11/2008	06/01/2038	Pay 3.225%; receive 68% of 1M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2009C	16,950	12/01/2009	12/01/2021	Pay 6.22%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2009C	65,845	12/01/2009	06/01/2031	Pay 5.4525%; receive 100% of 6M LIBOR
Vet Hsg Fund II Tax Ref Bds Ser 2010B	66,720	06/01/2010	12/01/2031	Pay 5.401%; receive 100% of 1M LIBOR
Vet Bds Ser 2010C	74,995	08/20/2010	12/01/2040	Pay 2.3095%; receive 68% of 1M LIBOR
Vet Tax Ref Bds Ser 2010D	16,480	12/01/2010	12/01/2030	Pay 5.209%; receive 100% of 1M LIBOR
Vet Tax Ref Bds Ser 2010E	49,995	12/01/2010	06/01/2032	Pay 2.79%; receive 100% of 1M LIBOR
Vet Homes Rev Ref Bds, Ser 2012	21,795	08/01/2012	08/01/2035	Pay 3.76%; receive 68% of 1M LIBOR

Continued on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (continued)

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
VETERANS LAND BOARD – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
Vet Hsg Ref Bds Ser '95	N/A	$	A- / A3
Vet Land Ref Bds Ser '99A	N/A		A- / A3
Vet Land Tax Ref Bds Ser '2000	1M LIBOR >= 7.00%	2,700	AAA / Aaa
Vet Hsg Fund II Bds Ser 2001A-2	N/A		A / A3
Vet Hsg Fund II Bds Ser 2001C-2	N/A		AAA / Aaa
Vet Land Bds Ser 2002	N/A		A / A2
Vet Hsg Fund II Bds Ser 2002A-2	N/A		AA- / Aa1
Vet Land Tax Ref Bds Ser 2002	6M LIBOR >= 7.00%	2,785	A / A2
Vet Hsg Fund I Tax Ref Bds Ser 2002B	6M LIBOR > 7.00%	2,165	AAA / Aaa
Vet Hsg Fund II Bds Ser 2003A	N/A		AA- / Aa1
Vet Hsg Fund II Bds Ser 2003B	N/A		AAA / Aaa
Vet Land Tax Ref Bds Ser 2003	1M LIBOR >= 7.00%	1,896	AA- / Aa1
Vet Hsg Fund I Tax Ref Bds Ser 2003	6M LIBOR > 7.00%	4,470	AAA / Aaa
Vet Hsg Fund I Tax Ref Bds Ser 2004	6M LIBOR >= 7.00%	1,442	AA- / Aa1
Vet Hsg Fund II Bds Ser 2004B	N/A		AA- / Aa1
Vet Land Tax Ref Bds Ser 2004	6M LIBOR >= 7.00%	2,075	A / A2
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D	1M LIBOR >= 7.00%	2,594	AA- / Aa1
Vet Hsg Fund II Bds Ser 2005A	N/A		AAA / Aaa
Vet Land Tax Ref Bds Ser 2005	6M LIBOR >= 7.00%	1,542	AA- / Aa1
Vet Hsg Fund I/II Tax Ref Bds Ser 2005C,D	1M LIBOR >= 7.00%;	1,367	AA- / Aa1
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	566	
Vet Hsg Fund I Tax Ref Bds Ser 2005C	1M LIBOR >= 7.00%;	484	AA- / Aa1
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	267	
Vet Hsg Fund II Bds Ser 2006A	N/A		AAA / Aaa
Vet Land Tax Ref Bds Ser 2006A	6M LIBOR >= 7.00%	1,931	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2006C	6M LIBOR >= 7.00%	1,493	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2006B	1M LIBOR >= 7.00%	1,992	AA- / Aa1
Vet Land Tax Ref Bds Ser 2006B	6M LIBOR >= 7.00%	886	AAA / Aaa
Vet Hsg Fund II Bds Ser 2006D	N/A		A+ / Aa3
Vet Land Tax Ref Bds Ser 2006C	1M LIBOR >= 7.00%	2,725	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2006E	1M LIBOR >= 7.00%;	2,652	AA- / Aa1
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	1,018	
Vet Hsg Fund II Tax Ref Bds Ser 2007C	1M LIBOR >= 7.00%;	935	AA- / Aa1
	SIFMA/5Y ISDA CMS > 71%	1,020	
Vet Hsg Fund II Bds Ser 2007A	N/A		AAA / Aaa
Vet Hsg Fund II Bds Ser 2007B	N/A		AA- / Aa1
Vet Hsg Fund II Bds Ser 2008A	N/A		AAA / Aaa
Vet Hsg Fund II Bds Ser 2008B	N/A		AAA / Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2009C	6M LIBOR >= 7.00%	612	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2009C	6M LIBOR >= 7.00%	2,740	AA- / Aa1
Vet Hsg Fund II Tax Ref Bds Ser 2010B	1M LIBOR >= 7.00%;	2,355	AA- / Aa1
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	1,427	
Vet Bds Ser 2010C	N/A		A / A2
Vet Tax Ref Bds Ser 2010D	1M LIBOR >= 7.00%;	466	AA- / Aa1
	6M LIBOR > 4.00% and SIFMA/LIBOR Ratio > 74%	208	
Vet Tax Ref Bds Ser 2010E	N/A		AAA / Aaa
Vet Homes Rev Ref Bds, Ser 2012	1M LIBOR >= 7.00%	579	AAA / Aaa

Continued on the following page

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (continued)

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Maturity Date	Term
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
2004B Single Family	$53,000	09/01/2004	09/01/2034	Pay 3.843%; receive 63% of LIBOR + .30%
2004D Single Family	35,000	01/01/2005	03/01/2035	Pay 3.6375%; receive Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR
2005A Single Family	77,290	08/01/2005	09/01/2036	Pay 4.01%; receive Lesser of (the greater of 65% of LIBOR and 56% of LIBOR + .45%) and LIBOR
2006H Single Family	36,000	11/15/2006	09/01/2025	Pay 3.857%; receive 63% of LIBOR +.30%
2007A Single Family	120,775	06/05/2007	09/01/2038	Pay 4.013%; receive Lesser of (the greater of (a) 65% of LIBOR and (b) 56% of LIBOR + .45%) and LIBOR
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS				
PUF Bonds 2008A	200,452	11/03/2008	07/01/2038	Pay 3.696%; receive SIFMA
PUF Bonds 2008A	200,453	11/03/2008	07/01/2038	Pay 3.6575%; receive SIFMA
RFS Bonds 2007B	167,905	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2007B	167,905	12/20/2007	08/01/2034	Pay 3.805%; receive SIFMA
RFS Bonds 2008B	149,170	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	149,170	03/18/2008	08/01/2036	Pay 3.9%; receive SIFMA
RFS Bonds 2008B	358,980	03/18/2008	08/01/2039	Pay 3.614%; receive SIFMA
VETERANS LAND BOARD – PAY-VARIABLE, RECEIVE-FIXED INTEREST RATE SWAP				
Vet Land Tax Ref Bds Ser 2006B	21,895	06/01/2006	12/01/2026	Receive 4.61%; pay 100% of 6M LIBOR

Concluded on the following page

Hedging Forward Contracts: Significant Terms and Credit Ratings

	Number of Contracts	Notional Amount	Effective Dates Range*	Termination Dates Range*	Terms: Pay (Average)	Terms: Receive	Counterparty Credit Ratings
2011 Forward Contracts (A&M)	96 Contracts	4,370,000/ MMBTUs	02/06/2009 - 07/08/2010	09/01/2010 - 08/01/2011	$6.04/ MMBTU	NYMEX market price	AA
2012 Forward Contracts (A&M)	24 Contracts	960,000/ MMBTUs	02/06/2009 - 02/12/2009	09/01/2011 - 08/01/2012	$7.36/ MMBTU	NYMEX market price	AA
2013 Forward Contracts (A&M)	24 Contracts	960,000/ MMBTUs	02/06/2009 - 02/12/2009	09/01/2012 - 08/01/2013	$7.44/ MMBTU	NYMEX market price	AA

* A&M invested in several separate commodity forward contracts. This disclosure summarizes the contracts by establishing ranges and averages of detailed individual contract information.

Hedging Interest Rate Swaps: Significant Terms and Credit Ratings (concluded)

(Amounts in Thousands)

Associated Bond Issue	Knock-Out Barrier	Up Front Premium Received	Counterparty Credit Ratings
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
2004B Single Family	N/A	$	A+/Aa3
2004D Single Family	N/A		Aa3
2005A Single Family	N/A		AA- / Aa1
2006H Single Family	N/A		A+/Aa3
2007A Single Family	N/A		AA- / Aa1
UNIVERSITY OF TEXAS SYSTEM – PAY-FIXED, RECEIVE-VARIABLE INTEREST RATE SWAPS			
PUF Bonds 2008A	N/A		A/A2
PUF Bonds 2008A	N/A		AA/Aaa
RFS Bonds 2007B	N/A		AA/Aa1
RFS Bonds 2007B	N/A		A+/Aa3
RFS Bonds 2008B	N/A		AA-/Aa1
RFS Bonds 2008B	N/A		A/A2
RFS Bonds 2008B	N/A		AA-/Aa1
VETERANS LAND BOARD – PAY-VARIABLE, RECEIVE-FIXED INTEREST RATE SWAP			
Vet Land Tax Ref Bds Ser 2006B	6M LIBOR >= 8.00%	674	AA- / Aa1

Risks

***Credit Risk*:** The state is exposed to credit risk if the counterparty to an interest rate swap fails to meet the terms and obligations of its contracts. The state mitigates the credit risk associated with its swaps by entering into transactions with a diversified group of highly-rated counterparties. The interest rate swap agreements also contain varying collateral agreements and insurance policies with the counterparties. Posted collateral may be held either by the state itself or by a quality third party custodian. Swap contracts with a negative fair value do not expose the state to credit risk. As of Aug. 31, 2010, the state was not exposed to credit risk because the swap recorded in the positive position was offset by other swaps with negative fair values. The aggregate fair value of hedging derivative instruments in asset (positive) positions is $4.6 million. This amount is solely comprised of the pay-variable, receive-fixed interest rate swap held by VLB. This 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. The net between the related swaps results in a negative position.

***Interest Rate Risk*:** The state is exposed to interest rate risk on its interest rate swaps. On the pay-variable, receive-fixed interest rate swap, as the LIBOR increases, the state's net payment on the swap increases. Alternatively, on the pay-fixed, receive-variable interest rate swaps, as LIBOR and the SIFMA municipal swap index decrease, the state's net payment on the swap increases. For the related hedged variable rate debt, as LIBOR or

the SIFMA municipal swap index decrease the state's interest payments on the bonds decrease. The value of interest rate swap agreements with a longer weighted average maturity tend to be more sensitive to changing interest rates, and therefore, more volatile than those with shorter maturities.

***Basis Risk*:** The state 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 state 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. Additionally, tax-exempt interest rates can change without a corresponding change in taxable interest rates due to factors affecting the tax-exempt market that do not have a similar effect on the taxable market.

The state is exposed to basis risk on its commodity forward contracts because the expected commodity purchase will be priced based on a pricing point of Waha Natural Gas Hub, while the hedging forward contract is expected to settle on the NYMEX pricing point. As of Aug. 31, 2010, the Waha price was $3.47 per MMBTU and the NYMEX price was $3.81 per MMBTU.

***Termination Risk*:** Termination risk is the risk that the swap may be terminated prior to its scheduled maturity date as a result of certain specified events. The swap associated with the Vet Land Tax Ref Bds Ser '2000 provides the counterparty with the option to terminate the swap under certain conditions at any time.

The state or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. If any of the swaps are terminated, the associated variable rate bonds would no longer have a synthetic fixed rate and the state 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. Unless there is a termination option exercised by the counterparty, the state would owe the counterparty a termination payment equal to the swap's negative fair value.

Several swap agreements include optional early termination provisions granting the state the right, but not an obligation, to terminate the interest rate swaps at par without a termination payment after an effective date or after the breach of certain counterparty credit ratings.

***Rollover Risk*:** Rollover risk is the risk caused by a mismatch between the amortization of a derivative contract and the underlying hedged bonds. None of the state's effective interest rate swaps are subject to rollover risk because the maturity dates of the swaps extend to the maturity dates of the related bonds.

***Market-access Risk*:** Each swap associated with underlying variable rate debt subject to tender at the option of the bondholder is subject to market access risk. In the event the state is unable to remarket its variable rate bonds, the state may choose to refund the variable rate bonds with fixed rate bonds and optionally terminate the related interest rate swap agreements. If an early termination event occurs, the state could be required to pay or to receive a substantial termination payment.

Swap Payments and Associated Debt

Aggregate debt service requirements of the state's variable rate debt and net receipts/payments on associated hedging derivative instruments are disclosed in Note 6.

Contingent Features

Some of the state's derivative instruments include provisions that require the posting of collateral in the event that the contracting agency's credit rating falls below a specified level as issued by Moody's Inves-

tor Service and Standard & Poor's. If the contracting agency fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. Detail about derivatives with contingent features are disclosed in Note 15.

INVESTMENT DERIVATIVES

Investment derivatives expose the state to certain investment related risks. Detail about the state's investment derivatives is disclosed in Note 3.

Note 8

Leases

The state leases office buildings, computer and office equipment and other assets under a variety of agreements. Although lease terms vary, most leases are subject to biennial appropriation from the Legislature to continue the lease obligations.

Operating Leases

Operating lease payments are recorded as expenditures or expenses during the life of the lease. Rental expenditures or expenses related to operating leases for the year ended Aug. 31, 2010, are $452.3 million for the primary government and $3.2 million for discrete component units. The following table presents minimum future rental obligations on noncancelable operating leases as of Aug. 31, 2010.

Noncancelable Operating Lease Obligations

August 31, 2010 (Amounts in Thousands)

	Minimum Future Lease Payments	
Year	Primary Government	Component Units
2011	$ 245,249	$ 2,831
2012	203,855	2,290
2013	159,358	2,206
2014	119,085	2,202
2015	90,646	1,391
2016 – 2020	195,045	615
2021 – 2025	17,979	81
2026 – 2030	6,284	
2031 – 2035	4,056	
2036 – 2040	4,002	
Total	$ 1,045,559	$ 11,616

Additionally, the permanent school fund (PSF), the University of Texas System (UT) and the Texas A&M University System (A&M) have leased buildings, equipment and land to outside parties under various operating leases. The following table presents estimated future lease rentals on noncancelable operating leases as of Aug. 31, 2010.

Noncancelable Operating Lease Rentals

August 31, 2010 (Amounts in Thousands)

	Minimum Future Lease Rentals
Year	Primary Government
2011	$ 34,840
2012	32,503
2013	30,509
2014	23,342
2015	16,194
2016 and beyond	317,524
Total	$454,912

The historical cost of the PSF leased assets is $463 million. Depreciation is not recorded because the assets are held for investment purposes in a permanent fund. Real estate investments are re-appraised periodically and the carrying amounts are adjusted when permanent impairments occur. In fiscal 2010, PSF

reported contingent rental revenues in the amount of $697 thousand.

As of Aug. 31, 2010, the carrying value of UT's leased assets is $71.4 million. The historical cost of UT's leased buildings is $94.7 million and related accumulated depreciation is $26.6 million. The historical cost of UT's leased land is $3.3 million. UT did not report any contingent rental revenues.

Rentals for A&M represent only portions of the assets that do not allow for the historical costs, accumulated depreciation or carrying values to be reasonably determined. A&M reported contingent rental revenues of $623 thousand for the period ended Aug. 31, 2010.

Capital Leases

Leases that are purchases in substance are reported as capital lease obligations. 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, 2010 (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
2011	$ 2,609	$ 680	$ 3,289	$ 2,588	$ 620	$ 3,208	$ 48	$ 6	$ 54
2012	4,121	523	4,644	1,873	500	2,373	48	6	54
2013	4,524	335	4,859	1,611	421	2,032	48	6	54
2014	2,922	139	3,061	1,423	346	1,769	48	6	54
2015	325	29	354	1,401	278	1,679			
2016 - 2020				4,064	648	4,712			
2021 - 2025				1,144	160	1,304			
2026 - 2030				238	16	254			
Total	$14,501	$ 1,706	$16,207	$14,342	$ 2,989	$17,331	$ 192	$ 24	$ 216

The following table presents an analysis of the property recorded under capital leases by asset category at Aug. 31, 2010.

Assets Under Capital Leases

August 31, 2010 (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	$	$	$ 11	$	$	$
Buildings	18,084	12,536	12,464	2,453		
Furniture and Equipment	2,170	298	12,898	2,518	238	12
Vehicles, Boats, etc.	7,896					
Total	$28,150	$12,834	$25,373	$ 4,971	$ 238	$ 12

Note 9

Retirement Plans

The state of Texas contributes to six defined benefit pension plans and one defined contribution plan that provide financial benefits to retired employees, their spouses and beneficiaries of the state of Texas, school districts and other entities. The defined benefit pension plans are administered by the Employees Retirement System of Texas (ERS) and the Teacher Retirement System of Texas (TRS), which are component units, and the Fire Fighters' Pension Commissioner (FPC), which is part of the primary government. The state is a participating employer in these plans with the exception of the FPC defined benefit pension plan. The state is not an employer in the FPC plan, but makes on-behalf contributions to the FPC plan. The state makes employer contributions to the defined contribution plan, Optional Retirement Program (ORP), which benefits certain employees of institutions of higher education. This plan is administered by the employers of institutions of higher education.

The state's contributions to these plans are authorized by statute and may be amended by the Legislature. The state reports the pensions' financial activities in the other employee benefit trust funds column of the fiduciary funds financial statements. The investments of the pension funds are included in Note 3.

The Texas Guaranteed Student Loan Corporation's (TGSLC) defined contribution pension plan is disclosed because the TGSLC is a component unit of the state, but the state is not considered an employer of the plan and does not contribute to the plan.

Audited financial statements for each defined benefit pension plan 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 Commissioner
920 Colorado Street, 11th Floor
Austin, Texas 78701-2332

Additional information for each defined contribution plan may be obtained from the following:

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

Texas Guaranteed Student Loan Corporation
P.O. Box 201725
Austin, Texas 78720-1725

DESCRIPTION OF PLANS AND FUNDING POLICY

Employees Retirement System of Texas

The Board of Trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. The Employees Retirement System of Texas Plan (ERS Plan) is considered a cost-sharing, multiple-employer defined benefit plan with a special funding situation. The employers of the ERS Plan are the state of Texas and one discrete component unit of the state of Texas, the State Bar of Texas. The Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS) and the Judicial Retirement System of Texas Plan One and Plan Two (JRS) are considered single-employer defined benefit pension plans.

Contribution requirements are not actuarially determined, but are set by legislation, except for the JRS Plan Two, under which the state contribution rate is actuarially determined every even-numbered year for the next biennium. Each plan's monthly contribution requirements are disclosed on the table below.

Contribution Rates

		Members		
Plan	Employer	Employee	Elected – Legislators	Elected – Other
ERS*	6.95%	6.50%	8.00%	6.00%
LECOS	1.59%	0.50%	N/A	N/A
JRS1	N/A	6.00%	N/A	N/A
JRS2	16.83%	6.00%	N/A	N/A
TRS	6.644%	6.40%	N/A	N/A

* The employee contribution rate and employer contribution rate was 6.45 percent through December 2009.

The ERS audited financial statements reflect the results of the actuarial valuations of the four plans it administers. The statements do not note any subsequent legislative action that would negatively affect the certification of actuarial soundness of the plans.

The ERS Plan, established by the Texas Government Code, Chapters 811-815, covers elected class members and employee class members. 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 service credit and may retire at age 50 with 12 years of service credit or at age 60 with eight years of service credit. The monthly standard annuity equals the statutory percentage of 2.3 percent of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries increase. The maximum standard annuity is 100 percent of the state salary being paid 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. Other employee class members include certified peace officers and custodial officers. The monthly standard annuity equals the statutory percentage of 2.3 percent of the average monthly compensation multiplied by the number of years of service credit. The minimum monthly standard annuity is $150; the maximum standard annuity is 100 percent of the average monthly compensation. Changes to the ERS employee class plan provisions were instituted for members hired on or after Sept. 1, 2009.

- Employee class retirement benefits for employees hired on or before Aug. 31, 2009, with the exception of certified peace officers and custodial officers, vest after five years of service credit and employees may retire at age 60 with five years of service credit or at any age when the sum of age and service credit (including months) total 80. The average monthly compensation is the average of the highest 36 months of compensation.
- Employee class retirement benefits for employees hired on or after Sept. 1, 2009, with the exception of certified peace officers and custodial officers, may retire at age 65 with 10 years of service credit or at any age when the sum of age and service credit (including months) equals or exceeds 80. The average monthly compensation is the average of the highest 48 months of compensation. The standard retirement annuity is reduced by five percent for each year the member retires before the member reaches age 60, with a maximum possible reduction of 25 percent.
- Certified peace officers and custodial officers hired on or before Aug. 31, 2009, may retire at age 55 with 10 years of service as a certified peace officer

or custodial officer. The average monthly compensation is the average of the highest 36 months of compensation. For certified peace officers and custodial officers hired on or after Sept. 1, 2009, the average monthly compensation is the average of the highest 48 months of compensation.

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.

LECOS, established under Texas Government Code, Chapter 814.107, provides a supplemental retirement benefit to the ERS employee class member with service rendered while a law enforcement officer, a custodial officer, a parole officer or a case worker. The LECOS plan increases the statutory percentage to 2.8 percent of the average monthly compensation multiplied by the number of years of service credit. The minimum monthly standard annuity is $150; the maximum standard annuity is 100 percent of the average monthly compensation. Changes to the LECOS plan provisions were instituted for members hired on or after Sept. 1, 2009.

- Employees hired on or before Aug. 31, 2009, with 20 years of service may retire at age 50 or at any age when the sum of age and service credit equals or exceeds 80. A member under the age of 50 may receive reduced benefits upon completing 20 years of service. Average monthly compensation is the average of the highest 36 months of compensation.
- Employees hired on or after Sept. 1, 2009, vest after 20 years of services and vested employees may retire at age 55 or at any age when the sum of age and service credit equals or exceeds 80. A member under the age of 55 may receive reduced benefits upon completing 20 years of service. Average monthly compensation is the average of the highest 48 months of compensation.

Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement. In 2009, the 81st Legislature appropriated state funding for the LECOS plan for the biennium ending Aug. 31, 2011, based on 1.59 percent of covered payroll for LECOS members.

JRS Plan One is established by Texas Government Code, Chapter 835, and JRS Plan Two is established by Texas Government Code, Chapter 840. 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 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.

Member contributions for JRS Plan One are made to the general revenue fund, and the state is obligated to make appropriations from the general revenue fund in an amount sufficient to pay benefits on a pay-as-you-go basis. The contribution requirements are not actuarially determined since the plan is not funded in advance.

State statutes prohibit benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the ERS, JRS Plan Two or LECOS plans' unfunded actuarial liabilities would be increased to a period that exceeds 30 years by one or more years. The statutes also apply if the amortization period already exceeds 30 years by one or more years. As of the Aug. 31, 2010, actuarial valuations, contributions are insufficient to amortize the current unfunded accrued liabilities of the ERS and LECOS plans over any period of time. Therefore, there is no remaining amortization period and the 30 year funding objective is not being realized for either plan.

Teacher Retirement System of Texas

The Board of Trustees of TRS is the administrator of one pension plan (TRS Plan). The TRS Plan, established under Texas Government Code, Chapters 822-824, is considered a cost-sharing multiple-employer defined benefit plan with a special funding situation. The state is required by statute to make contributions to the TRS Plan. For fiscal 2010, the state made the majority of contributions to the TRS Plan. A special funding situation is created, which results in the state reporting the TRS Plan as if it was the sole employer. The employers of the TRS Plan include the state of Texas, TRS and 1,311 public schools, service centers, charter schools and community colleges. Employees of state of Texas colleges, universities, medical schools and the Texas Education Agency are members of the TRS Plan. Employees of these entities not employed for one-half or more of the standard work load or who are exempted from membership are not covered by the TRS Plan.

The TRS Plan provides retirement, disability annuities and death and survivor benefits. The benefit and contribution provision of the TRS Plan are authorized by state law and may be amended by the Legislature.

A member is vested after five years of service credit 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 service credit or when the sum of the member's age and years of service credit equals at least 80 years. The service age requirement for early retirement is age 55 with five years of service credit or any age below 50 with 30 years of service credit. 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 credit. For "grandfathered" members, 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 will not be less than accumulated contributions at retirement.

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, 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.

Contribution requirements are not actuarially determined, but are legally established each biennium. The TRS Plan's monthly contribution requirements are disclosed on the "Contribution Rates" table. 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 but not greater than 10 percent of the aggregate annual compensation of all members of the TRS Plan during that fiscal year. As required by state statute, the state rate is paid by the employer for compensation paid to new members during the first 90 days of employment, on amounts paid to employees above the statutory minimum amount and on compensation paid from private or federal funds. Total employer contributions to the TRS Plan are a combination of state, public schools, federal and private funding.

State statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize the TRS Plan's unfunded actuarial liabilities would be increased to a period that would exceed 30 years by one or more years, or, if the amortization period already exceeds 30 years by one or more years, the period would be increased by such action. As of the Aug. 31, 2010, actuarial valuation, contributions are insufficient to amortize the current unfunded accrued liabilities of the TRS Plan over any period of time. Therefore, there is no remaining amortization period and the 30 year funding objective is not being realized.

Optional Retirement Program

The state's contributions to the Optional Retirement Program (ORP) are authorized by Texas Government Code, Chapter 830. Full-time faculty, librarians and certain professionals and administrators employed in public higher education are eligible to elect ORP in lieu of the TRS Plan before the 91st day after becoming eligible. It is a one-time irrevocable choice between two distinct plans. 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 ORP.

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

Retirement Systems' Membership

	ERS	LECOS	JRS1	JRS2	TRS
Retirees and Beneficiaries Currently Receiving Benefits	79,311	7,175	447	164	296,491
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	78,737	2,978	7	130	73,646
Current Employees: Vested and Non-Vested	142,490	39,052	22	539	930,543
Total Members	300,538	49,205	476	833	1,300,680

Actuarial Methods and Assumptions

	ERS	LECOS	JRS1	JRS2	TRS
Actuarial Valuation Date	Aug. 31, 2010	Aug. 31, 2010	Aug. 31, 2010	Aug. 31, 2010	Aug. 31, 2010
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open
Remaining Amortization Period	Never	Never	N/A	12.6 years*	Never
Asset Valuation Method	20% of market plus 80% of expected actuarial value	20% of market plus 80% of expected actuarial value	N/A	20% of market plus 80% of expected actuarial value	5-year Smoothed Market
Actuarial Assumptions:					
Investment Rate of Return	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%
Includes Inflation at	3.5%	3.5%	3.5%	3.5%	3.0%
Cost-of-Living Adjustments	None-Employee 3.5%-Elected	None	3.5%	None	None

* The amortization period was calculated based on estimated fiscal 2011 covered payroll. At the end of fiscal 2011, the ARC and the amortization period will be recalculated based on actual 2011 covered payroll.

The contributory percentages of participant salaries provided by each participant and the state were 6.65 percent for the participant and 6.4 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 2.1 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 prepared because the state retains no liability for plan performance and has very limited administrative involvement.

The employers of ORP are institutions of higher education, one educational state agency and several two-year college institutions that are not part of the state reporting entity. State entity participation in ORP for fiscal 2010 resulted in participant contributions of $219.4 million and employer contributions of $262.8 million.

As of Aug. 31, 2010, ORP has 39,603 participants. The total participant contributions were $256.2 million and total employer contributions were $304.9 million. Additional information for ORP is included in the fiscal 2010 *ORP Participation Report Summary* published annually by the Texas Higher Education Coordinating Board.

Fire Fighters' Pension Commissioner

FPC is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple-employer defined benefit pension plan established to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At Aug. 31, 2010, there are 198 member fire departments participating in TESRS. The state is not an employer of the TESRS plan.

The statutory authority for TESRS is found in Texas Government Code, 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 appropriations to make the fund actuarially sound. The appropriations may not exceed the amount of one-third of the total of all contributions by governing bodies in one year. For fiscal 2010, legislative appropriations in the amount of $502.9 thousand were made to assist with TESRS's administrative expenses. The member fire department contributions to the fund for the year ending Aug. 31, 2010, were $2.9 million. Contributions made were equal to the yearly statutorily required contributions.

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation or asset for fiscal 2010 is presented below.

Annual Pension Cost and Net Pension Obligation/Asset

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS
Annual Required Contribution, ARC	$630,326	$33,760	$23,452	$11,270	$2,661,848
Interest on Net Pension Obligation, NPO	16,492	1,528	6,403	(410)	21,361
Adjustment to ARC	(12,379)	(1,147)	(6,841)	1,206	(16,030)
Annual Pension Cost	634,439	34,141	23,014	12,066	2,667,179
Employer Contributions Made	399,768	27,799	27,303	11,511	2,296,479
Increase (Decrease) in NPO	234,671	6,342	(4,289)	555	370,700
Net Pension Obligation/(Asset), September 1, 2009	206,152	19,102	80,034	(5,131)	213,926
Restatement*					53,087
Net Pension Obligation/(Asset), September 1, 2009, as Restated	206,152	19,102	80,034	(5,131)	267,013
Net Pension Obligation/(Asset), August 31, 2010**	$440,823	$25,444	$75,745	$ (4,576)	$ 637,713

* Refer to Note 14 for information pertaining to the TRS restatement.

** See the "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/(Asset)
ERS			
08/31/10	$ 634,439	63.0%	$440,823
08/31/09	530,647	68.3%	206,152
08/31/08	378,269	90.3%	38,050
LECOS			
08/31/10	$ 34,141	81.4%	$ 25,444
08/31/09	33,317	62.0%	19,102
08/31/08	19,678	102.6%	6,442
JRS1			
08/31/10	$ 23,014	118.6%	$ 75,745
08/31/09	24,868	113.4%	80,034
08/31/08	26,791	107.0%	83,360
JRS2			
08/31/10	$ 12,066	95.4%	$ (4,576)
08/31/09	13,153	86.3%	(5,131)
08/31/08	11,480	97.0%	(6,928)
TRS*			
08/31/10	$2,667,179	86.1%	$637,713
08/31/09	1,278,488	107.5%	213,926
08/31/08	1,432,030	101.3%	309,184

* In fiscal 2010, the Net Pension Obligation was restated for fiscal years 1998 through 2009 to include reporting entity contributions.

Funded Status

The state's pension plans funded status information for each plan as of Aug. 31, 2010, 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 ERS and TRS 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.

Texas Guaranteed Student Loan Corporation

The Texas Guaranteed Student Loan Corporation (TGSLC), a discrete component unit of the state, maintains its own defined contribution retirement plan, the TGSLC Money Purchase Pension Plan and Trust (the Plan). The Plan covers substantially all employees of the TGSLC. As of June 30, 2010, there are 690 participants in the Plan. Employees do not contribute to the Plan; TGSLC's contributions to the Plan are generally based on 9 percent of gross annual salaries, net of forfeitures. Total payroll and covered payroll was approximately $39.1 million and $36.6 million, respectively, in the Plan year ended June 30, 2010. Total TGSLC contributions were approximately $3.2 million for the fiscal year ended Sept. 30, 2010. Plan amendments are subject to the Plan's Board of Trustees' approval and the TGSLC Board of Directors' ratification.

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)
ERS*						
08/31/10	$ 23,628,567	$ 27,668,876	$ (4,040,309)	85.4%	$ 5,930,141	(68.1)%
LECOS*						
08/31/10	$ 802,897	$ 930,747	$ (127,850)	86.3%	$ 1,507,950	(8.5)%
JRS1						
08/31/10	$ 0	$ 264,077	$ (264,077)	0.0%	$ 2,827	(9,341.2)%
JRS2						
08/31/10	$ 264,515	$ 281,760	$ (17,245)	93.9%	$ 68,755	(25.1)%
TRS						
08/31/10	$ 111,292,528	$ 134,191,110	$ (22,898,582)	82.9%	$ 36,628,844	(62.5)%

* The AAL and Covered Payroll calculations incorporate changes made by 81st Legislature, Regular Session, House Bill 2559, which modified benefits for members hired after Aug. 31, 2009.

Note 10

Deferred Compensation

The state of Texas offers two deferred compensation plans to all state employees. One was established in accordance with Internal Revenue Code, Section 457. The second was 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 (UT) offers its own deferred compensation plan, created in accordance with Internal Revenue Code, Section 457(b). All UT employees are eligible to participate in UT'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. UT has no liability under the plan.

The Texas State Affordable Housing Corporation (TSAHC), a discrete component unit of the state, offers its own deferred compensation plan, created in accordance with Internal Revenue Code, Section 401(k). All TSAHC employees are eligible to participate in TSAHC's plan and do not participate in the plan offered by the state of Texas. The state of Texas does not contribute to the plan. TSAHC is not the plan administrator and 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 established 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 and life insurance benefit plans: the UT System Employee Group Insurance Program (UT Plan) and A&M System Group Insurance Program (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 (UT) and the Texas A&M University System (A&M) each issue 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. UT and A&M are part of the state of Texas primary government. Employees of these systems are considered to be state employees. Benefit provisions for the UT and A&M plans 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 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. The three year history of employer contributions and annual OPEB costs is presented in the "Three-Year Trend Information" table.

Three-Year Trend Information

(Amounts in Thousands)

Fiscal Year Ending	Employer Contribution	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
UT Plan				
8/31/10	$ 117,023	$ 571,761	20.5%	$ 1,295,763
8/31/09	105,356	523,703	20.1%	841,025
8/31/08	99,892	522,570	19.1%	422,678
A&M Plan				
8/31/10	$ 40,174	$ 162,680	24.7%	$ 342,379
8/31/09	37,325	116,890	31.9%	219,873
8/31/08	36,284	176,593	20.5%	140,309

For the fiscal year ended Aug. 31, 2010, 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, 2010

Level of Coverage	UT Plan	A&M Plan
Retiree Only	$ 393	$ 401
Retiree/Spouse	599	583
Retiree/Children	525	515
Retiree/Family	732	674

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	$ 553,975	$157,745
Interest on Net OPEB Obligation	58,872	16,051
Adjustment to ARC	(41,086)	(11,116)
Annual OPEB Cost	571,761	162,680
Employer Contributions Made	117,023	40,174
Increase Net OPEB Obligation	454,738	122,506
Net OPEB Obligation, September 1, 2009	841,025	219,873
Net OPEB Obligation, August 31, 2010	$1,295,763	$342,379

Funded Status and Funding Progress

The funded status of the UT and A&M plans as of Aug. 31, 2010, is disclosed below.

Funded Status

(Amounts in Thousands)

	UT Plan	A&M Plan
Actuarial Accrued Liability (AAL)	$5,676,868	$1,864,320
Actuarial Value of Plan Assets	0	0
Unfunded Actuarial Accrued Liability (UAAL)	$5,676,868	$1,864,320
Funded Ratio (actuarial value of plan assets/AAL)	0.0%	0.0%
Covered Payroll (active plan members)	$5,026,491	$1,315,292
UAAL as a Percentage of Covered Payroll	112.9%	141.7%

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 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 plan and A&M plan valuations.

Summary of Actuarial Methods and Assumptions

	UT Plan	A&M Plan
Actuarial Valuation Date	Dec. 31, 2009	Sept. 1, 2009
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open
Amortization Period	30 years	30 years
Asset Valuation Method	Market	N/A
Actuarial Assumptions:		
Investment Rate of Return	7%	7.3%
Includes Inflation at	4%	4%
Health Care Trend Rates	9% initial 6% ultimate	8% initial 6% ultimate

Employees Retirement System of Texas

The Employees Retirement System of Texas (ERS) administers a program that provides postemployment health care, life and dental insurance benefits to retirees through the Texas Employees 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 61 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 SRHP is funded by multiple employers, the GASB 45 special funding situation does not apply.

For cost-sharing multiple-employer defined benefit plans like 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.

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 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, institutions of higher education (not part of UT and A&M) and other non-state entities selected by the Legislature are eligible to receive these OPEB through 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 SRHP are authorized by state law and may be amended by the Legislature.

The financial statements of 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.

Funding Policy

The Legislature sets and has the power to amend annual state contributions to 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 table 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, 2010

Level of Coverage	ERS SRHP
Retiree Only	$ 385
Retiree/Spouse	606
Retiree/Children	533
Retiree/Family	753

Contractually required contributions to the plan are currently based on the annual pay-as-you-go expenses of SRHP. In fiscal 2010 the state contributed

$432.4 million to SRHP, which equaled the required contribution.

Teacher Retirement System of Texas

The Teacher Retirement System of Texas (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 1,259 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 2010 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, 2010
(Amounts in Thousands)

	TRS-Care
From Reporting Entities	$155,918
On Behalf From State	279,251
On Behalf From Federal Government	70,796
	$505,965

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.

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 2010 the state contributed $279.3 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 2010 the administrators of each OPEB plan received payments from the federal government pursuant to the retiree drug subsidy provisions of Medicare Part D. On-behalf payments are 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 2010.

Medicare Part D Receipts

For the Fiscal Year Ended August 31, 2010
(Amounts in Thousands)

UT Plan	$ 7,456
A&M Plan	3,814
ERS SRHP	40,988
TRS-Care	70,796
	$ 123,054

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 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 and are 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 is eliminated. Additional eliminations are made and transfers in and out are netted and presented in the government-wide statement of activities as "transfers-internal activities."

Certain reclassifications and eliminations are made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units are 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 are reported as transfers on the fund financial statements and are 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. 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 gen-

eral revenue fund to finance various programs accounted for in other funds in accordance with the General Appropriations 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 interfund receivables/payables include loans for energy efficiency programs of approximately $9.9 million. There is also a $591.7 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 $5 billion transfer from the property tax relief fund and a $989.1 million transfer from the lottery fund to the foundation school fund for educational programs. There is also a $2.2 billion transfer from the general revenue fund to the state highway fund and a $745.8 million transfer from the general fund to the available school fund. The detail of interfund activity and transactions by fund type and category as of Aug. 31, 2010, is presented in the following tables.

Interfund Receivables/Payables

(Amounts in Thousands)

	Current		Noncurrent		Total	
Fund Type	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
Governmental Funds						
General Fund	$ 2,366	$ 52	$ 7,503	$	$ 9,869	$ 52
Nonmajor Governmental Funds	17	380		4,554	17	4,934
	2,383	432	7,503	4,554	9,886	4,986
Proprietary Funds						
Colleges and Universities	20,245	22,339	591,650	597,564	611,895	619,903
Nonmajor Enterprise Funds	169		2,965		3,134	
	20,414	22,339	594,615	597,564	615,029	619,903
Fiduciary Funds						
Agency Funds		26				26
	0	26	0	0	0	26
Total	$ 22,797	$ 22,797	$602,118	$602,118	$624,915	$624,915

Due From/Due To

(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
Governmental Funds						
General Fund	$ 108,356	$	$	$ 1,151,444	$	$ 538
State Highway Fund	240,864			50,261		
Permanent School Fund	32			376		
Nonmajor Governmental Funds	81,159			43,167		
	430,411	0	0	1,245,248	0	538
Proprietary Funds						
Colleges and Universities	829,740		58	23,419		
Unemployment Trust Fund	6,833					
Lottery Fund				2,871		
Nonmajor Enterprise Funds	13,537			3,413		
Internal Service Fund	318			103,608		
	850,428	0	58	133,311	0	0
Fiduciary Funds						
Pension and Other Employee Benefit Trust Funds	151,922			25,837		
Private-Purpose Trust Funds				13		
Agency Funds	192			28,544		
	152,114	0	0	54,394	0	0
Discretely Presented Component Units	0	538	0	0	58	0
Total	$ 1,432,953	$ 538	$ 58	$ 1,432,953	$ 58	$ 538

Internal Balances per the Government-wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
NONCURRENT ASSETS			
Internal Balances–Receivables	$ 2,949	$ (2,949)	$ 0
CURRENT LIABILITIES			
Internal Balances–Payables	$ 818,482	$ (818,482)	$ 0

Transfers In/Out

(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
Governmental Funds		
General Fund	$ 6,452,719	$ 9,277,867
State Highway Fund	2,532,927	410,827
Permanent School Fund		60,700
Nonmajor Governmental Funds	2,479,070	6,237,113
	11,464,716	15,986,507
Proprietary Funds		
Colleges and Universities	5,841,662	391,552
Unemployment Trust Fund	105,160	
Lottery Fund		1,063,085
Nonmajor Enterprise Funds	54,046	54,485
	6,000,868	1,509,122
Fiduciary Funds		
Pension and Other Employee Benefit Trust Funds	103,090	72,985
Private-Purpose Trust Funds		60
	103,090	73,045
Total Transfers In/Out	$ 17,568,674	$ 17,568,674

Transfers In/Out per the Government-wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	$ (4,491,627)
Business-Type Activities	$ 4,491,627

Note 13

Classification of Fund Balances/ Net Position

A summary of the nature and purposes of governmental fund balances is shown in the table below by fund type at Aug. 31, 2010.

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.

Restrictions of net position are listed on the face of the government-wide and proprietary statements of net position. Of the $48.3 billion reported as restricted net position by the primary government, $33.1 billion was restricted by enabling legislation. Restrictions imposed by enabling legislation could be changed by future legislative action.

Of the $15.3 billion reported as unrestricted net position, $7.7 billion is for the economic stabilization fund. The Legislature may appropriate the fund for any purpose upon receiving a two-thirds vote of the members present in each house.

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

(Amounts in Thousands)

MAJOR FUNDS	
General Fund – Reserved:	
Encumbrances	$ 4,100,999
Inventories	186,509
Imprest Accounts	3,916
Loans and Contracts (Noncurrent)	718,760
Interfund Receivables (Noncurrent)	7,503
Tax Receivables (Noncurrent)	331,306
Health and Human Services	110,306
	$ 5,459,299
General Fund – Unreserved	
Undesignated:	$ 2,950,253
State Highway Fund – Reserved:	
Encumbrances	$ 192,838
Inventories	112,616
Imprest Accounts	602
Loans and Contracts (Noncurrent)	283,548
	$ 589,604
State Highway Fund – Unreserved:	
Designated:	
General Government	$ 1,680
Transportation	693,733
	$ 695,413
Permanent School Fund – Reserved:	
Encumbrances	$ 4,963
Loans and Contracts (Noncurrent)	3,479
Public School Support	24,386,874
	$ 24,395,316

NONMAJOR FUNDS	
Special Revenue Funds – Reserved:	
Encumbrances	$ 33,383
Inventories	359
Imprest Accounts	10
Loans and Contracts (Noncurrent)	2,531,937
	$ 2,565,689
Special Revenue Funds – Unreserved:	
Designated:	
General Government	$ 122,970
Regulatory Services	576,318
Health and Human Services	12,538
Natural Resources and Recreation	190,792
Education	350,621
Transportation	1,372,087
Public Safety and Corrections	7,351
Employee Benefits	56
	$ 2,632,733
Undesignated:	
General Government	$ 6
Regulatory Services	13,651
Health and Human Services	1,096
	$ 14,753
Debt Service Funds – Reserved:	
Debt Service	$ 227,778

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	$ 186,321
Inventories	81
Capital Projects	228,041
	$ 414,443
Capital Projects Funds – Unreserved:	
Undesignated:	
General Government	$ (82,457)
Health and Human Services	(56,713)
Natural Resources and Recreation	(4,703)
Education	(8,759)
Public Safety and Corrections	(51,340)
	$ (203,972)

NONMAJOR FUNDS (concluded)	
Permanent Funds – Reserved:	
Encumbrances	$ 3
	$ 3
Permanent Funds – Unreserved:	
Designated:	
Permanent Health Fund	$ 468,315
Undesignated:	
General Government	$ 559,692
Education	9
	$ 559,701
ALL GOVERNMENTAL FUNDS	
Reserved	$ 33,652,132
Unreserved/Designated	3,796,461
Unreserved/Undesignated	3,320,735
Total Fund Balances – Governmental Funds	$ 40,769,328

Note 14

Restatement of Beginning Balances

During fiscal 2010, certain accounting changes and adjustments were made that required the restatement of fund balances or net position. Additionally, certain adjustments required a restatement to beginning cash and cash equivalents on the statement of cash flows.

Restatements to Fund Balances/Net Position

A reconciliation of the beginning balances and all related restatements is included below and discussed on the following page.

Restatements to Fund Balances/Net Position

(Amounts in Thousands)

	September 1, 2009, As Previously Reported	Restatements	September 1, 2009, As Restated
GOVERNMENTAL FUNDS AND GOVERNMENTAL ACTIVITIES			
Major Funds:			
General Fund	$ 8,966,412	$ 20,217	$ 8,986,629
State Highway Fund	139,440		139,440
Permanent School Fund	22,597,516		22,597,516
Total Major Funds	31,703,368	20,217	31,723,585
Nonmajor Funds:			
Special Revenue Funds	6,989,757	1,188	6,990,945
Debt Service Funds	220,802	(72)	220,730
Capital Project Funds	334,712	4,233	338,945
Permanent Funds	992,885		992,885
Total Nonmajor Funds	8,538,156	5,349	8,543,505
Total Governmental Funds	40,241,524	25,566	40,267,090
Governmental Activities Adjustments:			
Capital Assets	69,946,975	(125,736)	69,821,239
Long-Term Liabilities	(15,319,103)	12,875	(15,306,228)
Deferred Revenue	710,126	6,752	716,878
Internal Service Fund	282,484		282,484
Total Governmental Activities Adjustments	55,620,482	(106,109)	55,514,373
Total Governmental Activities	95,862,006	(80,543)	95,781,463
BUSINESS-TYPE ACTIVITIES			
Major Funds:			
Colleges and Universities	31,809,726	10,401	31,820,127
Unemployment Trust Fund	(303,836)		(303,836)
Lottery Fund	71,141	(9,569)	61,572
Nonmajor Enterprise Funds	3,440,807	(1,744)	3,439,063
Total Business-Type Activities	35,017,838	(912)	35,016,926
Total Primary Government	$ 130,879,844	$ (81,455)	$ 130,798,389
Discretely Presented Component Units	$ 971,429	$ 39	$ 971,468

Restatements by Activity

(Amounts in Thousands)

Restatements	Governmental Activities	Business-Type Activities	Component Unit	Total Restatements
A.	$ 91,528	$ (14,968)	$ 85	$ 76,645
B.	(125,736)	(16,162)	(46)	(141,944)
C.	6,752	30,218		36,970
D.	(53,087)			(53,087)
Total Restatements	$ (80,543)	$ (912)	$ 39	$ (81,416)

Restatements are grouped into the following four categories:

A. These are miscellaneous restatements necessary to correct accounting errors in the prior period or recognize changes in the application of accounting principles to improve consistency within the financial reporting entity. All adjustments related to capital assets are included in category B.

B. These restatements are for adjustments to capital assets and accumulated depreciation or amortization, including those adjustments needed due to the implementation of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Included within the total adjustments is a $155 million restatement to remove the historical archives collection of the Texas General Land Office. These items were previously recorded at their estimated fair value, which is not appropriate for capital assets. Refer to Note 2 for additional information on the state's policies and balances for capital assets.

C. These restatements are due to the implementation of GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The restatement records the fair value of interest rate swap agreements determined to be ineffective hedges. Refer to Note 7 for additional information on derivative activity.

D. This restatement is due to changes in the actuarial method of calculation for the Teacher Retirement System of Texas pension plan (TRS Plan). These calculation changes impacted the amounts of annual required contributions and employer contributions for the TRS Plan and resulted in a restatement to increase the state's beginning net pension obligation. Refer to Note 9 for additional details about the TRS Plan.

Other Restatements

During fiscal 2010, the Central Texas Turnpike System implemented the terms of a Master Lockbox and Custodial Agreement (Agreement) related to prepaid toll accounts. To comply with the provisions of the Agreement, all previously held cash deposits for prepaid tolls were transferred to the toll revenue custodial account, an agency fund. The implementation of the Agreement resulted in a restatement to beginning cash and cash equivalents of $16.1 million in the statement of cash flows. All future cash received for prepaid tolls will be deposited to the toll revenue custodial account.

Note 15

Commitments and Contingencies

COMMITMENTS

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 $1.7 billion as of Aug. 31, 2010.

Guaranteed Debt

At Aug. 31, 2010, $49.3 billion in debt was guaranteed by the permanent school fund for outstanding bond issues in 776 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 $49.3 billion represents the principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount also excludes bonds that were refunded and released from the bond guarantee program.

Investment Funds

At Aug. 31, 2010, state agencies, public employee retirement systems and institutions of higher education entered into capital commitments with investment managers for future funding of investment funds. Investment funds include hedge fund pools, private investment pools, public market funds and other alternative investments managed by external investment managers. At Aug. 31, 2010, the remaining commitment is $22.6 billion.

Construction and Other Commitments

At Aug. 31, 2010, the Texas Department of Transportation (TxDOT) has contractual commitments of approximately $7.6 billion for construction and comprehensive developments. These are not recognized liabilities because the terms of the contracts or agreements were not met and benefits were not received as of the end of the fiscal year.

Additionally, TxDOT is party to several pass-through toll agreements with local entities. Under these agreements, the local entities will finance, design and construct certain roadway projects and may maintain them for a specified period of time. Upon completion of the projects, TxDOT will make payments (i.e., pass-through toll payments) to the entities based on traffic utilization of the roadways and other payment requirements governed by the agreements. Motorists traveling these roadways will not be required to pay a toll. Estimated payments under the agreements are included as notes payable as each project is completed. Liabilities for uncompleted agreements are not recognized. As of Aug. 31, 2010, the maximum amount of future obligations for uncompleted pass-through toll agreements was $1.4 billion.

As a function of its normal business operations, the State Energy Marketing Program of the Texas General Land Office (GLO) enters into contracts for the purchase and sale of natural gas, the sale of oil and the delivery of natural gas and electric energy to certain public retail customers. As of Aug. 31, 2010, GLO has commitments to third parties for the purchase of 8.5 million British thermal units (MMBTUs) of natural gas at various fixed prices for $58.2 million. These commitments extend through Aug. 31, 2020.

CONTINGENCIES

Protested Tax Payments

As of Aug. 31, 2010, pending litigation filed by taxpayers seeking refunds of state taxes totals $699.9 million. The taxes protested include sales, franchise, insurance and other taxes. Although the outcome of these cases cannot presently be determined, adverse ruling in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases with claims totaling $106.5 million were 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.

Federal Assistance

The state receives federal financial assistance that 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 $53.4 million as of Aug. 31, 2010.

The Texas 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 is 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 to 65 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 institutions of higher education 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.

Derivatives with Contingent Features

All of the Department of Housing and Community Affair's (TDHCA) derivative instruments include provisions that require posting collateral in the event its credit rating falls below a specified level as issued by Moody's Investor Service and Standard & Poor's. If TDHCA fails to post eligible collateral, the derivative instrument may be terminated by the counterparty. The aggregate fair value of all derivative instruments with collateral provisions at Aug. 31, 2010, is $(37) million. If the posting requirements had been triggered, TDHCA would have been required to post eligible collateral equal to the aggregate fair value of the derivative instruments. TDHCA posted no collateral as of Aug. 31, 2010.

The Teacher Retirement System of Texas (TRS) is party to derivative instruments with provisions that require TRS to post collateral in the event that the fair value surpasses a specified contractual threshold. At Aug, 31, 2010, the aggregate fair value of all derivative instruments with these provisions is $(123.7) million. If the collateral posting thresholds did not exist, TRS would be required to post the aggregate amount of $141.7 million in collateral to its counterparties. TRS posted no collateral as of Aug. 31, 2010.

Note 16

Subsequent Events

Primary Government

Bonds and Commercial Paper Issued/ Refunded/Other Financing

State agencies and institutions of higher education issued $3.8 billion in new bonds and commercial paper and $88 million in refunding bonds since Aug. 31, 2010. This routine activity finances state facilities, housing assistance programs, educational loans and refunds outstanding debt.

The **Veterans Land Board (VLB)** issued:

- $50 million State of Texas Veterans Bonds Taxable Refunding, Series 2010E on Nov. 18, 2010, to refund the State of Texas Veterans Housing Assistance Program Fund II Bonds, Series 2001A-1, 2001C-1 and 2002A-1; and
- $16.5 million State of Texas Veterans Bonds Taxable Refunding Series, 2010D on Nov. 18, 2010, to refund the State of Texas Veterans Land Bonds, Series 2000.

The **Texas Public Finance Authority (TPFA)** issued:

- $11.8 million of Cancer Prevention Research Institute of Texas General Obligation Commercial Paper Notes, Series A on Sept. 7, 2010;
- $1 million and $2 million of Master Lease Commercial Paper Notes, Series 2003 on Sept. 8, 2010, and Oct. 14, 2010, respectively;
- $1 million, $6.6 million and $21 million of General Obligation Commercial Paper Notes, Series 2002A on Sept. 7, 2010, Oct. 20, 2010, and Oct. 28, 2010, respectively;
- $10 million and $17 million of General Obligation Commercial Paper Notes, Series 2008 on Sept. 24, 2010, and Oct. 12, 2010, respectively;
- $2 billion of Texas Public Finance Authority Unemployment Compensation Obligation Revenue Bonds, Series 2010A on Nov. 18, 2010, and Series 2010B and 2010C on Dec. 7, 2010, on behalf of the Unemployment Trust Fund (TWC) to repay federal advances and finance a portion of the benefits program administered by TWC;
- $4.4 million of Education Revenue Bonds, Series 2010A, $500 thousand of Taxable Education Revenue Bonds, Series 2010B and $1.2 million of Taxable Education Revenue Bonds, Series 2010Q on Oct. 12, 2010, to fund the construction and equipment of an open-enrollment charter school in Sherman, Texas; and
- $3.2 million of Education Revenue Bonds, Series 2010A, $400 thousand of Taxable Education Revenue Bonds, Series 2010B and $4 million of Taxable Education Revenue Bonds, Series 2010Q on Oct. 16, 2010, to (a) acquire and renovate land in San Antonio, (b) to fund debt service reserve fund for the Series 2010AB bonds and (c) to pay costs of issuance related to bonds.

The **Texas Department of Agriculture** refinanced $9 million of outstanding Commercial Paper Notes, Series A on Sept. 9, 2010. The commercial paper notes mature in 56 days from the date of issuance with a discount of $4.2 thousand at a rate of 0.35 percent.

The **Texas Water Development Board** issued $32.4 million of General Obligation Water Financial Assistance Bonds, Series 2010D on Oct. 6, 2010, to assist small rural utilities in obtaining low-cost financing for water and wastewater projects.

The **Texas Department of Transportation (TxDOT)** issued $977.8 million of State of Texas Highway Improvement General Obligation Bonds, Series 2010 on Sept. 29, 2010, to (a) reimburse the state highway fund for payment of all or part of the costs of highway improvement projects, (b) to pay the costs of administering projects authorized under Texas Transportation Code, Section 222.004 and (c) to pay the cost or expense of the issuance of the Series 2010 bonds.

The **Texas A&M University System (A&M)** issued $35 million of Revenue Financing System Commercial Paper on Sept. 9, 2010, and $30 million of Permanent University Fund Commercial Paper on Oct. 5, 2010, to provide interim financing for the capital improvement needs of A&M.

The **University of Texas System** issued $604.3 million of Revenue Financing System Taxable Bonds, Series 2010C and $39.8 million of Revenue Financing System Bonds, Series 2010E on Sept. 15, 2010, to (a) refund $21.3 million principal amount of Revenue Financing System Commercial Paper Notes, Series A, (b) to finance the costs of campus improvements and (c) to pay the costs of issuance related thereof.

Other Subsequent Events

The Texas Workforce Commission transferred $82.6 million of taxes to the unemployment trust fund in September 2010. The taxes were originally deposited to the employment and training investment holding fund, an account within the general revenue fund. Texas Labor Code, Section 204.123, defines a statutory floor for the unemployment trust fund as 1 percent of total taxable wages for the four quarters ending June 30, 2010. The transfer was required because the unemployment trust fund balance was below that floor.

As of January 2011, TxDOT was negotiating terms to extend a toll equity loan of an aggregate maximum amount of approximately $4.1 billion to the North Texas Tollway Authority (NTTA) to enhance the project feasibility and expedite delivery on the State Highway 161 project in Dallas, Texas. NTTA will pay $458 million, plus interest, as an upfront payment to TxDOT, which will be reserved for transportation projects selected by local leaders in the Dallas-Fort Worth Metroplex. The Texas Transportation Commission authorized the loan to be made; however, TxDOT and NTTA are making non-substantive changes to the agreement to satisfy all lenders of the project.

Note 17

Risk Management

The state of Texas is exposed to various risks of loss related to property, general and employer liability, net income and personnel. The state of Texas and its employees are covered by various immunities and defenses that limit some of these risks of loss, particularly in liability actions brought against the state or its employees. Remaining exposures are managed by self-insurance arrangements, contractual risk transfers, the purchase of commercial insurance or a combination of these risk financing techniques.

Estimates of liabilities for incurred but not reported 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.

Property and Liability

The Texas Labor Code, Chapter 412, identifies the executive director of the State Office of Risk Management (SORM) as the state risk manager. SORM operates as a full-service risk and insurance manager for the state and oversees all surety bond and property and liability insurance purchases by state agencies.

SORM administers the statewide workers compensation program. The state does not carry commercial insurance for workers compensation, but instead, uses the general revenue fund to account for its risk financing activities. Certain agencies are exempt from the SORM program or elect to purchase additional insurance coverage outside of the program. The University of Texas System (UT), Texas A&M University System (A&M) and Texas Department of Transportation (TxDOT) administer separate self-insured workers compensation programs.

Where applicable, certain agencies purchased fire and extended insurance coverage for buildings financed through the issuance of bonds. Other risks are addressed

through a combination of interim financing and commercial coverage for fire and all other perils, as well as coverage for medical malpractice, torts, named windstorms, floods and other potential liabilities.

Health, Life and Dental

Insurance coverage is provided to active state employees and their dependents by one of three health plan administrators. All state employees not covered by insurance plans provided by UT and A&M are included in the Texas Employees Group Benefits Program (GBP) administered by the Employees Retirement System of Texas (ERS). Public school employees and their dependents are covered by the Texas Active School Employees Uniform Group Benefits Program (TRS-ActiveCare) administered by the Teacher Retirement System of Texas (TRS). Risk of loss is retained with self-insured plans or transferred to the insurance carrier with health maintenance organization (HMO) plans.

Texas Employee Group Benefits Program

Claims for health, life, accidental death and dismemberment (AD&D), disability and dental insurance coverages are established under the GBP. These coverages are provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, HMO contracts and dental health maintenance organizations (DHMO) contracts.

University of Texas System and Texas A&M University System

UT and A&M provide health insurance, dental insurance, vision insurance, life insurance, AD&D, long-term disability, short-term disability, long-term care and flexible-spending account coverages to all benefits-eligible employees. These insurance benefits are provided through both self-funded and fully insured arrangements.

Teacher Retirement System

TRS-ActiveCare is a health benefits program that offers options ranging from catastrophic coverage with reduced premiums to a comprehensive plan with near first-dollar coverage at higher premiums. TRS-ActiveCare covers members currently employed by public educational employers that participate in the plan.

TRS-ActiveCare offers a choice of four preferred provider organization plans statewide as well as HMO plans in certain service areas. The risk associated with TRS-ActiveCare is retained by the plan's participants, and no risk is transferred to the plan's administrators, employers or the state.

Changes in Claims Liability Balances

The following table presents the changes in claims liability reported in various balance sheet/statement of net position liability accounts during fiscal years ending Aug. 31, 2009, and Aug. 31, 2010. Claims and judgment amounts presented in Note 5 are also included in the table.

Changes in Claims Liability Balances
(Amounts in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
2010	$737,066	$2,806,764	$2,757,708	$786,122
2009	$717,060	$2,233,247	$2,213,241	$737,066

Of the fiscal 2010 claims liability ending balance, $224 million relates to long-term claims liabilities, which are reported in Note 5. The remaining $562 million relates to the state's health, life and dental insurance programs, which are reported as accounts payable.

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, 2010, the redetermination hearings process had an estimated amount of $870 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 entity's 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, 2010, 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 units' 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 ERS at P.O. Box 13207, Austin, Texas 78711.

Texas Treasury Safekeeping Trust Company (Trust Company) is a legally separate entity established by the Legislature. The Comptroller of Public Accounts is the single shareholder of the Trust Company and is charged with managing the Trust Company. The Trust Company 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 Trust Company 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 units' financial data is discretely presented in the component unit column of the state's financial statements.

Texas Guaranteed Student Loan Corporation (TGSLC) 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 TGSLC through board appointment and imposition of will. All members of TGSLC's board are appointed by the governor with the advice and consent of the Senate. TGSLC's liabilities are not debts of the state. TGSLC received a one-time appropriation of $1.5 million to fund initial startup operations. TGSLC is reported for the year ended Sept. 30, 2010. Separate financial statements may be obtained by contacting TGSLC at P.O. Box 83100, Round Rock, Texas 78683-3100.

Teacher Retirement System of Texas (TRS) is a legally separate entity established by the Legislature to administer retirement and disability annuities to employees and beneficiaries of public school systems and institutions of higher education. 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 St., 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, 2010. Separate financial statements may be obtained by contacting the State Bar at 1414 Colorado St., Austin, Texas 78701.

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. Prior to any bonds being issued by TSAHC, 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 Comptroller of Public Accounts. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

Texas Windstorm Insurance Association (Association) is a legally separate organization established to provide an adequate market for windstorm and hail insurance in the seacoast territory of Texas and serves as an insurer of last resort. The commissioner of the Texas Department of Insurance (TDI) appoints the nine-member board of directors, and the board is responsible and accountable to the commissioner. The state of Texas has the ability to impose its will on the Association through TDI commissioner approval of rates and maximum liability limits for windstorm and hail insurance policies issued by the Association. The Association became a discrete component unit of the state of Texas on Jan. 1, 2010. The Association is reported on a calendar year basis. Their most recent financial statements are for the calendar year ended Dec. 31, 2009, when they were not a component unit of the state; therefore, their financial information is not included in the fiscal 2010 state of Texas financial statements.

Surplus Lines Stamping Office of Texas (Stamping Office) is a nonprofit corporation created by the

Legislature to assist 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, 2009. Separate financial statements may be obtained by contacting the Stamping Office at P.O. Box 160170, Austin, Texas 78716-0170.

Texas Health Reinsurance System is a legally separate entity that 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 are presented on statutory accounting principles established by TDI, and are reported for the year ended Dec. 31, 2009. Financial statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

Texas Health Insurance Risk Pool (THIRP) is a legally separate entity that provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. 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. THIRP is reported for the year ended Dec. 31, 2009. Financial statements may be obtained at 1701 Director's Blvd., Suite 120, Austin, Texas 78744.

Texas Boll Weevil Eradication Foundation Inc. (Foundation) is a legally separate entity that establishes and implements a boll weevil eradication program for Texas. It is fiscally dependent on the Texas Department of Agriculture (TDA) and governed by 16 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, 2009. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Agricultural Finance Authority (TAFA) is a legally separate entity that provides financial assistance for the expansion, development and diversification of agricultural businesses. TAFA primarily benefits the citizens of Texas. If there are insufficient funds to pay TAFA's bond obligations, the primary government is obligated to transfer money from the state treasury to TAFA in an amount sufficient to pay those obligations. 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 TAFA with the assistance of the board. Separate financial statements may be obtained by contacting TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority (Authority) is a legally separate entity 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 TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

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. Financial statements may be obtained by contacting TCEQ at P.O. Box 13087, Austin, Texas 78711-3087.

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 financial 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 Economic Development Corporation (TED Corp), a nonprofit corporation, was created to assist, promote, develop and advance economic development in the state of Texas. The Office of the Governor is the oversight agency for TED Corp. The board of directors is appointed by the governor. TED Corp'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 Small Business Industrial Development Corporation (TSBIDC) was chartered to promote economic development in the state of Texas. The Office of the Governor is the oversight agency for TSBIDC. The board of directors is appointed by the governor, and all programs and expenditures of 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 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 directors on the board. 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 may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Health Services Authority (THSA) is a legally separate entity created to assist the Office of the Governor with the improvement of the Texas health care system. THSA promotes and coordinates the electronic exchange of health information throughout the state to ensure 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 declares the purposes of THSA are fulfilled or that THSA is inoperative or abandoned. THSA's financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Casa Verde Research Center, Sociedad Anonimo (Casa Verde) is a legally separate organization established in Costa Rica to provide research opportunities for students and faculty of Texas A&M University. Casa Verde also provides services to outside organizations, such as study abroad programs to corporations and research and education opportunities for Costa Rican universities. The board of Casa Verde is appointed by executive management of Texas A&M University. The executive management can also remove board members at will and modify the budget of Casa Verde. Casa Verde is reported for the year ended Sept. 30, 2009. Separate financial statements may be obtained by contacting Texas A&M University, External Reporting, at 750 Agronomy Rd., Suite 3101 GSC, 6000 TAMU, College Station, Texas 77843-6000.

Representacion de TAMU en la Republica Mexicana, A.C. (Mexico Center) is a legally separate organization established in Mexico City, Mexico, to serve as a central point of contact for the support and promotion of Texas A&M University's international education, research and outreach activities. In addition, the Mexico Center provides services outside of Texas A&M University, such as to Mexican government entities. The executive management of Texas A&M University appoints the voting majority of the board of the Mexico Center. It can also remove board members at will and approve and modify the Mexico Center's budget. The Mexico Center is reported for the year ended Dec. 31, 2009. Separate financial statements may be obtained by contacting Texas A&M University, External Reporting, at 750 Agronomy Rd., Suite 3101 GSC, 6000 TAMU, College Station, Texas 77843-6000.

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 the Association's nine-member board of directors.

Texas Title Insurance Guaranty Association was created for the purpose of providing funds for the protection of holders of "covered claims," as defined in 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) 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. The governor, with the advice and consent of the senate, appoints five of the nine members of Texas Mutual's board of directors.

Midwestern State University Charitable Trust (Trust) is a nonprofit organization with the sole purpose of educational and other activities of Midwestern State University. It is governed by a board of trustees of no less than three members. This board appoints individuals to fill vacancies on the board as they occur with the approval of the Midwestern State University board of regents, which is appointed by the governor. The Trust's board of trustees serves under the direction of the board of regents, which has the power by majority vote to appoint or remove any or all of the trustees.

Charter School Finance Corporation is a nonprofit organization with the sole purpose of issuing revenue bonds for authorized open-enrollment charter schools for the acquisition, construction, repair or renovation of education facilities at those schools. The Texas

Public Finance Authority appoints the board of directors in consultation with the commissioner of the Texas Education Agency.

Texas State University System Foundation Inc. (Foundation) is a nonprofit corporation with the purpose of providing financial support for the universities and colleges within the Texas State University System. The Foundation provides funds for student scholarships, faculty awards and for assisting the chancellor in the performance of his/her duties. The board of directors is comprised of all members of the Texas State University System board of regents, which is appointed by the governor.

Coastal Coordination Council was established to adopt uniform policies and goals to guide decision-making by all entities regulating or managing natural resource use within the Texas coastal area. The majority of the board of directors is appointed by the governor.

Texas Farm and Ranch Lands Conservation Council was established to advise and assist the commissioner of the General Land Office with the administration of the Texas Farm and Ranch Lands Conservation Program and to select applicants to receive grants under the program. The governor appoints the members of the council.

River Authorities are political subdivisions that are created by Texas statute. The Texas Constitution, Article 16, 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 16 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
- San Jacinto 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 Position

Governmental Funds

The **Texas Health Agencies Project Funds**, a nonmajor capital projects fund, reported a deficit of $13 million. This deficit is primarily due to the commercial paper funding mechanism used for funding these projects. Because of arbitrage rebate guidelines, commercial paper is issued only when there is an immediate need. Commercial paper to pay for the accrued liabilities in this fund was authorized but not issued at fiscal year-end.

Proprietary Funds

The **Unemployment Trust Fund**, a major enterprise fund, reported a deficit of $1.2 billion. This deficit was caused by the continued high rates of unemployment. The net position deficit will decrease in future years as a

result of the obligation assessment tax and the statutory provisions in the Texas Labor Code, which will result in an increase in other employer contributions.

The **Texas Prepaid Tuition Plans**, a nonmajor enterprise fund, reported a deficit of $587.3 million. The deficit is due to the difference between the present value of actual and projected contract benefit payments and actual and projected contributions from account holders and investment earnings on those contributions to the Texas Guaranteed Tuition Plan (Plan). The Plan was closed to new enrollment in 2003 when tuition was deregulated. Over the life of the Plan, actual tuition and required fees for Texas public four year colleges and universities grew at a higher percentage rate than the Plan's investment return.

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 settling 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 court-ordered annual payment amounts are subject to adjustments based on the tobacco companies' domestic cigarette sales, the general consumer inflation rate, the profitability of the tobacco companies and any other court-ordered factors. A revenue accrual of $311.8 million is based on the payment received in December 2010. Tobacco settlement revenues were $501.9 million in fiscal 2009 and $480.8 million in fiscal 2010. Cumulative actual tobacco settlement revenues as of fiscal 2010 were $6.7 billion.

Note 22

Donor-Restricted Endowments

The state of Texas has donor-restricted endowments with net appreciation of $1.7 billion on investments available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported can be found in the donor-restricted endowments table below. 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 are 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 required to be retained in perpetuity.

Donor-Restricted Endowments

(Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Position
True Endowments	$ 1,634,451	Expendable
Term Endowments	28,848	Expendable
	$ 1,663,299	

The majority of the state's endowments are the results of donations made to institutions of higher education. The Uniform Prudent Management of Institutional Funds Act, Texas Property Code, Chapter 163, provides general guidelines on how endowments should be maintained. An institution may appropriate for expenditures or accumulate as much as the institution determines prudent for the uses, benefits, purposes and duration of the endowment. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan.

Note 23

Extraordinary and Special Items

The state did not report extraordinary items in the current fiscal year. Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence.

The state did not report special items 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.

Note 24

Taxes Receivable and Tax Refunds Payable

Taxes receivable and tax refunds payable, 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, 2010 (Amounts in Thousands)

Tax Type	Taxes Receivable
Sales and Use Tax	$ 1,179,882
Motor Vehicle and Manufactured Housing	92,865
Motor Fuels	271,232
Franchise	207,881
Oil and Natural Gas Production	231,531
Insurance Occupation	138,448
Cigarette and Tobacco	28,131
Other	153,524
Total Taxes Receivable	$ 2,303,494
Liquidity Characteristics:	
Current Taxes Receivable	$ 1,972,188
Noncurrent Taxes Receivable	331,306
Total Taxes Receivable	$ 2,303,494

Tax Refunds Payable by Tax Type

August 31, 2010 (Amounts in Thousands)

Tax Type	Tax Refunds Payable
Franchise	$ 502,706
Oil and Natural Gas Production	386,738
Total Tax Refunds Payable	$ 889,444

Texas franchise tax receivables represent balances due at Aug. 31, 2010, for business activity that occurred in calendar year 2009. The franchise tax payments were due May 15, 2010; however, taxpayers were allowed to extend the filing date to November 2010.

Franchise taxes are considered earned when the underlying business activity occurs. There are no required estimated payments under this tax. Tax payments are due annually each May 15. The tax earned during the first eight months of calendar year 2010 is not due until May 2011. As a result, the taxes receivable and related revenue that are earned in this eight month period are not measurable and are not accrued at fiscal year-end.

Note 25

Termination Benefits

Health Care Related Termination Benefits

Health care continuation under the Consolidated Omnibus Budget Reconciliation Act (COBRA) is provided for both voluntary and involuntary terminations. 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. COBRA Plan administrators for the state include the Employees Retirement System of Texas, the University of Texas System and the Texas A&M University System.

As part of the American Recovery and Reinvestment Act (ARRA), employees involuntarily terminated between Sept. 1, 2008, and May 31, 2010, are eligible for a 65 percent subsidy of COBRA premiums for up to a 15 month period. The administrators of the COBRA premium assistance program recover the subsidy as a credit on their quarterly employment tax return.

For self-insured and fully-insured plans, the insurance carrier performs the billing and collections process for COBRA participants. If the plan is self-insured, the insurance carrier then forwards the premium to the plan administrators, net of a 2 percent administrative fee, which is intended to cover costs related to the billing and collection functions. The plan administrators are responsible for any claims or administrative costs associated with COBRA participants that exceed these payments. For fiscal 2010, the cost to the state was approximately $28.2 million for 7,095 COBRA participants.

For the fully-insured health maintenance organization 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-Health Care Related Termination Benefits

There were no material non-health care related voluntary or involuntary termination benefits accepted in fiscal 2010.

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 Position

August 31, 2010 (Amounts in Thousands)

	Veterans Homes Revenue Bonds
ASSETS	
Current Restricted Assets:	
Cash and Cash Equivalents	$ 3,738
Other Current Assets	5,016
Other Noncurrent Assets	4,289
Capital Assets, Net of Depreciation	25,426
Total Assets	38,469
LIABILITIES	
Current Liabilities	5,565
Noncurrent Liabilities	26,509
Total Liabilities	32,074
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	2,806
Restricted	3,589
Total Net Position	$ 6,395

Condensed Statement of Revenues, Expenses and Changes in Net Position

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Veterans Homes Revenue Bonds
OPERATING REVENUES (EXPENSES)	
Sale of Goods and Services	$37,232
Other Operating Revenues	14
Depreciation and Amortization	(1,831)
Other Operating Expenses	(33,875)
Operating Income	1,540
NONOPERATING REVENUES (EXPENSES)	
Other Nonoperating Revenues	100
Interest Expense	(1,435)
Nonoperating Expenses	(1,335)
OTHER TRANSFERS – TRANSFER OUT	(578)
Change in Net Position	(373)
Net Position, September 1, 2009	6,768
Net Position, August 31, 2010	$ 6,395

Condensed Statement of Cash Flows

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Veterans Homes Revenue Bonds
NET CASH PROVIDED (USED) BY:	
Operating Activities	$ 1,330
Noncapital Financing Activities	(578)
Capital and Related Financing Activities	(1,812)
Investing Activities	85
NET DECREASE IN CASH AND CASH EQUIVALENTS	(975)
Cash and Cash Equivalents, September 1, 2009	4,713
Cash and Cash Equivalents, August 31, 2010	$ 3,738

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, 2010 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	$ 35,786,978	$ 34,597,702	$ 33,489,324	$ (1,108,378)
Federal	23,639,590	38,788,923	38,662,141	(126,782)
Licenses, Fees and Permits	2,512,644	2,619,848	2,054,936	(564,912)
Interest and Other Investment Income	648,869	532,824	421,322	(111,502)
Land Income	13,663	13,853	17,445	3,592
Settlement of Claims	516,632	537,779	925,052	387,273
Sales of Goods and Services	1,009,004	1,925,206	1,557,720	(367,486)
Other	2,681,660	3,478,030	3,414,908	(63,122)
Total Revenues	66,809,040	82,494,165	80,542,848	(1,951,317)
EXPENDITURES				
General Government	6,098,749	5,702,893	2,791,221	2,911,672
Education	23,808,585	25,250,316	25,691,183	(440,867)
Employee Benefits	1,229,679	33,777	1,714	32,063
Teacher Retirement Benefits	1,871,340	1,871,340	1,829,709	41,631
Health and Human Services	32,831,416	39,910,214	40,398,941	(488,727)
Public Safety and Corrections	3,916,799	5,483,100	5,386,796	96,304
Transportation	447,869	453,859	19,881	433,978
Natural Resources and Recreation	1,648,235	1,924,296	1,528,081	396,215
Regulatory Services	285,565	362,232	341,682	20,550
Total Expenditures	72,138,237	80,992,027	77,989,208	3,002,819
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,329,197)	1,502,138	2,553,640	1,051,502
OTHER FINANCING SOURCES (USES)				
Transfer In	1,157,468	1,469,644	6,452,719	4,983,075
Transfer Out	(7,385,699)	(7,955,311)	(9,277,867)	(1,322,556)
Sale of Capital Assets	8,525	8,609	9,874	1,265
Insurance Recoveries	1,218	3,086	3,552	466
Available Beginning Balances	2,784,570	2,784,570	2,784,570	
Total Other Financing Sources (Uses)	(3,433,918)	(3,689,402)	(27,152)	3,662,250
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ (8,763,115)	$ (2,187,264)	$ 2,526,488	$ 4,713,752

STATE OF TEXAS

Budgetary Comparison Schedule
Major Special Revenue Fund – State Highway Fund

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	$ 40,356	$ 40,356	$ 40,356	$
Federal	3,235,019	3,538,947	2,724,629	(814,318)
Licenses, Fees and Permits	1,121,363	1,208,613	1,291,545	82,932
Interest and Other Investment Income	73,788	73,788	53,583	(20,205)
Land Income	4,301	4,301	6,409	2,108
Settlement of Claims	103	103	794	691
Sales of Goods and Services	166,005	176,590	154,108	(22,482)
Other	11,652	12,478	10,143	(2,335)
Total Revenues	4,652,587	5,055,176	4,281,567	(773,609)
EXPENDITURES				
General Government	16,508	18,738	12,412	6,326
Employee Benefits	85,503			
Health and Human Services			603	(603)
Public Safety and Corrections	501,576	623,422	630,233	(6,811)
Transportation	8,708,094	9,377,654	6,637,943	2,739,711
Total Expenditures	9,311,681	10,019,814	7,281,191	2,738,623
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,659,094)	(4,964,638)	(2,999,624)	1,965,014
OTHER FINANCING SOURCES (USES)				
Transfer In	2,285,491	2,267,961	2,532,927	264,966
Transfer Out			(410,827)	(410,827)
Bond Proceeds*	1,197,122	1,197,122	1,916,820	719,698
Sale of Capital Assets	3,010	3,010	4,532	1,522
Insurance Recoveries	9,000	9,210	10,775	1,565
Available Beginning Balances	3,596,824	3,596,824	3,596,824	
Total Other Financing Sources (Uses)	7,091,447	7,074,127	7,651,051	576,924
Excess of Revenue and Other Financing Sources Over Expenditures and Other Financing Uses	$ 2,432,353	$ 2,109,489	$ 4,651,427	$ 2,541,938

* The state highway fund received $1.7 billion in bond proceeds. These are authorized by the Texas Constitution, Article 3, Sec 49-n and Texas Transportation Code, Section 222.003.

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, 2010 (Amounts in Thousands)

	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	$2,526,488	$4,651,427
Basis of Accounting Differences:		
Receivables and Deferred Revenues	269,319	(6,996)
Payables	(482,570)	110,001
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(2,784,570)	(3,596,824)
Other Revenues Not Budgeted	318,970	
Other Expenditures Not Budgeted	(432,935)	(13,489)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	8,221	1,458
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – GAAP Basis	$ (577,077)	$1,145,577

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 and the disproportionate share portion of the Federal Medical Assistance program, are not budgeted by the Legislature. The activity for these programs is 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 $441 million variance in education was due to prior year American Recovery and Reinvestment Act (ARRA) funds in that year's budget being spent mostly in this fiscal year. The $489 million variance in health and human services is the result of increased expenditures made from the excess of federal revenues received over estimates for agencies in this particular function.

Major special revenue fund - state highway fund - the $603 thousand variance in health and human services is due to health and human service agencies spending from the transportation fund. The $6.8 million variance in public safety and corrections is the result of expenditures made from the 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 General Appropriations Act 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" and "Vehicle Inspection Program" are two 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 2010, $2.3 million was transferred to the Texas Veteran's Commission 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

The state 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 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 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%)
2010	83.6%	77.9%	87.9%
2009	81.4%	76.5%	90.5%
2008	83.7%	79.0%	91.7%
2007	84.1%	79.5%	N/A
2006	83.4%	78.0%	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)

	2010	2009	2008	2007	2006
INTERSTATE HIGHWAYS					
Estimate	$ 568,456	$ 534,263	$ 502,128	$ 438,460	$ 469,818
Actual	$ 333,253	$ 326,305	$ 438,237	$ 471,925	$ 434,088
OTHER HIGHWAYS					
Estimate	$ 3,005,713	$ 2,687,869	$ 2,455,243	$ 1,702,612	$ 1,608,015
Actual	$ 1,423,734	$ 1,519,110	$ 1,649,317	$ 1,881,285	$ 1,750,438
CENTRAL TEXAS TURNPIKE SYSTEM					
Estimate	$ 11,371	$ 9,179	$ 6,910	N/A	N/A
Actual	$ 6,972	$ 7,262	$ 5,411	N/A	N/A

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 state's other postemployment benefit (OPEB) plans for the three most recent actuarial valuations are presented in the table 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)						
12/31/09	$ 0	$ 5,676,868	$ (5,676,868)	0.0%	$ 5,026,491	(112.9)%
12/31/08	0	5,102,765	(5,102,765)	0.0%	4,820,568	(105.9)%
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)						
09/01/09	$ 0	$ 1,864,320	$ (1,864,320)	0.0%	$ 1,315,292	(141.7)%
09/01/08	0	1,258,563	(1,258,563)	0.0%	1,260,683	(99.8)%
09/01/07	0	1,993,236	(1,993,236)	0.0%	1,140,126	(174.8)%

The schedules of funding progress for the state's pension plans for the three most recent actuarial valuations are presented below.

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 of Texas (ERS)						
08/31/10	$ 23,628,567	$ 27,668,876	$ (4,040,309)	85.4%	$ 5,930,141	(68.1)%
08/31/09	23,509,622	26,191,650	(2,682,028)	89.8%	5,814,417	(46.1)%
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)						
08/31/10	$ 802,897	$ 930,747	$ (127,850)	86.3%	$ 1,507,950	(8.5)%
08/31/09	780,808	870,179	(89,371)	89.7%	1,464,483	(6.1)%
08/31/08	774,509	842,135	(67,626)	92.0%	1,242,122	(5.4)%
Judicial Retirement System Plan One (JRS1)						
08/31/10	$ 0	$ 264,077	$ (264,077)	0.0%	$ 2,827	(9,341.2)%
08/31/09	0	268,275	(268,275)	0.0%	2,965	(9,048.1)%
08/31/08	0	289,671	(289,671)	0.0%	3,478	(8,328.7)%
Judicial Retirement System Plan Two (JRS2)						
08/31/10	$ 264,515	$ 281,760	$ (17,245)	93.9%	$ 68,755	(25.1)%
08/31/09	248,279	255,569	(7,290)	97.1%	67,968	(10.7)%
08/31/08	232,891	239,098	(6,207)	97.4%	66,110	(9.4)%
Teacher Retirement System of Texas (TRS)						
08/31/10	$ 111,292,528	$ 134,191,110	$ (22,898,582)	82.9%	$ 36,628,844	(62.5)%
08/31/09	106,383,566	128,029,304	(21,645,738)	83.1%	35,096,890	(61.7)%
08/31/08	110,233,420	121,756,542	(11,523,122)	90.5%	33,237,904	(34.7)%

Significant Factors Affecting the Comparability of Amounts Reported

Amounts reported in the schedule of funding progress for the following OPEB plans varied significantly from the previous year to the current year due to changes in actuarial assumptions or benefit provisions. Reasons for the changes are summarized below and the effects of those changes are incorporated into the 2010 valuations.

The UT OPEB Plan's per capita health benefit costs assumption and the expenses for retirees and dependents assumption were updated to reflect claims and expense experience in the 12 months following the date as of which the prior valuations' assumptions were determined. The health benefit cost trend assumption was updated to reflect changes in short-term expectations of the annual rate of increase of the assumed per capita benefit costs. Changes to the plan's benefit provisions became effective Sept. 1, 2010, and included increases in certain deductibles, copayments and other out-of-pocket costs of retirees.

The A&M OPEB Plan investment rate of return assumption decreased from 9.4 percent to 7.3 percent in fiscal 2010. Also during fiscal 2010, the plan's health benefit provisions were changed to increase life insurance coverage for some current and all future retirees from $5,000 to $7,500.

Section Two
(continued)

Other Supplementary Information

Combining Financial Statements and Schedules

Section Two
(continued)

Governmental Funds

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Governmental Funds

August 31, 2010 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS					
Cash and Cash Equivalents	$2,329,700	$121,578	$254,727	$ 297	$2,706,302
Short-Term Investments	31,008	96,612		40,298	167,918
Receivables:					
Accounts	1,329	185	566		2,080
Federal	11,354				11,354
Investment Trades				528	528
Interest and Dividends	11,034	270		1,447	12,751
Other	219				219
Due From Other Funds	66,741		14,418		81,159
Interfund Receivable			14	3	17
Inventories	359		81		440
Prepaid Items	5				5
Investments	10,536			987,670	998,206
Loans and Contracts	1,845,863				1,845,863
Other Assets	8,071				8,071
Restricted:					
Cash and Cash Equivalents	178,721	9,165			187,886
Loans and Contracts	713,802				713,802
Other Assets	90,817				90,817
Total Assets	$5,299,559	$227,810	$269,806	$1,030,243	$6,827,418
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 32,739	$ 32	$ 54,343	$ 526	$ 87,640
Investment Trades				1,698	1,698
Payroll	6,941		95		7,036
Due To Other Funds	42,847		320		43,167
Interfund Payable	3,085		1,849		4,934
Deferred Revenues	428				428
Other Liabilities	344		2,728		3,072
Total Liabilities	86,384	32	59,335	2,224	147,975
Fund Balances (Deficits):					
Reserved	2,565,689	227,778	414,443	3	3,207,913
Unreserved	2,647,486		(203,972)	1,028,016	3,471,530
Total Fund Balances	5,213,175	227,778	210,471	1,028,019	6,679,443
Total Liabilities and Fund Balances	$5,299,559	$227,810	$269,806	$1,030,243	$6,827,418

STATE OF TEXAS

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

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
REVENUES					
Taxes	$ 2,016,365	$	$	$	$ 2,016,365
Federal	61,238	2,246			63,484
Licenses, Fees and Permits	672,219				672,219
Interest and Other Investment Income	97,664	3,720	4,465	71,474	177,323
Land Income	2			13	15
Sales of Goods and Services	4,798		3,121		7,919
Other	39,747	660	4		40,411
Total Revenues	2,892,033	6,626	7,590	71,487	2,977,736
EXPENDITURES					
Current:					
General Government	193,527	676	42,697	5,688	242,588
Education	834,444		4,212		838,656
Employee Benefits	13,424				13,424
Health and Human Services	15,687		58,062		73,749
Public Safety and Corrections	73,346		22,482		95,828
Transportation	1,426		25,857		27,283
Natural Resources and Recreation	86,373		5,954		92,327
Regulatory Services	96,840				96,840
Capital Outlay	4,092		164,465		168,557
Debt Service:					
Principal	34,730	692,910			727,640
Interest	275,880	289,410	22		565,312
Other Financing Fees	8,398		19,127		27,525
Total Expenditures	1,638,167	982,996	342,878	5,688	2,969,729
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,253,866	(976,370)	(335,288)	65,799	8,007
OTHER FINANCING SOURCES (USES)					
Transfer In	1,158,676	771,838	2,298	546,258	2,479,070
Transfer Out	(5,657,055)	(48)	(3,087)	(576,923)	(6,237,113)
Bonds and Notes Issued	1,466,516	11,963	188,006		1,666,485
Bonds Issued for Refunding		252,865	132,212		385,077
Premiums on Bonds Issued	227	4,674	43,275		48,176
Payment to Escrow for Refunding		(58,057)	(156,360)		(214,417)
Insurance Recoveries		183	470		653
Total Other Financing Sources (Uses)	(3,031,636)	983,418	206,814	(30,665)	(1,872,069)
Net Change in Fund Balances	(1,777,770)	7,048	(128,474)	35,134	(1,864,062)
Fund Balances, September 1, 2009	6,989,757	220,802	334,712	992,885	8,538,156
Restatements	1,188	(72)	4,233		5,349
Fund Balances, September 1, 2009, as Restated	6,990,945	220,730	338,945	992,885	8,543,505
Fund Balances, August 31, 2010	$ 5,213,175	$ 227,778	$ 210,471	$ 1,028,019	$ 6,679,443

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 is to reduce school district property taxes.

The **Texas Transportation Corporations** issue bonds and notes to finance the cost of projects. The corporations act on behalf of the Texas Department of Transportation (TxDOT) in the promotion and development of transportation facilities by issuing private activity bonds for projects developed under comprehensive development agreements entered into by TxDOT.

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 nonbypassable 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 rights 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, 2010 (Amounts in Thousands)

	Property Tax Relief Fund	Texas Transportation Corporations*	Water Development Funds	System Benefit Fund	Available School Fund	Texas Mobility Fund	Other Nonmajor Special Revenue Funds**	Totals
ASSETS								
Cash and Cash Equivalents	$	$ 777	$ 145,942	$607,789	$10,957	$1,390,311	$ 173,924	$2,329,700
Short-Term Investments			30,687				321	31,008
Receivables:								
Accounts		211	209			533	376	1,329
Federal			5			9,710	1,639	11,354
Interest and Dividends	131		2,635		64		8,204	11,034
Other							219	219
Due From Other Funds					64,556		2,185	66,741
Inventories							359	359
Prepaid Items							5	5
Investments							10,536	10,536
Loans and Contracts		982,613	860,326				2,924	1,845,863
Other Assets							8,071	8,071
Restricted:								
Cash and Cash Equivalents							178,721	178,721
Loans and Contracts							713,802	713,802
Other Assets							90,817	90,817
Total Assets	$ 131	$983,601	$1,039,804	$607,789	$75,577	$1,400,554	$1,192,103	$5,299,559
LIABILITIES AND FUND BALANCES								
Liabilities:								
Payables:								
Accounts	$	$ 192	$ 1,470	$ 22,120	$	$ 35	$ 8,922	$ 32,739
Payroll							6,941	6,941
Due To Other Funds			422			41,967	458	42,847
Interfund Payable			3,085					3,085
Deferred Revenues							428	428
Other Liabilities							344	344
Total Liabilities	0	192	4,977	22,120	0	42,002	17,093	86,384
Fund Balances:								
Reserved for:								
Encumbrances			26,734	1,000			5,649	33,383
Inventories							359	359
Imprest Accounts							10	10
Loans and Contracts		969,874	845,558				716,505	2,531,937
Unreserved:								
Designated for:								
General Government	131						122,839	122,970
Regulatory Services				571,018			5,300	576,318
Health and Human Services							12,538	12,538
Natural Resources and Recreation			162,535				28,257	190,792
Education					75,577		275,044	350,621
Transportation		13,535				1,358,552		1,372,087
Public Safety and Corrections							7,351	7,351
Employee Benefits							56	56
Undesignated				13,651			1,102	14,753
Total Fund Balances	131	983,409	1,034,827	585,669	75,577	1,358,552	1,175,010	5,213,175
Total Liabilities and Fund Balances	$ 131	$983,601	$1,039,804	$607,789	$75,577	$1,400,554	$1,192,103	$5,299,559

* The activity of two Texas transportation corporations, which are blended component units, are now 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, the student loan fund and the state textbook fund. These funds do not meet the materiality threshold for separate column presentation. The state textbook fund was previously reported as a discrete nonmajor fund.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Property Tax Relief Fund	Texas Transportation Corporations*	Water Development Funds	System Benefit Fund	Available School Fund	Texas Mobility Fund	Other Nonmajor Special Revenue Funds**	Totals
REVENUES								
Taxes	$ 2,016,365	$	$	$	$	$	$	$ 2,016,365
Federal			33,301			23,628	4,309	61,238
Licenses, Fees and Permits			355	141,594		320,405	209,865	672,219
Interest and Other Investment Income	3,885		17,382	7,567	1,091	18,273	49,466	97,664
Land Income							2	2
Sales of Goods and Services			329				4,469	4,798
Other	1	1,423	3,184				35,139	39,747
Total Revenues	2,020,251	1,423	54,551	149,161	1,091	362,306	303,250	2,892,033
EXPENDITURES								
Current:								
General Government							193,527	193,527
Education					646,853		187,591	834,444
Employee Benefits							13,424	13,424
Health and Human Services							15,687	15,687
Public Safety and Corrections							73,346	73,346
Transportation		1,001				425		1,426
Natural Resources and Recreation			60,901				25,472	86,373
Regulatory Services				94,916			1,924	96,840
Capital Outlay			10				4,082	4,092
Debt Service:								
Principal						34,730		34,730
Interest		15,021	94			260,765		275,880
Other Financing Fees		6,176				643	1,579	8,398
Total Expenditures	0	22,198	61,005	94,916	646,853	296,563	516,632	1,638,167
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,020,251	(20,775)	(6,454)	54,245	(645,762)	65,743	(213,382)	1,253,866
OTHER FINANCING SOURCES (USES)								
Transfer In			8,898		806,491		343,287	1,158,676
Transfer Out	(5,024,003)		(22,241)		(201,797)	(263,725)	(145,289)	(5,657,055)
Bonds and Notes Issued		1,015,000	337,936				113,580	1,466,516
Premiums (Discounts) on Bonds Issued		(11,191)					11,418	227
Total Other Financing Sources (Uses)	(5,024,003)	1,003,809	324,593	0	604,694	(263,725)	322,996	(3,031,636)
Net Change in Fund Balances	(3,003,752)	983,034	318,139	54,245	(41,068)	(197,982)	109,614	(1,777,770)
Fund Balances, September 1, 2009	3,003,883	375	716,688	531,424	116,645	1,556,534	1,064,208	6,989,757
Restatements							1,188	1,188
Fund Balances, September 1, 2009, as Restated	3,003,883	375	716,688	531,424	116,645	1,556,534	1,065,396	6,990,945
Fund Balances, August 31, 2010	$ 131	$ 983,409	$ 1,034,827	$ 585,669	$ 75,577	$ 1,358,552	$ 1,175,010	$ 5,213,175

* The activity of two Texas transportation corporations, which are blended component units, are now 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, the student loan fund and the state textbook fund. These funds do not meet the materiality threshold for separate column presentation. The state textbook fund was previously reported as a discrete nonmajor fund.

STATE OF TEXAS

Budgetary Comparison Schedule
Nonmajor Special Revenue Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Property Tax Relief Fund				Water Development 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	$2,669,836	$2,574,137	$2,016,365	$ (557,772)	$	$	$	$
Federal					20	33,271	33,346	75
Licenses, Fees and Permits	78,342	31,438	7,637	(23,801)			355	355
Interest and Other Investment Income					20,012	20,012	16,570	(3,442)
Sales of Goods and Services					250	250	428	178
Other			1	1			3,185	3,185
Total Revenues	2,748,178	2,605,575	2,024,003	(581,572)	20,282	53,533	53,884	351
EXPENDITURES								
General Government								
Education	2,748,200	2,748,200		2,748,200				
Employee Benefits								
Health and Human Services								
Public Safety and Corrections								
Transportation								
Natural Resources and Recreation					9,164	44,686	60,308	(15,622)
Regulatory Services								
Total Expenditures	2,748,200	2,748,200	0	2,748,200	9,164	44,686	60,308	(15,622)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(22)	(142,625)	2,024,003	2,166,628	11,118	8,847	(6,424)	(15,271)
OTHER FINANCING SOURCES (USES)								
Transfer In							8,898	8,898
Transfer Out			(5,024,003)	(5,024,003)			(13,833)	(13,833)
Bond Proceeds								
Available Beginning Balances	3,000,000	3,000,000	3,000,000		188,803	188,803	188,803	
Total Other Financing Sources (Uses)	3,000,000	3,000,000	(2,024,003)	(5,024,003)	188,803	188,803	183,868	(4,935)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$2,999,978	$2,857,375	$ 0	$(2,857,375)	$199,921	$197,650	$177,444	$(20,206)

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
Original	Final			Original	Final		
$	$	$	$	$	$	$	$
147,936	147,936	141,594	(6,342)				
29,555	29,555	7,567	(21,988)	6,873	1,433	1,188	(245)
177,491	177,491	149,161	(28,330)	6,873	1,433	1,188	(245)
				600,709	600,709	646,853	(46,144)
122,525	122,638	90,195	32,443				
122,525	122,638	90,195	32,443	600,709	600,709	646,853	(46,144)
54,966	54,853	58,966	4,113	(593,836)	(599,276)	(645,665)	(46,389)
				767,011	821,868	806,491	(15,377)
						(201,797)	(201,797)
548,823	548,823	548,823		52,955	52,955	52,955	
548,823	548,823	548,823	0	819,966	874,823	657,649	(217,174)
$603,789	$603,676	$607,789	$ 4,113	$226,130	$275,547	$ 11,984	$(263,563)

Concluded on the following page

STATE OF TEXAS

Budgetary Comparison Schedule
Nonmajor Special Revenue Funds (concluded)

For the Fiscal Year Ended August 31, 2010 (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			13,918	13,918			620	620
Licenses, Fees and Permits	322,410	320,422	320,624	202	84,330	84,330	98,647	14,317
Interest and Other Investment Income	15,647	15,647	18,273	2,626	22,701	22,348	47,456	25,108
Sales of Goods and Services					1,851	1,851	7,642	5,791
Other					89	108	7,405	7,297
Total Revenues	338,057	336,069	352,815	16,746	108,971	108,637	161,770	53,133
EXPENDITURES								
General Government					420,513	140,195	98,325	41,870
Education					180,962	182,232	226,320	(44,088)
Employee Benefits					539,560	28,377	13,327	15,050
Health and Human Services					32,052	32,917	19,296	13,621
Public Safety and Corrections					10,338	10,338		10,338
Transportation	719,394	719,394	615	718,779		8,754		8,754
Natural Resources and Recreation					19,920	24,992	22,242	2,750
Regulatory Services								
Total Expenditures	719,394	719,394	615	718,779	1,203,345	427,805	379,510	48,295
Excess (Deficiency) of Revenues Over (Under) Expenditures	(381,337)	(383,325)	352,200	735,525	(1,094,374)	(319,168)	(217,740)	101,428
OTHER FINANCING SOURCES (USES)								
Transfer In					7,300	7,300	220,118	212,818
Transfer Out			(263,725)	(263,725)			(28,087)	(28,087)
Bond Proceeds								
Available Beginning Balances	1,583,079	1,583,079	1,583,079		135,324	135,324	135,324	
Total Other Financing Sources (Uses)	1,583,079	1,583,079	1,319,354	(263,725)	142,624	142,624	327,355	184,731
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$1,201,742	$1,199,754	$1,671,554	$471,800	$ (951,750)	$(176,544)	$109,615	$286,159

* The activity of two Texas transportation corporations, now discretely presented, is not shown on this schedule since there is no legally adopted budget.

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 the sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Department of Transportation State Highway Debt Service Fund** receives proceeds and accrued interest from the sale of revenue bonds and provides the debt service requirements for those bonds.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Debt Service Funds

August 31, 2010 (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 Fund	Texas Department of Transportation State Highway Debt Service Fund	Other Nonmajor Debt Service Funds	Totals
ASSETS							
Cash and Cash Equivalents	$ 13	$ 3	$ 28	$ 5,153	$ 116,368	$ 13	$ 121,578
Short-Term Investments	96,612						96,612
Receivables:							
Accounts	183					2	185
Interest and Dividends	270						270
Restricted:							
Cash and Cash Equivalents	9,158					7	9,165
Total Assets	$ 106,236	$ 3	$ 28	$ 5,153	$ 116,368	$ 22	$ 227,810
LIABILITIES AND FUND BALANCES							
Liabilities:							
Payables:							
Accounts	$	$	$ 5	$ 27	$	$	$ 32
Total Liabilities	0	0	5	27	0	0	32
Fund Balances:							
Reserved for Debt Service	106,236	3	23	5,126	116,368	22	227,778
Total Fund Balances	106,236	3	23	5,126	116,368	22	227,778
Total Liabilities and Fund Balances	$ 106,236	$ 3	$ 28	$ 5,153	$ 116,368	$ 22	$ 227,810

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Debt Service Funds

For the Fiscal Year Ended August 31, 2010 (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 Fund	Texas Department of Transportation State Highway Debt Service Fund	Other Nonmajor Debt Service Funds	Totals
REVENUES							
Federal	$ 70	$	$ 2,175	$	$	$ 1	$ 2,246
Interest and Other Investment Income	2,318	13	41	67	1,266	15	3,720
Other			660				660
Total Revenues	2,388	13	2,876	67	1,266	16	6,626
EXPENDITURES							
Current:							
General Government			459	217			676
Debt Service:							
Principal	71,470	61,195	392,270	17,730	104,100	46,145	692,910
Interest	26,056	17,188	81,497	448	117,710	46,511	289,410
Total Expenditures	97,526	78,383	474,226	18,395	221,810	92,656	982,996
Deficiency of Revenues Under Expenditures	(95,138)	(78,370)	(471,350)	(18,328)	(220,544)	(92,640)	(976,370)
OTHER FINANCING SOURCES (USES)							
Transfer In	86,904	73,972	262,601	18,458	237,227	92,676	771,838
Transfer Out		(8)	(8)			(32)	(48)
Bonds and Notes Issued		4,211	7,752				11,963
Bonds Issued for Refunding	51,865		201,000				252,865
Premiums on Bonds Issued	4,674						4,674
Payment to Escrow for Refunding	(58,057)						(58,057)
Insurance Recoveries		183					183
Total Other Financing Sources (Uses)	85,386	78,358	471,345	18,458	237,227	92,644	983,418
Net Change in Fund Balances	(9,752)	(12)	(5)	130	16,683	4	7,048
Fund Balances, September 1, 2009	116,060	15	28	4,996	99,685	18	220,802
Restatements	(72)						(72)
Fund Balances, September 1, 2009, as Restated	115,988	15	28	4,996	99,685	18	220,730
Fund Balances, August 31, 2010	$ 106,236	$ 3	$ 23	$ 5,126	$ 116,368	$ 22	$ 227,778

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 Department of Public Safety 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 courthouses.

STATE OF TEXAS

Combining Balance Sheet – Nonmajor Capital Projects Funds

August 31, 2010 (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	$ 3,003	$ 31,474	$ 36,096	$ 39,175	$ 4,067
Accounts Receivable			566		
Due From Other Funds			13,967		
Interfund Receivable					
Inventories	2				
Total Assets	$ 3,005	$ 31,474	$ 50,629	$ 39,175	$ 4,067
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 108	$ 1,113	$ 3,827	$ 1,566	$ 207
Payroll	82				13
Due To Other Funds		320			
Interfund Payable					
Other Liabilities			2,506	222	
Total Liabilities	190	1,433	6,333	1,788	220
Fund Balances (Deficits):					
Reserved for:					
Encumbrances		24,442	32,030	14,948	3,282
Inventories	2				
Capital Projects	2,813	10,302	14,507	22,439	5,071
Unreserved:					
Undesignated		(4,703)	(2,241)		(4,506)
Total Fund Balances	2,815	30,041	44,296	37,387	3,847
Total Liabilities and Fund Balances	$ 3,005	$ 31,474	$ 50,629	$ 39,175	$ 4,067

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
$ 28,919	$ 66,959	$ 7,774	$ 23,629	$ 13,631	$254,727
					566
451					14,418
			14		14
				79	81
$ 29,370	$ 66,959	$ 7,774	$ 23,643	$ 13,710	$269,806
$ 40,517	$ 79	$ 512	$ 1,279	$ 5,135	$ 54,343
					95
					320
1,849					1,849
					2,728
42,366	79	512	1,279	5,135	59,335
4,495	46,674		48,229	12,221	186,321
				79	81
39,278	66,880	7,262	54,351	5,138	228,041
(56,769)	(46,674)		(80,216)	(8,863)	(203,972)
(12,996)	66,880	7,262	22,364	8,575	210,471
$ 29,370	$ 66,959	$ 7,774	$ 23,643	$ 13,710	$269,806

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Capital Projects Funds

For the Fiscal Year Ended August 31, 2010 (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	$ 37	$ 500	$ 611	$ 535	$ 55
Sales of Goods and Services			3,113		
Other					
Total Revenues	37	500	3,724	535	55
EXPENDITURES					
Current:					
General Government	8,546		11,316		
Education					
Health and Human Services					
Public Safety and Corrections				21,792	
Transportation					
Natural Resources and Recreation		5,954			
Capital Outlay		8,507	27,246	11,067	3,909
Debt Service:					
Interest					
Other Financing Fees	19,127				
Total Expenditures	27,673	14,461	38,562	32,859	3,909
Deficiency of Revenues Under Expenditures	(27,636)	(13,961)	(34,838)	(32,324)	(3,854)
OTHER FINANCING SOURCES (USES)					
Transfer In	1,925		36		
Transfer Out	(2,126)	(33)	(224)		(77)
Bonds and Notes Issued	8,506	9,400	35,800	45,000	3,800
Bonds Issued for Refunding	132,212				
Premiums on Bonds Issued	43,275				
Payment to Escrow for Refunding	(156,360)				
Insurance Recoveries	470				
Total Other Financing Sources (Uses)	27,902	9,367	35,612	45,000	3,723
Net Change in Fund Balances	266	(4,594)	774	12,676	(131)
Fund Balances, September 1, 2009	2,549	34,635	43,522	24,711	3,978
Restatements					
Fund Balances, September 1, 2009, as Restated	2,549	34,635	43,522	24,711	3,978
Fund Balances, August 31, 2010	$ 2,815	$ 30,041	$ 44,296	$ 37,387	$ 3,847

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
$ 677	$ 1,230	$ 134	$ 406	$ 280	$ 4,465
8					3,121
2				2	4
687	1,230	134	406	282	7,590
			22,835		42,697
				4,212	4,212
58,062					58,062
	548			142	22,482
		25,857			25,857
					5,954
21,921	47,605		2,595	41,615	164,465
22					22
					19,127
80,005	48,153	25,857	25,430	45,969	342,878
(79,318)	(46,923)	(25,723)	(25,024)	(45,687)	(335,288)
337					2,298
(362)			(99)	(166)	(3,087)
9,500		24,000	15,000	37,000	188,006
					132,212
					43,275
					(156,360)
					470
9,475	0	24,000	14,901	36,834	206,814
(69,843)	(46,923)	(1,723)	(10,123)	(8,853)	(128,474)
52,614	113,803	8,985	32,487	17,428	334,712
4,233					4,233
56,847	113,803	8,985	32,487	17,428	338,945
$ (12,996)	$ 66,880	$ 7,262	$ 22,364	$ 8,575	$ 210,471

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 was 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 **National Research University Fund** is a permanent fund established by the Legislature to provide a dedicated, independent and equitable source of funding to enable emerging research universities to achieve national prominence as major research universities. The fund consists of appropriations or transfers under the Texas Constitution or otherwise provided by law, gifts, grants and interest. The Texas Constitution required money in the permanent higher education fund to be transferred to the national research university fund on Jan. 1, 2010. Money will be allocated to eligible universities based on an equitable formula, and may be appropriated or distributed beginning Sept. 1, 2011.

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 the Texas Constitution, Article 7, Sec. 17(a).

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, 2010 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	National Research University Fund*	Permanent Higher Education Fund**	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
ASSETS						
Cash and Cash Equivalents	$	$	$	$	$ 297	$ 297
Short-Term Investments	18,806	21,492				40,298
Receivables:						
Investment Trades	248	280				528
Interest and Dividends	656	791				1,447
Interfund Receivable					3	3
Investments	454,607	530,073			2,990	987,670
Total Assets	$ 474,317	$ 552,636	$ 0	$ 0	$ 3,290	$ 1,030,243
LIABILITIES AND FUND BALANCES						
Liabilities:						
Payables:						
Accounts	$ 244	$ 282	$	$	$	$ 526
Investment Trades	798	900				1,698
Total Liabilities	1,042	1,182	0	0	0	2,224
Fund Balances (Deficits):						
Reserved for:						
Encumbrances					3	3
Unreserved:						
Designated for:						
Permanent Health Fund	465,335				2,980	468,315
Undesignated	7,940	551,454			307	559,701
Total Fund Balances	473,275	551,454	0	0	3,290	1,028,019
Total Liabilities and Fund Balances	$ 474,317	$ 552,636	$ 0	$ 0	$ 3,290	$ 1,030,243

* This is a new fund that is descretely presented.

** This fund has activity on the combining statement of revenues, expenditures and changes in fund balances – nonmajor permanent funds.

STATE OF TEXAS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Permanent Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	National Research University Fund*	Permanent Higher Education Fund	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
REVENUES						
Interest and Other Investment Income	$ 33,839	$ 6,295	$ 30,876	$ 257	$ 207	$ 71,474
Land Income					13	13
Total Revenues	33,839	6,295	30,876	257	220	71,487
EXPENDITURES						
Current:						
General Government	1,445	1,099	538	2,479	127	5,688
Total Expenditures	1,445	1,099	538	2,479	127	5,688
Excess (Deficiency) of Revenues Over (Under) Expenditures	32,394	5,196	30,338	(2,222)	93	65,799
OTHER FINANCING SOURCES (USES)						
Transfer In		546,258				546,258
Transfer Out	(24,455)		(546,258)	(6,197)	(13)	(576,923)
Total Other Financing Sources (Uses)	(24,455)	546,258	(546,258)	(6,197)	(13)	(30,665)
Net Change in Fund Balances	7,939	551,454	(515,920)	(8,419)	80	35,134
Fund Balances, September 1, 2009	465,336		515,920	8,419	3,210	992,885
Fund Balances, August 31, 2010	$ 473,275	$ 551,454	$ 0	$ 0	$ 3,290	$ 1,028,019

* This is a new fund that is descretely presented.

Section Two
(continued)

Enterprise Funds

Nonmajor Enterprise Funds

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 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 Department of Transportation Turnpike Authority** receives proceeds from the sale of bonds used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase of the Central Texas Turnpike System.

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 **Texas Prepaid Tuition Plans** (previously reported as the Texas Prepaid Higher Education Tuition Board) offer programs that allow 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 Position – Nonmajor Enterprise Funds

August 31, 2010 (Amounts in Thousands)

	Texas Water Development Board Funds*	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority*	Veterans Land Board Loan Program Funds
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 202,166	$ 42,679	$	$
Short-Term Investments	781,507			8
Securities Lending Collateral				28,075
Restricted:				
Cash and Cash Equivalents		454,157	318,383	370,644
Short-Term Investments		11,675	15,029	14,054
Loans and Contracts		12,364		62,824
Receivables:				
Federal	2,444			5,355
Other Intergovernmental			3,674	
Accounts	138	1,794	4,386	4,061
Interest and Dividends	31,939	14,562	300	12,891
Investment Trades				
Other		67		
Due From Other Funds	41		2	457
Interfund Receivable	120	49		
Inventories		5		
Prepaid Items				
Loans and Contracts	146,657	2,319		
Other Current Assets		368		
Total Current Assets	1,165,012	540,039	341,774	498,369
Noncurrent Assets:				
Restricted:				
Cash and Cash Equivalents			33	
Investments		1,227,812	114,999	256,299
Receivables				
Loans and Contracts		1,221,546		1,972,808
Other				2,229
Loans and Contracts	3,738,165	39,449		
Investments				(1,671)
Interfund Receivable	2,965			
Capital Assets:				
Non-Depreciable or Non-Amortizable			2,277,394	7,528
Depreciable or Amortizable, Net		73	372,292	52,868
Assets Held in Trust				
Deferred Charges		9,778	39,682	
Hedging Derivative Asset				4,618
Other Noncurrent Assets		521		
Total Noncurrent Assets	3,741,130	2,499,179	2,804,400	2,294,679
Total Assets	4,906,142	3,039,218	3,146,174	2,793,048
DEFERRED OUTFLOWS				
Deferred Outflow of Resources		36,966		327,085
Total Deferred Outflow of Resources	0	36,966	0	327,085

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
$	$ 8,591	$ 19,190	$ 272,626
			781,515
	126,903		154,978
	229,775		1,372,959
			40,758
			75,188
			7,799
			3,674
1,574		122	12,075
	5,585	42	65,319
	251,282		251,282
	225	2,377	2,669
13,037			13,537
			169
7,601		954	8,560
		240	240
	54,191	1,374	204,541
			368
22,212	676,552	24,299	3,268,257
		19,793	19,826
	1,287,927	43	2,887,080
	173,004		173,004
			3,194,354
			2,229
		14,792	3,792,406
			(1,671)
			2,965
283		376	2,285,581
372	6	1,303	426,914
		2,943	2,943
			49,460
			4,618
			521
655	1,460,937	39,250	12,840,230
22,867	2,137,489	63,549	16,108,487
			364,051
0	0	0	364,051

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Position – Nonmajor Enterprise Funds (concluded)

August 31, 2010 (Amounts in Thousands)

	Texas Water Development Board Funds*	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority*	Veterans Land Board Loan Program Funds
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 52	$ 797	$ 20,100	$ 15,636
Payroll				
Investment Trades				
Interest	10,820	32,466	3,658	4,911
Due To Other Funds	2,392			346
Unearned Revenue	49,109	19,514	260	153
Obligations/Securities Lending				28,075
Capital Lease Obligations				
Employees' Compensable Leave		767		
Notes and Loans Payable				
General Obligation Bonds Payable	34,575			92,347
Revenue Bonds Payable	22,895	26,247		400
Liabilities Payable From Restricted Assets				
Funds Held for Others				
Other Current Liabilities		5,575		
Total Current Liabilities	119,843	85,366	24,018	141,868
Noncurrent Liabilities:				
Employees' Compensable Leave		227		
Notes and Loans Payable			1,007,013	
Liabilities Payable From Restricted Assets				
General Obligation Bonds Payable	866,280			1,903,483
Revenue Bonds Payable	1,303,215	2,644,803	1,537,924	22,810
Assets Held for Others				
Hedging Derivative Liability		36,966		327,085
Other Noncurrent Liabilities		94,028		
Total Noncurrent Liabilities	2,169,495	2,776,024	2,544,937	2,253,378
Total Liabilities	2,289,338	2,861,390	2,568,955	2,395,246
DEFERRED INFLOWS				
Deferred Inflow of Resources				4,618
Total Deferred Inflow of Resources	0	0	0	4,618
NET POSITION				
Invested in Capital Assets, Net of Related Debt		73	104,749	35,597
Restricted for:				
Debt Retirement		139,490	164,286	
Veterans Land Board Housing Programs				684,672
Other				
Unrestricted	2,616,804	75,231	308,184	
Total Net Position	$ 2,616,804	$ 214,794	$ 577,219	$ 720,269

* The Texas Water Development Board Funds and the Texas Department of Transportation Turnpike Authority were previously presented in the statement of net assets – proprietary funds.

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
$ 4,586	$ 1,191	$ 1,326	$ 43,688
1,428		2,007	3,435
	261,846		261,846
			51,855
536	139		3,413
	301	51	69,388
	126,903		154,978
		68	68
993	66	655	2,481
		11,500	11,500
			126,922
			49,542
	211,272		211,272
	26		26
	75		5,650
7,543	601,819	15,607	996,064
362	58	401	1,048
			1,007,013
	2,122,960		2,122,960
			2,769,763
			5,508,752
		2,943	2,943
			364,051
			94,028
362	2,123,018	3,344	11,870,558
7,905	2,724,837	18,951	12,866,622
			4,618
0	0	0	4,618
655	6	1,234	142,314
			303,776
			684,672
		528	528
14,307	(587,354)	42,836	2,470,008
$ 14,962	$ (587,348)	$ 44,598	$ 3,601,298

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Texas Water Development Board Funds*	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority*	Veterans Land Board Loan Program Funds
OPERATING REVENUES				
Auxiliary Enterprises – Pledged	$	$	$	$
Other Sales of Goods and Services				7,321
Other Sales of Goods and Services – Pledged			73,299	30,738
Interest and Investment Income	70,074	157,262		104,293
Interest and Investment Income – Pledged	101,533			
Federal Revenue				26,342
Other Revenues	6,872	17,594		63
Other Revenues – Pledged				
Total Operating Revenues	178,479	174,856	73,299	168,757
OPERATING EXPENSES				
Cost of Goods Sold				
Salaries and Wages	10,142	8,519		
Payroll Related Costs	1,580	1,720		
Professional Fees and Services	2,355	2,644	9,173	58,209
Travel	109	252		5
Materials and Supplies	83	363	3,782	2,623
Communication and Utilities	60	139	1,255	
Repairs and Maintenance	59	300	12,779	178
Rentals and Leases	146	128		4
Printing and Reproduction	5	9	16	4
Depreciation and Amortization		788	17,409	3,715
Bad Debt Expense		275		
Interest Expense	130,278	116,471	1	74,531
Employee/Participant Benefit Payments				
Other Expenses	2,490	4,562	22,855	7,906
Total Operating Expenses	147,307	136,170	67,270	147,175
Operating Income (Loss)	31,172	38,686	6,029	21,582

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
$ 93,507	$	$	$ 93,507
	(260)	9,609	16,670
			104,037
		248	331,877
			101,533
			26,342
243	1,470	20,924	47,166
		42	42
93,750	1,210	30,823	721,174
67,021		1,639	68,660
13,488	984	10,503	43,636
4,390	224	2,333	10,247
	4,943	4,969	82,293
37	21	120	544
1,104	194	614	8,763
1	81	512	2,048
166	265	497	14,244
727	28	1,939	2,972
82	52	63	231
57	3	915	22,887
3		43	321
			321,281
	12,365		12,365
42	65,079	2,253	105,187
87,118	84,239	26,400	695,679
6,632	(83,029)	4,423	25,495

Concluded on the following page

STATE OF TEXAS

Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Texas Water Development Board Funds*	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority*	Veterans Land Board Loan Program Funds
NONOPERATING REVENUES (EXPENSES)				
Federal Revenue	$ 180,234	$	$	$ 2,188
Gifts				36
Land Income			13	
Interest and Investment Income		4,923	6,632	22,095
Loan Premium and Fees on Securities Lending				
Investing Activities Expense				
Interest Expense			(139,548)	(1,435)
Borrower Rebates and Agent Fees				(115)
Settlement of Claims				
Claims and Judgments				
Other Revenues			78	
Other Expenses	(57,611)		(5)	
Total Nonoperating Revenues (Expenses)	122,623	4,923	(132,830)	22,769
Income (Loss) Before Capital Contributions and Transfers	153,795	43,609	(126,801)	44,351
CAPITAL CONTRIBUTIONS AND TRANSFERS				
Capital Contributions – Other			28,500	
Transfer In	3,367	8,683	34,790	1,368
Transfer Out	(10,716)			(22,061)
Total Capital Contributions and Transfers	(7,349)	8,683	63,290	(20,693)
Change in Net Position	146,446	52,292	(63,511)	23,658
Net Position, September 1, 2009	2,470,358	162,502	642,258	696,819
Restatements			(1,528)	(208)
Net Position, September 1, 2009, as Restated	2,470,358	162,502	640,730	696,611
Net Position, August 31, 2010	$ 2,616,804	$ 214,794	$ 577,219	$ 720,269

* The Texas Water Development Board Funds and the Texas Department of Transportation Turnpike Authority were previously presented in the statement of revenues, expenses and changes in fund net assets – proprietary funds.

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
$	$	$ 35	$ 182,457
	46	5	87
			13
	91,248	190	125,088
	419		419
	(659)		(659)
		(42)	(141,025)
	(40)		(155)
2			2
		(9)	(9)
			78
(1)			(57,617)
1	91,014	179	108,679
6,633	7,985	4,602	134,174
			28,500
4,532		1,306	54,046
(21,134)		(574)	(54,485)
(16,602)	0	732	28,061
(9,969)	7,985	5,334	162,235
24,939	(595,333)	39,264	3,440,807
(8)			(1,744)
24,931	(595,333)	39,264	3,439,063
$ 14,962	$ (587,348)	$ 44,598	$ 3,601,298

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Texas Water Development Board Funds*	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority*	Veterans Land Board Loan Program Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	$	$	$ 75,331	$
Proceeds from Loan Programs		60,951		389,265
Proceeds from Other Revenues		13,121		65,633
Payments to Suppliers for Goods and Services	(4,397)	(10,160)	(45,091)	(73,593)
Payments to Employees	(12,563)	(10,207)		
Payments for Loans Provided		(11,021)		(257,757)
Payments for Other Expenses	(137)			(9)
Net Cash Provided (Used) by Operating Activities	(17,097)	42,684	30,240	123,539
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Debt Issuance	287,649	300,000		362,436
Proceeds from State Appropriations	1,335			
Proceeds from Transfers from Other Funds	233,259	12,444		
Proceeds from Grant Receipts	180,570			
Proceeds from Interfund Payables	20,665			
Proceeds from Other Financing Activities				134,596
Payments of Principal on Debt Issuance	(331,955)	(294,547)		(252,798)
Payments of Interest	(133,763)	(121,378)		(75,676)
Payments of Other Costs on Debt Issuance	(383)	(1,368)		
Payments for Transfers to Other Funds	(498,750)	(3,657)		(155,999)
Payments for Grant Disbursements	(67,671)			
Payments for Interfund Receivables	(71,529)			
Payments for Other Uses	(386)			
Net Cash Provided (Used) by Noncapital Financing Activities	(380,959)	(108,506)	0	12,559
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from State Grants and Contracts				1,227
Proceeds from Other Financing Activities			13	204
Proceeds from Capital Contributions			27,762	
Payments for Additions to Capital Assets		(6)	(19,223)	(1,828)
Payments of Principal on Debt Issuance				(375)
Payments of Interest on Debt Issuance			(62,678)	(1,437)
Payments of Other Costs on Debt Issuance			(5)	
Net Cash Used by Capital and Related Financing Activities	0	(6)	(54,131)	(2,209)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investments	920,723	568,955	59,997	290,441
Proceeds from Interest and Investment Income	179,842	73,095	7,031	7,285
Proceeds from Principal Payments on Loans	554,633			
Payments to Acquire Investments	(781,998)	(377,395)	(59,997)	(260,376)
Payments for Nonprogram Loans Provided	(400,011)			
Net Cash Provided by Investing Activities	473,189	264,655	7,031	37,350
Net Increase (Decrease) in Cash and Cash Equivalents	75,133	198,827	(16,860)	171,239
Cash and Cash Equivalents, September 1, 2009	127,033	298,009	351,423	199,459
Restatements			(16,147)	(54)
Cash and Cash Equivalents, September 1, 2009, as Restated	127,033	298,009	335,276	199,405
Cash and Cash Equivalents, August 31, 2010	$ 202,166	$ 496,836	$ 318,416	$ 370,644

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
$ 93,576	$ 36,570	$ 9,447	$ 214,924
		1,233	451,449
243	466	21,111	100,574
(66,972)	(6,633)	(2,259)	(209,105)
(17,878)	(1,215)	(12,973)	(54,836)
		(7,222)	(276,000)
(2,164)	(199,919)	(10,730)	(212,959)
6,805	(170,731)	(1,393)	14,047
		2,168	952,253
			1,335
4,532		1,388	251,623
			180,570
			20,665
	46	30	134,672
			(879,300)
		(30)	(330,847)
		(6)	(1,757)
(11,313)		(656)	(670,375)
			(67,671)
			(71,529)
			(386)
(6,781)	46	2,894	(480,747)
			1,227
		1	218
			27,762
(31)		(545)	(21,633)
			(375)
			(64,115)
			(5)
(31)	0	(544)	(56,921)
23,465	4,237,412		6,100,993
52	45,245	179	312,729
			554,633
(23,510)	(4,049,030)		(5,552,306)
		(43)	(400,054)
7	233,627	136	1,015,995
0	62,942	1,093	492,374
	175,424	37,890	1,189,238
			(16,201)
0	175,424	37,890	1,173,037
$ 0	$ 238,366	$ 38,983	$ 1,665,411

Concluded on the following page

STATE OF TEXAS

Combining Statement of Cash Flows – Nonmajor Enterprise Funds (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Texas Water Development Board Funds*	Texas Department of Housing and Community Affairs	Texas Department of Transportation Turnpike Authority*	Veterans Land Board Loan Program Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	$ 31,172	$ 38,686	$ 6,029	$ 21,582
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation and Amortization		788	17,409	3,715
Bad Debt Expense		275		
Operating Income (Loss) and Cash Flow Categories Classification Differences	(60,288)	13,964		74,566
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables		(292)	2,033	1,155
(Increase) Decrease in Inventories				
(Increase) Decrease in Loans and Contracts		18,065		25,703
(Increase) Decrease in Other Assets		973		1,970
(Increase) Decrease in Prepaid Expenses				
Increase (Decrease) in Payables	(167)	(3,649)	4,769	(4,797)
Increase (Decrease) in Due To Other Funds	12,186			
Increase (Decrease) in Unearned Revenue		(1,357)		
Increase (Decrease) in Compensated Absence Liability				
Increase (Decrease) in Other Liabilities		(24,769)		(355)
Total Adjustments	(48,269)	3,998	24,211	101,957
Net Cash Provided (Used) by Operating Activities	$ (17,097)	$ 42,684	$ 30,240	$ 123,539
NONCASH TRANSACTIONS				
Net Change in Fair Value of Investments	$	$ 35,670	$ 381	$ 15,320
Donation of Capital Assets	$ (373)	$	$ 738	$
Other	$	$	$ 34,790	$ (1,199)

* The Texas Water Development Board Funds and Texas Department of Transportation Turnpike Authority were previously presented in the statement of cash flows – proprietary funds.

Texas Department of Criminal Justice Institutional Division	Texas Prepaid Tuition Plans	Other Nonmajor Enterprise Funds	Totals
$ 6,632	$ (83,029)	$ 4,423	$ 25,495
57	3	915	22,887
3		43	321
		(7)	28,235
64	31	119	3,110
724		(173)	551
	29,017	(6,218)	66,567
	14		2,957
		13	13
(675)	(116,149)	(518)	(121,186)
	6		12,192
	(205)	(23)	(1,585)
	14	(20)	(6)
	(433)	53	(25,504)
173	(87,702)	(5,816)	(11,448)
$ 6,805	$ (170,731)	$ (1,393)	$ 14,047
$	$ 53,242	$	$ 104,613
$	$	$	$ 365
$	$	$	$ 33,591

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 were 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 Position
Colleges and Universities – Major Enterprise Fund

August 31, 2010 (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	$ 2,031,157	$ 324,701	$ 351,317	$ 170,601	$ 368,661
Short-Term Investments		191,167		195,383	
Securities Lending Collateral	468,365	77,711			
Restricted:					
Cash and Cash Equivalents	531,478	(2,850)	109,153	16,329	176,385
Short-Term Investments		506,464			99
Receivables:					
Federal	330,249	162,308	20,861	51,501	19,291
Other Intergovernmental	33,867	5,626			
Accounts	844,374	71,515	48,415	24,040	87,415
Interest and Dividends	57,430	6,142	546	772	543
Gifts	96,822	16,497	22,334	14,428	4,586
Investment Trades	89,385	29,355			
Other	231,031	65,850	6,702	1,696	6
Due From Other Funds	268,300	127,177	100,731	108,982	88,600
Due From Component Units		8	50		
Interfund Receivable		20,245			
Inventories	69,116	24,472	3,468	2,208	4,220
Prepaid Items			55,169	49,310	9,875
Loans and Contracts	47,897	25,081	4,110	15,504	8,301
Other Current Assets	182,988	64,832	450		37,455
Total Current Assets	5,282,459	1,716,301	723,306	650,754	805,437
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents	18		70,378	90,186	26,391
Short-Term Investments					
Investments	19,980,909	611,745	264,390		86,663
Receivables				7,983	4,195
Loans and Contracts	80,581	4,647		16,533	1,021
Loans and Contracts		22,023	3,234		600
Investments	1,864,220	1,449,284	783,769	553,198	107,829
Interfund Receivable		591,650			
Gifts Receivable	153,098	46,477	40,149		
Capital Assets:					
Non-Depreciable or Non-Amortizable	2,584,156	825,562	214,420	199,722	270,953
Depreciable or Amortizable, Net	8,423,812	2,258,641	1,021,660	660,117	811,304
Assets Held in Trust		362			
Deferred Charges					
Other Noncurrent Assets	38,795	1,270			
Total Noncurrent Assets	33,125,589	5,811,661	2,398,000	1,527,739	1,308,956
Total Assets	38,408,048	7,527,962	3,121,306	2,178,493	2,114,393
DEFERRED OUTFLOWS					
Deferred Outflow of Resources	205,166	11,394			
Total Deferred Outflow of Resources	205,166	11,394	0	0	0

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
$ 330,063	$ 9,303	$ 66,288	$ 46,192	$ 6,368	$ 23,844	$ 3,728,495
	20,863	5,084		25,337	11,328	449,162
						546,076
32,290	1,153	26,231	427	(1,309)	444	889,731
	55,070	14,103	5,785		28,403	609,924
29,912	12,025	2,516	11,920	862	14,772	656,217
475		113	16		107	40,204
54,024	13,892	8,290	19,193	4,504	5,275	1,180,937
1,226	800	156		77	26	67,718
2,534	3,550		997	264		162,012
						118,740
	3,484	2,429	828	1,432		313,458
70,211	25,293	7,819	10,975	766	20,886	829,740
						58
						20,245
2,231	852	577	218	263	3,064	110,689
	957	19,564				134,875
6,794	5,400	2,371		14		115,472
20,534			13,659	8,028	2	327,948
550,294	152,642	155,541	110,210	46,606	108,151	10,301,701
					127	187,100
				16,151	510	16,661
67,296	107,134	8,977	30,964			21,158,078
						12,178
		4,871		94		107,747
5,929		2,421	2,225			36,432
147,662		26,632		8,275		4,940,869
						591,650
2,086						241,810
199,225	73,706	16,683	19,404	8,891	13,960	4,426,682
431,814	146,980	202,860	164,841	132,962	80,599	14,335,590
						362
			1,027			1,027
268				1,074		41,407
854,280	327,820	262,444	218,461	167,447	95,196	46,097,593
1,404,574	480,462	417,985	328,671	214,053	203,347	56,399,294
						216,560
0	0	0	0	0	0	216,560

Concluded on the following page

STATE OF TEXAS

Schedule of Net Position
Colleges and Universities – Major Enterprise Fund (concluded)

August 31, 2010 (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	$ 808,847	$ 139,316	$ 43,615	$ 33,838	$ 40,081
Payroll	394,204	108,373	59,675	36,640	22,478
Other Intergovernmental	11				13,330
Federal	90,742			21	
Investment Trades	99,740	53,743			
Interest					
Due To Other Funds	15,515	1,778	2,767	323	1,925
Interfund Payable	21,232	1,107			
Unearned Revenue	1,097,824	455,115	170,904	172,822	260,553
Obligations/Securities Lending	468,365	77,839			
Claims and Judgments	12,162	2,200	1,833	388	
Capital Lease Obligations	1,233	192	96		153
Employees' Compensable Leave	283,402	7,634	7,566	10,964	11,562
Notes and Loans Payable	558,290	2,373	63,637	10,000	
General Obligation Bonds Payable					
Revenue Bonds Payable	1,581,825	115,190	25,223	26,525	39,182
Pollution Remediation Obligation		10			
Funds Held for Others	20,509	29,062	26,839	12,843	5,641
Hedging Derivative Liability		7,467			
Other Current Liabilities	156,910	48,347	4,428	3,375	5,068
Total Current Liabilities	5,610,811	1,049,746	406,583	307,739	399,973
Noncurrent Liabilities:					
Interfund Payable	594,164	3,400			
Claims and Judgments	27,395	6,232	16,500	14	
Capital Lease Obligations	2,449	2,110	185		113
Employees' Compensable Leave	157,620	96,907	37,111	12,167	8,957
Notes and Loans Payable	26,301	59,127			
General Obligation Bonds Payable					
Revenue Bonds Payable	4,829,919	2,113,113	450,165	675,830	701,970
Assets Held for Others	648,572	60,620			
Net OPEB Obligation	1,295,763	342,379			
Hedging Derivative Liability	205,166	3,927			
Other Noncurrent Liabilities	20,717	26,529	626		1,366
Total Noncurrent Liabilities	7,808,066	2,714,344	504,587	688,011	712,406
Total Liabilities	13,418,877	3,764,090	911,170	995,750	1,112,379
NET POSITION					
Invested in Capital Assets,					
Net of Related Debt	4,630,805	1,164,257	745,613	348,347	338,446
Restricted for:					
Education	1,617,671	253,105	233,710	121,233	75,174
Debt Retirement	7,539		22,413	20,456	3,225
Capital Projects	111,398	11,992	25,621	4,985	164,956
Funds Held as Permanent Investments:					
Nonexpendable	10,167,365	359,138	611,227	300,890	92,526
Expendable	6,357,146	122,280		52,178	7,301
Unrestricted	2,302,413	1,864,494	571,552	334,654	320,386
Total Net Position	$ 25,194,337	$ 3,775,266	$ 2,210,136	$ 1,182,743	$ 1,002,014

* 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
$ 32,077	$ 3,044	$ 4,435	$ 6,314	$ 4,749	$ 5,219	$ 1,121,535
36,080	4,649	8,481	6,589	3,891	6,801	687,861
	1,611		3			14,955
	1,628				275	92,666
						153,483
		2,908	1,741		180	4,829
30	246	835				23,419
						22,339
142,910	42,463	56,140	42,259	21,914	16,324	2,479,228
						546,204
						16,583
	200	13		13	620	2,520
2,117	2,309	581	2,400	174	617	329,326
2,093			241			636,634
		900	4,640	1,305	1,565	8,410
19,399	3,989	8,444	6,459	3,280	1,711	1,831,227
12						22
13,411		14,054		90	1,867	124,316
						7,467
5,600	1,423	8,063	8,163	92	641	242,110
253,729	61,562	104,854	78,809	35,508	35,820	8,345,134
						597,564
			810			50,951
	1,601	10		8	5,278	11,754
17,026	1,410	3,286	2,110	1,254	5,500	343,348
5,287						90,715
		8,430	19,092	4,210	6,925	38,657
421,056	87,156	169,480	80,354	83,660	40,751	9,653,454
2,406						711,598
						1,638,142
						209,093
1,757			622	275	2	51,894
447,532	90,167	181,206	102,988	89,407	58,456	13,397,170
701,261	151,729	286,060	181,797	124,915	94,276	21,742,304
190,161	127,948	57,610	64,031	57,549	65,347	7,790,114
57,377	106,208	13,739	159		720	2,479,096
20		2,908	449		11	57,021
146,477		1,544	1,756	1,890	36	470,655
40,604	9,176	6,660	27,938	3,705	637	11,619,866
3,354		2,020		4,448		6,548,727
265,320	85,401	47,444	52,541	21,546	42,320	5,908,071
$ 703,313	$ 328,733	$ 131,925	$ 146,874	$ 89,138	$ 109,071	$ 34,873,550

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Net Position Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2010 (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	$	$	$ 7,245	$	$
Tuition Revenue – Pledged	1,564,427	831,128	320,787	436,391	451,432
Discounts and Allowances	(377,994)	(199,051)	(52,522)	(100,746)	(90,606)
Hospital Revenue – Pledged	7,289,132				
Discounts and Allowances	(3,856,238)				
Professional Fees	3,613,949		220,756		
Professional Fees – Pledged	4,500	8,705			
Discounts and Allowances	(2,514,973)				
Auxiliary Enterprises					
Auxiliary Enterprises – Pledged	402,024	239,762	103,094	57,154	105,622
Discounts and Allowances	(10,148)				
Other Sales of Goods and Services			2,056		
Other Sales of Goods and Services – Pledged	366,804	177,163	14,077	24,253	17,686
Discounts and Allowances	(466)	(26,025)			
Interest and Investment Income		1,637			
Interest and Investment Income – Pledged					
Federal Revenue	1,452,461	442,707	60,866	35,841	44,023
State Grant Revenue	25	1,066	5,069	9,899	9,401
Other Operating Grant Revenue	347,334	42	136,990	22,493	5,568
Other Operating Grant Revenue – Pledged	588,184	228,628	3,762		
Other Revenues	25,005			397	716
Other Revenues – Pledged	75,464	59,379			17,131
Total Operating Revenues	8,969,490	1,765,141	822,180	485,682	560,973
OPERATING EXPENSES					
Cost of Goods Sold	91,444	17,320	10,717	3,176	8,359
Salaries and Wages	5,933,289	1,507,600	690,968	491,283	434,921
Payroll Related Costs	1,357,650	339,595	149,863	100,636	98,570
Professional Fees and Services	383,251	233,702	72,679	44,605	44,349
Travel	127,387	70,791	22,824	14,033	13,973
Materials and Supplies	1,201,527	226,516	70,348	42,357	83,681
Communication and Utilities	327,275	115,707	44,065	43,845	46,555
Repairs and Maintenance	216,912	79,664	36,327	13,189	17,429
Rentals and Leases	133,435	32,267	11,528	16,931	6,383
Printing and Reproduction	27,926	14,695	6,423	5,023	4,701
Depreciation and Amortization	785,395	179,987	78,849	57,343	53,099
Bad Debt Expense	5,204	932	195		16
Interest Expense		43	27	541	35
Scholarships	392,483	196,432	53,596	67,667	103,222
Claims and Judgments	29,823	1,747		1,487	
Net Change in Pension/OPEB Obligations	454,738	122,506			
Other Expenses	702,175	170,559	99,877	39,232	34,356
Total Operating Expenses	12,169,914	3,310,063	1,348,286	941,348	949,649
Operating Loss	(3,200,424)	(1,544,922)	(526,106)	(455,666)	(388,676)

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
$ 6,302	$ 18,112	$ 3,771	$	$	$ 7,123	$ 42,553
269,228	54,166	79,582	76,139	35,878	31,896	4,151,054
(48,594)	(15,073)	(23,060)	(22,069)	(8,646)	(22,396)	(960,757)
						7,289,132
						(3,856,238)
85,037						3,919,742
						13,205
						(2,514,973)
1,074		1,424			785	3,283
44,520	21,993	35,172	12,118	7,702	15,472	1,044,633
(196)	(3,691)	(9,830)			(6,690)	(30,555)
		1,858				3,914
27,214		3,753	82	1,295	5,541	637,868
						(26,491)
						1,637
					167	167
89,644	2,387	27,255	50,250	2,156	8,359	2,215,949
3,464			1,498		861	31,283
9,831		872			1,025	524,155
	1,349		1,866	143		823,932
185	1,586	24				27,913
			2,654	1,436		156,064
487,709	80,829	120,821	122,538	39,964	42,143	13,497,470
665	89	8,697			5,381	145,848
369,136	80,320	86,887	86,118	37,660	70,969	9,789,151
81,252	18,498	21,009	19,082	9,215	21,955	2,217,325
31,118	2,069	2,362	9,031	4,040	1,048	828,254
10,021	1,545	2,436	3,124	1,426	1,068	268,628
48,736	12,691	16,185	14,854	5,618	12,014	1,734,527
17,007	6,307	13,375	5,553	3,234	7,397	630,320
22,611	3,194	3,686	6,624	2,332	2,395	404,363
6,089	1,190	1,810	2,078	525	1,325	213,561
3,711	378	681	578	171	121	64,408
33,358	10,738	12,518	11,899	9,000	6,700	1,238,886
(1,111)	449	381	3,262	2		9,330
				3	6	655
57,957	14,566	11,688	25,157	8,853	28,140	959,761
						33,057
						577,244
31,477	6,663	5,802	12,724		9,650	1,112,515
712,027	158,697	187,517	200,084	82,079	168,169	20,227,833
(224,318)	(77,868)	(66,696)	(77,546)	(42,115)	(126,026)	(6,730,363)

Concluded on the following page

STATE OF TEXAS

Schedule of Revenues, Expenses and Changes in Net Position Colleges and Universities – Major Enterprise Fund (concluded)

For the Fiscal Year Ended August 31, 2010 (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	$ 295,315	$ 191,288	$ 42,827	$ 110,351	$ 99,302
Gifts	272,019		49,829	56,568	22,859
Gifts – Pledged	24,251	110,652	6,108		
Land Income		6,881			
Interest and Investment Income	2,547,214		79,388	40,240	7,918
Interest and Investment Income – Pledged	202,462	140,379	7,869		
Investing Activities Expense	(68,813)	(3,796)			(1,595)
Interest Expense	(207,452)	(81,888)	(23,282)	(28,999)	(28,108)
Borrower Rebates and Agent Fees		(3,969)			
Settlement of Claims					1,101
Claims and Judgments		(597)			
Other Revenues			4,805	86,409	3,274
Other Revenues – Pledged	14,169	11,220	5,267		
Other Expenses	(40,604)	(23,693)	(6,717)	(51,418)	(127)
Total Nonoperating Revenues (Expenses)	3,038,561	346,477	166,094	213,151	104,624
Loss Before Capital Contributions, Endowments and Transfers	(161,863)	(1,198,445)	(360,012)	(242,515)	(284,052)
CAPITAL CONTRIBUTIONS, ENDOWMENTS AND TRANSFERS					
Capital Contributions – Federal	936				147
Capital Contributions – Other	184,757	15,411	61,147	50	681
Contributions to Permanent and Term Endowments	118,983	4,825	3,329	5,419	331
Transfer In	2,571,420	1,374,642	479,607	388,227	367,307
Transfer Out	(337,589)	(12,866)	(13,703)	(7,501)	(7,203)
Total Capital Contributions, Endowments and Transfers	2,538,507	1,382,012	530,380	386,195	361,263
Change in Net Position	2,376,644	183,567	170,368	143,680	77,211
Net Position, September 1, 2009	22,789,384	3,604,958	2,039,782	1,038,988	925,051
Restatements	28,309	(13,259)	(14)	75	(248)
Net Position, September 1, 2009, as Restated	22,817,693	3,591,699	2,039,768	1,039,063	924,803
Net Position, August 31, 2010	$ 25,194,337	$ 3,775,266	$ 2,210,136	$ 1,182,743	$ 1,002,014

* 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
$	$ 16,743	$	$	$ 8,457	$ 44,514	$ 808,797
7,134		2,598			54	411,061
	2,350	92	1,305	3,492		148,250
		3				6,884
6,797	4,891	1,066	2,402			2,689,916
	1,381	995		844	298	354,228
		(88)	(209)			(74,501)
(23,883)	(4,015)	(5,935)	(5,455)	(3,447)	(2,019)	(414,483)
						(3,969)
		283				1,384
(1,009)	(7)	(1)			(125)	(1,739)
516		59			312	95,375
	4,015					34,671
(6,676)	(104)	(1,005)	(3,318)	(34)	(2,129)	(135,825)
(17,121)	25,254	(1,933)	(5,275)	9,312	40,905	3,920,049
(241,439)	(52,614)	(68,629)	(82,821)	(32,803)	(85,121)	(2,810,314)
						1,083
4,470		685		345	8,421	275,967
354		79	31	3,226		136,577
272,740	79,759	77,796	94,009	32,950	103,205	5,841,662
(4,342)	(1,871)	(3,144)	(928)	(1,281)	(1,124)	(391,552)
273,222	77,888	75,416	93,112	35,240	110,502	5,863,737
31,783	25,274	6,787	10,291	2,437	25,381	3,053,423
671,573	303,471	125,138	140,992	86,701	83,688	31,809,726
(43)	(12)		(4,409)		2	10,401
671,530	303,459	125,138	136,583	86,701	83,690	31,820,127
$ 703,313	$328,733	$131,925	$146,874	$89,138	$109,071	$34,873,550

STATE OF TEXAS

Schedule of Cash Flows
Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2010 (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	$ 4,505,110	$ 173,848	$ 233,877	$ 23,949	$ 16,593
Proceeds from Tuition and Fees	1,228,526	702,152	287,277	334,107	383,838
Proceeds from Research Grants and Contracts	2,698,751	847,625	257,284	80,890	119,524
Proceeds from Loan Programs	91,105	5,269	4,916	105,660	32,376
Proceeds from Auxiliaries	401,855	210,701	124,188	56,261	101,360
Proceeds from Other Revenues	472,961	59,906		5,153	26,550
Payments to Suppliers for Goods and Services	(3,669,624)	(1,034,376)	(269,948)	(219,293)	(284,069)
Payments to Employees	(7,331,628)	(1,854,872)	(690,692)	(597,193)	(545,707)
Payments for Loans Provided	(87,708)	(8,649)	(1,279)	(106,330)	(31,325)
Payments for Other Expenses		(264,546)	(332,403)	(84,544)	(131,653)
Net Cash Used by Operating Activities	(1,690,652)	(1,162,942)	(386,780)	(401,340)	(312,513)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from State Appropriations	2,094,752	1,019,244	373,902	261,627	269,015
Proceeds from Gifts	247,842	112,011	70,790	53,924	18,715
Proceeds from Endowments	342,595	4,825		5,126	6,969
Proceeds from Transfers from Other Funds		199,154		50,616	3,476
Proceeds from Grant Receipts		217,953	61,358	123,399	97,302
Proceeds from Other Financing Activities	374,631	48,078	10,960	939	2,690
Payments of Interest					
Payments for Transfers to Other Funds	(331,420)	(8,530)	(6,299)	(17,031)	(5,696)
Payments for Other Uses	(1,547)	(52,202)	(9,635)	(5,362)	(13,799)
Net Cash Provided by Noncapital Financing Activities	2,726,853	1,540,533	501,076	473,238	378,672
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Capital Assets	1,382	4,859			
Proceeds from Debt Issuance	2,134,463	772,283	32,602	121,535	69,408
Proceeds from State Grants and Contracts		27,986			
Proceeds from Federal Grants and Contracts					195
Proceeds from Gifts			4,714		7,303
Proceeds from Other Financing Activities		980		81,496	23,177
Proceeds from Capital Contributions	180,841		53,850	53,332	
Proceeds from Interfund Payables		4			70,152
Payments for Additions to Capital Assets	(1,655,234)	(697,780)	(135,078)	(150,536)	(137,494)
Payments of Principal on Debt Issuance	(1,551,210)	(241,028)	(44,015)	(48,090)	(71,045)
Payments for Capital Leases		(16)			(156)
Payments of Interest on Debt Issuance	(205,524)	(81,872)	(23,583)	(29,005)	(49,726)
Payments of Other Costs on Debt Issuance	(46,219)	(5,609)		(45,022)	(833)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,141,501)	(220,193)	(111,510)	(16,290)	(89,019)

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
$ 118,128	$	$ 5,567	$	$	$ 5,649	$ 5,082,721
225,114	69,134	61,042	51,270	33,809	22,367	3,398,636
	13,321	40,536	63,096		10,460	4,131,487
9,921		69		36		249,352
43,947		27,473	12,118	8,190	9,546	995,639
116,044	19,889	24	609	2,732		703,868
(154,121)	(27,467)	(55,482)		(19,087)	(39,770)	(5,773,237)
(453,256)	(100,251)	(108,417)	(106,659)	(46,999)	(93,417)	(11,929,091)
(9,796)	(28,718)	(13,461)				(287,266)
(58,132)	(6,663)		(76,147)	(10,114)	(27,682)	(991,884)
(162,151)	(60,755)	(42,649)	(55,713)	(31,433)	(112,847)	(4,419,775)
218,922	69,738	58,492	93,634	26,642	84,535	4,570,503
6,783		2,689	2,839	3,492	53	519,138
354				3,188		363,057
						253,246
10,385	16,743	2,059		9,526	47,094	585,819
1,067	6,364	333			287	445,349
(72)						(72)
(3,548)		(910)		(865)	(15)	(374,314)
(585)	(7)	(185)		(15)	(1,961)	(85,298)
233,306	92,838	62,478	96,473	41,968	129,993	6,277,428
47		11				6,299
256,179	14,980	39,075		6,939	31,555	3,479,019
		6,908				34,894
						195
		945		1,274	82	14,318
		129		149	23	105,954
36,364				3,810		328,197
						70,156
(123,774)	(48,866)	(31,509)	(12,997)	(10,492)	(11,799)	(3,015,559)
(94,875)	(4,380)	(11,071)	(11,008)	(3,860)	(2,675)	(2,083,257)
	(190)					(362)
(21,539)	(3,952)	(6,231)	(5,450)	(3,387)	(1,917)	(432,186)
(600)	(63)			(190)	(1,128)	(99,664)
51,802	(42,471)	(1,743)	(29,455)	(5,757)	14,141	(1,591,996)

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, 2010 (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	$ 11,283,995	$ 4,420,429	$ 495,789	$ 288,150	$ 111,301
Proceeds from Interest and Investment Income	699,568	41,260	51,647	25,378	14,379
Payments to Acquire Investments	(11,660,348)	(4,589,836)	(629,673)	(346,365)	(137,383)
Net Cash Provided (Used) by Investing Activities	323,215	(128,147)	(82,237)	(32,837)	(11,703)
Net Increase (Decrease) in Cash and Cash Equivalents	217,915	29,251	(79,451)	22,771	(34,563)
Cash and Cash Equivalents, September 1, 2009	2,344,738	292,329	610,299	254,345	606,000
Restatements		271			
Cash and Cash Equivalents, September 1, 2009, as Restated	2,344,738	292,600	610,299	254,345	606,000
Cash and Cash Equivalents, August 31, 2010	$ 2,562,653	$ 321,851	$ 530,848	$ 277,116	$ 571,437
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES					
Operating Loss	$ (3,200,424)	$ (1,544,922)	$ (526,106)	$ (455,666)	$ (388,676)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:					
Depreciation and Amortization	785,395	179,987	78,849	57,343	53,099
Bad Debt Expense	289,177	6,590	195	13	16
Operating Loss and Cash Flow Categories Classification Differences	193,897	93,749	32,896	34,902	33,095
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	(329,006)	(85,625)	(7,929)	(40,581)	(6,261)
(Increase) Decrease in Due From Other Funds		(6,940)	(3,697)		13,933
(Increase) Decrease in Inventories	(3,221)	1,993	249	330	207
(Increase) Decrease in Notes Receivable			(1,703)		2,336
(Increase) Decrease in Loans and Contracts	3,396	(4,595)		46	472
(Increase) Decrease in Other Assets	19,245	1,031	837	1,485	(4)
(Increase) Decrease in Prepaid Expenses		(5,997)	(11,183)	6,509	(2,995)
Increase (Decrease) in Payables	17,946	(21,703)	(2,268)	(11,197)	(1,259)
Increase (Decrease) in Deposits	2,838	1,834			204
Increase (Decrease) in Due To Other Funds		(338)	2,625		(13,701)
Increase (Decrease) in Unearned Revenue	64,738	96,127	36,652	4,351	3,972
Increase (Decrease) in Compensated Absence Liability	5,967	3,393	4,076	31	(314)
Increase (Decrease) in Benefits Payable	454,738	122,507	7,800	801	1,917
Increase (Decrease) in Other Liabilities	4,662	(33)	1,927	293	(8,554)
Total Adjustments	1,509,772	381,980	139,326	54,326	76,163
Net Cash Used by Operating Activities	$ (1,690,652)	$ (1,162,942)	$ (386,780)	$ (401,340)	$ (312,513)
NONCASH TRANSACTIONS					
Net Change in Fair Value of Investments	$ 1,249,451	$ 95,339	$ 31,595	$ 38,838	$ (2,537)
Donation of Capital Assets	$ 40,843	$ 8,078	$	$	$ 177
Borrowing Under Capital Lease Purchase	$ 1,046	$	$	$	$
Other	$ (13,192)	$ 86,353	$	$	$ 24

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
$ 67,916	$ 77,348	$ 10,212	$ 1,265	$ 28,208	$ 10,828	$ 16,795,441
7,119	4,891	1,682	928	666	462	847,980
(135,400)	(72,858)	(11,712)	(313)	(34,796)	(37,026)	(17,655,710)
(60,365)	9,381	182	1,880	(5,922)	(25,736)	(12,289)
62,592	(1,007)	18,268	13,185	(1,144)	5,551	253,368
299,707	11,463	74,251	33,434	6,203	18,864	4,551,633
54						325
299,761	11,463	74,251	33,434	6,203	18,864	4,551,958
$ 362,353	$ 10,456	$ 92,519	$ 46,619	$ 5,059	$ 24,415	$ 4,805,326
$ (224,318)	$ (77,868)	$ (66,696)	$ (77,546)	$ (42,115)	$ (126,026)	$ (6,730,363)
33,358	10,738	12,518	11,899	9,000	6,700	1,238,886
(1,111)	449	381	3,262	2		298,974
14,906	8,151	10,136	15,180	2,427	7,470	446,809
(13,524)	(6,592)	(2,503)	(14,010)	277	(4,581)	(510,335)
	(504)	(2,039)			(447)	306
8	(40)	(43)	97	34	(167)	(553)
						633
(158)		69				(770)
1,846		(35)			(2)	24,403
(102)	(42)	(1,666)	141	(1,281)		(16,616)
15,273	(327)	3,463	1,666	(1,467)	1,928	2,055
					80	4,956
37	(28)	369			(108)	(11,144)
11,634	6,084	2,848	(3,185)	1,575	1,525	226,321
	105	417	490		321	14,486
						587,763
	(881)	132	6,293	115	460	4,414
62,167	17,113	24,047	21,833	10,682	13,179	2,310,588
$ (162,151)	$ (60,755)	$ (42,649)	$ (55,713)	$ (31,433)	$ (112,847)	$ (4,419,775)
$ (432)	$ 1,381	$ 504	$ 1,265	$ 66	$	$ 1,415,470
$	$	$	$	$ 41	$ 8,310	$ 57,449
$	$	$	$	$ 20	$ 1,937	$ 3,003
$	$	$	$	$ 1,396	$ (481)	$ 74,100

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 completed 20 or more years of service or became 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 Position – Pension and Other Employee Benefit Trust Funds

August 31, 2010 (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	$ 6,919,429	$ 24,064	$ 967	$ 609	$ 803
Securities Lending Collateral	23,601,465	402,111	13,639	5,014	
Investments:					
U.S. Government	17,802,754	4,833,884	164,870	55,400	
Corporate Equity	22,060,008	6,235,398	212,671	71,463	25,621
Corporate Obligations	1,524,999	1,339,404	45,683	15,351	
Repurchase Agreements	213,530				
Foreign Securities	20,920,199	5,042,425	171,982	57,790	13,257
Externally Managed Investments	21,070,905	296,171	10,102	3,394	
Other	5,363,315	1,673,722	57,093	19,145	14,351
Receivables:					
Interest and Dividends	223,484	73,790	2,493	869	32
Accounts	133,055	64,139	2,587	1,282	832
Investment Trades	147,801	32,712	1,109	407	174
Other	422				
Due From Other Funds	28,941	5,202			4
Properties, at Cost, Net of Accumulated Depreciation or Amortization	30,998	10,703			
Other Assets					
Total Assets	120,041,305	20,033,725	683,196	230,724	55,074
LIABILITIES					
Payables:					
Accounts	$ 18,360	$ 18,757	$ 281	$ 106	$ 101
Investment Trades	119,435	27,139	920	338	229
Payroll	3,934	4			
Annuities	578,168	47			
Due To Other Funds	22,521	971			
Unearned Revenue	21,223	1,695			
Employees' Compensable Leave	5,362	2,300			
Obligations/Securities Lending	23,581,689	402,202	13,642	5,015	
Other Liabilities	2,208				155
Total Liabilities	24,352,900	453,115	14,843	5,459	485
NET POSITION					
Held in Trust for Pension Benefits and Other Purposes	$95,688,405	$19,580,610	$668,353	$225,265	$ 54,589

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
$	$873,607	$ 10,791	$ 2,029	$ 5,386	$ 2,550	$ 7,840,235
						24,022,229
						22,856,908
						28,605,161
						2,925,437
						213,530
						26,205,653
						21,380,572
		62				7,127,688
	889	1	1	2	2	301,563
	57,572	8,008	2	6,818		274,295
						182,203
						422
292	13,902	103,560		20	1	151,922
						41,701
				250		250
292	945,970	122,422	2,032	12,476	2,553	142,129,769
$ 292	$128,664	$121,399	$ 1,083	$ 10,253	$ 2	$ 299,298
						148,061
	148					4,086
						578,215
	2,017	305	9	3	11	25,837
		718	12			23,648
	177					7,839
						24,002,548
						2,363
292	131,006	122,422	1,104	10,256	13	25,091,895
$ 0	$814,964	$ 0	$ 928	$ 2,220	$ 2,540	$ 117,037,874

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Pension and Other Employee Benefit Trust Funds

For the Fiscal Year Ended August 31, 2010 (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	$ 2,289,537	$ 410,134	$ 7,473	$ 4,121	$ 3,291
State Contributions	1,576,083	400,252	27,799	11,511	
Premium Contributions					
Federal Contributions					
Other Contributions	719,051				
Total Contributions	4,584,671	810,386	35,272	15,632	3,291
Investment Income:					
From Investing Activities:					
Net Appreciation in Fair Value of Investments	7,542,738	700,993	23,180	7,505	1,081
Interest and Investment Income	1,872,312	544,161	18,202	6,548	1,124
Total Investing Income	9,415,050	1,245,154	41,382	14,053	2,205
Less Investing Activities Expense	111,919	47,007	1,517	534	346
Net Income from Investing Activities	9,303,131	1,198,147	39,865	13,519	1,859
From Securities Lending Activities:					
Securities Lending Income	164,683	5,882	196	70	
Less Securities Lending Expense:					
Borrower Rebates*	40,036	(731)	(25)	(9)	
Management Fees	16,331	963	32	12	
Net Income from Securities Lending	108,316	5,650	189	67	0
Total Net Investment Income	9,411,447	1,203,797	40,054	13,586	1,859
Other Additions:					
Settlement of Claims		12			44
Other Revenue	950	158	6		
Transfer In	14,017	61,774			
Total Other Additions	14,967	61,944	6	0	44
Total Additions	14,011,085	2,076,127	75,332	29,218	5,194
DEDUCTIONS					
Benefits	6,618,698	1,497,754	41,001	9,289	3,125
Refunds of Contributions	265,187	65,334	162	118	
Transfer Out	61,774	11,211			
Administrative Expenses	27,957	17,014	559	261	100
Depreciation and Amortization Expense	1,485	917			
Interest Expense					
Loss on Sale of Properties		33			
Other Expenses	551	1,029	36	15	5
Total Deductions	6,975,652	1,593,292	41,758	9,683	3,230
INCREASE (DECREASE) IN NET POSITION	7,035,433	482,835	33,574	19,535	1,964
NET POSITION					
Net Position, September 1, 2009	88,652,972	19,097,775	634,779	205,730	52,625
Net Position, August 31, 2010	$ 95,688,405	$ 19,580,610	$ 668,353	$ 225,265	$ 54,589

* The pension funds of the Employees Retirement System of Texas received rebates from borrowers in excess of payments made to borrowers due to increased demand in the securities lending market.

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
$	$	$	$	$ 89,258	$	$ 2,803,814
	253,626	478,349				2,747,620
	695,538	126,073				821,611
	70,795	40,988				111,783
				1,032		720,083
0	1,019,959	645,410	0	90,290	0	7,204,911
						8,275,497
	11,679	610	15	27	45	2,454,723
0	11,679	610	15	27	45	10,730,220
		1	2	2	4	161,332
0	11,679	609	13	25	41	10,568,888
						170,831
						39,271
						17,338
0	0	0	0	0	0	114,222
0	11,679	609	13	25	41	10,683,110
						56
	102		589	105	1,439	3,349
27,299						103,090
27,299	102	0	589	105	1,439	106,495
27,299	1,031,740	646,019	602	90,420	1,480	17,994,516
27,303	1,013,892	643,389		87,912		9,942,363
						330,801
						72,985
	3,026	2,560	616	398	483	52,974
						2,402
				47		47
						33
	6	70	53	1,772	29	3,566
27,303	1,016,924	646,019	669	90,129	512	10,405,171
(4)	14,816	0	(67)	291	968	7,589,345
4	800,148		995	1,929	1,572	109,448,529
$ 0	$ 814,964	$ 0	$ 928	$ 2,220	$ 2,540	$ 117,037,874

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 College Savings Plans** (previously reported as the Texas Tomorrow Trust Fund) receive money contributed by account holders, money acquired from private sources and income from investment of deposits. The plans may be used only to pay costs of program administration and operations, make payments to state, private or independent institutions of higher education and make refunds to account holders.

Other Private-Purpose Trust Funds account for other assets held in a trustee capacity where principal and income benefit individuals, private organizations or other governments.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Private-Purpose Trust Funds

August 31, 2010 (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 College Savings Plans	Other Private-Purpose Trust Funds	Totals
ASSETS							
Cash and Cash Equivalents	$	$202,590	$74,050	$ 5,739	$ 1,500	$39,948	$ 323,827
Restricted Cash and Cash Equivalents						372	372
Investments:							
U.S. Government				18,509		2,235	20,744
Corporate Equity	31,478					16,327	47,805
Corporate Obligations	25,183					3,413	28,596
Foreign Securities	192,797						192,797
Externally Managed Investments	277,900						277,900
Other	1,380,238				248,369	8,310	1,636,917
Receivables:							
Interest and Dividends	2,685	2			54	18	2,759
Accounts						541	541
Investment Trades	999				630		1,629
Other					38	4,212	4,250
Properties, at Cost, Net of Accumulated Depreciation or Amortization						920	920
Other Assets		80,950					80,950
Total Assets	1,911,280	283,542	74,050	24,248	250,591	76,296	2,620,007
LIABILITIES							
Payables:							
Accounts	$ 976	$	$	$ 1,750	$ 90	$14,043	$ 16,859
Investment Trades	3,222				606		3,828
Interest						27	27
Due To Other Funds					3	10	13
Unearned Revenue					139	17	156
Funds Held for Others		80,950					80,950
Other Liabilities					178		178
Total Liabilities	4,198	80,950	0	1,750	1,016	14,097	102,011
NET POSITION							
Held in Trust for Individuals, Organizations and Other Governments	1,907,082	202,592	74,050	22,498	249,575	62,199	2,517,996
Total Net Position	$1,907,082	$202,592	$74,050	$22,498	$249,575	$62,199	$2,517,996

STATE OF TEXAS

Combining Statement of Changes in Fiduciary Net Position – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2010 (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 College Savings Plans	Other Private-Purpose Trust Funds	Totals
ADDITIONS							
Contributions:							
Federal Contributions	$	$	$	$	$	$ 3,426	$ 3,426
Other Contributions					115,569		115,569
Total Contributions	0	0	0	0	115,569	3,426	118,995
Investment Income:							
From Investing Activities:							
Net Appreciation in Fair Value of Investments	83,030				9,466	1,558	94,054
Interest and Investment Income	50,621	289	16		572	2,875	54,373
Total Investing Income	133,651	289	16	0	10,038	4,433	148,427
Less Investing Activities Expense					1,252		1,252
Net Income from Investing Activities	133,651	289	16	0	8,786	4,433	147,175
Total Net Investment Income	133,651	289	16	0	8,786	4,433	147,175
Other Additions:							
Settlement of Claims						4,850	4,850
Other Revenue		64,273	74,034	126,302	200	5,405	270,214
Total Other Additions	0	64,273	74,034	126,302	200	10,255	275,064
Total Additions	133,651	64,562	74,050	126,302	124,555	18,114	541,234
DEDUCTIONS							
Benefits					84,423	648	85,071
Transfer Out						60	60
Intergovernmental Payments	46,152					5,266	51,418
Administrative Expenses	5,735				203	726	6,664
Depreciation and Amortization Expense						39	39
Settlement of Claims		63,712				5,516	69,228
Interest Expense						7	7
Other Expenses		11,324		126,146		1,393	138,863
Total Deductions	51,887	75,036	0	126,146	84,626	13,655	351,350
INCREASE (DECREASE) IN NET POSITION	81,764	(10,474)	74,050	156	39,929	4,459	189,884
NET POSITION							
Net Position, September 1, 2009	1,825,318	213,066	0	22,342	209,646	57,740	2,328,112
Net Position, August 31, 2010	$1,907,082	$202,592	$74,050	$ 22,498	$249,575	$62,199	$2,517,996

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.

Other Agency Funds account for other resources held by the state in an agent capacity for individuals, private organizations or other governments.

STATE OF TEXAS

Combining Statement of Fiduciary Net Position – Agency Funds

August 31, 2010 (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	$ 18	$ 328	$ 11,140	$746,033	$509,840	$1,267,359
Investments:						
U.S. Government	201,071				156	201,227
Corporate Equity					205,438	205,438
Corporate Obligations					140	140
Repurchase Agreements					35,034	35,034
Other					40,772	40,772
Receivables:						
Interest and Dividends	572				1	573
Accounts					7,222	7,222
Other Intergovernmental					2,230	2,230
Other					6	6
Due From Other Funds					192	192
Other Assets		1,214,625	534,966		70,393	1,819,984
Total Assets	$201,661	$1,214,953	$546,106	$746,033	$871,424	$3,580,177
LIABILITIES						
Payables:						
Accounts	$	$	$	$	$ 814	$ 814
Other Intergovernmental				746,033		746,033
Due To Other Funds					28,544	28,544
Interfund Payable					26	26
Funds Held for Others	201,661	1,214,953	546,106		842,030	2,804,750
Other Liabilities					10	10
Total Liabilities	$201,661	$1,214,953	$546,106	$746,033	$871,424	$3,580,177

STATE OF TEXAS

Combining Statement of Changes in Assets and Liabilities – Agency Funds

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)

	Beginning Balance September 1, 2009	Additions	Deductions	Ending Balance August 31, 2010
Texas Public Finance Authority Bond Escrow Account				
ASSETS				
Cash and Cash Equivalents	$ 4	$ 14	$	$ 18
Investments	77,854	123,217		201,071
Interest and Dividends Receivable	727		155	572
Total Assets	$ 78,585	$ 123,231	$ 155	$ 201,661
LIABILITIES				
Funds Held for Others	$ 78,585	$ 123,076	$	$ 201,661
Total Liabilities	$ 78,585	$ 123,076	$ 0	$ 201,661
Life, Health, Accident and Casualty Insurance Companies Trust Account				
ASSETS				
Cash and Cash Equivalents	$ 298	$ 378	$ 348	$ 328
Other Assets	1,133,660	390,971	310,006	1,214,625
Total Assets	$ 1,133,958	$ 391,349	$ 310,354	$ 1,214,953
LIABILITIES				
Accounts Payable	$	$ 50	$ 50	$
Funds Held for Others	1,133,958	391,349	310,354	1,214,953
Total Liabilities	$ 1,133,958	$ 391,399	$ 310,404	$ 1,214,953
Texas Workers' Compensation Self Insurance Fund				
ASSETS				
Cash and Cash Equivalents	$ 9,550	$ 11,798	$ 10,208	$ 11,140
Other Assets	506,863	28,103		534,966
Total Assets	$ 516,413	$ 39,901	$ 10,208	$ 546,106
LIABILITIES				
Accounts Payable	$	$ 534	$ 534	$
Funds Held for Others	516,413	30,351	658	546,106
Total Liabilities	$ 516,413	$ 30,885	$ 1,192	$ 546,106
City, County, MTA and SPD Sales Tax Trust Account				
ASSETS				
Cash and Cash Equivalents	$ 743,121	$ 6,838,890	$ 6,835,978	$ 746,033
Total Assets	$ 743,121	$ 6,838,890	$ 6,835,978	$ 746,033
LIABILITIES				
Payables:				
Accounts	$	$ 5,811,873	$ 5,811,873	$
Other Intergovernmental	743,121	746,033	743,121	746,033
Funds Held for Others		7,582,012	7,582,012	
Total Liabilities	$ 743,121	$ 14,139,918	$ 14,137,006	$ 746,033

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, 2010 (Amounts in Thousands)

	Beginning Balance September 1, 2009	Additions	Deductions	Ending Balance August 31, 2010
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 449,342	$ 8,699,670	$ 8,639,172	$ 509,840
Investments	214,407	267,455	200,322	281,540
Receivables:				
Interest and Dividends		2	1	1
Accounts	7,183	155,375	155,336	7,222
Other Intergovernmental	934	1,296		2,230
Other	6			6
Due From Other Funds	167	191	166	192
Interfund Receivable		1,703	1,703	
Other Assets	75,968	5,022	10,597	70,393
Total Assets	$ 748,007	$ 9,130,714	$ 9,007,297	$ 871,424
LIABILITIES				
Payables:				
Accounts	$ 22	$ 899,246	$ 898,454	$ 814
Other Intergovernmental	4,216		4,216	
Due To Other Funds	1,660	28,545	1,661	28,544
Interfund Payable		1,891	1,865	26
Funds Held for Others	742,108	8,521,256	8,421,334	842,030
Other Liabilities	1	9		10
Total Liabilities	$ 748,007	$ 9,450,947	$ 9,327,530	$ 871,424
Totals – All Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 1,202,315	$ 15,550,750	$ 15,485,706	$ 1,267,359
Investments	292,261	390,672	200,322	482,611
Receivables:				
Interest and Dividends	727	2	156	573
Accounts	7,183	155,375	155,336	7,222
Other Intergovernmental	934	1,296		2,230
Other	6			6
Due From Other Funds	167	191	166	192
Interfund Receivable		1,703	1,703	
Other Assets	1,716,491	424,096	320,603	1,819,984
Total Assets	$ 3,220,084	$ 16,524,085	$ 16,163,992	$ 3,580,177
LIABILITIES				
Payables:				
Accounts	$ 22	$ 6,711,703	$ 6,710,911	$ 814
Other Intergovernmental	747,337	746,033	747,337	746,033
Due To Other Funds	1,660	28,545	1,661	28,544
Interfund Payable		1,891	1,865	26
Funds Held for Others	2,471,064	16,648,044	16,314,358	2,804,750
Other Liabilities	1	9		10
Total Liabilities	$ 3,220,084	$ 24,136,225	$ 23,776,132	$ 3,580,177

Section Two
(concluded)

Discretely Presented Component Units

Discretely Presented Component Units

A statement of net position and a statement of activities were prepared to report the breakdown of the following discretely presented component units.

Texas Guaranteed Student Loan Corporation
Teacher Retirement System of Texas
State Bar of Texas
Texas State Affordable Housing Corporation
Surplus Lines Stamping Office of Texas
Texas Health Reinsurance System
Texas Health Insurance Risk Pool
Texas Boll Weevil Eradication Foundation Inc.
Texas Agricultural Finance Authority
Texas Water Resources Finance Authority
Texas On-Site Wastewater Treatment Research Council
Texas Appraiser Licensing and Certification Board
Texas Economic Development Corporation
Texas Small Business Industrial Development Corporation
Texas Disaster Relief Fund
Texas Health Services Authority
Casa Verde Research Center, Sociedad Anonimo
Representacion de TAMU en la Republica Mexicana, A.C. (Mexico Center)

STATE OF TEXAS

Combining Statement of Net Position – Component Units

August 31, 2010 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	Surplus Lines Stamping Office of Texas
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 4,407	$ 387,562	$ 9,761	$ 2,615	$ 1,627
Short-Term Investments	724,794		21,871	2,488	3,550
Restricted:					
Cash and Cash Equivalents				76,642	
Short-Term Investments				2,467	
Loans and Contracts				2,038	
Receivables:					
Federal	58,827				
Other Intergovernmental Accounts		63,855	1,572	965	220
Interest and Dividends	6,816	419		633	
Other					48
Due From Primary Government					
Inventories			892		
Prepaid Items			641	23	
Loans and Contracts					
Other Current Assets	2,033			894	
Total Current Assets	796,877	451,836	34,737	88,765	5,445
Noncurrent Assets:					
Restricted:					
Cash and Cash Equivalents				210	
Investments				231,214	
Loans and Contracts				11,087	
Loans and Contracts					
Investments					2,850
Other Receivables					
Capital Assets:					
Non-Depreciable or Non-Amortizable	6,816		298	232	
Depreciable or Amortizable, Net	36,212		11,326	1,239	2,169
Other Noncurrent Assets	50			4,904	18
Total Noncurrent Assets	43,078	0	11,624	248,886	5,037
Total Assets	839,955	451,836	46,361	337,651	10,482

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2010 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	Surplus Lines Stamping Office of Texas
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	$ 6,505	$ 151,532	$ 2,134	$ 370	$ 65
Payroll		116			
Federal	60,168				
Interest				1,775	
Due To Primary Government					
Unearned Revenue			7,767		
Capital Lease Obligations			48		
Employees' Compensable Leave	1,933	85	466		
Notes and Loans Payable	1,871			103	
Revenue Bonds Payable				2,108	
Funds Held for Others			292		
Other Current Liabilities			11	928	146
Total Current Liabilities	70,477	151,733	10,718	5,284	211
Noncurrent Liabilities:					
Capital Lease Obligations			144		
Employees' Compensable Leave	882	47	811		
Notes and Loans Payable	2,636			3,266	
Liabilities Payable From Restricted Assets	57,830				
Revenue Bonds Payable				299,661	
Other Noncurrent Liabilities	251,320		46	599	
Total Noncurrent Liabilities	312,668	47	1,001	303,526	0
Total Liabilities	383,145	151,780	11,719	308,810	211
NET POSITION					
Invested in Capital Assets, Net of Related Debt	38,521		11,624	681	2,169
Restricted for:					
Education	97,531				
Other				21,198	
Unrestricted	320,758	300,056	23,018	6,962	8,102
Total Net Position	$ 456,810	$ 300,056	$ 34,642	$ 28,841	$ 10,271

Continued on the following page

* Amounts reported as of Aug. 31, 2010, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2010 (Amounts in Thousands)*

	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas On-Site Wastewater Treatment Research Council
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 506	$26,927	$ 67,699	$13,894	$ 1,820	$
Short-Term Investments		15,996			17,884	
Restricted:						
Cash and Cash Equivalents						
Short-Term Investments						
Loans and Contracts						
Receivables:						
Federal			5,000			
Other Intergovernmental			30,960			
Accounts		38,953	2,780	193		
Interest and Dividends				39	264	
Other			57			
Due From Primary Government						285
Inventories			2,156			
Prepaid Items			198	1		
Loans and Contracts					2,677	
Other Current Assets				6		
Total Current Assets	506	81,876	108,850	14,133	22,645	285
Noncurrent Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Loans and Contracts				4,093	17,748	
Investments					6,862	
Other Receivables			2,575			
Capital Assets:						
Non-Depreciable or Non-Amortizable						
Depreciable or Amortizable, Net		11	4,069			
Other Noncurrent Assets		8				
Total Noncurrent Assets	0	19	6,644	4,093	24,610	0
Total Assets	506	81,895	115,494	18,226	47,255	285

Continued on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2010 (Amounts in Thousands)*

	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas On-Site Wastewater Treatment Research Council
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 13	$ 1,812	$ 178	$ 19	$	$ 2
Payroll			474			1
Federal						
Interest			466			
Due To Primary Government						58
Unearned Revenue		39,590				
Capital Lease Obligations						
Employees' Compensable Leave			1,116	5		
Notes and Loans Payable			1,626	8,986		
Revenue Bonds Payable						
Funds Held for Others						
Other Current Liabilities	493	40,493				
Total Current Liabilities	506	81,895	3,860	9,010	0	61
Noncurrent Liabilities:						
Capital Lease Obligations						
Employees' Compensable Leave				6		
Notes and Loans Payable			81,698			
Liabilities Payable From Restricted Assets						
Revenue Bonds Payable						
Other Noncurrent Liabilities						
Total Noncurrent Liabilities	0	0	81,698	6	0	0
Total Liabilities	506	81,895	85,558	9,016	0	61
NET POSITION						
Invested in Capital Assets, Net of Related Debt			1,409			
Restricted for:						
Education						
Other						
Unrestricted			28,527	9,210	47,255	224
Total Net Position	$ 0	$ 0	$ 29,936	$ 9,210	$47,255	$ 224

Continued on the following page

* Amounts reported as of Aug. 31, 2010, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Net Position – Component Units (continued)

August 31, 2010 (Amounts in Thousands)*

	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Casa Verde Research Center	Mexico Center	Totals
ASSETS								
Current Assets:								
Cash and Cash Equivalents	$	$ 1,660	$22,321	$ 696	$	$ 30	$ 45	$ 541,570
Short-Term Investments								786,583
Restricted:								
Cash and Cash Equivalents					42			76,684
Short-Term Investments								2,467
Loans and Contracts								2,038
Receivables:								
Federal								63,827
Other Intergovernmental								30,960
Accounts		11						108,549
Interest and Dividends			72					8,243
Other						5	67	177
Due From Primary Government	253							538
Inventories	9							3,057
Prepaid Items		188	12					1,063
Loans and Contracts			1,092	63				3,832
Other Current Assets								2,933
Total Current Assets	262	1,859	23,497	759	42	35	112	1,632,521
Noncurrent Assets:								
Restricted:								
Cash and Cash Equivalents								210
Investments								231,214
Loans and Contracts								11,087
Loans and Contracts			37,841					59,682
Investments								9,712
Other Receivables								2,575
Capital Assets:								
Non-Depreciable or Non-Amortizable	123					505		7,974
Depreciable or Amortizable, Net	3	17			3	3,308	68	58,425
Other Noncurrent Assets						11	55	5,046
Total Noncurrent Assets	126	17	37,841	0	3	3,824	123	385,925
Total Assets	388	1,876	61,338	759	45	3,859	235	2,018,446

Concluded on the following page

STATE OF TEXAS

Combining Statement of Net Position – Component Units (concluded)

August 31, 2010 (Amounts in Thousands)*

	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Casa Verde Research Center	Mexico Center	Totals
LIABILITIES								
Current Liabilities:								
Payables:								
Accounts	$ 109	$ 42	$ 162	$	$	$ 51	$ 18	$ 163,012
Payroll	61					15		667
Federal								60,168
Interest			13					2,254
Due To Primary Government								58
Unearned Revenue								47,357
Capital Lease Obligations								48
Employees' Compensable Leave	44							3,649
Notes and Loans Payable								12,586
Revenue Bonds Payable								2,108
Funds Held for Others								292
Other Current Liabilities								42,071
Total Current Liabilities	214	42	175	0	0	66	18	334,270
Noncurrent Liabilities:								
Capital Lease Obligations								144
Employees' Compensable Leave	29							1,775
Notes and Loans Payable								87,600
Liabilities Payable From Restricted Assets								57,830
Revenue Bonds Payable			60,000					359,661
Other Noncurrent Liabilities						546	92	252,603
Total Noncurrent Liabilities	29	0	60,000	0	0	546	92	759,613
Total Liabilities	243	42	60,175	0	0	612	110	1,093,883
NET POSITION								
Invested in Capital Assets, Net of Related Debt								54,404
Restricted for:								
Education								97,531
Other								21,198
Unrestricted	145	1,834	1,163	759	45	3,247	125	751,430
Total Net Position	$ 145	$ 1,834	$ 1,163	$ 759	$ 45	$ 3,247	$ 125	$ 924,563

* Amounts reported as of Aug. 31, 2010, unless otherwise indicated in Note 19.

STATE OF TEXAS

Combining Statement of Activities – Component Units

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)*

	Texas Guaranteed Student Loan Corporation	Teacher Retirement System of Texas	State Bar of Texas	Texas State Affordable Housing Corporation	Surplus Lines Stamping Office of Texas	Texas Health Reinsurance System
EXPENSES						
Salaries and Wages	$ 42,146	$ 1,199	$ 15,370	$ 1,330	$ 1,211	$
Payroll Related Costs	13,082	295	4,088		393	
Professional Fees and Services	13,213	479	2,602	228	341	
Travel	2,136	3	6,893	43	6	
Materials and Supplies	1,790	9	959		45	
Communications and Utilities	1,410	1	1,529		35	
Repairs and Maintenance	3,116		820		33	
Rentals and Leases	579	66	1,329	42	221	
Printing and Reproduction	507		2,166		2	
Claims and Judgments			612			
Bad Debt Expense						
Cost of Goods Sold			1,139			
Depreciation and Amortization	3,777		860	800	100	
Other Financing Fees	56,214		210			
Intergovernmental Payments						
Public Assistance Payments	10,468					
Employee/Participant Benefit Payments		1,445,553				
Direct Interest Expense						
Interest Expense - Other	257		10	11,852		
Other Expenses	63,453	4	3,995	2,927	229	101
Total Expenses	212,148	1,447,609	42,582	17,222	2,616	101
PROGRAM REVENUES						
Charges for Services	1,250	1,329,347	38,910	1,150	2,233	65
Operating Grants and Contributions	212,392	1,298	5,661	18,481	19	36
Total Program Revenues	213,642	1,330,645	44,571	19,631	2,252	101
Net Program Revenues (Expenses)	1,494	(116,964)	1,989	2,409	(364)	0
GENERAL REVENUES						
Unrestricted Investment Earnings	7,753	6,426				
Other Revenues				446		
Gain on Sale of Capital Assets			30			
Total General Revenues	7,753	6,426	30	446	0	0
Change in Net Position	9,247	(110,538)	2,019	2,855	(364)	0
Net Position, September 1, 2009	447,563	410,594	32,348	25,986	10,635	
Restatements			275			
Net Position, September 1, 2009, as Restated	447,563	410,594	32,623	25,986	10,635	0
Net Position, August 31, 2010	$ 456,810	$ 300,056	$ 34,642	$ 28,841	$ 10,271	$ 0

* Amounts for the fiscal year ended Aug. 31, 2010, unless otherwise indicated in Note 19.

Texas Health Insurance Risk Pool	Texas Boll Weevil Eradication Foundation Inc.	Texas Agricultural Finance Authority	Texas Water Resources Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Economic Development Corporation
$ 299	$ 16,429	$ 85	$ 6	$ 2	$ 646	$ 22
		36			158	2
12,400	954	46		19	158	490
3	290	11		15	15	328
37	7,361	5		2	20	285
	618				6	2
	848				2	
66	792				41	85
					1	41
		(30)				
4	1,252				1	2
		4		207		
				31		
		70	3,740			
		21	329			
	3,295					
279,811	7,321	104	13	43	41	553
292,620	39,160	352	4,088	319	1,089	1,810
286,291	24,797	962			24	172
6,329	56,287	4,700	2,682			1,437
292,620	81,084	5,662	2,682	0	24	1,609
0	41,924	5,310	(1,406)	(319)	(1,065)	(201)
	189	332				3
				328	1,110	
	451					
0	640	332	0	328	1,110	3
0	42,564	5,642	(1,406)	9	45	(198)
	(12,628)	3,568	48,661	215	147	2,142
					(47)	(110)
0	(12,628)	3,568	48,661	215	100	2,032
$ 0	$ 29,936	$ 9,210	$ 47,255	$ 224	$ 145	$ 1,834

Concluded on the following page

STATE OF TEXAS

Combining Statement of Activities – Component Units (concluded)

For the Fiscal Year Ended August 31, 2010 (Amounts in Thousands)*

	Texas Small Business Industrial Development Corporation	Texas Disaster Relief Fund	Texas Health Services Authority	Casa Verde Research Center	Mexico Center	Totals
EXPENSES						
Salaries and Wages	$	$	$ 47	$ 116	$	$ 78,908
Payroll Related Costs			4	28		18,086
Professional Fees and Services	65	47	547	26		31,615
Travel			2	55		9,800
Materials and Supplies			1	14		10,528
Communication and Utilities			1	4		3,606
Repairs and Maintenance				23		4,842
Rentals and Leases			1	6		3,228
Printing and Reproduction						2,717
Claims and Judgments						612
Bad Debt Expense						(30)
Cost of Goods Sold					181	1,320
Depreciation and Amortization				16	20	6,832
Other Financing Fees				17	31	56,683
Intergovernmental Payments						31
Public Assistance Payments						14,278
Employee/Participant Benefit Payments						1,445,553
Direct Interest Expense						350
Interest Expense - Other	175					15,589
Other Expenses	1,248			10	292	360,145
Total Expenses	1,488	47	603	315	524	2,064,693
PROGRAM REVENUES						
Charges for Services			648		150	1,685,999
Operating Grants and Contributions	1,524	1		3,580	286	314,713
Total Program Revenues	1,524	1	648	3,580	436	2,000,712
Net Program Revenues (Expenses)	36	(46)	45	3,265	(88)	(63,981)
GENERAL REVENUES						
Unrestricted Investment Earnings	6	1				14,710
Other Revenues		1				1,885
Gain on Sale of Capital Assets						481
Total General Revenues	6	2	0	0	0	17,076
Change in Net Position	42	(44)	45	3,265	(88)	(46,905)
Net Position, September 1, 2009	1,121	803			274	971,429
Restatements				(18)	(61)	39
Net Position, September 1, 2009, as Restated	1,121	803	0	(18)	213	971,468
Net Position, August 31, 2010	$ 1,163	$ 759	$ 45	$ 3,247	$ 125	$ 924,563

* Amounts for the fiscal year ended Aug. 31, 2010, unless otherwise indicated in Note 19.

Section Three

Statistical Section

State of Texas
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 other supplementary information says about the state's overall financial health.

Contents **Pages**

Financial Trends Information . . . . . 247 – 253
These schedules contain trend information intended to help the reader understand how the state's financial position has changed over time.

Revenue Capacity Information . . . . . 254 – 256
These schedules contain information intended to help the reader assess the state's most significant revenue source, state tax collections.

Debt Capacity Information . . . . . 257 – 261
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 . . . . . 262 – 264
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 . . . . . 265 – 267
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 Information

Net Position by Component

Last Nine Fiscal Years*

(Amounts in Millions)

	2002	2003	2004	2005	2006
GOVERNMENTAL ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	$ 47,322	$ 49,254	$ 51,407	$ 53,815	$ 55,473
Restricted	20,089	20,846	22,213	24,110	25,993
Unrestricted	2,065	(28)	541	3,753	8,696
Total Governmental Activities Net Position	69,476	70,072	74,161	81,678	90,162
BUSINESS-TYPE ACTIVITIES					
Invested in Capital Assets, Net of Related Debt	5,142	5,737	6,464	6,253	6,871
Restricted	14,413	15,168	17,628	20,581	22,812
Unrestricted	5,841	6,167	5,805	7,076	8,056
Total Business-Type Activities Net Position	25,396	27,072	29,897	33,910	37,739
PRIMARY GOVERNMENT					
Invested in Capital Assets, Net of Related Debt	52,464	54,991	57,871	60,068	62,344
Restricted	34,502	36,014	39,841	44,691	48,805
Unrestricted	7,906	6,139	6,346	10,829	16,752
Total Primary Government Net Position	$ 94,872	$ 97,144	$ 104,058	$ 115,588	$ 127,901

	2007	2008	2009	2010
GOVERNMENTAL ACTIVITIES				
Invested in Capital Assets, Net of Related Debt	$ 56,438	$ 58,208	$ 59,720	$ 60,744
Restricted	29,347	31,358	32,663	26,136
Unrestricted	12,565	11,105	3,479	8,025
Total Governmental Activities Net Position	98,350	100,671	95,862	94,905
BUSINESS-TYPE ACTIVITIES				
Invested in Capital Assets, Net of Related Debt	7,343	7,385	7,655	7,933
Restricted	25,815	24,882	18,744	22,209
Unrestricted	9,741	9,885	8,619	7,230
Total Business-Type Activities Net Position	42,899	42,152	35,018	37,372
PRIMARY GOVERNMENT				
Invested in Capital Assets, Net of Related Debt	63,781	65,593	67,375	68,677
Restricted	55,162	56,240	51,407	48,345
Unrestricted	22,306	20,990	12,098	15,255
Total Primary Government Net Position	$ 141,249	$ 142,823	$ 130,880	$ 132,277

* Due to the changes in the state's fund structure initiated when GASB Statements No. 34 and No. 35 were implemented, the net position information is available only from 2002.

Source: 2002-10 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Financial Trends Information

Changes in Net Position

Last Nine Fiscal Years*

(Amounts in Thousands)

	2002	2003	2004	2005	2006
GOVERNMENTAL ACTIVITIES:					
Expenses					
General Government	$ 1,947,049	$ 2,026,241	$ 2,234,369	$ 2,206,793	$ 2,681,117
Education	15,831,226	15,935,961	16,250,938	16,293,851	18,025,550
Employee Benefits	14,757	22,644	60,536	50,544	56,718
Teacher Retirement Benefits	1,201,886	2,435,727	2,269,667	2,083,530	1,932,325
Health and Human Services	22,817,118	24,742,714	25,060,588	27,302,426	28,808,315
Public Safety and Corrections	4,170,817	4,207,856	4,030,120	4,086,450	5,084,923
Transportation	3,576,274	3,562,159	3,476,342	3,766,301	4,452,154
Natural Resources and Recreation	736,111	835,139	864,508	1,070,481	961,178
Regulatory Services	273,023	324,567	375,951	349,420	282,067
Indirect Interest on Long-Term Debt	403,784	366,847	338,693	417,854	54,121
Total Expenses	50,972,045	54,459,855	54,961,712	57,627,650	62,338,468
Program Revenues					
Charges for Services:					
General Government	1,378,004	1,378,735	1,695,987	802,588	1,199,924
Education	236,776	485,676	520,621	594,702	626,224
Employee Benefits	383	112	171	97	120
Teacher Retirement Benefits				10	93,694
Health and Human Services	710,167	821,773	838,377	1,124,402	1,177,825
Public Safety and Corrections	144,120	148,420	164,959	463,097	441,803
Transportation	988,612	974,627	1,016,809	1,342,073	1,373,339
Natural Resources and Recreation	453,990	437,834	473,608	716,981	570,872
Regulatory Services	63,986	92,875	212,919	534,469	596,705
Operating Grants and Contributions	17,563,832	22,801,211	24,501,850	26,667,982	28,979,226
Capital Grants and Contributions	2,191,470	2,570,634	2,773,764	3,253,051	2,803,006
Total Program Revenues	23,731,340	29,711,897	32,199,065	35,499,452	37,862,738
Total Governmental Activities Net Program Expense	(27,240,705)	(24,747,958)	(22,762,647)	(22,128,198)	(24,475,730)
General Revenues					
Taxes:					
Sales and Use	14,249,422	14,349,758	15,564,085	16,260,689	18,475,176
Motor Vehicle and Manufactured Housing	2,891,742	2,795,211	2,665,258	2,897,031	3,046,856
Motor Fuels	2,687,798	2,790,936	2,931,753	2,915,680	3,053,476
Franchise	1,999,005	1,532,820	1,657,141	2,203,578	2,632,780
Oil and Natural Gas Production	640,615	1,531,275	1,918,989	2,409,276	3,441,638
Insurance Occupation	973,279	1,179,553	1,192,829	1,213,627	1,238,846
Cigarette and Tobacco	536,464	583,159	540,404	596,569	547,000
Other	1,454,357	1,405,325	1,426,026	1,435,701	1,558,073
Unrestricted Investment Earnings	383,608	239,198	211,239	327,516	760,207
Federal Jobs and Growth Tax Relief Funds		354,535	354,535		
Settlement of Claims	512,579	563,196	523,518	885,975	583,787
Gain on Sale of Capital Assets		6,359	31,189	8,461	2,762
Other General Revenues	618,981	787,866	723,157	822,652	1,071,679
Capital Contributions		600	944	107	1,449
Transfers	(3,171,399)	(3,069,447)	(2,867,137)	(2,966,197)	(3,513,639)
Total General Revenues, Contributions and Transfers	23,776,451	25,050,344	26,873,930	29,010,665	32,900,090
Change in Net Position – Governmental Activities	(3,464,254)	302,386	4,111,283	6,882,467	8,424,360

* The state did not begin reporting government-wide financial statements until it implemented GASB Statements No. 34 and No. 35 in 2002.

Source: 2002-10 state of Texas financial statements

2007	2008	2009	2010
$ 2,555,309	$ 2,659,822	$ 3,052,177	$ 3,451,868
21,313,526	24,986,076	24,952,375	27,344,876
61,171	86,195	220,272	252,457
2,017,000	1,761,759	1,667,325	2,200,408
30,886,484	32,426,046	38,124,180	41,487,191
5,035,761	5,020,897	6,026,868	6,231,847
4,252,129	4,478,109	4,025,226	4,146,987
1,217,201	1,451,450	1,673,915	1,559,708
314,266	398,885	445,938	447,557
229,354	578,059	525,648	755,314
67,882,201	73,847,298	80,713,924	87,878,213
1,141,278	1,171,997	1,010,388	984,639
584,971	821,291	474,249	463,719
116	107	109	135
26,661		33,624	
2,059,789	1,832,315	1,825,395	1,782,704
823,602	331,101	354,117	336,134
1,530,669	1,785,835	1,920,123	1,891,247
714,687	661,657	574,032	605,751
604,199	635,089	646,959	687,746
29,995,409	25,900,072	32,410,929	43,148,227
1,823,686	2,585,507	2,619,631	2,453,183
39,305,067	35,724,971	41,869,556	52,353,485
(28,577,134)	(38,122,327)	(38,844,368)	(35,524,728)
20,230,164	21,640,855	21,026,034	19,558,426
3,338,498	3,384,597	2,568,599	2,624,725
3,149,043	3,000,148	3,155,941	3,060,246
3,273,050	4,712,183	3,303,170	3,809,109
2,692,032	4,036,033	1,335,296	2,157,334
1,368,340	1,446,828	1,295,330	1,309,620
1,325,712	1,454,187	1,564,061	1,394,122
1,694,750	1,744,400	1,680,362	1,676,452
941,938	1,041,840	178,470	575,642
538,836	555,476	555,626	925,676
3,942			
1,627,330	1,392,565	1,769,051	2,017,783
309	8,653	1,554	30,845
(3,383,910)	(3,909,529)	(4,268,014)	(4,491,627)
36,800,034	40,508,236	34,165,480	34,648,353
8,222,900	2,385,909	(4,678,888)	(876,375)

Concluded on the following page

STATE OF TEXAS

Statistical Section – Financial Trends Information

Changes in Net Position (concluded)

Last Nine Fiscal Years*

(Amounts in Thousands)

	2002	2003	2004	2005	2006
BUSINESS-TYPE ACTIVITIES:					
Expenses					
General Government	$ 246,183	$ 235,098	$ 187,064	$ 142,142	$ 162,499
Education	12,584,976	13,340,397	13,538,233	14,716,405	15,982,582
Employee Benefits		517,912	615,692		
Teacher Retirement Benefits				761,240	813,133
Health and Human Services	2,712,361	2,964,169	2,203,096	1,540,459	1,253,431
Public Safety and Corrections	69,235	68,419	68,828	71,308	73,775
Transportation	13,011	16,937	22,725	346	16,339
Natural Resources and Recreation	149,767	157,902	146,815	264,707	284,241
Regulatory Services	2,096				
Lottery	2,034,639	2,163,670	2,426,019	2,594,241	2,687,084
Total Expenses	17,812,268	19,464,504	19,208,472	20,090,848	21,273,084
Program Revenues					
Charges for Services:					
General Government	32,475	50,669	44,166	27,947	37,245
Education	5,108,647	5,549,390	5,845,956	6,662,679	7,284,371
Employee Benefits		584,709	758,255		
Teacher Retirement Benefits				823,910	861,648
Health and Human Services	1,129,885	1,603,241	1,783,807	1,963,403	1,862,804
Public Safety and Corrections	67,809	71,694	75,094	77,521	79,032
Transportation			39,162	14	13
Natural Resources and Recreation	2,377	3,002	3,911	22,106	33,716
Lottery	2,967,271	3,131,532	3,488,941	3,663,414	3,775,491
Operating Grants and Contributions	3,299,297	6,244,537	6,356,243	8,086,139	7,200,099
Capital Grants and Contributions	51,930	162,991	272,997	211,726	155,541
Total Program Revenues	12,659,691	17,401,765	18,668,532	21,538,859	21,289,960
Total Business-Type Activities Net Program Revenue (Expense)	(5,152,577)	(2,062,739)	(539,940)	1,448,011	16,876
General Revenues					
Unrestricted Investment Earnings	108,831	28,020	193,347	68,423	55,150
Settlement of Claims	2,579	5	4	20	94
Gain on Sale of Capital Assets	750			6,431	276
Other General Revenue	301,020	329,235	194,474	126,957	91,017
Capital Contributions	112,088	1,318	2,715	133	3,874
Contributions to Permanent and Term Endowments	101,473	235,997	235,182	145,919	123,939
Special Items					(38,898)
Extraordinary Items	603,679	36,532	(13,401)		
Transfers	3,171,399	3,069,447	2,867,137	2,966,197	3,513,639
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
Change in Net Position – Business-Type Activities	(750,758)	1,637,815	2,939,518	4,762,091	3,765,967
Change in Net Position – Primary Government	$ (4,215,012)	$ 1,940,201	$ 7,050,801	$ 11,644,558	$ 12,190,327

2007	2008	2009	2010
$ 186,628	$ 177,012	$ 180,543	$ 162,620
17,165,602	18,619,716	20,135,452	20,943,292
909,845			
1,204,609	1,467,185	4,908,112	7,826,452
75,305	80,607	83,498	87,120
125,910	164,280	220,881	206,822
283,653	247,018	304,577	353,641
2,691,210	2,634,446	2,680,273	2,681,627
22,642,762	23,390,264	28,513,336	32,261,574
42,713	43,106	42,147	47,377
8,268,639	8,705,756	9,253,972	9,907,344
939,879			
1,665,242	1,058,134	1,027,897	2,107,474
82,779	87,365	90,469	93,734
16,757	48,958	66,375	73,312
41,034	42,964	46,682	44,973
3,774,948	3,672,423	3,720,995	3,739,165
9,001,427	4,808,580	3,613,083	13,292,594
197,731	245,962	95,889	305,669
24,031,149	18,713,248	17,957,509	29,611,642
1,388,387	(4,677,016)	(10,555,827)	(2,649,932)
245,977	190,974	129,445	134,195
283	6	14,691	1,384
13,363	269	609	
266,722	270,787	156,903	241,013
1,364			
184,193	167,692	120,404	136,577
(318,813)	(150,026)		
3,383,910	3,909,529	4,268,014	4,491,627
3,776,999	4,389,231	4,690,066	5,004,796
5,165,386	(287,785)	(5,865,761)	2,354,864
$ 13,388,286	$ 2,098,124	$ (10,544,649)	$ 1,478,489

STATE OF TEXAS

Statistical Section – Financial Trends Information

Fund Balances – Governmental Funds

Last Nine Fiscal Years*

(Amounts in Millions)

	2002	2003	2004	2005	2006
GENERAL FUND					
Reserved	$ 1,430	$ 1,042	$ 1,185	$ 1,752	$ 1,648
Unreserved	(369)	(2,326)	(1,562)	286	5,673
Total General Fund	$ 1,061	$ (1,284)	$ (377)	$ 2,038	$ 7,321
ALL OTHER GOVERNMENTAL FUNDS					
Reserved	$19,187	$20,485	$21,850	$24,275	$25,999
Unreserved					
Special Revenue	1,669	1,256	1,309	1,460	910
Capital Projects	13	14	15		7
Permanent	429	458	492	546	575
Total All Other Governmental Funds	$21,298	$22,213	$23,666	$26,281	$27,491

	2007	2008	2009	2010
GENERAL FUND				
Reserved	$ 2,138	$ 2,471	$ 3,380	$ 5,460
Unreserved	8,698	8,184	5,586	2,950
Total General Fund	$10,836	$10,655	$ 8,966	$ 8,410
ALL OTHER GOVERNMENTAL FUNDS				
Reserved	$29,054	$27,957	$25,586	$28,193
Unreserved				
Special Revenue	1,847	4,953	5,323	3,343
Capital Projects	(11)	(124)	(111)	(204)
Permanent	632	564	477	1,028
Total All Other Governmental Funds	$31,522	$33,350	$31,275	$32,360

* 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: 2002-10 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Financial Trends Information

Changes in Fund Balances – Governmental Funds

Last Ten Fiscal Years*

(Amounts in Millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
REVENUES BY SOURCE										
Tax Collections	$27,045	$25,123	$25,939	$27,976	$29,830	$33,867	$36,670	$41,256	$37,654	$35,868
Federal Funds	17,319	20,307	23,017	24,382	25,851	28,212	26,967	28,656	35,699	42,483
Licenses, Fees and Permits	2,960	2,815	2,921	3,332	3,590	4,011	4,324	4,522	4,433	4,533
Interest and Other Investment Income	1,705	(815)	2,118	2,435	3,317	3,218	4,574	(368)	(1,957)	2,171
Land Income	46	179	298	482	544	462	422	650	390	384
Settlement of Claims	403	513	563	523	883	583	539	555	555	614
Sales of Goods and Services	689	962	1,131	1,109	1,445	1,503	2,697	2,063	1,962	1,816
Other Revenues	1,451	1,273	1,464	1,754	1,918	2,159	2,730	2,590	3,192	3,499
Total Revenues	51,618	50,357	57,451	61,993	67,378	74,015	78,923	79,924	81,928	91,368
EXPENDITURES BY FUNCTION										
General Government	1,902	1,846	1,961	2,191	2,151	2,530	2,415	2,628	3,025	3,352
Education	15,057	15,739	15,927	16,220	16,204	18,025	21,317	24,976	24,941	27,331
Employee Benefits	8	15	12	12	12	13	14	14	13	15
Teacher Retirement Benefits								1,781	1,729	1,830
Health and Human Services	19,036	22,394	24,690	25,039	27,192	28,761	30,855	32,355	37,988	41,367
Public Safety and Corrections	3,812	4,037	4,067	3,887	3,952	4,939	4,897	4,864	5,802	6,006
Transportation	4,720	3,096	3,065	2,970	3,246	3,909	3,702	3,895	3,399	3,474
Natural Resources and Recreation	704	713	787	844	1,039	930	1,172	1,420	1,606	1,566
Regulatory Services	260	270	311	371	345	294	317	393	434	438
Debt Service:										
Principal	346	287	367	211	306	393	437	415	596	731
Interest	761	339	360	335	375	238	370	428	513	720
Other Financing Fees						2	14	15	15	41
Capital Outlay	389	2,274	2,654	2,830	3,735	3,938	4,368	4,404	3,738	3,539
Total Expenditures	46,995	51,010	54,201	54,910	58,557	63,972	69,878	77,588	83,799	90,410
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,623	(653)	3,250	7,083	8,821	10,043	9,045	2,336	(1,871)	958
OTHER FINANCING SOURCES (USES)										
Transfer In	4,988	6,093	5,793	6,984	7,488	7,343	7,765	13,832	9,737	11,465
Transfer Out	(9,070)	(10,870)	(10,937)	(11,842)	(12,248)	(12,433)	(12,887)	(17,777)	(14,033)	(15,987)
Bonds and Notes Issued	464	232	383	87	1,242	1,440	3,471	2,988	1,940	3,808
Bonds Issued for Refunding		8	164	58	208	72	249	515	271	385
Payment to Escrow for Refunding		(8)	(164)	(69)	(208)	(72)	(263)	(559)	(309)	(214)
Premiums on Bonds Issued **							126	180	33	48
Sale of Capital Assets	19	80	21	50	37	17	29	22	16	14
Increases in Obligations Under Capital Leases	1		4			3		1		10
Insurance Recoveries						7	2	15	18	15
Total Other Financing Sources (Uses)	(3,598)	(4,465)	(4,736)	(4,732)	(3,481)	(3,623)	(1,508)	(783)	(2,327)	(456)
NET CHANGE IN FUND BALANCES	$ 1,025	$ (5,118)	$ (1,486)	$ 2,351	$ 5,340	$ 6,420	$ 7,537	$ 1,553	$ (4,198)	$ 502
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	2.4%	1.3%	1.4%	1.0%	1.2%	1.1%	1.3%	1.2%	1.4%	1.7%

* 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 2007.

Source: 2001-10 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Revenue Capacity Information

Taxable Sales by Industry

For the Fiscal Years 2000 through 2009*

(Amounts in Millions)

NAICS** Industry	2002	2003	2004	2005	2006	2007	2008	2009
Agriculture, Forestry, Fishing, Hunting	$ 127	$ 108	$ 105	$ 137	$ 149	$ 147	$ 152	$ 132
Mining, Quarrying, Oil & Gas Extraction	2,862	3,342	3,897	5,329	8,143	11,351	15,950	10,038
Utilities	4,801	5,282	5,485	7,543	9,022	9,305	9,881	9,576
Construction	6,857	7,003	8,071	9,271	11,583	13,144	14,180	11,013
Manufacturing	17,653	16,319	17,543	20,733	24,336	27,021	27,145	22,423
Wholesale Trade	14,919	17,324	19,000	21,634	25,044	26,663	28,512	22,225
Retail Trade	99,690	102,215	108,078	116,307	127,389	135,050	138,266	130,657
Transportation, Warehousing	830	1,208	1,390	1,317	1,805	1,832	2,907	2,168
Information	23,884	23,900	24,804	26,579	29,538	30,933	33,305	32,753
Finance, Insurance	1,955	1,894	1,819	1,913	2,099	2,183	2,868	2,637
Real Estate, Rental, Leasing	5,766	5,569	5,820	6,832	8,102	9,062	9,397	7,348
Professional, Scientific, Technical Serv.	5,147	4,812	5,181	6,282	7,069	7,657	8,400	7,760
Management of Companies, Enterprises	1,649	1,930	1,972	2,008	802	525	854	322
Admin Supt Waste Mgmt Remediation Serv.	6,827	7,050	7,554	7,995	8,692	9,434	9,886	9,368
Educational Services	281	294	341	379	406	428	337	371
Health Care, Social Assistance	422	513	547	600	623	743	757	790
Arts, Entertainment, Recreation	2,316	2,710	2,885	2,875	3,019	3,215	3,481	3,537
Accomodation, Food Services	22,931	23,653	25,438	27,313	29,750	31,962	33,667	33,246
Other Services (except Public Admin)	5,892	6,083	6,295	6,824	7,452	7,889	8,087	7,248
Public Administration	1,881	1,692	2,072	1,565	1,474	1,468	1,641	1,662
Nonclassifiable	5	9	8	8	6	4	4	4
Other	3,263	1,655	648	221	98	57	19	56
Total Taxable Sales	$ 229,958	$ 234,565	$ 248,953	$ 273,665	$ 306,601	$ 330,073	$ 349,696	$ 315,334
Direct Sales Tax Rate	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%

SIC*** Industry	2000	2001
Agriculture, Forestry, Fishing	$ 1,294	$ 1,367
Mining, Natural Resources	2,030	2,815
Construction	7,370	7,422
Manufacturing	17,356	16,141
Transportation, Communications, Utilities	27,652	28,415
Wholesale Trade	19,609	19,172
Retail Trade	122,849	127,145
Finance, Insurance, Real Estate	1,062	1,226
Services	29,773	29,742
Public Administration	500	513
Nonclassifiable Establishments	48	35
Other	497	838
Total Taxable Sales	$ 230,040	$ 234,831
Direct Sales Tax Rate	6.25%	6.25%

* Fiscal 2010 data are not available until mid-year of the the following fiscal year.

** North American Industry Classification System – available only from 2002-09

*** 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 OF TEXAS

Statistical Section – Revenue Capacity Information

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, 2001-10*

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Tax Collections	$27,045	$25,123	$25,939	$27,976	$29,830	$33,867	$36,670	$41,256	$37,654	$35,868
Percentage Tax Collection Change From Prior Year	7.2%	(7.1)%	3.2%	7.9%	6.6%	13.5%	8.3%	12.5%	(8.7)%	(4.7)%
Resident Population	21.4	21.8	22.1	22.4	22.8	23.4	23.8	24.3	24.8	25.3
Percentage Population Change From Prior Year	1.9%	1.9%	1.4%	1.4%	1.8%	2.6%	1.7%	2.1%	2.1%	2.0%
State Tax Collections Per Capita	$ 1,266	$ 1,155	$ 1,172	$ 1,248	$ 1,308	$ 1,449	$ 1,538	$ 1,696	$ 1,518	$ 1,418

* This table is comprised of the following funds: general, special revenue, debt service and capital projects.

Source: Tax collection figures were taken from the 2001-10 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 were revised from prior years due to changes in methodology, inflation factors, price indicators and revisions to interim census figures.

Total Retail Sales

Last Ten Years

(Amounts in Millions)

Year	Retail Sales	Percent Change
2001	$307,070	2.8%
2002*	$290,719	(5.3)%
2003	$306,363	5.4%
2004	$340,363	11.1%
2005	$364,788	7.2%
2006	$380,303	4.3%
2007	$394,884	3.8%
2008	$440,698	11.6%
2009	$390,310	(11.4)%
2010**	$193,588	7.0%

* Retail sales are classified on the basis of the North American Industrial Classification System (NAICS) for 2002-10, as opposed to Standard Industrial Codes (SICs) for 2001. The percentage change in 2002 is based on SIC data for both 2001 and 2002.

** First half of 2010 and the percentage change over the first half of 2009.

Source: Texas Comptroller of Public Accounts. Some revisions were made from 2002 onward, based on changes in retailer classifications in the Comptroller's database.

STATE OF TEXAS

Statistical Section – Revenue Capacity Information

Texas Gross State Product by Industry

Last Ten Years

(Amounts in Millions of Dollars)

NAICS* Industry	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agriculture, Forestry and Fishing	$ 6,394	$ 7,457	$ 8,094	$ 9,877	$ 9,239	$ 7,377	$ 10,796	$ 9,780	$ 9,343	$ 9,406
% Change	(1.2)	16.6	8.5	22.0	(6.5)	(20.2)	46.3	(9.4)	(4.5)	0.7
Mining and Natural Resources	44,072	39,219	57,915	68,246	91,263	104,406	114,134	138,422	140,546	155,873
% Change	(2.1)	(11.0)	47.7	17.8	33.7	14.4	9.3	21.3	1.5	10.9
Construction	40,259	41,871	43,474	45,648	51,826	56,004	55,981	58,852	57,037	56,986
% Change	9.6	4.0	3.8	5.0	13.5	8.1	(0.0)	5.1	(3.1)	(0.1)
Manufacturing	92,273	94,462	93,158	119,023	125,538	145,867	154,117	158,802	151,912	156,604
% Change	(0.4)	2.4	(1.4)	27.8	5.5	16.2	5.7	3.0	(4.3)	3.1
Trade, Transportation and Utilities	160,790	164,723	170,757	181,594	193,039	211,185	224,491	231,317	230,987	240,644
% Change	3.6	2.4	3.7	6.3	6.3	9.4	6.3	3.0	(0.1)	4.2
Information	36,992	36,531	36,040	38,545	39,599	40,638	43,536	46,333	46,669	48,627
% Change	3.6	(1.2)	(1.3)	7.0	2.7	2.6	7.1	6.4	0.7	4.2
Financial Activities	125,929	128,219	133,438	137,453	145,853	154,859	165,748	171,415	171,146	177,790
% Change	7.9	1.8	4.1	3.0	6.1	6.2	7.0	3.4	(0.2)	3.9
Professional and Business Services	82,196	83,937	88,719	93,306	105,004	115,343	128,501	140,779	142,571	149,610
% Change	12.7	2.1	5.7	5.2	12.5	9.8	11.4	9.6	1.3	4.9
Educational and Health Services	46,797	51,380	54,761	59,439	62,343	66,232	71,121	75,924	80,666	86,609
% Change	10.9	9.8	6.6	8.5	4.9	6.2	7.4	6.8	6.2	7.4
Leisure and Hospitality Services	23,993	25,492	26,479	27,877	29,755	32,485	34,557	36,773	37,322	39,105
% Change	4.3	6.2	3.9	5.3	6.7	9.2	6.4	6.4	1.5	4.8
Other Private Services	18,106	18,679	19,644	19,889	21,168	22,386	23,957	25,113	25,381	26,366
% Change	3.3	3.2	5.2	1.2	6.4	5.8	7.0	4.8	1.1	3.9
Government, including Schools	84,448	91,512	96,326	100,759	107,439	113,513	121,650	129,973	133,859	138,523
% Change	5.2	8.4	5.3	4.6	6.6	5.7	7.2	6.8	3.0	3.5
TOTAL	$762,250	$783,483	$828,805	$901,657	$982,065	$1,070,295	$1,148,590	$1,223,482	$1,227,439	$1,286,143
% Change	5.2	2.8	5.8	8.8	8.9	9.0	7.3	6.5	0.3	4.8
TOTAL (in 2000 Chained Dollars)	745,325	760,588	770,975	806,005	828,417	869,379	907,358	925,492	915,305	946,603
% Change	2.5	2.0	1.4	4.5	2.8	4.9	4.4	2.0	(1.1)	3.4

* North American Industry Classification System

Source: U. S. Bureau of Economic Analysis (BEA) – BEA periodically revises its personal income and gross product data for periods up to five years.

STATE OF TEXAS

Statistical Section – Debt Capacity Information

Legal Debt Margin Information

Last Ten Fiscal Years

(Amounts in Thousands, Except Percentage Data)

	2001	2002	2003	2004	2005
Debt Service Limit*	$ 1,265,625	$ 1,308,045	$ 1,318,449	$ 1,344,627	$ 1,405,937
Total Net Debt Service Applicable to Limit	484,448	580,012	626,185	622,433	620,989
Legal Debt Service Margin	$ 781,177	$ 728,033	$ 692,264	$ 722,194	$ 784,948
Total Net Debt Service Applicable to Limit as a Percentage of Debt Service Limit	38.3%	44.3%	47.5%	46.3%	44.2%

	2006	2007	2008	2009	2010
Debt Service Limit*	$ 1,518,628	$ 1,664,884	$ 1,773,089	$ 1,795,118	$ 1,759,856
Total Net Debt Service Applicable to Limit	545,725	605,518	1,450,498	1,464,078	1,443,705
Legal Debt Service Margin	$ 972,903	$ 1,059,366	$ 322,591	$ 331,040	$ 316,151
Total Net Debt Service Applicable to the Limit as a Percentage of Debt Service Limit	35.9%	36.4%	81.8%	81.6%	82.0%

Legal Debt Service Margin Calculation for Fiscal 2010

Unrestricted General Revenue fiscal 2008	$ 36,866,229
Unrestricted General Revenue fiscal 2009	34,711,114
Unrestricted General Revenue fiscal 2010	34,014,030
Debt Service Limit*	1,759,856
Debt Service Applicable to Limit:	
Debt Service on Outstanding Debt Payable from GR	478,658
Plus: Estimated Debt Service on Authorized but Unissued Debt Payable From GR	965,047
Total Net Debt Service Applicable to Limit	1,443,705
Legal Debt Service Margin	$ 316,151

* 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

STATE OF TEXAS

Statistical Section – Debt Capacity Information

Ratio of Outstanding Debt by Type

Last Nine 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	Capital Leases	General Obligation Bonds	Revenue Bonds	Notes and Loans	Capital Leases	Total Primary Government	Percentage of Personal Income	Per Capita
2002	$3,081	$ 809	$98	$52	$2,671	$8,264	$1,607	$20	$16,602	2.6%	763
2003	3,185	739	103	52	2,599	9,277	1,889	23	17,867	2.8%	807
2004	3,116	679	116	48	2,719	10,844	1,920	12	19,454	2.8%	864
2005	3,972	632	262	44	2,815	11,749	1,614	14	21,102	2.8%	920
2006	4,479	1,152	331	15	2,739	12,378	1,741	12	22,847	2.8%	972
2007	6,757	2,031	216	11	2,775	12,304	2,029	14	26,137	2.9%	1,095
2008	8,061	3,445	340	10	2,708	13,370	2,437	14	30,385	3.2%	1,250
2009	9,745	3,287	150	8	2,927	15,488	2,348	13	33,966	3.7%	1,369
2010	10,086	5,620	761	15	2,944	17,043	3,103	14	39,586	4.0%	1,568

* 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: 2002-10 state of Texas financial statements

STATE OF TEXAS

Statistical Section – Debt Capacity Information

Ratios of General Bonded Debt Outstanding

Last Ten Fiscal Years*

(Amounts in Millions, Except Percentage Data and General Bonded Debt Per Capita)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Bonded Debt (General Obligation Bonds Only)	$5,271	$5,756	$5,784	$5,835	$6,787	$7,218	$9,532	$10,768	$12,672	$13,029
Percentage Bonded Debt Change From Prior Year	2.5%	9.2%	0.5%	0.9%	16.3%	6.4%	32.1%	13.0%	17.7%	2.8%
Tax Collections	27,045	25,123	25,939	27,976	29,830	33,867	36,670	41,256	37,654	35,868
Percentage Bonded Debt to Tax Collections	19.5%	22.9%	22.3%	20.9%	22.8%	21.3%	26.0%	26.1%	33.7%	36.3%
Resident Population	21.4	21.8	22.1	22.5	22.8	23.4	23.9	24.3	24.8	25.3
General Bonded Debt Per Capita	$ 247	$ 265	$ 262	$ 259	$ 298	$ 308	$ 399	$ 443	$ 511	$ 515

* 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 collection amounts are taken from the 2001-10 state of Texas financial statements.
Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis.

STATE OF TEXAS

Statistical Section – Debt Capacity Information

Pledged Revenue Bond Coverage

Last Nine Fiscal Years*

(Amounts in Thousands, Except Ratio Data)

	2002	2003	2004	2005	2006
GOVERNMENTAL ACTIVITIES					
Pledged Revenue Bond Amount	$ 93,796	$ 93,942	$ 101,178	$ 150,119	$ 81,011
Operating Expenditures	2,257	11,772	2,525	15,540	1,452
Net Available Revenue	$ 91,539	$ 82,170	$ 98,653	$ 134,579	$ 79,559
Debt Service –					
Principal	$ 70,230	$ 74,106	$ 77,058	$ 84,087	$ 86,056
Interest	41,996	37,478	33,314	26,115	25,764
Total Debt Service	$ 112,226	$ 111,584	$ 110,372	$ 110,202	$ 111,820
Coverage Ratio	0.8	0.7	0.9	1.2	0.7
BUSINESS-TYPE ACTIVITIES					
Pledged Revenue Bond Amount	$ 7,236,922	$ 6,401,630	$ 7,049,189	$ 8,369,686	$ 9,088,841
Operating Expenditures	207,852	536,191	885,294	839,699	364,043
Net Available Revenue	$ 7,029,070	$ 5,865,439	$ 6,163,895	$ 7,529,987	$ 8,724,798
Debt Service –					
Principal	$ 242,174	$ 490,032	$ 440,036	$ 532,128	$ 623,346
Interest	355,997	371,983	492,366	503,958	537,104
Total Debt Service	$ 598,171	$ 862,015	$ 932,402	$ 1,036,086	$ 1,160,450
Coverage Ratio	11.8	6.8	6.6	7.3	7.5
COMPONENT UNITS**					
Pledged Revenue Bond Amount	$ 25,863	$ 16,215	$ 11,781	$ 13,524	$ 13,704
Operating Expenditures	625		349	225	264
Net Available Revenue	$ 25,238	$ 16,215	$ 11,432	$ 13,299	$ 13,440
Debt Service –					
Principal	$ 13,000	$ 12,130	$ 11,050	$	$ 5,840
Interest	6,875	5,463	2,937	3,628	4,940
Total Debt Service	$ 19,875	$ 17,593	$ 13,987	$ 3,628	$ 10,780
Coverage Ratio	1.3	0.9	0.8	3.7	1.2
Total Combined Coverage Ratio	9.8	6.0	5.9	6.7	6.9

* 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 were revised from 2003 to 2007 to reflect revised reporting of debt coverage in 2008 and 2009.

Note: This bond data includes operating revenues, interest earned on investments, other pledged revenues and other sources. Operating expenditures include capital outlay expenditures.

Source: 2002-10 state of Texas annual financial statements and bond reporting system

2007	2008	2009	2010
$ 5,765,826	$ 6,748,490	$ 6,640,110	$ 5,522,453
6,881,279	7,447,496	7,233,759	6,085,684
$ (1,115,453)	$ (699,006)	$ (593,649)	$ (563,231)
$ 104,077	$ 112,250	$ 156,490	$ 168,785
66,822	118,203	152,025	147,501
$ 170,899	$ 230,453	$ 308,515	$ 316,286
(6.5)	(3.0)	(1.9)	(1.8)
$ 9,869,477	$ 10,225,735	$ 10,700,325	$ 11,514,734
1,457,567	11,698,563	8,481,872	9,202,811
$ 8,411,910	$ (1,472,828)	$ 2,218,453	$ 2,311,923
$ 683,150	$ 420,487	$ 455,540	$ 482,474
560,359	558,666	620,323	703,116
$ 1,243,509	$ 979,153	$ 1,075,863	$ 1,185,590
6.8	(1.5)	2.1	2.0
$ 13,034	$ 10,971	$ 62,397	$ 63,667
91	552	1,051	1,332
$ 12,943	$ 10,419	$ 61,346	$ 62,335
$ 5,485	$ 5,090	$ 78,793	$ 42,762
5,051	3,610	16,926	5,194
$ 10,536	$ 8,700	$ 95,719	$ 47,956
1.2	1.2	0.6	1.3
5.1	(1.8)	1.1	1.2

STATE OF TEXAS

Statistical Section – Demographic and Economic Information

Texas Nonfarm Employment Detail: Number of Jobs

Calendar Years 2001-2010

Employment by Industry	2001	2002	2003	2004	2005
GOODS-PRODUCING					
Natural Resources and Mining	153,075	145,433	146,733	153,083	166,067
Construction	580,550	568,075	552,008	544,850	567,417
Manufacturing					
Durables	648,318	592,359	560,662	560,224	570,609
Nondurables	378,649	356,408	339,305	330,718	326,758
Total, Goods-Producing	1,760,592	1,662,275	1,598,708	1,588,875	1,630,851
SERVICE-PROVIDING					
Trade, Transportation, and Utilities					
Wholesale Trade	473,582	463,559	458,704	463,486	477,687
Retail Trade	1,108,635	1,094,023	1,069,957	1,084,650	1,110,033
Transportation and Warehousing	354,150	340,765	339,836	350,970	361,537
Utilities	50,800	51,503	48,436	47,336	45,742
Information	270,006	249,494	233,908	225,108	223,342
Financial Activities					
Finance and Insurance	405,258	410,396	417,412	425,731	436,640
Real Estate and Rental and Leasing	172,609	169,654	168,396	169,994	173,252
Professional and Business Services					
Professional, Scientific and Technical	469,257	453,460	449,248	465,930	491,229
Management, Administrative, and Support	630,760	607,940	604,585	629,778	665,488
Educational and Health Services					
Educational Services, Private	129,883	131,386	132,293	136,271	140,670
Health Care and Social Assistance	911,884	951,864	987,315	1,014,046	1,043,822
Leisure and Hospitality	836,025	847,492	859,658	885,650	907,592
Other Services	354,722	356,311	355,617	353,617	348,167
Government					
Federal Civilian	178,324	178,933	180,364	180,587	182,044
State	334,214	342,323	342,104	340,359	349,301
Local	1,073,695	1,104,686	1,123,624	1,134,638	1,152,737
Total, Service-Providing	7,753,804	7,753,789	7,771,457	7,908,151	8,109,283
Total Nonfarm Employment	9,514,396	9,416,064	9,370,165	9,497,026	9,740,134

* Data in the table are annual averages. Data for 2010 include estimates for the final month. Prior years are subject to annual benchmark revisions.

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.

Source: Texas Workforce Commission and Texas Comptroller of Public Accounts

2006	2007	2008	2009*	2010*
185,933	207,642	230,167	205,900	216,083
605,892	648,050	673,242	595,500	563,275
600,203	613,095	607,625	536,967	523,264
324,305	320,897	316,742	302,900	308,569
1,716,333	1,789,684	1,827,776	1,641,267	1,611,191
498,275	518,982	528,950	500,542	486,505
1,132,803	1,161,524	1,174,400	1,144,625	1,140,238
374,852	387,540	392,462	371,527	369,990
44,361	45,537	47,313	47,973	48,624
221,792	220,983	217,217	205,133	191,500
451,407	461,760	461,742	453,175	454,428
177,126	182,215	185,275	175,633	172,364
520,651	558,211	586,383	559,458	553,600
715,507	744,039	749,884	690,167	709,600
143,152	146,794	148,742	150,658	157,383
1,073,315	1,107,048	1,138,450	1,184,734	1,230,542
941,342	980,225	1,006,367	1,005,533	1,017,267
348,125	355,317	363,017	360,975	363,042
185,417	186,343	191,158	197,000	208,024
353,574	359,324	364,684	369,877	367,509
1,167,801	1,189,325	1,223,158	1,252,923	1,271,367
8,349,500	8,605,167	8,779,202	8,669,933	8,741,983
10,065,833	10,394,851	10,606,978	10,311,200	10,353,174

STATE OF TEXAS

Statistical Section – Demographic and Economic Information

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
2001	21,333	1.8%	285,082	1.0%	622,217	4.2%	8,878,830	5.4%	29,167	2.3%	31,145	4.4%
2002	21,711	1.8%	287,804	1.0%	628,274	1.0%	9,054,702	2.0%	28,938	(0.8)%	31,461	1.0%
2003	22,058	1.6%	290,326	0.9%	652,610	3.9%	9,369,072	3.5%	29,586	2.2%	32,271	2.6%
2004	22,418	1.6%	293,046	0.9%	696,796	6.8%	9,928,790	6.0%	31,082	5.1%	33,881	5.0%
2005	22,802	1.7%	295,753	0.9%	756,683	8.6%	10,476,669	5.5%	33,185	6.8%	35,424	4.6%
2006	23,369	2.5%	298,593	1.0%	824,281	8.9%	11,256,516	7.4%	35,272	6.3%	37,698	6.4%
2007	23,838	2.0%	301,580	1.0%	882,881	7.1%	11,899,853	5.7%	37,037	5.0%	39,458	4.7%
2008	24,304	2.0%	304,375	0.9%	967,449	9.6%	12,379,745	4.0%	39,806	7.5%	40,673	3.1%
2009*	24,782	2.0%	307,007	0.9%	955,264	(1.3)%	12,165,474	(1.7)%	38,546	(3.2)%	39,626	(2.6)%
2010*	25,252	1.9%	309,991	1.0%	991,010	3.7%	12,469,368	2.5%	39,245	1.8%	40,225	1.5%

* Prior years are subject to revisions. 2010 numbers include some forecast model quarterly estimates for the latter part of the year.

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.
2001	9,514	0.9%	131,830	0.0%	4.8%	4.7%
2002	9,416	(1.0)%	130,340	(1.1)%	6.3%	5.8%
2003	9,370	(0.5)%	129,996	(0.3)%	6.7%	6.0%
2004	9,497	1.4%	131,419	1.1%	6.0%	5.5%
2005	9,740	2.6%	133,699	1.7%	5.3%	5.1%
2006	10,066	3.3%	136,098	1.8%	4.9%	4.6%
2007	10,395	3.3%	137,604	1.1%	4.4%	4.6%
2008	10,607	2.0%	137,046	(0.4)%	4.9%	5.8%
2009*	10,311	(2.8)%	131,970	(3.7)%	7.5%	9.2%
2010*	10,352	0.4%	130,263	(1.3)%	8.2%	9.6%

* 2009 and 2010 numbers are subject to benchmark revisions. 2010 Texas numbers include an estimate for the final month of the year.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts and U.S. Bureau of Labor Statistics – historical data was revised

STATE OF TEXAS

Statistical Section – Operating Information

Full-Time Equivalent Employees by Function

Last Ten Fiscal Years

FUNCTION	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Government	13,472	13,362	13,607	13,034	13,435	12,999	13,438	13,155	13,720	13,801
Education	124,871	129,767	133,857	134,456	140,367	144,636	146,944	152,121	156,375	159,918
Employee Benefits	309	314	315	302	292	294	302	311	325	344
Teacher Retirement Benefits	418	437	441	440	451	444	445	454	476	496
Health and Human Services	53,023	53,420	52,238	49,288	48,389	49,097	50,910	53,161	56,067	58,071
Public Safety and Corrections	52,133	52,405	53,231	51,473	51,397	51,564	50,889	50,340	52,165	53,209
Transportation	14,926	14,845	14,717	14,078	14,551	14,744	14,748	14,148	13,257	12,692
Natural Resources and Recreation	8,172	8,370	8,299	7,990	8,053	8,018	8,014	8,264	8,484	8,646
Regulatory Services	3,933	3,973	3,882	3,779	3,882	3,869	3,828	3,891	4,048	4,052
Total FTEs	271,257	276,893	280,587	274,840	280,817	285,665	289,518	295,845	304,917	311,229
Percentage Change	0.4%	2.1%	1.3%	(2.0)%	2.2%	1.7%	1.3%	2.2%	3.1%	2.1%

Source: Texas State Auditor's Office

STATE OF TEXAS

Statistical Section – Operating Information

Capital Asset Statistics by Function

Last Six Fiscal Years

Function	2005	2006	2007	2008	2009	2010
GENERAL GOVERNMENT						
Number of Texas Facilities Commission Owned Facilities	71	75	75	137	137	133
State Real Property Inventory in Acres	2,446,418	2,425,037	1,322,123	1,325,319	1,329,671	1,342,038
EDUCATION						
Number of School Districts (Independent and Common)	1,037	1,033	1,031	1,031	1,031	1,030
Number of Students	4,383,871	4,505,572	4,576,933	4,671,493	4,749,571	4,847,844
Number of Higher Education Institutions	145	145	145	145	145	148
HEALTH AND HUMAN SERVICES						
Number of State Mental Health Facilities	39	39	39	39	39	39
Number of State Hospitals	10	10	10	11	11	11
PUBLIC SAFETY AND CORRECTIONS						
Number of State Prisons – Texas Department of Criminal Justice only	106	106	106	112	113	112
Number of Available Beds (Capacity)	155,277	156,520	156,652	160,622	159,656	159,656
Number of Authorized Vehicular State Patrol Units	1,095	1,195	1,281	1,281	1,494	1,811
TRANSPORTATION						
Centerline Miles of Highways*	79,645	79,696	79,849	79,975	80,066	79,903
Number of Bridges**	32,421	33,322	32,996	33,118	33,393	33,679
NATURAL RESOURCES AND RECREATION						
Number of State Parks Managed	117	112	110	93	93	93
Number of Park Acreage	610,319	608,716	602,892	605,470	614,790	604,799

* 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. Texas Department of Transportation 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 websites (complete capital asset statistics by function for all data presented only available from 2005-10)

STATE OF TEXAS

Statistical Section – Operating Information

Operating Indicators by Function

Last Six Fiscal Years

Function	2005	2006	2007	2008	2009	2010
GENERAL GOVERNMENT / REGULATORY SERVICES						
Number of Tax Returns Processed	3,796,940	3,904,659	4,251,103	4,054,947	4,471,082	4,594,272
Number of Licenses Issued	1,494,693	1,554,754	1,166,069	1,243,330	1,310,014	1,314,903
EDUCATION						
Average Daily School Attendance (ADA)	4,099,615	4,205,729	4,260,406	4,326,176	4,420,134	4,506,950
Percent of Students Passing TAKS Test*	62%	67%	70%	72%	74%	77%
Texas Higher Education Enrollments	1,184,373	1,211,582	1,228,897	1,264,286	1,366,436	1,464,081
Higher Education Degrees Awarded**	185,326	188,258	193,321	198,298	209,868	N/A
HEALTH AND HUMAN SERVICES						
Number of Medicaid Clients Served	2,779,373	2,873,786	2,832,214	2,877,203	3,002,731	3,296,439
Number of TANF Clients Served ***	219,045	172,776	145,838	125,309	113,786	121,290
Number of Immunizations ****	6,381,835	11,617,682	12,827,417	12,771,928	9,607,193	13,019,184
PUBLIC SAFETY AND CORRECTIONS						
Number of New Prison Population	73,815	74,170	73,525	74,283	72,738	72,315
Number of Prison Population Released	69,846	71,214	72,032	72,002	72,218	71,063
Average Daily Prison Population	151,448	151,734	152,805	155,588	155,432	154,315
Authorized Number of Troopers Patrolling Texas Highways	1,628	1,628	1,689	1,709	1,825	1,814
TRANSPORTATION						
Number of Construction Contracts Processed for Letting	989	1,075	877	694	710	1,169
Number of Lane Miles Receiving Roadway Surface Improvments: – By Contract	18,554	15,811	13,197	8,462	15,671	16,160
– Via State Sources	7,318	6,406	5,984	6,344	5,910	6,718
Number of Vehicles Registered	19,624,460	20,609,866	21,432,773	24,359,319	24,607,246	21,570,282
NATURAL RESOURCES AND RECREATION						
Number of State Parks Visits (in Millions)	5.2	5.0	4.9	4.3	4.5	4.4
Number of Parks and Wildlife Licenses Issued*****	2,626,957	2,625,225	2,665,045	2,892,695	2,932,002	2,749,336

* "TAKS" stands for "Texas Assessment of Knowledge and Skills." The "Percent of Students Passing TAKS test" is from the 2009-10 Texas Education Agency Academic Excellence Indicator System report at: http://www.tea.state.tx.us/perfreport/aeis/2010/state.pdf. These scores represent the "TAKS Met 2010 Standard (Sum of All Grades Tested)(Standard Accountability Standard)."

** The 2010 degrees conferred will not be available until later in 2011.

*** Temporary Assistance for Needy Families (TANF) fiscal 2010 is based on data through November 2010, but will not be finalized until March 2011.

**** The number of immunizations is lower in 2009 due to a revison to automated system initiated by the Centers for Disease Control and Prevention, which made it unable to capture doses administered data. A new mechanism will be available in future years to fully capture this data.

***** 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 websites (complete operating indicators by function for all data presented only available from 2005-10)

Texas Comptroller of Public Accounts
Publication #96-471. Printed February 2011.

For additional copies of this report or to unsubscribe, write:
Texas Comptroller of Public Accounts
Fiscal Management
111 E. 17th Street
Austin, Texas 78774-0100

An electronic version of this report may be found online at
www.window.state.tx.us/fm/pubs/cafr/

Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2010

TEXAS

Texas State Auditor's Office
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 That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 2

Schedule of Expenditures of Federal Awards 25

Notes to Schedule of Expenditures of Federal Awards 165

Schedule of Findings and Questioned Costs

Section 1:
Summary of Auditors' Results 171

Section 2:
Financial Statement Findings 175

Section 3a:
Federal Award Findings and Questioned Costs - KPMG 177

Section 3b:
Federal Award Findings and Questioned Costs – Other Auditors 249

Summary of Schedule of Prior Audit Findings - KPMG 450

Summary of Schedule of Prior Audit Findings - Other Auditors 516

This page intentionally left blank.

Independent Auditors' Reports

Federal Portion of
Statewide Single Audit Report

For the Year Ended August 31, 2010

This page intentionally left blank.

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, 2010, and have issued our report thereon dated February 18, 2011.

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 six 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 18, 2011

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

KPMG LLP
Suite 1900
111 Congress Avenue
Austin, TX 78701-4091

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on 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 Legislature, State of Texas
State of Texas:

Compliance

We have audited the State of Texas' (the State) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* (Compliance Supplement) that could have a direct and material effect on each of the State's major federal programs for the year ended August 31, 2010, except those requirements discussed in the third following paragraph. We also did not audit the State's compliance with compliance requirements applicable to the Student Financial Assistance Cluster, Research and Development Cluster, CFDA 20.106-Airport Improvement Program, CFDA 66.468-Capitalization Grants for Drinking Water State Revolving Funds, Public Assistance Cluster, Highway Planning and Construction Cluster, and Homeland Security Cluster, which represent approximately 15% 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 66.468-Capitalization Grants for Drinking Water State Revolving Funds, Public Assistance Cluster, Highway Planning and Construction Cluster, and Homeland Security Cluster are identified in the accompanying schedule of findings and questioned costs as major federal programs and were audited by another auditor whose reports have 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 66.468-Capitalization Grants for Drinking Water State Revolving Funds, Public Assistance Cluster, Highway Planning and Construction Cluster, and Homeland Security Cluster, is based on the reports 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.

The State's basic financial statements include the operations of four component units of the State that received approximately $174 million in federal awards, which are not included in the schedule of expenditures of federal awards for the year ended August 31, 2010. Our audit, described below, did not include the operations of the four component units of the State because each of those agencies has its 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) and Educational Loan Servicing, LLC (dba Campus Partners). 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, 2010 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*. Our report does not include the results of the other accountants' examinations of the service organizations' compliance with such requirements.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

Except as discussed below, we and the other auditors 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 and the reports of other auditors provide 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 in the accompanying schedule of findings and questioned costs, based on our audit and the reports of other auditors, we were unable to obtain sufficient documentation supporting the compliance of the State with the program compliance requirements listed below, nor were we able to satisfy ourselves as to the State's compliance with those requirements by other auditing procedures. 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 93.667 – Social Services Block Grant	Eligibility	11-10
		Earmarking	11-15
Texas Department of Housing and Community Affairs	CDBG – State-Administered Small Cities Program Cluster	Reporting Earmarking	11-26

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 reports 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	Medicaid Cluster Medicaid Cluster – ARRA SNAP Cluster SNAP Cluster – ARRA TANF Cluster TANF Cluster – ARRA	Eligibility Special Tests and Provisions	11-09
	CFDA 93.767 – Children's Health Insurance Program	Eligibility	11-11
	CFDA 93.667 – Social Services Block Grant CFDA 93.767 – Children's Health Insurance Program Medicaid Cluster Medicaid Cluster – ARRA TANF Cluster	Allowable Costs/Cost Principles Period of Availability of Federal Funds	11-12

Agency/University	Program	Compliance Requirement	Finding Number
Health and Human Services Commission	CFDA 93.667 – Social Services Block Grant	Subrecipient Monitoring	11-16
	Medicaid Cluster	Special Tests and Provisions	11-17
	SNAP Cluster	Special Tests and Provisions	11-19
	TANF Cluster TANF Cluster – ARRA	Special Tests and Provisions	11-21
Office of the Attorney General	CFDA 93.563 – Child Support Enforcement	Special Tests and Provisions	11-30
Texas Education Agency	CFDA 84.048 – Career and Technical Education – Basic Grants to States CFDA 84.287 – Twenty-First Century Community Learning Centers CFDA 84.357 – Reading First State Grants CFDA 84.365 – English Language Acquisition Grants CFDA 84.367 – Improving Teacher Quality State Grants Educational Technology State Grants Cluster Educational Technology State Grants Cluster – ARRA Special Education Cluster (IDEA) Special Education Cluster (IDEA) – ARRA State Fiscal Stabilization Fund Cluster – ARRA Title I, Part A Cluster Title I, Part A Cluster – ARRA	Subrecipient Monitoring Maintenance of Effort and Supplement not Supplant Reporting – Section 1512 Special Tests and Provisions	11-37
Lamar State College – Orange	Student Financial Assistance Cluster	Special Tests and Provisions	11-104
Department of Public Safety	Homeland Security Cluster	Allowable Costs/Cost Principles Matching, Level of Effort, Earmarking	11-107
		Procurement and Suspension and Debarment	11-109

Agency/University	Program	Compliance Requirement	Finding Number
Department of Public Safety	Homeland Security Cluster	Subrecipient Monitoring	11-111
	Public Assistance Cluster	Subrecipient Monitoring Special Tests and Provisions	11-115
Texas State University – San Marcos	Student Financial Assistance Cluster	Special Tests and Provisions	11-133
Department of Transportation	Highway Planning and Construction Cluster Highway Planning and Construction Cluster – ARRA	Procurement and Suspension and Debarment Subrecipient Monitoring Special Tests and Provisions	11-144
	Highway Planning and Construction Cluster	Special Tests and Provisions	11-146

In our opinion, based on our report and the reports of other auditors, because of the effects of the noncompliance described in the preceding paragraph, the State did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on:

- SNAP Cluster (with ARRA)
- Homeland Security Cluster

Also, in our opinion, based on our audit and the reports of other auditors, except for the noncompliance described in the previous two paragraphs, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended August 31, 2010. However, the results of our auditing procedures and the reports of other auditors also 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 Aging and Disability Services	Aging Cluster – ARRA	Subrecipient Monitoring	11-01
Department of Assistive and Rehabilitative Services	Vocational Rehabilitation Cluster Vocational Rehabilitation Cluster – ARRA	Eligibility	11-03
	Vocational Rehabilitation Cluster – ARRA	Procurement and Suspension and Debarment	11-04
Department of Family and Protective Services	CFDA 93.659 – Adoption Assistance CFDA 93.659 – Adoption Assistance – ARRA	Eligibility	11-06

Agency/University	Program	Compliance Requirement	Finding Number
Department of Family and Protective Services	CFDA 93.658 – Foster Care – Title IV-E CFDA 93.658 – Foster Care – Title IV-E – ARRA	Eligibility	11-07
Office of the Governor	CFDA 16.803 – Recovery Act – Edward Byrne Memorial Justice Assistance Grant Program – Grants to States and Territories – ARRA	Subrecipient Monitoring	11-08
Health and Human Services Commission	CFDA 93.667 – Social Services Block Grant	Allowable Costs/Cost Principles	11-14
	Medicaid Cluster	Special Tests and Provisions	11-18
	TANF Cluster TANF Cluster – ARRA	Special Tests and Provisions	11-22
Health and Human Services Commission Department of Aging and Disability Services	CFDA 93.667 - Social Services Block Grant CFDA 93.767 – Children's Health Insurance Program Aging Cluster Medicaid Cluster SNAP Cluster TANF Cluster	Allowable Costs/Cost Principles	11-23
Health and Human Services Commission Texas Workforce Commission	TANF Cluster TANF Cluster – ARRA	Special Tests and Provisions	11-24
Texas Department of Housing and Community Affairs	CSBG Cluster – ARRA	Reporting	11-27
Office of the Attorney General	CFDA 93.563 – Child Support Enforcement	Special Tests and Provisions	11-29
Department of Public Safety	CFDA 16.803 – Recovery Act – Edward Byrne Memorial Justice Assistance Grant Program – Grants to States and Territories – ARRA	Equipment	11-31
Texas Department of Rural Affairs	CDBG – State-Administered Small Cities Program Cluster CDBG – State-Administered Small Cities Program Cluster – ARRA	Reporting	11-33

Agency/University	Program	Compliance Requirement	Finding Number
Texas Department of Rural Affairs	CDBG – State-Administered Small Cities Program Cluster – ARRA	Subrecipient Monitoring	11-34
Texas Higher Education Coordinating Board Texas Education Agency	State Fiscal Stabilization Fund Cluster – ARRA	Procurement and Suspension and Debarment	11-40
Lamar Institute of Technology	Student Financial Assistance Cluster	Eligibility	11-101
		Special Tests and Provisions	11-102
Lamar State College – Orange	Student Financial Assistance Cluster	Eligibility	11-103
Midwestern State University	Student Financial Assistance Cluster	Eligibility	11-105
		Special Tests and Provisions	11-106
Department of Public Safety	Homeland Security Cluster	Cash Management Period of Availability of Federal Funds Special Tests and Provisions	11-108
		Reporting	11-110
	Public Assistance Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management	11-112
		Procurement and Suspension and Debarment Matching, Level of Effort, Earmarking Period of Availability of Federal Funds	11-113
		Reporting	11-114
Texas A&M Health Science Center	Student Financial Assistance Cluster	Eligibility	11-116

Agency/University	Program	Compliance Requirement	Finding Number
Texas A&M Health Science Center	Student Financial Assistance Cluster	Special Tests and Provisions	11-117
Texas A&M International University	Student Financial Assistance Cluster	Eligibility	11-118
		Special Tests and Provisions	11-119
Texas A&M University	Student Financial Assistance Cluster	Eligibility	11-120
		Reporting	11-121
		Special Tests and Provisions	11-122 11-123 11-124
Texas Engineering Experiment Station	Research and Development Cluster	Period of Availability of Federal Funds	11-125
		Procurement and Suspension and Debarment	11-126
Texas Southern University	Student Financial Assistance Cluster	Eligibility	11-127
		Special Tests and Provisions	11-128
Texas State University – San Marcos	Student Financial Assistance Cluster	Eligibility Activities Allowed or Unallowed Cash Management Period of Availability of Federal Funds Special Tests and Provisions	11-129
		Reporting	11-130
		Special Tests and Provisions	11-131 11-132
Texas Tech University	Student Financial Assistance Cluster	Eligibility Activities Allowed or Unallowed Cash Management Period of Availability of Federal Funds Special Tests and Provisions	11-134

Agency/University	Program	Compliance Requirement	Finding Number
Texas Tech University	Student Financial Assistance Cluster	Reporting	11-135
		Special Tests and Provisions	11-136 11-137 11-138 11-139
Texas Tech University Health Sciences Center	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Period of Availability of Federal Funds Procurement and Suspension and Debarment	11-140
	Research and Development Cluster – ARRA	Special Tests and Provisions	11-141
Department of Transportation	Highway Planning and Construction Cluster	Davis-Bacon Act	11-142
	Highway Planning and Construction Cluster Highway Planning and Construction Cluster – ARRA	Reporting	11-145
	CFDA 20.106 – Airport Improvement Program	Procurement and Suspension and Debarment	11-147
		Special Tests and Provisions	11-149
	CFDA 20.106 – Airport Improvement Program CFDA 20.106 – Airport Improvement Program – ARRA	Reporting	11-148
University of Houston	Student Financial Assistance Cluster	Reporting	11-151
		Special Tests and Provisions	11-152 11-153 11-154 11-155

Agency/University	Program	Compliance Requirement	Finding Number
University of Houston	Research and Development Cluster Research and Development Cluster – ARRA	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Period of Availability of Federal Funds Procurement and Suspension and Debarment	11-156
	Research and Development Cluster – ARRA	Special Tests and Provisions	11-157
University of Houston – Downtown	Student Financial Assistance Cluster	Special Tests and Provisions	11-159
University of Houston – Victoria	Student Financial Assistance Cluster	Eligibility Special Tests and Provisions	11-160
University of North Texas	Student Financial Assistance Cluster	Eligibility	11-162
		Reporting	11-163
		Special Tests and Provisions	11-164
University of Texas at Austin	Student Financial Assistance Cluster	Reporting Activities Allowed or Unallowed Cash Management Eligibility Period of Availability of Federal Funds Special Tests and Provisions	11-165
		Special Tests and Provisions	11-166 11-167

Agency/University	Program	Compliance Requirement	Finding Number
University of Texas at Austin	Research and Development Cluster Research and Development Cluster – ARRA	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Equipment and Real Property Management Period of Availability of Federal Funds Procurement and Suspension and Debarment Reporting Special Tests and Provisions	11-168
University of Texas at El Paso	Student Financial Assistance Cluster	Eligibility	11-170
		Special Tests and Provisions	11-171
University of Texas Health Science Center at Houston	Research and Development Cluster	Allowable Costs/Cost Principles	11-172
		Cash Management	11-173
		Equipment and Real Property Management	11-174
		Procurement and Suspension and Debarment	11-175
University of Texas M. D. Anderson Cancer Center	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Period of Availability of Federal Funds Program Income Special Tests and Provisions	11-176
		Reporting	11-177

Agency/University	Program	Compliance Requirement	Finding Number
University of Texas M. D. Anderson Cancer Center	Research and Development Cluster – ARRA	Special Tests and Provisions	11-179
University of Texas at San Antonio	Student Financial Assistance Cluster	Eligibility Activities Allowed or Unallowed Cash Management Period of Availability of Federal Funds Reporting Special Tests and Provisions	11-180
		Special Tests and Provisions	11-181 11-182 11-183 11-184
University of Texas Southwestern Medical Center at Dallas	Student Financial Assistance Cluster	Special Tests and Provisions	11-186
	Research and Development Cluster Research and Development Cluster – ARRA	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Period of Availability of Federal Funds Special Tests and Provisions	11-187
	Research and Development Cluster	Equipment and Real Property Management	11-188
	Research and Development Cluster – ARRA	Reporting	11-189
	Research and Development Cluster Research and Development Cluster – ARRA	Subrecipient Monitoring Special Tests and Provisions	11-190
Water Development Board	CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds – ARRA	Reporting	11-192

Agency/University	Program	Compliance Requirement	Finding Number
Water Development Board	CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds – ARRA	Subrecipient Monitoring	11-193

Internal Control over Compliance

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 to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an 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.

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, 2010 was reported on 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*. 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 was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. 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 material weaknesses:

Agency/University	Program	Compliance Requirement	Finding Number
Department of Aging and Disability Services Health and Human Services Commission	CFDA 93.667 – Social Services Block Grant CFDA 93.767 – Children's Health Insurance Program Medicaid Cluster Medicaid Cluster – ARRA SNAP Cluster TANF Cluster	Allowable Costs/Cost Principles	11-02

Agency/University	Program	Compliance Requirement	Finding Number
Health and Human Services Commission	Medicaid Cluster Medicaid Cluster – ARRA SNAP Cluster SNAP Cluster – ARRA TANF Cluster TANF Cluster – ARRA	Eligibility Special Tests and Provisions	11-09
	CFDA 93.667 – Social Services Block Grants	Eligibility	11-10
Lamar State College – Orange	Student Financial Assistance Cluster	Special Tests and Provisions	11-104
Department of Public Safety	Homeland Security Cluster	Allowable Costs/Cost Principles Matching, Level of Effort, Earmarking	11-107
		Procurement and Suspension and Debarment	11-109
		Subrecipient Monitoring	11-111
	Public Assistance Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management	11-112
		Subrecipient Monitoring Special Tests and Provisions	11-115
Texas State University – San Marcos	Student Financial Assistance Cluster	Special Tests and Provisions	11-133
Department of Transportation	Highway Planning and Construction Cluster Highway Planning and Construction Cluster – ARRA	Procurement and Suspension and Debarment Subrecipient Monitoring Special Tests and Provisions	11-144
	Highway Planning and Construction Cluster	Special Tests and Provisions	11-146

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. 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:

Agency/University	Program	Compliance Requirement	Finding Number
Department of Assistive and Rehabilitative Services	Vocational Rehabilitation Cluster Vocational Rehabilitation Cluster – ARRA	Eligibility	11-03
Department of Family and Protective Services	CFDA 93.658 – Foster Care – Title IV-E CFDA 93.659 – Adoption Assistance CFDA 93.667 – Social Services Block Grant TANF Cluster TANF Cluster – ARRA	Allowable Costs/Cost Principles	11-05
	CFDA 93.659 – Adoption Assistance CFDA 93.659 – Adoption Assistance – ARRA	Eligibility	11-06
	CFDA 93.658 – Foster Care – Title IV-E CFDA 93.658 – Foster Care – Title IV-E – ARRA	Eligibility	11-07
Health and Human Services Commission	CFDA 93.767 - Children's Health Insurance Program	Eligibility	11-11
	CFDA 93.667 – Social Services Block Grant CFDA 93.767 – Children's Health Insurance Program Medicaid Cluster Medicaid Cluster – ARRA TANF Cluster	Allowable Costs/Cost Principles Period of Availability of Federal Funds	11-12
	CFDA 93.767 – Children's Health Insurance Program Medicaid Cluster Medicaid Cluster – ARRA	Allowable Costs/Cost Principles Program Income	11-13
	CFDA 93.667 – Social Services Block Grant	Allowable Costs/Cost Principles	11-14
		Earmarking	11-15
		Subrecipient Monitoring	11-16
	Medicaid Cluster	Special Tests and Provisions	11-17

Agency/University	Program	Compliance Requirement	Finding Number
Health and Human Services Commission	SNAP Cluster	Special Tests and Provisions	11-19
		Reporting Special Tests and Provisions	11-20
	TANF Cluster TANF Cluster – ARRA	Special Tests and Provisions	11-21 11-22
Health and Human Services Commission Texas Workforce Commission	TANF Cluster TANF Cluster – ARRA	Special Tests and Provisions	11-24
Texas Department of Housing and Community Affairs	CDBG – State-Administered Small Cities Program Cluster	Allowable Costs/Cost Principles Cash Management Earmarking Reporting Special Tests and Provisions	11-25
		Reporting Earmarking	11-26
Office of the Attorney General	CFDA 93.563 – Child Support Enforcement CFDA 93.563 – Child Support Enforcement – ARRA	Allowable Costs/Cost Principles Cash Management Matching Period of Availability of Federal Funds Reporting	11-28
	CFDA 93.563 – Child Support Enforcement	Special Tests and Provisions	11-30
Department of Public Safety	CFDA 16.803 – Recovery Act – Edward Byrne Memorial Justice Assistance Grant Program – Grants to States and Territories – ARRA	Equipment	11-31
Department of State Health Services	CFDA 10.557 – Special Supplemental Nutrition Program for Women, Infants, and Children	Allowable Costs/Cost Principles Special Tests and Provisions	11-32

Agency/University	Program	Compliance Requirement	Finding Number
Texas Education Agency	CFDA 84.048 – Career and Technical Education - Basic Grants to States CFDA 84.287 – Twenty-First Century Community Learning Centers Educational Technology State Grants Cluster Educational Technology State Grants Cluster – ARRA Special Education Cluster (IDEA) Special Education Cluster (IDEA) – ARRA Title I, Part A Cluster Title I, Part A Cluster – ARRA	Allowable Costs/Cost Principles	11-35
	CFDA 84.048 – Career and Technical Education – Basic Grants to States CFDA 84.287 – Twenty-First Century Community Learning Centers CFDA 84.357 – Reading First State Grants CFDA 84.365 – English Language Acquisition Grants CFDA 84.367 – Improving Teacher Quality State Grants Educational Technology State Grants Cluster Educational Technology State Grants Cluster – ARRA Special Education Cluster (IDEA) Special Education Cluster (IDEA) – ARRA State Fiscal Stabilization Fund Cluster – ARRA Title I, Part A Cluster Title I, Part A Cluster – ARRA	Eligibility for Sub recipients Matching, Level of Effort, Earmarking Reporting Subrecipient Monitoring Special Tests and Provisions	11-36
		Subrecipient Monitoring Maintenance of Effort and Supplement not Supplant Reporting – Section 1512 Special Tests and Provisions	11-37
Texas Higher Education Coordinating Board	CFDA 84.048 – Career and Technical Education – Basic Grants to States	Allowable Costs/Cost Principles Period of Availability of Federal Funds Reporting Subrecipient Monitoring	11-38
	CFDA 84.032L – Federal Family Education Loans – Lenders	Reporting Special Tests and Provisions	11-39

Agency/University	Program	Compliance Requirement	Finding Number
Texas Higher Education Coordinating Board Texas Education Agency	State Fiscal Stabilization Fund Cluster – ARRA	Procurement and Suspension and Debarment	11-40
Lamar Institute of Technology	Student Financial Assistance Cluster	Eligibility	11-101
		Special Tests and Provisions	11-102
Lamar State College – Orange	Student Financial Assistance Cluster	Eligibility	11-103
Midwestern State University	Student Financial Assistance Cluster	Eligibility	11-105
		Special Tests and Provisions	11-106
Department of Public Safety	Homeland Security Cluster	Cash Management Period of Availability of Federal Funds Special Tests and Provisions	11-108
		Reporting	11-110
	Public Assistance Cluster	Procurement and Suspension and Debarment Matching, Level of Effort, Earmarking Period of Availability of Federal Funds	11-113
		Reporting	11-114
Texas A&M Health Science Center	Student Financial Assistance Cluster	Eligibility	11-116
		Special Tests and Provisions	11-117
Texas A&M International University	Student Financial Assistance Cluster	Eligibility	11-118
		Special Tests and Provisions	11-119
Texas A&M University	Student Financial Assistance Cluster	Eligibility	11-120
		Reporting	11-121

Agency/University	Program	Compliance Requirement	Finding Number
Texas A&M University	Student Financial Assistance Cluster	Special Tests and Provisions	11-122 11-123 11-124
Texas Engineering Experiment Station	Research and Development Cluster	Period of Availability of Federal Funds	11-125
		Procurement and Suspension and Debarment	11-126
Texas Southern University	Student Financial Assistance Cluster	Eligibility	11-127
		Special Tests and Provisions	11-128
Texas State University – San Marcos	Student Financial Assistance Cluster	Eligibility Activities Allowed or Unallowed Cash Management Period of Availability of Federal Funds Special Tests and Provisions	11-129
		Reporting	11-130
		Special Tests and Provisions	11-131 11-132
Texas Tech University	Student Financial Assistance Cluster	Eligibility Activities Allowed or Unallowed Cash Management Period of Availability of Federal Funds Special Tests and Provisions	11-134
		Reporting	11-135
		Special Tests and Provisions	11-136 11-137 11-138 11-139

Agency/University	Program	Compliance Requirement	Finding Number
Texas Tech University Health Sciences Center	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Period of Availability of Federal Funds Procurement and Suspension and Debarment	11-140
	Research and Development Cluster – ARRA	Special Tests and Provisions	11-141
Department of Transportation	Highway Planning and Construction Cluster	Davis-Bacon Act	11-142
		Period of Availability of Federal Funds	11-143
	Highway Planning and Construction Cluster Highway Planning and Construction Cluster – ARRA	Reporting	11-145
	CFDA 20.106 – Airport Improvement Program	Procurement and Suspension and Debarment	11-147
		Special Tests and Provisions	11-149
	CFDA 20.106 – Airport Improvement Program CFDA 20.106 – Airport Improvement Program – ARRA	Reporting	11-148
University of Houston	Student Financial Assistance Cluster	Cash Management Activities Allowed or Unallowed Eligibility Period of Availability of Federal Funds Special Tests and Provisions	11-150
		Reporting	11-151
		Special Tests and Provisions	11-152 11-153 11-154 11-155

Agency/University	Program	Compliance Requirement	Finding Number
University of Houston	Research and Development Cluster Research and Development Cluster – ARRA	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Period of Availability of Federal Funds Procurement and Suspension and Debarment	11-156
	Research and Development Cluster – ARRA	Special Tests and Provisions	11-157
University of Houston – Downtown	Student Financial Assistance Cluster	Eligibility	11-158
		Special Tests and Provisions	11-159
University of Houston – Victoria	Student Financial Assistance Cluster	Eligibility Special Tests and Provisions	11-160
University of North Texas	Student Financial Assistance Cluster	Cash Management	11-161
		Eligibility	11-162
		Reporting	11-163
		Special Tests and Provisions	11-164
University of Texas at Austin	Student Financial Assistance Cluster	Reporting Activities Allowed or Unallowed Cash Management Eligibility Period of Availability of Federal Funds Special Tests and Provisions	11-165
		Special Tests and Provisions	11-166 11-167

Agency/University	Program	Compliance Requirement	Finding Number
University of Texas at Austin	Research and Development Cluster Research and Development Cluster – ARRA	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Equipment and Real Property Management Period of Availability of Federal Funds Procurement and Suspension and Debarment Reporting Special Tests and Provisions	11-168
University of Texas at Brownsville	Research and Development Cluster Research and Development Cluster – ARRA	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Period of Availability of Federal Funds Procurement and Suspension and Debarment Special Tests and Provisions	11-169
University of Texas at El Paso	Student Financial Assistance Cluster	Eligibility	11-170
		Special Tests and Provisions	11-171
University of Texas Health Science Center at Houston	Research and Development Cluster	Allowable Costs/Cost Principles	11-172
		Cash Management	11-173
		Equipment and Real Property Management	11-174
		Procurement and Suspension and Debarment	11-175

Agency/University	Program	Compliance Requirement	Finding Number
University of Texas M. D. Anderson Cancer Center	Research and Development Cluster	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Period of Availability of Federal Funds Program Income Special Tests and Provisions	11-176
		Reporting	11-177
		Special Tests and Provisions	11-178
	Research and Development Cluster – ARRA	Special Tests and Provisions	11-179
University of Texas at San Antonio	Student Financial Assistance Cluster	Eligibility Activities Allowed or Unallowed Cash Management Period of Availability of Federal Funds Reporting Special Tests and Provisions	11-180
		Special Tests and Provisions	11-181 11-182 11-183 11-184
University of Texas Southwestern Medical Center at Dallas	Student Financial Assistance Cluster	Eligibility	11-185
		Special Tests and Provisions	11-186

Agency/University	Program	Compliance Requirement	Finding Number
University of Texas Southwestern Medical Center at Dallas	Research and Development Cluster Research and Development Cluster – ARRA	Activities Allowed or Unallowed Allowable Costs/Cost Principles Cash Management Period of Availability of Federal Funds Special Tests and Provisions	11-187
	Research and Development Cluster	Equipment and Real Property Management	11-188
		Special Tests and Provisions	11-191
	Research and Development Cluster – ARRA	Reporting	11-189
	Research and Development Cluster Research and Development Cluster – ARRA	Subrecipient Monitoring Special Tests and Provisions	11-190
Water Development Board	CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds – ARRA	Reporting	11-192
	CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds – ARRA	Subrecipient Monitoring	11-193

The State's responses to the findings identified in our audit and the reports of other auditors are described in the accompanying schedule of findings and questioned costs. We, and the other auditors, did not audit the State's responses, and accordingly, we and the other auditors express no opinion on the responses.

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, 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 18, 2011

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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	G08SW005A	$	$ 7,026	$ 7,026
		G09NT002A		44,743	44,743
		G09SS0010A		77,740	77,740
		G09SW005		47,007	47,007
		G10NT0002		10,458	10,458
		G10SS0010A		5,255	5,255
		G10SW005A		5,008	5,008
		I6PHNP508		14,725	14,725
		I7PHNP508		159,721	159,721
		I7PSSP701		2,089	2,089
		I7PSWP567		88,711	88,711
		I8PHNP508		66,310	66,310
		I8PHNTP502		106,406	106,406
		I8PSSP701		178,607	178,607
		I8PSWP567		72,324	72,324
		PSWP562		242,737	242,737
Total - CFDA 07.XXX			0	1,128,867	1,128,867
Total - Office of National Drug Control Policy			0	1,128,867	1,128,867
U.S. Department of Agriculture					
U.S. Department of Agriculture	10.XXX	12-25-A-4666		124,800	124,800
		TEXAS 796 A16 / 21A244 B63044 100		31,168	31,168
Pass-Through from Washington State University		437620		10,835	10,835
Total - CFDA 10.XXX			0	166,803	166,803
Agricultural Research--Basic and Applied Research	10.001			25,794	25,794
Plant and Animal Disease, Pest Control and Animal Care	10.025			5,614,130	5,614,130
Wildlife Services	10.028			2,872	2,872
Conservation Reserve Program	10.069			18,779	18,779
ARRA - Aquaculture Grants Program	10.086		1,692,943		1,692,943
Market News	10.153			20,125	20,125
Market Protection and Promotion	10.163			1,526,120	1,526,120
Farmers Market Promotion Program	10.168			53,512	53,512
Specialty Crop Block Grant Program	10.169		41,930	67,166	109,096
Specialty Crop Block Grant Program - Farm Bill	10.170		384,666	423,727	808,393
Grants for Agricultural Research, Special Research Grants	10.200		55,269	446,084	501,353
Pass-Through from Louisiana State University		434005		4,753	4,753
Pass-Through from Louisiana State University		434950		10,969	10,969
Pass-Through from University of California - Davis		440830		9,636	9,636
Pass-Through from University of Florida		420340		(102)	(102)
Pass-Through from University of Florida		420430		2,000	2,000
Pass-Through from University of Florida		433650		4,002	4,002
Pass-Through from University of Florida		434290		23,951	23,951
Pass-Through from University of Florida		437640		1,155	1,155
Pass-Through from University of Florida		440750		15,000	15,000
Pass-Through from University of Florida		440760		10,000	10,000
Pass-Through from University of Florida		440860		10,387	10,387

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 University of Florida		440920		3,212	3,212
Pass-Through from University of Florida		440950		2,329	2,329
Total - CFDA 10.200			55,269	543,376	598,645
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205			86,801	86,801
Grants for Agricultural Research--Competitive Research Grants	10.206			(1,770)	(1,770)
Sustainable Agriculture Research and Education	10.215				
Pass-Through from University of Georgia		423330	12,893	2,247	15,140
Pass-Through from University of Georgia		435280		1,605	1,605
Pass-Through from University of Georgia		451240		1,529	1,529
Pass-Through from University of Georgia		451430		20,207	20,207
Total - CFDA 10.215			12,893	25,588	38,481
1890 Institution Capacity Building Grants	10.216			30,916	30,916
Hispanic Serving Institutions Education Grants	10.223		98,517	164,029	262,546
Pass-Through from Alamo Community College District		8000001193		5,492	5,492
Pass-Through from Houston Community College System		2009-01184		30,915	30,915
Pass-Through from Houston Community College System		64019GR		26,279	26,279
Total - CFDA 10.223			98,517	226,715	325,232
Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants	10.226			14,767	14,767
Agricultural and Rural Economic Research	10.250				
Pass-Through from University of Kentucky		449290		26,545	26,545
Integrated Programs	10.303		794,561	242,865	1,037,426
Pass-Through from North Carolina State University		420390		27,557	27,557
Pass-Through from North Carolina State University		434004	7,567	1,892	9,459
Pass-Through from North Carolina State University		434930		1,021	1,021
Total - CFDA 10.303			802,128	273,335	1,075,463
Homeland Security--Agricultural	10.304			299,374	299,374
Pass-Through from Purdue University		425190		7,498	7,498
Pass-Through from University of Florida		440490		39,000	39,000
Total - CFDA 10.304			0	345,872	345,872
Specialty Crop Research Initiative	10.309				
Pass-Through from Oklahoma State University		437670		908	908
Pass-Through from Washington State University		437660		65,350	65,350
Total - CFDA 10.309			0	66,258	66,258
Agriculture and Food Research Initiative	10.310			43,820	43,820
Pass-Through from University of Florida		429290		19,700	19,700
Pass-Through from University of Georgia		435290		485	485
Total - CFDA 10.310			0	64,005	64,005
Beginning Farmer and Rancher Development Program	10.311			130,796	130,796
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443		2,630	237,638	240,268

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Rural Community Development Initiative	10.446			23,843	23,843
Commodity Partnerships for Small Agricultural Risk Management Education Sessions	10.459			26,955	26,955
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475			4,949,579	4,949,579
Cooperative Extension Service	10.500		2,098,469	28,642,930	30,741,399
Pass-Through from Auburn University		434910		15,370	15,370
Pass-Through from Auburn University		458940		2,714	2,714
Pass-Through from Fort Sam Houston		618900		23,102	23,102
Pass-Through from Kansas State University		455570		217,250	217,250
Pass-Through from National 4-H Council		2005-45201-03332, Amendment 2		600	600
Pass-Through from National 4-H Council		2008-45201-04715		10,614	10,614
Pass-Through from National 4-H Council		455580		14,651	14,651
Pass-Through from National 4-H Council		455590		8,000	8,000
Pass-Through from University of Arizona		446610		29,203	29,203
Pass-Through from University of Florida		434110		1,999	1,999
Pass-Through from University of Florida		434150		16,410	16,410
Pass-Through from University of Georgia		432140		12,107	12,107
Pass-Through from University of Georgia		451230		15,053	15,053
Pass-Through from University of Kentucky		449430		2,347	2,347
Pass-Through from University of Minnesota		422005	366		366
Pass-Through from University of Minnesota		422007	33		33
Pass-Through from University of Minnesota		422008		102	102
Pass-Through from University of Minnesota		422010	7,855		7,855
Pass-Through from University of Minnesota		422490		49	49
Pass-Through from University of Nebraska - Lincoln		457180		24,988	24,988
Pass-Through from University of Nebraska - Lincoln		458550		312	312
Total - CFDA 10.500			2,106,723	29,037,801	31,144,524
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		141,516,197	609,790,047	751,306,244
Child and Adult Care Food Program	10.558		271,244,208	1,346,025	272,590,233
State Administrative Expenses for Child Nutrition	10.560		5,066,294	12,638,018	17,704,312
Commodity Supplemental Food Program	10.565		6,045,015		6,045,015
WIC Farmers' Market Nutrition Program	10.572		110,462	1,022,802	1,133,264
Senior Farmers Market Nutrition Program	10.576		129,663	903	130,566
ARRA - WIC Grants To States	10.578			2,067,686	2,067,686
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579		10,351,116		10,351,116
Fresh Fruit and Vegetable Program	10.582		2,504,940		2,504,940
Foreign Market Development Cooperator Program	10.600			2,354	2,354
Emerging Markets Program	10.603				
Pass-Through from Southern United States Trade Association		E04NX4NA95		(255)	(255)
Pass-Through from Southern United States Trade Association		E06MXERT03UTSA		28,966	28,966
Total - CFDA 10.603			0	28,711	28,711
Forestry Research	10.652			349,948	349,948

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Cooperative Forestry Assistance	10.664			8,090,766	8,090,766
Forest Legacy Program	10.676			2,464,287	2,464,287
Forest Stewardship Program	10.678			84,231	84,231
Forest Health Protection	10.680			1,238,625	1,238,625
Rural Cooperative Development Grants	10.771			235,350	235,350
Distance Learning and Telemedicine Loans and Grants	10.855			442,707	442,707
1890 Land Grant Institutions Rural Entrepreneurial Outreach Program	10.856			24,207	24,207
Watershed Protection and Flood Prevention	10.904			223,788	223,788
Environmental Quality Incentives Program	10.912			662,974	662,974
Pass-Through from National Fish and Wildlife Foundation		454970		28,968	28,968
Total - CFDA 10.912			0	691,942	691,942
Wildlife Habitat Incentive Program	10.914			13,983	13,983
Technical Agricultural Assistance	10.960		190,036	26,469	216,505
Total - U.S. Department of Agriculture			442,355,630	684,810,897	1,127,166,527
U.S. Department of Commerce					
U.S. Department of Commerce	11.XXX	BCYA 1323-9-02161/ PO #YA132309SE0538		22,594	22,594
Economic Development--Technical Assistance	11.303			86,240	86,240
Trade Adjustment Assistance for Firms	11.313			1,135,565	1,135,565
Interjurisdictional Fisheries Act of 1986	11.407			146,211	146,211
Sea Grant Support	11.417			8,495	8,495
Coastal Zone Management Administration Awards	11.419		1,065,114	952,822	2,017,936
Coastal Zone Management Estuarine Research Reserves	11.420			705,624	705,624
Financial Assistance for National Centers for Coastal Ocean Science	11.426			234,568	234,568
Office of Oceanic and Atmospheric Research Joint and Cooperative Institutes	11.432			686,174	686,174
Cooperative Fishery Statistics	11.434			67,631	67,631
Southeast Area Monitoring and Assessment Program	11.435			110,656	110,656
Regional Fishery Management Councils	11.441			236,967	236,967
Unallied Industry Projects	11.452			376,206	376,206
Unallied Management Projects	11.454			1,604,179	1,604,179
Habitat Conservation	11.463			103,152	103,152
ARRA - Habitat Conservation				3,214,290	3,214,290
Total - CFDA 11.463			0	3,317,442	3,317,442

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Meteorologic and Hydrologic Modernization Development	11.467				
Pass-Through from University Corporation for Atmospheric Research		S09 81070 / 211375 B53476 100		7,061	7,061
Educational Partnership Program	11.481			15,000	15,000
Public Telecommunications Facilities Planning and Construction	11.550			347,053	347,053
Public Safety Interoperable Communications Grant Program	11.555		20,799,949	5,592,561	26,392,510
Manufacturing Extension Partnership	11.611			905,293	905,293
Minority Business Enterprise Centers	11.800			222,205	222,205
Total - U.S. Department of Commerce			21,865,063	16,780,547	38,645,610
U.S. Department of Defense					
U.S. Department of Defense	12.XXX	2000/10311, 10313		694,041	694,041
		560010	152,310		152,310
		6596		23,014	23,014
		FA3047-09-P-0552 PO#F2M3CC9125A001		62,031	62,031
		FA7014-09-C-0026	61,787	228,580	290,367
		FA8901-08-C-003		9,061	9,061
		IPA 903		106,634	106,634
		IPA 904		106,485	106,485
		NAVY IPA/QIANG		997	997
		NOO189-09-P-Z808		54,051	54,051
		SSCFP 2009-2010		159,653	159,653
		TEMPORARY / 21C138 B56516 100		7,921	7,921
		W81K00-06-P-0525		32,360	32,360
		W91QF0 09 C 0022 / 21C125 B53309 100		5,071	5,071
		W91WAW-09-C-0017		338,810	338,810
		W91WAW-10-C-0009		434,884	434,884
		WM9113M-05-C-1087	945,735	1,634,875	2,580,610
		WM9113M-10-C-0007		83,104	83,104
		WOLF - BAMC		129,317	129,317
		WOLF-BAMC IPAA		62,951	62,951
		YOUNG-MCCAUGHAN/IPA		28,274	28,274
Pass-Through from Altarum Institute		480199/480234 SC-10-019		135,500	135,500
Pass-Through from Eagle Applied Sciences		FA7014-08-C-0047		24,285	24,285
Pass-Through from Institute of International Education		NSEP-U631033-UT-ARA		966,782	966,782
Pass-Through from Institute of International Education		UTA10-000628		18,397	18,397
Pass-Through from Jacobs Engineering Group, Inc.		35-DJ64-00P09-0002		9,218	9,218
Pass-Through from Kansas Families and Schools Together		G72182		(530)	(530)
Pass-Through from NewTec		S63000		914	914
Pass-Through from University of Southern California		134660		251,903	251,903
Total - CFDA 12.XXX			1,159,832	5,608,583	6,768,415
Procurement Technical Assistance For Business Firms	12.002		11,500	1,558,820	1,570,320
Flood Control Projects	12.106			347,284	347,284
Payments to States in Lieu of Real Estate Taxes	12.112			3,275,995	3,275,995

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113			823,793	823,793
Collaborative Research and Development	12.114			1,821	1,821
Basic and Applied Scientific Research	12.300		194,053	800,305	994,358
Pass-Through from University of New Haven		C090		18,767	18,767
Total - CFDA 12.300			194,053	819,072	1,013,125
Military Construction, National Guard	12.400			47,416,435	47,416,435
Pass-Through from Clarkson Aerospace Corporation		UTSA SI 08-S567-0011-02-C2		2,288	2,288
Total - CFDA 12.400			0	47,418,723	47,418,723
National Guard Military Operations and Maintenance Projects	12.401			58,217,910	58,217,910
ARRA - National Guard Military Operations and Maintenance Projects				2,212,048	2,212,048
Total - CFDA 12.401			0	60,429,958	60,429,958
National Guard Civilian Youth Opportunities	12.404			2,045,276	2,045,276
Military Medical Research and Development	12.420		1,006,234	490,699	1,496,933
Pass-Through from Baylor College of Medicine		W81XWH-09-1-0234		2,399	2,399
Total - CFDA 12.420			1,006,234	493,098	1,499,332
Basic Scientific Research	12.431		258,038	114,436	372,474
Pass-Through from Academy of Applied Science		W911NF-04-1-0001		19,760	19,760
Total - CFDA 12.431			258,038	134,196	392,234
National Security Education Program David L. Boren Fellowships	12.552			2,137	2,137
Basic, Applied, and Advanced Research in Science and Engineering	12.630			458,126	458,126
Air Force Defense Research Sciences Program	12.800			94,811	94,811
Pass-Through from Specpro, Inc.		PO-0000619		70,016	70,016
Total - CFDA 12.800			0	164,827	164,827
Mathematical Sciences Grants Program	12.901			2,147	2,147
Research and Technology Development	12.910			19,899	19,899
Total - U.S. Department of Defense			2,629,657	123,603,755	126,233,412
U.S. Department of Housing and Urban Development					
U.S. Department of Housing and Urban Development	14.XXX	7751021000		47,821	47,821
		CHTEX 249 (D)		269,758	269,758
		HUD TXLHH0192-08		166,407	166,407
		SA-265-1000		48,802	48,802
		TXLOR0035-08		30,980	30,980
Total - CFDA 14.XXX			0	563,768	563,768

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Housing and Urban Development (continued)					
Emergency Shelter Grants Program	14.231		4,859,940	287,640	5,147,580
Home Investment Partnerships Program	14.239		47,268,143	2,271,906	49,540,049
Housing Opportunities for Persons with AIDS	14.241		3,003,783	188,039	3,191,822
Rural Housing and Economic Development	14.250				
Pass-Through from Neighborhood Housing Service of Dimmit County		Capacity Building		(4,826)	(4,826)
Homelessness Prevention and Rapid Re-Housing Program	14.257			44,417	44,417
ARRA - Homelessness Prevention and Rapid Re-Housing Program			17,851,244	435,438	18,286,682
Total - CFDA 14.257			17,851,244	479,855	18,331,099
ARRA - Tax Credit Assistance Program	14.258		28,952,671		28,952,671
Hispanic-Serving Institutions Assisting Communities	14.514		187,678	421,065	608,743
Historically Black Colleges and Universities Program	14.520			180,791	180,791
Public and Indian Housing	14.850				
Pass-Through from Lubbock Housing Authority		211150		(4,158)	(4,158)
Pass-Through from Lubbock Housing Authority		MOD 3 / 211354 B59129 300		52,511	52,511
Total - CFDA 14.850			0	48,353	48,353
Total - U.S. Department of Housing and Urban Development			102,123,459	4,436,591	106,560,050
U.S. Department of the Interior					
U.S. Department of the Interior	15.XXX	05-FG-40-2424		6,559	6,559
		06CRBA0003/G09P D00523/0986530263		8,468	8,468
		15.000.009		10,000	10,000
		48-05-HB-14907		67,974	67,974
		H1200070001/TSK # J1242070026/UT-01		1,996	1,996
		H5000030518/J2360 075179/R360075179		5,147	5,147
		H5000070555		29,723	29,723
		J124080007/UT-13		7,630	7,630
		J1242080022/UT-02 TASK		1,291	1,291
		J2122080017/H5000 070520/R212208001		23,411	23,411
		J5210080026/H5000 070520/R521008002		14,196	14,196
		M09PX00093/00100 09064		25,000	25,000
		M10PX00262		10,687	10,687
Total - CFDA 15.XXX			0	212,082	212,082
National Fire Plan - Wildland Urban Interface Community Fire Assistance	15.228			77,051	77,051
Regulation of Surface Coal Mining and Surface Effects of Underground Coal Mining	15.250			1,349,647	1,349,647

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Abandoned Mine Land Reclamation Program	15.252			2,399,480	2,399,480
Minerals Management Service Environmental Studies Program	15.423		1,303	100,929	102,232
Marine Minerals Activities	15.424			589	589
Coastal Impact Assistance Program	15.426		1,839,954	3,276,425	5,116,379
Federal Oil and Gas Royalty Management	15.427			130,054	130,054
Coastal Wetlands Planning, Protection and Restoration Act	15.614			121,882	121,882
Cooperative Endangered Species Conservation Fund	15.615		4,411,507	1,219,065	5,630,572
Clean Vessel Act	15.616		28,635	65,048	93,683
Sportfishing and Boating Safety Act	15.622		61,826	366,165	427,991
North American Wetlands Conservation Fund	15.623			8,041	8,041
Coastal Program	15.630			36,116	36,116
Pass-Through from Brazoria County		17460000445		100,000	100,000
Total - CFDA 15.630			0	136,116	136,116
Partners for Fish and Wildlife	15.631			57,241	57,241
Landowner Incentive Program	15.633		130,164	224,941	355,105
State Wildlife Grants	15.634			4,252,113	4,252,113
Challenge Cost Share	15.642			13,447	13,447
Research Grants (Generic)	15.650			16,168	16,168
National Cooperative Geologic Mapping Program	15.810			95,547	95,547
National Geological and Geophysical Data Preservation Program	15.814			5,107	5,107
National Land Remote Sensing_Education Outreach and Research	15.815			2,218	2,218
Historic Preservation Fund Grants-In-Aid	15.904		131,923	9,082,199	9,214,122
National Natural Landmarks Program	15.910			17,752	17,752
National Historic Landmark	15.912			16,876	16,876
Pass-Through from City of Nacogdoches		202151		86,181	86,181
Total - CFDA 15.912			0	103,057	103,057
Outdoor Recreation--Acquisition, Development and Planning	15.916		2,228,531	1,620,268	3,848,799
Rivers, Trails and Conservation Assistance	15.921			37,052	37,052
Total - U.S. Department of the Interior			8,833,843	24,989,684	33,823,527
U.S. Department of Justice					
U.S. Department of Justice	16.XXX	2006DDBX0589		110	110
		2007-DN-BX-K088		(1,997)	(1,997)
		2007-IJ-CX-K234		12,818	12,818
		HIDTA		1,265,300	1,265,300
		ILEA		8,580	8,580
		TXQNGCD13		428,884	428,884
		W911SR-07-C-0050		1,022	1,022
Pass-Through from Baylor College of Medicine		200-2001-00084		7,696	7,696

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Pass-Through from Family Services of Greater Houston		B430	10,656		10,656
Pass-Through from Ibis Biosciences, Inc.		J-FBI-08-257		1,037	1,037
Pass-Through from ITT Corporation		D800	(7,016)		(7,016)
Pass-Through from New Mexico Tech		D787	147,837		147,837
Total - CFDA 16.XXX			151,477	1,723,450	1,874,927
Sexual Assault Services Formula Program	16.017		176,512		176,512
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202			85,465	85,465
Juvenile Accountability Block Grants	16.523		1,916,952	88,688	2,005,640
Grants to Reduce Domestic Violence, Dating Violence, Sexual Assault, and Stalking on Campus	16.525		50,400	39,538	89,938
Juvenile Justice and Delinquency Prevention--Allocation to States	16.540		4,125,900	877,434	5,003,334
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541			260,485	260,485
Missing Children's Assistance	16.543			518,128	518,128
National Criminal History Improvement Program	16.554			24,646	24,646
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560			836,691	836,691
Crime Victim Assistance	16.575		20,875,390	1,569,939	22,445,329
Crime Victim Compensation	16.576			21,538,006	21,538,006
Edward Byrne Memorial Formula Grant Program	16.579			594,779	594,779
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		71,445	1,010,286	1,081,731
Pass-Through from Center for Innovative Public Policies		C240		13,120	13,120
Total - CFDA 16.580			71,445	1,023,406	1,094,851
Drug Court Discretionary Grant Program	16.585			102,111	102,111
Violence Against Women Formula Grants	16.588		6,620,797	616,014	7,236,811
Pass-Through from Tarrant County		107041		37,061	37,061
ARRA - Violence Against Women Formula Grants			1,037,762	18,456	1,056,218
Pass-Through from Texas Association Against Sexual Assault		90210		6,580	6,580
Total - CFDA 16.588			7,658,559	678,111	8,336,670
Residential Substance Abuse Treatment for State Prisoners	16.593		831,460		831,460
State Criminal Alien Assistance Program	16.606			17,890,357	17,890,357
Bulletproof Vest Partnership Program	16.607			1,797	1,797
Project Safe Neighborhoods	16.609		14,913	1,286,047	1,300,960
Public Safety Partnership and Community Policing Grants	16.710			442	442
Enforcing Underage Drinking Laws Program	16.727		41,367	245,817	287,184
Edward Byrne Memorial Justice Assistance Grant Program	16.738		10,522,880	2,285,594	12,808,474
Statewide Automated Victim Information Notification Program	16.740			207,583	207,583
Forensic DNA Backlog Reduction Program	16.741			1,997,325	1,997,325

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		492,981	279,938	772,919
Anti-Gang Initiative	16.744			142,790	142,790
Capital Case Litigation	16.746			49,407	49,407
Convicted Offender and/or Arrestee DNA Backlog Reduction Program	16.748			1,167,815	1,167,815
Congressionally Recommended Awards	16.753		451,680	1,214,585	1,666,265
ARRA - Recovery Act - Internet Crimes against Children Task Force Program	16.800		121,221	146,481	267,702
ARRA - Recovery Act - State Victim Assistance Formula Grant Program	16.801		1,877,733		1,877,733
ARRA - Recovery Act - State Victim Compensation Formula Grant Program	16.802			34,298	34,298
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / Grants to States and Territories	16.803		34,561,748	19,388,247	53,949,995
ARRA - Recovery Act - VOCA Crime Victim Assistance Discretionary Grant Program	16.807			133,352	133,352
ARRA - Recovery Act - State and Local Law Enforcement Assistance Program: Combating Criminal Narcotics Activity Stemming from the Southern Border of the United States Competitive Grant Program	16.809		523,827	139,536	663,363
Total - U.S. Department of Justice			84,466,445	76,572,288	161,038,733
U.S. Department of Labor					
U.S. Department of Labor	17.XXX				
Pass-Through from Tech Prep Rio Grande Valley, Inc.		2308SDF000		109,312	109,312
Pass-Through from Tech Prep Rio Grande Valley, Inc.		WR-15999-0760-A-48		58,671	58,671
Total - CFDA 17.XXX			0	167,983	167,983
Labor Force Statistics	17.002			3,871,547	3,871,547
Compensation and Working Conditions	17.005			286,075	286,075
Unemployment Insurance	17.225		480,685	5,230,237,590	5,230,718,275
ARRA - Unemployment Insurance				2,756,774,751	2,756,774,751
Total - CFDA 17.225			480,685	7,987,012,341	7,987,493,026
Senior Community Service Employment Program	17.235		7,173,511	106,348	7,279,859
ARRA - Senior Community Service Employment Program			1,303,259		1,303,259
Total - CFDA 17.235			8,476,770	106,348	8,583,118
Trade Adjustment Assistance	17.245		19,115,449	836,557	19,952,006
WIA Pilots, Demonstrations, and Research Projects	17.261			1,252,755	1,252,755
Work Incentive Grants	17.266		750,821		750,821
Community Based Job Training Grants	17.269			732,095	732,095
Work Opportunity Tax Credit Program	17.271		721	1,529,168	1,529,889

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Labor (continued)					
Temporary Labor Certification for Foreign Workers	17.273		5,180	546,751	551,931
WIA Dislocated Worker Formula Grants	17.278		1,697,428	12,964	1,710,392
Occupational Safety and Health_Susan Harwood Training	17.502			217,189	217,189
Consultation Agreements	17.504			2,942,401	2,942,401
Mine Health and Safety Grants	17.600			547,801	547,801
Transition Assistance Program	17.807			246,438	246,438
Total - U.S. Department of Labor			30,527,054	8,000,308,413	8,030,835,467
U.S. Department of State					
Academic Exchange Programs - Undergraduate Programs	19.009			63,146	63,146
One-Time International Exchange Grant Program	19.014			30,240	30,240
Cultural, Technical and Educational Centers	19.015			232	232
Academic Exchange Programs - English Language Programs *Pass-Through from The International Research and Exchanges Board*	19.421	S-ECAAE-07-CA-023 OR06-629		22,591	22,591
Total - U.S. Department of State			0	116,209	116,209
U.S. Department of Transportation					
U.S. Department of Transportation	20.XXX	DDEGRD-09-X-00409		40,094	40,094
		DDEGRD-09-X-00410		27,600	27,600
		DDEGRD-09-X-00413		10,664	10,664
		DDEGRD-09-X-00421		1,214	1,214
		DDEGRD-09-X-00464		1,500	1,500
		DDEHBC-05X-00103, 00159		36,949	36,949
		HSTS0208HSLR057-P00004		31,627	31,627
Total - CFDA 20.XXX			0	149,648	149,648
Airport Improvement Program	20.106		577,594	73,385,521	73,963,115
ARRA - Airport Improvement Program				8,800,797	8,800,797
Total - CFDA 20.106			577,594	82,186,318	82,763,912
Highway Training and Education	20.215			55,402	55,402
National Motor Carrier Safety	20.218			9,044,754	9,044,754
Performance and Registration Information Systems Management	20.231			63,387	63,387
Commercial Driver's License Program Improvement Grant	20.232			250	250
Border Enforcement Grants	20.233			15,718,750	15,718,750
Commercial Vehicle Information Systems and Networks	20.237			157,721	157,721
Metropolitan Planning Grants	20.505		6,964,384		6,964,384

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 (continued)					
Formula Grants for Other Than Urbanized Areas	20.509		29,092,695	1,531,194	30,623,889
ARRA - Formula Grants for Other Than Urbanized Areas			30,721,248		30,721,248
Total - CFDA 20.509			59,813,943	1,531,194	61,345,137
Public Transportation Research	20.514		50,427		50,427
State Planning and Research	20.515		370,677	1,055,005	1,425,682
Pipeline Safety Program Base Grants	20.700			802,439	802,439
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		67,126	1,169,682	1,236,808
State Damage Prevention Program Grants	20.720			38,968	38,968
Research Grants	20.762				
Pass-Through from Two Rivers Professional Development Center		99628		10,000	10,000
U.S. Merchant Marine Academy	20.807			440,658	440,658
Total - U.S. Department of Transportation			67,844,151	112,424,176	180,268,327
U.S. Department of the Treasury					
U.S. Department of the Treasury	21.XXX	PL 110-289:95X1350	313,879	4,544	318,423
		PL 111-8:95X1350	297,363		297,363
Total - CFDA 21.XXX			611,242	4,544	615,786
Low Income Taxpayer Clinics	21.008			39,942	39,942
Total - U.S. Department of the Treasury			611,242	44,486	655,728
Office of Personnel Management					
Intergovernmental Personnel Act Mobility Program	27.011			54,302	54,302
Total - Office of Personnel Management			0	54,302	54,302
General Services Administration					
General Services Administration	39.XXX	AOCI0C0009		64,550	64,550
Donation of Federal Surplus Personal Property	39.003		11,553,581	589,812	12,143,393
Election Reform Payments	39.011		371,915	422,000	793,915
Total - General Services Administration			11,925,496	1,076,362	13,001,858
Library of Congress					
Library of Congress	42.XXX	GA10F0027		64,238	64,238
Books for the Blind and Physically Handicapped	42.001				
Pass-Through from Academy for Educational Development		OWLC0930 (4127.01.25)		7,748	7,748
Total - Library of Congress			0	71,986	71,986

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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	NCC-01-0203		(32,295)	(32,295)
		NNX07AV15H		5,902	5,902
		NNX08AE99G		24,989	24,989
		NNX09A063H		26,608	26,608
		NNX09AR55G		91,590	91,590
Pass-Through from California Space Grant Foundation		DFRC SAA TASJ 1-17		332	332
Pass-Through from Jacobs Engineering Group, Inc.		ESCG-SOW-PRS10-1444		19,384	19,384
Pass-Through from L-3 Communications Electronic Systems, Inc.		2008-SC-4-0136		244,479	244,479
Pass-Through from Rio Grande Valley Science Association		NNX 10A031A		32,267	32,267
Pass-Through from Rio Grande Valley Science Association		RGVSA-TX-20100002 UTA10-000253		19,486	19,486
Pass-Through from SAIC - Frederick, Inc.		4400156333		5,868	5,868
Pass-Through from Search for Extraterrestrial Intelligence		0302-09-001		5,588	5,588
Pass-Through from Search for Extraterrestrial Intelligence		LTR DTD 11/07/08		2,275	2,275
Pass-Through from Spellman College		NCC8-227		1,179	1,179
Pass-Through from United Negro College Fund Special Programs		426055		10,054	10,054
Total - CFDA 43.XXX			0	457,706	457,706
Aerospace Education Services Program	43.001			1,127,149	1,127,149
Technology Transfer	43.002			37,941	37,941
Pass-Through from Houston Advanced Research Center		20-52022-LU609		12,930	12,930
Total - CFDA 43.002			0	50,871	50,871
Total - National Aeronautics and Space Administration			0	1,635,726	1,635,726
National Endowment For The Humanities					
National Endowment For The Humanities	45.XXX				
Pass-Through from American Antiquarian Society		1825-1950		39,392	39,392
Pass-Through from Emory University		5-26045-G1		222,174	222,174
Total - CFDA 45.XXX			0	261,566	261,566
Promotion of the Arts_Grants to Organizations and Individuals	45.024			190,936	190,936
ARRA - Promotion of the Arts_Grants to Organizations and Individuals				160,517	160,517
Total - CFDA 45.024			0	351,453	351,453
Promotion of the Arts_Partnership Agreements	45.025			1,025,604	1,025,604
ARRA - Promotion of the Arts_Partnership Agreements			410,866	16,434	427,300
Total - CFDA 45.025			410,866	1,042,038	1,452,904
Promotion of the Humanities_Federal/State Partnership	45.129			6,600	6,600
Pass-Through from Humanities Texas		2009-3774		3,500	3,500
Pass-Through from Humanities Texas		2009-3777		2,080	2,080
Pass-Through from Humanities Texas		2009-3859		1,499	1,499
Pass-Through from Humanities Texas		2010-3908		3,805	3,805
Pass-Through from Humanities Texas		2010-3957		750	750
Pass-Through from Humanities Texas		2010-3963		1,000	1,000
Pass-Through from Humanities Texas		2010-3984		513	513
Pass-Through from Humanities Texas		2010-4022		1,500	1,500
Pass-Through from Humanities Texas		2010-4023		1,482	1,482

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Endowment For The Humanities (continued)					
Pass-Through from Humanities Texas		45		1,500	1,500
Pass-Through from Humanities Texas		8000001109	4,000	929	4,929
Pass-Through from Humanities Texas		8000001258	400		400
Total - CFDA 45.129			4,400	25,158	29,558
Promotion of the Humanities_Division of Preservation and Access	45.149			324,355	324,355
Pass-Through from Humanities Texas		201791		3,500	3,500
Pass-Through from Oklahoma Historical Society		10-101		80,962	80,962
Pass-Through from Oklahoma Historical Society		11-101		43,279	43,279
Total - CFDA 45.149			0	452,096	452,096
Promotion of the Humanities_Teaching and Learning Resources and Curriculum Development	45.162			92,185	92,185
Promotion of the Humanities_Professional Development	45.163			8,629	8,629
Promotion of the Humanities_Public Programs	45.164			67,823	67,823
Pass-Through from Humanities Texas		2010-3885		3,818	3,818
Total - CFDA 45.164			0	71,641	71,641
Promotion of the Humanities_We the People	45.168			3,088	3,088
Pass-Through from Humanities Texas		101652		9,307	9,307
Total - CFDA 45.168			0	12,395	12,395
Museums for America	45.301			109,448	109,448
Conservation Project Support	45.303			1,125	1,125
Grants to States	45.310			11,363,038	11,363,038
National Leadership Grants	45.312			537,347	537,347
Pass-Through from The Children's Museum of Houston		LG-30-07-0179-07		84,465	84,465
Total - CFDA 45.312			0	621,812	621,812
Laura Bush 21st Century Librarian Program	45.313		39,145	1,815,290	1,854,435
Total - National Endowment For The Humanities			454,411	16,227,874	16,682,285
National Science Foundation					
Engineering Grants	47.041			664,899	664,899
Pass-Through from RTI International		EP-C-05-060		8,000	8,000
Pass-Through from San Jacinto College District		NSF 0649713		11,417	11,417
Total - CFDA 47.041			0	684,316	684,316
Mathematical and Physical Sciences	47.049			233,620	233,620
Pass-Through from Mathematical Association of America		DMS-0846477		2,500	2,500
Pass-Through from University of North Carolina-Chapel Hill		B-700		136	136
Pass-Through from University of Notre Dame		PHY-0715396		21,296	21,296
Total - CFDA 47.049			0	257,552	257,552
Geosciences	47.050			384,302	384,302
Pass-Through from Earth System Science Education Alliance		GEO-0631389/9055-00145		4,050	4,050
Pass-Through from San Francisco State University		S9-94557		25,799	25,799
Total - CFDA 47.050			0	414,151	414,151

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 (continued)					
Computer and Information Science and Engineering	47.070			435,054	435,054
Pass-Through from Duke University		234186		14,435	14,435
Total - CFDA 47.070			0	449,489	449,489
Biological Sciences	47.074			193,422	193,422
Social, Behavioral, and Economic Sciences	47.075			393,713	393,713
Education and Human Resources	47.076		145,839	7,451,554	7,597,393
Pass-Through from Center for Occupational Research and Development		4		72,697	72,697
Pass-Through from Collin County Community College		DUE-0402356		10,608	10,608
Pass-Through from Collin County Community College		DUE-0903239		6,161	6,161
Pass-Through from Harrisburg University of Science and Technology		DUE 0717407		2,662	2,662
Pass-Through from Mathematical Association of America		211443 B53471 100		19,906	19,906
Pass-Through from Mathematical Association of America		DUE 0817071 / 211359 B53471 100		104	104
Pass-Through from New Mexico State University		Q01143		22,961	22,961
Pass-Through from Rice University		R39292-2460005		342,758	342,758
Total - CFDA 47.076			145,839	7,929,411	8,075,250
International Science and Engineering	47.079			37,546	37,546
Office of Cyberinfrastructure	47.080			387,939	387,939
ARRA - Trans-NSF Recovery Act Research Support	47.082			508,349	508,349
Total - National Science Foundation			145,839	11,255,888	11,401,727
Securities and Exchange Commission					
Securities_Investigation of Complaints and SEC Information	58.001			221,788	221,788
Total - Securities and Exchange Commission			0	221,788	221,788
Small Business Administration					
Small Business Administration	59.XXX	SBAHQ-08-B-0014		13,747	13,747
		SBAHQ-08-I-0054		87,135	87,135
		SBAHQ-09-I-0203		77,269	77,269
Total - CFDA 59.XXX			0	178,151	178,151
Small Business Development Centers	59.037		1,350,506	4,389,836	5,740,342
Pass-Through from Dallas County Community College District		425345		79,271	79,271
Total - CFDA 59.037			1,350,506	4,469,107	5,819,613
Veterans Business Development	59.044			162,843	162,843
Total - Small Business Administration			1,350,506	4,810,101	6,160,607
U.S. Department of Veterans Affairs					
U.S. Department of Veterans Affairs	64.XXX	BARNES/IPAA/PATEL		35,767	35,767
		V257P0111/WIATROWSKI		86,027	86,027

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
		VA257-P-0373		128,950	128,950
		VA-REDDICK-V671P3991		(270,249)	(270,249)
		VA-V671P4009		(24,440)	(24,440)
		WAGNER/IPAA/TA		16,991	16,991
Total - CFDA 64.XXX			0	(26,954)	(26,954)
ARRA - Grants to States for Construction of State Home Facilities	64.005			2,186,825	2,186,825
Veterans State Nursing Home Care	64.015			26,342,748	26,342,748
Veterans State Hospital Care	64.016			10,181	10,181
Burial Expenses Allowance for Veterans	64.101			229,800	229,800
All-Volunteer Force Educational Assistance	64.124			1,123,996	1,123,996
Vocational and Educational Counseling for Servicemembers and Veterans	64.125			6,196	6,196
State Cemetery Grants	64.203			1,394,814	1,394,814
Total - U.S. Department of Veterans Affairs			0	31,267,606	31,267,606
Environmental Protection Agency					
Environmental Protection Agency	66.XXX	C-48000106, C-48000107	33,250,766	680,449	33,931,215
		EP096000111		34,884	34,884
		EP096000115		10,000	10,000
		EP10C000084		15,735	15,735
		HG-98623601	286,717		286,717
		OT0202NALX		372	372
Total - CFDA 66.XXX			33,537,483	741,440	34,278,923
Air Pollution Control Program Support	66.001			341,164	341,164
State Indoor Radon Grants	66.032			41,523	41,523
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034			1,822,203	1,822,203
Internships, Training and Workshops for the Office of Air and Radiation	66.037			89,519	89,519
National Clean Diesel Funding Assistance Program	66.039			85,584	85,584
ARRA - State Clean Diesel Grant Program	66.040		38,850		38,850
Congressionally Mandated Projects	66.202			151,963	151,963
Water Pollution Control State, Interstate, and Tribal Program Support	66.419		893,960	3,504,824	4,398,784
State Underground Water Source Protection	66.433			662,870	662,870
Water Quality Management Planning	66.454		164,939	55,829	220,768
ARRA - Water Quality Management Planning			241,985	221,572	463,557
Total - CFDA 66.454			406,924	277,401	684,325

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
National Estuary Program	66.456		250,843	186,430	437,273
Pass-Through from Coastal Bend Bays and Estuaries Program		454120		2,353	2,353
Total - CFDA 66.456			250,843	188,783	439,626
Capitalization Grants for Clean Water State Revolving Funds	66.458		14,898,718	5,940,940	20,839,658
ARRA - Capitalization Grants for Clean Water State Revolving Funds			44,837,625	1,744,724	46,582,349
Total - CFDA 66.458			59,736,343	7,685,664	67,422,007
Nonpoint Source Implementation Grants	66.460		1,521,988	4,065,293	5,587,281
Capitalization Grants for Drinking Water State Revolving Funds	66.468		46,587,221	12,858,728	59,445,949
ARRA - Capitalization Grants for Drinking Water State Revolving Funds			49,109,012	1,795,892	50,904,904
Total - CFDA 66.468			95,696,233	14,654,620	110,350,853
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471			2,081,265	2,081,265
Beach Monitoring and Notification Program Implementation Grants	66.472		104,328	93,836	198,164
Water Protection Grants to the States	66.474			489,920	489,920
Gulf of Mexico Program	66.475			85,667	85,667
Greater Research Opportunities Fellowships For Undergraduate Environmental Study	66.513			10,960	10,960
Science To Achieve Results Fellowship Program	66.514			14,060	14,060
Environmental Protection Consolidated Grants for the Insular Areas - Program Support	66.600				
Pass-Through from National Fish and Wildlife Foundation		8000000802		5	5
Environmental Justice Small Grant Program	66.604				
Pass-Through from City of Alton		480198		2,500	2,500
Performance Partnership Grants	66.605		1,610,806	26,595,331	28,206,137
Surveys, Studies, and Investigations and Special Purpose Grants	66.606				
Pass-Through from Water Environment Research Foundation		427009	15,782		15,782
Pass-Through from Water Environment Research Foundation		427010	4,997		4,997
Pass-Through from Water Environment Research Foundation		427011	539		539
Pass-Through from Water Environment Research Foundation		427012	8,937		8,937
Pass-Through from Water Environment Research Foundation		427160		49,388	49,388
Total - CFDA 66.606			30,255	49,388	79,643
Environmental Information Exchange Network Grant Program and Related Assistance	66.608			18,500	18,500
Consolidated Pesticide Enforcement Cooperative Agreements	66.700			3,593,940	3,593,940
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701			138,507	138,507
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707			300,880	300,880

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Pollution Prevention Grants Program	66.708			140,948	140,948
Multi-Media Capacity Building Grants for States and Tribes	66.709			110	110
Pesticide Environmental Stewardship Regional Grants	66.714			42,139	42,139
Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	66.716			79,080	79,080
Source Reduction Assistance	66.717			12,356	12,356
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802			1,059,988	1,059,988
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805			2,527,882	2,527,882
ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program				3,404,066	3,404,066
Total - CFDA 66.805			0	5,931,948	5,931,948
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809			253,329	253,329
State and Tribal Response Program Grants	66.817			299,038	299,038
International Financial Assistance Projects Sponsored by the Office of International Affairs	66.931			6,729	6,729
Total - Environmental Protection Agency			193,828,013	75,613,275	269,441,288
Nuclear Regulatory Commission					
Nuclear Regulatory Commission	77.XXX	RQASL09306		53,287	53,287
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006			413,132	413,132
U.S. Nuclear Regulatory Commission Minority Serving Institutions Program	77.007			19,590	19,590
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008			420,284	420,284
Total - Nuclear Regulatory Commission			0	906,293	906,293
U.S. Department of Energy					
U.S. Department of Energy	81.XXX				
Pass-Through from Sandia National Laboratories		774798 REV 2		20,000	20,000
Pass-Through from Sandia National Laboratories		PO #864049		101,258	101,258
Total - CFDA 81.XXX			0	121,258	121,258
Inventions and Innovations	81.036				
Pass-Through from Thurgood Marshall Scholarship Fund		41-1750692		34,075	34,075
State Energy Program	81.041		520,918	2,589,216	3,110,134
ARRA - State Energy Program			4,722,538	2,230,068	6,952,606
Total - CFDA 81.041			5,243,456	4,819,284	10,062,740

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Weatherization Assistance for Low-Income Persons	81.042		11,391,085	261,316	11,652,401
ARRA - Weatherization Assistance for Low-Income Persons			68,915,148	4,226,128	73,141,276
Total - CFDA 81.042			80,306,233	4,487,444	84,793,677
Office of Science Financial Assistance Program	81.049		65,965	210,958	276,923
Office of Scientific and Technical Information	81.064			93	93
ARRA - Conservation Research and Development	81.086		1,942,422	2,444,350	4,386,772
Renewable Energy Research and Development	81.087			127,431	127,431
Transport of Transuranic Wastes to the Waste Isolation Pilot Plant: States and Tribal Concerns, Proposed Solutions	81.106			224,821	224,821
State Energy Program Special Projects	81.119		164,280		164,280
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122			459,519	459,519
ARRA - Energy Efficient Appliance Rebate Program	81.127			12,985,478	12,985,478
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128		747,823	1,043,881	1,791,704
Pass-Through from City of San Antonio		155000000058		7,800	7,800
Total - CFDA 81.128			747,823	1,051,681	1,799,504
Miscellaneous	81.502		238,382	674,678	913,060
Total - U.S. Department of Energy			88,708,561	27,641,070	116,349,631
U.S. Department of Education					
U.S. Department of Education	84.XXX	3930.06		73,321	73,321
		3930-05		57,026	57,026
		98050		(70)	(70)
		T195N070068-09		252,877	252,877
		T195N070272		262,417	262,417
Pass-Through from National Writing Project		02-TX11		114,584	114,584
Pass-Through from Texas Southmost College		22-8-1-604180		21,581	21,581
Pass-Through from Texas Southmost College		22-8-2-604100		16,784	16,784
Total - CFDA 84.XXX			0	798,520	798,520
Adult Education - Basic Grants to States	84.002		41,827,708	3,752,747	45,580,455
Migrant Education - State Grant Program	84.011		55,120,113	2,006,764	57,126,877
Title I Program for Neglected and Delinquent Children	84.013		2,520	3,873,595	3,876,115
National Resource Centers Program for Foreign Language and Area Studies or Foreign Language and International Studies Program and Foreign Language and Area Studies Fellowship Program	84.015		2,068	2,111,933	2,114,001
Undergraduate International Studies and Foreign Language Programs	84.016		9,279	100,252	109,531
Overseas Programs - Group Projects Abroad	84.021		330,542	369,693	700,235
Overseas Programs - Doctoral Dissertation Research Abroad	84.022			12,251	12,251
Higher Education_Institutional Aid	84.031		96	29,293,332	29,293,428

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Pass-Through from Laredo Community College		P031S070064		660,624	660,624
Pass-Through from Midland College		P031C080077-SRSU		399,982	399,982
Pass-Through from San Antonio College		8000001345	24,850	118,429	143,279
Pass-Through from Southwest Texas Junior College		UTA09-000166		190,101	190,101
Total - CFDA 84.031			24,946	30,662,468	30,687,414
Federal Family Education Loans – Loan Program	84.032L		530,845	749,436	1,280,281
Federal Family Education Loans – Interest Subsidy	84.032L			170,261	170,261
Total - CFDA 84.032L			530,845	919,697	1,450,542
Career and Technical Education -- Basic Grants to States	84.048		86,335,544	9,479,385	95,814,929
Pass-Through from Austin Community College		741742036		35,343	35,343
Pass-Through from Collin County Community College		101102		68,076	68,076
Pass-Through from Houston Community College System		T226		(4,839)	(4,839)
Pass-Through from Texas Southmost College		54246		481,500	481,500
Total - CFDA 84.048			86,335,544	10,059,465	96,395,009
Leveraging Educational Assistance Partnership	84.069			3,898,162	3,898,162
Women's Educational Equity Act Program	84.083			127,571	127,571
Fund for the Improvement of Postsecondary Education	84.116		4,475	1,791,373	1,795,848
Pass-Through from Bentley College		2307-01, P116M170003		9,603	9,603
Pass-Through from California State University		ELXCOGZZ_80549	7,288	2,409	9,697
Pass-Through from Howard University		0005650-1000018056		8,498	8,498
Pass-Through from Intercultural Development Research Association		TSU 431660		12,365	12,365
Pass-Through from Intercultural Development Research Association		U350B04004, TSU 431320		4,526	4,526
Pass-Through from Intercultural Development Research Association		U350N070012, TSU 430910	61,951		61,951
Pass-Through from National Commission on Teaching and America's Future		TLINC-SHAL		9,829	9,829
Total - CFDA 84.116			73,714	1,838,603	1,912,317
Minority Science and Engineering Improvement	84.120			502,968	502,968
Pass-Through from El Paso Community College		CA104926		221,889	221,889
Pass-Through from Houston Community College System		B220		(23)	(23)
Pass-Through from Interamerican University		P120A030065PVAMU		1,181	1,181
Total - CFDA 84.120			0	726,015	726,015
Rehabilitation Long-Term Training	84.129			1,637,266	1,637,266
Migrant Education_High School Equivalency Program	84.141			2,167,420	2,167,420
Migrant Education_Coordination Program	84.144		137,343	145,543	282,886
Migrant Education_College Assistance Migrant Program	84.149		8,400	2,294,710	2,303,110
Business and International Education Projects	84.153			98,778	98,778
Javits Fellowships	84.170			249,332	249,332
Douglas Teacher Scholarships	84.176			(19,328)	(19,328)
Safe and Drug-Free Schools and Communities_National Programs	84.184			260,128	260,128
Byrd Honors Scholarships	84.185			3,416,877	3,416,877

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Safe and Drug-Free Schools and Communities_State Grants	84.186		21,956,307	614,920	22,571,227
Supported Employment Services for Individuals with Significant Disabilities	84.187			1,534,067	1,534,067
Bilingual Education_Professional Development	84.195			2,000,458	2,000,458
Graduate Assistance in Areas of National Need	84.200			692,085	692,085
Pass-Through from Dallas County Community College District		GCS #05-269		252,027	252,027
Total - CFDA 84.200			0	944,112	944,112
Even Start_State Educational Agencies	84.213		5,383,384	275,324	5,658,708
Fund for the Improvement of Education	84.215			160,763	160,763
Pass-Through from Dallas Independent School District		PO 379270		18,607	18,607
Pass-Through from Education Service Center - Region II		0000001262		14,688	14,688
Pass-Through from Hays Independent School District		8000000547		4,198	4,198
Pass-Through from Houston Independent School District		SR1-13-6219-67899UN2		40,817	40,817
Pass-Through from Irving Independent School District		GN0001500-1		174,779	174,779
Pass-Through from Lyndon Baines Johnson Foundation		GN0002580		18,662	18,662
Pass-Through from Lyndon Baines Johnson Foundation		UTA08-818		122,225	122,225
Pass-Through from Northside Independent School District		8000000763	15,000	41,371	56,371
Total - CFDA 84.215			15,000	596,110	611,110
Centers for International Business Education	84.220			857,780	857,780
Tech-Prep Education	84.243		6,227,772	1,962,687	8,190,459
Pass-Through from Angelina College		200681		623	623
Pass-Through from Angelina College		200701		4,011	4,011
Pass-Through from Lonestar College System		B150		31,907	31,907
Pass-Through from Special Health Resources of Texas, Inc.		200801		22,926	22,926
Pass-Through from Texas Southmost College		91720-35		10,361	10,361
Pass-Through from Upper Rio Grande College Tech Prep Youth Consortium		09.11.16.353.8001.68557		3,942	3,942
Total - CFDA 84.243			6,227,772	2,036,457	8,264,229
Rehabilitation Training_State Vocational Rehabilitation Unit In-Service Training	84.265			368,654	368,654
Goals 2000_State and Local Education Systematic Improvement Grants	84.276		(8)		(8)
Eisenhower Professional Development State Grants	84.281		(3,376)		(3,376)
Charter Schools	84.282		6,747,906	643,738	7,391,644
Twenty-First Century Community Learning Centers	84.287		91,935,877	4,486,420	96,422,297
State Grants for Innovative Programs	84.298		(1,414)	133	(1,281)
Capacity Building for Traditionally Underserved Populations	84.315			186,806	186,806
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325			2,449,387	2,449,387
Pass-Through from Salus University		57201 / 25B016 B55038 100		471	471
Pass-Through from Salus University		57201 / 25B025 B55038 100		24,299	24,299
Total - CFDA 84.325			0	2,474,157	2,474,157

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Special Education_Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326			764,386	764,386
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330			1,778,639	1,778,639
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331			2,564,727	2,564,727
Demonstration Projects to Support Postsecondary Faculty, Staff, and Administrations in Educating Students with Disabilities	84.333			423,356	423,356
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		1,037,740	15,287,036	16,324,776
Pass-Through from Baylor University		P334A060157		257,863	257,863
Pass-Through from Houston Independent School District		555112		389	389
Pass-Through from RTI International		0209234.002.016-40		17,427	17,427
Pass-Through from San Antonio Independent School District		P334A050145-07/ Gear Up		57,052	57,052
Total - CFDA 84.334			1,037,740	15,619,767	16,657,507
Child Care Access Means Parents in School	84.335			543,982	543,982
Class Size Reduction	84.340		(2,584)		(2,584)
Underground Railroad Educational and Cultural Program	84.345			57,175	57,175
Transition to Teaching	84.350			2,486,666	2,486,666
Pass-Through from Fort Worth Independent School District		U350A060006		65,247	65,247
Total - CFDA 84.350			0	2,551,913	2,551,913
Arts in Education	84.351			23,249	23,249
Pass-Through from McAllen Independent School District		UTA10-000593		19,274	19,274
Total - CFDA 84.351			0	42,523	42,523
Credit Enhancement for Charter School Facilities	84.354			11,334,526	11,334,526
Reading First State Grants	84.357		32,846,458	10,945,380	43,791,838
Rural Education	84.358		6,037,730	306,877	6,344,607
Early Reading First	84.359				
Pass-Through from Tehama Independent School District		S359B030606		130	130
School Dropout Prevention Program	84.360			47,500	47,500
School Leadership	84.363		13,300	686,773	700,073
English Language Acquisition Grants	84.365		90,131,900	2,556,783	92,688,683
Mathematics and Science Partnerships	84.366		9,799,569	5,320,688	15,120,257
Improving Teacher Quality State Grants	84.367		243,166,722	7,195,964	250,362,686
Pass-Through from Brownsville Independent School District		27233		6,637	6,637
Total - CFDA 84.367			243,166,722	7,202,601	250,369,323
Grants for State Assessments and Related Activities	84.369		7,028,974	15,434,444	22,463,418
Special Education_Technical Assistance on State Data Collection	84.373			5,878	5,878

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
College Access Challenge Grant Program	84.378		2,504,970	3,801,450	6,306,420
Pass-Through from Texas Southmost College		33-3-1-404860		36,462	36,462
Total - CFDA 84.378			2,504,970	3,837,912	6,342,882
National Writing Project	84.928			120,745	120,745
Pass-Through from National Writing Project		00-TX09		25,997	25,997
Pass-Through from National Writing Project		03-TX12		55,500	55,500
Pass-Through from National Writing Project		06-TX17		43,936	43,936
Pass-Through from National Writing Project		8000000517	14,575	30,692	45,267
Pass-Through from National Writing Project		8000001303		54,125	54,125
Pass-Through from University of California - Berkeley		06-TX15		46,000	46,000
Pass-Through from University of California - Berkeley		425335		46,000	46,000
Pass-Through from University of California - Berkeley		92-TX06		84,729	84,729
Total - CFDA 84.928			14,575	507,724	522,299
Hurricane Education Recovery	84.938			3,219,599	3,219,599
Total - U.S. Department of Education			709,243,824	174,280,881	883,524,705
National Archives and Records Administration					
National Historical Publications and Records Grants	89.003			2,268,925	2,268,925
Total - National Archives and Records Administration			0	2,268,925	2,268,925
Denali Commission					
Help America Vote College Program	90.400			27,966	27,966
Help America Vote Act Requirements Payments	90.401		2,582,916	6,215,112	8,798,028
Total - Denali Commission			2,582,916	6,243,078	8,825,994
U.S. Department of Health and Human Services					
U.S. Department of Health and Human Services	93.XXX	08ET040065F3		15,230	15,230
		200-2006-M-18469		9,353	9,353
		200-2007-M-20636		145,500	145,500
		200-2009-M-29288		51,727	51,727
		223-05Q-SIT		54,287	54,287
		420007		23,893	23,893
		901015		139,717	139,717
		HHSH230200532046C	130,513	148,300	278,813
		HHSH-258200730012C	164,588	248,041	412,629
		HHSN276200900544P		2,474	2,474
		HHSP23320080067P/ 21F038 B59101 100		5,078	5,078
		N01-LM-6-3505		6,232	6,232
		SC:N013263505		11,437	11,437
		SG/N01-LM-6-3505		13,449	13,449
Pass-Through from Booz Allen and Hamilton, Inc.		96487NBS23 B28950-2700		75,178	75,178
Pass-Through from Houston Academy of Medicine - Texas Medical Center Library		N01LM13515		1	1

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Houston Academy of Medicine - Texas Medical Center Library		N01LM63505		28,702	28,702
Pass-Through from Houston Academy of Medicine - Texas Medical Center Library		N01-LM-6-3505		14,410	14,410
Pass-Through from Houston Academy of Medicine - Texas Medical Center Library		N01-LM-6-3505/HAM-TM		3,635	3,635
Pass-Through from Houston Academy of Medicine - Texas Medical Center Library		N01-LM-6-3505/MEDLIN		3,871	3,871
Pass-Through from Houston Academy of Medicine - Texas Medical Center Library		N01-LM-6-3505; HHSN2		3,144	3,144
Pass-Through from Houston Academy of Medicine - Texas Medical Center Library		N01LM63525		1,579	1,579
Pass-Through from McFarland and Associates		280-02-0505		96,014	96,014
Pass-Through from McFarland and Associates		280-02-0505 Mod 0007		29,128	29,128
Pass-Through from Respite Care of San Antonio		SG/90CW1124		(1,095)	(1,095)
Pass-Through from Rice University		5 52003917 04		45	45
Pass-Through from United Negro College Fund Special Programs		HBCU Access Project 2008-2009		3,489	3,489
Pass-Through from University Health System		BULLOCK/UHS/ RYANWHIT		59,430	59,430
Pass-Through from University of Minnesota		0000034746		18,258	18,258
Pass-Through from Westat, Inc.		200200409976		28	28
Total - CFDA 93.XXX			295,101	1,210,535	1,505,636
Cooperative Agreements to Improve the Health Status of Minority Populations	93.004				
Pass-Through from University of Miami		M145045		19,979	19,979
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006			61,208	61,208
Pass-Through from University Health System		2057403-LS		20,005	20,005
Total - CFDA 93.006			0	81,213	81,213
Community-Based Abstinence Education	93.010			4,404	4,404
HIV Prevention Programs for Women	93.015			84,403	84,403
Strengthening Public Health Services at the Outreach Offices of the U.S.-Mexico Border Health Commission	93.018		130,364	267,925	398,289
Special Programs for the Aging_Title VII, Chapter 3_Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		281,018		281,018
Special Programs for the Aging_Title VII, Chapter 2_Long Term Care Ombudsman Services for Older Individuals	93.042		1,037,665		1,037,665
Pass-Through from City of Houston Health and Human Services		FC 55472		(1,113)	(1,113)
Pass-Through from City of Houston Health and Human Services		FC 55472-06		(1,887)	(1,887)
Pass-Through from City of Houston Health and Human Services		FC38331		(1,233)	(1,233)
Pass-Through from City of Houston Health and Human Services		FC55472		(526)	(526)
Pass-Through from City of Houston Health and Human Services		FC55472-06		(1,293)	(1,293)
Pass-Through from City of Houston Health and Human Services		FC55472-09		25,954	25,954
Pass-Through from City of Houston Health and Human Services		FC55472-10		205,293	205,293
Total - CFDA 93.042			1,037,665	225,195	1,262,860
Special Programs for the Aging_Title III, Part D_Disease Prevention and Health Promotion Services	93.043		1,061,947		1,061,947

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048			2,043,032	2,043,032
Alzheimer's Disease Demonstration Grants to States	93.051			107	107
Pass-Through from Alzheimer's Association		CT070818/90AZ278704		21,918	21,918
Total - CFDA 93.051			0	22,025	22,025
National Family Caregiver Support, Title III, Part E	93.052		9,262,416	197,302	9,459,718
Pass-Through from Harris County Hospital District		21413 - LPN		(386)	(386)
Total - CFDA 93.052			9,262,416	196,916	9,459,332
Laboratory Training, Evaluation, and Quality Assurance Programs	93.064			426,026	426,026
Public Health Emergency Preparedness	93.069		48,169,793	121,479,202	169,648,995
Medicare Enrollment Assistance Program	93.071		492,877		492,877
Lifespan Respite Care Program	93.072		40,386		40,386
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086		665,284	200,044	865,328
Emergency System for Advance Registration of Volunteer Health Professionals	93.089			6,000	6,000
Food and Drug Administration_Research	93.103			743,260	743,260
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104				
Pass-Through from Central Plains Center		211352 B55002 100		34,318	34,318
Pass-Through from Central Plains Center		FY 2010 / 211401 B55002 100		64,447	64,447
Total - CFDA 93.104			0	98,765	98,765
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107		635,029	663,516	1,298,545
Pass-Through from Mid Rio Grande Border Area Health Education Center		U77HP03049		14,780	14,780
Total - CFDA 93.107			635,029	678,296	1,313,325
Maternal and Child Health Federal Consolidated Programs	93.110		346,955	2,582,946	2,929,901
Environmental Health	93.113			528,747	528,747
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		5,546,294	4,242,447	9,788,741
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118				
Pass-Through from City of Houston Health and Human Services		6H12HA000039		2,047	2,047
Oral Diseases and Disorders Research	93.121			897,798	897,798
Nurse Anesthetist Traineeships	93.124			2,356	2,356
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130			320,441	320,441
Injury Prevention and Control Research and State and Community Based Programs	93.136		2,617,913	25,143	2,643,056

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
AIDS Education and Training Centers	93.145				
Pass-Through from Howard University		DORAN: HA00066/HRSA		192,720	192,720
Projects for Assistance in Transition from Homelessness	93.150		3,432,560	139,888	3,572,448
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153		827,787	1,913,268	2,741,055
Geriatric Training for Physicians, Dentists and Behavioral/Mental Health Professionals	93.156			562,892	562,892
Centers of Excellence	93.157		67,614	536,811	604,425
Research Related to Deafness and Communication Disorders	93.173			47,751	47,751
Nursing Workforce Diversity	93.178			(74,466)	(74,466)
Pass-Through from Austin Community College		8000001239	1,100	60,016	61,116
Total - CFDA 93.178			1,100	(14,450)	(13,350)
Disabilities Prevention	93.184			124,613	124,613
Childhood Lead Poisoning Prevention Projects_State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		160,326	620,026	780,352
Surveillance of Hazardous Substance Emergency Events	93.204			18,237	18,237
Family Planning_Services	93.217		11,608,289	3,012,134	14,620,423
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224			16,296	16,296
Pass-Through from Centro San Vicente Clinic		H80CS00637		88,932	88,932
Total - CFDA 93.224			0	105,228	105,228
Research on Healthcare Costs, Quality and Outcomes	93.226			14,203	14,203
Consolidated Knowledge Development and Application	93.230				
Pass-Through from McFarland and Associates		3800-PrairieFY08		7,462	7,462
Pass-Through from McFarland and Associates		3800-PrairieFY09		(24,213)	(24,213)
Pass-Through from McFarland and Associates		3800-PrairieFY10		52,194	52,194
Total - CFDA 93.230			0	35,443	35,443
Traumatic Brain Injury State Demonstration Grant Program	93.234			146,709	146,709
Abstinence Education Program	93.235			926,809	926,809
Grants for Dental Public Health Residency Training	93.236			402	402
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238			50,000	50,000
Policy Research and Evaluation Grants	93.239				
Pass-Through from RTI International		37-312-0211557		710	710
State Capacity Building	93.240			363,885	363,885
State Rural Hospital Flexibility Program	93.241			574,488	574,488

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Mental Health Research Grants	93.242			633,236	633,236
Pass-Through from Rutgers University		PO S1261198/ 211380 B53264 300		22,258	22,258
Total - CFDA 93.242			0	655,494	655,494
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243		3,893,612	2,693,049	6,586,661
Pass-Through from Drug Prevention Resources, Inc.		SCOTT-DPR-M79SP10513		(2,168)	(2,168)
Pass-Through from Family Service Association		1H79TI0872301/FSA		24,335	24,335
Pass-Through from Hope Action Care		TI18286-01		69,030	69,030
Pass-Through from Morehouse School of Medicine		TI020447		7,275	7,275
Pass-Through from The Medical Center of Central Georgia		UTA10-001010		51,148	51,148
Total - CFDA 93.243			3,893,612	2,842,669	6,736,281
Advanced Education Nursing Grant Program	93.247		3,908	1,682,087	1,685,995
Public Health Training Centers Grant Program	93.249			214,478	214,478
Universal Newborn Hearing Screening	93.251		7,400	141,882	149,282
Poison Center Support and Enhancement Grant Program	93.253		17,771	436,952	454,723
Infant Adoption Awareness Training	93.254				
Pass-Through from National Council for Adoption		90CG2262		55,943	55,943
Pass-Through from National Council for Adoption		90CG2662/2		15,182	15,182
Total - CFDA 93.254			0	71,125	71,125
State Health Access Program	93.256		335,641	2,182,791	2,518,432
Rural Access to Emergency Devices Grant	93.259			21,761	21,761
Occupational Safety and Health Program	93.262		40,022	1,480,090	1,520,112
Pass-Through from Colorado State University		846000545		5,755	5,755
Total - CFDA 93.262			40,022	1,485,845	1,525,867
Nurse Faculty Loan Program	93.264			122,246	122,246
Alcohol National Research Service Awards for Research Training	93.272			630,918	630,918
Alcohol Research Programs	93.273			64,944	64,944
Pass-Through from Baylor College of Medicine		101123868		20,323	20,323
Total - CFDA 93.273			0	85,267	85,267
Substance Abuse and Mental Health Services-Access to Recovery	93.275		262,890	5,099,771	5,362,661
Drug Abuse National Research Service Awards For Research Training	93.278			54,932	54,932
Drug Abuse and Addiction Research Programs	93.279			288,743	288,743
Pass-Through from Baylor College of Medicine		5R90DA023418-03		46,090	46,090
Total - CFDA 93.279			0	334,833	334,833
Mental Health National Research Service Awards for Research Training	93.282			47,367	47,367

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283		4,662,628	7,652,381	12,315,009
Pass-Through from American Academy of Pediatrics		08EM080996FN		1,258	1,258
Pass-Through from Hispanic Serving Health Professions Schools		U50CCU325128		23,152	23,152
Pass-Through from John Snow, Inc.		HRNC00980005		623	623
Pass-Through from Southwest Center for Pediatric Environmental Health		521553060		168,095	168,095
Total - CFDA 93.283			4,662,628	7,845,509	12,508,137
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			235,369	235,369
Small Rural Hospital Improvement Grant Program	93.301			933,368	933,368
Minority Health and Health Disparities Research	93.307			407,700	407,700
General Clinical Research Centers	93.333			36,497	36,497
Advanced Education Nursing Traineeships	93.358			738,097	738,097
Nurse Education, Practice and Retention Grants	93.359			1,205,021	1,205,021
Nursing Research	93.361			23,072	23,072
Pass-Through from University of Missouri - Kansas City		11387/00009376		40,057	40,057
Total - CFDA 93.361			0	63,129	63,129
National Center for Research Resources	93.389			658,091	658,091
Pass-Through from West Virginia University		SEPA/3R25RR02327 4-02		16,640	16,640
Total - CFDA 93.389			0	674,731	674,731
Cancer Cause and Prevention Research	93.393			679,356	679,356
Cancer Treatment Research	93.395			4,871	4,871
Cancer Biology Research	93.396			7,934	7,934
Cancer Centers Support Grants	93.397			307,467	307,467
Cancer Research Manpower	93.398		42,534	3,756,373	3,798,907
Pass-Through from University of Washington		5 R25 CA119012 05		25,110	25,110
Total - CFDA 93.398			42,534	3,781,483	3,824,017
Cancer Control	93.399		43,597	270,820	314,417
Pass-Through from Mayo Clinic		5 U01 CA114609 05		10,088	10,088
Total - CFDA 93.399			43,597	280,908	324,505
ARRA - Dental Public Health Residency Training Grants	93.404			50,848	50,848
ARRA - Public Health Traineeship Program	93.405			47,333	47,333
Scholarships for Disadvantaged Students	93.407			8,451	8,451
ARRA - Scholarships for Disadvantaged Students				1,969,494	1,969,494
Total - CFDA 93.407			0	1,977,945	1,977,945
ARRA - Nurse Faculty Loan Program	93.408			139,173	139,173
Food Safety and Security Monitoring Project	93.448			165,550	165,550
Promoting Safe and Stable Families	93.556		8,890,323	25,857,321	34,747,644

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Child Support Enforcement	93.563		3,072,502	70,614,641	73,687,143
ARRA - Child Support Enforcement				134,343,844	134,343,844
Total - CFDA 93.563			3,072,502	204,958,485	208,030,987
Child Support Enforcement Research	93.564		317,405	141,116	458,521
Refugee and Entrant Assistance_State Administered Programs	93.566		16,094,754	29,365,351	45,460,105
Low-Income Home Energy Assistance	93.568		151,603,508	1,103,578	152,707,086
Refugee and Entrant Assistance_Discretionary Grants	93.576		2,656,889	152,189	2,809,078
Refugee and Entrant Assistance_Targeted Assistance Grants	93.584		2,693,636		2,693,636
State Court Improvement Program	93.586			2,793,738	2,793,738
Community-Based Child Abuse Prevention Grants	93.590		781,415	481,867	1,263,282
Grants to States for Access and Visitation Programs	93.597		624,096	76,537	700,633
Chafee Education and Training Vouchers Program	93.599			2,214,854	2,214,854
Child Support Enforcement Demonstrations and Special Projects	93.601		18,887	15,868	34,755
Pass-Through from Family Service Association		SG/2006ACFOCSEFI005		16	16
Total - CFDA 93.601			18,887	15,884	34,771
Adoption Incentive Payments	93.603			4,969,734	4,969,734
Mentoring Children of Prisoners	93.616			56,683	56,683
Voting Access for Individuals with Disabilities_Grants to States	93.617		359,437	182,914	542,351
Developmental Disabilities Basic Support and Advocacy Grants	93.630		3,515,535	1,800,398	5,315,933
Children's Justice Grants to States	93.643			5,989	5,989
Pass-Through from Texas Center for the Judiciary		CJA-09-19	21,134	41,866	63,000
Pass-Through from Texas Center for the Judiciary		G-0801TXCJA1		17,003	17,003
Total - CFDA 93.643			21,134	64,858	85,992
Child Welfare Services_State Grants	93.645			26,561,573	26,561,573
Child Welfare Research Training or Demonstration	93.648		30	37,774	37,804
Adoption Opportunities	93.652				
Pass-Through from Georgia State University		J3529-01		46,651	46,651
Foster Care_Title IV-E	93.658		14,334,467	227,545,690	241,880,157
ARRA - Foster Care_Title IV-E			985,935	15,850,901	16,836,836
Total - CFDA 93.658			15,320,402	243,396,591	258,716,993
Adoption Assistance	93.659			80,820,648	80,820,648
ARRA - Adoption Assistance				10,002,011	10,002,011
Total - CFDA 93.659			0	90,822,659	90,822,659
Social Services Block Grant	93.667		92,799,563	202,675,097	295,474,660
Pass-Through from Houston - Galveston Area Council		10-033		132,149	132,149
Pass-Through from Houston - Galveston Area Council		10-034		9,949	9,949
Pass-Through from Houston - Galveston Area Council		10-035		54,467	54,467
Pass-Through from Houston - Galveston Area Council		10-036		380,563	380,563
Pass-Through from Houston - Galveston Area Council		725-10		122,847	122,847

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Houston - Galveston Area Council		CON19967		549,794	549,794
Pass-Through from Lower Rio Grande Valley Development Council		426079		39,955	39,955
Pass-Through from Memorial Hermann TIRR		757-10		30,016	30,016
Total - CFDA 93.667			92,799,563	203,994,837	296,794,400
Child Abuse and Neglect State Grants	93.669			2,067,719	2,067,719
Child Abuse and Neglect Discretionary Activities	93.670		89,498		89,498
Family Violence Prevention and Services/Grants for Battered Women's Shelters_Grants to States and Indian Tribes	93.671		4,947,230		4,947,230
Chafee Foster Care Independence Program	93.674			7,787,819	7,787,819
ARRA - Trans-NIH Recovery Act Research Support	93.701			1,565,319	1,565,319
Pass-Through from Iowa State University		455610		482	482
Pass-Through from Rice University		3T15LM007093-18S1		55,706	55,706
Total - CFDA 93.701			0	1,621,507	1,621,507
ARRA - Grants to Health Center Programs	93.703			605,564	605,564
ARRA - Strengthening Communities Fund	93.711			106,452	106,452
ARRA - Preventing Healthcare - Associated Infections	93.717			4,763	4,763
ARRA - Health Information Technology Regional Extension Centers Program	93.718			289,049	289,049
ARRA - State Grants to Promote Health Information Technology	93.719			979,482	979,482
ARRA - Survey and Certification Ambulatory Surgical Center Healthcare-Associated Infection Prevention Initiative	93.720			110,716	110,716
ARRA - Health Information Technology Professionals in Health Care	93.721			15,896	15,896
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723		27,145	8,142	35,287
ARRA - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725			21,418	21,418
Children's Health Insurance Program	93.767			788,664,427	788,664,427
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768			788,501	788,501
Demonstration to Maintain Independence and Employment	93.769			1,267,086	1,267,086
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	93.779			2,523,818	2,523,818
Money Follows the Person Rebalancing Demonstration	93.791		96,258	38,352,900	38,449,158
Pass-Through from Center for Health Care Services		MAPLES - CHCS		28,737	28,737
Total - CFDA 93.791			96,258	38,381,637	38,477,895
Medicaid Transformation Grants	93.793			480,756	480,756
Area Health Education Centers Infrastructure Development Awards	93.824			(1,158)	(1,158)

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Cardiovascular Diseases Research	93.837			439,136	439,136
Blood Diseases and Resources Research	93.839			27	27
Arthritis, Musculoskeletal and Skin Diseases Research	93.846			185,906	185,906
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		201,618	411,206	612,824
Digestive Diseases and Nutrition Research	93.848				
Pass-Through from University of California - Davis		5 R01 DK056839 08		59,435	59,435
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			380,350	380,350
Allergy, Immunology and Transplantation Research	93.855			96,007	96,007
Pass-Through from Baylor College of Medicine		5T32AI007456		15,647	15,647
Pass-Through from Baylor College of Medicine		5T32AI007456-16A1		79,254	79,254
Total - CFDA 93.855			0	190,908	190,908
Microbiology and Infectious Diseases Research	93.856			131,197	131,197
Biomedical Research and Research Training	93.859			837,489	837,489
Pass-Through from Baylor College of Medicine		1K12GM084897-02		14,496	14,496
Pass-Through from Rice University		3T15LM007093-18S1		45,049	45,049
Total - CFDA 93.859			0	897,034	897,034
Child Health and Human Development Extramural Research	93.865			456,201	456,201
Pass-Through from University of New Mexico		1 R01 HD064655 01		43,668	43,668
Total - CFDA 93.865			0	499,869	499,869
Aging Research	93.866			890,786	890,786
Vision Research	93.867			94,229	94,229
Medical Library Assistance	93.879			6,720	6,720
Pass-Through from Rice University		5T15LM007093-18		43,961	43,961
Pass-Through from Rice University		5T15LM07093-17		55,769	55,769
Pass-Through from Rice University		5T15LM07093-18		90,925	90,925
Pass-Through from Rice University		5T15LMO7093		13	13
Total - CFDA 93.879			0	197,388	197,388
Grants for Training in Primary Care Medicine and Dentistry	93.884			2,149,682	2,149,682
Health Care and Other Facilities	93.887		4,714	1,470,924	1,475,638
Pass-Through from Autistic Treatment Center		C76HF15327		95,091	95,091
Pass-Through from Piney Woods Regional Advisory		752603041		7,426	7,426
Total - CFDA 93.887			4,714	1,573,441	1,578,155
Specially Selected Health Projects	93.888			222,696	222,696
National Bioterrorism Hospital Preparedness Program	93.889		27,646,060	8,075,836	35,721,896
Family and Community Violence Prevention Program	93.910			39,806	39,806
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912		162,753	222,827	385,580
Pass-Through from Leon County		426056		26,890	26,890
Total - CFDA 93.912			162,753	249,717	412,470

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Grants to States for Operation of Offices of Rural Health	93.913			149,982	149,982
HIV Emergency Relief Project Grants	93.914				
Pass-Through from Harris County Hospital District		6H12HA000390-11		496,525	496,525
Pass-Through from Harris County Public Health and Environmental Services		09GEN0097		83,002	83,002
Pass-Through from Harris County Public Health and Environmental Services		10GEN0197		70,397	70,397
Pass-Through from University Health System		BULLOCK/UHS/RY ANWHIT		52,764	52,764
Total - CFDA 93.914			0	702,688	702,688
HIV Care Formula Grants	93.917		21,649,851	73,649,920	95,299,771
Pass-Through from Aids Arms, Inc.		MAI 2009-031082-001		28,325	28,325
Pass-Through from The Houston Regional HIV/AIDS Resource Group, Inc.		09UTVF00PTB		(128)	(128)
Pass-Through from The Houston Regional HIV/AIDS Resource Group, Inc.		10UTVF00PTB		205,833	205,833
Pass-Through from The Houston Regional HIV/AIDS Resource Group, Inc.		10UTVF00SS		19,371	19,371
Pass-Through from The Houston Regional HIV/AIDS Resource Group, Inc.		11UTV00PTB		55,539	55,539
Pass-Through from University Health System		DELGADO/UHS/RY ANWHIT		13,214	13,214
Pass-Through from Urban League of Greater Dallas and North Central Texas		MAI2007-025554-001		18,146	18,146
Total - CFDA 93.917			21,649,851	73,990,220	95,640,071
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918				
Pass-Through from Harris County Hospital District		09-HSP-0105		19,244	19,244
Ryan White HIV/AIDS Dental Reimbursements Community Based Dental Partnership	93.924			102,062	102,062
Special Projects of National Significance	93.928		118,448	136,668	255,116
Comprehensive Residential Drug Prevention and Treatment Projects for Substance-Using Women and Their Children	93.937			478,291	478,291
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938			205,403	205,403
HIV Prevention Activities_Non-Governmental Organization Based	93.939			538,180	538,180
HIV Prevention Activities_Health Department Based	93.940		10,652,733	4,449,554	15,102,287
Pass-Through from City of Houston Health and Human Services		4600008916		2,758	2,758
Pass-Through from City of Houston Health and Human Services		C10-004-7		33,968	33,968
Pass-Through from Harris County Health Department		03GEN0217		(15,819)	(15,819)
Pass-Through from Harris County Health Department		04GEN0164R		(36,303)	(36,303)
Pass-Through from Harris County Health Department		04GEN0165		6,060	6,060
Pass-Through from Harris County Health Department		05GEN0104		124	124
Pass-Through from Harris County Health Department		05GEN0105		960	960
Total - CFDA 93.940			10,652,733	4,441,302	15,094,035
HIV Demonstration, Research, Public and Professional Education Projects	93.941			97,434	97,434

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		542,247	1,594,452	2,136,699
Assistance Programs for Chronic Disease Prevention and Control	93.945			100,570	100,570
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946			33,642	33,642
Block Grants for Community Mental Health Services	93.958		26,045,321	5,656,642	31,701,963
Block Grants for Prevention and Treatment of Substance Abuse	93.959		110,231,312	22,248,702	132,480,014
Pass-Through from Mental Health and Mental Retardation Authority of Harris County		MHMR TDD 98/99		(2)	(2)
Pass-Through from University of Arkansas		SA1007020		24,216	24,216
Total - CFDA 93.959			110,231,312	22,272,916	132,504,228
Public Health Traineeships	93.964			161,849	161,849
Geriatric Education Centers	93.969		103,728	482,969	586,697
Pass-Through from Baylor College of Medicine		1D31HP0882101		78,908	78,908
Pass-Through from Baylor College of Medicine		458010		3,240	3,240
Pass-Through from Baylor College of Medicine		458011		4,320	4,320
Pass-Through from Baylor College of Medicine		458340		30,152	30,152
Pass-Through from Baylor College of Medicine		5600273704		21,701	21,701
Pass-Through from Baylor College of Medicine		6 D31 HP08821-03-01		31,364	31,364
Pass-Through from Baylor College of Medicine		741613878		39,836	39,836
Pass-Through from Baylor College of Medicine		D31 HP 008821		27,269	27,269
Pass-Through from Harrington Regional Medical Center		125509-125507		52,619	52,619
Total - CFDA 93.969			103,728	772,378	876,106
Preventive Health Services_Sexually Transmitted Diseases Control Grants	93.977		5,262,527	1,824,312	7,086,839
Preventive Health Services_Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	93.978		248,487	796,827	1,045,314
Mental Health Disaster Assistance and Emergency Mental Health	93.982		3,838,539	344,875	4,183,414
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		187,726	700,231	887,957
International Research and Research Training	93.989		16,333	550,341	566,674
Preventive Health and Health Services Block Grant	93.991		2,343,444	1,990,617	4,334,061
Maternal and Child Health Services Block Grant to the States	93.994		7,876,246	24,465,425	32,341,671
Adolescent Family Life_Demonstration Projects	93.995				
Pass-Through from Children's Shelter		SG/APHPA006042		83,296	83,296
Pass-Through from Lifeworks		UTA05-820 AMD 3		61,127	61,127
Total - CFDA 93.995			0	144,423	144,423
Bioterrorism Training and Curriculum Development Program	93.996			(235)	(235)
Pass-Through from City of Houston Health and Human Services		CCU 622445-01		839	839
Total - CFDA 93.996			0	604	604
Total - U.S. Department of Health and Human Services			617,052,455	2,025,233,032	2,642,285,487

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
Corporation for National and Community Service					
Retired and Senior Volunteer Program	94.002			146,992	146,992
Learn and Serve America_School and Community Based Programs	94.004		1,025,190		1,025,190
Learn and Serve America_Higher Education	94.005				
Pass-Through from Morehouse School of Medicine		SG/06LHHGA/BERG GREN		6,513	6,513
Pass-Through from Temple University		09NDHPA002		28,143	28,143
Total - CFDA 94.005			0	34,656	34,656
AmeriCorps	94.006		2,800	457,294	460,094
Pass-Through from Jumpstart for Young Children, Inc.		240200 / 212027 B55045 100		66,667	66,667
Pass-Through from OneStar Foundation		11.0609.018-3, AMD 1		(22,440)	(22,440)
Pass-Through from OneStar Foundation		11.0912.125-1		113,131	113,131
Pass-Through from OneStar Foundation		11.0912.127-1		249,272	249,272
Pass-Through from OneStar Foundation		12.0912.018-1		695,534	695,534
Pass-Through from OneStar Foundation		15.0809.115-1		485	485
Pass-Through from OneStar Foundation		15.809.125-1		7,579	7,579
Pass-Through from OneStar Foundation		410120		(351)	(351)
Pass-Through from OneStar Foundation		410130		492	492
Pass-Through from OneStar Foundation		410140		(3,691)	(3,691)
Pass-Through from OneStar National Service Commission		06ACHTX0010009	64,005	252,247	316,252
Pass-Through from OneStar National Service Commission		12-0710.016-1		4	4
Pass-Through from OneStar National Service Commission		12-0710.016-2	1,229	458	1,687
Pass-Through from OneStar National Service Commission		3410/CBA		4,995	4,995
ARRA - AmeriCorps				338,135	338,135
Pass-Through from OneStar Foundation		09RFHTX0010005	70,338	11,048	81,386
Pass-Through from OneStar Foundation		09RFHTX0010007		310,287	310,287
Total - CFDA 94.006			138,372	2,481,146	2,619,518
Program Development and Innovation Grants	94.007			10,750	10,750
Pass-Through from North Carolina Campus Compact		200751		735	735
Total - CFDA 94.007			0	11,485	11,485
Total - Corporation for National and Community Service			1,163,562	2,674,279	3,837,841
Social Security Administration					
Social Security Administration	96.XXX	0600-03-60023		920,027	920,027
Social Security_Research and Demonstration	96.007			222,756	222,756
Total - Social Security Administration			0	1,142,783	1,142,783
U.S. Department of Homeland Security					
U.S. Department of Homeland Security	97.XXX				
Pass-Through from Medical University of South Carolina		200802651		36,722	36,722
Interoperable Emergency Communications Grant Program	97.001		1,552,280	56,110	1,608,390

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Homeland Security (continued)					
State and Local Homeland Security Training Program	97.005			21,469,806	21,469,806
Urban Areas Security Initiative	97.008		869,613	15,669	885,282
Boating Safety Financial Assistance	97.012			4,128,283	4,128,283
Reimbursement for Firefighting on Federal Property	97.016			239,439	239,439
Community Assistance Program State Support Services Element	97.023			338,510	338,510
National Urban Search and Rescue Response System	97.025			1,156,007	1,156,007
Flood Mitigation Assistance	97.029		4,748,449	85,698	4,834,147
Crisis Counseling	97.032			909,227	909,227
Disaster Unemployment Assistance	97.034			3,824	3,824
National Dam Safety Program	97.041			202,716	202,716
Emergency Management Performance Grants	97.042		5,514,221	6,445,606	11,959,827
State Fire Training Systems Grants	97.043			28,000	28,000
Assistance to Firefighters Grant	97.044			418,260	418,260
Pre-Disaster Mitigation	97.047		158,612	762,302	920,914
Presidential Declared Disaster Assistance to Individuals and Households - Other Needs	97.050			1,945,495	1,945,495
Port Security Grant Program	97.056			840,570	840,570
Centers for Homeland Security	97.061				
Pass-Through from Jackson State University		634822		159,074	159,074
Competitive Training Grants	97.068			1,001,064	1,001,064
Rail and Transit Security Grant Program	97.075		4,727,523	641,942	5,369,465
Homeland Security Research Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Detection	97.077			101,748	101,748
Buffer Zone Protection Program	97.078		3,991,351	379,697	4,371,048
Alternative Housing Pilot Program	97.087		385,688	164,432	550,120
Disaster Assistance Projects	97.088		22,751,065	896,414	23,647,479
Repetitive Flood Claims	97.092		605,731		605,731
Severe Loss Repetitive Program	97.110		7,698,773	107,740	7,806,513
Regional Catastrophic Preparedness Grant Program	97.111		2,191,031		2,191,031
Border Infrastructure Improvement Projects	97.112			106,861	106,861
ARRA - Port Security Grant Program	97.116			576,132	576,132
Total - U.S. Department of Homeland Security			55,194,337	43,217,348	98,411,685
U. S. Agency for International Development					
U. S. Agency for International Development	98.XXX				
Pass-Through from American Council on Education		523-A-0006-00009-00/TIES		537	537

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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. Agency for International Development (continued)					
USAID Foreign Assistance for Programs Overseas	98.001			365,816	365,816
Pass-Through from Columbia University		TAYLOR-COLUMBIA UNIV		(1,864)	(1,864)
Total - CFDA 98.001			0	363,952	363,952
USAID Development Partnerships for University Cooperation and Development	98.012				
Pass-Through from American Council on Education		523-A-00-06-00009-00	6,758	48,625	55,383
Total - U. S. Agency for International Development			6,758	413,114	419,872
Total Non-Clustered Programs			2,442,913,222	11,471,471,624	13,914,384,846
RESEARCH AND DEVELOPMENT CLUSTER					
U.S. Department of Agriculture					
U.S. Department of Agriculture	10.XXX	58-6204-8-055		3,194	3,194
Pass-Through from Applied Physical Electronics		7502 TTU1004 / 211432 B56518 200		21,731	21,731
Pass-Through from University of Baltimore		201000854		10,437	10,437
Total - CFDA 10.XXX			0	35,362	35,362
Agricultural Research--Basic and Applied Research	10.001		20,000	3,408,663	3,428,663
Pass-Through from Almond Board of California		503996		72,665	72,665
Pass-Through from Auburn University		06 PS 361825 / 211123 B51191 200		1	1
Pass-Through from Mississippi State University		58-64067-204		10,235	10,235
Total - CFDA 10.001			20,000	3,491,564	3,511,564
Plant and Animal Disease, Pest Control and Animal Care	10.025			2,094,100	2,094,100
Wildlife Services	10.028			51,419	51,419
Conservation Reserve Program	10.069			34,930	34,930
Federal-State Marketing Improvement Program	10.156				
Pass-Through from Michigan State University		503902		551	551
Market Protection and Promotion	10.163				
Pass-Through from Oklahoma State University		503992		7,000	7,000
Specialty Crop Block Grant Program	10.169			8,363	8,363
Specialty Crop Block Grant Program - Farm Bill	10.170			132,930	132,930
Grants for Agricultural Research, Special Research Grants	10.200		1,059,677	12,950,077	14,009,754
Pass-Through from Colorado State University		503899		67	67
Pass-Through from Colorado State University		504072		31,357	31,357
Pass-Through from Fort Valley State University		503752		4,304	4,304
Pass-Through from Kansas State University		07 38624 18571 / 211254 B51211 200		4,060	4,060
Pass-Through from Kansas State University		08 34370 19124 / 211327 B51209 200		857	857
Pass-Through from Kansas State University		08 34370 19124 / 211328 B51188 200		2,574	2,574
Pass-Through from Kansas State University		503703		3,057	3,057
Pass-Through from Kansas State University		504084		80,079	80,079

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Pass-Through from Kansas State University		S10051 / 211405 B51044 200		59,292	59,292
Pass-Through from Kansas State University		S10051 / 211406 B51209 200		38,538	38,538
Pass-Through from Kansas State University		S10051 / 211407 B51188 200		10,746	10,746
Pass-Through from Louisiana State University		504147		4,596	4,596
Pass-Through from New Mexico State University		503469		3,533	3,533
Pass-Through from New Mexico State University		503995		41,727	41,727
Pass-Through from New Mexico State University		J88 Q01272 / 211342 B53419 200		5,295	5,295
Pass-Through from New Mexico State University		J89 Q01273 / 211343 B53340 200		15,743	15,743
Pass-Through from New Mexico State University		Q01430 / 211430 B53055 200		6,926	6,926
Pass-Through from Southern Regional Aquaculture Center		211382 B51297 200		19,744	19,744
Pass-Through from Southern Regional Aquaculture Center		503948		3,453	3,453
Pass-Through from Southern Regional Aquaculture Center		504025		1,844	1,844
Pass-Through from University of California - Davis		503964		696	696
Pass-Through from University of California - Davis		503991		47,528	47,528
Pass-Through from University of California - Davis		504093		5,725	5,725
Pass-Through from University of Florida		503621		4,695	4,695
Pass-Through from University of Florida		503823		30,700	30,700
Pass-Through from University of Florida		503825		8,124	8,124
Pass-Through from University of Florida		504079		3,481	3,481
Pass-Through from University of Florida		504191		258	258
Pass-Through from University of Florida		78044		6,552	6,552
Pass-Through from University of Florida		UF09219		206	206
Pass-Through from University of Georgia Research Foundation, Inc.		RD3090673500978 / 211251 B51222 200		(26)	(26)
Pass-Through from University of Tennessee - Knoxville		504109		21,140	21,140
Pass-Through from Virginia State University		503931		12,622	12,622
Total - CFDA 10.200			1,059,677	13,429,570	14,489,247
Cooperative Forestry Research	10.202			855,146	855,146
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203			7,559,544	7,559,544
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205				
Pass-Through from South Carolina State University		SLX-312-03-09-TAMU		24,186	24,186
Grants for Agricultural Research--Competitive Research Grants	10.206		185,533	3,650,481	3,836,014
Pass-Through from Iowa State University		503737		27,673	27,673
Pass-Through from Mississippi State University		503298		6,512	6,512
Pass-Through from New Mexico State University		503800		20,626	20,626
Pass-Through from Pennsylvania State University		504045		22,014	22,014
Pass-Through from University of Arkansas		503730		4,661	4,661
Pass-Through from University of California - Davis		503368		4,340	4,340
Pass-Through from University of Georgia		8000000980	24,606	6,575	31,181
Pass-Through from University of Maryland - College Park		503768		81,470	81,470
Pass-Through from University of Maryland - College Park		503778		114,821	114,821
Pass-Through from University of Massachusetts - Amherst		2009-35319-05186		39,199	39,199
Pass-Through from University of Nebraska - Lincoln		D350		348	348
Total - CFDA 10.206			210,139	3,978,720	4,188,859

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Animal Health and Disease Research	10.207			272,049	272,049
Small Business Innovation Research	10.212			6,606	6,606
Sustainable Agriculture Research and Education	10.215				
Pass-Through from University of Georgia		503569		40,786	40,786
Pass-Through from University of Georgia		570450	5,831		5,831
Pass-Through from University of Georgia		570451	810		810
Pass-Through from University of Georgia		RD309 101/3842718 / 211305 B51222 200		80,237	80,237
Pass-Through from University of Georgia Research Foundation, Inc.		RD309 105 4692828 / 211420 B51222 200		13,005	13,005
Pass-Through from University of Georgia Research Foundation, Inc.		RD309 109 4786276 / 211440 B51306 200		749	749
Total - CFDA 10.215			6,641	134,777	141,418
1890 Institution Capacity Building Grants	10.216				
Pass-Through from Southern University		504059		112	112
Higher Education Challenge Grants	10.217		171,503	432,650	604,153
Pass-Through from New Mexico State University		504167		25,624	25,624
Pass-Through from University of Florida		504017		27,296	27,296
Pass-Through from University of Kentucky		503892		9,773	9,773
Pass-Through from University of Wisconsin - Madison		503524		13,103	13,103
Total - CFDA 10.217			171,503	508,446	679,949
Biotechnology Risk Assessment Research	10.219		25,126	232,919	258,045
Higher Education Multicultural Scholars Program	10.220			11,250	11,250
Pass-Through from Laredo Community College		504152		35,236	35,236
Total - CFDA 10.220			0	46,486	46,486
Hispanic Serving Institutions Education Grants	10.223		78,313	613,028	691,341
Pass-Through from Del Mar College		5007-38422-18084-s		25,411	25,411
Pass-Through from Southwest Texas Junior College		503663		19,693	19,693
Pass-Through from University of Puerto Rico		2008-2009-007		26,048	26,048
Pass-Through from University of Puerto Rico		503947		16,470	16,470
Total - CFDA 10.223			78,313	700,650	778,963
Community Food Projects	10.225			993,896	993,896
Agricultural and Rural Economic Research	10.250			33,039	33,039
Pass-Through from Mississippi State University		018000-321104-08	2,396	1,831	4,227
Total - CFDA 10.250			2,396	34,870	37,266
Consumer Data Initiative	10.256			38,680	38,680
Agricultural Market and Economic Research	10.290				
Pass-Through from United Sorghum Checkoff Program		I 0004 09 / 211368 B51188 200		33,471	33,471
Pass-Through from United Sorghum Checkoff Program		R0022 10 / 211441 B51188 200		3,037	3,037
Total - CFDA 10.290			0	36,508	36,508

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Integrated Programs	10.303		167,331	797,056	964,387
Pass-Through from Cornell University		51110 04688 / 211339 B51200 200		154,616	154,616
Pass-Through from Kansas State University		503280		247	247
Pass-Through from Louisiana State University		503869		23,265	23,265
Pass-Through from North Carolina State University		2004 1501 03 / 211113 B51216 200		(397)	(397)
Pass-Through from North Carolina State University		503960		9,749	9,749
Pass-Through from North Carolina State University		503993		10,756	10,756
Pass-Through from Regents of the University of California		06511003735P / 211257 B59116 200		(17,187)	(17,187)
Pass-Through from University of Arizona		503522		86,029	86,029
Pass-Through from University of Nebraska - Lincoln		504125		31,270	31,270
Total - CFDA 10.303			167,331	1,095,404	1,262,735
Homeland Security--Agricultural	10.304				
Pass-Through from Kansas State University		503657		45,000	45,000
International Science and Education Grants	10.305			100,237	100,237
Specialty Crop Research Initiative	10.309		104,551	486,416	590,967
Pass-Through from Washington State University		112674 G002608 / 211403 B51306 200		11,332	11,332
Pass-Through from Washington State University		112674 G002608 / 211426 B51241 200		910	910
Total - CFDA 10.309			104,551	498,658	603,209
Agriculture and Food Research Initiative	10.310		99,794	782,952	882,746
Pass-Through from University of Florida		504179		19,786	19,786
Pass-Through from Wintergarden Groundwater		405967		3,404	3,404
Total - CFDA 10.310			99,794	806,142	905,936
Crop Insurance	10.450			6,870,551	6,870,551
Partnership Agreements to Develop Non-Insurance Risk Management Tools for Producers (Farmers)	10.456			67,228	67,228
Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	10.475			248,608	248,608
Food Safety Cooperative Agreements	10.479			174,679	174,679
Cooperative Extension Service	10.500			19,563	19,563
Pass-Through from North Carolina State University		503766		11,135	11,135
Pass-Through from North Carolina State University		503792		10,913	10,913
Pass-Through from Pennsylvania State University		503796		109,050	109,050
Pass-Through from Pennsylvania State University		570572	6,600		6,600
Pass-Through from Pennsylvania State University		570621	11,000		11,000
Pass-Through from University of California - Davis		503863		49	49
Total - CFDA 10.500			17,600	150,710	168,310
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557		10,000	819,474	829,474
Team Nutrition Grants	10.574		60,062	75,225	135,287

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Foreign Market Development Cooperator Program	10.600		52,757	26,627	79,384
Emerging Markets Program	10.603			30,415	30,415
Forestry Research	10.652			1,419,751	1,419,751
Cooperative Forestry Assistance	10.664			208,005	208,005
Pass-Through from University of Georgia		504043		9,000	9,000
Total - CFDA 10.664			0	217,005	217,005
Rural Cooperative Development Grants	10.771			58,601	58,601
ARRA - Broadband Initiatives Program	10.787			66,970	66,970
Resource Conservation and Development	10.901			9,558	9,558
Soil and Water Conservation	10.902		119,127	810,414	929,541
Soil Survey	10.903			80,447	80,447
Watershed Protection and Flood Prevention	10.904			47,642	47,642
Plant Materials for Conservation	10.905			2,878	2,878
Environmental Quality Incentives Program	10.912		14,520	267,399	281,919
Pass-Through from Michigan State University		503937		77,556	77,556
Pass-Through from National Fish and Wildlife Foundation		TSU 431170, 2008-0116-020		7,738	7,738
ARRA - Environmental Quality Incentives Program					
Pass-Through from Electric Power Research Institute		431550		65,371	65,371
Total - CFDA 10.912			14,520	418,064	432,584
Technical Agricultural Assistance	10.960			126,650	126,650
Pass-Through from Research Corporation of the University of Hawaii		503647		67,841	67,841
Total - CFDA 10.960			0	194,491	194,491
Scientific Cooperation and Research	10.961			90,324	90,324
Cochran Fellowship Program-International Training-Foreign Participant	10.962			1,824,210	1,824,210
Pass-Through from University of California - Davis		503449		665,613	665,613
Pass-Through from University of California - Davis		503754		182,179	182,179
Pass-Through from University of California - Davis		570375	198,903		198,903
Pass-Through from University of California - Davis		570481	80,218		80,218
Pass-Through from University of California - Davis		570514	46,827		46,827
Pass-Through from University of California - Davis		570563	26,032		26,032
Pass-Through from University of California - Davis		570622	32,947		32,947
Total - CFDA 10.962			384,927	2,672,002	3,056,929
Total - U.S. Department of Agriculture			2,604,464	51,806,489	54,410,953
U.S. Department of Commerce					
U.S. Department of Commerce	11.XXX	BCYA1323-10-00245/PO #YA 1323105W0378		3,598	3,598
		DG133E09SE4242		24,480	24,480

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
		RA133E-09-SE-3317		19,701	19,701
		UTA06-827		367,521	367,521
		UTA10-000046		45,622	45,622
		YA1323-10-SE-0144		30,105	30,105
Pass-Through from Dauphin Island Sea Lab		2303JD-UTMSI-02		5,500	5,500
Pass-Through from Nanoelectronics Research Corporation		2006-NE-1464	234,141	776,218	1,010,359
		UTA08-596 AMD 5			
Pass-Through from Sabine - Neches Navigation District		454201001		67,475	67,475
Total - CFDA 11.XXX			234,141	1,340,220	1,574,361
Census Bureau Data Products	11.001			39,557	39,557
Economic Development_Support for Planning Organizations	11.302				
Pass-Through from SFWQ Corporation		08-69-03989		3,863	3,863
Economic Development--Technical Assistance	11.303			94,098	94,098
Geodetic Surveys and Services (Geodesy and Applications of the National Geodetic Reference System)	11.400			67,747	67,747
Pass-Through from University Corporation for Atmospheric Research		S09-81073		7,441	7,441
Total - CFDA 11.400			0	75,188	75,188
Sea Grant Support	11.417		149,702	2,027,812	2,177,514
Pass-Through from Mote Marine Lab		MML 185-558		102,504	102,504
Total - CFDA 11.417			149,702	2,130,316	2,280,018
Coastal Zone Management Administration Awards	11.419			990,498	990,498
Pass-Through from University of New Hampshire		08-043	24,272	33,251	57,523
		NA06NOS4190167			
Total - CFDA 11.419			24,272	1,023,749	1,048,021
Coastal Zone Management Estuarine Research Reserves	11.420			7,093,017	7,093,017
Financial Assistance for National Centers for Coastal Ocean Science	11.426			206,246	206,246
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427			30,449	30,449
Pass-Through from University of Southern Mississippi		504039		25,241	25,241
Total - CFDA 11.427			0	55,690	55,690
Undersea Research	11.430				
Pass-Through from University of Hawaii		UTA09-000481		43,749	43,749
		Z927478			
Climate and Atmospheric Research	11.431		15,312	47,347	62,659
Pass-Through from World Wildlife Fund		FU33		22,983	22,983
Total - CFDA 11.431			15,312	70,330	85,642
Marine Fisheries Initiative	11.433			5,140	5,140
Marine Mammal Data Program	11.439			32,918	32,918

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Unallied Management Projects	11.454			101,785	101,785
Pass-Through from University of California - Santa Cruz		504174		26,806	26,806
Total - CFDA 11.454			0	128,591	128,591
Special Oceanic and Atmospheric Projects	11.460			137,302	137,302
Habitat Conservation	11.463			29,146	29,146
Meteorologic and Hydrologic Modernization Development	11.467				
Pass-Through from University of Washington		680729 / 211431 B53516 200		12,385	12,385
Unallied Science Program	11.472		4,859	93,180	98,039
Coastal Services Center	11.473		166,939	356,140	523,079
Center for Sponsored Coastal Ocean Research_Coastal Ocean Program	11.478		148,737	887,343	1,036,080
Educational Partnership Program	11.481				
Pass-Through from Florida A&M University		C-1741		(795)	(795)
Pass-Through from Florida A&M University		C-2491		167,684	167,684
Pass-Through from Florida A&M University		NA060AR4810164		966	966
Pass-Through from Howard University		0006264-1000017208		156,357	156,357
Total - CFDA 11.481			0	324,212	324,212
Measurement and Engineering Research and Standards	11.609			651,405	651,405
Pass-Through from Missouri University of Science and Technology		00028344-01		31,936	31,936
ARRA - Measurement and Engineering Research and Standards					
Pass-Through from American Society of Heating, Refrigerating, and A/C Engineers		1596-TRP		17,974	17,974
Pass-Through from Intelligent Automation, Inc.		748-1		20,517	20,517
Pass-Through from University of California - San Diego		10305701-SUB		51,205	51,205
Total - CFDA 11.609			0	773,037	773,037
Manufacturing Extension Partnership	11.611		809,304	3,851,241	4,660,545
Pass-Through from Stellar Micro Devices, Inc.		70NANB7H7030		(14,702)	(14,702)
Total - CFDA 11.611			809,304	3,836,539	4,645,843
Technology Innovation Program	11.616		155,664	374,637	530,301
Total - U.S. Department of Commerce			1,708,930	19,166,593	20,875,523
U.S. Department of Defense					
U.S. Department of Defense	12.XXX	21C088-01		139,957	139,957
		420007		29,069	29,069
		6477		17,619	17,619
		8000001192	99,111	84,667	183,778
		8000001313		12	12
		8000001322		1,967	1,967
		CARDENAS/IPAA/NAVY		49,753	49,753
		CEM-0605 (R00905)		4,200	4,200
		CHALFIN/IPAA/NAVY		101,504	101,504

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
		COHN US ARMY		93,752	93,752
		DAAA21-93-C-0101		(11,635)	(11,635)
		DAMD17-03-1-0075		127,933	127,933
		FA5209 09 P 0348 / 21C127 B56342 200		29,999	29,999
		FA7014-07-C-0034	11,780	178,693	190,473
		FA7014-07-C-0036/PET	26,018	156,265	182,283
		FA7014-09-C-0006		166,230	166,230
		FA8650-08-C-06873		117,515	117,515
		FA8650-09-C-5410		62,063	62,063
		FA8718-09-C-0061		35,374	35,374
		GOULD NAVY IPA		2,730	2,730
		GU/IPAA/NAVY		35,377	35,377
		H92236-10-P-3134		12,946	12,946
		H98230-06-C-0443		182,493	182,493
		H98230-07-C-0453 REQ #R40700110000		264,830	264,830
		H98230-08-1-0218		4,952	4,952
		H98230-09-C-0268 / 000028450000		407,163	407,163
		HHQ106-08-C-0012		202,324	202,324
		HQ0006-08-C-0040		73,329	73,329
		HR0011-07-C-0027		727,493	727,493
		HR0011-08-1-0050 MOD P00001 NCE		65,241	65,241
		HU0001-09-1-TS10 / N09-P12		13,970	13,970
		HU0001091TS15		30,271	30,271
		HU0001101TS01 N10005		17,924	17,924
		IPA-COBB-CROACH		163,718	163,718
		M67854-09-P-6015 M9545009RCR9CM5		77,016	77,016
		N00014-06-G-0218 DO 0042		77,163	77,163
		N00014-06-G-0218/0043		8,922	8,922
		N00014-08-1-0193	84,000	207,689	291,689
		N00014-09-C-0187		2,354,330	2,354,330
		N00024-01-D-6600 DO 0475		19,563	19,563
		N00167-10-P-0039		17,892	17,892
		N41756-03-C-4006		(7)	(7)
		N61339-04-C-0080 CAT 08182006-1		1,139,033	1,139,033
		N66001 09 D 0048 / 21C122 B56302 200		102,549	102,549
		N66001-10-C-2014		22,038	22,038
		N66604-08-M-4263		1,886	1,886
		NAG9-1476		56,242	56,242
		NNX09AC06G		302,689	302,689
		ONR-IPA/CHU		20,009	20,009
		ONR-IPA/NORLING		11,471	11,471
		ONR-IPA/SATSANGI		68,278	68,278
		ONR-IPA/WANG		7,934	7,934

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
		PALMER NAVY IPA		8,426	8,426
		PO 937168		18,056	18,056
		R00905		14,041	14,041
		RAMALINGAM NAVY IPA		10,926	10,926
		RAWLS/IPAA/NAV		33,880	33,880
		SCHWACHA US ARMY IPA		35,825	35,825
		UTA09-000781		9,408	9,408
		W15P7T 07 D P040 0003 / 21C124 B56250 20		1,008,500	1,008,500
		W15P7T 07 D P040 0003 / 21C126 B56342 20		199,935	199,935
		W15PT 07 D P040 / 21C078 B56250 200		2,373	2,373
		W15PT 07 D P040 TASK 2 / 21C106 B56250 2		404,981	404,981
		W15QKN-04-C-1091	(15,119)	121,732	106,613
		W15QKN-08-D-0426 DO 0001		23,116	23,116
		W15QKN-08-D-0426 DO 0002	5,000	1,290	6,290
		W15QKN-08-D-0426 DO 0002 UTA08-812		(5)	(5)
		W81GY08P0130		(16,546)	(16,546)
		W81R8T8192RM01		28	28
		W81XWH-07-P-1023		10,122	10,122
		W81XWH-09-P-0206		65,289	65,289
		W81XWH-10-P-0100		19,318	19,318
		W81XWH-10-P0122		52,402	52,402
		W900KK-08-C-0032 0003 000301 AB	87,356	129,180	216,536
		W900KK-08-C-0032 0004 000401 AB		153,618	153,618
		W900KK-08-C-0032 0005 000501 AB		171,464	171,464
		W900KK-08-C-0032 0006 000601 AB		137,624	137,624
		W900KK-08-C-0032 CLIN 0001 ACRN		91,160	91,160
		W9113M 05C 0 / 21C014 B56255 200		2,872,474	2,872,474
		W9113M 05C 0 / 21C119 B56255 200		10,459	10,459
		W9115U-10-C-0002		1,826,209	1,826,209
		W9115U-10-C-0002 CLIN 0005		9,831	9,831
		W911NF 10 2 0018 / 21C133 B56516 200		100,377	100,377
		W911NF-04-2-0006		94,916	94,916
		W911NF-05-1-0544		72,194	72,194
		W911NF-08-1-0348 OSP #200702900		93,378	93,378

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
		W911NF-08-2-0015		(1,240)	(1,240)
		W911NF-08-2-0015 UTA08-309		(378)	(378)
		W911NF-08-2-0015 UTA08-311		(4,267)	(4,267)
		W911NF-09-2-0038		130,156	130,156
		W911QX-07-D-0002 DO 0006		69,834	69,834
		W911QX-07-D-0002 DO 0007		364,171	364,171
		W911QX-07-D-0002 DO 0007 UTA09-000275		6,883	6,883
		W911QX-07-D-0002 DO 0008		82,175	82,175
		W911QX-07-D-0002 DO 0007		582,063	582,063
		W911QX-07-D-0002 DO 0007 Mod 02		2,215,319	2,215,319
		W911QX-07-D-0002 DO 0009		1,859,340	1,859,340
		W911QX-07-D-0002 DO 0009 UTA10-000115		45,759	45,759
		W911SG-09-P-0263		105,486	105,486
		W911SR07 C00 / 21C080 B00064 200		312,438	312,438
		W911SR07 C00 / 21C081 B00092 200		62,159	62,159
		W911SR07 C00 / 21C082 B00072 200		160,977	160,977
		W911SR07 C00 / 21C083 B00070 200		151,520	151,520
		W911SR07 C00 / 21C084 B00065 200		2,765	2,765
		W911SR07 C00 / 21C085 B00071 200		64,914	64,914
		W911SR07 C00 / 21C089 B00020 200		61,181	61,181
		W911SR07 C00 / 21C090 B00012 200		133,711	133,711
		W911SR-08-C-00242		178,737	178,737
		W91260-06-D-0005		2,654	2,654
		W9126G-09-P-0315		18,326	18,326
		W9128G-09-P-0312		36,596	36,596
		W912DW-09-P-0283		30,784	30,784
		W912HQ06C005 / 21C055 B00064 200		930	930
		W912HQ06C005 / 21C056 B00066 200		1,798	1,798
		W912HQ06C005 / 21C057 B00065 200		626	626
		W912HQ06C005 / 21C059 B00073 200		129	129

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)					
		W912HQ06C005 / 21C060 B00071 200		5,705	5,705
		W912HQ06C005 / 21C061 B00066 200		5,342	5,342
		W912HQ-10-C-0056		36,329	36,329
		W912HZ 10 P 0208 TEMPORARY / 21C134 B000		5,588	5,588
		W912HZ-08-C-0050		31,395	31,395
		W912HZ-08-P-0171		7,955	7,955
		W912HZ-10-C-0031		13,581	13,581
		W91QF0-08-P-0115		415	415
		W91WAW-07-C-0029		135,608	135,608
		WHANG/IPAA/NAVY		98,402	98,402
		WU/IPAA		85,541	85,541
		ZHAO/IPAA/NAVY		32,949	32,949
Pass-Through from Aegis Technologies Group, Inc.		41-STTR-UTX-0652		37,739	37,739
Pass-Through from Agiltron, Inc.		N68335-08-C-0326		824	824
Pass-Through from American Association of Diabetes Educators		NP200309		(2,421)	(2,421)
Pass-Through from American Maglev Technology, Inc.		AMER MAGLEV TECH OF FLA-UT105		45	45
Pass-Through from Arcadis US, Inc.		NL500005 TEXASTECH / 211361 E04020 200		(8,856)	(8,856)
Pass-Through from Arinc, Inc.		240936		76,870	76,870
Pass-Through from Arizona State University		10 316 / 211399 B56216 200		66,217	66,217
Pass-Through from Atmospheric and Space Technology Research Association, LLC		UTA09-000852		186,195	186,195
Pass-Through from BAE Systems		066238 MOD 08 PHASE III		92,761	92,761
Pass-Through from BAE Systems		66238		95,561	95,561
Pass-Through from BAE Systems		W81XWH-07-C-0130	151,954	79	152,033
Pass-Through from Ball Aerospace and Technologies Corporation		10GFO20004		177,663	177,663
Pass-Through from Battelle		220297		16,788	16,788
Pass-Through from Battelle		TCN 09065		30,300	30,300
Pass-Through from Boeing Company		PO 173311 (FORMERLY KT8078)		2,888	2,888
Pass-Through from Bond University Limited		W91CRB-09-C-0040		52,214	52,214
Pass-Through from Booz Allen and Hamilton, Inc.		D40787		45,687	45,687
Pass-Through from California Institute of Technology		1264792		100	100
Pass-Through from California Institute of Technology		1264796		139	139
Pass-Through from Center for Transportation and the Environment		UTA09-000480		1,066	1,066
Pass-Through from City of Lewisville		Task FY03-02		136,969	136,969
Pass-Through from Clarkson Aerospace Corporation		UTEP SI 08-S567-0011-02-C2		3,000	3,000
Pass-Through from Cougaar Software, Inc.		CSI-2008-08 TERMINATION LETTER		20,435	20,435
Pass-Through from Curtiss Wright Electro - Mechanical Corporation		419875		695,099	695,099
Pass-Through from Curtiss Wright Electro - Mechanical Corporation		454124		29,004	29,004

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Decisive Analytics Corporation		2131001001		20,132	20,132
Pass-Through from Desert Research Institute		656.8170, AMD 1		2,417	2,417
Pass-Through from Development Systems Corporation		209000-S34, TASK ORDER 2090Y6		39,209	39,209
Pass-Through from Emergent Space Technologies, Inc.		UTA09-000052		35,634	35,634
Pass-Through from Emergent Space Technologies, Inc.		UTA10-000547		13,116	13,116
Pass-Through from Engineered Coatings, Inc.		UTA10-000552		373	373
Pass-Through from Eureka Aerospace		UTA09-000403		3,302	3,302
Pass-Through from Eyak Technology, LLC		SCA-001		48,860	48,860
Pass-Through from Florida State University		R00905		821,195	821,195
Pass-Through from General Atomics		KJ410301 / 4500001178		(62)	(62)
Pass-Through from General Dynamics		08ESM374603		18,504	18,504
Pass-Through from Geneva Foundation		S-1172-01		89,481	89,481
Pass-Through from Geneva Foundation		V-1171-01		73,246	73,246
Pass-Through from Government of Israel - Ministry of Defense		PO 4440192556		8,396	8,396
Pass-Through from Griffin Technologies, Inc.		W912HZ-08-C-0059 PNO400 SUB08UTA01		49,108	49,108
Pass-Through from HEM Technologies		010 / 211423 B56516 200		16,700	16,700
Pass-Through from High Performance Technologies, Inc.		HPTi-PETTT-TACC TO 2		480,969	480,969
Pass-Through from High Performance Technologies, Inc.		HPTi-TACC-PETTT TO2		78,387	78,387
Pass-Through from High Performance Technologies, Inc.		UTA09-000880 HPTI-PETTT-TACC		6,793	6,793
Pass-Through from High Performance Technologies, Inc.		UTA09-000880 HPTi-PETTT-TACC		87,488	87,488
Pass-Through from Homeland Protection Institute, Ltd.		CDSR-09-0001 HPI-09-SC-0001 TASK 001		1,418,948	1,418,948
Pass-Through from Hyperion Biotechnology, Inc.		W911SR-07-C-0006/Hyperion		5,157	5,157
Pass-Through from Infoscitex Corporation		1129-1S2 Mod 4 Clin 0002		68,916	68,916
Pass-Through from Institute of International Education		NSEP-U631006-UT-ARA IIE480731		76,015	76,015
Pass-Through from Institute of International Education		NSEP-U631006-UT-ARA MOD 3		19,087	19,087
Pass-Through from Institute of International Education		NSEP-U631006-UT-HIN IIE480731		11,006	11,006
Pass-Through from Institute of International Education		NSEP-U631006-UT-LS		92,628	92,628
Pass-Through from Institute of International Education		NSEP-U631023-UT-ARA-08-C02		105,147	105,147
Pass-Through from Institute of International Education		NSEP-U631023-UT-HIN-08-C03 INC#1	39,739	21,076	60,815
Pass-Through from Institute of International Education		NSEP-U631023-UT-SI-0-2		75,810	75,810
Pass-Through from Institute of International Education		NSEP-U631033-UT-ARA-SI		109,224	109,224
Pass-Through from Institute of International Education		NSEP-U631033-UT-HIN	150,000	936,017	1,086,017
Pass-Through from Institute of International Education		NSEP-U631033-UT-HIN-09-A		60,349	60,349
Pass-Through from Institute of International Education		NSEP-U631043-UT-LR		11,179	11,179

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Institute of International Education		U634000-W9137B-06-P-0145-3		19,049	19,049
Pass-Through from Institute of International Education		U634005-UTA YR 3 HQ 0034-08-2-0024		138,025	138,025
Pass-Through from Intelligent Automation, Inc.		654-3		130,027	130,027
Pass-Through from International Business Machines Corporation		W08538-11 PO# 5003470348		375,672	375,672
Pass-Through from Kitware, Inc.		HR0011-08-C-0135-S3		157,104	157,104
Pass-Through from L-3 Communications Electronic Systems, Inc.		23064 SWA REV N		1,160	1,160
Pass-Through from Lockheed Martin Corporation		4100030596		41,693	41,693
Pass-Through from Lockheed Martin Corporation		TTMNFW005		1,049	1,049
Pass-Through from Lockheed Martin Corporation		UPO #7100041554 UVT-062508		787	787
Pass-Through from Mantech SRS Technologies, Inc.		WG-08-S-005		7,954	7,954
Pass-Through from Marlow Industries, Inc.		UTA09-000974 PO 265581		59,870	59,870
Pass-Through from Massachusetts Institute of Technology		5710002700		109,448	109,448
Pass-Through from Medical University of South Carolina		N00014-99-1-0784 1		478	478
Pass-Through from Military Child Education Coalition		201001238		37,703	37,703
Pass-Through from Miratek		2009-020		8,943	8,943
Pass-Through from Mississippi State University		060808-01090729-07 MOD.13 TO OPM 301377		2,007	2,007
Pass-Through from Mississippi State University		060808-01090729-08 CO3 TSK11 M28 301380		1,927	1,927
Pass-Through from Monopole Research		FA9550-08-C-0006		12,537	12,537
Pass-Through from Montana Polysaccharides		GN0002349-1		(2,260)	(2,260)
Pass-Through from Nanohmics, Inc.		Nan0900		14,750	14,750
Pass-Through from NDI Engineering		PO 23-2680A	19,882	75,167	95,049
Pass-Through from Noblis, Inc.		W9128F-06-D-0015/NOB 31284 Mod 02		2,106	2,106
Pass-Through from Noblis, Inc.		W9128G-06-D-0015/NOB 31284		(3,369)	(3,369)
Pass-Through from Northrop Grumman Corporation		ORE&SS-SC-09-04		85,050	85,050
Pass-Through from Northrop Grumman Corporation		UTA09-000911 PO# 7600002179		99,993	99,993
Pass-Through from nScrypt, Inc.		10055-UTEP		74,568	74,568
Pass-Through from Ohio State University		GRT00015778 / 60021098		305,494	305,494
Pass-Through from Omega Optics		UTA09-000245		141,576	141,576
Pass-Through from Omega Optics		UTA09-000246 AMD 01		56,295	56,295
Pass-Through from Omega Optics		UTA09-000586		95,527	95,527
Pass-Through from Omega Optics		UTA09-3		40,000	40,000
Pass-Through from Omega Optics		UTA10-1, W31P4Q-10-C-0106		29,732	29,732
Pass-Through from Peregrine Pharmaceuticals, Inc.		HDTRA108C0003		65,498	65,498
Pass-Through from Progeny Systems Corporation		PSC-0156 TASK 01		98,025	98,025
Pass-Through from SAIC - Frederick, Inc.		4400163119		145,090	145,090
Pass-Through from SAIC - Frederick, Inc.		CEM-1001		106,751	106,751
Pass-Through from SAIC - Frederick, Inc.		PO 4400160437 / 211334 B56201 200		1,906	1,906

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 SAIC - Frederick, Inc.		UTA09-000262		349,039	349,039
Pass-Through from SAIC - Frederick, Inc.		UTA09-000263		145,151	145,151
Pass-Through from SAIC - Frederick, Inc.		UTA09-000264		81,025	81,025
Pass-Through from Schafer Corporation		SC-04A-57-22, TASK ORDER 0003		30,048	30,048
Pass-Through from Schafer Corporation		SC-07-13A-03, TASK ORDER 0003 MOD 02		87,130	87,130
Pass-Through from Scientific Systems Company, Inc.		1465-1		51,674	51,674
Pass-Through from Smithsonian Astrophysical Observatory		AR9-0005X		4,655	4,655
Pass-Through from Southwest Research Institute		A87108E		1,591	1,591
Pass-Through from Southwest Research Institute		B99044X		67,618	67,618
Pass-Through from Southwest Sciences		UTA07-867		105,171	105,171
Pass-Through from SRI International		HDTRA108C0050		84,527	84,527
Pass-Through from Stanford University		20042150-36644-B		60,261	60,261
Pass-Through from Stanford University		23282210-43822-A		201,978	201,978
Pass-Through from Superpower, Inc.		511421		53,487	53,487
Pass-Through from TASC, Inc.		ORESS-SC-09-01 7500066625		114,533	114,533
Pass-Through from TASC, Inc.		PO #7500053050		3,600	3,600
Pass-Through from TECO - Westinghouse Motor Company		UTA10-000828 SWA		25,981	25,981
Pass-Through from Texas Research Institute Austin, Inc.		UTA09-000294		(2,241)	(2,241)
Pass-Through from UES, Inc.		S-845-010-001 MOD NO 3		293,918	293,918
Pass-Through from Universal Technology Corporation		10-S555-0018-02-C1		229,002	229,002
Pass-Through from University Multispectral Laboratories		UTA10-000660		12,578	12,578
Pass-Through from University of Florida		UF-IFAS 00077422		8,656	8,656
Pass-Through from University of Maryland - College Park		Q334902		28,094	28,094
Pass-Through from University of Michigan		3001511419		39,521	39,521
Pass-Through from University of New Mexico		798127 29920 / 211345 B53465 200		82,007	82,007
Pass-Through from University of South Florida		6415 1012 81 A / 211286 B00070 200		1,730	1,730
Pass-Through from UQM Technologies		UTA09-000626		50,750	50,750
Pass-Through from US Ferriocs, LLC		8000001309		39,570	39,570
Pass-Through from VaxDesign Corporation		70003-UTMBN		(739)	(739)
Pass-Through from VIPMobile		SDR-PHI-STTR2009-003		144	144
ARRA - U.S. Department of Defense		W912HZ-10-C-0045		45,652	45,652
Pass-Through from Universal Technology Corporation		09-S590-0019-04-C3		228,694	228,694
Total - CFDA 12.XXX			659,721	34,727,042	35,386,763
Aquatic Plant Control	12.100			62,463	62,463
Pass-Through from Denton County		UNT FY06-01		66,853	66,853
Pass-Through from Denton County		UNT FY07-01		19,074	19,074
Total - CFDA 12.100			0	148,390	148,390
Emergency Rehabilitation of Flood Control Works or Federally Authorized Coastal Protection Works	12.102			7,970	7,970
Pass-Through from University of Notre Dame		201586		32,535	32,535
Total - CFDA 12.102			0	40,505	40,505
Collaborative Research and Development	12.114		122,193	1,935,691	2,057,884
Pass-Through from Advanced Technology Institute		2010 359 / 211418 B56240 200		45,979	45,979

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 BAE Systems		S12007TX-2		603	603
Pass-Through from University of Delaware		22682		50,300	50,300
Total - CFDA 12.114			122,193	2,032,573	2,154,766
Basic and Applied Scientific Research	12.300		1,019,515	85,941,895	86,961,410
Pass-Through from Appleton Supply Company		C08-00609		(4,551)	(4,551)
Pass-Through from Aspen Systems, Inc.		09-0589		17,395	17,395
Pass-Through from Battelle		PO #208683		2,483	2,483
Pass-Through from Center for Transportation and the Environment		UTA10-000066 N00164-09-C-GS24 PHASE II		354,567	354,567
Pass-Through from Clarkson Aerospace Corporation		UHM 08-S567-001102C2		30,170	30,170
Pass-Through from Drexel University		204080		31,650	31,650
Pass-Through from Florida State University		R00905		946,916	946,916
Pass-Through from Florida State University		R00905-S1		8,221	8,221
Pass-Through from Florida State University		R01115		227,539	227,539
Pass-Through from Florida State University		R01234		1	1
Pass-Through from Florida State University		R01287		148,843	148,843
Pass-Through from Gene Xpress Informatics		M67854-07-C-6527/Navy Phase I		912	912
Pass-Through from Gene Xpress Informatics		M7854-07-C-6527/Amend #3		81,788	81,788
Pass-Through from Global Engineering and Materials, Inc.		CR-2010-UTEP-0629		12,801	12,801
Pass-Through from Infoscitex Corporation		8000000864		10,719	10,719
Pass-Through from Infoscitex Corporation		8000001268		80,973	80,973
Pass-Through from Intelligent Automation, Inc.		N00014-10-M-0091 784-2		13,418	13,418
Pass-Through from Johns Hopkins University		JHU/APL 958204 TASK 1 PRM N0002403D6606		11,832	11,832
Pass-Through from Johns Hopkins University		JHU/APL 958204 TASK 2:A-1(JHS01)		7,819	7,819
Pass-Through from Johns Hopkins University		JHU/APL 958204 TASK 2:A-1(JNC04)		27,020	27,020
Pass-Through from Johns Hopkins University		JHU/APL-927381		23,456	23,456
Pass-Through from Johns Hopkins University		JHU-968576 TASK 1 SDF10		118,281	118,281
Pass-Through from Johns Hopkins University		JHUAPL958204 TSK 3:A-4 PRM N0002403D6606		40,130	40,130
Pass-Through from Johns Hopkins University		JHUAPL958204 TSK 3:C-2 PRM N0002403D6606		43,147	43,147
Pass-Through from Lynntech, Inc.		W81XWH08C0018		11,424	11,424
Pass-Through from M.E.R. Corporation		ID 91982		70,621	70,621
Pass-Through from Medical University of South Carolina		N000140810341 03		9,338	9,338
Pass-Through from Opto-Knowledge Systems, Inc.		091113-JK		13,286	13,286
Pass-Through from Pacific Northwest Laboratory		PNL-72963		(4)	(4)
Pass-Through from Pacific Northwest Laboratory		PNNL-113883		129,945	129,945
Pass-Through from Pennsylvania State University		2795-UT-ONR-0683 AMD 8		23,688	23,688
Pass-Through from Pennsylvania State University		S09-30		213,404	213,404
Pass-Through from Pennsylvania State University		S10-11		74,627	74,627

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Pennsylvania State University		UTA08-902 PSU FELLOWSHIP		20,803	20,803
Pass-Through from Purdue University		4104-28892, Amend No.1		63,552	63,552
Pass-Through from Purdue University		4104-28893		41,388	41,388
Pass-Through from Rice University		4F-01541 M0001-SUB#:R14501-72000004		43,380	43,380
Pass-Through from Rutgers University		3094		13,327	13,327
Pass-Through from Stanford University		18412450-35520-B AMD 05		170,655	170,655
Pass-Through from Stevens Institute of Technology		SERC P136571		38,902	38,902
Pass-Through from Stevens Institute of Technology		SERC P136952		37,015	37,015
Pass-Through from Stevens Institute of Technology		TR3-1, P133121		92,937	92,937
Pass-Through from Systems and Materials Research Consultancy		8000000621		19,836	19,836
Pass-Through from Texas Medical Center - Houston		UNI-1393-122008		169	169
Pass-Through from University of Connecticut		B1090		13,793	13,793
Pass-Through from University of Maryland - College Park		Z942801		85,457	85,457
Pass-Through from University of Miami		N000140710302		5,140	5,140
Pass-Through from University of Notre Dame		200978		278	278
Pass-Through from University of Washington		686205 / 211425 B53516 200		12,385	12,385
Pass-Through from University of Wisconsin - Madison		99519		12,488	12,488
Pass-Through from Unrelated To Sponsor		09-C-4111 / 26-0785-01 CLIN 1 & 2		293,475	293,475
Pass-Through from Unrelated To Sponsor		09-C-4111/26-0785-04 CLIN 4		24,385	24,385
Pass-Through from Unrelated To Sponsor		26-0740-01		621,139	621,139
Pass-Through from Unrelated To Sponsor		26-0770-02 / 26-0797-02-1 CLIN 0001		217,416	217,416
Pass-Through from Unrelated To Sponsor		26-0770-03 / 26-0797-02-2 CLIN 0011		312,926	312,926
Pass-Through from Unrelated To Sponsor		26-0770-04 / 26-0797-02-3&4 CLIN		239,094	239,094
Pass-Through from Unrelated To Sponsor		26-0770-05 / 26-0797-03-1 CLIN 0001		334,606	334,606
Pass-Through from Unrelated To Sponsor		26-0770-06 / 26-0797-03-2 CLIN 0011		49,184	49,184
Pass-Through from Unrelated To Sponsor		26-0770-07 / 26-0797-03-3 CLIN 0021		765,182	765,182
Pass-Through from Unrelated To Sponsor		26-0770-08 / 26-0797-04-1 CLIN 0001		59,360	59,360
Pass-Through from Unrelated To Sponsor		26-0770-09 / 26-0797-04-2 CLIN 0011		10,371	10,371
Pass-Through from Unrelated To Sponsor		26-0770-10 / 26-0797-05-1 CLIN 1001		296,571	296,571
Pass-Through from Unrelated To Sponsor		26-0770-11 / 26-0797-05-2 CLIN 1011		65,445	65,445
Pass-Through from Unrelated To Sponsor		26-0770-12 / 26-0797-06-1 CLIN 1001		263,115	263,115
Pass-Through from Unrelated To Sponsor		26-0770-13 / 26-0797-06-2 CLIN 1011		18,380	18,380
Pass-Through from Unrelated To Sponsor		26-0770-14 / 26-0797-07-1 CLIN 1001		149,978	149,978

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Unrelated To Sponsor		26-0770-16 / 26-0797-08-1 CLIN 1001		235,383	235,383
Pass-Through from Unrelated To Sponsor		26-0770-17 / 26-0797-08-2 CLIN 1011		228,768	228,768
Pass-Through from Unrelated To Sponsor		26-0770-18 / 26-0797-08-3 CLIN 1021		3,880	3,880
Pass-Through from Unrelated To Sponsor		26-0784-01		4,127,090	4,127,090
Pass-Through from Unrelated To Sponsor		26-0784-02 / 26-0784-6		43,190	43,190
Pass-Through from Unrelated To Sponsor		26-0784-04 / 26-0784-7 & -9		217,392	217,392
Pass-Through from Unrelated To Sponsor		26-0784-05 / 26-0784-8		28,513	28,513
Pass-Through from Unrelated To Sponsor		26-0791-24		4,586	4,586
Pass-Through from Unrelated To Sponsor		26-0797-01		197,364	197,364
Pass-Through from Utah State University		70185001		92,470	92,470
Pass-Through from Virginia Polytechnic Institute and State University		450012-19892, Mod. 01		35,427	35,427
Pass-Through from Washington Savannah River Company, LLC		SRNS-AC512780		48,270	48,270
Pass-Through from West Virginia University		8000001098		6,357	6,357
Pass-Through from Williamspyro, Inc.		07-0224		12,492	12,492
Pass-Through from Wyle Laboratories		A065P1	12,589		12,589
Pass-Through from Wyle Laboratories		APSC00595, Change Order 9		573,270	573,270
Pass-Through from Yale University		C09K10287		151,598	151,598
Pass-Through from Zara Environmental, LLC		W9126G-05-D-0010		1,483	1,483
Total - CFDA 12.300			1,032,104	99,123,419	100,155,523
Basic Scientific Research - Combating Weapons of Mass Destruction	12.351		88,699	880,253	968,952
Pass-Through from Advanced Materials and Processes		8000001256		17,962	17,962
Pass-Through from Agiltron, Inc.		HDTRA1-10-C-0017/DTRA08-005/PO 728451		102,606	102,606
Pass-Through from Board of Trustees of the Leland Stanford Junior University		21030240-40031-A		57,095	57,095
Pass-Through from Foundation for Applied Molecular Evolution		HDTRA1-08-1-0052		81,386	81,386
Pass-Through from Hypercomp, Inc.		D082-059-0526 HPC2UTA-DARPA-09-01		1,655	1,655
Pass-Through from Iowa State University		421 20 37 / 211360 B56245 200		82,669	82,669
Pass-Through from New York University		UTA10-000736		14,909	14,909
Pass-Through from Peregrine Pharmaceuticals, Inc.		HDTRA108C0003		667,905	667,905
Total - CFDA 12.351			88,699	1,906,440	1,995,139
Research on Chemical and Biological Defense	12.360				
Pass-Through from SRI International		HDTRA107C0083		(70,228)	(70,228)
Military Construction, National Guard	12.400				
Pass-Through from Agiltron, Inc.		PO #42551/Project #AF083-008		19,636	19,636
National Guard Military Operations and Maintenance Projects	12.401			2,855,238	2,855,238
Pass-Through from TEC, Inc.		7604-25011		58,327	58,327
Total - CFDA 12.401			0	2,913,565	2,913,565

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Military Medical Research and Development	12.420		5,626,032	39,370,183	44,996,215
Pass-Through from BAE Systems		31-5039001		222,453	222,453
Pass-Through from Baylor College of Medicine		W81XWH0820132		151,406	151,406
Pass-Through from Christopher and Dana Reeve Foundation		CTN6-2010 (RF)		73,027	73,027
Pass-Through from Christopher and Dana Reeve Foundation		CTN6-2010(MJ)		51,603	51,603
Pass-Through from DePaul University		500607SG048		28,081	28,081
Pass-Through from Geneva Foundation		S116201/W81XWH0 92019		18,681	18,681
Pass-Through from Geneva Foundation		S-1170-01/ HU0001091T		42,467	42,467
Pass-Through from Johns Hopkins University		W81XWH-04-1-0595 05		47,769	47,769
Pass-Through from Johns Hopkins University		W81XWH0920108		15,397	15,397
Pass-Through from Minnesota Veterans Research Institute		UTA09-000503 MOD 01		53,232	53,232
Pass-Through from Mission Hospitals		W81XWH-07-2-0108		2,750	2,750
Pass-Through from National Childhood Cancer Foundation		W81XWH-07-1-0580		521,624	521,624
Pass-Through from NICO Technologies		W81XWH05C0128		16,743	16,743
Pass-Through from PLx Pharma, Inc.		A072-142-0602		106,180	106,180
Pass-Through from PLx Pharma, Inc.		W81XWH-08-C-0025		81,149	81,149
Pass-Through from Radiomedix		W81XWH-08-1-0749 02		610	610
Pass-Through from Rice University		5 R01 W81XWH-07-1-0428 03		75,456	75,456
Pass-Through from Rice University		DAMD17-03-1-0384 04		(32,941)	(32,941)
Pass-Through from Rice University		W81XWH-08-2-0032		33,527	33,527
Pass-Through from Rice University		W81XWH-09-1-0322 01		4,607	4,607
Pass-Through from T.R.U.E. Research Foundation		02		14,664	14,664
Pass-Through from T.R.U.E. Research Foundation		04		339,604	339,604
Pass-Through from T.R.U.E. Research Foundation		05		276,441	276,441
Pass-Through from T.R.U.E. Research Foundation		W81XWH-06-2-0033		514,662	514,662
Pass-Through from T.R.U.E. Research Foundation		W81XWH-06-2-0033 05		145,876	145,876
Pass-Through from Temple University		5 W91ZSQ-5309-N7 03		47,942	47,942
Pass-Through from The Regents of the University of California - San Francisco		W81XWH0510265		30,936	30,936
Pass-Through from The Scripps Research Institute		W81XWH-05-1-0316		45,304	45,304
Pass-Through from University of Pittsburgh		DAMD17-01-0373 0003920		18,957	18,957
Pass-Through from University of Puerto Rico		W81XWH-08-1-0435 01		20,695	20,695
Pass-Through from University of Utah		10015178		201,156	201,156
Pass-Through from University of Washington		679669		47,697	47,697
Total - CFDA 12.420			5,626,032	42,587,938	48,213,970
Basic Scientific Research	12.431		3,739,710	15,209,006	18,948,716
Pass-Through from Academy of Applied Science		10-35 & 10-100		3,967	3,967
Pass-Through from Advanced Materials and Processes		8000001201		167,078	167,078
Pass-Through from Amethyst Research, Inc.		8000001212		30,000	30,000
Pass-Through from Arcadis US, Inc.		NL07-TEES: Mod No. 002		127,316	127,316

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Baylor College of Medicine		W911NF-09-1-0040		245,724	245,724
Pass-Through from Brown University		W911NF-08-1-0249 00000192 P25414		88,093	88,093
Pass-Through from California Institute of Technology		68-1077891, Mod No.2		(7)	(7)
Pass-Through from Intelligent Automation, Inc.		654-4		67,838	67,838
Pass-Through from Iowa State University		4212008 PO #I9 6971523 / 211348 B		92,557	92,557
Pass-Through from Massachusetts Institute of Technology		5710002240, AMD 3		128,543	128,543
Pass-Through from PERL Research		PERL UTSA-2008-001		35,534	35,534
Pass-Through from Signal Processing, Inc.		105-1, Ltr dtd 12/14		40,020	40,020
Pass-Through from Telcordia		20002503; Amd. No. 8		30,407	30,407
Pass-Through from Triton Systems, Inc.		TSI-2371-10-82092		1,082	1,082
Pass-Through from University of California - Davis		08-000678-1-UTA		85,434	85,434
Pass-Through from University of Illinois - Urbana-Champaign		2007-00748-02		106,400	106,400
Pass-Through from University of Kansas		FY2010-033		14,879	14,879
Pass-Through from University of Michigan		3000659267		7,221	7,221
Pass-Through from University of Missouri - Columbia		C00006389-3, Amend No 4		100,531	100,531
Pass-Through from University of New Mexico		456258-087C9		34,915	34,915
Pass-Through from University of South Carolina		07-1410 PO# 72634-13060-FA35		58,440	58,440
Pass-Through from University of Southern California		133364		55,643	55,643
Pass-Through from University of Southern California		53-0821-2634		36,920	36,920
Pass-Through from University of Washington		548547		136,974	136,974
Pass-Through from Virginia Polytechnic Institute and State University		430425-19839		49,576	49,576
Pass-Through from VW International, Inc.		6170-071A		368,810	368,810
Pass-Through from VW International, Inc.		6170-073A		150,501	150,501
Pass-Through from VW International, Inc.		A4431	81,000		81,000
Pass-Through from VW International, Inc.		A4432	77,953		77,953
Pass-Through from VW International, Inc.		A8833	1,293,695		1,293,695
Pass-Through from VW International, Inc.		A9024	355,725		355,725
Pass-Through from VW International, Inc.		A9025	40,125		40,125
Pass-Through from VW International, Inc.		C10-00268, Amd 1	406,875		406,875
Pass-Through from VW International, Inc.		C10-00271, Amd 1	565,325		565,325
Pass-Through from VW International, Inc.		C10-00272	531,495		531,495
Pass-Through from VW International, Inc.		C10-00287	1,036,215		1,036,215
Pass-Through from VW International, Inc.		C10-00289	73,125		73,125
Pass-Through from VW International, Inc.		C10-00290	627,035		627,035
Pass-Through from VW International, Inc.		VWI #6170-062A, Mod 2		83,425	83,425
ARRA - Basic Scientific Research					
Pass-Through from URS Group, Inc.		224306		75,063	75,063
Total - CFDA 12.431			8,828,278	17,631,890	26,460,168
Basic, Applied, and Advanced Research in Science and Engineering	12.630		1,184,431	4,263,490	5,447,921
Pass-Through from Active Sater		S082		467,448	467,448
Pass-Through from Boeing Company		917234, Amd. 03		22,781	22,781
Pass-Through from DCS Corporation		Task 0001		13,311	13,311
Pass-Through from EMMACo, LLC		C09-00290		13,099	13,099
Pass-Through from High Performance Technologies, Inc.		2273-124		535,375	535,375
Pass-Through from Implicit Bioscience		HDTRA1-07-9-0003		32,143	32,143
Pass-Through from Infoscitex Corporation		1260-S001		(627)	(627)
Pass-Through from Lynntech, Inc.		HDTRA1-10-00010		9,852	9,852
Pass-Through from Ohio State University		60014145/ PO #RF01100805		10,094	10,094

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Progeny Systems Corporation		PSC-0049, TASK 1		13,299	13,299
Pass-Through from University of Central Florida		UCF 16266036, Mod 4		7,115	7,115
Pass-Through from University of Colorado - Denver		SPO #0000063495		56,877	56,877
Pass-Through from University of Illinois - Urbana-Champaign		2005-03031-01, AMD 07		104,988	104,988
Pass-Through from University of Maryland - Baltimore		0000005312		215,294	215,294
Pass-Through from Wyle Laboratories		A0651, Amd No.3	25,249		25,249
Pass-Through from Wyle Laboratories		APSC00595, Change Order 9		2,156	2,156
Total - CFDA 12.630			1,209,680	5,766,695	6,976,375
Air Force Defense Research Sciences Program	12.800		2,336,172	20,092,526	22,428,698
Pass-Through from Advanced Cooling Technologies, Inc.		09-1006; PO 8435		16,095	16,095
Pass-Through from Aeroprobe Corporation		06-0151; FA8650-06-C-3606		24,947	24,947
Pass-Through from Alion Science and Technology		IDIQ #061709001AAS - TO 001		80,095	80,095
Pass-Through from Arinc, Inc.		240941		44,955	44,955
Pass-Through from Clarkson Aerospace Corporation		10-S567-0113-02-C1		77,634	77,634
Pass-Through from Clarkson Aerospace Corporation		PVAM 08-S567-0010-02-C2		29,564	29,564
Pass-Through from Clarkson Aerospace Corporation		PVAM 08-S567-0011-02		6,783	6,783
Pass-Through from Clarkson Aerospace Corporation		PVAM 09-S567-0010-02-C2		42,833	42,833
Pass-Through from Clarkson Aerospace Corporation		PVAM 10-S567-013-0		89,662	89,662
Pass-Through from Clarkson Aerospace Corporation		TAMU 08-S567-0010-02-C2		33,878	33,878
Pass-Through from Clarkson Aerospace Corporation		TAMU 08-S567-0011-02-C2		50,203	50,203
Pass-Through from Clarkson Aerospace Corporation		TAMU 09-S567-0010-02-C2		47,628	47,628
Pass-Through from Clarkson Aerospace Corporation		TAMU 10-S567-013-02-C2		157,364	157,364
Pass-Through from Clarkson Aerospace Corporation		TSU 08-S567-011-02-C1		13,448	13,448
Pass-Through from Clarkson Aerospace Corporation		TSU 08-S567-011-02-C2		4,028	4,028
Pass-Through from Clarkson Aerospace Corporation		UHD10-S567-013-02-C2		55,726	55,726
Pass-Through from Clarkson Aerospace Corporation		UHH 10-S567-013-02C2		13,491	13,491
Pass-Through from Clarkson Aerospace Corporation		UHK10-S567-013-02-C2		37,050	37,050
Pass-Through from Clarkson Aerospace Corporation		UHM10-S567-013-02-C2		2,590	2,590
Pass-Through from Clarkson Aerospace Corporation		UTEP 10-S567-013-02-C2		99,294	99,294
Pass-Through from Creare Engineering Research and Development		53494		19,996	19,996
Pass-Through from Creare Engineering Research and Development		57270		20,640	20,640
Pass-Through from Duke University		10-AFRL-1023		35,183	35,183
Pass-Through from Infoscitex Corporation		1123-IS6		57,065	57,065

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Intelligent Automation, Inc.		FA8650-09-M-6000		26,839	26,839
Pass-Through from Jacobs Engineering Group, Inc.		C09-00761		69,992	69,992
Pass-Through from Lockheed Aeronautical Systems		C10-00082		127,990	127,990
Pass-Through from Louisiana Tech University		32-0967-59180		18,757	18,757
Pass-Through from NextGen Aeronautics		10-04 3040 RMD		15,877	15,877
Pass-Through from NextGen Aeronautics		10-08 3042 MESO; Amend 1		5,951	5,951
Pass-Through from Northrop Grumman Corporation		2642706, Change Order 4		19,153	19,153
Pass-Through from Northwestern University		PROJ0001191		14,055	14,055
Pass-Through from Ohio State University Research Foundation		RF01173536		20,907	20,907
Pass-Through from Pacific Defense Solutions		C10-00388		41,574	41,574
Pass-Through from Portage, Inc.		PEI-2106S07 - Task Order 31		4,600	4,600
Pass-Through from Rice University		FA8650-07-2-2-5061		96,084	96,084
Pass-Through from Rice University		R15901		129,455	129,455
Pass-Through from Rice University		R15902-FA8650-07-2		231,146	231,146
Pass-Through from Rice University		R15903 PRIME:FA8650-07-2-5061 ARFL		136,084	136,084
Pass-Through from Rice University		R15904		1,494	1,494
Pass-Through from Rice University		R15904, Amd No. 1		210,285	210,285
Pass-Through from Rice University		R15905		88,009	88,009
Pass-Through from Rice University		R7D034		52,158	52,158
Pass-Through from Sigma - Aldrich		FA 9550-09-C-0200		26,702	26,702
Pass-Through from Stanford University		22178970-41070-E		70,340	70,340
Pass-Through from Stanford University		22179840-41070-E		113,291	113,291
Pass-Through from Teledyne Scientific and Imaging, LLC		FA9550-09-1-0477/B9U544351		78,664	78,664
Pass-Through from UES, Inc.		S-745-49-MR016		26,987	26,987
Pass-Through from Universal Technology Corporation		09-S568-061-01-C1		33,487	33,487
Pass-Through from Universal Technology Corporation		10S567-0015-02-C2		6,718	6,718
Pass-Through from Universal Technology Corporation		10-S587-0094-01-C2		34,736	34,736
Pass-Through from University of Alabama - Birmingham		09-064		23,387	23,387
Pass-Through from University of Dayton Research Institute		RSC05003, 8		41,785	41,785
Pass-Through from University of Dayton Research Institute		RSC09006	77,000	88,090	165,090
Pass-Through from University of Illinois - Urbana-Champaign		2006-02197-02	21,213	41,278	62,491
Pass-Through from University of Illinois - Urbana-Champaign		2008-05817-02, Amd. 1		27,550	27,550
Pass-Through from University of Illinois - Urbana-Champaign		2009-01186-02, Amd. 01		102,005	102,005
Pass-Through from University of Michigan		3000587486, Amd. 3		161,388	161,388
Pass-Through from University of Tennessee - Knoxville		C160		15,176	15,176
Pass-Through from University of Wisconsin - Madison		124K795 / 211363 B56251 200		244,449	244,449
Pass-Through from University of Wisconsin - Madison		126K416, Amd. 1		459,639	459,639
Pass-Through from University of Wisconsin - Madison		A867075 / 211106 B56251 200		13,657	13,657
Pass-Through from University of Wisconsin - Madison		FA9550-08-1-0337PTIME 067K605		148,666	148,666
Pass-Through from Virginia Polytechnic Institute and State University		430254-19837		132,915	132,915
Total - CFDA 12.800			2,434,385	24,353,998	26,788,383
Language Grant Program	12.900			20,185	20,185
Mathematical Sciences Grants Program	12.901			292,069	292,069

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Information Security Grant Program	12.902			225,994	225,994
Pass-Through from Carnegie Mellon University		1040271-162026, Amd. 14		2,137	2,137
Pass-Through from Unisys		FST000222 & FST000320		26,217	26,217
Total - CFDA 12.902			0	254,348	254,348
Research and Technology Development	12.910		526,790	3,889,335	4,416,125
Pass-Through from Boise State University		129G106001-C		44,357	44,357
Pass-Through from Carnegie Mellon University		1041388-248912		59,930	59,930
Pass-Through from Electronic Biosciences, LLC		020DA1C-2176		202,773	202,773
Pass-Through from Georgia Institute of Technology		GIT No. R0301-G1		166,050	166,050
Pass-Through from Harris Corporation		A000110992		228,022	228,022
Pass-Through from Harvard University		133503-04; Amd No 1		76,119	76,119
Pass-Through from International Business Machines Corporation		PO #5003514973 SOW #4910001938.0		454,215	454,215
Pass-Through from ITT Corporation		8000000899		464	464
Pass-Through from Ketema		4300303797		129,052	129,052
Pass-Through from Logos Technologies		Sub-226-TAM1; Amend No.3		2,114,290	2,114,290
Pass-Through from Midwest Research Institute		522 110700 2 / 211433 B56202 200		38,820	38,820
Pass-Through from Midwest Research Institute		TASK #6 526 110693 3 / 211434 B56202 200		3,470	3,470
Pass-Through from Midwest Research Institute		TASK ORDER #7 526 110693 3 / 211435 B562		3,470	3,470
Pass-Through from Nanohmics, Inc.		8000000989		97	97
Pass-Through from Princeton University		1773		60,860	60,860
Pass-Through from University of California - Irvine		2009-2243, Amd. 2		50,001	50,001
Pass-Through from University of California - Irvine		37890		5,608	5,608
Pass-Through from University of California - Irvine		3789B		31,973	31,973
Pass-Through from University of California - Riverside		S-000420		14,888	14,888
Pass-Through from University of Colorado - Boulder		154-3160 MOD 4	4,473	52,254	56,727
Pass-Through from University of Wisconsin - Madison		HR0011-08-1-0058PRIME		2,110	2,110
Total - CFDA 12.910			531,263	7,628,158	8,159,421
Total - U.S. Department of Defense			20,532,355	239,376,623	259,908,978
U.S. Department of Housing and Urban Development					
Demolition and Revitalization of Severely Distressed Public Housing	14.866				
Pass-Through from City of El Paso Housing Authority		TX21URD0031104-1		34,638	34,638
Total - U.S. Department of Housing and Urban Development			0	34,638	34,638
U.S. Department of the Interior					
U.S. Department of the Interior	15.XXX	03FC601786		4,827	4,827
		201814J881 / 21H019 B51260 200		3,232	3,232
		201819G916		9,075	9,075

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
		G09PX02173 / 090900129		24,596	24,596
		H5000030550-J2115080004		16,732	16,732
		H500007055		12,396	12,396
		J2124080024/H5000070520/R212408002		75,695	75,695
		J7481100014		7,647	7,647
		J7600080022		215	215
		J7600090050		29,340	29,340
		J7600090107		44,693	44,693
		J7600100090		125	125
		J76007SAAN4		5,939	5,939
		P7355091021		5,949	5,949
Pass-Through from TDI - Brooks International		TDIBI-5034		27,098	27,098
Total - CFDA 15.XXX			0	267,559	267,559
Cultural Resource Management	15.224			36,653	36,653
Recreation Resource Management	15.225			166,250	166,250
Fish, Wildlife and Plant Conservation Resource Management	15.231			177,291	177,291
Pass-Through from Friends of Laguna Atascosa National Wildlife Refuge		NWR 2010-30-07		96	96
Total - CFDA 15.231			0	177,387	177,387
Minerals Management Service Environmental Studies Program	15.423		520,124	965,597	1,485,721
Marine Minerals Activities	15.424			7,108	7,108
Offshore Research Technology Center Texas Engineering Experiment Station	15.425		26,780	167,966	194,746
Coastal Impact Assistance Program	15.426			149,618	149,618
Water Reclamation and Reuse Program	15.504			110,672	110,672
Water Desalination Research and Development Program	15.506			(831)	(831)
Water 2025	15.507			14,036	14,036
Conservation Law Enforcement Training Assistance	15.602			2,351	2,351
Fish and Wildlife Management Assistance	15.608			481,976	481,976
Pass-Through from Baylor University		185248		(191)	(191)
Pass-Through from The Pacific States Marine Fisheries Commission		OR #06-68		(4,901)	(4,901)
Total - CFDA 15.608			0	476,884	476,884
Wildlife Restoration	15.611			110,203	110,203
Cooperative Endangered Species Conservation Fund	15.615			263,943	263,943
Coastal Program	15.630			9,210	9,210
Partners for Fish and Wildlife	15.631		31,945	4,868	36,813
Pass-Through from Victoria Soil and Water Conservation District #346		20181-03-G930		17,556	17,556
Total - CFDA 15.631			31,945	22,424	54,369

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Conservation Grants Private Stewardship for Imperiled Species	15.632				
Pass-Through from The Nature Conservancy		TXFO-01-01-2008-01		1,377	1,377
Pass-Through from Victoria Soil and Water Conservation District #346		FWS1448-20181-7 J834		11,336	11,336
Total - CFDA 15.632			0	12,713	12,713
State Wildlife Grants	15.634			353,738	353,738
Pass-Through from Kentucky Department of Fish and Wildlife Resources		PO 0800016607 2 / 211448 B51253 200		13,670	13,670
Pass-Through from Kentucky Department of Fish and Wildlife Resources		PON2 660 1000003369 1 / 211447 B51253 20		5,275	5,275
Total - CFDA 15.634			0	372,683	372,683
Migratory Bird Joint Ventures	15.637				
Pass-Through from Ducks Unlimited, Inc.		US-LA-96-2		51,999	51,999
Wildlife Without Borders- Latin America and the Caribbean	15.640			17,245	17,245
Migratory Bird Conservation	15.647			161	161
Research Grants (Generic)	15.650			61,338	61,338
Migratory Bird Monitoring, Assessment and Conservation	15.655			157,660	157,660
Assistance to State Water Resources Research Institutes	15.805		38,369	409,284	447,653
Pass-Through from Texas Water Resources Institute		570464		(244)	(244)
Total - CFDA 15.805			38,369	409,040	447,409
Earthquake Hazards Reduction Program	15.807			61,150	61,150
U.S. Geological Survey_ Research and Data Collection	15.808			246,270	246,270
National Cooperative Geologic Mapping Program	15.810			118,548	118,548
Pass-Through from Pennsylvania Department of Conservation and Natural Resources		B580	3,122		3,122
Total - CFDA 15.810			3,122	118,548	121,670
Cooperative Research Units Program	15.812			549,845	549,845
National Land Remote Sensing_Education Outreach and Research	15.815			5,646	5,646
Pass-Through from America View		AV08-TX01		17,736	17,736
Total - CFDA 15.815			0	23,382	23,382
Historic Preservation Fund Grants-In-Aid	15.904			103,369	103,369
Pass-Through from World Wildlife Fund		FU47		22,524	22,524
Total - CFDA 15.904			0	125,893	125,893
National Historic Landmark	15.912			60,814	60,814
Pass-Through from Montana State University		G206-10-W2857		23,006	23,006
Total - CFDA 15.912			0	83,820	83,820
Outdoor Recreation--Acquisition, Development and Planning	15.916			557,906	557,906

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Rivers, Trails and Conservation Assistance	15.921		1,265	56,863	58,128
National Center for Preservation Technology and Training	15.923			45,499	45,499
Save America's Treasures	15.929			161,634	161,634
Total - U.S. Department of the Interior			621,605	6,060,679	6,682,284
U.S. Department of Justice					
U.S. Department of Justice	16.XXX	Investigation Cyanide Antagon		244,371	244,371
Pass-Through from University of Maryland - College Park		Z935601		28,626	28,626
Pass-Through from University of Maryland - College Park		Z935801		16,757	16,757
Total - CFDA 16.XXX			0	289,754	289,754
Services for Trafficking Victims	16.320				
Pass-Through from Refugee Services of Texas		UTA09-000679		13,464	13,464
Pass-Through from Upper Midwest Community Policing Institute		B170	6,698		6,698
Pass-Through from YMCA International		99201		10,093	10,093
Total - CFDA 16.320			6,698	23,557	30,255
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		2,000	3,077,937	3,079,937
Pass-Through from National Forensic Science Technology Center		14984		9,214	9,214
Pass-Through from National Forensic Science Technology Center		2008-DN-BX-K072		50,015	50,015
Pass-Through from Northeastern University		C230		12,259	12,259
Pass-Through from Police Executive Research Forum		8000000837		4,257	4,257
Pass-Through from University of Arkansas		D797	(2,073)		(2,073)
Pass-Through from Virginia Polytechnic Institute and State University		2009-DN-BX-K229		55,429	55,429
Total - CFDA 16.560			(73)	3,209,111	3,209,038
National Institute of Justice W.E.B. DuBois Fellowship Program	16.566				
Pass-Through from University of Florida		UF09022-Gibson		9,322	9,322
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		49,108		49,108
Pass-Through from Walker County		B720	17,845		17,845
Total - CFDA 16.580			66,953	0	66,953
Crime Victim Assistance/Discretionary Grants	16.582				
Pass-Through from Catholic Charities USA		UTA08-383		(6)	(6)
ARRA - Violence Against Women Formula Grants	16.588			47,126	47,126
Pass-Through from El Paso County		K-10-307		4,997	4,997
Pass-Through from Texas Council on Family Violence		UTA10-000832		10,614	10,614
Total - CFDA 16.588			0	62,737	62,737
Corrections_Research and Evaluation and Policy Formulation	16.602			7,972	7,972

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Justice (continued)					
Project Safe Neighborhoods	16.609				
Pass-Through from Greater Dallas Crime Commission		2008-GP-CX-0055		146	146
Forensic DNA Backlog Reduction Program	16.741			795,889	795,889
Edward Byrne Memorial Competitive Grant Program	16.751		41,524	(6,194)	35,330
Pass-Through from St. Petersburg College		C020	42,567		42,567
Total - CFDA 16.751			84,091	(6,194)	77,897
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program / Grants to Units of Local Government	16.804			236,352	236,352
ARRA - Recovery Act - Edward Byrne Memorial Competitive Grant Program	16.808			109,498	109,498
Total - U.S. Department of Justice			157,669	4,738,138	4,895,807
U.S. Department of Labor					
U.S. Department of Labor	17.XXX	E4R4004040 & E4R5004040		(104,454)	(104,454)
		E4R6004040		(50,663)	(50,663)
Pass-Through from Center for Employment Security Education and Research		CE191590960A11-UTRMC-1		75,845	75,845
Pass-Through from University of Baltimore		UTA98-0350		14	14
Total - CFDA 17.XXX			0	(79,258)	(79,258)
WIA Adult Program	17.258			6,882	6,882
ARRA - WIA Adult Program				242,216	242,216
Total - CFDA 17.258			0	249,098	249,098
WIA Youth Activities	17.259			7,838	7,838
ARRA - WIA Youth Activities					
Pass-Through from El Paso Community College		1010XSW000		37,931	37,931
Total - CFDA 17.259			0	45,769	45,769
WIA Dislocated Workers	17.260			9,180	9,180
WIA Pilots, Demonstrations, and Research Projects	17.261		477,096	(477,096)	
Pass-Through from North Central Texas Council of Government		FY07-DOLAML-01 PRIME:DOL		554,653	554,653
Pass-Through from South Texas College		UTPA/WR-15999-07		532,902	532,902
Pass-Through from Texas Workforce Solutions		EA198521060A48		14,143	14,143
Total - CFDA 17.261			477,096	624,602	1,101,698
ARRA - Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275			149,078	149,078
Occupational Safety and Health_Susan Harwood Training Grants	17.502			35,000	35,000
Total - U.S. Department of Labor			477,096	1,033,469	1,510,565
U.S. Department of State					
U.S. Department of State	19.XXX	SAQMMA09M1896		399,574	399,574

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 State (continued)					
		S-LMAQM-09-CA-031		80,417	80,417
		S-LMAQM-10-GR-011-VT		25,402	25,402
Total - CFDA 19.XXX			0	505,393	505,393
One-Time International Exchange Grant Program	19.014			36,862	36,862
Program for Study of Eastern Europe and the Independent States of the Former Soviet Union	19.300			(11)	(11)
Pass-Through from National Council for Eurasian and East European Research		824-11		29,796	29,796
Professional and Cultural Exchange Programs - Citizen Exchanges	19.415				
Pass-Through from Higher Education for Development		HNE-A-00-97-00059-00		(66)	(66)
Total - U.S. Department of State			0	571,974	571,974
U.S. Department of Transportation					
U.S. Department of Transportation	20.XXX	DTFH61-05-P-00280		6,853	6,853
		DTFH61-07-H-00030		294,046	294,046
		S080033 UTA 08-520		23,722	23,722
		S080033_UTA08-519		12,863	12,863
		UTA09-000589		24,650	24,650
Pass-Through from Center for Transportation and the Environment		UTA09-000971		23,396	23,396
Pass-Through from Center for Transportation and the Environment		UTA10-000072		19,804	19,804
Pass-Through from Mitre Corporation		84443		21,987	21,987
Pass-Through from North Central Texas Council of Government		S080033 476660-00060	13,421	32,515	45,936
Pass-Through from PB Americas, Inc.		173047A		12,428	12,428
Pass-Through from The National Academy of Sciences		HR 25-32		36,806	36,806
Pass-Through from The National Academy of Sciences		TRB-P281386		15,254	15,254
Pass-Through from Tioga Group		UTA09-000107		34,637	34,637
Pass-Through from Transtec Group, Inc.		UTA09-000356		64,676	64,676
Pass-Through from Transtec Group, Inc.		UTAA8-022		66,113	66,113
Pass-Through from University of California - Santa Barbara		KK9169		83,429	83,429
Total - CFDA 20.XXX			13,421	773,179	786,600
Aviation Education	20.100			16,381	16,381
Aviation Research Grants	20.108		208,076	223,424	431,500
Pass-Through from Auburn University		08-AAPTP-208105-UTEP		3,844	3,844
Pass-Through from Southwest Research Institute		SWRI 599775L		11,776	11,776
Total - CFDA 20.108			208,076	239,044	447,120
Highway Research and Development Program	20.200				
Pass-Through from Capital Area Metropolitan Planning Organization		UTA08-635		616	616
Highway Planning and Construction	20.205			540,534	540,534
Pass-Through from Engineering and Software Consultants, Inc.		09-02		98,292	98,292

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Pass-Through from Florida Department of Transportation		503129		38,369	38,369
Pass-Through from Michigan Department of Transportation		2009-0049		92,177	92,177
Pass-Through from Oklahoma Historical Society		10-101; 10-102; 11-101		97,913	97,913
Pass-Through from Outside Plant Consulting Services		DTRT57-07-C-10046		13,532	13,532
Total - CFDA 20.205			0	880,817	880,817
Highway Training and Education	20.215			58,406	58,406
Pass-Through from Transtec Group, Inc.		A5380		(2,055)	(2,055)
Pass-Through from Transtec Group, Inc.		C10-00007; Amend No. 1		36,883	36,883
Total - CFDA 20.215			0	93,234	93,234
Railroad Research and Development	20.313				
Pass-Through from American Transportation Research Institute		T002715		2,267	2,267
Metropolitan Planning Grants	20.505				
Pass-Through from Fort Bend County		c2009481		12,500	12,500
State Planning and Research	20.515			10,045	10,045
State and Community Highway Safety	20.600			1,330,759	1,330,759
Pass-Through from Safe, Inc.		SOW-08-08005-01		98,119	98,119
Total - CFDA 20.600			0	1,428,878	1,428,878
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601			415,148	415,148
Safety Belt Performance Grants	20.609			360,183	360,183
Incentive Grant Program to Increase Motorcyclist Safety	20.612			299,066	299,066
Pipeline Safety Program Base Grants	20.700		20,000	24,854	44,854
Biobased Transportation Research	20.761			12,774	12,774
Pass-Through from Oklahoma State University		503627		56,298	56,298
Pass-Through from Oklahoma State University		503699		123,806	123,806
Pass-Through from Oklahoma State University		503704		18,107	18,107
Pass-Through from Oklahoma State University		503707		32,961	32,961
Pass-Through from Oklahoma State University		503970		3,638	3,638
Pass-Through from Oklahoma State University		504110		34,116	34,116
Pass-Through from Oklahoma State University		504113		12,095	12,095
Pass-Through from Oklahoma State University		504126		7,912	7,912
Pass-Through from Oklahoma State University		570430	22,227		22,227
Pass-Through from Oklahoma State University		570432	2,221		2,221
Pass-Through from Oklahoma State University		570433	2,734		2,734
Pass-Through from Oklahoma State University		570434	23,254		23,254
Pass-Through from Oklahoma State University		570435	8,927		8,927
Pass-Through from Oklahoma State University		570437		23,110	23,110
Pass-Through from Oklahoma State University		570438	34,595		34,595
Pass-Through from Oklahoma State University		570649	1,935		1,935
Pass-Through from Oklahoma State University		AB-5-61770.2.TEES2		2,536	2,536
Pass-Through from Oklahoma State University		AB-5-61770.TEES1, Mod. 3 dtd 6/3/09		16,812	16,812
Total - CFDA 20.761			95,893	344,165	440,058

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Research Grants	20.762				
Pass-Through from Mississippi State University		061300-363893-01		8,533	8,533
Total - U.S. Department of Transportation			337,390	4,908,910	5,246,300
Office of Personnel Management					
Intergovernmental Personnel Act Mobility Program	27.011			114,805	114,805
Total - Office of Personnel Management			0	114,805	114,805
General Services Administration					
General Services Administration	39.XXX				
Pass-Through from General Dynamics		GSA-ML-SC-000X		182,653	182,653
Donation of Federal Surplus Personal Property	39.003			67,528	67,528
Total - General Services Administration			0	250,181	250,181
Library of Congress					
Library of Congress	42.XXX	CRS#08-06		2,421	2,421
Books for the Blind and Physically Handicapped	42.001				
Pass-Through from California Digital Library		LOC-04-UNT-01		1,030	1,030
Total - Library of Congress			0	3,451	3,451
National Aeronautics and Space Administration					
National Aeronautics and Space Administration	43.XXX	10-SUBC-440-0000188635 UTA09-001025		24,833	24,833
		4200259593 PO # NNJ08HH83P		(1,155)	(1,155)
		HHSN276200900721P/ 21F048 B56222		24,102	24,102
		N00173-09-1-G036		28,580	28,580
		NAG5-13147	157,957	12,500	170,457
		NAS5-97213		466,256	466,256
		NCC-9-165		194,035	194,035
		NNC09CA08C		167,460	167,460
		NNG04G060G		83,430	83,430
		NNG05GE96H--PRIME TSGC-0801 LOA		3,960	3,960
		NNG05GE96H--PRIME TSGC-0802 LOA		4,890	4,890
		NNG06DA07C PR# 4200140202		655,318	655,318

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		102,373	102,373
		NNG94GD52G		(686)	(686)
		NNJ04HH01A	83,058	75,556	158,614
		NNJ06HA29A		35,163	35,163
		NNX 10A031A		38,742	38,742
		NNX06AH47G		9,100	9,100
		NNX07AC96A		43,254	43,254
		NNX07AI34A		258,315	258,315
		NNX07AI83G	9,313	51,197	60,510
		NNX07AJ72G		49,639	49,639
		NNX07AL70G		107,164	107,164
		NNX07AL79G LOA ESI 2008/2009		80,152	80,152
		NNX07AP92G		35,464	35,464
		NNX07AR46G		78,085	78,085
		NNX08A043G		159,405	159,405
		NNX08AB27A		75,741	75,741
		NNX08AB41A		252,453	252,453
		NNX08AC48G		113,312	113,312
		NNX08AD03A		196,873	196,873
		NNX08AD58G		89,116	89,116
		NNX08AE72G		81,163	81,163
		NNX08AE99G		68,776	68,776
		NNX08AF62G		50,621	50,621
		NNX08AG32G		61,944	61,944
		NNX08AJ84G		90,496	90,496
		NNX08AK11G		54,521	54,521
		NNX08AL43G	39,959	76,917	116,876
		NNX08AN02G		208,423	208,423
		NNX08AN68G		142,433	142,433
		NNX08AO52G		38,467	38,467
		NNX08AP77G		77,642	77,642
		NNX08AQ49G		114,747	114,747
		NNX08AR34G		96,768	96,768
		NNX08AT06G		80,191	80,191
		NNX08AW08G		103,632	103,632
		NNX08AW24H		27,000	27,000
		NNX08AW65H		29,451	29,451
		NNX08AX09G		99,939	99,939
		NNX08AZ42A		8,693	8,693
		NNX08BA47A		1,317,682	1,317,682
		NNX09AB30G		88,068	88,068
		NNX09AC26G		42,341	42,341
		NNX09AD85G		54,907	54,907
		NNX09AE46G		146,529	146,529
		NNX09AE89G	49,762	110,699	160,461
		NNX09AG20G		1,018,602	1,018,602
		NNX09AG99G		39,655	39,655
		NNX09AH04G		37,480	37,480
		NNX09AH48G		56,869	56,869
		NNX09AH67G		9,883	9,883
		NNX09AI01G		27,886	27,886
		NNX09AJ30A		48,199	48,199
		NNX09AJ33G		45,513	45,513
		NNX09AJ48G		31,420	31,420
		NNX09AK75G		128,469	128,469
		NNX09AM08G	676,681	1,034,094	1,710,775

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)					
		NNX09AM51A		9,835	9,835
		NNX09AM60G	3,671	54,910	58,581
		NNX09AN10G		1,468	1,468
		NNX09AR40A / 21M049 B53081 200		25,790	25,790
		NNX09AR52G	625,400	678,652	1,304,052
		NNX09AR98G / 21M051 B56201 200		152,231	152,231
		NNX09AR98G / 21M052 B56215 200		62,513	62,513
		NNX09AR98G / 21M053 B56077 200		107,025	107,025
		NNX09AR98G / 21M054 B56218 200		58,506	58,506
		NNX09AV06A		729,125	729,125
		NNX09AV10G	37,589	87,325	124,914
		NNX09AW03G		37,401	37,401
		NNX09AW25G		114,071	114,071
		NNX09AW26G		57,233	57,233
		NNX09AW36G		66,244	66,244
		NNX10AB28G		22,925	22,925
		NNX10AC29A / 21M055 B56201 200		47,908	47,908
		NNX10AC68G		3,881	3,881
		NNX10AF10G		1,323	1,323
		NNX10AF92G		49,681	49,681
		NNX10AG20G		84,153	84,153
		NNX10AH28G		16,764	16,764
		NNX10AH51G		23,033	23,033
		NNX10AL37G		33,925	33,925
		NNX10AL60G		24,757	24,757
		NNX9AE61G		44,442	44,442
Pass-Through from Adnet Systems, Inc.		UTA07-140		(4,408)	(4,408)
Pass-Through from Adnet Systems, Inc.		UTA10-000438		14,349	14,349
Pass-Through from Austin Satellite Design, LLC		UTA09-000416		41,801	41,801
Pass-Through from Balconies Technologies, LLC		UTA10-000244		1,042	1,042
Pass-Through from California Institute of Technology		1258314		11	11
Pass-Through from California Institute of Technology		1288644		(6)	(6)
Pass-Through from California Institute of Technology		1294294		2,613	2,613
Pass-Through from California Institute of Technology		1321987		38,325	38,325
Pass-Through from California Institute of Technology		1354828		3,014	3,014
Pass-Through from California Institute of Technology		1354834 CK 34242		15,368	15,368
Pass-Through from California Institute of Technology		1358118		122,117	122,117
Pass-Through from California Institute of Technology		1360670 MOD #6		179,972	179,972
Pass-Through from California Institute of Technology		1363196		19,209	19,209
Pass-Through from California Institute of Technology		1367093		5,400	5,400
Pass-Through from California Institute of Technology		1367406		2,154	2,154
Pass-Through from California Institute of Technology		1368074		211,025	211,025
Pass-Through from California Institute of Technology		1368499 MOD #1		19,874	19,874
Pass-Through from California Institute of Technology		1373283		54,506	54,506
Pass-Through from California Institute of Technology		1376974		28,675	28,675
Pass-Through from California Institute of Technology		1377304		11,524	11,524
Pass-Through from California Institute of Technology		1385982		9,856	9,856
Pass-Through from California Institute of Technology		1388881		7,048	7,048
Pass-Through from California Institute of Technology		1389197		132,114	132,114
Pass-Through from California Institute of Technology		1389707		109,957	109,957
Pass-Through from California Institute of Technology		1393349		18,558	18,558

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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		1396509		15,995	15,995
Pass-Through from California Institute of Technology		1405316		16,887	16,887
Pass-Through from California Institute of Technology		RSA-1349744		2,044	2,044
Pass-Through from CFD Research Corporation		1155		12,631	12,631
Pass-Through from Columbia University		5-26001		111,438	111,438
Pass-Through from Ithaca College		UTA09-001030		49,571	49,571
Pass-Through from Jacobs Engineering Group, Inc.		34-020002-69 AUTHO TO PROCEED 2010		75,844	75,844
Pass-Through from Jacobs Engineering Group, Inc.		34-020002-69 AUTHO TO PROCEED		9,967	9,967
Pass-Through from Johns Hopkins University		2000744668		89,549	89,549
Pass-Through from Mando Corporation		NNX09AF67G R0308-G1		20,605	20,605
Pass-Through from Massachusetts Institute of Technology		5710002550		8,764	8,764
Pass-Through from Mobitrum Corporation		98810		38,464	38,464
Pass-Through from National Institute of Aerospace		T10-6200-UTEX		19,258	19,258
Pass-Through from Smithsonian Astrophysical Observatory		TM8-9009X		2,696	2,696
Pass-Through from Southwest Research Institute		B99059JD		239	239
Pass-Through from Space Telescope Science Institute		HST-AR-11746.01-A		52,828	52,828
Pass-Through from Space Telescope Science Institute		HST-ED-90312.01-A		5,978	5,978
Pass-Through from Space Telescope Science Institute		HST-EO-10861.35-A NCE		2,113	2,113
Pass-Through from Space Telescope Science Institute		HST-EO-11141.08-A		5,971	5,971
Pass-Through from Space Telescope Science Institute		HST-EO-11210.08-A		48	48
Pass-Through from Space Telescope Science Institute		HST-GO-10929.02-A AMD 3		297	297
Pass-Through from Space Telescope Science Institute		HST-GO-11082.21-A		16,797	16,797
Pass-Through from Space Telescope Science Institute		HST-GO-11128.01-A		55,284	55,284
Pass-Through from Space Telescope Science Institute		HST-GO-11141.01-A		46,468	46,468
Pass-Through from Space Telescope Science Institute		HST-GO-11210.01-A		116,034	116,034
Pass-Through from Space Telescope Science Institute		HST-GO-11211.01-A		148,747	148,747
Pass-Through from Space Telescope Science Institute		HST-GO-11628.01-A		28,417	28,417
Pass-Through from Space Telescope Science Institute		HST-GO-11704.02-A		69,037	69,037
Pass-Through from Space Telescope Science Institute		HST-GO-11706.02-A		367	367
Pass-Through from Space Telescope Science Institute		HST-GO-11942.01.A		50,442	50,442
Pass-Through from SRI International		HDTRA1-07-C-0083		138,299	138,299
Pass-Through from Stanford University		20570500-37433-A AMD 3		31,030	31,030
Pass-Through from TDA Research, Inc.		NNX10CB17C		22,424	22,424
Pass-Through from The Chandra X-ray Observatory Center		GO0-11118B		9,743	9,743
Pass-Through from Unisys		TSM-000276		39,224	39,224
Pass-Through from United Negro College Fund Special Programs		NASA/UNCFSPC		8,415	8,415
Pass-Through from United Negro College Fund Special Programs		NNA06CB141-1		7,328	7,328
Pass-Through from United Negro College Fund Special Programs		UNCFSP NSTI UNEEC		19,377	19,377
Pass-Through from United Negro College Fund Special Programs		UNCFSP UNIMET		34,307	34,307
Pass-Through from Universities Space Research Association		08521-012		2,083	2,083
Pass-Through from Universities Space Research Association		08521-06		71,650	71,650
Pass-Through from University of Maryland - College Park		Z634012		21,548	21,548
Pass-Through from University of Washington		658257		3,343	3,343
Pass-Through from Wyle Laboratories		T701950017		1,193	1,193

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
ARRA - National Aeronautics and Space Administration					
Pass-Through from Balconies Technologies, LLC		UTA09-000920		94,968	94,968
Total - CFDA 43.XXX			1,683,390	14,481,678	16,165,068
Aerospace Education Services Program	43.001		494,757	9,993,413	10,488,170
Pass-Through from California Institute of Technology		1345684		54,670	54,670
Pass-Through from California Institute of Technology		1377974		80,315	80,315
Pass-Through from California Institute of Technology		1382621		34,901	34,901
Pass-Through from Columbia University		NNX08AF13G-001 / PO #569262		45,868	45,868
Pass-Through from Georgetown University		NNX09AU95G		133,923	133,923
Pass-Through from Jacobs Engineering Group, Inc.		N840118FMS, Amend No. 1		204,527	204,527
Pass-Through from Loma Linda University Medical Center		dtd 11/25/08, Amend No. 1		45,262	45,262
Pass-Through from Lunar and Planetary Institute		02173-04		74,375	74,375
Pass-Through from Lynntech, Inc.		2010 NAS49P 0001 / 211424 B56322 200		10,202	10,202
Pass-Through from NASA Institute for Advanced Concepts		NNX09AQ52H		29,861	29,861
Pass-Through from National Institute of Aerospace		NNL09AA00A C10-2800-UTA		46,698	46,698
Pass-Through from Optimal Synthesis, Inc.		NNAOUBC55C PRIME:NASA		17,415	17,415
Pass-Through from Oregon State University		200611		131	131
Pass-Through from Physics, Materials, and Applied Mathematics Research, LLC		8016-01		(3,512)	(3,512)
Pass-Through from Prime Research, LC		NNX10CE31P		20,745	20,745
Pass-Through from San Diego State University Foundation		55986A P3653 7802 211 RMM/Pr FA8750-09-1		38,939	38,939
Pass-Through from Sigma Space Corporation		202591		1,448	1,448
Pass-Through from Southwest Research Institute		PO #792006BT/Ebert		36,954	36,954
Pass-Through from Southwest Research Institute		PO #792019BT/Livi		27,552	27,552
Pass-Through from Southwest Research Institute		PO #890480BT/Randol		44,189	44,189
Pass-Through from Southwest Research Institute		PO #890496BT/Mackler		34,904	34,904
Pass-Through from Southwest Research Institute		PO #99082BT/TO #5		4,732	4,732
Pass-Through from Southwest Research Institute		PO #A90485Bt/Egert		32,443	32,443
Pass-Through from Southwest Research Institute		PO #A90493BT/Clark		31,026	31,026
Pass-Through from Southwest Research Institute		PO #B99026JD		7,358	7,358
Pass-Through from Southwest Research Institute		PO #B99076BT/TO #10		4,812	4,812
Pass-Through from Southwest Research Institute		PO #B99076BT/TO #3		4,732	4,732
Pass-Through from Southwest Research Institute		PO #B99076BT/TO #4		4,732	4,732
Pass-Through from Southwest Research Institute		PO #B99076BT/TO #6		4,732	4,732
Pass-Through from Southwest Research Institute		PO #B99079BT/TO #2		4,732	4,732
Pass-Through from Southwest Research Institute		PO #B99085BT/TO #8		4,732	4,732
Pass-Through from Southwest Research Institute		PO #B99086BT/TO #9		4,853	4,853
Pass-Through from Space Telescope Science Institute		HST-GO-10611.01-A		4,644	4,644
Pass-Through from United Negro College Fund Special Programs		NNA06CB14H		73,180	73,180
Pass-Through from Universities Space Research Association		8500-98-008 / NAS2-97001		18,227	18,227
Pass-Through from Universities Space Research Association		NNJ06HG25A		148,672	148,672
Pass-Through from University of Maryland - Baltimore		7336		2,042	2,042
Pass-Through from ViGYAN, Inc.		C10-00350		122,078	122,078

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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		NAS902078		400,032	400,032
Pass-Through from Wyle Laboratories		NNJ06HB47C		32,030	32,030
Pass-Through from Wyle Laboratories		T70195		182,982	182,982
Pass-Through from Wyle Laboratories		T71737		987,726	987,726
Total - CFDA 43.001			494,757	13,053,277	13,548,034
Technology Transfer	43.002		99,221	6,148,892	6,248,113
Pass-Through from Boeing Company		9H11252		285,921	285,921
Pass-Through from California Institute of Technology		1288661		7	7
Pass-Through from California Institute of Technology		1288664		94,812	94,812
Pass-Through from Crystal Research, Inc.		8000001279		7,976	7,976
Pass-Through from ELORET Corporation		UTA05-532		2	2
Pass-Through from Engineering and Science Contract Group		UTEP 503-060809		70,200	70,200
Pass-Through from Fred Hutchinson Cancer Research Center		5U01AI06861405		9,092	9,092
Pass-Through from Hamilton Sundstrand Industrial		4763804		69,118	69,118
Pass-Through from Jacobs Engineering Group, Inc.		N731711TMS-001		56,992	56,992
Pass-Through from Johns Hopkins University		948246		47,073	47,073
Pass-Through from Lockheed Martin Corporation		8100001156		415,308	415,308
Pass-Through from Mosaic ATM, Inc.		09-1430, Amd. 1		17,914	17,914
Pass-Through from National Space Biomedical Research Institute		RE01302, Amend No. 1		16,018	16,018
Pass-Through from National Space Biomedical Research Institute		RE01302, Amend No. 2		103,915	103,915
Pass-Through from Orbital Science Corporation		3021003005		2,171	2,171
Pass-Through from Sest, Inc.		B0100		4,124	4,124
Pass-Through from Southwest Research Institute		PO #792007BT/Westlake		22,866	22,866
Pass-Through from TXL Group, Inc.		NNX09CCF76P		19,499	19,499
Pass-Through from University of California - Davis		08-002128-01		14,672	14,672
Pass-Through from University of California - San Diego		10294004		19,987	19,987
Pass-Through from University of Colorado - Boulder		154-5057 SPO# 0000068973		16,543	16,543
Pass-Through from Wyle Laboratories		T71639		9,926	9,926
Total - CFDA 43.002			99,221	7,453,028	7,552,249
Total - National Aeronautics and Space Administration			2,277,368	34,987,983	37,265,351
National Endowment For The Humanities					
National Endowment For The Humanities	45.XXX				
Pass-Through from Humanities Texas		2008-3587		8,334	8,334
Promotion of the Arts_Grants to Organizations and Individuals	45.024			(467)	(467)
Promotion of the Humanities_Federal/State Partnership	45.129				
Pass-Through from Humanities Texas		2009-3873		1,052	1,052
Promotion of the Humanities_Division of Preservation and Access	45.149			207,759	207,759
Pass-Through from George Mason University		E201233-1		32,306	32,306
Total - CFDA 45.149			0	240,065	240,065

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Endowment For The Humanities (continued)					
Promotion of the Humanities_Fellowships and Stipends	45.160			(342)	(342)
Promotion of the Humanities_Research	45.161			128,252	128,252
Promotion of the Humanities_Teaching and Learning Resources and Curriculum Development	45.162			28,724	28,724
Promotion of the Humanities_Professional Development	45.163			1,229	1,229
Promotion of the Humanities_Office of Digital Humanities	45.169			(4,226)	(4,226)
Grants to States	45.310			17,676	17,676
National Leadership Grants	45.312		163,847	1,131,685	1,295,532
Laura Bush 21st Century Librarian Program	45.313			357,019	357,019
Pass-Through from University of Maryland - College Park		Z929601		12,633	12,633
Total - CFDA 45.313			0	369,652	369,652
Total - National Endowment For The Humanities			163,847	1,921,634	2,085,481
National Science Foundation					
National Science Foundation	47.XXX	803555		44,862	44,862
		918459		8,249	8,249
		BCS-0226449		67,703	67,703
		CCF-0448181		104,044	104,044
		CMMI-0555851 NO COST EXTENSION		75,421	75,421
		CMMI-0827113		185,864	185,864
		CNS-0519401		33,931	33,931
		CNS-0540033		21,545	21,545
		CNS-0540372		1,498	1,498
		CNS-0934786		177,040	177,040
		DMI-0522176		19,288	19,288
		DMR-0404252 AMD 003		(714)	(714)
		DMR-0551195	22,462	5,623	28,085
		DMS-0503753		(19)	(19)
		EF-0331453		11,106	11,106
		HRD-0523046		29,947	29,947
		IIS-0531767		37,241	37,241
		IIS-0534198		7,653	7,653
		IOB-0517328		1,291	1,291
		IOS-0951310		14,503	14,503
		MCB-0237651		357	357
		OCE-0526412		56,564	56,564
		OPP-0085589 03		(1,307)	(1,307)
		UNC-CH #5-37497 (Milner)		2,414	2,414
Pass-Through from American Educational Research Association		10-21-RR229-260		8,413	8,413
Pass-Through from American Educational Research Association		UTA10-000413		9,469	9,469
Pass-Through from Associated Universities, Inc.		GSSP09-0004 PO# 90004		33,652	33,652
Pass-Through from BBN Technologies		9500009443		2,525	2,525
Pass-Through from Consortium for Ocean Leadership		SA9-03		17,762	17,762
Pass-Through from Consortium for Ocean Leadership		SAF10-06		2,896	2,896
Pass-Through from Consortium for Ocean Leadership		T317A59		29,001	29,001
Pass-Through from Consortium for Ocean Leadership		T319A59		16,063	16,063

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Consortium for Ocean Leadership		T319B59		21,149	21,149
Pass-Through from Electronic Biosciences, LLC		HSHQDC-09-C-0009118-HS1C		188,158	188,158
Pass-Through from Indiana University		IUB-4812439-UTA		540,750	540,750
Pass-Through from Integrated Ocean Drilling Program		IODP-MI-09-03	68,367	45,874	114,241
Pass-Through from Joint Oceanographic Institute, Inc.		T314B59		4,812	4,812
Pass-Through from Joint Oceanographic Institute, Inc.		T316A59		1,634	1,634
Pass-Through from NEES Consortium, Inc.		OMSA-2008-SSL-UTA		244,265	244,265
Pass-Through from Omega Optics		UTA08-012		53,197	53,197
Pass-Through from Omega Optics		UTA10-000188		37,056	37,056
Pass-Through from Rice University		R3A59I		53,519	53,519
Pass-Through from Tennessee Technological University		1 NSF# 0717654 01		(278)	(278)
Pass-Through from University of Arkansas		NSF TEI-8652447		(3,850)	(3,850)
Pass-Through from University of Louisiana - Monroe		0000000832		1,000	1,000
Pass-Through from University of North Carolina – Chapel Hill		UNC-CH #5-37497		305,947	305,947
Pass-Through from University of North Carolina – Chapel Hill		UNC-CH 5 37497 (K. Sokolov)		3,333	3,333
Pass-Through from Washington University - St. Louis		WU-HT-09-01		63,484	63,484
Total - CFDA 47.XXX			90,829	2,583,935	2,674,764
Engineering Grants	47.041		1,094,611	20,952,844	22,047,455
Pass-Through from Advanced Cooling Technologies, Inc.		IIP-1013608_SUBCONTRACT 10989		15,125	15,125
Pass-Through from Agile Mind, Inc.		AM08-050		4,773	4,773
Pass-Through from Arizona State University		07-806		8,526	8,526
Pass-Through from Arizona State University		0962533 / 211415 B56229 200		27,994	27,994
Pass-Through from Boston Applied Technologies		UTA10-000099		23,526	23,526
Pass-Through from Carnegie Mellon University		1120855-186141		145,462	145,462
Pass-Through from Carnegie Mellon University		1120855-186160		46,302	46,302
Pass-Through from Chiral Photonics		UTA09-000261		27,335	27,335
Pass-Through from Colorado State University		G-3371-1, Amd 3		(2,568)	(2,568)
Pass-Through from Cornell University		44771-7476		646,036	646,036
Pass-Through from Cornell University		52120-8454		8,281	8,281
Pass-Through from E3 Alliance		8000001045		(120)	(120)
Pass-Through from Endometric, LLC		GN0001694		24,319	24,319
Pass-Through from Georgia Institute of Technology		A0840		22,465	22,465
Pass-Through from Georgia Institute of Technology		CBET-0756567		15,966	15,966
Pass-Through from Georgia Institute of Technology		E-20-L05-G2		61,860	61,860
Pass-Through from Georgia Institute of Technology		RA063-G2/CMMI-0936603/Prime CMM		5,716	5,716
Pass-Through from Hi-Z Technology, Inc.		9001		84,035	84,035
Pass-Through from Ironbridge Technologies, Inc.		IIP 0839741 / 211347 B56240 200		(8,279)	(8,279)
Pass-Through from Ironbridge Technologies, Inc.		UTA09-000063		(228)	(228)
Pass-Through from Jackson State University		EEC-0634279		2,705	2,705
Pass-Through from Lawrence Berkeley National Laboratory		6869233		71,089	71,089
Pass-Through from Massachusetts Institute of Technology		5710002218		139,859	139,859
Pass-Through from Missouri University of Science and Technology		00017697-1		1,337	1,337
Pass-Through from Missouri University of Science and Technology		R0001733-02		8,396	8,396

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Nanoelectronics Research Corporation		UTA10-000432		44,602	44,602
Pass-Through from Nanospectra Biosciences, Inc.		IIP-0945088		7,028	7,028
Pass-Through from Nanospectra Biosciences, Inc.		IIP-0945088 01		17,485	17,485
Pass-Through from Oregon State University		0830378 SUB S1148A-B		21,615	21,615
Pass-Through from Princeton University		00001217; Amend No. 4		190,932	190,932
Pass-Through from Princeton University		00001217; Amend No. 5		55,443	55,443
Pass-Through from Purdue University		4101-19562		9,311	9,311
Pass-Through from Purdue University		4101-19919		70,630	70,630
Pass-Through from Purdue University		4101-21432		23,807	23,807
Pass-Through from Purdue University		4101-27905		2,238	2,238
Pass-Through from Purdue University		NEES-4101-31903		703,582	703,582
Pass-Through from Purdue University		NEES-4101-31914		50,737	50,737
Pass-Through from Superpower, Inc.		4000042167		421,376	421,376
Pass-Through from Tao Companies, LLC		GN3462		223	223
Pass-Through from Thies Technology		A3340		106,745	106,745
Pass-Through from University of California - Los Angeles		0135 G MB171		18,715	18,715
Pass-Through from University of Georgia		RC398 103 4691368 / 211383 B51219 200		46,604	46,604
Pass-Through from University of Maryland - College Park		Z460801 MOD C (CTS-0506988)		51	51
Pass-Through from University of Massachusetts - Amherst		04-002498A00, Amend 1		(17,253)	(17,253)
Pass-Through from University of Massachusetts - Amherst		07-004000 A 00		48,484	48,484
Pass-Through from University of Nevada - Reno		10BP173864		9,400	9,400
Pass-Through from University of South Carolina		06-1239 15540 FA59_PO#552218		532	532
Pass-Through from University of Tennessee - Knoxville		OR13633-001.01/Prime CMMI-0		17,258	17,258
Pass-Through from Virginia Polytechnic Institute and State University		478089-19433		40,772	40,772
ARRA - Engineering Grants					
Pass-Through from Advanced Materials and Processes		8000001162		89,194	89,194
Pass-Through from Advantageous Systems, LLC		UTA09-000403		59,540	59,540
Total - CFDA 47.041			1,094,611	24,371,807	25,466,418
Mathematical and Physical Sciences	47.049		529,149	21,926,400	22,455,549
Pass-Through from Brigham Young University		DMS-0636648		4,308	4,308
Pass-Through from California Institute of Technology		68-1074604		(345)	(345)
Pass-Through from Case Western Reserve University		UTA06-623 DMR-0423914		555,581	555,581
Pass-Through from Case Western Reserve University		UTA06-623 MOD 6		78,738	78,738
Pass-Through from Dallas County Community College District		15/#5-24324		116,216	116,216
Pass-Through from Dallas County Community College District		PHY-06-12811 SUB 14(524324)		48,281	48,281
Pass-Through from Dallas County Community College District		PHY-06-12811 SUB 15		1,239,502	1,239,502
Pass-Through from George Mason University		E2015681 / 211318 B53208 200		(7,013)	(7,013)
Pass-Through from Harris County		B670		12,735	12,735
Pass-Through from Harvard University		133485-01, Amend No. 3		49,802	49,802
Pass-Through from Idaho National Laboratory		1029468		17,197	17,197

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Mathematical Association of America		8000001295		28,634	28,634
Pass-Through from New York University		F6497-01		52,478	52,478
Pass-Through from Ohio State University		RF01184157		31,987	31,987
Pass-Through from Ohio State University Research Foundation		RF01157688		11,439	11,439
Pass-Through from Ohio State University Research Fund		RF01096100		69,633	69,633
Pass-Through from Princeton University		1591		45,724	45,724
Pass-Through from Princeton University		1731		70,094	70,094
Pass-Through from Rice University		R3A831		10,427	10,427
Pass-Through from U.S. Civilian Research and Development Foundation		RUB1-2932-SR-08		2,905	2,905
Pass-Through from University of California - Davis		UCD 002865-UTSA		37,783	37,783
Pass-Through from University of California - Santa Cruz		S0177062		1,788	1,788
Pass-Through from University of Illinois - Urbana-Champaign		2007-01127-01		21,280	21,280
Pass-Through from University of Maryland - College Park		Z484801		2,996	2,996
Pass-Through from University of Memphis		INDEX 5-39580 PRIME:DMR-0965801		17,165	17,165
Pass-Through from University of Michigan		F005739		95,900	95,900
Pass-Through from University of Minnesota		A000060252		40,747	40,747
Pass-Through from University of Notre Dame		211358		8,414	8,414
Pass-Through from University of Notre Dame		CK#01198489 / 211245 B53307 200		(30)	(30)
Pass-Through from University of Notre Dame		PHY-0715396 GCS #08-353		5,902	5,902
Pass-Through from University of Oregon		206381L		5,565	5,565
Pass-Through from University of Richmond		B230	95,101		95,101
Pass-Through from University of Washington		429499		37,596	37,596
Pass-Through from Wesleyan University		FRS520159		12,920	12,920
ARRA - Mathematical and Physical Sciences					
Pass-Through from Ohio State University		CHE-0911354		38,632	38,632
Total - CFDA 47.049			624,250	24,691,381	25,315,631
Geosciences	47.050		634,910	7,334,179	7,969,089
Pass-Through from Boston University		ATM-0120950 SUB GC 200682 NGA		224,922	224,922
Pass-Through from Columbia University		5-24452, AMD 1		92,458	92,458
Pass-Through from Consortium for Ocean Leadership		SAF 9-02		27,845	27,845
Pass-Through from Cornell University		53031-8362		47,939	47,939
Pass-Through from Incorporated Research Institutions for Seismology		04-PAS		189,939	189,939
Pass-Through from Michigan Technological University		090303Z1		3,881	3,881
Pass-Through from Northwestern University		PROJ0000043, AMD 3		14,094	14,094
Pass-Through from Southwest Research Institute		PO #792010BT/Alquiza		15,743	15,743
Pass-Through from Southwest Research Institute		PO #792011BT/Brioles		30,448	30,448
Pass-Through from Southwest Research Institute		PO #792020BT/Villarreal		344	344
Pass-Through from Stanford University		12982340-30242-C AMD 4		20,338	20,338
Pass-Through from The Southeastern University Research Association		2006-103		24,473	24,473
Pass-Through from University of Arizona		Y482945		17,113	17,113
Pass-Through from University of California - San Diego		10302778		8,312	8,312
Pass-Through from University of Georgia		RR100-500/3504298		38,173	38,173
Pass-Through from University of Kentucky		EAR-0754153		11,389	11,389
Pass-Through from University of Minnesota		T5366216013		123,443	123,443
Pass-Through from University of Nebraska - Kearney		2008 06 073 / 211304 B53433 200		(163)	(163)

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Southern California		127048		14,957	14,957
Pass-Through from Utah State University		7047301		(44)	(44)
Total - CFDA 47.050			634,910	8,239,783	8,874,693
Computer and Information Science and Engineering	47.070		307,423	23,582,733	23,890,156
Pass-Through from Boston University		IIS-0705749_GC200686 NGA		55,440	55,440
Pass-Through from Computing Research Association		CIF-143		93,327	93,327
Pass-Through from Miami Dade College		WJ0008 64501		15,918	15,918
Pass-Through from Rice University		R3A595		68,273	68,273
Pass-Through from University of Arizona		Y482830, Amend No. 3		60,316	60,316
Pass-Through from University of Chicago		30085-L		1,066,054	1,066,054
Pass-Through from University of Chicago		30085-V		15,313	15,313
Pass-Through from University of Colorado - Boulder		154-5189 SPO# 00000067550		73,427	73,427
Pass-Through from UT-Battelle, LLC		4000079097		58,854	58,854
Total - CFDA 47.070			307,423	25,089,655	25,397,078
Biological Sciences	47.074		367,594	9,919,696	10,287,290
Pass-Through from CH2M HILL Polar Services		813374		121,507	121,507
Pass-Through from Institute of Ecosystem Studies		2911/200589 / 211166 B53039 200		970	970
Pass-Through from Lowell Observatory		B150	21,223		21,223
Pass-Through from Mississippi State University		503009		5,844	5,844
Pass-Through from Pennsylvania State University		3897-UTA-NSF-2373		45,883	45,883
Pass-Through from Portland State University		207RUE038 / 211148 B53059 200		4,429	4,429
Pass-Through from Purdue University		503651		261,835	261,835
Pass-Through from Purdue University		503862		17,400	17,400
Pass-Through from Resonant Sensors, Inc.		0724407		5,137	5,137
Pass-Through from University of Arizona		Y551899		1,137,493	1,137,493
Pass-Through from University of California - Davis		07-001597-UTA		101,128	101,128
Pass-Through from University of California - Los Angeles		0518-G-KB563		130,799	130,799
Pass-Through from University of California - Riverside		S-0000335		79,683	79,683
Pass-Through from University of Illinois - Urbana-Champaign		504066		53,087	53,087
Pass-Through from University of Iowa		4000524452 / 211117 B53314 200		4,490	4,490
Pass-Through from University of Maryland - College Park		Z482301		129,073	129,073
Pass-Through from University of Missouri - St. Louis		MCB-0455318		(2,767)	(2,767)
Pass-Through from Wake Forest University		503756		15,333	15,333
Pass-Through from Washington University - St. Louis		WU HT 08 02 / 211225 B53354 200		168,762	168,762
ARRA - Biological Sciences					
Pass-Through from Colorado State University		504199		11,096	11,096
Total - CFDA 47.074			388,817	12,210,878	12,599,695
Social, Behavioral, and Economic Sciences	47.075		29,004	4,162,665	4,191,669
Pass-Through from Columbia University		SES-07-29253 NO 1		119,576	119,576
Pass-Through from Gallaudet University		0000018428 UTA10-000365		29,299	29,299
Pass-Through from National Bureau of Economic Research		20345400079555-7700		16,198	16,198
Pass-Through from North Carolina A&T State University		2000/10526		50,644	50,644
Pass-Through from North Carolina A&T State University		260119B / 211329 B53366 200		247	247

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 North Carolina A&T State University		260119B / 211330 B53449 200		85,392	85,392
Pass-Through from University of Arizona		Y502734/BCS-0820270		33,469	33,469
Pass-Through from University of Washington		UW #346723		853	853
Pass-Through from Yale University		C09D10191		86,704	86,704
Total - CFDA 47.075			29,004	4,585,047	4,614,051
Education and Human Resources	47.076		741,198	24,660,035	25,401,233
Pass-Through from American Educational Research Association		AERA Grants		13,092	13,092
Pass-Through from Association of American Geographers		8000000785		18,369	18,369
Pass-Through from Botanical Society of America		01-TX-0733280		124,528	124,528
Pass-Through from Botanical Society of America		01-TX-0737669		135,827	135,827
Pass-Through from High Point University		DUE 737181 / 211366 B53232 200		1,973	1,973
Pass-Through from Howard University		634143-PO# 3000006536		270	270
Pass-Through from New Mexico State University		Q00939 / 211111 B53049 200		2	2
Pass-Through from New Mexico State University		Q01436		5,866	5,866
Pass-Through from Northwestern University		PROJ0000735		801	801
Pass-Through from SRI International		11-000114		17,260	17,260
Pass-Through from University of Colorado - Boulder		DUE 0832874		73,817	73,817
Pass-Through from University of Illinois - Chicago		2009-03942-04-00		92,779	92,779
Pass-Through from Wright State University		DUE-0817332		58,869	58,869
Pass-Through from Wright State University		PSP06882		28,228	28,228
Pass-Through from Wright State University		PSP06909		25,383	25,383
Total - CFDA 47.076			741,198	25,257,099	25,998,297
Polar Programs	47.078		151,563	1,536,634	1,688,197
Pass-Through from Michigan State University		61-2480UT ARC-0454996		33,392	33,392
Pass-Through from San Diego State University Foundation		53702A P1529 7806 211 E0004157		9,228	9,228
Total - CFDA 47.078			151,563	1,579,254	1,730,817
International Science and Engineering	47.079		4,000	826,748	830,748
Pass-Through from Rensselaer Polytechnic Institute		B10537		62,233	62,233
Pass-Through from U.S. Civilian Research and Development Foundation		RUB1-2932-SR-08		4,791	4,791
Pass-Through from U.S. Civilian Research and Development Foundation		RUE1-2940-TO-09		3,247	3,247
Total - CFDA 47.079			4,000	897,019	901,019
Office of Cyberinfrastructure	47.080		2,447,630	4,514,240	6,961,870
Pass-Through from Indiana University		PO#344546 48-124-31 84830 (OCI-0721656)		73,457	73,457
Pass-Through from San Diego State University		55291A7802		16,652	16,652
Pass-Through from University of Chicago		37130-A		223,897	223,897
Pass-Through from University of Chicago		41994-K		635,988	635,988
Pass-Through from University of Illinois - Urbana-Champaign		2009-06519-02 GRANT CODE: A2685		237,395	237,395
Total - CFDA 47.080			2,447,630	5,701,629	8,149,259

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Trans-NSF Recovery Act Research Support	47.082			28,486	28,486
Pass-Through from BBN Technologies		95000010196		26,550	26,550
ARRA - Trans-NSF Recovery Act Research Support			314,106	19,576,391	19,890,497
Pass-Through from Cornell University		60419-9048		525,000	525,000
Pass-Through from Cornell University		ECCS0941561		18,530	18,530
Pass-Through from Oklahoma State University		AA530960-S1		11,966	11,966
Pass-Through from Tulane University		TUL-587-09/10		28,469	28,469
Pass-Through from University of California - Merced		EAR-0922307-UH		280,289	280,289
Pass-Through from University of Louisiana - Lafayette		10-0215		33,867	33,867
Pass-Through from Xidex Corporation		UTA09-000437		49,962	49,962
Pass-Through from ZT Solar, Inc.		IIP0924042		63,191	63,191
Total - CFDA 47.082			314,106	20,642,701	20,956,807
Total - National Science Foundation			6,828,341	155,850,188	162,678,529
Small Business Administration					
Small Business Administration	59.XXX	SBAHQ-08-I-0079		131,611	131,611
Small Business Development Centers	59.037				
Pass-Through from Dallas County Community College District		10-603001-Z-0076-24		97,861	97,861
Pass-Through from Dallas County Community College District		9-603001-Z-0047-25		1,002	1,002
Total - CFDA 59.037			0	98,863	98,863
Total - Small Business Administration			0	230,474	230,474
Tennessee Valley Authority					
Tennessee Valley Authority	62.XXX				
Pass-Through from Stantec Consulting Services		UTA10-000488		97,863	97,863
Total - Tennessee Valley Authority			0	97,863	97,863
U.S. Department of Veterans Affairs					
U.S. Department of Veterans Affairs	64.XXX	549-D85029 CMO 800435		(644)	(644)
		900975_VA549-P-0027 CMO800435		129,949	129,949
		AHUJA/IPAA/ALUYEN		24,098	24,098
		AHUJA/IPAA/CARRILLO		12,780	12,780
		AHUJA/IPAA/ CASTIBLAN		32,482	32,482
		AHUJA/IPAA/ GAITAN-MO		17,202	17,202
		AHUJA/IPAA/ GORNALUSS		19,706	19,706
		AHUJA/IPAA/GRIFFIN		18,487	18,487
		AHUJA/IPAA/ KULKARNI		83,404	83,404

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Affairs (continued)					
		AHUJA/IPAA/LIPSITT		24,049	24,049
		AHUJA/IPAA/ MALDONADO		12,216	12,216
		AHUJA/IPAA/MEN		2,210	2,210
		AHUJA/IPAA/VALERA		19,918	19,918
		BAMC IPAA		19,171	19,171
		BAMC MINTZ		20,448	20,448
		BARNES/IPAA/ MANICKAM		11,734	11,734
		BARNES/IPAA/PATEL		11,921	11,921
		BARNES/IPAA/ SPRINGER		26,135	26,135
		BASLER/IPAA/ HENSLEY		63,232	63,232
		BLOCK/IPAA/ FRIDRICHS		35,852	35,852
		CAVAZOS/IPAA/ CROSS		1,409	1,409
		CAVAZOS/IPAA/ TOLSTYK		35,530	35,530
		CHANDRASEKAR/ IPAA/VE		1,131	1,131
		CHATTERJEE/IPAA/ KIM		24,847	24,847
		CHATTERJEE/IPAA/ SONG		78,736	78,736
		CHAUDHURI/IPAA/ LEONA		38,609	38,609
		CHAUDHURI/IPAA/ PEREZ		10,740	10,740
		CLARK/IPAA/GAMEZ		13,870	13,870
		CLARK/IPAA/IMAM		(911)	(911)
		CLARKE/IPAA/ VALENTE		13,740	13,740
		COPELAND/IPAA/ HENDRI		4,113	4,113
		CUSI/IPAA/LOMONACO		18,641	18,641
		DEFRONZO/IPAA/ KINCAD		13,868	13,868
		DEFRONZO/IPAA/ KING		11,228	11,228
		ESPINOZA/IPAA/ HALADE		7,159	7,159
		FELDMAN/IPAA/ JENKINS		25,511	25,511
		FERNANDEZ/IPAA/ WEY		28,421	28,421
		FOX/IPAA/ACHESON		1,153	1,153
		FOX/IPAA/FRANKLIN		1,076	1,076
		FOX/IPAA/LANCASTER		6,348	6,348
		FOX/IPAA/NARAYANA		4,149	4,149
		FOX/IPAA/ZHANG		26,548	26,548
		FRAZER/IPAA/ BENMANSO		3,490	3,490

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 Affairs (continued)					
		FREEMAN/IPAA/CAO		31,400	31,400
		FREEMAN/IPAA/ZHAO		63,758	63,758
		GHOSH-CHOUD/IPAA/DAS		31,920	31,920
		GHOSH-CHOUD/IPAA/DEY		8,657	8,657
		GHOSH-CHOUD/IPAA/LI		10,384	10,384
		HABIB/IPAA/VELA GAPUD		10,937	10,937
		HART/IPAA/CAO		9,668	9,668
		HART/IPAA/HOLLOWAY		5,172	5,172
		JENKINSON/IPAA/ FOURC		41,445	41,445
		JENKINSON/IPAA/ HANSI		64,642	64,642
		KAMAT/IPAA/SHU		32,072	32,072
		KASINATH/IPAA/ MARIAP		56,965	56,965
		KASINATH/IPAA/ SATARA		48,097	48,097
		LI/IPAA/CHANDU		46,162	46,162
		LI/IPAA/CHEN		32,985	32,985
		LI/IPAA/HAN		(44)	(44)
		LI/IPAA/SANTACRUZ		21,724	21,724
		LINDSEY/IPAA/DAI		27,197	27,197
		LINDSEY/IPAA/ MONTES		18,384	18,384
		MARCINIAK/IPAA/ CHAVE		31,580	31,580
		MARCINIAK/IPAA/ SIDDI		66,493	66,493
		MELBY/IPAA/ OSORIO-ES		57,113	57,113
		MELBY/IPAA/ZHANG		1,244	1,244
		MUMMIDI/IPAA/BEGUM		11,916	11,916
		MUMMIDI/IPAA/HARPER		8,441	8,441
		MUMMIDI/IPAA/HERR		8,152	8,152
		MUMMIDI/IPAA/PHAM		8,440	8,440
		NOEL/IPAA/FINLE		40,239	40,239
		NOEL/IPAA/ MACCARTHY		22,370	22,370
		NOEL/IPAA/ MORALES		24,769	24,769
		NOEL/IPAA/NEATHERY		35,770	35,770
		PATTERSON/IPAA/ KELLY		10,346	10,346
		PIERCE/IPAA/WEI		17,793	17,793
		RAN/IPAA/CHEN		51,971	51,971
		RAN/IPAA/GU		30,461	30,461
		RAN/IPAA/NA		34,748	34,748
		REINECK/IPAA/ LEHMAN		53,580	53,580
		SAUNDERS/IPAA/ GILES		3,183	3,183

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Affairs (continued)					
		SCHWACHA/USAIS		7,056	7,056
		SHIREMAN/IPAA/ PORTER		31,871	31,871
		STRONG/IPAA/ KADAPAKK		51,217	51,217
		STRONG/IPAA/ MARTINEZ		13,141	13,141
		STRONG/IPAA/ SOTO-PIN		25,801	25,801
		STRONG/IPAA/WANG		4,302	4,302
		VA-257-09-RP-0070		(193,037)	(193,037)
		VA257-P-0380		429,791	429,791
		VA260-P-0118/WALSH		46,557	46,557
		VA-260P0145 663-D06032		97,066	97,066
		VA549P0027	1,059,586	8,400,506	9,460,092
		VANREMMEN/IPAA/ JERNI		40,853	40,853
		VANREMMEN/IPAA/ LIU		64,716	64,716
		WALTER/IPAA/ GARCIA		10,000	10,000
		WALTER/IPAA/ HERZIG		5,110	5,110
		WALTER/IPAA/ HILDRETH		13,101	13,101
		WEINER/IPAA/URI URIBE		18,072	18,072
		WEINER/IPAA/WING		72,915	72,915
		WERNER/IPAA/HORN		5,055	5,055
		WERNER/IPAA/LI		2,705	2,705
Total - CFDA 64.XXX			1,059,586	11,180,688	12,240,274
Veterans Medical Care Benefits	64.009			19,053	19,053
Pass-Through from Baylor College of Medicine		56005570696		6,708	6,708
Pass-Through from Michael E. Debakey Veterans Affairs Medical Center		580-C00117		45,280	45,280
Pass-Through from Michael E. Debakey Veterans Affairs Medical Center		580-D07035		9,999	9,999
Total - CFDA 64.009			0	81,040	81,040
Sharing Specialized Medical Resources	64.018			31,913	31,913
Veterans Home Based Primary Care	64.022			907	907
Veterans Information and Assistance	64.115			36,804	36,804
Total - U.S. Department of Veterans Affairs			1,059,586	11,331,352	12,390,938

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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					
Environmental Protection Agency	66.XXX	K4E21-09-09		10,936	10,936
Pass-Through from Border Environmental Cooperation Commission		TAA08-042		35,619	35,619
Pass-Through from Harvard University		122777		16,265	16,265
Pass-Through from Omega Optics		EP-D-10-047 UTA10-000445		23,331	23,331
Pass-Through from Tetra Tech, Inc.		1051748		114,869	114,869
Pass-Through from The Mickey Leland National Urban Air Toxics Research Center		EPA-99-427		272	272
Pass-Through from University of New Mexico Health Science Center		UNM-P0048113		7	7
Total - CFDA 66.XXX			0	201,299	201,299
Air Pollution Control Program Support	66.001				
Pass-Through from City of El Paso		39618V2		6,695	6,695
Ozone Transport Commission	66.033				
Pass-Through from Zapata County		91590		200	200
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034		50,244	407,766	458,010
Pass-Through from Purdue University		503593		16,999	16,999
Total - CFDA 66.034			50,244	424,765	475,009
National Clean Diesel Funding Assistance Program	66.039			208,110	208,110
ARRA - National Clean Diesel Funding Assistance Program				1,233,087	1,233,087
Total - CFDA 66.039			0	1,441,197	1,441,197
Congressionally Mandated Projects	66.202		203,546	438,992	642,538
Pass-Through from San Diego State University Foundation		55573A-7802		188,963	188,963
Total - CFDA 66.202			203,546	627,955	831,501
Water Pollution Control State, Interstate, and Tribal Program Support	66.419		330,096	988,648	1,318,744
Water Quality Management Planning	66.454			104,462	104,462
ARRA - Water Quality Management Planning				14,121	14,121
Total - CFDA 66.454			0	118,583	118,583
National Estuary Program	66.456			113,042	113,042
Pass-Through from Coastal Bend Bays and Estuaries Program		0708		(3,975)	(3,975)
Total - CFDA 66.456			0	109,067	109,067
Nonpoint Source Implementation Grants	66.460		13,205	3,331,863	3,345,068
Pass-Through from Brazos River Authority		503358		83,176	83,176
Total - CFDA 66.460			13,205	3,415,039	3,428,244
Regional Wetland Program Development Grants	66.461			54,440	54,440
Water Quality Cooperative Agreements	66.463				
Pass-Through from University of North Carolina – Chapel Hill		UNC5-41031 & 5-59100		(11,212)	(11,212)

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Capitalization Grants for Drinking Water State Revolving Funds	66.468		800,858	1,373,299	2,174,157
Beach Monitoring and Notification Program Implementation Grants	66.472			341,524	341,524
Water Protection Grants to the States	66.474			160,860	160,860
Gulf of Mexico Program	66.475			181,195	181,195
Pass-Through from University of South Florida		SBAGR 1209-1071-00C		25,712	25,712
Total - CFDA 66.475			0	206,907	206,907
Wetland Program Grants - State/Tribal Environmental Outcome Wetland Demonstration Program	66.479				
Pass-Through from Baylor University		032-75DD		2,540	2,540
Assessment and Watershed Protection Program Grants	66.480		16,209	14,679	30,888
Science To Achieve Results Research Program	66.509		127,588	983,135	1,110,723
Pass-Through from Clemson University		1289-7558-218-200715		24,225	24,225
Pass-Through from Georgia Institute of Technology		D5774-G1		20,544	20,544
Pass-Through from Harvard University		123392		21,633	21,633
Pass-Through from University of California - Davis		07-003825-01		32,072	32,072
Pass-Through from University of Georgia Research Foundation, Inc.		RC398 035/4689978 / 211372 B51219 200		30,785	30,785
Pass-Through from University of Illinois - Urbana-Champaign		504074		7,472	7,472
Total - CFDA 66.509			127,588	1,119,866	1,247,454
Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development	66.510		4,048	17,915	21,963
Office of Research and Development Consolidated Research/Training/Fellowships	66.511		38,673	66,191	104,864
Pass-Through from Health Effects Institute		4764-RFA06-3/07-5		65,592	65,592
Total - CFDA 66.511			38,673	131,783	170,456
Greater Research Opportunities Fellowships For Undergraduate Environmental Study	66.513			327	327
Environmental Protection Consolidated Grants for the Insular Areas - Program Support	66.600			28,984	28,984
Performance Partnership Grants	66.605		112,107	385,959	498,066
Surveys, Studies, and Investigations and Special Purpose Grants	66.606		15,469		15,469
Pass-Through from The Mickey Leland National Urban Air Toxics Research Center		R83234601-HEATS		11,589	11,589
Total - CFDA 66.606			15,469	11,589	27,058
Pollution Prevention Grants Program	66.708			126,313	126,313
Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	66.716			41,503	41,503
National Community-Based Lead Outreach and Training Grant Program	66.718			164,756	164,756

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802				
Pass-Through from Oregon Department of Environmental Quality		OREGON DEQ - 047-10 UTA09-000937		84,456	84,456
Brownfields Assessment and Cleanup Cooperative Agreements	66.818				
Pass-Through from City of Arlington		08-182_OR 08-561		(21,433)	(21,433)
International Financial Assistance Projects Sponsored by the Office of International Affairs	66.931		13,068	31,066	44,134
Environmental Education Grants	66.951		6,625	11,468	18,093
Total - Environmental Protection Agency			1,731,736	11,611,037	13,342,773
Nuclear Regulatory Commission					
Nuclear Regulatory Commission	77.XXX	NRC-04-09-134		115,592	115,592
		NRC-27-07-311		205,521	205,521
		NRC-38-09-908		92,593	92,593
Total - CFDA 77.XXX			0	413,706	413,706
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006			181,207	181,207
Pass-Through from Oregon State University		X0105A-B; Amend No. 2		266,558	266,558
Pass-Through from University of Tennessee - Knoxville		OR11841-001.01; Amd. No. 1		44,246	44,246
Total - CFDA 77.006			0	492,011	492,011
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008			346,825	346,825
Total - Nuclear Regulatory Commission			0	1,252,542	1,252,542
U.S. Department of Energy					
U.S. Department of Energy	81.XXX	633827		2,967	2,967
		767882		25,799	25,799
		8000001311		32,413	32,413
		803198		860	860
		886660		30,235	30,235
		899576		4,867	4,867
		979955		13,220	13,220
		980176		13,623	13,623
		998575		25,365	25,365
		ACQ-4-33623-06		1,764	1,764
		DEAC0206CH11357		263,607	263,607
		DE-AC05-76RL01830		293,110	293,110
		DE-AC52-07N		(23,561)	(23,561)
		DE-AC52-09NA29327	38,909	34,229	73,138
		DE-FC02-06ER25782 A002		100,512	100,512
		DE-FC02-08ER54961		34,712	34,712
		DE-FG02-02ER15352 NO COST EXT		1,863	1,863

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
		DE-FG02-03ER15406 A006		3,347	3,347
		DE-FG02-04ER41321 AMD		164,198	164,198
		DE-FG02-04ER54754		125,628	125,628
		DE-FG02-06ER46303 A001		172,493	172,493
		DE-FG02-07ER15884 NCE		85,473	85,473
		DE-FG02-97ER54415 AMD		650	650
		DE-NT008022		76,575	76,575
		S009355-R	49,167	116,856	166,023
Pass-Through from Addx Corporation		ADDX-CEE-10-0001		15,251	15,251
Pass-Through from Alliance for Sustainable Energy, LLC		ACQ-4-33623-02		2,227	2,227
Pass-Through from Argonne National Lab		0F-32721		54,854	54,854
Pass-Through from Argonne National Lab		8F-01463		(36,220)	(36,220)
Pass-Through from Babcock and Wilcox		43000075854		16,227	16,227
Pass-Through from Babcock and Wilcox		4300070678		18,012	18,012
Pass-Through from Battelle		00062780 / 211198 B56240 200		64,704	64,704
Pass-Through from Battelle		4000086610 / 211394 B56222 200		30,457	30,457
Pass-Through from Battelle		86303		94,318	94,318
Pass-Through from Battelle		89594		63,465	63,465
Pass-Through from Battelle		93567		49,693	49,693
Pass-Through from British Petroleum North America, Inc.		LOA CCP30901		21,710	21,710
Pass-Through from British Petroleum North America, Inc.		UTA09-000639		55,000	55,000
Pass-Through from Carnegie Institute of Washington		4-10114-08		35,680	35,680
Pass-Through from Carnegie Institute of Washington		4-3253-15		26,982	26,982
Pass-Through from Clemson University		07-01-SR127	88,687	126,935	215,622
Pass-Through from Colorado School of Mines		4-42942/17050		61,405	61,405
Pass-Through from Eureka Genomics, Inc.		99853		61,845	61,845
Pass-Through from Fermi National Accelerator Laboratory		577934		3,340	3,340
Pass-Through from Fermi National Accelerator Laboratory		PO 592298		41,076	41,076
Pass-Through from Fermi National Accelerator Laboratory		PO #587019 UTA09-000809		7,458	7,458
Pass-Through from Fermi National Accelerator Laboratory		PO #587019 UTA09-000810		39,511	39,511
Pass-Through from Fermi National Accelerator Laboratory		PO #571899		21,040	21,040
Pass-Through from Gas Technology Institute		S-48		208,659	208,659
Pass-Through from Idaho National Laboratory		101299		50,185	50,185
Pass-Through from Lawrence Berkeley National Laboratory		6805918 Mod 7 prev 6712770		229,813	229,813
Pass-Through from Lawrence Berkeley National Laboratory		PO 6805918 MOD 5 PREV 6712770		439	439
Pass-Through from Lawrence Berkeley National Laboratory		PO 6805919		420,650	420,650
Pass-Through from Lawrence Livermore National Security, LLC		B526542 / 211143 B56202 200		25,248	25,248
Pass-Through from Lawrence Livermore National Security, LLC		B574748		2,819	2,819
Pass-Through from Lawrence Livermore National Security, LLC		B586367 / 211388 B56240 200		22,999	22,999
Pass-Through from Lawrence Livermore National Security, LLC		B552372, LTR DTD 8-7-07		(3,038)	(3,038)
Pass-Through from Los Alamos National Laboratory		61393-001-08		4,742	4,742

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 MPM Technologies, Inc.		UTA05-798 Amd. 2		128,523	128,523
Pass-Through from National Renewable Energy Laboratory		XEE-8-77567-01 MOD 5		33,706	33,706
Pass-Through from Pacific Northwest Laboratory		95172	207,500	121,978	329,478
Pass-Through from Petroleum Technology Transfer		09-009		16,433	16,433
Pass-Through from Petroleum Technology Transfer		795	2,500	29,816	32,316
Pass-Through from Portland State University		200MOO210, PRIME NO. DE-AC26-07NT42677		810	810
Pass-Through from Princeton University		S008471-R		49,174	49,174
Pass-Through from Research Partnership To Secure Energy for America		07122-41		269,206	269,206
Pass-Through from Research Partnership To Secure Energy for America		08121-2701-03		85,025	85,025
Pass-Through from Research Partnership To Secure Energy for America		08122-53		211,432	211,432
Pass-Through from Research Partnership To Secure Energy for America		08122-55		263,700	263,700
Pass-Through from Research Partnership To Secure Energy for America		08123-16		210,396	210,396
Pass-Through from Rice University		R7B612		43,204	43,204
Pass-Through from Sandia National Laboratories		01012004		578,389	578,389
Pass-Through from Sandia National Laboratories		1014389		41,922	41,922
Pass-Through from Sandia National Laboratories		1017123		26,077	26,077
Pass-Through from Sandia National Laboratories		1024364		50,124	50,124
Pass-Through from Sandia National Laboratories		1028904		19,856	19,856
Pass-Through from Sandia National Laboratories		114166 REV. 11		(1,298)	(1,298)
Pass-Through from Sandia National Laboratories		211194 B53318 200		(857)	(857)
Pass-Through from Sandia National Laboratories		379530 REV 11		(316)	(316)
Pass-Through from Sandia National Laboratories		446802 A0340		(289)	(289)
Pass-Through from Sandia National Laboratories		459177		216	216
Pass-Through from Sandia National Laboratories		459177 REV 7		91	91
Pass-Through from Sandia National Laboratories		520332 REV 5		(27)	(27)
Pass-Through from Sandia National Laboratories		633167		16	16
Pass-Through from Sandia National Laboratories		743358		64,510	64,510
Pass-Through from Sandia National Laboratories		805040		(214)	(214)
Pass-Through from Sandia National Laboratories		872190		68,434	68,434
Pass-Through from Sandia National Laboratories		873484		2,276	2,276
Pass-Through from Sandia National Laboratories		883001		67,117	67,117
Pass-Through from Sandia National Laboratories		886027		5,126	5,126
Pass-Through from Sandia National Laboratories		896619		6,546	6,546
Pass-Through from Sandia National Laboratories		902468		7,338	7,338
Pass-Through from Sandia National Laboratories		902570 REV 1		41,851	41,851
Pass-Through from Sandia National Laboratories		905610 REV 2		208,137	208,137
Pass-Through from Sandia National Laboratories		946848 REV 1		19,834	19,834
Pass-Through from Sandia National Laboratories		948818		114,912	114,912
Pass-Through from Sandia National Laboratories		950818		101,559	101,559
Pass-Through from Sandia National Laboratories		981843		25,056	25,056
Pass-Through from Sandia National Laboratories		994698		28,050	28,050
Pass-Through from Sandia National Laboratories		995330		34,533	34,533
Pass-Through from Sandia National Laboratories		PO 1000482		11,492	11,492
Pass-Through from Sandia National Laboratories		PO 1043400		25,998	25,998
Pass-Through from Sandia National Laboratories		PO 777753 / 211258 B53217 200		13,323	13,323
Pass-Through from Sandia National Laboratories		PO 777753 AMEN 5 / 211379 B53217 200		27,062	27,062

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Laboratories		PO 872539		6,353	6,353
Pass-Through from Sandia National Laboratories		PO 884900 / 211346 B56318 200		30,314	30,314
Pass-Through from Sandia National Laboratories		PO 932924		79,148	79,148
Pass-Through from Sandia National Laboratories		PO 948247 / 211381 B56318 200		57,212	57,212
Pass-Through from Sandia National Laboratories		PO 979162 / 211410 B53295 200		22,723	22,723
Pass-Through from Sandia National Laboratories		PO 999287 / 211419 B53318 200		282,912	282,912
Pass-Through from Sandia National Laboratories		PO #872437		71,851	71,851
Pass-Through from Sandia National Laboratories		PO #912878 REV #1		27,749	27,749
Pass-Through from Sandia National Laboratories		PO #919589 0 AGREEMENT NO. 772242		51,808	51,808
Pass-Through from Sandia National Laboratories		PO #926703		4,547	4,547
Pass-Through from Sandia National Laboratories		PO #927109		8,598	8,598
Pass-Through from Sandia National Laboratories		PO #990947		46,834	46,834
Pass-Through from Sandia National Laboratories		PR 1224984 PO 1016652		87,713	87,713
Pass-Through from Sandia National Laboratories		UTA09-001097 - PO #975754		25,214	25,214
Pass-Through from University of California - San Diego		PO # 10272333		9	9
Pass-Through from University of Rochester		DE-FC02-04ER54789 PO 412760-G		(9)	(9)
Pass-Through from University of Utah		10015126-U		39,824	39,824
Pass-Through from Washington Savannah River Company, LLC		AC 54275 O		19,237	19,237
Pass-Through from Zyvex		UTA08-601		89,474	89,474
ARRA - U.S. Department of Energy					
Pass-Through from Denbury Onshore, LLC		UTA10-000277		21,203	21,203
Pass-Through from Denbury Onshore, LLC		UTA10-000502		7,092	7,092
Pass-Through from NRG Energy, Inc.		DE-FOA-0000042		52,458	52,458
Pass-Through from Sandia National Laboratories		948949		98,397	98,397
Pass-Through from Savannah River Nuclear Solutions, LLC		RA011680		30,800	30,800
Total - CFDA 81.XXX			386,763	7,649,999	8,036,762
Used Energy-Related Laboratory Equipment Grants	81.022			45,785	45,785
Inventions and Innovations	81.036			138,589	138,589
State Energy Program	81.041		94,194	140,369	234,563
Pass-Through from State of Louisiana		2029-09-04, Amd. 1		18,632	18,632
ARRA - State Energy Program				36,610	36,610
Total - CFDA 81.041			94,194	195,611	289,805
Office of Science Financial Assistance Program	81.049		428,773	21,518,212	21,946,985
Pass-Through from Argonne National Lab		9F-31541		39,442	39,442
Pass-Through from Arizona State University		09-210		33,843	33,843
Pass-Through from Battelle		00072764, Amd No. 001		16,922	16,922
Pass-Through from Battelle		00083349, Amd No. 001		18,007	18,007
Pass-Through from Battelle		00083597		41,224	41,224
Pass-Through from Battelle		00090311		178,570	178,570
Pass-Through from Battelle		00090521		47,823	47,823

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Battelle		00090581		31,505	31,505
Pass-Through from Battelle		00090995; Amd No. 001		19,626	19,626
Pass-Through from Battelle		00091204		172,736	172,736
Pass-Through from Battelle		00092961		31,674	31,674
Pass-Through from Battelle		00094637		6,053	6,053
Pass-Through from Battelle		00094792		39,999	39,999
Pass-Through from Battelle		00095441		29,736	29,736
Pass-Through from Battelle		00097541		28,461	28,461
Pass-Through from Battelle		00100897		24,821	24,821
Pass-Through from Battelle		65143; Amd No. 5		2,733	2,733
Pass-Through from Battelle		8000000963		47,452	47,452
Pass-Through from Battelle		C10-00171	8,268		8,268
Pass-Through from Battelle		C10-00216	82,800		82,800
Pass-Through from Carnegie Mellon University		1070068-192767, Amd No. 2		(245)	(245)
Pass-Through from Colorado State University		G-3837-2		4,417	4,417
Pass-Through from Duke University		08-SC-NICCR-1071 AMD 03 (EXT)		129,749	129,749
Pass-Through from Duke University		09-NICCR-1076		107,421	107,421
Pass-Through from Duke University		09-NICCR-1077 AMD 02 NCE		81,420	81,420
Pass-Through from Gas Technology Institute		S-072; Amd No. 1		323,875	323,875
Pass-Through from Georgia Institute of Technology		E-19-ZG5-G1		65,427	65,427
Pass-Through from Honeywell Federal Manufacturing and Technologies		EP14002 / 211369 B56208 200		(2,667)	(2,667)
Pass-Through from Houston Advanced Research Center		08122-35 R05		97,086	97,086
Pass-Through from Idaho State University		09-265C		64,652	64,652
Pass-Through from Jackson State University		P0016718		25,438	25,438
Pass-Through from Lawrence Berkeley National Laboratory		6720563, Mod 8		58,812	58,812
Pass-Through from Lawrence Berkeley National Laboratory		6869226, Mod 2		168,416	168,416
Pass-Through from Lawrence Berkeley National Laboratory		6924997		6,169	6,169
Pass-Through from Los Alamos National Laboratory		72198-001-09, Mod 2		21,437	21,437
Pass-Through from Los Alamos National Laboratory		72198-001-09, Mod 3		66,344	66,344
Pass-Through from Los Alamos National Security, LLC		22430-001-05, Mod 4		30,173	30,173
Pass-Through from Los Alamos National Security, LLC		59577-001-08; Mod 3		42,421	42,421
Pass-Through from Medical University of South Carolina		DE-FG07-05ID14692/IDNE006, Amd 4		5,361	5,361
Pass-Through from Oak Ridge National Laboratory		4000088079, Mod 1		32,495	32,495
Pass-Through from Oak Ridge National Laboratory		4000089045		18,519	18,519
Pass-Through from Pantex Plant		B350, C310		35,463	35,463
Pass-Through from Princeton Lightwave		FA875009C0069 SBIR/ARO		12,320	12,320
Pass-Through from Qteros, Inc.		A4980		(311)	(311)
Pass-Through from Rice University		R16651		94,792	94,792
Pass-Through from Sandia National Laboratories		847310		2,934	2,934
Pass-Through from Sandia National Laboratories		85405, Ltr Dtd 3/24/08		24,490	24,490
Pass-Through from Sandia National Laboratories		870647		3,027	3,027
Pass-Through from Sandia National Laboratories		942548; Rev 5		190,069	190,069
Pass-Through from Sandia National Laboratories		944909, Rev 1		51,870	51,870
Pass-Through from Sandia National Laboratories		953228		581,874	581,874
Pass-Through from Sandia National Laboratories		960904		6,751	6,751
Pass-Through from Sandia National Laboratories		969972; Rev 4		112,740	112,740
Pass-Through from Sandia National Laboratories		978619		67,199	67,199
Pass-Through from Shear Form, Inc.		09-1175, Email dtd 5/28/10		3,938	3,938

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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.		SUB #111-1 GCS09036		79,978	79,978
Pass-Through from Signal Processing, Inc.		W31P4Q-09-C-0368		29,984	29,984
Pass-Through from Silicon Audio Labs, Inc.		UTA10-000621		17,390	17,390
Pass-Through from Stanford Linear Accelerator Center		85541		71,391	71,391
Pass-Through from Stanford Linear Accelerator Center		DE-AC02-76SF00515		13,354	13,354
Pass-Through from Tulane University		503828		73	73
Pass-Through from Tulane University		TUL-579-08/09		64,399	64,399
Pass-Through from Tulane University		TUL-580-08/09		5,958	5,958
Pass-Through from University of Delaware		11757		604	604
Pass-Through from University of Delaware		21115		36,480	36,480
Pass-Through from University of Florida		503900		96,272	96,272
Pass-Through from University of Michigan		3001336236, Amd No. 1		42,894	42,894
Pass-Through from University of Michigan		3001346237		254,644	254,644
Pass-Through from University of Nevada		UNR-10-32; Amd No. 1		26,412	26,412
Pass-Through from University of Oregon		234151-L, TASK6.6		17,628	17,628
Pass-Through from University of Oregon		DE-SC0001476/234171F		33,229	33,229
Pass-Through from University of Tulsa		14-2-1202361-94814		47,366	47,366
Pass-Through from University of Virginia		GQ10044-133948		114,766	114,766
Pass-Through from University of Wisconsin - Madison		182K512; Mod 01		17,560	17,560
Pass-Through from UT-Battelle, LLC		4000074380, Amd No. 6		42,748	42,748
Pass-Through from Wayne State University		480887		21,597	21,597
ARRA - Office of Science Financial Assistance Program				2,313,891	2,313,891
Pass-Through from Columbia University		3 (ACCT # 5-64853)		67,302	67,302
Pass-Through from Oklahoma State University		AA-5-32130-01		31,009	31,009
Pass-Through from Trinity Thermal		UTA10-000390		31,630	31,630
Total - CFDA 81.049			519,841	28,341,274	28,861,115
University Coal Research	81.057		32,479	157,578	190,057
Office of Scientific and Technical Information	81.064			325,645	325,645
Pass-Through from Sandia National Laboratories		939585		176,617	176,617
Total - CFDA 81.064			0	502,262	502,262
Nuclear Waste Disposal Siting	81.065				
Pass-Through from Nye County		09-016		66,542	66,542
Regional Biomass Energy Programs	81.079			28,500	28,500
Pass-Through from Oklahoma State University		AB 5 15540.TTU / 211344 B51186		26,419	26,419
Pass-Through from South Dakota State University		503757		4,365	4,365
Pass-Through from South Dakota State University		503781		2,038	2,038
Pass-Through from South Dakota State University		504008		23,121	23,121
Pass-Through from South Dakota State University		504069		22,035	22,035
Total - CFDA 81.079			0	106,478	106,478
Conservation Research and Development	81.086			119,633	119,633
Pass-Through from Oak Ridge National Laboratory		4300069129, Mod 4		54,455	54,455
ARRA - Conservation Research and Development					
Pass-Through from General Motors		GVS00492		19,093	19,093
Total - CFDA 81.086			0	193,181	193,181
Renewable Energy Research and Development	81.087		17,697	6,230,952	6,248,649
Pass-Through from Argonne National Lab		0F-32442 UTA09-000866		51,508	51,508

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Arkansas State University		503866		220,137	220,137
Pass-Through from Battelle		00088120		75,362	75,362
Pass-Through from Battelle		A8741	35,407		35,407
Pass-Through from Concepts NREC		07-0637		48,042	48,042
Pass-Through from Consortium for Plant Biotechnology		503906		35,254	35,254
Pass-Through from Donald Danforth Plant Science Center		503956		17,286	17,286
Pass-Through from Donald Danforth Plant Science Center		504128		3,986	3,986
Pass-Through from Donald Danforth Plant Science Center		504129		41,036	41,036
Pass-Through from Donald Danforth Plant Science Center		504130		20,171	20,171
Pass-Through from Donald Danforth Plant Science Center		504131		4,903	4,903
Pass-Through from Donald Danforth Plant Science Center		504133		1,115	1,115
Pass-Through from Donald Danforth Plant Science Center		504134		14,136	14,136
Pass-Through from Donald Danforth Plant Science Center		504135		74,128	74,128
Pass-Through from Donald Danforth Plant Science Center		504136		11,064	11,064
Pass-Through from Donald Danforth Plant Science Center		504137		20,729	20,729
Pass-Through from Donald Danforth Plant Science Center		504138		30,692	30,692
Pass-Through from Donald Danforth Plant Science Center		504139		879	879
Pass-Through from Donald Danforth Plant Science Center		504140		793	793
Pass-Through from Houston Advanced Research Center		GCAC09-UT1009		30,997	30,997
Pass-Through from National Renewable Energy Laboratory		ZGB-0-99349-01		7,716	7,716
Pass-Through from Shaw Environmental, Inc.		C08-00703; To 4		64,325	64,325
Pass-Through from Shear Form, Inc.		08-0411, Email dtd 8/25/10		29,214	29,214
Pass-Through from Siemens Westinghouse Power Corporation		4500509872 / 3580008860		6,772	6,772
Pass-Through from South Dakota State University		503760		10,131	10,131
Pass-Through from South Dakota State University		503884		72,270	72,270
Pass-Through from Thomas Jefferson National Laboratory		PO 10-PO733		59,396	59,396
Pass-Through from University of California - Riverside		S-00000309, Amd No. 02		29,840	29,840
Pass-Through from UTC Power		7867, Ltr dtd 5/18/10		88,333	88,333
ARRA - Renewable Energy Research and Development				518,170	518,170
Pass-Through from Donald Danforth Plant Science Center		504127		66,978	66,978
Pass-Through from Southern Methodist University		G001011 7540 / 211R05 B53081 200		44,448	44,448
Pass-Through from Southern Methodist University		G001011-7505		34,066	34,066
Pass-Through from Virginia Polytechnic Institute and State University		429278-19433		60,798	60,798
Total - CFDA 81.087			53,104	8,025,627	8,078,731
Fossil Energy Research and Development	81.089		370,045	1,847,853	2,217,898
Pass-Through from Colorado School of Mines		4-42933/16950		80,363	80,363
Pass-Through from Gas Technology Institute		LOA #1 (Teresa Howard)		31,618	31,618
Pass-Through from Gas Technology Institute		S00000134 UTA09-000959		29,496	29,496
Pass-Through from Gas Technology Institute		UTA09-000924 PO #S00000132		146,951	146,951
Pass-Through from Houston Advanced Research Center		B930		32,916	32,916
Pass-Through from New Mexico Tech		503348		244,101	244,101
Pass-Through from New Mexico Tech		503389		83,585	83,585
Pass-Through from New Mexico Tech		570311	112,695		112,695
Pass-Through from New Mexico Tech		DSRP20	2,787	183,456	186,243
Pass-Through from New Mexico Tech		DSWT20		4,456	4,456
Pass-Through from Research Partnership To Secure Energy for America		07122-33, Mod No. 3		322,390	322,390

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Research Partnership To Secure Energy for America		07122-35, Mod No. 4		59,520	59,520
Pass-Through from Research Partnership To Secure Energy for America		07122-38	29,750	176,850	206,600
Pass-Through from Research Partnership To Secure Energy for America		07123-01, Mod No. 4		81,835	81,835
Pass-Through from Research Partnership To Secure Energy for America		08122-48, Mod No. 01		37,397	37,397
Pass-Through from Research Partnership To Secure Energy for America		A3411		26,257	26,257
Pass-Through from Rice University		R15623		72,161	72,161
Pass-Through from Southern States Energy Board		SSEB-SECARB2-998-T1-TX-GCCC-2005-01	78,818	36,311	115,129
Pass-Through from Southern States Energy Board		SSEB-SECARB3-973-T13BEG-TI-2008-009	7,668,797	1,379,208	9,048,005
Pass-Through from University of Alaska		UAF 09-0039, Mod No. 4, 5		42,948	42,948
Pass-Through from University of Arkansas		504115		5,208	5,208
ARRA - Fossil Energy Research and Development					
Pass-Through from Denbury Onshore, LLC		UTA10-000503		7,092	7,092
Total - CFDA 81.089			8,262,892	4,931,972	13,194,864
Office of Environmental Waste Processing	81.104				
Pass-Through from Howard University		633254-H010016/H010063		2,790	2,790
Epidemiology and Other Health Studies Financial Assistance Program	81.108				
Pass-Through from Drexel University		23-1352630		114,729	114,729
Stewardship Science Grant Program	81.112		(873)	2,761,412	2,760,539
Pass-Through from University of Michigan		3001432022		28,675	28,675
Total - CFDA 81.112			(873)	2,790,087	2,789,214
Defense Nuclear Nonproliferation Research	81.113		171,433	2,084,175	2,255,608
Pass-Through from Lawrence Livermore National Laboratory		B591718		21,560	21,560
Pass-Through from Lawrence Livermore National Security, LLC		B571336, Amd No. 5		159,005	159,005
Pass-Through from Lawrence Livermore National Security, LLC		B571336; Mod No. 5		296,673	296,673
Pass-Through from Lawrence Livermore National Security, LLC		B575366, Mod No. 7		760,250	760,250
Pass-Through from Lawrence Livermore National Security, LLC		B575366; Mod No. 4, 5		239,955	239,955
Pass-Through from Sandia National Laboratories		1042305		11,109	11,109
Total - CFDA 81.113			171,433	3,572,727	3,744,160
University Reactor Infrastructure and Education Support	81.114		(921)	143,993	143,072
Pass-Through from Medical University of South Carolina		MUSC08-027/DE-FG07-05ID14692/IDNE006		66,009	66,009
Pass-Through from Medical University of South Carolina		MUSC09-100		46,772	46,772
Pass-Through from Medical University of South Carolina		MUSC09-102		47,267	47,267
Total - CFDA 81.114			(921)	304,041	303,120

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117		81,563	516,930	598,493
Pass-Through from Florida Solar Energy Center		A1320		13,532	13,532
Pass-Through from New Mexico State University		Q01259		44,464	44,464
ARRA - Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance				66,327	66,327
Total - CFDA 81.117			81,563	641,253	722,816
State Energy Program Special Projects	81.119		72,792	45,036	117,828
Pass-Through from Texas H2 Coalition		H2-UTCEM09		105,262	105,262
Total - CFDA 81.119			72,792	150,298	223,090
Nuclear Energy Research, Development and Demonstration	81.121		462,517	1,720,120	2,182,637
Pass-Through from Battelle		00087179; Amd No. 001		94,183	94,183
Pass-Through from Battelle		00094810; Amd No. 001		100,363	100,363
Pass-Through from Battelle		00100538		20,740	20,740
Pass-Through from Battelle		117595		21,331	21,331
Pass-Through from Cornell University		51903-8701		99,665	99,665
Pass-Through from Medical University of South Carolina		MUSC09-100		10,568	10,568
Pass-Through from Purdue University		541-0500-01, Amd. 05		21,837	21,837
Total - CFDA 81.121			462,517	2,088,807	2,551,324
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122			14,409	14,409
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis				91,834	91,834
Pass-Through from Pecan Street Project, Inc.		DE-FOA-0000036		104,482	104,482
Total - CFDA 81.122			0	210,725	210,725
Predictive Science Academic Alliance Program	81.124			3,356,258	3,356,258
Pass-Through from University of Michigan		3001058063		383,080	383,080
Total - CFDA 81.124			0	3,739,338	3,739,338
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128				
Pass-Through from Austin Energy		Work Order 19 Under Master Agr. C05-0001		71,968	71,968
Pass-Through from City of San Antonio		A9150		125,402	125,402
Total - CFDA 81.128			0	197,370	197,370
ARRA - Geologic Sequestration Site Characterization	81.132			503,373	503,373
ARRA - Geologic Sequestration Training and Research Grant Program	81.133		42,547	317,978	360,525
Pass-Through from Southern States Energy Board		SSEB-SECARB_ED-920-TXBEG-2009-001		1,485	1,485
Total - CFDA 81.133			42,547	319,463	362,010
Total - U.S. Department of Energy			10,178,331	64,989,899	75,168,230

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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					
U.S. Department of Education	84.XXX	96079UTA		(9,049)	(9,049)
		97040TUTA		(96)	(96)
		T195N070232		267,232	267,232
Pass-Through from Medical University of South Carolina		MUSC08-028		72,956	72,956
Pass-Through from Southern Methodist University		UTSUB6000607		10	10
Pass-Through from The Metiri Group		C0906500 AMD 2		141,048	141,048
Pass-Through from University of Oregon		201002624		8,730	8,730
Total - CFDA 84.XXX			0	480,831	480,831
Adult Education - Basic Grants to States	84.002		89,424	1,935,587	2,025,011
Migrant Education - State Grant Program	84.011			386,303	386,303
International Research and Studies	84.017			153,906	153,906
Overseas Programs - Faculty Research Abroad	84.019			41,065	41,065
Overseas Programs - Group Projects Abroad	84.021			78,625	78,625
Overseas Programs - Doctoral Dissertation Research Abroad	84.022			29,344	29,344
Special Education_Grants to States	84.027			681,470	681,470
Higher Education_Institutional Aid	84.031		432,581	2,958,328	3,390,909
Pass-Through from Dallas County Community College District		PO 31C080006 / 211337 B00087 200		731,996	731,996
Pass-Through from San Antonio College		8000000982	7,684	8,788	16,472
Total - CFDA 84.031			440,265	3,699,112	4,139,377
TRIO_Upward Bound	84.047			47,022	47,022
Career and Technical Education -- Basic Grants to States	84.048			463,407	463,407
Fund for the Improvement of Postsecondary Education	84.116		68,911	1,573,491	1,642,402
Pass-Through from Arizona State University		08-943, Amend No 2		599	599
Pass-Through from Ball State University		5-41068		4,822	4,822
Pass-Through from California State University - Chico Research Foundation		S07-035		9,303	9,303
Pass-Through from Drexel University		213021		19,876	19,876
Pass-Through from Midland Independent School District		8000001354		40,200	40,200
Pass-Through from University of Maryland - College Park		Z203503, Amend. No. B		18,657	18,657
Total - CFDA 84.116			68,911	1,666,948	1,735,859
Minority Science and Engineering Improvement	84.120			173,829	173,829
Pass-Through from El Paso Community College		C9004926		83,182	83,182
Total - CFDA 84.120			0	257,011	257,011
Rehabilitation Long-Term Training	84.129			142,591	142,591
Centers for Independent Living	84.132				
Pass-Through from Memorial Hermann TIRR		H132B070002		9,999	9,999
National Institute on Disability and Rehabilitation Research	84.133		83,599	1,165,203	1,248,802
Pass-Through from Memorial Hermann TIRR		H133A060091		39,142	39,142
Pass-Through from Memorial Hermann TIRR		H133N060003		46,686	46,686
Pass-Through from University of Chicago		DEDH133A040007		3,434	3,434
Total - CFDA 84.133			83,599	1,254,465	1,338,064

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Business and International Education Projects	84.153			121,980	121,980
Safe and Drug-Free Schools and Communities_National Programs	84.184				
Pass-Through from Round Rock Independent School District		Q184L050099		150,297	150,297
Bilingual Education_Professional Development	84.195			911,091	911,091
Graduate Assistance in Areas of National Need	84.200			568,963	568,963
Fund for the Improvement of Education	84.215			30,469	30,469
Pass-Through from Lubbock Independent School District		211152 B53196 200		(893)	(893)
Pass-Through from McAllen Independent School District		8000001355	3,456	75,495	78,951
Pass-Through from Reach Out and Read National Center		U215U070002		103	103
Pass-Through from Reach Out and Read National Center		U215U080002		36,790	36,790
Pass-Through from Reach Out and Read National Center		U215U090003		65,918	65,918
Pass-Through from San Marcos Consolidated Independent School District		8000001342	12,500	126,801	139,301
Total - CFDA 84.215			15,956	334,683	350,639
TRIO_McNair Post-Baccalaureate Achievement	84.217			768,104	768,104
Assistive Technology	84.224		275,546	612,293	887,839
Comprehensive Centers	84.283				
Pass-Through from RMC Research Corporation		UTA05-917 YEAR 4		79	79
Pass-Through from RMC Research Corporation		UTA05-917 YEAR 5		355,149	355,149
Total - CFDA 84.283			0	355,228	355,228
Education Research, Development and Dissemination	84.305		1,333,592	3,586,719	4,920,311
Pass-Through from Berkeley Policy Association		UTA06-105		106,390	106,390
Pass-Through from Harvard University		108077-5025555		133,690	133,690
Pass-Through from New York University		F6249-02		151,385	151,385
Pass-Through from Ohio State University Research Foundation		R305G050005		8,361	8,361
Pass-Through from Pacific Institute for Research Evaluation		UTA08-183		386,440	386,440
Pass-Through from RMC Research Corporation		99327		217,886	217,886
Pass-Through from University of Tennessee - Knoxville		R305A100270		6,082	6,082
Pass-Through from Vanderbilt University		17476-S2 Amd 4		39,532	39,532
Pass-Through from WestEd		R305A080697		42,119	42,119
Total - CFDA 84.305			1,333,592	4,678,604	6,012,196
Research in Special Education	84.324			1,036,469	1,036,469
Pass-Through from Florida State University		8000000974	380	71,020	71,400
Pass-Through from Lehigh University		541821-78007		7,505	7,505
Total - CFDA 84.324			380	1,114,994	1,115,374
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325			1,766,898	1,766,898
Pass-Through from University of Southern Mississippi		USM GR01700 / 211099 B55039 200		12,234	12,234
Total - CFDA 84.325			0	1,779,132	1,779,132
Special Education_Technology and Media Services for Individuals with Disabilities	84.327				
Pass-Through from Teachers College - Columbia University		511125		1,430	1,430

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Demonstration Projects to Support Postsecondary Faculty, Staff, and Administrations in Educating Students with Disabilities	84.333			269,623	269,623
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		460,959	353,496	814,455
Child Care Access Means Parents in School	84.335			216,519	216,519
International Education_Technological Innovation and Cooperation for Foreign Information Access	84.337			67,005	67,005
Reading First State Grants	84.357			3,399,316	3,399,316
School Leadership	84.363			10,063	10,063
Mathematics and Science Partnerships	84.366		108,849	1,764,447	1,873,296
Improving Teacher Quality State Grants	84.367			955,051	955,051
Pass-Through from Rice University		R7D182		9,048	9,048
Total - CFDA 84.367			0	964,099	964,099
ARRA - Education Technology State Grants, Recovery Act	84.386				
Pass-Through from Irving Independent School District		GN3739		5,808	5,808
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397			2,460,121	2,460,121
Total - U.S. Department of Education			2,877,481	32,234,982	35,112,463
Denali Commission					
Japan-US Friendship Commission Grants	90.300			(335)	(335)
Total - Denali Commission			0	(335)	(335)
U.S. Department of Health and Human Services					
U.S. Department of Health and Human Services	93.XXX	1 HHSN2612007005 09P		4,257	4,257
		1 HHSN268200900039 C01	38,159	434,345	472,504
		1 HHSN26820900091 P01		4,844	4,844
		1 R15 GM086833-01		44,115	44,115
		126781/117549 AMD NO.3		42,145	42,145
		129559/128417		11,672	11,672
		18645/98025676		8,773	8,773
		1R15HL087222-01		39,209	39,209
		1SC1NS066987-01A1		323,194	323,194
		2 R01 GM066813-5	40,013	139,209	179,222
		200-1999-0095		233,716	233,716
		200-2001-00084		110,270	110,270
		200-2001-00084 TO25	67,820	(2,040)	65,780
		200-2001-00084/0013		13,690	13,690
		200-2001-00084/0032		62,130	62,130
		200-2003-01442	51,086		51,086

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
		200-2005-14736		96,807	96,807
		200-2006-15812		152,018	152,018
		200-2009-32594	290,176	372,377	662,553
		254 2009 M 31878 / 21F047 B56304 200		72,451	72,451
		263-MJ-611300		(55)	(55)
		263-MQ-515960		3,390	3,390
		263-MQ-606663		1,843	1,843
		263-MQ-611337		43	43
		263-MQ-611943		7,032	7,032
		29XS143 02	214,972		214,972
		5 N01 AR62279	133,171	391,421	524,592
		5 R01 AG026613-01A1 02 03 04		144,836	144,836
		5 R01 CA095548-01A2 2 3 4 05 REVISED		(193)	(193)
		5 R01 CA116813-01A1 02 03 04 05		255,464	255,464
		5 R01 HD028419		173,145	173,145
		5 R01 NS049091-01A2 02 03 04 05		376,940	376,940
		5 R24 HD042849-06 07 08		518,469	518,469
		7K23EY016225-06		90,859	90,859
		HHSF223200710011		87,727	87,727
		HHSH230200532004C		9,724	9,724
		HHSH234200737001 C04		1,804,656	1,804,656
		HHSN261200700395P		2,321	2,321
		HHSN261201000015 C01		33,025	33,025
		HHSN263200700021 C03		457,947	457,947
		HHSN267200700006 C/HA		545,420	545,420
		HHSN268200900287 P01		3,003	3,003
		HHSN268201000218P		18,155	18,155
		HHSN2700788601C/ ROAC		389,359	389,359
		HHSN2712001000194P		5,003	5,003
		HHSN271200900268P		5,846	5,846
		HHSN27220080004		36,092	36,092
		HHSN272200800048C		1,272,675	1,272,675
		HHSN272200800755P		27,261	27,261
		HHSN275200403380I		17,860	17,860
		HHSN275200503407C		283,379	283,379
		HHSN27520080003/ GMO901016		2,878	2,878
		HHSN275200800035C	88,939	80,961	169,900
		HHSN275200900084U		50,025	50,025
		ISG 3 U19 AI045429-10S1		(15)	(15)
		N01 AR-0-2249 06		264	264
		N01 CM-52204 03		117,848	117,848
		N01 CM-62202 07		(16,528)	(16,528)
		N01 CN-035112 03	88,286		88,286
		N01 CN-035159 04		1,112	1,112
		N01 CN-05126 2	51,271	8,146	59,417
		N01 CN-095040 04	(2,027)	(38,585)	(40,612)

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)					
		N01 CN-85186 4		(42,411)	(42,411)
		N01-AI-25475	(43,890)	101,467	57,577
		N01AI25488-07		479,951	479,951
		N01AI25489	619,741	1,128,360	1,748,101
		N01AI30027		431,421	431,421
		N01-AI-30041	269,100	885,869	1,154,969
		N01-AI-30065	282,276	2,984,384	3,266,660
		N01-AI-40097/HHSN266		1,344,364	1,344,364
		N01-CM-62202 09		401,781	401,781
		N01-CN-035159 07	528,521	980,057	1,508,578
		N01CN03515904		59	59
		N01DA-7-8872		521,544	521,544
		N01DA-9-8101 TO#07		136,785	136,785
		N01DK92321		35,352	35,352
		N01HB07159	359,015	86,115	445,130
		N01HV028185		313,988	313,988
		N01HV28184	114,092	1,856,043	1,970,135
		N01MH090003		1,615,927	1,615,927
		N01-WH-4-2111		109,156	109,156
		N02-CP-55503 05		156,540	156,540
		NIDA #N01DA-2-882		(164)	(164)
		R01 GM024365		(42)	(42)
		V688P-2994	59,163	240,698	299,861
Pass-Through from American Alliance for Health, Physical Education, Recreation and Dance		EV 31159		1,257	1,257
Pass-Through from American College of Radiology		U10 CA21661		17,909	17,909
Pass-Through from American College of Surgeons		ACOSOG Z6051 01		1,436	1,436
Pass-Through from American College of Surgeons		ACOSOG-Z1041		53,328	53,328
Pass-Through from American College of Surgeons		ACOSOGZ1072 01		602	602
Pass-Through from American College of Surgeons		ACOSOGZ5041		22	22
Pass-Through from Association of Schools of Public Health		J5021		50,770	50,770
Pass-Through from Association of Schools of Public Health		J5032		14,019	14,019
Pass-Through from Asuragen, Inc.		UTA09-000644		79,224	79,224
Pass-Through from Baylor College of Medicine		101039611		23,943	23,943
Pass-Through from Baylor College of Medicine		101134694		48,735	48,735
Pass-Through from Baylor College of Medicine		HHSA29020010015C02		215,332	215,332
Pass-Through from Baylor College of Medicine		HHSN275200800020C04		200,507	200,507
Pass-Through from Baylor College of Medicine		N01-AI-80002		124,852	124,852
Pass-Through from Baylor College of Medicine		N01HD80020		13,390	13,390
Pass-Through from Baylor College of Medicine		NO1-AI-30039		438,681	438,681
Pass-Through from Baylor College of Medicine		PO #5600388774		4,706	4,706
Pass-Through from Board of Regents - University of Wisconsin		N01AI025496		60,462	60,462
Pass-Through from Booz Allen and Hamilton, Inc.		1435-04-04-CT-73980		8,346	8,346
Pass-Through from Booz Allen and Hamilton, Inc.		94164NBS23		1,182	1,182
Pass-Through from Caracal, Inc.		HHSN261200800050C01		39,783	39,783
Pass-Through from Case Western Reserve University		N01DK62203		202,138	202,138
Pass-Through from CCS Associates, Inc.		27XS130 BOA		5,594	5,594
Pass-Through from Children's Hospital Boston		HHSF223200810034		5,627	5,627
Pass-Through from Children's Hospital Research		N01AI25459		(1,112)	(1,112)
Pass-Through from Cincinnati Children's Hospital Medical Center		N01-A1-25459		271,597	271,597
Pass-Through from Duke Clinical Research Institute		N01HV98177		32	32
Pass-Through from Duke University		HHSN267200700051C		3,780	3,780
Pass-Through from Duke University		N01-AI-05419 04		(24,934)	(24,934)
Pass-Through from Dynavax Technologies		HHSN272200800038C		193,818	193,818
Pass-Through from Eastern Cooperative Oncology Group		ECOG 5202		112	112

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Electronic Biosciences, LLC		019-NH-1C PO 2311 1R011HG005095		123,366	123,366
Pass-Through from EMMES Corporation		HHSN260200500007C		15	15
Pass-Through from Fairway Medical Technologies		R44CA110137		16,596	16,596
Pass-Through from Fred Hutchinson Cancer Research Center		05-201573-01-S1300		16	16
Pass-Through from George Mason University		E600247-2		4,518	4,518
Pass-Through from Houston Academy of Medicine - Texas Medical Center Library		N01LM63505		4,262	4,262
Pass-Through from Intelligent Optical Systems, Inc.		HHSN268201000003C		1,720	1,720
Pass-Through from La Jolla Institute for Allergy and Immunology		25059-10-384		80,774	80,774
Pass-Through from Massachusetts General Hospital		BOWDEN:STEP-MH80001		254,720	254,720
Pass-Through from Massachusetts General Hospital		HHSN261200744000C04		38,688	38,688
Pass-Through from Massachusetts General Hospital		SG HHSN261200744000C		60,686	60,686
Pass-Through from McMaster University		HHSN266200400066C		220	220
Pass-Through from MDC Associates, LLC		MDC-03-03		15	15
Pass-Through from Medical University of South Carolina		N01-HV-28181 04		29,163	29,163
Pass-Through from Memorial Sloan-Kettering Cancer Center		HHSN261200800043C02		145,839	145,839
Pass-Through from Minotaur Technologies, LLC		1R43MH085396-01		79,660	79,660
Pass-Through from National Surgical Adjuvant Breast and Bowel Project		5 U10 CA012027 37		15,321	15,321
Pass-Through from New England Research Institutes		N01HC45207		4,070	4,070
Pass-Through from Northrop Grumman Corporation		BRCSC04086		412,878	412,878
Pass-Through from Northrop Grumman Corporation		HHSN266200400076C	3,157	972,764	975,921
Pass-Through from Northrop Grumman Corporation		HHSN272200900041C		179,092	179,092
Pass-Through from Northwestern University		HHSN27220070058C		195,049	195,049
Pass-Through from Oregon Health and Science University		GORPN0016A STAR		15,928	15,928
Pass-Through from Oregon Health and Science University		HHSN266200500027C		33,976	33,976
Pass-Through from Physical Sciences, Inc.		SC-37894-1483-46		23,356	23,356
Pass-Through from Radiation Therapy Oncology Group		RTOG-0825 01		1,255	1,255
Pass-Through from SAIC - Frederick, Inc.		01		83,407	83,407
Pass-Through from SAIC - Frederick, Inc.		25XS068		(1,124)	(1,124)
Pass-Through from SAIC - Frederick, Inc.		25XS068 01		(20,177)	(20,177)
Pass-Through from SAIC - Frederick, Inc.		25XS068 TaskOrder 6		(4,802)	(4,802)
Pass-Through from SAIC - Frederick, Inc.		25XSQ68		6,422	6,422
Pass-Through from SAIC - Frederick, Inc.		27XS112 01		7,462	7,462
Pass-Through from SAIC - Frederick, Inc.		28XS099 01		236,065	236,065
Pass-Through from SAIC - Frederick, Inc.		29XS143 02		855,444	855,444
Pass-Through from SAIC - Frederick, Inc.		29YS179 02		31,725	31,725
Pass-Through from SAIC - Frederick, Inc.		HHSN261200800001E		26,436	26,436
Pass-Through from SAIC - Frederick, Inc.		N01 CM10073 04		(202)	(202)
Pass-Through from Southwest Oncology Group		2 U10 CA105409		81,370	81,370
Pass-Through from Southwest Oncology Group		SWOG S0342		1,689	1,689
Pass-Through from Southwest Research Institute		A99199X		26,250	26,250
Pass-Through from Strang Cancer Prevention Center		02		(9,855)	(9,855)
Pass-Through from TDA Research, Inc.		UTA 09-01		39,279	39,279
Pass-Through from The Regents of the University of California - San Francisco		HHSN271200623661C		70,550	70,550
Pass-Through from The Regents of the University of California - San Francisco		N01AI15416		9,060	9,060
Pass-Through from The Scripps Research Institute		5-21851		(222)	(222)
Pass-Through from The Scripps Research Institute		5-21939		41,708	41,708
Pass-Through from TKC Integration Services, LLC		200200720753001		50,963	50,963
Pass-Through from Tulane University Medical Center		HHSN272200900049C		5,675	5,675
Pass-Through from U.S. Civilian Research and Development Foundation		UKB1-2931-DN-08		6,339	6,339

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Health System		DELGADO/UHS/RY ANWHIT		21,876	21,876
Pass-Through from University of Alabama - Birmingham		LEACH:S/GAI30025AL		4	4
Pass-Through from University of Alabama - Birmingham		N01AI30025		104,580	104,580
Pass-Through from University of California - Los Angeles		991715		49,337	49,337
Pass-Through from University of California - San Diego		10278739/N01MH22 005		17,699	17,699
Pass-Through from University of California - San Diego		NIMH00AI0005		241,095	241,095
Pass-Through from University of California - San Francisco		N01 AI-15416 02		63,142	63,142
Pass-Through from University of Medicine and Dentistry of New Jersey		7 R21 CA131611 02		57,243	57,243
Pass-Through from University of Michigan		1 R01 HG005855 01		4,370	4,370
Pass-Through from University of New Mexico Health Science Center		3904		173,873	173,873
Pass-Through from University of New Mexico Health Science Center		UNMHSC Milestone #53		105,555	105,555
Pass-Through from University of North Carolina – Chapel Hill		N01MH090001		110,139	110,139
Pass-Through from University of Oklahoma Health Sciences Center		266200400027		6,495	6,495
Pass-Through from University of Oklahoma Health Sciences Center		5 N01 CN-53300 02		222,987	222,987
Pass-Through from University of Oklahoma Health Sciences Center		RS20092382-02		17,387	17,387
Pass-Through from University of Pennsylvania		HHSN268200800003C		69,317	69,317
Pass-Through from University of Pittsburgh		N01AR42273		5,591	5,591
Pass-Through from University of South Florida		18677		4,110	4,110
Pass-Through from University of Utah		HHSN268200900046C		47,842	47,842
Pass-Through from University of Wisconsin - Madison		N01AI90052		545,857	545,857
Pass-Through from Vanderbilt University		21367-S1		33,681	33,681
Pass-Through from Wake Forest University		N01-WH-4-4221		(46)	(46)
Pass-Through from Wayne State University		5 N01 ES7518 06 A8		(1,640)	(1,640)
Pass-Through from Weill Medical College		N01 CN-43302 WA #601		48,146	48,146
Pass-Through from Westat, Inc.		8101-S06		3,528	3,528
Pass-Through from Westat, Inc.		N01HD33345		16	16
Pass-Through from Yale New Haven Health Sciences Corporation		HHSA290200600015 i01		3,891	3,891
Pass-Through from Yale University		A07533 (M09A10314)		41,892	41,892
ARRA - U.S. Department of Health and Human Services		HHSH250200900045C		64,861	64,861
Pass-Through from Feinstein Institute for Medical Research		HHSN271200900019C		251,114	251,114
Total - CFDA 93.XXX			3,253,041	31,705,668	34,958,709
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006			(45,388)	(45,388)
Community-Based Abstinence Education	93.010		91,760	880,841	972,601
Strengthening Public Health Services at the Outreach Offices of the U.S.-Mexico Border Health Commission	93.018			14,174	14,174
Special Programs for the Aging_Title IV_and Title II_Discretionary Projects	93.048				
Pass-Through from Family Eldercare		UTA09-001137		36,929	36,929
Innovations in Applied Public Health Research	93.061		54,585	404,681	459,266

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Global AIDS	93.067				
Pass-Through from Muhimbili University of Health and Allied Sciences		U2GPS000951		203,155	203,155
Public Health Emergency Preparedness	93.069			1,375,713	1,375,713
Healthy Marriage Promotion and Responsible Fatherhood Grants	93.086			401,607	401,607
Pass-Through from Alliance for North Texas Healthy and Effective Marriages		90FE0072-04		23,015	23,015
Total - CFDA 93.086			0	424,622	424,622
Health Disparities in Minority Health	93.100		79,744	899,708	979,452
Pass-Through from Lewin Group, Inc.		TLG08-70-5035.01.011		79,745	79,745
Total - CFDA 93.100			79,744	979,453	1,059,197
Food and Drug Administration_Research	93.103			1,267,947	1,267,947
Pass-Through from University of Kansas Medical Center		5R01FD00345403		23,126	23,126
Pass-Through from Virtually Better, Inc.		94998		78,131	78,131
Total - CFDA 93.103			0	1,369,204	1,369,204
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104				
Pass-Through from Central Plains Center		211351 B55052 200		18,732	18,732
Pass-Through from Central Plains Center		FY 2010 / 211392 B55052 200		34,707	34,707
Pass-Through from Central Plains Center		FY 2010 / 211401 B55002 200		58,878	58,878
Total - CFDA 93.104			0	112,317	112,317
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107		439,654	94,600	534,254
Maternal and Child Health Federal Consolidated Programs	93.110		69,860	810,677	880,537
Adolescent Family Life Research Grants	93.111				
Pass-Through from University of Washington		688851		30,565	30,565
Environmental Health	93.113		416,739	10,917,698	11,334,437
Pass-Through from Duke University		5 R01 ES016772 02		96,949	96,949
Pass-Through from Mount Sinai School of Medicine		1 R01ES01776701		110,216	110,216
Pass-Through from University of California - Los Angeles		P01ES016732		84,879	84,879
Pass-Through from University of New Mexico		5 R01 ES015826 03		4,121	4,121
Pass-Through from University of New Mexico Health Science Center		5 R01ES014565-04		11,466	11,466
Pass-Through from Washington State University		10144G002612		34,374	34,374
Total - CFDA 93.113			416,739	11,259,703	11,676,442
Biometry and Risk Estimation_Health Risks from Environmental	93.115			(130)	(130)
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116			40,108	40,108
Pass-Through from Los Alamos National Laboratory		503957		12,913	12,913
Total - CFDA 93.116			0	53,021	53,021

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Oral Diseases and Disorders Research	93.121		265,282	8,763,421	9,028,703
Pass-Through from Biomedical Development Corporation		UTHSCSA/R44HL10 1821		3,386	3,386
Pass-Through from Rann Research Corporation		SG/2R44DE013996-02A1		13,201	13,201
Pass-Through from Research Foundation of the State University of New York		1073219-150810		426,744	426,744
Pass-Through from Seattle Biomedical Research Institute		UT-1700/DE017541		52,143	52,143
Pass-Through from Selenium Technologies, Ltd		10LMF080117NL		33,963	33,963
Pass-Through from University of Delaware		5R01DE13542-04		(478)	(478)
Pass-Through from University of Iowa		1000555741/U OF IOWA		140,865	140,865
Pass-Through from University of Kentucky		S/G DE13958--UKENTU		(1,874)	(1,874)
Pass-Through from University of North Carolina – Chapel Hill		COCHRAN:S/G DE014577		39,900	39,900
Pass-Through from University of Pittsburgh		5R01DE016148-05		163,182	163,182
Pass-Through from University of Pittsburgh		U01DE020078-02		42,227	42,227
Pass-Through from University of South Dakota		USD0810/DE018707		49,011	49,011
Total - CFDA 93.121			265,282	9,725,691	9,990,973
Emergency Medical Services for Children	93.127		92,134	37,416	129,550
Pass-Through from Children's Research Institute		1H34MC105780200		81,130	81,130
Total - CFDA 93.127			92,134	118,546	210,680
Grants to Increase Organ Donations	93.134		29,806	175,151	204,957
Centers for Research and Demonstration for Health Promotion and Disease Prevention	93.135		408,815	3,182,322	3,591,137
Pass-Through from American Institutes for Research		200-2007-20026		140,674	140,674
Total - CFDA 93.135			408,815	3,322,996	3,731,811
Injury Prevention and Control Research and State and Community Based Programs	93.136				
Pass-Through from University of California - San Francisco		R01CE001589		2,889	2,889
NIEHS Hazardous Waste Worker Health and Safety Training	93.142				
Pass-Through from Baylor College of Medicine		100993261		13,768	13,768
NIEHS Superfund Hazardous Substances_Basic Research and Education	93.143		116,040	101,008	217,048
Pass-Through from Missouri University of Science and Technology		00015594-1		10,324	10,324
Total - CFDA 93.143			116,040	111,332	227,372
AIDS Education and Training Centers	93.145				
Pass-Through from Dallas County Hospital District		111308UTMB		(5,223)	(5,223)
Pass-Through from Dallas County Hospital District		OTHER-628		23,266	23,266
Pass-Through from Dallas County Hospital District		OTHER-647		72,424	72,424
Total - CFDA 93.145			0	90,467	90,467

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153			9,208	9,208
Pass-Through from The Houston Regional HIV/AIDS Resource Group, Inc.		5MCHP06063040		(250)	(250)
Pass-Through from The Houston Regional HIV/AIDS Resource Group, Inc.		09UTG00RWD		(1,346)	(1,346)
Pass-Through from The Houston Regional HIV/AIDS Resource Group, Inc.		10UTP00RWD		7,560	7,560
Total - CFDA 93.153			0	15,172	15,172
Centers of Excellence	93.157			(37,518)	(37,518)
Pass-Through from Bureau of Health Professions		D34HP0204909		(28)	(28)
Total - CFDA 93.157			0	(37,546)	(37,546)
Human Genome Research	93.172		81,608	1,638,255	1,719,863
Pass-Through from Duke University		164324/155325/1465		336,970	336,970
Pass-Through from Research Foundation of the State University of New York		07-35/HG004571		165,154	165,154
Pass-Through from University of Iowa		5R01HG003330-03		13,016	13,016
Pass-Through from University of Medicine and Dentistry of New Jersey		5 R01 HG004364-02		3,719	3,719
Pass-Through from University of North Carolina – Chapel Hill		5U01HG004803-02		826,723	826,723
Total - CFDA 93.172			81,608	2,983,837	3,065,445
Research Related to Deafness and Communication Disorders	93.173		332,348	6,951,970	7,284,318
Pass-Through from Duke University Medical Center		4R33DC00863202		7,393	7,393
Pass-Through from Feinstein Institute for Medical Research		5U01 DC007946 03		1,587	1,587
Pass-Through from Massachusetts Eye and Ear Infirmary		5U01DC00629605		75	75
Pass-Through from McGill University		5R01DC00578807		109,277	109,277
Pass-Through from Northwestern University		3R01DC006243		38,379	38,379
Pass-Through from Northwestern University		SP0003688/DC006243		165,514	165,514
Pass-Through from Silicon Audio Labs, Inc.		UTA10-000483		26,071	26,071
Pass-Through from Silicon Audio Labs, Inc.		UTA10-000693		32,085	32,085
Pass-Through from University of Alabama - Birmingham		HHSN260200500008C		311,863	311,863
Pass-Through from University of California - Santa Barbara		KK6121		243,556	243,556
Pass-Through from University of Colorado - Denver		154-4294/R01DC001150		55,971	55,971
Pass-Through from University of Oklahoma		2010-07		4,985	4,985
Total - CFDA 93.173			332,348	7,948,726	8,281,074
Patient Navigator and Chronic Disease Prevention Program	93.191			452,530	452,530
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		5	5
Research and Training in Complementary and Alternative Medicine	93.213		316,537	5,363,827	5,680,364
Pass-Through from Baylor College of Medicine		5600520310		22,625	22,625
Pass-Through from Baylor College of Medicine		5R21AT004673-02		121	121
Pass-Through from Louisiana State University Agricultural Center		5 R21 AT002882 02		46,947	46,947
Pass-Through from Massachusetts General Hospital		5U01 AT000613		21	21
Pass-Through from University of Washington		5U01AT00240003		58,419	58,419
Pass-Through from Washington University - St. Louis		WU-08-78		224,936	224,936
Total - CFDA 93.213			316,537	5,716,896	6,033,433

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
National Research Service Awards_Health Services Research Training	93.225		77,665	196,949	274,614
Research on Healthcare Costs, Quality and Outcomes	93.226		598,891	2,292,425	2,891,316
Pass-Through from Baylor College of Medicine		5R18HS017820-02		26,402	26,402
Pass-Through from Baylor Research Institute		1R01HS01771801A1		20,800	20,800
Pass-Through from Brigham and Women's Hospital		HHSA290200810010		74,949	74,949
Pass-Through from University of Arizona		240-BPHC-13 (8)		36	36
Pass-Through from University of Pennsylvania		5 U18 HS017991 02		253,948	253,948
Pass-Through from Westat, Inc.		8362-S-005		18,241	18,241
Total - CFDA 93.226			598,891	2,686,801	3,285,692
National Center on Sleep Disorders Research	93.233			2,169,300	2,169,300
Pass-Through from Baylor College of Medicine		5 R01 HL079533 04		(1,568)	(1,568)
Total - CFDA 93.233			0	2,167,732	2,167,732
Mental Health Research Grants	93.242		1,005,127	25,429,748	26,434,875
Pass-Through from Baylor College of Medicine		1 R01 MH085527 01A1		18,145	18,145
Pass-Through from Baylor College of Medicine		100823002		13,127	13,127
Pass-Through from Baylor College of Medicine		5 R01 MH053932-11		5,694	5,694
Pass-Through from Baylor College of Medicine		PO 5600447030		13,430	13,430
Pass-Through from Brandeis University		1R01MH086518		52,814	52,814
Pass-Through from Columbia University		6		1,906	1,906
Pass-Through from Duke University Medical Center		R01MH081234		88,288	88,288
Pass-Through from Feinstein Institute for Medical Research		500085-4-1		4,296	4,296
Pass-Through from Feinstein Institute for Medical Research		UTHSCSA/R01MH06 0004		267	267
Pass-Through from Hartford Hospital		A07077M08A00728		11,588	11,588
Pass-Through from Healthcare Technology Systems		1R43MH08615201A		19,039	19,039
Pass-Through from Johns Hopkins University		1R01MH087233-01A1		4,834	4,834
Pass-Through from Johns Hopkins University		2000864463		19,766	19,766
Pass-Through from McLean Hospital		5P50MH06045010		192,728	192,728
Pass-Through from McLean Hospital		5P50MH06045011		63,518	63,518
Pass-Through from Medical College of Georgia		22089-8/MH070011		36,683	36,683
Pass-Through from Medical University of South Carolina		UTHSCSA/1R01MH0 83928		2,455	2,455
Pass-Through from Mount Sinai School of Medicine		5P50MH06617208		563,151	563,151
Pass-Through from Mount Sinai School of Medicine		7P50MH06617207		118	118
Pass-Through from National Bureau of Economic Research		28 40096 00 0 80 244 7700 TTU / 211341 B		(3,096)	(3,096)
Pass-Through from National Bureau of Economic Research		28 4098 00 0 80 244 7700 TTU / 211413		43,402	43,402
Pass-Through from Northwestern University		1P50MH07492405		268,565	268,565
Pass-Through from Northwestern University		5P50MH07492405		237,360	237,360
Pass-Through from Oregon Research Institute		R01 MH086582		56,103	56,103
Pass-Through from Polaris Health Directions, Inc.		2 R42 MH078432 02 A1		3,374	3,374
Pass-Through from Research Foundation of the State University of New York		47509/1073358		136,950	136,950
Pass-Through from Southwest Foundation for Biomedical Research		SFBR/06-1496.002		30,533	30,533
Pass-Through from University of California - Davis		SUB0700359		6,297	6,297
Pass-Through from University of California - Los Angeles		1653 G KB153		44,530	44,530
Pass-Through from University of California - Los Angeles		2000GJU938 / MINTZ		27,769	27,769
Pass-Through from University of California - San Diego		10297621		8,650	8,650

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Francisco		5444sc		2,651	2,651
Pass-Through from University of Illinois - Chicago		1R01MH077862		11,528	11,528
Pass-Through from University of Maryland - Baltimore		5R01MH07785202A		10,162	10,162
Pass-Through from University of North Carolina – Chapel Hill		5R01MH069774-04		63,869	63,869
Pass-Through from University of Pittsburgh		1R01MH079082-01A1		3,834	3,834
Pass-Through from University of Pittsburgh		5R01MH079082-03		408	408
Pass-Through from University of South Florida		HHSN26720080001		128,448	128,448
Pass-Through from University of Washington		586844		157,332	157,332
Pass-Through from University of Washington		671626		35,856	35,856
Pass-Through from Washington University - St. Louis		WUHT0819 / 211269 B53296 200		207	207
Pass-Through from Washington University/NIH		4R33MH081281-03		65,450	65,450
Pass-Through from Wayne State University		R01MH078113		9,961	9,961
Pass-Through from Yale University		A07472/MH078143		24,349	24,349
Pass-Through from Yale University		A07474		259,450	259,450
Total - CFDA 93.242			1,005,127	28,175,537	29,180,664
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243		158,557	1,358,361	1,516,918
Pass-Through from El Paso Alliance		UTA06-889		12,607	12,607
Pass-Through from El Paso Alliance		UTAA8-153		37,348	37,348
Pass-Through from Harris County		C250	45,665		45,665
Pass-Through from Mercer University		420622-UT-01		11,757	11,757
Pass-Through from Montgomery County		A051		34,407	34,407
Pass-Through from The Medical Center of Central Georgia		UTA09-000699		15,496	15,496
Total - CFDA 93.243			204,222	1,469,976	1,674,198
Poison Center Support and Enhancement Grant Program	93.253			379,403	379,403
Infant Adoption Awareness Training	93.254				
Pass-Through from Adoption Exchange Association		UTA08-082		48,098	48,098
Pass-Through from Adoption Exchange Association		UTA09-001060		104,267	104,267
Total - CFDA 93.254			0	152,365	152,365
Occupational Safety and Health Program	93.262		445,448	881,793	1,327,241
Pass-Through from Colorado State University		846000545		5,300	5,300
Pass-Through from University of South Dakota		USD0809/R03OH009 325		41,671	41,671
Pass-Through from Virginia Polytechnic Institute and State University		431580-19902		25,854	25,854
Total - CFDA 93.262			445,448	954,618	1,400,066
Comprehensive Geriatric Education Program	93.265			79,332	79,332
Alcohol Research Programs	93.273		795,467	10,851,747	11,647,214
Pass-Through from Alcohol Research Group		1015639		27,905	27,905
Pass-Through from Baylor College of Medicine		7R03AA016819-02		3,963	3,963
Pass-Through from Oregon Health and Science University		8000001112		17,023	17,023
Pass-Through from Palo Alto Institute for Research and Education		MOO0021-001		11,583	11,583
Pass-Through from Stanford University		18303980-24776-A		44,031	44,031
Pass-Through from University of North Dakota		5R01AA004610-26		13,600	13,600
Pass-Through from University of Virginia		GC11487-127303		48,901	48,901
Pass-Through from University of Washington		674621		12,040	12,040
Total - CFDA 93.273			795,467	11,030,793	11,826,260

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Drug Abuse and Addiction Research Programs	93.279		1,098,618	23,967,525	25,066,143
Pass-Through from Baylor College of Medicine		101183179		11,531	11,531
Pass-Through from Baylor College of Medicine		2 R01 DA011723 09 A2		27,427	27,427
Pass-Through from Baylor College of Medicine		5 R21 DA026086 02		16,366	16,366
Pass-Through from Columbia University		1R01DA02746001		5,171	5,171
Pass-Through from Columbia University		7R01DA02503602		11,180	11,180
Pass-Through from Henry M. Jackson Foundation		7 R01 DA020436 04		831	831
Pass-Through from Johns Hopkins University		5R01DA02456503		95,993	95,993
Pass-Through from LC Sciences, LLC		1R41DA029169-01UH		124,330	124,330
Pass-Through from Majesteck Bioscience, LLC		1R43DA02337401A1		24,035	24,035
Pass-Through from Mount Sinai School of Medicine		5P01DA00822718		292,301	292,301
Pass-Through from Northeastern University		504928PO0902311 / 211338 B56202 200		64,046	64,046
Pass-Through from Northeastern University		504928PO0902311 / 211367 B53341 200		5,066	5,066
Pass-Through from Ohio Northern University		110-60516A		1,023	1,023
Pass-Through from Rush University Medical Center		7R01DA01576005		14,151	14,151
Pass-Through from Simmersion, LLC		1R41DA023311-01A2		34,768	34,768
Pass-Through from Southern Research Institute		1R01DA024675-01A2		52,760	52,760
Pass-Through from Temple University		1 R01 DA025566-01A1		68,811	68,811
Pass-Through from University of California - San Diego		1R01DA026452-01A1		83,899	83,899
Pass-Through from University of Illinois - Chicago		5R01DA02231702		(55,968)	(55,968)
Pass-Through from University of Illinois - Chicago		5R01DA022317-03		9,210	9,210
Pass-Through from University of Illinois - Urbana-Champaign		5 P30 DA018310 05		(3,565)	(3,565)
Pass-Through from University of Maryland - College Park		B940		6,698	6,698
Pass-Through from University of Pittsburgh		0008871/DA026222		7,235	7,235
Pass-Through from Vanderbilt University		VUMC31439-R/R01DA007		13,764	13,764
Total - CFDA 93.279			1,098,618	24,878,588	25,977,206
Mental Health Research Career/Scientist Development Awards	93.281			513,857	513,857
Pass-Through from Johns Hopkins University		200713699		27,444	27,444
Total - CFDA 93.281			0	541,301	541,301
Mental Health National Research Service Awards for Research Training	93.282			206,478	206,478
Centers for Disease Control and Prevention_Investigations and Technical Assistance	93.283		482,235	2,013,998	2,496,233
Pass-Through from Association of Schools of Public Health		S3869-27/27		5,484	5,484
Pass-Through from Association of Schools of Public Health		S3933-28-28		19,527	19,527
Pass-Through from Center To Protect Workers' Rights		U60CCU317202		(1,031)	(1,031)
Pass-Through from Dallas County Hospital District		R01C1000037302		11,494	11,494
Pass-Through from RTI International		12-312-0208633		8,297	8,297
Pass-Through from University of Colorado Health Science Center		U27/CCU812106-09-01		4,606	4,606
Total - CFDA 93.283			482,235	2,062,375	2,544,610
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		300,124	8,119,784	8,419,908
Pass-Through from Cedars-Sinai Health System		537666 613129		29,649	29,649
Pass-Through from City of Houston Health and Human Services		U62/CCU606238		319,244	319,244
Pass-Through from Lynntech, Inc.		C09-00110		16,302	16,302

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Marval Therapeutics, Inc.		1R43EB004700-01A1		(370)	(370)
Pass-Through from Marval Therapeutics, Inc.		2 R44EB004700		59,048	59,048
Pass-Through from OMM Scientific, Inc.		1 R41 EB008614-01A1		23,900	23,900
Pass-Through from Purdue University		1R21EB00725601A1		44,735	44,735
Pass-Through from Purdue University		4102-34837 PRIME: R01EB008388		46,228	46,228
Pass-Through from Purdue University		7R01EB00838803		44,609	44,609
Pass-Through from University of California - Los Angeles		5 R01 EB004898 04		62,277	62,277
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		55,584	55,584
Pass-Through from University of Maryland - Baltimore		3 R01AG031535-01A2S1		15,117	15,117
Pass-Through from University of Missouri - Columbia		C00013378-1, Amd. No.2		4,702	4,702
Pass-Through from University of Oklahoma		1R21 EB008512-01A1		68,885	68,885
Pass-Through from Vanderbilt University Medical Center		5R01EB00046109		20,770	20,770
Pass-Through from Yale University		A06981 (M08A10042)		176,198	176,198
Total - CFDA 93.286			300,124	8,994,306	9,294,430
Small Rural Hospital Improvement Grant Program	93.301			360,008	360,008
Minority Health and Health Disparities Research	93.307		109,729	5,812,362	5,922,091
Pass-Through from Florida International University		5 R24MD001779		184,240	184,240
Pass-Through from San Diego State University		56038B P3517 7803 211		30,698	30,698
Total - CFDA 93.307			109,729	6,027,300	6,137,029
Trans-NIH Research Support	93.310		228,324	5,095,650	5,323,974
Pass-Through from Baylor College of Medicine		1R01GM090310-01		115,576	115,576
Pass-Through from Baylor College of Medicine		1R01HG004853-02		97,266	97,266
Pass-Through from Columbia University		5U19AI06777304		(6,484)	(6,484)
Pass-Through from Columbia University		5U19AI06777305		82,000	82,000
Pass-Through from New York University		F6498-01		13,341	13,341
Pass-Through from New York University		F6498-02		91,743	91,743
Pass-Through from Stanford University		5 R21 R21 DA025800 02		143,879	143,879
Pass-Through from University of Michigan		5U01NS056975-02		188,426	188,426
Pass-Through from University of Michigan		5U10NS058930		95,532	95,532
Total - CFDA 93.310			228,324	5,916,929	6,145,253
General Clinical Research Centers	93.333				
Pass-Through from Vanderbilt University		SUBK 20137-S1		20,934	20,934
Advanced Education Nursing Traineeships	93.358			79,739	79,739
Nurse Education, Practice and Retention Grants	93.359			(64)	(64)
Nursing Research	93.361		358,842	5,920,302	6,279,144
Pass-Through from Boston College		5001301-2 PO# 0000050577		41,508	41,508
Pass-Through from Children's Hospital Boston		5R01NR00533604		1,032	1,032
Pass-Through from Indiana University - Purdue University Indianapolis		5R01NR00843403		48,427	48,427
Pass-Through from University of Maryland - Baltimore		8000001272		6,823	6,823
Pass-Through from Wake Forest University		5 R01 NR009675 02		105,309	105,309
Total - CFDA 93.361			358,842	6,123,401	6,482,243

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
National Center for Research Resources	93.389		300,611	36,847,215	37,147,826
Pass-Through from Cincinnati Children's Hospital Medical Center		31-0833936		10,764	10,764
Pass-Through from Feinstein Institute for Medical Research		LOA/RR018535		498	498
Pass-Through from Harvard Medical School		5UL1RR025758-02		13,809	13,809
Pass-Through from Johns Hopkins University		2000504935		6,104	6,104
Pass-Through from Oregon Health and Science University		3P51RR00016350S4		142,044	142,044
Pass-Through from Southwest Foundation for Biomedical Research		07-1503.003/RR23345		8,595	8,595
Pass-Through from Southwest Foundation for Biomedical Research		P51RR013986-12		10,829	10,829
Pass-Through from Southwest Foundation for Biomedical Research		SFBR/NIH-09-2504.004		26,919	26,919
Pass-Through from University of Florida		UF05099/R01HL068085		53,236	53,236
Pass-Through from University of Kansas Center for Research, Inc.		5P20RR01644310		9,860	9,860
Pass-Through from University of Oklahoma Health Sciences Center		5P40RR012317-13		105,420	105,420
Pass-Through from University of Rochester/NIH		3U54NS05906505S2		8,566	8,566
Total - CFDA 93.389			300,611	37,243,859	37,544,470
Academic Research Enhancement Award	93.390			209,021	209,021
Cancer Cause and Prevention Research	93.393		3,042,956	31,893,712	34,936,668
Pass-Through from Baylor College of Medicine		5 R01 CA078480 11		547	547
Pass-Through from Baylor College of Medicine		D31 HP 008821		18,624	18,624
Pass-Through from Beth Israel Deaconess Medical Center		5 R01 CA5662-NCE206		(3,992)	(3,992)
Pass-Through from Digital Science Technologies, LLC		1 R41 CA139822 01 A1		69,272	69,272
Pass-Through from Digital Science Technologies, LLC		5 R42 CA123932 04		174,629	174,629
Pass-Through from Emory University		5 R56 CA114456 04		44,419	44,419
Pass-Through from Fred Hutchinson Cancer Research Center		5R01CA114467-05		9,777	9,777
Pass-Through from Georgetown University Medical Center		5 U01 CA088283 08		16,199	16,199
Pass-Through from Indiana University - Purdue University Indianapolis		5R01CA11598303		16,579	16,579
Pass-Through from Indiana University - Purdue University Indianapolis		5R01CA11598304		8,448	8,448
Pass-Through from International Epidemiology Institute, Ltd.		5 R01 CA104666 04		(4,862)	(4,862)
Pass-Through from Internet Solutions for Kids, Inc.		1R21CA135669-01A0		12,820	12,820
Pass-Through from Lawrence Berkeley National Laboratory		6815123		96,905	96,905
Pass-Through from Massachusetts General Hospital		3U01CA07828405S2		18	18
Pass-Through from Massachusetts General Hospital		3U01CA078285S2		82	82
Pass-Through from Mayo Clinic		5 R01 CA097075 05		(61,637)	(61,637)
Pass-Through from Mayo Clinic		5 R01 CA097075 08		115,348	115,348
Pass-Through from Mayo Clinic		5 U01 CA118444 04		83,037	83,037
Pass-Through from Mayo Clinic		5R01CA09063607		17,682	17,682
Pass-Through from Mayo Medical School		5R01CA09063608		37,014	37,014
Pass-Through from Medical University of South Carolina		MUSC/1R03CA128089-01		(661)	(661)
Pass-Through from Northwestern University		5 R01 CA104768 05		(1,117)	(1,117)
Pass-Through from Purdue University		5 R01 CA129312 03		25,092	25,092
Pass-Through from Radiant Creative Group		2 R42 CA126453 02		18,504	18,504
Pass-Through from Rice University		5 U01 CA097431 05		86,075	86,075
Pass-Through from Rutgers University		5R24AG02395805		71,467	71,467
Pass-Through from Trustees of Dartmouth College		5 R01 CA066032 08		6,514	6,514

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Trustees of Dartmouth College		5 R01 CA098286 07		136,149	136,149
Pass-Through from University of Arizona		5 P01 CA041108 22		138,928	138,928
Pass-Through from University of Arizona		Y480655	5,159	28,888	34,047
Pass-Through from University of California - Berkeley		5P01CA09258407		99,362	99,362
Pass-Through from University of California - Berkeley		5P01CA09258409		94,053	94,053
Pass-Through from University of California - Irvine		2007-1825/CA074415		(15,715)	(15,715)
Pass-Through from University of Cincinnati		5 R01 CA097099 05		(13,641)	(13,641)
Pass-Through from University of Cincinnati		5 U01 CA076293 10		105,585	105,585
Pass-Through from University of Iowa		1 R01 CA140933 01		57,655	57,655
Pass-Through from University of Iowa		5 R01 CA104825 05		8,227	8,227
Pass-Through from University of Minnesota		Q6437319103/CA11 1355		16,656	16,656
Pass-Through from University of Oklahoma Health Sciences Center		7R01CA13141302		41,814	41,814
Pass-Through from University of Southern California		1 U01 CA136792 01		123,534	123,534
Pass-Through from University of Virginia		5 R01 CA118386-05		20	20
Pass-Through from University of Wisconsin - Madison		5 R01 CA114539 04		10,107	10,107
Pass-Through from Washington University - St. Louis		1 R01 CA134682 01 A2		55,145	55,145
Total - CFDA 93.393			3,048,115	33,637,262	36,685,377
Cancer Detection and Diagnosis Research	93.394		778,547	11,093,916	11,872,463
Pass-Through from Alan, Penn and Associates, Inc.		2R44CA0851012		233	233
Pass-Through from American College of Radiology		SG/CA080098		6,729	6,729
Pass-Through from Biofortis, Inc.		1R41CA05217-01A1		94,088	94,088
Pass-Through from Duke Clinical Research Institute		5R01CA082344		7,730	7,730
Pass-Through from Duke University		5 U10 CA076001 14		27,645	27,645
Pass-Through from Fairway Medical Technologies		5R44CA096153-03		24,252	24,252
Pass-Through from Institute for Systems Biology		5 U24 CA143835 02		192,731	192,731
Pass-Through from Marval Therapeutics, Inc.		1R43CA141747-01		29,281	29,281
Pass-Through from NeuroBioTex, Inc.		2 R44 CA096354 02 A2		203,992	203,992
Pass-Through from Purdue University		4102-19026		45,791	45,791
Pass-Through from Purdue University		5 R21 CA125336 02		102,485	102,485
Pass-Through from RTI International		N01-CP-01004		1,276	1,276
Pass-Through from University of California - Davis		SUB07006		2,253	2,253
Pass-Through from University of California - San Francisco		5 U24 CA126477 04		279,391	279,391
Pass-Through from University of Wisconsin - Madison		5 R33 CA111933 03		(279)	(279)
Pass-Through from Vanderbilt University		5 U01 CA114771 05		114,449	114,449
Pass-Through from Vanderbilt University		5 U24 CA126479 04		97,984	97,984
Pass-Through from Vanderbilt University Medical Center		5 U01CA11477105		43,590	43,590
Pass-Through from Washington University - St. Louis		5 U01 CA114722 05		7,414	7,414
Pass-Through from Washington University - St. Louis		7 R01 CA106728 04		45,054	45,054
Total - CFDA 93.394			778,547	12,420,005	13,198,552
Cancer Treatment Research	93.395		2,853,830	31,675,405	34,529,235
Pass-Through from American College of Radiology		2 U10 CA021661 33		16,048	16,048
Pass-Through from American College of Radiology		3 U10 CA021661 32 S1		29,157	29,157
Pass-Through from American College of Radiology		5 U01 CA080098 03		(18,764)	(18,764)
Pass-Through from American College of Radiology		5 U01 CA080098 06		283,507	283,507
Pass-Through from American College of Radiology		5 U01 CA080098 07		18,815	18,815
Pass-Through from American College of Radiology		5 U01 CA080098 08		1,825	1,825
Pass-Through from American College of Radiology		5 U10 CA021661 27		6,236	6,236
Pass-Through from American College of Radiology		5 U10 CA021661 34		14,849	14,849
Pass-Through from American College of Radiology		5 U10 CA21661 31		840	840
Pass-Through from American College of Radiology		U10 CA021661		170,381	170,381

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 American College of Surgeons		5 U01 CA080098 06		2,286	2,286
Pass-Through from American College of Surgeons		5 U10 CA076001 04		12,241	12,241
Pass-Through from American College of Surgeons		7 U10 CA076001 13		23	23
Pass-Through from Arizona State University		09-023, Amend No 2		60,842	60,842
Pass-Through from Cancer Therapy and Research Foundation		CON13299		1,669	1,669
Pass-Through from Children's Hospital of Los Angeles		8018-RGF003673-04		250,908	250,908
Pass-Through from Cincinnati Children's Hospital Medical Center		5R01CA11916203		102,380	102,380
Pass-Through from Dana-Farber Cancer Institute		5 R21 CA137645 02 A1		23,013	23,013
Pass-Through from Dana-Farber Cancer Institute		5 U19 CA100265 05		495,971	495,971
Pass-Through from Duke Clinical Research Institute		5U10CA07600113		53,959	53,959
Pass-Through from Duke University		2 U10 CA076001 09		65,968	65,968
Pass-Through from Duke University		5 P01 CA078673 03		29,789	29,789
Pass-Through from Duke University		5 R01 CA100835 07		13,468	13,468
Pass-Through from Duke University		5 U10 CA033601 29		(2,516)	(2,516)
Pass-Through from Duke University		5 U10 CA033601 31		36,428	36,428
Pass-Through from Duke University		5 U10 CA076001 14		1,696	1,696
Pass-Through from Duke University		5 U10 CA085850 06		10,653	10,653
Pass-Through from Duke University Medical Center		CODE#238		1,436	1,436
Pass-Through from Duquesne University		CO650239		27,163	27,163
Pass-Through from Eastern Cooperative Oncology Group		5U10CA02111535		2,240	2,240
Pass-Through from Eastern Cooperative Oncology Group		PSAUTJS00		20,508	20,508
Pass-Through from Frontier Science and Technology Research Foundation		5 U10 CA021115 35		11,799	11,799
Pass-Through from Gynecologic Oncology Group		27469		6,780	6,780
Pass-Through from Gynecologic Oncology Group		27469-114		7,645	7,645
Pass-Through from Gynecologic Oncology Group		5 U10 CA027469 23		35,244	35,244
Pass-Through from Gynecologic Oncology Group		5 U10 CA027469 26		2,066	2,066
Pass-Through from Gynecologic Oncology Group		5 U10 CA027469 28		4,152	4,152
Pass-Through from Gynecologic Oncology Group		SPA2746937		44,156	44,156
Pass-Through from Gynecologic Oncology Group		U10CA27469		7,872	7,872
Pass-Through from Gynecologic Oncology Group		U10CA2746928		7,633	7,633
Pass-Through from Health Research, Inc.		S/G R01CA106815		624	624
Pass-Through from Health Research, Inc.		S/G R01CA116395		1,574	1,574
Pass-Through from Houston Pharmaceuticals		5 R41 CA109862 02		450	450
Pass-Through from Introgen Research Institute, Inc.		1 R43 CA 114924 01 A2		23,746	23,746
Pass-Through from John Wayne Cancer Institute		09LMF090042NL		23,300	23,300
Pass-Through from John Wayne Cancer Institute		5 P01 CA012582 35		4,258	4,258
Pass-Through from John Wayne Cancer Institute		CA12582		1,948	1,948
Pass-Through from John Wayne Cancer Institute		MMVTIV20		1,187	1,187
Pass-Through from Louisiana State University Health Sciences Center		5 R01 RCA124758A 02		50,773	50,773
Pass-Through from Mandalmed, Inc.		09LMF090026N		36,673	36,673
Pass-Through from Massachusetts General Hospital		5 P01 CA021239 30		1,324,099	1,324,099
Pass-Through from Mount Sinai School of Medicine		5 P01 CA108671 02		(12,599)	(12,599)
Pass-Through from National Childhood Cancer Foundation		16933/COG		(145)	(145)
Pass-Through from National Childhood Cancer Foundation		18730		31,629	31,629
Pass-Through from National Childhood Cancer Foundation		18745/CA098543		3,375	3,375
Pass-Through from National Childhood Cancer Foundation		18977/CA098543		22,512	22,512
Pass-Through from National Childhood Cancer Foundation		2 U10CA09854306		144,696	144,696
Pass-Through from National Childhood Cancer Foundation		2 U10CA09854307		14,346	14,346
Pass-Through from National Childhood Cancer Foundation		5 U10 CA09854303		12,458	12,458
Pass-Through from National Childhood Cancer Foundation		5 U01CA09745208		26,979	26,979
Pass-Through from National Childhood Cancer Foundation		5 U10CA09854307		48,178	48,178

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 National Childhood Cancer Foundation		5 U10CA09854307S2		178,633	178,633
Pass-Through from National Childhood Cancer Foundation		5 U10CA09854308		54,944	54,944
Pass-Through from National Childhood Cancer Foundation		98543-1217/CA098543		15,344	15,344
Pass-Through from National Surgical Adjuvant Breast and Bowel Project		1 U10 CA012027 01		7,154	7,154
Pass-Through from National Surgical Adjuvant Breast and Bowel Project		3 U10 CA012027 38 S1		5,261	5,261
Pass-Through from National Surgical Adjuvant Breast and Bowel Project		TFED 36-37-38-39		49,409	49,409
Pass-Through from NeuroBioTex, Inc.		CON16448		(1,118)	(1,118)
Pass-Through from Northwestern University		3 R01 CA085915 08 S1		697	697
Pass-Through from Northwestern University		5 R01 CA085915 09		99,740	99,740
Pass-Through from Purdue University		5 U01 CA060548 17		63,951	63,951
Pass-Through from Radiation Therapy Oncology Group		5 U10 CA021661 32		2,076	2,076
Pass-Through from Radiation Therapy Oncology Group		5 U10 CA021661 34		3,748	3,748
Pass-Through from Receptor Logic		1R41CA132258-01A2		54,083	54,083
Pass-Through from Resonant Sensors, Inc.		1 R43 CA135960-01A1		34,977	34,977
Pass-Through from Rice University		5 R01 CA103830 05		67,760	67,760
Pass-Through from Rice University		R21156		6,709	6,709
Pass-Through from Southwest Oncology Group		01		5,915	5,915
Pass-Through from Southwest Oncology Group		5 U10 CA032102 29		33,401	33,401
Pass-Through from Southwest Oncology Group		5 U10 CA032102 30		285	285
Pass-Through from Southwest Oncology Group		CA32102		2,528	2,528
Pass-Through from Southwest Oncology Group		CON19612		5,304	5,304
Pass-Through from Southwest Oncology Group		U10 CA105409		3,123	3,123
Pass-Through from St. Jude Children's Research Hospital		1 R01		8,984	8,984
Pass-Through from St. Jude Children's Research Hospital		5 U24 15		(21,494)	(21,494)
Pass-Through from St. Jude Children's Research Hospital		5 U24 16		222,777	222,777
Pass-Through from St. Jude Children's Research Hospital		5U24CA05572716		10,919	10,919
Pass-Through from St. Jude Children's Research Hospital		N01-CM-42216		27,980	27,980
Pass-Through from The Research Institute at Nationwide Children's Hospital		HHSN261201000001C		130,046	130,046
Pass-Through from Translational Genomics Research Institute		5 P01 05		218,597	218,597
Pass-Through from Translational Genomics Research Institute		5 P01 CA109552 02		25,205	25,205
Pass-Through from Translite		2 R42 CA076759 03		1,271	1,271
Pass-Through from Transpire, Inc.		5 R44 CA105806 03		40,816	40,816
Pass-Through from University of Arizona		5 P01 CA017094		2,859	2,859
Pass-Through from University of Arizona		5 P01 CA017094 (Core A) 30		12,591	12,591
Pass-Through from University of Arizona		5 P01 CA017094 (Project 1) 30		105,902	105,902
Pass-Through from University of Arkansas for Medical Sciences		S/G R01CA118981	4,457	1,902	6,359
Pass-Through from University of California - Davis		S/G R01CA107228		532	532
Pass-Through from University of California - Irvine		2009-2261		943	943
Pass-Through from University of California - San Diego		5 P01 CA081534 06		30,082	30,082
Pass-Through from University of California - San Diego		5 P01 CA081534 06 S1		(11,620)	(11,620)
Pass-Through from University of California - San Diego		5 P01 CA081534 10		531,528	531,528
Pass-Through from University of California - San Francisco		5 U01 CA062399 14		(75,433)	(75,433)
Pass-Through from University of Iowa		5 R01 CA109208 03		18,411	18,411
Pass-Through from University of Michigan		5 U10 CA032102 29		24,617	24,617
Pass-Through from University of Michigan		CA32102		296,734	296,734
Pass-Through from University of Michigan		S/G U10CA32102		755,175	755,175
Pass-Through from University of Michigan		SG/7U10CA32102-29		29,663	29,663
Pass-Through from University of Michigan		SWOG/CTEP-CA32102		9,181	9,181

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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		U10CA32102		38,227	38,227
Pass-Through from University of Pittsburgh		5 R21 CA130241 02		69,741	69,741
Pass-Through from University of Pittsburgh		No. 0010723; Amend No. 2		81,556	81,556
Pass-Through from University of Southern California		5 R01 CA071921 08		(930)	(930)
Pass-Through from University of Tennessee - Memphis		5 R01 CA92160 09		59,016	59,016
Pass-Through from Vanderbilt University		5 R01 CA115556 04		127,417	127,417
Pass-Through from Washington University - St. Louis		5 U24 CA081647 12		88,182	88,182
ARRA - Cancer Treatment Research					
Pass-Through from University of Maryland - Baltimore		504036		117,967	117,967
Total - CFDA 93.395			2,858,287	38,969,100	41,827,387
Cancer Biology Research	93.396		616,533	17,929,620	18,546,153
Pass-Through from Asuragen, Inc.		2 R44 CA115129 03		1,517	1,517
Pass-Through from Baylor College of Medicine		5 U01 CA105352 05		2,727	2,727
Pass-Through from Baylor College of Medicine		U01 CA105352 05		18,582	18,582
Pass-Through from Boston University		GC208071NGC		60,741	60,741
Pass-Through from Boston University		GC208072NGC		98,580	98,580
Pass-Through from Dana-Farber Cancer Institute		5U56CA11864105		53,298	53,298
Pass-Through from Einstein Medical College		9-526-2343/AG24391		(659)	(659)
Pass-Through from Fred Hutchinson Cancer Research Center		5 U01 CA084296 10		(10,797)	(10,797)
Pass-Through from Massachusetts Institute of Technology		5 U01 CA084306 10		3,997	3,997
Pass-Through from Mayo Clinic		5 P50 CA116201 05		35,882	35,882
Pass-Through from Mayo Clinic		5 R01 CA104505 05		8,738	8,738
Pass-Through from Mount Sinai School of Medicine		1R01CA13854601		77,046	77,046
Pass-Through from Mount Sinai School of Medicine		5R01CA13854602		131,491	131,491
Pass-Through from PharmaSeq, Inc.		1 R43 CA132547-02		54,031	54,031
Pass-Through from Rhode Island Hospital		RIH 701-1461		88,806	88,806
Pass-Through from Tufts University		5R01CA12503303		38,218	38,218
Pass-Through from University of California - San Francisco		5 P01 CA064602 09		(11,205)	(11,205)
Pass-Through from University of Massachusetts Medical School		5 R01 05		27,808	27,808
Pass-Through from University of Pennsylvania		5 R01 CA089202 08		(9,476)	(9,476)
Pass-Through from University of Pittsburgh		5 R01 CA098372 03		298	298
Pass-Through from Vanderbilt University		2P01CA040035-18A1		228,981	228,981
Total - CFDA 93.396			616,533	18,828,224	19,444,757
Cancer Centers Support Grants	93.397		1,404,256	32,521,684	33,925,940
Pass-Through from Baylor College of Medicine		5 P50 CA058183 16		(1,606)	(1,606)
Pass-Through from Beth Israel Deaconess Medical Center		1 P50 CA101942 06 A1		213	213
Pass-Through from Dana-Farber Cancer Institute		5P30CA0651645		104,305	104,305
Pass-Through from Duke University		3 P30 CA014236 35 S3		61,241	61,241
Pass-Through from Lawrence Berkeley National Laboratory		2 U54 CA112970 06		99,444	99,444
Pass-Through from The Methodist Hospital Research		1 U54CA149196-01		18,745	18,745
Pass-Through from University of Arizona		5 P50 CA095060 09		186,907	186,907
Pass-Through from University of California - Berkeley		3 U54 CA112970 05 S2		270,293	270,293
Pass-Through from University of Iowa		2 P50 CA097274 06		36	36
Pass-Through from University of Kentucky		1P20CA15034301		60,847	60,847
Pass-Through from University of Nebraska Medical Center		1P50CA12729701A2		87,421	87,421
Pass-Through from University of Southern California		1U54CA143907-01		103,812	103,812
Pass-Through from Washington University - St. Louis		1 P50 CA134254 01 A1		39,855	39,855
Pass-Through from Washington University - St. Louis		1P50CA13425401A1		11,185	11,185
Total - CFDA 93.397			1,404,256	33,564,382	34,968,638

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Cancer Research Manpower	93.398		410,767	8,308,814	8,719,581
Pass-Through from Mount Sinai School of Medicine		5 K07 CA124668 02		29,008	29,008
Pass-Through from Washington University - St. Louis		WU-09-167 PO# 2905577N		2,202	2,202
Total - CFDA 93.398			410,767	8,340,024	8,750,791
Cancer Control	93.399		2,938,851	9,358,649	12,297,500
Pass-Through from Black Hills Center for American Indian Health		1 P50 CA148110 01		5,029	5,029
Pass-Through from Duke University		5 R21 CA122143 02		(6,247)	(6,247)
Pass-Through from Eastern Cooperative Oncology Group		5 MDA520SH05-00		121,813	121,813
Pass-Through from Frontier Science and Technology Research Foundation		3 U10 CA037403 21 S4		(851)	(851)
Pass-Through from Frontier Science and Technology Research Foundation		5 U10 CA037403 25		41,103	41,103
Pass-Through from Health Research, Inc.		55-0955-01/CA077178		96	96
Pass-Through from Hope Foundation		UTHSCASWOG CA37429		7,577	7,577
Pass-Through from Johns Hopkins University		5 U01 CA084986 02		56,192	56,192
Pass-Through from Johns Hopkins University		5 U01CA084986	440,723	233,780	674,503
Pass-Through from National Childhood Cancer Foundation		18001/CA95861		54,624	54,624
Pass-Through from National Surgical Adjuvant Breast and Bowel Project		1 U10 CA037377 01		14,836	14,836
Pass-Through from National Surgical Adjuvant Breast and Bowel Project		2 U10 CA037377 22		18,484	18,484
Pass-Through from National Surgical Adjuvant Breast and Bowel Project		5 U10 CA037377 12		542,937	542,937
Pass-Through from National Surgical Adjuvant Breast and Bowel Project		5 U10 CA037377 22		257	257
Pass-Through from National Surgical Adjuvant Breast and Bowel Project		NSABP PFED23A-TXS-01		14,785	14,785
Pass-Through from Southwest Oncology Group		5 U10 CA037429 21		(28,855)	(28,855)
Pass-Through from Southwest Oncology Group		5 U10 CA037429 24		18,888	18,888
Pass-Through from Southwest Oncology Group		7 U10 CA037429 24		(4,198)	(4,198)
Pass-Through from Southwest Oncology Group		742618443		1,440	1,440
Pass-Through from Southwest Oncology Group		CA37429		14,575	14,575
Pass-Through from Southwest Oncology Group		PCPT9345		10,234	10,234
Pass-Through from Southwest Oncology Group		SWOG-CCOP-CA037429		209	209
Pass-Through from Southwest Oncology Group		UTHSCASWOG CA37429		23,284	23,284
Pass-Through from Stanford University		17666630-33956-A (UTA06-119)		70,167	70,167
Pass-Through from Trustees of Dartmouth College		5 R01 CA098286 05		18,196	18,196
Pass-Through from University of Michigan		2 U01 CA086400 06		37,013	37,013
Pass-Through from University of Michigan		3001290177/U01CA 0849		4,995	4,995
Pass-Through from University of Michigan		5 U01 CA086400 10		207,811	207,811
Pass-Through from University of Michigan		5 U10 CA037429 25		62,771	62,771
Pass-Through from University of Michigan		F021093/CA037429	20,208	2,473,275	2,493,483
Pass-Through from University of Michigan		F024731/5U10CA03 7429		14,142	14,142
Pass-Through from University of Michigan		U01CA084986		1,442	1,442
Pass-Through from University of Pittsburgh		0002022 / 107215-3		8,187	8,187

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Pittsburgh Medical Center		5 U01 CA117452 04		24,567	24,567
Pass-Through from University of Wisconsin - Madison		5 P50 CA095817 07		174,558	174,558
Total - CFDA 93.399			3,399,782	13,595,765	16,995,547
ARRA - Scholarships for Disadvantaged Students	93.407			102,540	102,540
ARRA - State Primary Care Offices	93.414			24,216	24,216
Ruminant Feed Ban Support Project	93.449			248,421	248,421
Promoting Safe and Stable Families	93.556				
Pass-Through from Spaulding for Children		100166		26,603	26,603
State Court Improvement Program	93.586			5,244	5,244
Head Start	93.600			467,651	467,651
Pass-Through from Harris County Department of Education		CATCH UP		103,362	103,362
Total - CFDA 93.600			0	571,013	571,013
Developmental Disabilities Basic Support and Advocacy Grants	93.630			197,283	197,283
Developmental Disabilities Projects of National Significance	93.631		26,000	199,589	225,589
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632		39,996	606,252	646,248
Pass-Through from University of Kansas Center for Research, Inc.		FY2009-035		1,905	1,905
Pass-Through from University of Kansas Center for Research, Inc.		FY2010-039		5,198	5,198
Total - CFDA 93.632			39,996	613,355	653,351
Social Services Research and Demonstration	93.647			165,701	165,701
Adoption Opportunities	93.652		381,507	1,008,764	1,390,271
Pass-Through from Adoption Exchange Association		UTA09-001060		182,782	182,782
Total - CFDA 93.652			381,507	1,191,546	1,573,053
Social Services Block Grant	93.667			74,490	74,490
Trans-NIH Recovery Act Research Support	93.701			213,555	213,555
Pass-Through from Electronic Biosciences, LLC		3R44HG004466-02S1 009-NH-2C-2076		(117)	(117)
Pass-Through from Tulane University Medical Center		1R21AI076774		10,808	10,808
ARRA - Trans-NIH Recovery Act Research Support			7,846,306	82,380,302	90,226,608
Pass-Through from American College of Radiology		1 RC2 CA148190 01		139,179	139,179
Pass-Through from Baylor College of Medicine		1 R01EY01809001A1		36,878	36,878
Pass-Through from Baylor College of Medicine		1 R01GM08880301A		60,483	60,483
Pass-Through from Baylor College of Medicine		2 R01HL07092105A2		13,628	13,628
Pass-Through from Baylor College of Medicine		3 P01 GM081627 03 S1		49,864	49,864
Pass-Through from Baylor Research Institute		1 RC2 CA148460 01		110,812	110,812
Pass-Through from Boston University		200903330		74,689	74,689
Pass-Through from Charles Drew University of Medicine and Science		09-10-KN-GR020000-UTEP		32,356	32,356
Pass-Through from Children's Oncology Group		3 U10 07-S6		10,403	10,403
Pass-Through from Cincinnati Children's Hospital Medical Center		5 U01 CA139275 02		17,527	17,527
Pass-Through from Columbia University		2 (Acct. #5-38328)	32,354	135,877	168,231

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Duke University		R01CA076016		16,593	16,593
Pass-Through from Emory University		5RC1MD004563-02		33,821	33,821
Pass-Through from Georgia State University		J3976-01		20,265	20,265
Pass-Through from Group Health Cooperative		1 RC2 CA148577 01		80,724	80,724
Pass-Through from Illinois State University		1R21DK083859-02		75,291	75,291
Pass-Through from Immune Disease Research Institute		1RC1DK087348-01		13,493	13,493
Pass-Through from Indiana Nanotech		ARRA/DE020998-01-UTH		8,067	8,067
Pass-Through from Indiana University		IUB-4624390-UTA PRIME 3R01GM065414-06S1		18,864	18,864
Pass-Through from Indiana University School of Medicine		BL-4612415-UNT		24,190	24,190
Pass-Through from John Wayne Cancer Institute		3P01CA01258235S1		5,500	5,500
Pass-Through from Johns Hopkins University		1R21DK07821801A1		33,421	33,421
Pass-Through from Massachusetts General Hospital		215098		28,600	28,600
Pass-Through from Mayo Clinic		2 R56 AI067095 06 A1		268,245	268,245
Pass-Through from Mayo Clinic		2R01NS041558-06A2		257,736	257,736
Pass-Through from Mayo Clinic		3 U01 118444 04 S1		48,148	48,148
Pass-Through from Medical College of Georgia		3U24DK07616904S2		86,059	86,059
Pass-Through from Missouri University of Science and Technology		00028139-1		26,462	26,462
Pass-Through from Mount Sinai School of Medicine		1R56AI08954701		8,035	8,035
Pass-Through from National Academy of Education		5-30156 PRIME 1P50MH090338		46,250	46,250
Pass-Through from National Childhood Cancer Foundation		19225		24,849	24,849
Pass-Through from National Childhood Cancer Foundation		3U01CA9745207S1		13,104	13,104
Pass-Through from National Childhood Cancer Foundation		3U01CA9745207S2		14,800	14,800
Pass-Through from Nova Southeastern University		5R21HL096357-03		23,903	23,903
Pass-Through from Ohio State University Research Foundation		60017856 / 211R01 B53479 200		100,654	100,654
Pass-Through from Oklahoma Medical Research		1RC2AR05895901		1,123,668	1,123,668
Pass-Through from Oregon Health and Science University		2R01LM006942-07A2		93,544	93,544
Pass-Through from Pharmareview Corporation		5R42AI051050-05		405,550	405,550
Pass-Through from PLx Pharma, Inc.		3R42DK063882-06S1		26,025	26,025
Pass-Through from Research Foundation of the State University of New York		5 R01 GM062987-08		42,116	42,116
Pass-Through from Rice University		1RC2DE020785-01		137,519	137,519
Pass-Through from Rice University		3T15LM00709318		26,106	26,106
Pass-Through from Rice University		R2Z931 AMD 1		115,520	115,520
Pass-Through from Rice University		R2Z942		175,399	175,399
Pass-Through from Sanford-Burnham Medical Research Institute		1RC1HD06415901		101,302	101,302
Pass-Through from Southwest Foundation for Biomedical Research		ARRA3R01HD04950 105S1		34,806	34,806
Pass-Through from Stanford University		1R56AI081903		115,210	115,210
Pass-Through from Texas Heart Institute		1 RC1 HL100807-01		105,575	105,575
Pass-Through from Trustees of Indiana University		1UPUI4688143UTM		24,417	24,417
Pass-Through from Trustees of Indiana University		5RC1DK08655802		2,474	2,474
Pass-Through from Tufts University		C10-00750		11,647	11,647
Pass-Through from University of Alabama - Birmingham		3U01NS04268504S1		35,579	35,579
Pass-Through from University of Alabama - Birmingham		ARRA-000348386-002/R		49,953	49,953
Pass-Through from University of California - Davis		09002161-01		11,125	11,125
Pass-Through from University of California - Davis		0900229-01/CA13186		68,269	68,269
Pass-Through from University of California - Irvine		HD047609		68,727	68,727

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 - Los Angeles		3R01NS05159103S1		7,903	7,903
Pass-Through from University of California - San Diego		1RC2AG03653501		8,773	8,773
Pass-Through from University of Chicago		42508		178,591	178,591
Pass-Through from University of Chicago		RC2DEC077901		76,105	76,105
Pass-Through from University of Colorado - Boulder		1RC2CA14839401		13,629	13,629
Pass-Through from University of Colorado - Denver		1RC2CA14839401		777	777
Pass-Through from University of Georgia		1 P01 AI076514 01		428,430	428,430
Pass-Through from University of Maryland - Baltimore		3 R01AG031535-01A2S1		15,420	15,420
Pass-Through from University of Michigan		1R01CA14027201		35,135	35,135
Pass-Through from University of Michigan		3001486209		27,249	27,249
Pass-Through from University of Minnesota		1 RC2 MD004797 01		75,313	75,313
Pass-Through from University of North Carolina – Chapel Hill		3R01ES01268905S2		45,768	45,768
Pass-Through from University of North Carolina – Chapel Hill		3U01HG004803-02S1		470,516	470,516
Pass-Through from University of Pennsylvania		1R01EY01947301		136,024	136,024
Pass-Through from University of Pennsylvania		2 R01 CA089202 01		15,133	15,133
Pass-Through from University of Pittsburgh		1R01DC010182-01		24,904	24,904
Pass-Through from University of Pittsburgh		5R21AI07689403		15,819	15,819
Pass-Through from University of Pittsburgh		ARRA-0006782		4,715	4,715
Pass-Through from University of Rochester		2U54NS05906506		60,285	60,285
Pass-Through from University of Rochester		3U19AI05639006S2		73,212	73,212
Pass-Through from University of Southern California		1 RC2 AA019392 01		234,989	234,989
Pass-Through from University of Vermont		1 RC2 2MH089995 01		136,586	136,586
Pass-Through from University of Virginia		ZC10075-135219		6,748	6,748
Pass-Through from Vanderbilt University		R01DA014684		174,138	174,138
Pass-Through from Washington University - St. Louis		3U19AI07048904S2		77,969	77,969
Total - CFDA 93.701			7,878,660	89,681,980	97,560,640
ARRA - Health Information Technology Professionals in Health Care	93.721			448,233	448,233
ARRA - Prevention and Wellness-State, Territories and Pacific Islands	93.723			33,058	33,058
ARRA - Strategic Health IT Advanced Research Projects	93.728			269,365	269,365
Demonstration to Maintain Independence and Employment	93.769		1,651,708	1,580,077	3,231,785
Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations	93.779		3,597	1,358,025	1,361,622
Cardiovascular Diseases Research	93.837		6,092,383	41,453,026	47,545,409
Pass-Through from Baylor College of Medicine		100528276/R01HL90514		(2,657)	(2,657)
Pass-Through from Baylor College of Medicine		3R01HL09051403S1		173,282	173,282
Pass-Through from Baylor College of Medicine		5600481502		153,595	153,595
Pass-Through from Baylor College of Medicine		5N01HC55016-39		412,956	412,956
Pass-Through from Baylor College of Medicine		5U01HL084890-04		3,208	3,208
Pass-Through from Case Western Reserve University		R01HL086718-03		28,623	28,623
Pass-Through from Children's Hospital of Philadelphia		1U01HL098153-01		37,714	37,714
Pass-Through from Cincinnati Children's Hospital Medical Center		5P50HL07710104		24,750	24,750
Pass-Through from Columbia University		R01-HL-48159		269	269
Pass-Through from Duke Clinical Research Institute		1R01HL6769101		579	579
Pass-Through from Johns Hopkins University		2000504083		9,761	9,761
Pass-Through from Johns Hopkins University		5R01HL086694-03		8,399	8,399
Pass-Through from Kaiser Foundation Research Institute		R01HL078972		34,778	34,778
Pass-Through from Medical College of Georgia		5R01HL07294602		136	136

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Wisconsin		5P01HL05999610		27,869	27,869
Pass-Through from Medical College of Wisconsin		5R01HL07292007		19,905	19,905
Pass-Through from Medical College of Wisconsin		5R01HL07292008		6,639	6,639
Pass-Through from Medical College of Wisconsin		5R37HL07431407		22,720	22,720
Pass-Through from Medical University of Ohio		NS 2006-048		13,073	13,073
Pass-Through from Medical University of Ohio		U01HL071556		2,669	2,669
Pass-Through from Medical University of South Carolina		5 R21 HL090598 02		49,033	49,033
Pass-Through from Medical University of South Carolina		5R21HL088654-02		15,335	15,335
Pass-Through from Mount Sinai Medical Center		1R01HL071988-01A1		3,326	3,326
Pass-Through from Mount Sinai School of Medicine		0255-3531-4609		73,646	73,646
Pass-Through from New England Research Institutes		5U01HL06827008		6	6
Pass-Through from New England Research Institutes		5U01HL06827009		63,994	63,994
Pass-Through from New England Research Institutes		U01HL68270		2,135	2,135
Pass-Through from New York Medical College		5P01HL3430024		78,472	78,472
Pass-Through from Ohio State University Research Foundation		05LM050030FNL		9,031	9,031
Pass-Through from Roosevelt Institute for Health Sciences		R01HL6250901A1		218	218
Pass-Through from RTI International		HHSN268200648199C		109,443	109,443
Pass-Through from Southwest Foundation for Biomedical Research		SFBR 06-1498.002		53,960	53,960
Pass-Through from St. Luke's Hospital		1P50HL07711301		2,638	2,638
Pass-Through from Thomas Jefferson University		2U54HL07058506		4,403	4,403
Pass-Through from Thomas Jefferson University		5U54HL07058507		4,170	4,170
Pass-Through from Transonic Systems, Inc.		SG/2R44HL082022-02		13,528	13,528
Pass-Through from Tufts Medical Center		5U01HL077821		86,248	86,248
Pass-Through from Tulane University		5R01HL090682-02		57,522	57,522
Pass-Through from Tulane University		U01HL38844		3,230	3,230
Pass-Through from University of California - San Diego		10259605		126,511	126,511
Pass-Through from University of Cincinnati		005724/R21		65,446	65,446
Pass-Through from University of Florida		UF09056		54,371	54,371
Pass-Through from University of Iowa		1000703167		10,620	10,620
Pass-Through from University of Iowa		1000790347		6,318	6,318
Pass-Through from University of Iowa		BAZALDUA/R01HL 091841		10,226	10,226
Pass-Through from University of Michigan		1R01HS096498		8,864	8,864
Pass-Through from University of Michigan		U01HL094345		16,755	16,755
Pass-Through from University of Minnesota		B6367777201		4,375	4,375
Pass-Through from University of Minnesota		TONEY-UM-HL076312		63,370	63,370
Pass-Through from University of Pittsburgh		5R01HL07503804		3,563	3,563
Pass-Through from University of Pittsburgh		5U01HL061744-08		5,665	5,665
Pass-Through from University of the Incarnate Word		UTHSCSA/SC2HL10 4639		2,505	2,505
Pass-Through from University of Toledo		942536-03		6,981	6,981
Pass-Through from University of Washington		5R01HL08821402		846	846
Pass-Through from University of Washington		5U01HL07786305	51,071	349,328	400,399
Pass-Through from University of Washington		681784/R01HL093146		25,841	25,841
Pass-Through from University of Washington		N01-HC-95159		9,862	9,862
Pass-Through from Wake Forest University		UT 155030-11140		392,906	392,906
Pass-Through from Washington University - St. Louis		5U01HL08072905		21,969	21,969
Pass-Through from Yale University		R01HL081153		1,610	1,610
Total - CFDA 93.837			6,143,454	44,249,564	50,393,018
Lung Diseases Research	93.838		381,114	5,680,868	6,061,982
Pass-Through from Allegheny-Singer Research Institute		5R01HL78946		609	609
Pass-Through from Baylor College of Medicine		100889371		219,089	219,089

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Cornell University		R01HL071022		(539)	(539)
Pass-Through from Duke Clinical Research Institute		1U10HL08041301		26,996	26,996
Pass-Through from Johns Hopkins University		1R01HL6892701		59	59
Pass-Through from Medical College of Wisconsin		5R01HL04929415		23,505	23,505
Pass-Through from National Jewish Health		24021001/HL089897		174,972	174,972
Pass-Through from University of Alabama - Birmingham		063690705		6,701	6,701
Pass-Through from University of California - Los Angeles		R01HL089901-02		96,934	96,934
Pass-Through from University of Minnesota		5 R01 HL094183 02		61,371	61,371
Pass-Through from University of North Carolina – Chapel Hill		1 R01 HL097000 01 A1		180,112	180,112
Total - CFDA 93.838			381,114	6,470,677	6,851,791
Blood Diseases and Resources Research	93.839		31,547	2,778,007	2,809,554
Pass-Through from Baylor College of Medicine		5K23HL081539		29,474	29,474
Pass-Through from Children's Mercy Hospital		1U01HL6925401		655	655
Pass-Through from Lynntech, Inc.		C08-00400		764	764
Pass-Through from Massachusetts General Hospital		5 U54 HL081030 02		(10,459)	(10,459)
Pass-Through from Medical College of Wisconsin		5PO1HL081588-05		6,362	6,362
Pass-Through from National Childhood Cancer Foundation		1U01HL06925401		1,619	1,619
Pass-Through from National Marrow Donor Program		14867 02		(9,170)	(9,170)
Pass-Through from National Marrow Donor Program		2 U01 HL069334 06		172,206	172,206
Pass-Through from New England Research Institutes		1U01HL065238		1,531	1,531
Pass-Through from New England Research Institutes		U01HL072268		2,168	2,168
Pass-Through from Southwest Research Institute		CHEN/1R21HL1027 75-01		28,279	28,279
Pass-Through from St. Jude Children's Research Hospital		5U01HL07878702		7,650	7,650
Pass-Through from St. Jude Children's Research Hospital		5U01HL07878705		51,268	51,268
Pass-Through from SUNY Upstate Medical University		5R01HL07252306		(42,915)	(42,915)
Pass-Through from University of Alabama - Birmingham		N01-HC-95095		115,885	115,885
Pass-Through from University of Miami		5 R01 HL091749 03		72,632	72,632
Pass-Through from University of Oklahoma Health Sciences Center		5U01HL072283		255	255
Pass-Through from University of Oklahoma Health Sciences Center		5U01HL07228307		30,878	30,878
Pass-Through from University of Oklahoma Health Sciences Center		5U01HL07228308		63,742	63,742
Pass-Through from University of Pittsburgh		5 R01 HL68429-04		129	129
Pass-Through from Washington University - St. Louis		WU-09-351 / 5U01HL088476-02		1,497	1,497
Total - CFDA 93.839			31,547	3,302,457	3,334,004
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		752,772	12,687,823	13,440,595
Pass-Through from Baylor Research Institute		5P50AR05408304		41,997	41,997
Pass-Through from Biochemanalysis Corporation		1R43AR05499301A1		37,606	37,606
Pass-Through from Biomedical Development Corporation		G93.005		(6,719)	(6,719)
Pass-Through from Biomedical Development Corporation		G93.006/2R44DE017301		(1,044)	(1,044)
Pass-Through from Children's Hospital and Regional Medical Center		1R01AR04976201A2		76	76
Pass-Through from Duke University		N01AI05419		26,319	26,319
Pass-Through from Feinstein Institute for Medical Research		5 R01 AR044422 11		136,393	136,393
Pass-Through from Jackson Laboratory		SG/1R01AR0538530 1A1		1,122	1,122
Pass-Through from Johns Hopkins University		5R01AR04372711		11,148	11,148
Pass-Through from Maine Medical Center		0852-001		45,703	45,703

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 Maine Medical Center		0942-001		35,374	35,374
Pass-Through from PLx Pharma, Inc.		4R44AR056529-02		37,515	37,515
Pass-Through from Regents of the University of California		5U01AR055057-03		12,708	12,708
Pass-Through from The Cooper Institute		1 R01 AR052459-01A1		55,114	55,114
Pass-Through from The Cooper Institute		5 R01 AR052459-05		14,345	14,345
Pass-Through from University of Alabama - Birmingham		2P01AR049084-08		6,971	6,971
Pass-Through from University of Alabama - Birmingham		31024-008/AR049084		56,456	56,456
Pass-Through from University of Connecticut Health Center		R01 AR049341/HARRIS		15,340	15,340
Pass-Through from University of Kansas Center for Research, Inc.		FY2009-064		7,269	7,269
Pass-Through from University of Maryland - Baltimore		BAUER- S01835		22,600	22,600
Pass-Through from University of Minnesota		N000188501		458	458
Pass-Through from University of Missouri - Columbia		2R01AR04941906		(2,844)	(2,844)
Pass-Through from University of Missouri - Kansas City		19057/00025154		180,646	180,646
Pass-Through from University of Missouri - Kansas City		8054 - P01		53,386	53,386
Pass-Through from University of Missouri - Kansas City		UMKC 8058		194,949	194,949
Pass-Through from University of Tennessee - Memphis		N01 AR92242		(6,489)	(6,489)
Total - CFDA 93.846			752,772	13,664,222	14,416,994
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		2,921,765	38,100,297	41,022,062
Pass-Through from Agennix, Inc.		2R42DK5537402A1		176	176
Pass-Through from Baylor College of Medicine		1 R01 DK081557 01		298	298
Pass-Through from Baylor College of Medicine		1R01DK081553-01A1		125,020	125,020
Pass-Through from Baylor College of Medicine		5U19DK06243408		169,560	169,560
Pass-Through from Baylor College of Medicine		5U19DK06243409		25,116	25,116
Pass-Through from Benaroya Research Institute		FY08.3215-07.A40579		23,336	23,336
Pass-Through from Benaroya Research Institute		U01DK062418		1,626	1,626
Pass-Through from Cense Biosciences, Inc.		1R43DK083819-01		30,897	30,897
Pass-Through from Children's Hospital of Philadelphia		U01DK066174		36,893	36,893
Pass-Through from Children's Hospital of Pittsburgh		7U01DK0721465		17,763	17,763
Pass-Through from Children's Hospital of Pittsburgh		U01DK072146		1,202	1,202
Pass-Through from Children's Mercy Hospital		5U01DK06614302		629	629
Pass-Through from Children's Mercy Hospital		U01DK06614306		332	332
Pass-Through from Cincinnati Children's Hospital Medical Center		5R01DK07695703		81,777	81,777
Pass-Through from Duke Clinical Research Institute		U01DK083023		8,945	8,945
Pass-Through from Duke University Medical Center		5P01DK05839808		97,282	97,282
Pass-Through from Duke University Medical Center		5P01DK05839809		55,469	55,469
Pass-Through from Duke University Medical Center		5P01DK05839810		366,681	366,681
Pass-Through from George Washington University		09-D15		425,744	425,744
Pass-Through from George Washington University		09-D16/U01 DK061230	228,582	121,303	349,885
Pass-Through from George Washington University		233012CCLS20127A		27,146	27,146
Pass-Through from George Washington University		HALE:S/G DK6123-01 G		(10,450)	(10,450)
Pass-Through from George Washington University		SG/5U01DK061230-07		10,390	10,390
Pass-Through from Georgia Institute of Technology		200903299		20,011	20,011
Pass-Through from Grassroots Pharmaceuticals, Inc.		1R41DK63882-01		380	380
Pass-Through from Indiana University School of Medicine		UMAM Sub Award		25,463	25,463
Pass-Through from Johns Hopkins University		5U01DK066174-05		26,952	26,952
Pass-Through from Johns Hopkins University		U01DK066174		26,553	26,553
Pass-Through from Joslin Diabetes Center		5U01DK07455603		23,662	23,662
Pass-Through from Mayo Clinic		1R01DK083745-01A1		86,590	86,590
Pass-Through from Medical College of Georgia		5U24DK076169-02 SUB20497-13 NIDDK00038		6,227	6,227

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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		5U24DK07616904		548,683	548,683
Pass-Through from Medical University of South Carolina		5 R01 DK080234 02		13,389	13,389
Pass-Through from Mount Sinai School of Medicine		1U54DK08390901		160,803	160,803
Pass-Through from Natural Therapeutics, Inc.		1R43AR/DK47497		402	402
Pass-Through from Natural Therapeutics, Inc.		1R43DK59068-01		145	145
Pass-Through from New England Research Institutes		U01DK58229		314	314
Pass-Through from New England Research Institutes		U01DK58234		5,240	5,240
Pass-Through from Probetex, Inc.		R42 DK077436		111,805	111,805
Pass-Through from Southwest Foundation for Biomedical Research		10-4116.002		72,184	72,184
Pass-Through from Southwest Foundation for Biomedical Research		SFBR 09-4193.002		72,179	72,179
Pass-Through from Spire Corporation		232269		128,565	128,565
Pass-Through from University of Alabama - Birmingham		0003782147-001		35,357	35,357
Pass-Through from University of Alabama - Birmingham		5P30DK07403803		233	233
Pass-Through from University of Arkansas		5R01DK071100-02		(32,761)	(32,761)
Pass-Through from University of Cincinnati		2R01DK1784432		15,147	15,147
Pass-Through from University of South Florida		HHSN267200800019C		165,380	165,380
Pass-Through from Van Andel Research Institute		5R01DK07166205		22,851	22,851
Pass-Through from Vanderbilt University Medical Center		5P01DK03822623		177,746	177,746
Pass-Through from Vanderbilt University Medical Center		5R37DK05027715		45,637	45,637
Pass-Through from Vanderbilt University Medical Center		5U01DK07247304		125,287	125,287
Pass-Through from Vanderbilt University Medical Center		5U19DK042502		302,194	302,194
Pass-Through from Vanderbilt University Medical Center		5U19DK04250219		8,249	8,249
Pass-Through from Vanderbilt University Medical Center		U01DK07247304		71,819	71,819
Pass-Through from Wake Forest University		7R01DK071100-05		3,979	3,979
Total - CFDA 93.847			3,150,347	41,988,097	45,138,444
Digestive Diseases and Nutrition Research	93.848			932,648	932,648
Pass-Through from Baylor College of Medicine		2 P30 DK056338 06 A2		18,649	18,649
Pass-Through from Baylor College of Medicine		400065-101206045		10,349	10,349
Pass-Through from Baylor College of Medicine		5P30DK056338		6,166	6,166
Pass-Through from Baylor College of Medicine		5P30DK056338-07		20,883	20,883
Pass-Through from Baylor College of Medicine		5P30DK056338-07REV		17,635	17,635
Pass-Through from Baylor College of Medicine		5P30DK056338-08		115,526	115,526
Pass-Through from Baylor College of Medicine		NIH DK56338		4,008	4,008
Pass-Through from Baylor College of Medicine		PO 4600649519		(375)	(375)
Pass-Through from Beth Israel Deaconess Medical Center		5R01DK068598		34,590	34,590
Pass-Through from Natural Therapeutics, Inc.		5R44DK52740-03		1,940	1,940
Pass-Through from Natural Therapeutics, Inc.		R43DK52740		15	15
Pass-Through from PLx Pharma, Inc.		5R42DK063882-06		90,115	90,115
Pass-Through from University of Chicago		5 U01 GM061393 05		64,390	64,390
Total - CFDA 93.848			0	1,316,539	1,316,539
Kidney Diseases, Urology and Hematology Research	93.849			2,065,852	2,065,852
Pass-Through from New England Research Institutes		E-TOMUS/DK058229		1,968	1,968
Pass-Through from New England Research Institutes		SG/DK058229		2,422	2,422
Pass-Through from New England Research Institutes		VALUE STUDY		14,967	14,967
Total - CFDA 93.849			0	2,085,209	2,085,209

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)					
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		4,022,913	36,922,720	40,945,633
Pass-Through from Baylor College of Medicine		3 P01 NS0386660-10S1		14,905	14,905
Pass-Through from Baylor College of Medicine		5600358500		130,701	130,701
Pass-Through from Baylor College of Medicine		5P01NS038660-09		91,788	91,788
Pass-Through from Baylor College of Medicine		N01-HB-37163-05		56,709	56,709
Pass-Through from Baylor Research Institute		5R01NS03845508		2,644	2,644
Pass-Through from Brigham and Women's Hospital		5R01NS04963903		2,806	2,806
Pass-Through from Brigham and Women's Hospital		5U24NS049339-05		26,284	26,284
Pass-Through from Children's Hospital of Philadelphia		5R01NS05048803		11,171	11,171
Pass-Through from Christopher and Dana Reeve Foundation		CTN2-2009 (DC)		46,287	46,287
Pass-Through from Cognosci, Inc.		2R44NS058239-02-LI		149,309	149,309
Pass-Through from Columbia University		5R01NS04529403		685	685
Pass-Through from Columbia University		R01NS050724	(350)	8,280	7,930
Pass-Through from Hawaii Biotech, Inc.		9 R44 NS052139-02A1		56	56
Pass-Through from Johns Hopkins University		2000498222		23,206	23,206
Pass-Through from Johns Hopkins University		2000504080		20,183	20,183
Pass-Through from Johns Hopkins University		2000725876		4,530	4,530
Pass-Through from Johns Hopkins University		2000794694		3,445	3,445
Pass-Through from Johns Hopkins University		5R01NS039456		897	897
Pass-Through from Johns Hopkins University		5U01NS06285102		2,865	2,865
Pass-Through from Massachusetts General Hospital		5U01NS05259205		15,380	15,380
Pass-Through from Mayo Clinic		5P50NS03235214		5,454	5,454
Pass-Through from Mayo Clinic		5P50NS03235215		135,354	135,354
Pass-Through from Medical College of Georgia		23497-1/R01NS050730		100	100
Pass-Through from Medical Technologies Unlimited		2R44NS058066-02		61,202	61,202
Pass-Through from Medical University of South Carolina		1U01NS05872801		69,500	69,500
Pass-Through from Mount Sinai Medical Center		1U01NS045719		121,480	121,480
Pass-Through from Mount Sinai Medical Center		5U01NS045719-05		434,520	434,520
Pass-Through from Northwestern University		0600 370 J005 U TEXAS AUSTIN 00		22,948	22,948
Pass-Through from Northwestern University		0600 370 S554		191,523	191,523
Pass-Through from Provid Pharmaceuticals, Inc.		3R43NS04873-01S1/Provid		53,088	53,088
Pass-Through from RFE Pharma		2R42NS04877702		8,551	8,551
Pass-Through from Saint Louis University		5R01NS050547		37,494	37,494
Pass-Through from Thomas Jefferson University		5R01NS05059704		9,321	9,321
Pass-Through from University of Alabama - Birmingham		5U01NS04268505		83,214	83,214
Pass-Through from University of Alabama - Birmingham		SG/U01NS042685		568	568
Pass-Through from University of Arizona		2R01NS00039951-09A1		112,692	112,692
Pass-Through from University of British Columbia		2U01NS03852909		4,800	4,800
Pass-Through from University of British Columbia		F09-05408/U01NS03852		93,311	93,311
Pass-Through from University of British Columbia		F09-05964		12,709	12,709
Pass-Through from University of British Columbia		F09-05964/U01NS03852		229,597	229,597
Pass-Through from University of California - Los Angeles		0980GGH018		112,866	112,866
Pass-Through from University of California - Los Angeles		P50NS044378-06		17,627	17,627
Pass-Through from University of California - San Diego		5P50NS044148-04		13,094	13,094
Pass-Through from University of California - San Diego		5U 01 NS058030-03 PO 10292647		59,378	59,378
Pass-Through from University of California - San Francisco		U01NS053998		6,854	6,854
Pass-Through from University of Cincinnati		2R01NS047603-05		148,872	148,872
Pass-Through from University of Cincinnati		5P50NS04428307		2,350	2,350

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Cincinnati		5R01NS05489003		36,379	36,379
Pass-Through from University of Cincinnati		5U01NS052220-02		9,300	9,300
Pass-Through from University of Florida		UF10144		113,601	113,601
Pass-Through from University of Maryland - Baltimore		5 R01 NS055126 04		35,227	35,227
Pass-Through from University of Medicine and Dentistry of New Jersey		5R01NS03838406		51,726	51,726
Pass-Through from University of Medicine and Dentistry of New Jersey		5R01NS05273304		2,828	2,828
Pass-Through from University of Medicine and Dentistry of New Jersey		5R01NS05986903		21,008	21,008
Pass-Through from University of Medicine and Dentistry of New Jersey		R01NS38384		15,243	15,243
Pass-Through from University of Miami		5R01NS049545		49,265	49,265
Pass-Through from University of Michigan		1UONS062778-01		5,744	5,744
Pass-Through from University of Michigan		No. 3000911237, Amend No. 2		170,421	170,421
Pass-Through from University of Michigan		U01NS040406		66,320	66,320
Pass-Through from University of Minnesota		1 R21 NS067324 01		12,815	12,815
Pass-Through from University of North Carolina – Chapel Hill		5U01NS042167		422	422
Pass-Through from University of Rochester		5RO1NS3716705		749	749
Pass-Through from University of Virginia		5 R01 NS049065 03		43,535	43,535
Pass-Through from University of Virginia		5R01NS037666-07		5,190	5,190
Pass-Through from Walnut Place		5U01NS04280406		15,469	15,469
Pass-Through from Washington University - St. Louis		5U01NS04280406		83,300	83,300
Pass-Through from Washington University - St. Louis		WU0304		22,783	22,783
Pass-Through from Wayne State University		5U01NS06126402		1,609	1,609
Pass-Through from Yale University		5U01NS04487604		68	68
Pass-Through from Yale University		A05648		(144)	(144)
Total - CFDA 93.853			4,022,563	40,346,176	44,368,739
Allergy, Immunology and Transplantation Research	93.855		9,416,823	74,326,570	83,743,393
Pass-Through from Arthochip, LLC		5R42AI05398405		178,674	178,674
Pass-Through from Baylor College of Medicine		5U19AI070973-04		45,672	45,672
Pass-Through from Baylor College of Medicine		N01-AI-25465		482,335	482,335
Pass-Through from Biotex, Inc.		NIH 2R44AI066425-02		20,964	20,964
Pass-Through from California Polytechnic State University		C10-00051, Amend No.1		18,834	18,834
Pass-Through from Cincinnati Children's Hospital Medical Center		R01AI073713		(46)	(46)
Pass-Through from Colorado State University		2U54AI06535705		26,020	26,020
Pass-Through from Colorado State University		5R01AI08048602		67,120	67,120
Pass-Through from Columbia University		5R25AI08056602		18,574	18,574
Pass-Through from Dor Biopharma, Inc.		UO1AI070624		173,920	173,920
Pass-Through from Duke University		5U19AI067854-05		5,217	5,217
Pass-Through from Fred Hutchinson Cancer Research Center		5R01AI041721-13		13,124	13,124
Pass-Through from Fred Hutchinson Cancer Research Center		5U01AI06861405		16,641	16,641
Pass-Through from George Washington University		U01AI069503-04		522,770	522,770
Pass-Through from Harvard University		2U54AI057159-06		11,170	11,170
Pass-Through from Hawaii Biotech, Inc.		2R44AI05522503		46,750	46,750
Pass-Through from Health Research, Inc.		003706-01		8,515	8,515
Pass-Through from Houston Pharmaceuticals		1 R43 AI077225 01		907	907
Pass-Through from Ibis Biosciences, Inc.		1R41AI07285901A2		142,346	142,346
Pass-Through from Imperial College of London		DD/2134001 DDDH P10552		(451)	(451)
Pass-Through from Institute for Clinical Research, Inc.		U01-AI068641		117,210	117,210
Pass-Through from Louisiana State University Health Sciences Center		1R01AI07232701A1		25,762	25,762

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 Louisiana State University Health Sciences Center		2R01AI046142-07A2		(2,383)	(2,383)
Pass-Through from Lynntech, Inc.		02		2,847	2,847
Pass-Through from Marshfield Clinic Research		R01AI061385		3,986	3,986
Pass-Through from Massachusetts General Hospital		1U01AI067693-02		9,910	9,910
Pass-Through from Maxygen Incorporated		5R43AI06824802		225,315	225,315
Pass-Through from Medicines for Malaria Venture		1U01AI07559401		4,344	4,344
Pass-Through from Medicines for Malaria Venture		5U01AI07559403		298,378	298,378
Pass-Through from Meso Scale Diagnostics, LLC		1R43AI07421001A1		67,292	67,292
Pass-Through from Norwell, Inc.		5R43AI07163402		175,233	175,233
Pass-Through from Oklahoma State University		AB-5-81170.UTHSCSA		81,959	81,959
Pass-Through from Oregon Health and Science University		HHSN266200500002 7C		28,382	28,382
Pass-Through from Planet Biotechnology		5U01AI08216102		15,581	15,581
Pass-Through from Radix Therapeutics		1R43AI08613501		35,692	35,692
Pass-Through from Rice University		R21732		105,612	105,612
Pass-Through from Rice University		R25AI06222762		23,222	23,222
Pass-Through from Sanford-Burnham Medical Research Institute		5R01AI05914605		8,936	8,936
Pass-Through from Seattle Biomedical Research Institute		1R01AI07896201A2		138,994	138,994
Pass-Through from Signum Biosciences, Inc.		1 R43 AI062034 01 A2		3,669	3,669
Pass-Through from Southwest Foundation for Biomedical Research		07-4045.002/ LOVERDE		11,482	11,482
Pass-Through from Starpharma Holdings Limited		5U19AI06059805		234,068	234,068
Pass-Through from Universal Stabilization Technologies		5U01AI7035003		91,574	91,574
Pass-Through from University of Alabama - Birmingham		5R01AI073521-02		74,745	74,745
Pass-Through from University of California - Berkeley		SA5641-11595		138,642	138,642
Pass-Through from University of California - Davis		2R01AI039540		77,466	77,466
Pass-Through from University of California - Davis		503943		152,845	152,845
Pass-Through from University of California - Irvine		503322		174	174
Pass-Through from University of California - Irvine		5U01AI078214		65,003	65,003
Pass-Through from University of California - Los Angeles		5U01AI070495		295,233	295,233
Pass-Through from University of California - Los Angeles		5U01AI08210002		219,727	219,727
Pass-Through from University of California - San Diego		SG: 1P01AI074621-01		63,767	63,767
Pass-Through from University of California - San Francisco		4943SC/1P01AI0717		35,452	35,452
Pass-Through from University of Cincinnati		1R01AI07371301A2		46	46
Pass-Through from University of Cincinnati		5R01AI07204003		33,356	33,356
Pass-Through from University of Colorado - Denver		09062014		31,268	31,268
Pass-Through from University of Colorado - Denver		09062030		6,834	6,834
Pass-Through from University of Georgia		R01AI06890801 RR374-037/3501588		77,592	77,592
Pass-Through from University of Minnesota		1R01AI081690-01A2		10,426	10,426
Pass-Through from University of Mississippi		5R21AI067873-02		39,832	39,832
Pass-Through from University of Pennsylvania		553433/R01AI06699		74,208	74,208
Pass-Through from University of Pittsburgh		0010712		31,852	31,852
Pass-Through from University of Pittsburgh		5R01AI071386-04		38,902	38,902
Pass-Through from University of Rochester		1R34AI08084501A1		27,469	27,469
Pass-Through from Vaxart, Inc.		5R43AI07725402		42,535	42,535
Pass-Through from VaxInnate		1R43AI07416201		43,553	43,553
Pass-Through from Vical, Inc.		5R42AI06501503		31,349	31,349
Pass-Through from Washington University - St. Louis		2U54AI05716006		69,644	69,644
Pass-Through from Washington University - St. Louis		5 U19 AI070489-02		(1,582)	(1,582)
Pass-Through from Washington University - St. Louis		5U01AI07037403		4,372	4,372
Pass-Through from Washington University - St. Louis		5U01AI07037404		230,513	230,513
Pass-Through from Washington University - St. Louis		5U19A107048903		999	999
Pass-Through from Washington University - St. Louis		5U19A107048904		18,005	18,005

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 Washington University - St. Louis		5U54AI05716007		66,484	66,484
Pass-Through from Washington University - St. Louis		WU-08-110		(2,186)	(2,186)
Pass-Through from Washington University School of Medicine		U01 A1070374-01		(5,376)	(5,376)
Pass-Through from Zirus, Inc.		1R43AI08470501		114,657	114,657
ARRA - Allergy, Immunology and Transplantation Research				341,913	341,913
Total - CFDA 93.855			9,416,823	80,282,410	89,699,233
Microbiology and Infectious Diseases Research	93.856		182,914	3,309,537	3,492,451
Pass-Through from Adult AIDS Clinical Trial Group		204VC010		(1,303)	(1,303)
Pass-Through from Alphavax Human Vaccines, Inc.		1UC1AI06718301		1,346	1,346
Pass-Through from Baylor College of Medicine		101087179		4,431	4,431
Pass-Through from Baylor College of Medicine		5 P30 AIO36211 15 RE		124,797	124,797
Pass-Through from Baylor College of Medicine		5P30AI036211-15		293,846	293,846
Pass-Through from Baylor College of Medicine		N01-AI-30039 02		63,961	63,961
Pass-Through from Beth Israel Deaconess Medical Center		5P01DK05611610		113,510	113,510
Pass-Through from Center for Aids Research		5 P30 AI036211 14		9,572	9,572
Pass-Through from Colorado State University		5U54AI06535704		2,020	2,020
Pass-Through from Drexel University		U01AI06144105		24,309	24,309
Pass-Through from Indiana University School of Medicine		IUPUI4687918UNT		71,258	71,258
Pass-Through from Institute for Genomic Research		1 R21 AI052236 01		(29,316)	(29,316)
Pass-Through from Intercell AG		5U01AI06124203		42,249	42,249
Pass-Through from Investigen, Inc.		USH000		3,560	3,560
Pass-Through from Louisiana State University Health Sciences Center		5U19AI06197205		139,326	139,326
Pass-Through from Molecular Express, Inc.		5R43AI06662103		14,350	14,350
Pass-Through from Planet Biotechnology		5R44AI05300504		(61,944)	(61,944)
Pass-Through from Starpharma Holdings Limited		1U19AI6059801		56,755	56,755
Pass-Through from University of Manitoba		CON14303		(71)	(71)
Pass-Through from University of Toledo		N 2006-69		46,083	46,083
Pass-Through from Yale University		5K12HD00085024		191,404	191,404
Pass-Through from Yale University		K12HD000850-25		13,807	13,807
Total - CFDA 93.856			182,914	4,433,487	4,616,401
Biomedical Research and Research Training	93.859		1,727,915	62,875,016	64,602,931
Pass-Through from Accacia International		UTA08-217		335,354	335,354
Pass-Through from American Society for Cell Biology		J Marshall 2009 Visiting Prof		1,680	1,680
Pass-Through from Atactic Technologies, Inc.		2R44GM076941-03-UH		149,624	149,624
Pass-Through from Baylor College of Medicine		2 T32 GM008280 21 A1		13,640	13,640
Pass-Through from Baylor College of Medicine		2T32GM00828021A1		32,902	32,902
Pass-Through from Baylor College of Medicine		5 P01 GM081627 02		17,804	17,804
Pass-Through from Baylor College of Medicine		5 P01 GM081627 03		475,988	475,988
Pass-Through from Baylor College of Medicine		5R25GM056929-12		13,351	13,351
Pass-Through from Baylor College of Medicine		5T32GM00828020		(161)	(161)
Pass-Through from Baylor College of Medicine		5T32GM00828020S1		(650)	(650)
Pass-Through from Cornell University		49238 8402 / 211201 B53363 200		203,652	203,652
Pass-Through from Cornell University		55038-9031		70,909	70,909
Pass-Through from Harvard Medical School		149015-0006		36,305	36,305
Pass-Through from Hunter College		1 R01 GM088530 01		82,523	82,523
Pass-Through from Indiana University		567583 2RO1GM065414-05A1		144,155	144,155
Pass-Through from Institute for Systems Biology		5 R01 GM072855 05		26,721	26,721

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Massachusetts General Hospital		2U54GM06211909		103,370	103,370
Pass-Through from Mayo Clinic		5 U01 GM061388 10		51,413	51,413
Pass-Through from Medical College of Wisconsin		5 R21 CA131643 02		12,987	12,987
Pass-Through from Michigan State University		R01AI06871801_61-0822UT		127,803	127,803
Pass-Through from Monterey Bay Aquarium Research Institute		PO #0911094		61,172	61,172
Pass-Through from NICO Technologies		1R41GM08455301A		14,941	14,941
Pass-Through from Pennsylvania State University		3977-UTEP-NIH-8385		49,999	49,999
Pass-Through from Pharmareview Corporation		1R41GM079810-01		467	467
Pass-Through from Research Foundation of the State University of New York		1064773-2-43776		12,967	12,967
Pass-Through from Rice University		1R01GM086885		208,968	208,968
Pass-Through from Rice University		R01GM080575		95,241	95,241
Pass-Through from The Robert Wood Johnson Foundation		P01-3 / P0389273		82,072	82,072
Pass-Through from University of California - Berkeley		DE-AC03-76SF00098		229,951	229,951
Pass-Through from University of California - Davis		1R01GM07938301A		69,605	69,605
Pass-Through from University of California - San Diego		2U54GM06933807		497,827	497,827
Pass-Through from University of California - San Diego		5U54GM06933808		24,209	24,209
Pass-Through from University of California - San Francisco		3816SC		153,952	153,952
Pass-Through from University of Florida		U01GM074492-05		317,967	317,967
Pass-Through from University of Florida		U01GM074492-06		15,935	15,935
Pass-Through from University of Hawaii		5R01GM07666504		39,597	39,597
Pass-Through from University of Michigan		GM065509-08		539,580	539,580
Pass-Through from University of Nebraska - Lincoln		503898		43,469	43,469
Pass-Through from University of New Mexico		5 R01 GM079381 03		121,763	121,763
Pass-Through from University of Pennsylvania		7R01GM06771907		54,103	54,103
Pass-Through from University of Utah		10004657-01		28,146	28,146
Pass-Through from University of Virginia		GC11617-132051		310	310
Pass-Through from University of Washington		2R01GM04272517A		201,419	201,419
Pass-Through from Washington University - St. Louis		503496		55,537	55,537
Pass-Through from Washington University - St. Louis		5R01GM08059102		53,806	53,806
Pass-Through from Yale University		A07648 (M10A10619)		71,435	71,435
ARRA - Biomedical Research and Research Training					
Pass-Through from Rice University		3 T15 LM007093-18S1		28,058	28,058
Total - CFDA 93.859			1,727,915	67,846,882	69,574,797
Cellular and Molecular Basis of Disease Research	93.863				
Pass-Through from Baylor College of Medicine		2P01NS056202-02		21,140	21,140
Child Health and Human Development Extramural Research	93.865		2,921,659	26,126,689	29,048,348
Pass-Through from Baylor College of Medicine		5R01HD04460905		10,176	10,176
Pass-Through from Baylor College of Medicine		5R01HD046623-04		(15,952)	(15,952)
Pass-Through from Baylor College of Medicine		5R01HD051437-04		106,544	106,544
Pass-Through from Baylor College of Medicine		N01-AI-30039		106,466	106,466
Pass-Through from Baylor College of Medicine		NO1-HD-80020		91,353	91,353
Pass-Through from Boston Biomedical Research Institute		1U54HD06084802		131,759	131,759
Pass-Through from Boston University		5R01HD051804-05		65,336	65,336
Pass-Through from Boston University Medical Center		1U10HD05920701A		38,277	38,277
Pass-Through from Center for Applied Linguistics		2 P01 HD-039530-06A2		9,164	9,164
Pass-Through from Center for Applied Linguistics		5P01 HD-039530-08		88,035	88,035
Pass-Through from Children's Research Institute		N01HD43393		92,881	92,881
Pass-Through from Duke Clinical Research Institute		1R01HD05795601		3,284	3,284
Pass-Through from Duke University		1R01HD05795601		12,389	12,389
Pass-Through from Duke University		1R01HD057956-01 / SITE 121		13,348	13,348
Pass-Through from EMMES Corporation		HHSN267200603425C		3,049	3,049
Pass-Through from George Washington University		U10HD036801		1,582,115	1,582,115

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 Innovaciones Psicoeducativas, Inc.		R44HD3695002		(53)	(53)
Pass-Through from Johns Hopkins University		8603-53737		18,346	18,346
Pass-Through from Max Mobility, LLC		1 R01HD053732-01A1		7,793	7,793
Pass-Through from PLx Pharma, Inc.		1R43HD061132-01A1		1,203	1,203
Pass-Through from Purdue University		5P01HD05211202		17,775	17,775
Pass-Through from Research Foundation of the State University of New York		5R03HD05756602		2,363	2,363
Pass-Through from RTI International		5U10HD0406891008		38,487	38,487
Pass-Through from RTI International		RFA-HD-04-010		34,292	34,292
Pass-Through from Southwest Foundation for Biomedical Research		09-1424.003		4,009	4,009
Pass-Through from Southwest Foundation for Biomedical Research		SG HALE HD049051		52,138	52,138
Pass-Through from University of Alabama - Birmingham		5R01HD05914202		27,823	27,823
Pass-Through from University of Alabama - Birmingham		5U01HD04053310		126,640	126,640
Pass-Through from University of California - Irvine		P01HD047609		102,793	102,793
Pass-Through from University of California - Los Angeles		5R01HD05176404		65,230	65,230
Pass-Through from University of Colorado - Denver		7R03HD057507-03		8,541	8,541
Pass-Through from University of Florida		330536812-01 UFPS0021 UNIV FL CONTRACT		42,571	42,571
Pass-Through from University of Michigan		5U01HD04124908		76,969	76,969
Pass-Through from University of Michigan		UO1HD041249		19,104	19,104
Pass-Through from University of Notre Dame		HD04-4868-05		169	169
Pass-Through from University of Pittsburgh		7K12HD00109714		93,459	93,459
Pass-Through from Yale University		5P50HD025802-14		(222)	(222)
Pass-Through from Yale University		A07330 (M09A10243)		11,665	11,665
Pass-Through from Yale University		A07751/U10HD0559		8,438	8,438
Total - CFDA 93.865			2,921,659	29,224,446	32,146,105
Aging Research	93.866		3,682,319	24,353,307	28,035,626
Pass-Through from Albert Einstein College of Medicine		9-526-3001		6,833	6,833
Pass-Through from Biotex, Inc.		2 R44 AG019276 04		(14,604)	(14,604)
Pass-Through from Boston University		5R01AG033193-02		62,351	62,351
Pass-Through from Case Western Reserve University		P01AG014359		483,176	483,176
Pass-Through from Case Western Reserve University		PO1 AG014359-11		76	76
Pass-Through from Case Western Reserve University		RES503597		9,764	9,764
Pass-Through from Columbia University		5U24AG02639505		119,202	119,202
Pass-Through from Drexel University		232263/R01AG0224		62,301	62,301
Pass-Through from Einstein Medical College		9-526-3726		343,439	343,439
Pass-Through from Georgetown University Medical Center		R01AG19268		6,428	6,428
Pass-Through from Minneapolis Medical Research		1U01AG02982401A		48,148	48,148
Pass-Through from Minneapolis Medical Research		ASPREE/U01AG029 824		26,220	26,220
Pass-Through from Minneapolis Medical Research		U01 AG029824		32,204	32,204
Pass-Through from Mount Sinai School of Medicine		0254-9890-4609		156,190	156,190
Pass-Through from Purdue University		R01 AG025362		26,229	26,229
Pass-Through from Southern Illinois University		520317		71,699	71,699
Pass-Through from University of California - San Diego		1U01AG024904		14,209	14,209
Pass-Through from University of Colorado - Denver		NELSON S/G AG024354		62,735	62,735
Pass-Through from University of Kentucky Research Foundation		3048104499-08-400	21,639	148,212	169,851
Pass-Through from University of Maryland - Baltimore		1R01AG031535-01A2		152,281	152,281
Pass-Through from University of Maryland - Baltimore		5 R21 AG033791 02		7,970	7,970
Pass-Through from University of Maryland - College Park		1R21AG031387-01A2		9,323	9,323

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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		3001000435		521,028	521,028
Pass-Through from University of Michigan		3001013256 - NIA Grant R01AG14749		39,114	39,114
Pass-Through from University of Pittsburgh		5T35AG02677805		(2,117)	(2,117)
Pass-Through from University of Utah		5R01AG02239402		140	140
Pass-Through from University of Washington		5U01AG01697611		21,133	21,133
Pass-Through from University of Washington		5U01AG01697612		2,407	2,407
Total - CFDA 93.866			3,703,958	26,769,398	30,473,356
Vision Research	93.867		534,337	19,184,612	19,718,949
Pass-Through from Baylor College of Medicine		5 PN2 EY016525 06		96,734	96,734
Pass-Through from Brigham and Women's Hospital		R01EY014418	46,822	(99,203)	(52,381)
Pass-Through from EMMES Corporation		HHS-N-260-2007-00001-C		94,770	94,770
Pass-Through from Georgia Institute of Technology		5PN2EY01824402		160,013	160,013
Pass-Through from Jaeb Center for Health Research		U10EY12358		1,799	1,799
Pass-Through from Johns Hopkins University		LSOCA-96195		104,574	104,574
Pass-Through from Johns Hopkins University		U10EY008057		(5,280)	(5,280)
Pass-Through from New York University		F6330-02 P113955		126,997	126,997
Pass-Through from St. Luke's Roosevelt Institute of Health Science		1 U10 EY017281-01A1		2,458	2,458
Pass-Through from University of Miami		M125759		12,027	12,027
Pass-Through from Vital Art and Science, Inc.		1R43EY02001601		29,715	29,715
Total - CFDA 93.867			581,159	19,709,216	20,290,375
Medical Library Assistance	93.879		58,503	345,117	403,620
Pass-Through from Massachusetts General Hospital		UTA07-516 205870		22,834	22,834
Pass-Through from Rensselaer Polytechnic Institute		S/G R01LM009362		86,873	86,873
Pass-Through from Rice University		5T15LM0709317		59,541	59,541
Pass-Through from Rice University		5T15LM0709318		43,458	43,458
Pass-Through from Rice University		R2026573900002		(1,229)	(1,229)
Pass-Through from Rice University		R21683		9,215	9,215
Pass-Through from University of Medicine and Dentistry of New Jersey		1R01LM009239-01A1		47,913	47,913
Total - CFDA 93.879			58,503	613,722	672,225
Grants for Training in Primary Care Medicine and Dentistry	93.884		4,817	230,834	235,651
Health Care and Other Facilities	93.887		1,193	2,820,631	2,821,824
Specially Selected Health Projects	93.888			5,757	5,757
Grants to States for Operation of Offices of Rural Health	93.913				
Pass-Through from Washington University - St. Louis		WU-10-165	62,433	135,709	198,142
HIV Emergency Relief Project Grants	93.914				
Pass-Through from City of Austin		UTA09-001177		54,636	54,636
HIV Care Formula Grants	93.917			267,740	267,740
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918				
Pass-Through from The Houston Regional HIV/AIDS Resource Group, Inc.		09UTM00PTC		(3,369)	(3,369)
Pass-Through from The Houston Regional HIV/AIDS Resource Group, Inc.		10UTP00PTC		45,873	45,873
Pass-Through from The Houston Regional HIV/AIDS Resource Group, Inc.		10UTV00PTC		78,851	78,851
Total - CFDA 93.918			0	121,355	121,355

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Special Projects of National Significance	93.928				
Pass-Through from Special Health Resources of Texas, Inc.		201801		6,812	6,812
Center For Medical Rehabilitation Research	93.929			38,254	38,254
HIV Prevention Activities_Non-Governmental Organization Based	93.939				
Pass-Through from Westat, Inc.		N01-HD-3-3162		7,278	7,278
HIV Prevention Activities_Health Department Based	93.940			666,959	666,959
Pass-Through from City of Houston Health and Human Services		FC38863		1,395	1,395
Pass-Through from Harris County Community Development Department		01GEN0188		(222)	(222)
Pass-Through from Harris County Health Department		01GEN0188		23	23
Pass-Through from Harris County Health Department		P015148		1,128	1,128
Total - CFDA 93.940			0	669,283	669,283
HIV Demonstration, Research, Public and Professional Education Projects	93.941			483	483
Pass-Through from City of Houston Health and Human Services		B11-001-5		180,639	180,639
Pass-Through from RTI International		200-2003-02489 TASK ORDER 2		12,081	12,081
Pass-Through from The Regents of the University of California - San Francisco		5UR6PS00033403		49,687	49,687
Pass-Through from The Regents of the University of California - San Francisco		5UR6PS00033404		56,177	56,177
Pass-Through from University of California - San Francisco		444918-29945		51,972	51,972
Pass-Through from University of North Carolina - Chapel Hill		5-53073/IUR6PS000670		19,528	19,528
Total - CFDA 93.941			0	370,567	370,567
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943				
Pass-Through from U.S.-Mexico Border Health Association		5U65PS623699-05		(9,647)	(9,647)
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946			411,084	411,084
Pass-Through from University of Nebraska Medical Center		34-5311-3005-004		31	31
Total - CFDA 93.946			0	411,115	411,115
Tuberculosis Demonstration, Research, Public and Professional Education	93.947			87,722	87,722
Block Grants for Prevention and Treatment of Substance Abuse	93.959			350,858	350,858
Pass-Through from University of Arkansas		SA1007020		25,771	25,771
Total - CFDA 93.959			0	376,629	376,629
Coal Miners Respiratory Impairment Treatment Clinics and Services	93.965			222,357	222,357
Geriatric Education Centers	93.969			193,324	193,324

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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)					
Preventive Health Services_Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	93.978			59,060	59,060
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988		16,969	2,545	19,514
International Research and Research Training	93.989		56,860	366,059	422,919
Pass-Through from Health Related Information Dissemination Amongst Youth		5R01-TW007933-03		83,365	83,365
Pass-Through from Southern Research Institute		5RO1TW006986 / 211145 B53049 200		123	123
Total - CFDA 93.989			56,860	449,547	506,407
Maternal and Child Health Services Block Grant to the States	93.994		7,825	830,704	838,529
Total - U.S. Department of Health and Human Services			67,775,836	866,129,301	933,905,137
Corporation for National and Community Service					
Corporation for National and Community Service	94.XXX	H129B040027-07 ACTION 05		10,919	10,919
Learn and Serve America_Higher Education	94.005				
Pass-Through from Learn and Serve Texas		101571		11,861	11,861
AmeriCorps	94.006				
Pass-Through from A. T. Still University		09-036	4,096	215	4,311
Pass-Through from A. T. Still University		09-037	1,397	(1,416)	(19)
Pass-Through from A. T. Still University		09-038	1,937	102	2,039
Pass-Through from OneStar Foundation		11.0609.018-2		(2,125)	(2,125)
ARRA - AmeriCorps					
Pass-Through from A. T. Still University		09RNHMO001		23,870	23,870
Total - CFDA 94.006			7,430	20,646	28,076
Total - Corporation for National and Community Service			7,430	43,426	50,856
Social Security Administration					
Social Security Administration	96.XXX				
Pass-Through from Dartmouth College		5-37206.570		277,450	277,450
Total - CFDA 96.XXX			0	277,450	277,450
Total - Social Security Administration			0	277,450	277,450
U.S. Department of Homeland Security					
U.S. Department of Homeland Security	97.XXX	HSBP1008P20880		13,387	13,387
		HSHQDC-08-C-00119		1,648	1,648
		HSHQDC-09-C-00112 00112 UTA09-000841	233,090	236,822	469,912
		NBCHC070054	37,776	15,858	53,634
Pass-Through from Johns Hopkins University		HSHQDC 09 C 00135/ 211414 B53368 200		96,025	96,025
Pass-Through from Sabine - Neches Navigation District		PA 2005-GB-T5-007		333,151	333,151
Total - CFDA 97.XXX			270,866	696,891	967,757

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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 Homeland Security (continued)					
Homeland Security Preparedness Technical Assistance Program	97.007			468,957	468,957
Pass-Through from Battelle		09015, Mod 2		37,586	37,586
Pass-Through from Battelle		TCN 08194		228,306	228,306
Total - CFDA 97.007			0	734,849	734,849
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036			142,717	142,717
Hazard Mitigation Grant	97.039			9	9
Assistance to Firefighters Grant	97.044				
Pass-Through from National Development and Research Institutes, Inc.		EMW-2009-FP-01971		23,913	23,913
Centers for Homeland Security	97.061		1,951,295	4,351,960	6,303,255
Pass-Through from Rutgers University		2009-ST-0001-CCI1002		9,346	9,346
Pass-Through from University of Maryland - College Park		Z934002	111,166	19,130	130,296
Pass-Through from University of Minnesota		503685		47,764	47,764
Pass-Through from University of Minnesota		570428	114,674		114,674
Pass-Through from University of New Haven		B570		2,414	2,414
Total - CFDA 97.061			2,177,135	4,430,614	6,607,749
Scholars and Fellows, and Educational Programs	97.062			17,073	17,073
Homeland Security Advanced Research Projects Agency	97.065				
Pass-Through from Lynntech, Inc.		C08-00623		47,998	47,998
Pass-Through from Synkera Technologies, Inc.		C10-00115		46,659	46,659
Total - CFDA 97.065			0	94,657	94,657
Homeland Security Information Technology Research, Testing, Evaluation and Demonstration Program	97.066			2,713,631	2,713,631
Aviation Research Grants	97.069			633,576	633,576
Homeland Security Research Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Detection	97.077			1,812,324	1,812,324
Pass-Through from Harris County		R242035		81,836	81,836
Pass-Through from Rutgers University		8000001002		55,332	55,332
Total - CFDA 97.077			0	1,949,492	1,949,492
Information Analysis Infrastructure Protection and Critical Infrastructure Monitoring and Protection	97.080			736,051	736,051
Homeland Security Outreach, Education, and Technical Assistance	97.086			(20,015)	(20,015)
Homeland Security Biowatch Program	97.091				
Pass-Through from Battelle		232543		31,468	31,468
Homeland Security-related Science, Technology, Engineering and Mathematics Career Development Program	97.104		175,657	252,100	427,757
Homeland Security, Research, Testing, Evaluation, and Demonstration of Technologies	97.108			32,425	32,425
Total - U.S. Department of Homeland Security			2,623,658	12,469,451	15,093,109

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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. Agency for International Development					
USAID Foreign Assistance for Programs Overseas	98.001		474,438	5,518,542	5,992,980
Pass-Through from International Institute of Tropical Agriculture		LAG/00/93/00042/00		29	29
Total - CFDA 98.001			474,438	5,518,571	5,993,009
USAID Development Partnerships for University Cooperation and Development	98.012			3,858	3,858
Pass-Through from American Council on Education		523-A-00-06-00009-00: UTAA8-057		49,348	49,348
Pass-Through from Higher Education for Development		523-A-00-06-00009-00		119,834	119,834
Pass-Through from University of Georgia		RC7100253842248 / 211288 B51213 200		15,876	15,876
Pass-Through from Western Michigan University		PGA-7251-07-007		6,779	6,779
Total - CFDA 98.012			0	195,695	195,695
Total - U. S. Agency for International Development			474,438	5,714,266	6,188,704
Total Research and Development Cluster			122,437,561	1,527,207,463	1,649,645,024
STUDENT FINANCIAL ASSISTANCE CLUSTER					
U.S. Department of Education					
Federal Supplemental Educational Opportunity Grants	84.007			19,634,015	19,634,015
Federal Family Education Loans	84.032			1,458,597,630	1,458,597,630
Federal Work-Study Program	84.033			21,193,819	21,193,819
ARRA - Federal Work-Study Program				4,085,252	4,085,252
Total - CFDA 84.033			0	25,279,071	25,279,071
Federal Perkins Loan Program_Federal Capital Contributions	84.038			12,161,171	12,161,171
Federal Pell Grant Program	84.063			808,031,222	808,031,222
Federal Direct Student Loans	84.268			1,354,366,219	1,354,366,219
Academic Competitiveness Grants	84.375			20,415,150	20,415,150
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376			14,091,266	14,091,266
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379			4,525,139	4,525,139
Total - U.S. Department of Education			0	3,717,100,883	3,717,100,883
U.S. Department of Health and Human Services					
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342			1,304,183	1,304,183

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
STUDENT FINANCIAL ASSISTANCE CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
Nursing Student Loans	93.364			622,804	622,804
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925			4,151,531	4,151,531
Total - U.S. Department of Health and Human Services			0	6,078,518	6,078,518
Total Student Financial Assistance Cluster			0	3,723,179,401	3,723,179,401
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		23,733,139	1,041,015	24,774,154
Special Programs for the Aging_Title III, Part C_Nutrition Services	93.045		33,025,538	781,339	33,806,877
Nutrition Services Incentive Program	93.053		9,849,538	3,669,906	13,519,444
ARRA - Aging Home-Delivered Nutrition Services for States	93.705		1,900,286		1,900,286
ARRA - Aging Congregate Nutrition Services for States	93.707		4,012,217		4,012,217
Total - U.S. Department of Health and Human Services			72,520,718	5,492,260	78,012,978
Total Aging Cluster			72,520,718	5,492,260	78,012,978
CDBG ENTITLEMENT GRANTS CLUSTER					
U.S. Department of Housing and Urban Development					
Community Development Block Grants/Entitlement Grants	14.218			87,655	87,655
Total - U.S. Department of Housing and Urban Development			0	87,655	87,655
Total CDBG Entitlement Grants Cluster			0	87,655	87,655
CDBG STATE-ADMINISTERED SMALL CITIES PROGRAM CLUSTER					
U.S. Department of Housing and Urban Development					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228		170,328,609	142,950,214	313,278,823
ARRA - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.255		5,898,356	347,543	6,245,899
Total - U.S. Department of Housing and Urban Development			176,226,965	143,297,757	319,524,722
Total CDBG State-Administered Small Cities Program Cluster			176,226,965	143,297,757	319,524,722

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
CCDF CLUSTER					
U.S. Department of Health and Human Services					
Child Care and Development Block Grant	93.575		160,840,149	41,845,413	202,685,562
Pass-Through from WorkForce Solutions Deep East Texas		202181		99,874	99,874
Total - CFDA 93.575			160,840,149	41,945,287	202,785,436
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596		214,920,154	9,109,314	224,029,468
Pass-Through from Upper Rio Grande Workforce Development Board		09EM070999F3H		9,838	9,838
Total - CFDA 93.596			214,920,154	9,119,152	224,039,306
ARRA - Child Care And Development Block Grant	93.713		86,200,801	17,317,304	103,518,105
Pass-Through from WorkForce Solutions Deep East Texas		2R1861		6,000	6,000
Pass-Through from WorkForce Solutions Deep East Texas		2R1711		92,419	92,419
Total - CFDA 93.713			86,200,801	17,415,723	103,616,524
Total - U.S. Department of Health and Human Services			461,961,104	68,480,162	530,441,266
Total CCDF Cluster			461,961,104	68,480,162	530,441,266
CHILD NUTRITION CLUSTER					
U.S. Department of Agriculture					
School Breakfast Program	10.553		399,480,510	1,590,825	401,071,335
National School Lunch Program	10.555		1,259,444,450	2,961,557	1,262,406,007
Special Milk Program for Children	10.556		46,959		46,959
Summer Food Service Program for Children	10.559		41,723,086	1,137,328	42,860,414
Total - U.S. Department of Agriculture			1,700,695,005	5,689,710	1,706,384,715
Total Child Nutrition Cluster			1,700,695,005	5,689,710	1,706,384,715
CSBG CLUSTER					
U.S. Department of Health and Human Services					
Community Services Block Grant	93.569		33,593,967	1,161,010	34,754,977
ARRA - Community Services Block Grant	93.710		41,939,968		41,939,968
Pass-Through from City of San Antonio		CSBG 4600009241		348,291	348,291
Pass-Through from Gulf Coast Community Services Association		11090000551		54,944	54,944
Pass-Through from Gulf Coast Community Services Association		GCCSA 101909		96,888	96,888
Pass-Through from Gulf Coast Community Services Association		GCCSA102009		64,324	64,324
Pass-Through from Gulf Coast Community Services Association		GCCSA140CT09		27,230	27,230
Pass-Through from Gulf Coast Community Services Association		GCCSA140CT09DTP		29,506	29,506
Pass-Through from Project Bravo		11090000547		52,174	52,174
Total - CFDA 93.710			41,939,968	673,357	42,613,325
Total - U.S. Department of Health and Human Services			75,533,935	1,834,367	77,368,302
Total CSBG Cluster			75,533,935	1,834,367	77,368,302

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
DISABILITY INSURANCE/SSI CLUSTER					
Social Security Administration					
Social Security_Disability Insurance	96.001			143,893,682	143,893,682
Total - Social Security Administration			0	143,893,682	143,893,682
Total Disability Insurance/SSI Cluster			0	143,893,682	143,893,682
EARLY INTERVENTION SERVICES (IDEA) CLUSTER					
U.S. Department of Education					
Special Education-Grants for Infants and Families	84.181		10,996,936	3,896,834	14,893,770
ARRA - Special Education - Grants for Infants and Families, Recovery Act	84.393		42,670,576	1,783,790	44,454,366
Total - U.S. Department of Education			53,667,512	5,680,624	59,348,136
Total Early Intervention Services (IDEA) Cluster			53,667,512	5,680,624	59,348,136
EDUCATION OF HOMELESS CHILDREN AND YOUTH CLUSTER					
U.S. Department of Education					
Education for Homeless Children and Youth	84.196		4,830,216		4,830,216
Pass-Through from Education Service Center - Region X		UTA08-786		2,093	2,093
Pass-Through from Education Service Center - Region X		UTA09-000912	50,885	641,789	692,674
Total - CFDA 84.196			4,881,101	643,882	5,524,983
ARRA - Education for Homeless Children and Youth, Recovery Act	84.387		2,559,258		2,559,258
Total - U.S. Department of Education			7,440,359	643,882	8,084,241
Total Education of Homeless Children and Youth Cluster			7,440,359	643,882	8,084,241
EDUCATIONAL TECHNOLOGY STATE GRANTS CLUSTER					
U.S. Department of Education					
Education Technology State Grants	84.318		24,260,164	402,711	24,662,875
Pass-Through from Belton Independent School District		GN0001798		(65)	(65)
Pass-Through from Irving Independent School District		STAR-1		46	46
Pass-Through from Somerville Independent School District		086300027110021		(186)	(186)
Pass-Through from Temple Independent School District		GN0001638		(10)	(10)
Total - CFDA 84.318			24,260,164	402,496	24,662,660
ARRA - Education Technology State Grants, Recovery Act	84.386		32,957,864	570,054	33,527,918
Pass-Through from Abilene Independent School District		GN0003487		12,942	12,942
Pass-Through from Agua Dulce Independent School District		L05530027110002	1,037	493,387	494,424
Pass-Through from Coleman Independent School District		TTU 2010 10006 01 / 211R06 B56200 100		1,358	1,358
Pass-Through from Education Service Center - Region XV		ESC XV		14,636	14,636
Pass-Through from Education Service Center - Region XX		004304		19,226	19,226

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
EDUCATIONAL TECHNOLOGY STATE GRANTS CLUSTER (continued)					
U.S. Department of Education (continued)					
Pass-Through from Learn Regional Education Service Center		12060-29063-2009-11-82079-170003		4,087	4,087
Pass-Through from Pflugerville Independent School District		UTES-803		7,017	7,017
Total - CFDA 84.386			32,958,901	1,122,707	34,081,608
Total - U.S. Department of Education			57,219,065	1,525,203	58,744,268
Total Educational Technology State Grants Cluster			57,219,065	1,525,203	58,744,268
EMERGENCY FOOD ASSISTANCE CLUSTER					
U.S. Department of Agriculture					
Emergency Food Assistance Program (Administrative Costs)	10.568		5,894,156	41,327	5,935,483
ARRA - Emergency Food Assistance Program (Administrative Costs)			3,750,067		3,750,067
Total - CFDA 10.568			9,644,223	41,327	9,685,550
Emergency Food Assistance Program (Food Commodities)	10.569		46,599,201		46,599,201
ARRA - Emergency Food Assistance Program (Food Commodities)			1,933,771		1,933,771
Total - CFDA 10.569			48,532,972	0	48,532,972
Total - U.S. Department of Agriculture			58,177,195	41,327	58,218,522
Total Emergency Food Assistance Cluster			58,177,195	41,327	58,218,522
EMPLOYMENT SERVICE CLUSTER					
U.S. Department of Labor					
Employment Service/Wagner-Peyser Funded Activities	17.207		11,408,207	39,598,990	51,007,197
ARRA - Employment Service/Wagner-Peyser Funded Activities			2,983,996	16,050,046	19,034,042
Total - CFDA 17.207			14,392,203	55,649,036	70,041,239
Disabled Veterans' Outreach Program	17.801			6,681,457	6,681,457
Local Veterans' Employment Representative Program	17.804			5,890,800	5,890,800
Total - U.S. Department of Labor			14,392,203	68,221,293	82,613,496
Total Employment Service Cluster			14,392,203	68,221,293	82,613,496
FEDERAL TRANSIT CLUSTER					
U.S. Department of Transportation					
Federal Transit_Capital Investment Grants	20.500		5,516,057		5,516,057
Federal Transit_Formula Grants	20.507		180,258		180,258
Total - U.S. Department of Transportation			5,696,315	0	5,696,315
Total Federal Transit Cluster			5,696,315	0	5,696,315

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
FISH AND WILDLIFE CLUSTER					
U.S. Department of the Interior					
Sport Fish Restoration Program	15.605		1,484,403	21,935,539	23,419,942
Pass-Through from Oklahoma State University		P148237		8,209	8,209
Total - CFDA 15.605			1,484,403	21,943,748	23,428,151
Wildlife Restoration	15.611		114,191	20,200,934	20,315,125
Pass-Through from Mississippi State University		080300-330915-01		15,047	15,047
Total - CFDA 15.611			114,191	20,215,981	20,330,172
Total - U.S. Department of the Interior			1,598,594	42,159,729	43,758,323
Total Fish and Wildlife Cluster			1,598,594	42,159,729	43,758,323
FOSTER GRANDPARENT/SENIOR COMPANION CLUSTER					
Corporation for National and Community Service					
Foster Grandparent Program	94.011			1,745,586	1,745,586
Senior Companion Program	94.016			13,131	13,131
Total - Corporation for National and Community Service			0	1,758,717	1,758,717
Total Foster Grandparent/Senior Companion Cluster			0	1,758,717	1,758,717
HAZARD MITIGATION CLUSTER					
Federal Emergency Management Agency					
Hazard Mitigation Grant	83.548		1,070,358		1,070,358
Total - Federal Emergency Management Agency			1,070,358	0	1,070,358
U.S. Department of Homeland Security					
Hazard Mitigation Grant	97.039		69,581,350	339,330	69,920,680
Total - U.S. Department of Homeland Security			69,581,350	339,330	69,920,680
Total Hazard Mitigation Cluster			70,651,708	339,330	70,991,038
HEAD START CLUSTER					
U.S. Department of Health and Human Services					
Head Start	93.600			1,070,928	1,070,928
Pass-Through from Family Service Association		SG/6CH0107/31		21,984	21,984
Pass-Through from Gulf Coast Community Services Association		99859		6,080	6,080
Pass-Through from Gulf Coast Project Head Start		06CH-5061		10,014	10,014
Pass-Through from Parent/Child, Inc.		0107-28		13,049	13,049
Total - CFDA 93.600			0	1,122,055	1,122,055
ARRA - Head Start	93.708			29,181	29,181
Total - U.S. Department of Health and Human Services			0	1,151,236	1,151,236
Total Head Start Cluster			0	1,151,236	1,151,236

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
HIGHWAY PLANNING AND CONSTRUCTION CLUSTER					
U.S. Department of Transportation					
Highway Planning and Construction	20.205		121,307,670	1,480,491,736	1,601,799,406
Pass-Through from Brazoria County		17460000445		152,993	152,993
Pass-Through from Capital Area Metropolitan Planning Organization		UTA08-752 AMD 1		2,402	2,402
Pass-Through from Missouri University of Science and Technology		00022938-01		52,818	52,818
Pass-Through from North Central Texas Council of Government		S080033 476660-00060		65,596	65,596
Pass-Through from North Central Texas Council of Government		S080033 476660-00060/LAND USE MODEL DEV		639	639
Pass-Through from Ohio Department of Transportation		21741	36,290	37,108	73,398
ARRA - Highway Planning and Construction			21,920,542	814,425,127	836,345,669
Total - CFDA 20.205			143,264,502	2,295,228,419	2,438,492,921
Recreational Trails Program	20.219		2,704,402	34,818	2,739,220
Total - U.S. Department of Transportation			145,968,904	2,295,263,237	2,441,232,141
Total Highway Planning and Construction Cluster			145,968,904	2,295,263,237	2,441,232,141
HIGHWAY SAFETY CLUSTER					
U.S. Department of Transportation					
State and Community Highway Safety	20.600		14,629,349	2,310,737	16,940,086
Pass-Through from Brazos County		17460004330		414	414
Total - CFDA 20.600			14,629,349	2,311,151	16,940,500
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601		7,779,615	907,498	8,687,113
Occupant Protection Incentive Grants	20.602		882,805	89,366	972,171
Safety Belt Performance Grants	20.609		4,048,569	2,239,612	6,288,181
State Traffic Safety Information System Improvement Grants	20.610		1,759,172	414,685	2,173,857
Total - U.S. Department of Transportation			29,099,510	5,962,312	35,061,822
Total Highway Safety Cluster			29,099,510	5,962,312	35,061,822
HOMELAND SECURITY CLUSTER					
U.S. Department of Homeland Security					
Homeland Security Grant Program	97.067		123,134,462	13,521,756	136,656,218
Metropolitan Medical Response System	97.071			2,373,856	2,373,856
Total - U.S. Department of Homeland Security			123,134,462	15,895,612	139,030,074
Total Homeland Security Cluster			123,134,462	15,895,612	139,030,074

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
HOUSING VOUCHER CLUSTER					
U.S. Department of Housing and Urban Development					
Section 8 Housing Choice Vouchers	14.871			6,022,945	6,022,945
Total - U.S. Department of Housing and Urban Development			0	6,022,945	6,022,945
Total Housing Voucher Cluster			0	6,022,945	6,022,945
IMMUNIZATION CLUSTER					
U.S. Department of Health and Human Services					
Immunization Grants	93.268		14,378,282	353,347,010	367,725,292
ARRA - Immunization	93.712		173,547	8,904,528	9,078,075
Total - U.S. Department of Health and Human Services			14,551,829	362,251,538	376,803,367
Total Immunization Cluster			14,551,829	362,251,538	376,803,367
INDEPENDENT LIVING SERVICES FOR OLDER INDIVIDUALS WHO ARE BLIND CLUSTER					
U.S. Department of Education					
Rehabilitation Services_Independent Living Services for Older Individuals Who are Blind	84.177			2,081,580	2,081,580
ARRA - Independent Living Services for Older Individuals Who are Blind, Recovery Act	84.399			1,220,776	1,220,776
Total - U.S. Department of Education			0	3,302,356	3,302,356
Total Independent Living Services for Older Individuals Who Are Blind Cluster			0	3,302,356	3,302,356
INDEPENDENT LIVING STATE GRANTS CLUSTER					
U.S. Department of Education					
Independent Living_State Grants	84.169		373,878	761,899	1,135,777
ARRA - Independent Living State Grants, Recovery Act	84.398			502,081	502,081
Total - U.S. Department of Education			373,878	1,263,980	1,637,858
Total Independent Living State Grants Cluster			373,878	1,263,980	1,637,858
MEDICAID CLUSTER					
U.S. Department of Health and Human Services					
State Medicaid Fraud Control Units	93.775			12,011,387	12,011,387
State Survey and Certification of Health Care Providers and Suppliers	93.777			57,335,343	57,335,343
Medical Assistance Program	93.778		50,660,463	15,378,126,794	15,428,787,257

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
MEDICAID CLUSTER (continued)					
U.S. Department of Health and Human Services (continued)					
ARRA - Medical Assistance Program			9,864,919	2,963,967,397	2,973,832,316
Total - CFDA 93.778			60,525,382	18,342,094,191	18,402,619,573
Total - U.S. Department of Health and Human Services			60,525,382	18,411,440,921	18,471,966,303
Total Medicaid Cluster			60,525,382	18,411,440,921	18,471,966,303
PUBLIC ASSISTANCE CLUSTER					
Federal Emergency Management Agency					
Public Assistance Grant	83.544			1,818,532	1,818,532
Total - Federal Emergency Management Agency			0	1,818,532	1,818,532
U.S. Department of Homeland Security					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		397,069,684	131,048,914	528,118,598
Total - U.S. Department of Homeland Security			397,069,684	131,048,914	528,118,598
Total Public Assistance Cluster			397,069,684	132,867,446	529,937,130
PUBLIC WORKS AND ECONOMIC DEVELOPMENT CLUSTER					
U.S. Department of Commerce					
Investments for Public Works and Economic Development Facilities	11.300			1,142,005	1,142,005
Economic Adjustment Assistance	11.307			4,184,263	4,184,263
Total - U.S. Department of Commerce			0	5,326,268	5,326,268
Total Public Works and Economic Development Cluster			0	5,326,268	5,326,268
SCHOOL IMPROVEMENT GRANTS CLUSTER					
U.S. Department of Education					
School Improvement Grants	84.377		29,622,042	561,841	30,183,883
ARRA - School Improvement Grants, Recovery Act	84.388		12,868,559		12,868,559
Pass-Through from Providence Public School District		UTA10-000646		28,927	28,927
Total - CFDA 84.388			12,868,559	28,927	12,897,486
Total - U.S. Department of Education			42,490,601	590,768	43,081,369
Total School Improvement Grants Cluster			42,490,601	590,768	43,081,369

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
SNAP CLUSTER					
U.S. Department of Agriculture					
Supplemental Nutrition Assistance Program	10.551			5,365,769,105	5,365,769,105
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		13,725,001	220,249,508	233,974,509
ARRA - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program				13,987,018	13,987,018
Total - CFDA 10.561			13,725,001	234,236,526	247,961,527
Total - U.S. Department of Agriculture			13,725,001	5,600,005,631	5,613,730,632
Total SNAP Cluster			13,725,001	5,600,005,631	5,613,730,632
SPECIAL EDUCATION (IDEA) CLUSTER					
U.S. Department of Education					
Special Education_Grants to States	84.027		909,344,662	51,010,492	960,355,154
Pass-Through from Clear Creek Independent School District		CCISDG200003		42,180	42,180
Pass-Through from Education Service Center - Region XI		DEC SER		354,069	354,069
Pass-Through from Education Service Center - Region XVII		211291/211389		76,369	76,369
Pass-Through from Education Service Center - Region XVII		211390		137,991	137,991
Pass-Through from Galena Park Independent School District		GPISDG200012		7,811	7,811
Pass-Through from Pasadena Independent School District		PISDG200002		42,180	42,180
Pass-Through from Pearland Independent School District		PISDG200004		40,036	40,036
Total - CFDA 84.027			909,344,662	51,711,128	961,055,790
Special Education_Preschool Grants	84.173		22,058,165	76,587	22,134,752
ARRA - Special Education Grants to States, Recovery Act	84.391		449,956,860	706,127	450,662,987
Pass-Through from Providence Public School District		UTA09001016 PO 2102584-0-PO		55,113	55,113
Total - CFDA 84.391			449,956,860	761,240	450,718,100
ARRA - Special Education - Preschool Grants, Recovery Act	84.392		11,527,526	1,315	11,528,841
Total - U.S. Department of Education			1,392,887,213	52,550,270	1,445,437,483
Total Special Education (IDEA) Cluster			1,392,887,213	52,550,270	1,445,437,483
STATE FISCAL STABILIZATION FUND CLUSTER					
U.S. Department of Education					
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394		1,554,922,313	425,298	1,555,347,611
Pass-Through from Nacogdoches Independent School District		2R2781		1,000	1,000
Total - CFDA 84.394			1,554,922,313	426,298	1,555,348,611
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397		15,744,296	568,821,891	584,566,187
Pass-Through from Temple Community College		3633		28,129	28,129
Total - CFDA 84.397			15,744,296	568,850,020	584,594,316
Total - U.S. Department of Education			1,570,666,609	569,276,318	2,139,942,927
Total State Fiscal Stabilization Fund Cluster			1,570,666,609	569,276,318	2,139,942,927

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
STATEWIDE DATA SYSTEMS CLUSTER					
U.S. Department of Education					
Statewide Data Systems	84.372			395,858	395,858
Total - U.S. Department of Education			0	395,858	395,858
Total Statewide Data Systems Cluster			0	395,858	395,858
TANF CLUSTER					
U.S. Department of Health and Human Services					
Temporary Assistance for Needy Families	93.558		109,649,814	431,574,617	541,224,431
ARRA - Emergency Contingency Fund For Temporary Assistance For Needy Families (TANF) State Programs	93.714		37,111,964	10,506,879	47,618,843
ARRA -Temporary Assistance For Needy Families (TANF) Supplemental Grants	93.716			51,081,732	51,081,732
Total - U.S. Department of Health and Human Services			146,761,778	493,163,228	639,925,006
Total TANF Cluster			146,761,778	493,163,228	639,925,006
TEACHER INCENTIVE FUND CLUSTER					
U.S. Department of Education					
Teacher Incentive Fund	84.374			7,362,942	7,362,942
Total - U.S. Department of Education			0	7,362,942	7,362,942
Total Teacher Incentive Fund Cluster			0	7,362,942	7,362,942
TEACHER QUALITY PARTNERSHIP GRANTS CLUSTER					
U.S. Department of Education					
Teacher Quality Partnership Grants	84.336		19,933	1,519,398	1,539,331
Pass-Through from Northern Rhode Island Collaborative		UTA09-000935		225,830	225,830
Total - CFDA 84.336			19,933	1,745,228	1,765,161
Total - U.S. Department of Education			19,933	1,745,228	1,765,161
Total Teacher Quality Partnership Grants Cluster			19,933	1,745,228	1,765,161
TITLE I, PART A CLUSTER					
U.S. Department of Education					
Title I Grants to Local Educational Agencies	84.010		1,327,705,941	12,577,937	1,340,283,878
Pass-Through from Austin Independent School District		DC-AM44		79,981	79,981
Pass-Through from Providence Public School District		2102900-0-PO		508,552	508,552
Total - CFDA 84.010			1,327,705,941	13,166,470	1,340,872,411

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
TITLE I, PART A CLUSTER (continued)					
U.S. Department of Education (continued)					
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389		515,148,063	766,157	515,914,220
Pass-Through from Providence Public School District		UTA09-000562		13,717	13,717
Pass-Through from Providence Public School District		UTA09-001016 PO 2102585-0		465,510	465,510
Total - CFDA 84.389			515,148,063	1,245,384	516,393,447
Total - U.S. Department of Education			1,842,854,004	14,411,854	1,857,265,858
Total Title I, Part A Cluster			1,842,854,004	14,411,854	1,857,265,858
TRANSIT SERVICES PROGRAMS CLUSTER					
U.S. Department of Transportation					
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513		7,677,225	577,856	8,255,081
Job Access_Reverse Commute	20.516		3,743,379	238,939	3,982,318
New Freedom Program	20.521		1,514,159	267,205	1,781,364
Total - U.S. Department of Transportation			12,934,763	1,084,000	14,018,763
Total Transit Services Programs Cluster			12,934,763	1,084,000	14,018,763
TRIO CLUSTER					
U.S. Department of Education					
TRIO_Student Support Services	84.042			4,635,400	4,635,400
TRIO_Talent Search	84.044			4,578,898	4,578,898
TRIO_Upward Bound	84.047		5,364	11,168,745	11,174,109
TRIO_Educational Opportunity Centers	84.066			1,301,371	1,301,371
TRIO_McNair Post-Baccalaureate Achievement	84.217			2,382,789	2,382,789
Total - U.S. Department of Education			5,364	24,067,203	24,072,567
Total TRIO Cluster			5,364	24,067,203	24,072,567
VOCATIONAL REHABILITATION CLUSTER					
U.S. Department of Education					
Rehabilitation Services_Vocational Rehabilitation Grants to States	84.126		1,472,146	252,851,184	254,323,330
ARRA - Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	84.390			16,743,140	16,743,140
Total - U.S. Department of Education			1,472,146	269,594,324	271,066,470
Total Vocational Rehabilitation Cluster			1,472,146	269,594,324	271,066,470

STATE OF TEXAS

Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

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
WIA CLUSTER					
U.S. Department of Labor					
WIA Adult Program	17.258		50,782,315	6,985,234	57,767,549
Pass-Through from San Jacinto College District		TWC213396003		175	175
ARRA - WIA Adult Program			23,152,264	1,029,367	24,181,631
Total - CFDA 17.258			73,934,579	8,014,776	81,949,355
WIA Youth Activities	17.259		55,732,427	8,208,204	63,940,631
Pass-Through from Austin Community College		1410XSW001		10,985	10,985
ARRA - WIA Youth Activities			28,665,926	1,928,591	30,594,517
Pass-Through from Cameron County Workforce Development Board		TSTC2409STT		47,826	47,826
Pass-Through from Texas Southmost College		2410XSW000		73,244	73,244
Pass-Through from Upper Rio Grande Workforce Development Board		PY08-29709-300		35,842	35,842
Pass-Through from Workforce Solutions		13090105		7,629	7,629
Total - CFDA 17.259			84,398,353	10,312,321	94,710,674
WIA Dislocated Workers	17.260		48,827,628	4,292,564	53,120,192
ARRA - WIA Dislocated Workers			34,597,691	783,659	35,381,350
Total - CFDA 17.260			83,425,319	5,076,223	88,501,542
Total - U.S. Department of Labor			241,758,251	23,403,320	265,161,571
Total WIA Cluster			241,758,251	23,403,320	265,161,571
TOTAL EXPENDITURES OF FEDERAL AWARDS			$11,357,430,773	$45,509,402,981	$56,866,833,754

STATE OF TEXAS

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended August 31, 2010

(1) Summary of Significant Accounting Policies

(a) *Reporting Entity*

The state of Texas Schedule of Expenditures of Federal Awards (Schedule) includes the activity of all federal award programs administered by the primary government except for the federal activity of the Texas A&M Research Foundation (TAMRF), a blended component unit of the Texas A&M University System. TAMRF is excluded from the Schedule and is subject to a separate audit in compliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The Schedule does not include the federal activity of discrete component units. These entities are legally separate from the state and are responsible for undergoing separate audits as needed to comply with OMB Circular A-133. The federal activity of the following discrete component units is excluded from the Schedule:

Texas Guaranteed Student Loan Corporation
Texas Health Insurance Risk Pool
Texas Boll Weevil Eradication Foundation Inc.
Texas State Affordable Housing Corporation
Teacher Retirement System of Texas

(b) *Basis of Presentation*

The Schedule presents total federal awards expended for each individual federal program in accordance with OMB Circular A-133. 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). Federal award programs include expenditures, pass-throughs to non state agencies (i.e., payments to subrecipients), non-monetary assistance and loan programs.

(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 or fiduciary 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	$ 42,482,879,018
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds, Federal Revenue	7,699,676,055
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds, Capital Contributions- Federal	1,083,420
Statement of Changes in Fiduciary Net Position	115,209,493
Total Federal Revenue per Fund Financial Statements	50,298,847,986
Reconciling Items	
Non-Cash Federal Commodities/Vaccines/Surplus Property/Other (Note 6)	619,129,002
Various Loans Processed by Universities and Agencies (Note 5)	2,828,061,239
State Unemployment Funds (Note 4)	3,362,587,334
Cash rebates to participants in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (Note 7)	220,297,540
Programs Not Subject to OMB A-133 Reporting Requirements (Note 8)	(292,745,904)
Other *	4,875,109
Blended Component Unit not included in the Schedule of Expenditures of Federal Awards (Note 1(a))	(174,218,552)
Expenditures per Schedule of Expenditures of Federal Awards	$ 56,866,833,754

* This amount includes deductions of $1,800,254 for fixed fee contracts; deductions of $4,599,536 for vendor transactions; additions of $11,184,978 for Credit Enhancement for Charter School Facilities; and additions of $89,765 for other transactions. An addition of $156 is also included 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 $3.4 billion is a reconciling item in the reconciliation of the Schedule to revenues in the fund financial statements (See Note 3).

(5) Federally Funded Loan/Credit Enhancement Programs

The state participates in various federally funded loan and credit enhancement programs. The programs can be grouped into three broad categories:

Federally Funded Student Loan Programs
Other Federally Funded Loan Programs
Federally Funded Credit Enhancement Program

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)	$ 144,005,234	$ 11,627,822
93.342	Health Professions Student Loans (HPSL)	12,389,819	1,304,183
93.364	Nursing Student Loans	2,958,148	622,804
		$ 159,353,201	$ 13,554,809

Other Student Loan Programs

CFDA Number	Program Name	New Loans Processed
84.032	Federal Family Education Loans	$ 1,458,598,511
84.268	Federal Direct Student Loans (Direct Loans)	1,354,366,219
93.264	Nursing Faculty Loan Program	122,246
93.408	ARRA - Nursing Faculty Loan Program	139,173
		$ 2,813,226,149

New student loans processed totaling $2.8 billion are included in the Schedule and are part of a reconciling item on Note 3.

The Federal Family Education Loans 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) participates in the Federal Family Education Loan Program (FFELP, CFDA 84.032L) as a servicer of the loans. During fiscal 2010, THECB received $170.3 thousand in net interest subsidy payments that are included in the Schedule. As of Aug. 31, 2010, THECB services approximately $50.4 million of FFELP loans. New loans processed totaling $1.3 million are included in the Schedule and are part of a reconciling item on Note 3.

b) ***Other Federally Funded Loan Programs***

Clean Water State Revolving Funds (CWSRF, CFDA 66.458)
The Texas 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. Mainstream funds offer a net long-term fixed interest rate of 1.30 percent below market rate for those applicants financing the origination fee. The maximum repayment period for most CWSRF loans is 30 years from completion of construction. Capitalization loans processed for CWSRF for the year ended August 31, 2010, were approximately $14.9 million and are included in the Schedule. CWSRF outstanding loans, with no continuing audit requirements, at August 31, 2010 were approximately $2.8 billion. Capitalization loans processed under American Recovery and Reinvestment Act (ARRA) funding for CWSRF for the year ended Aug. 31, 2010 were approximately $44.8 million and are included in the Schedule.

Drinking Water State Revolving Funds (DWSRF, CFDA 66.468)
The Texas 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. Mainstream funds offer a net long-term fixed interest rate of 1.25 percent below market rate for those applicants financing the origination fee. The maximum repayment period for most DWSRF loans is 20 years from the completion of construction. Capitalization loans processed for DWSRF for the year ended Aug. 31, 2010 were approximately $46.6 million and are included in the Schedule. DWSRF outstanding loans, with no continuing audit requirements, at Aug. 31, 2010, were approximately $396.8 million. Capitalization loans processed under ARRA funding for DWSRF for the year ended Aug. 31, 2010 were approximately $49.1 million and are included in the Schedule.

The chart below summarizes activity by the State for the two revolving loan programs.

CFDA Number	Program Name	New Loans Processed
66.458	Clean Water State Revolving Funds (CWSRF)	$ 14,898,718
66.458 - ARRA	Clean Water State Revolving Funds (CWSRF)	44,837,625
66.468	Drinking Water State Revolving Funds (DWSRF)	46,587,221
66.468 - ARRA	Drinking Water State Revolving Funds (DWSRF)	49,109,012
	Total New Loans Processed	$ 155,432,576

Transportation Infrastructure Finance and Innovation Act (TIFIA, CFDA 20.223)
The United States Department of Transportation has agreed to lend the Texas Department of Transportation up to $916.8 million under a secured loan agreement to pay or reimburse a portion of the costs of the Central Texas Turnpike System's "2002 Project." The secured loan agreement was entered into pursuant to the provisions of TIFIA. As of Aug. 31, 2010, $1.0 billion of the TIFIA note payable was outstanding. This loan program is not subject to OMB A-133 reporting and is not included in the Schedule.

c) ***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 $11.2 million of federal grants received are subject to continuing audit requirements and are included in the Schedule. In addition, approximately $149.5 thousand of interest earned on the federal grant monies drawn down in fiscal 2010 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, 2010, $10.8 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
10.555	National School Lunch Program	$ 122,080,412
10.565	Commodity Supplemental Food Program	5,068,159
10.569	Emergency Food Assistance Program	48,532,972
39.003	Donation of Federal Surplus Personal Property	12,210,922
93.069	Public Health Emergency Preparedness	79,385,955
93.268	Immunization Grants	343,447,072
93.712	ARRA – Immunization	8,403,510
	Total	$ 619,129,002

(7) Rebates from the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

During fiscal 2010, the state received cash rebates from infant formula manufacturers in the amount of approximately $220.3 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) Programs Not Subject to OMB A-133 Reporting Requirements

The fund financial statements include federal funding received from certain programs that are not subject to continuing compliance requirements. For the year ended August 31, 2010, the fund financial statements include $292.7 million of federal funds which are not subject to the continuing compliance requirements of OMB A-133, and are not included in the Schedule.

The Medicare portion of Part D is not subject to OMB A-133 because it does not include any Medicaid funds. Reimbursements of $123.1 million were received related to the Medicare Part D program by the administrators of postemployment health care plans. Administrators include the Teacher Retirement System, Employee Retirement System, University of Texas and Texas A&M University Systems.

Certain programs of the American Recovery and Reinvestment Act of 2009 are not subject to OMB A-133. The Tax Credit Exchange Program (TCEP) allows state housing credit agencies the option of exchanging eligible portions of the state's housing credit ceiling for cash grants. Grants can then be used by the agency to make sub-awards to qualified projects, specifically for the construction or acquisition and rehabilitation of qualified low income buildings. The state recognized $126.7 million of federal revenue related to the TCEP. Additionally, the Build America Bond and COBRA programs are excluded from the Schedule. The state recognized federal revenues of $38.6 million and $4.3 million related to the Build America Bond and COBRA programs, respectively.

(9) 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.

(10) Supplemental Nutrition Assistance Program (SNAP)

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Acts funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.38 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2010.

Schedule of Findings and Questioned Costs

Federal Portion of
Statewide Single Audit Report

For the Year Ended August 31, 2010

This page intentionally left blank.

Section 1:

Summary of Auditors' Results

Financial Statements

Issued under separate cover. See State Auditor's Office report entitled the Financial Portion of the 2010 Statewide Single Audit Report dated February 18, 2011.

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 Material Weaknesses:

CFDA Number	Name of Federal Program or Cluster
93.667	Social Services Block Grant
93.767	Children's Health Insurance Program
Cluster	Highway Planning and Construction (with ARRA)
Cluster	Homeland Security
Cluster	Medicaid (with ARRA)
Cluster	Public Assistance
Cluster	SNAP (with ARRA)
Cluster	Student Financial Assistance
Cluster	TANF (with ARRA)

Major Programs with Significant Deficiencies:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
16.803	Recovery Act – Edward Byrne Memorial Justice Assistance Grant Program - Grants to States and Territories (with ARRA)
20.106	Airport Improvement Program (with ARRA)
66.468	Capitalization Grants for Drinking Water State Revolving Funds (with ARRA)
84.032L	Federal Family Education Loans – Lenders
84.048	Career and Technical Education - Basic Grants to States
84.287	Twenty-First Century Community Learning Centers
84.357	Reading First State Grants
84.365	English Language Acquisition Grants
84.367	Improving Teacher Quality State Grants
93.563	Child Support Enforcement (with ARRA)
93.658	Foster Care - Title IV-E (with ARRA)
93.659	Adoption Assistance (with ARRA)
93.667	Social Services Block Grant
93.767	Children's Health Insurance Program
Cluster	CDBG - State-Administered Small Cities Program
Cluster	Educational Technology State Grants (with ARRA)
Cluster	Highway Planning and Construction (with ARRA)
Cluster	Homeland Security
Cluster	Medicaid (with ARRA)
Cluster	Public Assistance
Cluster	Research and Development (with ARRA)

CFDA Number	Name of Federal Program or Cluster
Cluster	SNAP (with ARRA)
Cluster	Special Education (IDEA) (with ARRA)
Cluster	State Fiscal Stabilization Fund (with ARRA)
Cluster	Student Financial Assistance
Cluster	TANF (with ARRA)
Cluster	Title I, Part A (with ARRA)
Cluster	Vocational Rehabilitation (with ARRA)

2. Type of auditors' report issued on compliance for major programs? See below

Scope limitation:

CFDA Number	Name of Federal Program or Cluster
93.667	Social Services Block Grant
Cluster	CDBG - State-Administered Small Cities Program

Adverse:

CFDA Number	Name of Federal Program or Cluster
Cluster	Homeland Security
Cluster	SNAP (with ARRA)

Qualification:

CFDA Number	Name of Federal Program or Cluster
84.048	Career and Technical Education - Basic Grants to States
84.287	Twenty-First Century Community Learning Centers
84.357	Reading First State Grants
84.365	English Language Acquisition Grants
84.367	Improving Teacher Quality State Grants
93.563	Child Support Enforcement
93.767	Children's Health Insurance Program
Cluster	Educational Technology State Grants (with ARRA)
Cluster	Highway Planning and Construction (with ARRA)
Cluster	Medicaid (with ARRA)
Cluster	Public Assistance
Cluster	Special Education (IDEA) (with ARRA)
Cluster	State Fiscal Stabilization Fund (with ARRA)
Cluster	Student Financial Assistance
Cluster	TANF (with ARRA)
Cluster	Title I, Part A (with ARRA)

No Qualification:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
16.803	Recovery Act – Edward Byrne Memorial Justice Assistance Grant Program - Grants to States and Territories (with ARRA)
17.225	Unemployment Insurance (with ARRA)
20.106	Airport Improvement Program (with ARRA)
66.468	Capitalization Grants for Drinking Water State Revolving Funds (with ARRA)
81.042	Weatherization Assistance for Low-Income Persons (with ARRA)
84.032L	Federal Family Education Loans – Lenders
93.069	Public Health Emergency Preparedness
93.568	Low-Income Home Energy Assistance
93.658	Foster Care - Title IV-E (with ARRA)
93.659	Adoption Assistance (with ARRA)
Cluster	Aging (with ARRA)
Cluster	Child Nutrition
Cluster	CSBG (with ARRA)
Cluster	Early Intervention Services (IDEA) (with ARRA)
Cluster	Employment Services (with ARRA)
Cluster	Immunization (with ARRA)
Cluster	Research and Development (with ARRA)
Cluster	Vocational Rehabilitation (with ARRA)
Cluster	WIA (with ARRA)

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: $85,612,909

5. Auditee qualified as low-risk auditee? No

6. Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
16.803	Recovery Act – Edward Byrne Memorial Justice Assistance Grant Program – Grants to States and Territories (with ARRA)
17.225	Unemployment Insurance (with ARRA)
20.106	Airport Improvement Program (with ARRA)
66.468	Capitalization Grants for Drinking Water State Revolving Funds (with ARRA)
81.042	Weatherization Assistance for Low-Income Persons (with ARRA)
84.032L	Federal Family Education Loans – Lenders
84.048	Career and Technical Education - Basic Grants to States
84.287	Twenty-First Century Community Learning Centers

CFDA Number	Name of Federal Program or Cluster
84.357	Reading First State Grants
84.365	English Language Acquisition Grants
84.367	Improving Teacher Quality State Grants
93.069	Public Health Emergency Preparedness
93.563	Child Support Enforcement (with ARRA)
93.568	Low-Income Home Energy Assistance
93.658	Foster Care - Title IV-E (with ARRA)
93.659	Adoption Assistance (with ARRA)
93.667	Social Services Block Grant
93.767	Children's Health Insurance Program
Cluster	Aging (with ARRA)
Cluster	Child Nutrition
Cluster	CDBG - State-Administered Small Cities Program (with ARRA)
Cluster	CSBG (with ARRA)
Cluster	Early Intervention Services (IDEA) (with ARRA)
Cluster	Educational Technology State Grants (with ARRA)
Cluster	Employment Services (with ARRA)
Cluster	Highway Planning and Construction (with ARRA)
Cluster	Homeland Security
Cluster	Immunization (with ARRA)
Cluster	Medicaid (with ARRA)
Cluster	Public Assistance
Cluster	Research and Development (with ARRA)
Cluster	SNAP (with ARRA)
Cluster	Special Education (IDEA) (with ARRA)
Cluster	State Fiscal Stabilization Fund (with ARRA)
Cluster	Student Financial Assistance (with ARRA)
Cluster	TANF (with ARRA)
Cluster	Title I, Part A (with ARRA)
Cluster	Vocational Rehabilitation (with ARRA)
Cluster	WIA (with ARRA)

Section 2:

Financial Statement Findings

Issued under separate cover. See State Auditor's Office report entitled the Financial Portion of the 2010 Statewide Single Audit Report dated February 18, 2011.

This page intentionally left blank.

Federal Award Findings and Questioned Costs - Table of Contents

Federal Award Findings

Aging and Disability Services, Department of 177
Assistive and Rehabilitative Services, Department of 180
Family and Protective Services, Department of 183
Governor, Office of the 188
Health and Human Services Commission 189
Housing and Community Affairs, Department of 219
Office of Attorney General 223
Public Safety, Department of 227
State Health Services, Department of 228
Texas Department of Rural Affairs 230
Texas Education Agency 233
Texas Higher Education Coordinating Board 244

Federal Award Findings – Other Auditors

Lamar Institute of Technology 249
Lamar State College – Orange 255
Midwestern State University 262
Public Safety, Department of 268
Texas A&M Health Science Center 292
Texas A&M International University 295
Texas A&M University 298
Texas Engineering Experiment Station 303
Texas Southern University 305
Texas State University – San Marcos 311
Texas Tech University 325
Texas Tech University Health Sciences Center 340
Transportation, Department of 344
University of Houston 359
University of Houston – Downtown 374
University of Houston – Victoria 378
University of North Texas 381
University of Texas at Austin 386
University of Texas at Brownsville 394
University of Texas at El Paso 396
University of Texas Health Science Center at Houston 400
University of Texas M.D. Anderson Cancer Center 405
University of Texas at San Antonio 411
University of Texas Southwestern Medical Center at Dallas 426
Water Development Board 445

This page intentionally left blank.

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 Aging and Disability Services

Reference No. 11-01
Subrecipient Monitoring

Aging Cluster - ARRA
Award years - March 17, 2009 to September 30, 2010
Award numbers - 09AATXC1RR and 09AATXC2RR
Type of finding - Non-Compliance

Questioned Cost:	$ 0
U.S. Department of Health and Human Services	

The Department of Aging and Disability Services (DADS) passes through a significant amount of federal funds to subrecipients to carry out the objectives of the federal program. Some of these funds were derived from the American Recovery and Reinvestment Act (ARRA) during the fiscal year 2010. DADS is required by OMB Circular A-133 to determine whether the subrecipients have current Central Contractor Registration (CCR) registrations prior to making sub awards and perform periodic checks to ensure that subrecipients are updating information, as necessary (2 CFR part 176.50).

DADS had a process in place in which the subrecipients receiving ARRA funds were required to provide their Data Universal Numbering System (DUNS) number before receiving funds. In addition, DADS maintained a list of all 27 subrecipients receiving ARRA funds and their DUNS number. A DUNS number is required for CCR registration. However, it could not be determined that before disbursement of the award DADS actually ensured that the subrecipients were registered with the CCR. Subsequently, the subrecipients' CCR registrations have been verified by DADS.

Recommendation:

DADS should not only verify CCR and DUNS prior to the award each year and maintain documentation of such, but DADS should track to ensure the subrecipients remain eligible throughout the award year and re-register timely. This includes ensuring proper audit trail of when the CCR registration is checked.

Management Response and Corrective Action Plan:

Management has confidence the current process and compensating controls provide assurance the funds were appropriately expended. All 27 of DADS contractors, Area Agencies on Aging(AAAs), that received American Recovery and Reinvestment funds are registered in the CCR and DADS did verify they were registered before ARRA funds were disbursed. A Recipient Affidavit was signed by the Executive Director of each AAA, notarized and received by DADS before any ARRA funding was awarded to the AAA. The AAA had to swear and affirm they would comply with applicable federal law, including federal reporting requirements under Section 1512 of the Act. No corrective action plan is required as ARRA funding is no longer available. However, in the future DADS will ensure that a proper audit trail of sub recipient CCR registration is maintained throughout the award year when required by a funding source.

Implementation Date: *Not applicable*

Responsible Person: *Betty Ford*

Department of Aging and Disability Services
Health and Human Services Commission

Reference No. 11-02

Allowable Costs/Cost Principles

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2009 to September 30, 2011, October 1, 2008 to September 30, 2010, and October 1, 2007 to September 30, 2009
Award numbers - G1001TXSOSR, G0901TXSOSR, and G0801TXSOSR

CFDA 93.767 - Children's Health Insurance Program
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1005TX5021 and 0905TX5021

Medicaid Cluster
Award years - October 1, 2009 to September 30, 2010, October 1, 2008 to September 30, 2009, and October 1, 2007 to September 30, 2008
Award numbers - 1005TX5MAP, 0905TX5028, 0905TX5048, 0805TX5028, and 0805TX5048

Medicaid Cluster - ARRA
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to December 31, 2009
Award numbers - 1005TXARRA and 0905TXARRA

SNAP Cluster
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award number - 6TX400105

TANF Cluster
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - G1002TXTANF and G0902TXTANF
Type of finding - Material Weakness

Questioned Cost:	$ 0
U.S. Department of Health and Human Services	
U.S. Department of Agriculture	

In accordance with OMB Circular A-87, attachment B, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency.

The Health and Human Services Commission (HHSC) and Department of Aging and Disability Services (DADS) utilize Random Moment Time Sampling, which is an approved substitute system. The Random Moment Sampling (RMS) web application service for HHSC and DADS is provided by Applied Computer Services (ACS). The application is running on the Windows server and resides on an SQL database. Access controls are inappropriately designed for the RMS application as two programmers have full administrative access in the production environment. In addition, policies and procedural documents do not exist for the change management process, and authorization, testing, and approval of system changes have not been documented.

The job functions for the two programmers include migration of system changes to the production environment. Programmer access on the operating system allows administrative access to both the production and development environments. With the ability to develop and migrate changes, the programmers can develop and migrate code changes into the production environment that have not gone through the appropriate change management procedures.

No compliance exceptions were noted for the major programs noted above.

Recommendation:

ACS management should implement procedures that provide access security controls based on the individual's demonstrated need to view, add, change, or delete data. Access should be segregated such that developers are not allowed to implement their system changes into the production system. In addition, management should also implement change management policies and procedures to ensure that system changes are authorized, tested, and approved.

Management Response and Corrective Action Plan:

DADS management has accepted the findings as presented. ACS has implemented a change management procedure to address the issues identified. ACS has formalized and separated controls by the following responsibilities:

1. *Change request management*
2. *Development and testing*
3. *Approval*
4. *Publishing to production*

ACS management implemented server access controls and documented written procedures to limit user capabilities based on the individual's demonstrated need to view, add, change, or delete data.
DADS accounting reviewed and approved the ACS written procedures.

DADS accounting also reviewed security screen shots of the ACS access controls to verify proper ACS security access to the RMS application.

Implementation Date: *December 9, 2010*

Responsible Persons: *Doug Aird, ACS; Tammy Callaway, DADS; Paula Reed, DADS*

Department of Assistive and Rehabilitative Services

Reference No. 11-03
Eligibility
(Prior Audit Issues - 10-07 and 09-07)

Vocational Rehabilitation Cluster
Award years - October 1, 2009 to September 30, 2011, October 1, 2008 to September 30, 2010, and October 1, 2007 to September 30, 2009
Award numbers - H126A100065, H126A100064, H126A090065, H126A090064, H126A080065, and H126A080064

Vocational Rehabilitation Cluster - ARRA
Award year - February 17, 2009 to September 30, 2010
Award numbers - 11390A090064 and 11390A090065
Type of finding - Significant Deficiency and Non-Compliance

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 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 Division for Blind Services (DBS) and 40 Division for Rehabilitation Services (DRS) consumers, 1 DBS and 2 DRS consumers were not determined eligible within 60 days and there was no notation in the case notes explaining exceptional or unforeseen circumstances. There was no agreement by the consumer to a specific extension of time. To address the prior year finding for DBS, DBS management implemented a 45-day review process in order to identify consumers pending eligibility decisions. The one DBS application for the consumer noted above was dated prior to Spring 2009 when DBS implemented the 45-day review process.

In addition, during fiscal year 2010, DRS initiated the new Case Review Process that replaced the Quality Assurance and Improvement (QAI) process. The compliance portion of the review evaluates whether policies based on federal regulations, and state laws and rules have been followed. Routine oversight is maintained through case reviews performed by the area manager, by regional office staff (Operations Directors for Programs, Regional Directors) and by central office programs staff. Complete case reviews address five specific areas of proficiency, which are critical to the VR process: Services and Closure, Plan and Planning, Counseling and Guidance, Eligibility Decision, and Level of Significance. DRS reviewers complete case reviews. From a sample of 40 DRS case reviews, 2 case review forms were not completed.

Recommendation:

DBS management should continue to review cases on a regular basis and ensure compliance with a 60-day rule. DRS management should implement a process to ensure compliance with a 60-day rule and that the case review forms are completed and retained.

Management Response and Corrective Action Plan:

Division for Blind Services (DBS)
As noted above, DBS management implemented a 45-day review process to address the prior year finding. This process involves an ad hoc query system, which is available to any DBS staff member. This process continues to be utilized by counselors and VR coordinators to ensure compliance with the 60-day requirement. DBS management has met with Field Directors, VR coordinators and division trainers to emphasize the importance of documenting agreements by consumers to an extension of time. KPMG noted that the files tested since the implementation of this revised process were in compliance with the 60-day requirement.

Implementation Date: *Implemented*

Responsible Person: *Bill Agnell*

Division for Rehabilitation Services (DRS)

DRS management agrees with the eligibility recommendation. Management will instruct supervisory personnel throughout the state to strengthen counselor compliance with the federal requirement to determine an individual eligible for VR services within 60 days of application. The implementation of RehabWorks, the automated caseload management system, was delayed and is now scheduled for February 2011. RehabWorks includes a 40-day review process to identify consumers pending eligibility decisions.

DRS Management agrees with the recommendation regarding the DRS case review process. The incomplete case review forms noted were the result of a problem with the database. The agency identified a software solution in January 2011. The new software is scheduled to be implemented statewide by May 2011.

Implementation Date: *May 2011*

Responsible Person: *Laura York*

Reference No. 11-04
Procurement and Suspension and Debarment

Vocational Rehabilitation Cluster - ARRA
Award year - February 17, 2009 to September 30, 2010
Award numbers - 11390A090064 and 11390A090065
Type of finding - Non-Compliance

Questioned Cost:	$10,900
U.S. Department of Education	

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. Under the Texas Government Code, Chapter 2155.063, Competitive Bidding Requirement, a purchase of or contract for goods or services shall, whenever possible, be accomplished through competitive bidding. The Health and Human Services Commission (HHSC) 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 is exempt from competitive bidding in which case the exemption must be documented in the purchasing documentation. HHSC requires a signed bid document and a signed purchase to execute a contract with a vendor.

From a sample of 28 vendor files, one vendor procurement file for a training course did not have documentation of bids submitted by vendors. The requestor obligated the Department of Assistive and Rehabilitative Services (DARS) by executing a contract without procurement staff having the opportunity to secure the necessary bids. Upon final review of the contract, DARS management decided to continue with the contract since a non-refundable obligation was already incurred and invitations with the facilities address had already been mailed. The total of the contract was approximately $10,900 of ARRA funding.

Recommendation:

DARS should ensure that contracts follow the state procurement requirements.

Management Response and Corrective Action Plan:

DARS will ensure appropriate staff receive training on Agency, HHS Enterprise, and State procurement requirements.

Implementation Date: *February 16, 2011*

Responsible Persons: *Jim Hanophy and Daniel Avitia*

Department of Family and Protective Services

Reference No.11-05
Allowable Costs/Cost Principles
(Prior Audit Issues - 10-08, 09-09, 8-04, 07-05, and 06-05)

CFDA 93.658 - Foster Care - Title IV-E
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1001TX1401, 1001TX1402, 0901TX1401, and 0901TX1402

CFDA 93.659 - Adoption Assistance
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1001TX1407, 1001TX1403, and G0901TX1407

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - G1001TXSOSR and G0901TXSOSR

TANF Cluster
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - G1002TXTANF and G0902TXTANF

TANF Cluster - ARRA
Award years - October 1, 2009 to September 30, 2010
Award numbers - G1002TXTAN2, G1001TXTAN2, and G0901TXTAN2
Type of finding - Significant Deficiency

Questioned Cost:	$ 0
U.S. Department of Health and Human Services	

The approved Cost Allocation Plan (CAP) incorporates a web-based response system, using an online tool that assists with the management and oversight of the Random Moment Time Studies (RMTS). The system is maintained in a Windows environment. Eight INET developers have privileges on the server with the ability to access production files for the RMTS application. A periodic review is also not conducted at the operating system or database level. No RMTS compliance exceptions were noted for the allowable costs/cost principles samples selected for the above major programs.

Recommendation:

Developer access was removed on August 19, 2010. The Department of Family and Protective Service (DFPS) should also conduct periodic reviews of the operating system and database level users.

Management Response and Corrective Action Plan:

As noted in the finding, correction action to remove developer access was already taken on August 19, 2010. DFPS will work with our data services provider to expand the annual review of server and database accounts to include a list of all users and groups with access to user resources.

Implementation Date: *June 30, 2011*

Responsible Persons: *Scott Rogillio and Mel Biggs*

Reference No. 11-06

Eligibility

CFDA 93.659 - Adoption Assistance
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1001TX1407, 1001TX1403, and G0901TX1407

CFDA 93.659 - Adoption Assistance - ARRA
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1001TX1407, 1001TX1403, and G0901TX1407
Type of finding - Significant Deficiency and Non-Compliance

In accordance with 45 CFR section 1356.41(d), the child who is to receive Adoption Assistance must have been placed for adoption in accordance with applicable State and local laws. Per the Texas State Family Code Title 5, Subtitle B, Chapter 162, an adoption is legal with an adoption order. If the court agrees that the requirements for adoption have been met and the adoption is in the best interest of the child, the court will sign the Decree of Adoption.

Questioned Cost:	$8,537
U.S. Department of Health and Human Services	

A sample of 40 children for whom Adoption Assistance payments were made during fiscal year 2010 was selected for review. One instance was found where the Decree of Adoption was not signed by the court; instead, the "parent" was ordered to have managing conservatorship. Managing conservatorship is not eligible for Adoption Assistance. Adoption Assistance payments were received by the family from 2007 through 2010 in the amount of $13,200. Title IVE participated in $8,537 of these Adoption Assistance payments. Title IVE ARRA funding contributed $670 of the total Title IVE funding used.

There are two stages in the adoption process, which are tracked by the Department of Family and Protective Services (DFPS) in the IMPACT eligibility system. The pre-adoption stage (ADO) where the adoption assistance eligibility is determined and payments have been started; however, the adoption has not been completed. The post-adoption stage (PAD) is where the adoption is completed and adoption assistance payments continue. If the adoption is never completed by the court, the case worker must terminate the adoption assistance eligibility and close out the PAD stage to stop the assistance payments by manually updating IMPACT. In this case, the adoption was never completed. The PAD stage was appropriately closed but the adoption assistance eligibility was not terminated resulting in erroneous adoption assistance payments to the family.

DFPS ran a query to determine if any other active adoption assistance cases were receiving payments erroneously due to the failure to terminate the adoption assistance eligibility. DFPS did not identify any other instances that resulted in overpayments.

Recommendation:

DFPS should consider adding an IMPACT application control to address the termination of adoption assistance payments when the adoption does not complete.

Management Response and Corrective Action Plan:

DFPS determined that there were no other active adoption assistance cases receiving payments due to failure to terminate the adoption assistance eligibility. DFPS has requested a SYSTEM INVESTIGATIVE REQUEST (SIR #1004770) that will create an IMPACT edit to prohibit the closure of an ADO stage while there is an open adoption assistance eligibility in the stage unless the stage closure reason is Adoption Consummated. Once this SIR is rolled out in February 2011, DFPS will run another query to ensure no other erroneous billings have been made due to this same issue.

Implementation Date: *February 27, 2011*

Responsible Person: *Max Villarreal*

Accounting will make the appropriate adjustments in HHSAS and claim the PPA on the March 31, 2011 Title IVE report.

Implementation Date: *April 30, 2011*

Responsible Person: *James R. Wall III*

Reference No. 11-07
Eligibility

CFDA 93.658 - Foster Care - Title IV-E
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1001TX1401, 1001TX1402, 0901TX1401, and 0901TX1402

CFDA 93.658 - Foster Care - Title IV-E - ARRA
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1001TX1401, 1001TX1402, 0901TX1401, and 0901TX1402
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost:	$(2,458)
U.S. Department of Health and Human Services	

Funds may be expended for foster care maintenance payments on behalf of eligible children, in accordance with the IV-E agency's foster care maintenance payment rate schedule and in accordance with 45 CFR section 1356. 21, 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 certain 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, as well as reasonable travel for the child to remain in the same school he or she was attending prior to placement in foster care (42 USC 672(b)(1) and (2), (c)(2), and 675(4)).

Foster Care Benefits at Department of Family and Protective Services (DFPS)
For a sample of 40 foster care benefits distributed in fiscal year 2010, one instance was noted where the childcare provider was underpaid as they were reimbursed at the moderate versus the specialized level of care billing rate which was the authorized level of care. The child was placed in a non-paid placement status, which allows the case worker to review the case. During the non-paid status stage within the Information Management Protecting Adults and Children in Texas (IMPACT) application, a child's level of care can be changed. However, IMPACT does not automatically update the billing rates when the interface is received. The case worker must manually review the information in the file when they change the status back to paid placement and link the billing rate to the change in level of care. DFPS queried IMPACT and identified three federal funded eligible children with underpayments totaling $18,281, including the sample item. The Title IV-E federal portion of the underpayment is $10,551, of which $1,250 is Title IV-E ARRA. Additionally, DFPS identified one child who received an overpayment of $14,052, and the Title IV-E federal portion of the overpayment is $8,093. Title IV-E ARRA funding contributed $970 of the total Title IV-E funding used.

Child Care Administered by Texas Workforce Commission (TWC)
For a sample of 40 children for whom foster care payments were made during fiscal year 2010, four instances were found where the documentation to support the child-care payment could not be obtained at a sufficient level of detail. DFPS works with another state agency, TWC, who passed the child care funding through to the Texas Local Workforce Development Boards (TLWDB). The total amount of foster care expenditures in fiscal year 2010 related to child care services was approximately $9.5 million.

Recommendation:

DFPS should consider adding an IMPACT application control that would compare billing service levels to authorized service level prior to payment.

Beginning September 1, 2010, DFPS initially pays TWC child care expenses with state funds when TWC submits a request for payment on behalf of the TLWDB. TWC also provides details of children serviced and the period of service with each reimbursement request. DFPS verifies against IMPACT that the child was eligible during the respective service. Once the children have been determined eligible, an adjustment is made to transfer the expenses from state to foster care funding. DFPS should continue this process and also continue the review of children in arrears that were paid during 2010 and make any necessary adjustments for ineligible foster care child care services.

Management Response and Corrective Action Plan: Foster Care Benefits

Through DRIT #46125 we had identified 3 children that had underpayments of Title IV-E funds. The children's underpayments have been corrected through IMPACT invoices. The DRIT also identified one child who had an overpayment due to the child's placement on a non-paid status. The overpayment has been corrected through IMPACT invoice as well.

We identified one child who had an overpayment that was not due to this service level issue. This child had an overpayment of Title IV-E funds for the days of January 12, 2010 through May 27, 2010. The child was on probation with the Harris County Juvenile Probation Department and was placed by the county at Gulf Coast Trades Center. Although the county and not DFPS was responsible for the payment to the provider, the CPS caseworker must still record the child's placement in IMPACT. The caseworker erroneously recorded the Placement as a "paid placement" type, which resulted in DFPS issuing payment. We have recouped the full foster care payment for the dates of service since the child was in a non-paid placement.

The IMPACT system currently has edits as part of the foster care billing process that compares a child's Authorized Service Level (ASL) to the child's Billing Service Level (BSL). The edit compares the child's ASL and BSL and also compares the BSL to the associated foster care service code on the placement's contract in IMPACT. The edits prohibit a foster care payment when the child's BSL is higher than the child's ASL, but allows a foster care payment when the child's BSL equals or is lower than the child's ASL. Policy allows this as there may be situations when it is in the child's best interest to remain in a placement that does not contract for the child's needs based on their ASL because the child is receiving specialized medical care and a move will disrupt the treatment; or the child needs to finish a semester of school, graduate, or stay in close proximity to his or her family or siblings. By policy, these placements require supervisory level approval.

Regarding the entry of a child's service level information in IMPACT, the service levels of children who are reviewed by Youth for Tomorrow (YFT) are downloaded into IMPACT through an automated interface with YFT twice a day. The child's ASL is added to the child's SUB REG stage. A batch process within IMPACT also adds a corresponding BSL to the child's case based on the ASL and the services the child's current placement provides. Those service levels that don't load automatically appear as exceptions on the Service Level Error report in IMPACT. One user and a backup in the CPS Federal and State Support Division are assigned to work the exceptions and are given IMPACT security allowing them to view the service level exception page information. The assigned state office staff works the exceptions on a daily basis and adds the approved ASL and, as needed, an appropriate BSL to the child's case. Exceptions may appear on the report due to some of the reasons below:

- *the child's placement in IMPACT is not a DFPS Paid Placement,*
- *the child's BSL falls below the service levels provided by the child's current placement,*
- *the approved ASL period exceeds policy limits,*
- *the new ASL Start Date is less than the existing start date of a current ASL, and*
- *mismatches between the child's name or Person ID# number between IMPACT and YFT*

The underpayment cases resulted from the state office workers assigned to handle the exception report not adding an appropriate BSL to the child's case. As a result, underpayments were made to the foster care providers. Upon receipt of DRIT #46125, we reviewed our written business process for working the Service Level Error report in IMPACT and noted a deficiency regarding the adding of BSLs. We have revised our written business process for working the report to ensure staff are now adding BSLs appropriately.

Due to the nature of these errors there will always be a need for a person to add these children's ASL and BSL manually. Regarding the recommendation that "DFPS should consider adding an IMPACT application control that would compare billing service levels to authorized service level prior to payment", Before March 31, 2011, we will schedule a meeting with DFPS IT functional analysts to explore any additional IMPACT edits that could mitigate the creation of these errors. In addition, we will run a query in each of the next two quarters to determine if the implementation of new business processes for handling these exceptions has remedied this problem. If no similar issues are detected then we will then have the query run twice a year thereafter as part of a routine monitoring process. If no additional IMPACT edits can be identified, then we believe the current IMPACT foster care billing edits, the updating of our written business process, and the implementation of a monitoring process will sufficiently address the issue that arose from the underpayment cases. If IMPACT edits are required there will be a delay in their implementation due to the backlog of System Investigative Requests (SIRS).

As noted above, the corrections have been processed. DFPS Accounting will claim the prior period adjustments on the upcoming Title IVE Financial Report.

Implementation Date: *April 30, 2011*

Responsible Persons: *Max Villarreal and James R. Wall III*

Management Response and Corrective Action Plan: Child-Care (TWC)

DFPS will continue the process as outlined above. DFPS is currently reconciling the data associated with AY/BY2009. This includes payments made in FY2010 for AY/BY2009. Adjusting journals will be made as needed.

Implementation Date: *March 31, 2011*

Responsible Person: *James R. Wall III*

Office of the Governor

Reference No. 11-08
Subrecipient Monitoring

CFDA 16.803 - Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program - Grants to States and Territories - ARRA
Award year - October 1, 2009 to September 30, 2010
Award numbers - SU-09-A10-22820-01 and SU-09-A10-22822-01
Type of finding - Non-Compliance

Questioned Cost:	$ 0
U.S. Department of Justice	

The Criminal Justice Division (CJD) is required to document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds. (2 CFR section 176.210). CJD subrecipients that received ARRA disbursements prior to July 23, 2010 did not receive a communication regarding the Federal award number, CFDA number, and the amount of ARRA funds. On July 23, 2010, CJD implemented an automatic e-mail communication that is sent to the subrecipient each time ARRA funds are disbursed. The automatic e-mail communication includes the Federal award number, CFDA number, and the amount of ARRA funds.

Recommendation:

As noted above, CJD has implemented an automatic e-mail communication as of July 23, 2010 to notify the subrecipients of the Federal award number, CFDA number, and the amount of ARRA funds with each disbursement.

Management Response and Corrective Action Plan:

CJD agrees with the recommendation. No additional corrective action is necessary. As stated, CJD implemented an automated e-mail notification to subrecipients on July 23, 2010 notifying them of the Federal award number, CFDA number, and the amount of ARRA funds with each disbursement.

Implementation Date: *July 23, 2010*

Responsible Person: *Aimee Snoddy*

Health and Human Services Commission

Reference No. 11-09
Eligibility
Special Tests and Provisions - ADP System for SNAP
Special Tests and Provisions - Income Eligibility and Verification System for TANF
(Prior Audit Issues - 10-12, 09-17, 08-12 and 07-13)

Medicaid Cluster
Award years - October 1, 2009 to September 30, 2010, October 1, 2008 to September 30, 2009, and October 1, 2007 to September 30, 2008
Award numbers - 1005TX5MAP, 0905TX5028, 0905TX5048, 0805TX5028, and 0805TX5048

Medicaid Cluster - ARRA
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to December 31, 2009
Award numbers - 1005TXARRA and 0905TXARRA

SNAP Cluster
Award years - October 1, 2009 to September 30, 2010, October 1, 2008 to September 30, 2009, and February 12, 2010 to September 30, 2010
Award numbers - 6TX400105 and 6TX430155

SNAP Cluster - ARRA
Award year - October 1, 2009 to September 30, 2010
Award number - 6TX440105

TANF Cluster
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - G1002TXTANF and G0902TXTANF

TANF Cluster - ARRA
Award years - October 1, 2009 to September 30, 2010
Award numbers - G1002TXTAN2, G1001TXTAN2, and G0901TXTAN2
Type of finding - Material Weakness Control and Material Non-Compliance

Questioned Cost:	$16,932
U.S. Department of Health and Human Services U.S. Department of Agriculture	

The Health and Human Services Commission (HHSC) currently maintains two systems for determining eligibility for Medicaid, TANF and SNAP - 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 SNAP 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 SNAP (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 SNAP 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; cash TANF by State Policy; and SNAP 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 SNAP 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 SNAP 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 IT control procedures performed:

- Through November 19, 2009, developers had access to the production environment through the "wasadmin" account.
- Thirteen Northrop Grumman system administrators have knowledge of the root account's password on the production application servers.
- Administrative access to the production databases was not restricted appropriately. Three consultants had access to the SYS and SYSTEM database accounts.
- Three inactive user accounts with SUDO privileges administrative access existed on the production servers and were removed upon notification. Twelve inactive generic accounts existed on the production servers and were removed upon notification.
- The URL for the TIERS login screen is available on the internet and while a 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.

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. Selection 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 where 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 there 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.
- 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. 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.
- Through December 2009, the design of TIERS did not allow the processing of deemed eligible transactions for Foster Care and Adoption eligible children through the Mass Update process. Instead Mass Update only processes requests with active EDGs. A case needs to be in "ongoing mode" for changes to be implemented versus "change mode".
- The design of TIERS did not allow the processing of various sanctions such as penalty for refusal to work, adult custodial parent of child under six when child care is not available, and child support non-cooperation through the Mass Update process. Instead Mass Update only processes requests with active EDGs. A case needs to be in "ongoing mode" versus "change mode" for changes to be implemented.

Forty files processed through TIERS were reviewed for TANF, and fifty files were reviewed for the SNAP and Medicaid programs. For each of the files, an initial month and recertification month, if available, was selected for test work. The following table summarizes the results of this file review. Details regarding these summarized exceptions follow the table.

		SNAP	TANF	Medicaid
Number of files reviewed		50	40	50
Benefits paid to/on behalf of households reviewed for selected months	$	37,670	10,442	8,682
Number of files with over/(under) payments**		10	0	NA
Total calculated overpayments	$	358	0	NA
Total calculated (underpayments)	$	(267)	0	NA
Number of files with insufficient documentation**		9	2	3
Benefits associated with files with insufficient documentation for selected months*	$	7,681	803	0

* Eligibility and/or accuracy of benefits received could not be verified due to lacking supporting documentation.
** Certain files included both over/under payments and insufficient documentation. Those files are reflected once in the summary as files with insufficient documentation.

For fifty files reviewed receiving SNAP, nineteen files were found to be incomplete or the benefits were calculated in error as noted below. The nineteen files paid benefits of $15,252 for the selected months of which $7,772 resulted in net questioned costs.

- For four files, net income was calculated incorrectly. The benefit amount paid to these household during the selected months was $2,427.
- For six files, income was calculated incorrectly. For two of these files the household was not entitled to SNAP benefits. The benefit amount paid to these households during the selected months was $5,010.
- For one file, income and net income was calculated incorrectly. The benefit amount paid to this household during the selected months was $1,189.
- For one file, proof of income was not properly verified with the beneficiary for one certification period and income was calculated incorrectly for a second certification period. The benefit amount paid to this household during the selected months was $735.
- For one file, social security number was not verified with SSA. The benefit amount paid to this household during the selected months was $1,317.

- For one file, there was no verification of dependent care costs. The benefit amount paid to this household during the selected months was $209.
- For one file, the application and supporting documentation was not made available for review for one certification period; therefore, eligibility could not be verified. For a second certification period, net income was calculated incorrectly. The benefit amount paid to this household during the selected months was $993.
- For one file, the last page of the application was not signed by the beneficiary. The benefit amount paid to this household during the selected months was $547.
- For one file, income was calculated incorrectly for one certification period. For a second certification period, the file was not made available for review; therefore, eligibility could not be verified. The benefit amount paid to this household during the selected months was $248.
- For one file, proof of income was not properly verified with beneficiary and net income was calculated incorrectly. The benefit amount paid to these household during the selected months was $187.
- For one file, proof of income was not available for one certification period and income was calculated incorrectly for a second certification period. The benefit amount paid to this household during the selected months was $2,390.

For forty files reviewed receiving TANF, two files were found to be incomplete as noted below. The two files paid benefits of $803 for the selected months, all of which resulted in net questioned costs.

- For one file, the application was provided but not signed by the beneficiary to reflect the information provided on the application as true and complete. The benefit amount paid to this household during the selected months was $548.
- For one file, the SSA verifications were not available. The benefit amount paid to this household during the selected months was $255.

For fifty files reviewed receiving Medicaid, eligibility for three files was found to be incomplete or had benefits calculated in error as noted below. No benefits were paid on behalf of the three households.

- For one file, the current application could not be provided, therefore current eligibility and benefits could not be reviewed. No benefits were paid on behalf of the household during the selected months.
- For one file, no support for income used in determining eligibility was available. No benefits were paid on behalf of the household during the selected months.
- For one file, the beneficiary was determined to be Medicaid eligible however for the incorrect Medicaid subcategory. No benefits were paid on behalf of the household during the selected months.

SAVERR

Audit procedures included review of certain general and application level controls designed for SAVERR along with review of selected case files, as noted below. The following were noted with regard to the general IT control procedures performed:

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. 59 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. Also, Team for Texas did not perform periodic access review for the SAVERR mainframe users within the fiscal year.

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.

SAVERR interfaces with the Social Security Administration (SSA) to verify social security numbers. SAVERR 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. However, SAVERR is not designed nor are there 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.

Qualified aliens, as defined by 8 USC 1641, who entered the United States on or after August 22, 1996, are not eligible for Medicaid for a period of five years. At the application level of SAVERR, the five year wait period is not automatically enforced. Each case worker is required to make the appropriate determination for aid.

Forty files processed through SAVERR were reviewed for TANF and fifty files were reviewed for the Medicaid and SNAP program. For each of the files an initial month and a recertification month, if available, were reviewed. The following table summarizes the results of this file review. Details regarding these summarized exceptions follow the table.

		SNAP	TANF	Medicaid
Number of files reviewed		50	40	50
Benefits paid to/on behalf of households reviewed for selected months	$	31,961	12,115	15,959
Number of files with over/(under) payments**		6	0	NA
Total calculated overpayments	$	135	0	NA
Total calculated (underpayments)	$	(130)	0	NA
Number of files with insufficient documentation**		11	3	5
Benefits associated with files with insufficient documentation for selected months*	$	6,974	1,310	68

* Eligibility and/or accuracy of benefits received could not be verified due to lack of supporting documentation.
** Certain files included both over/under payments and insufficient documentation. Those files are reflected once in the summary as files with insufficient documentation.

For fifty files reviewed receiving SNAP benefits, seventeen files were found to be incomplete or the benefits calculated in error as noted below. The seventeen files paid benefits of $11,659 for the selected months of which $6,979 resulted in net questioned costs.

- Six files were not made available for review for one or both of the selected months. Therefore, eligibility could not be verified. Benefits paid to these households during the selected months were $4,127.
- For one file proof of income was not available for one certification period and file were not made available for review for a second certification period. The benefit amount paid to this household during the selected months was $348.
- For three files net income was calculated incorrectly. The benefit amount paid to these households during the selected months was $2,867.

- For two files income and net income was calculated incorrectly. The benefit amount paid to these household during the selected months was $909.
- For three files income was calculated incorrectly. The benefit amount paid to these household during the selected months was $1,818.
- For one file income was not properly supported. The benefit amount paid to this household during the selected months was $716.
- For one file proof of income was not properly verified with beneficiary and net income was calculated incorrectly for one certification period and for a second certification period, income was calculated incorrectly. The benefit amount paid to this household during the selected months was $874.

For forty files reviewed receiving TANF, three file were found to be incomplete or had benefits calculated in error as noted below. The three files paid benefits of $1,310 for the selected months of which $1,310 resulted in net questioned costs.

- For one file the current application could not be provided thus there was no support for income, Texas residency, etc. The benefit amount paid to this household during the selected months was $312.
- For one file there was no support for income used in determining eligibility. The benefit amount paid to this household during the selected months was $428.
- For one file there was no proof of US Citizenship. The benefit amount paid to this household during the selected months was $570.

For fifty files reviewed receiving Medicaid, eligibility documentation for five files was found to be incomplete. For five files the application was not available for review and one of the files was also missing citizenship validation. Benefits paid on behalf of the household during the selected months were $68.

Summary

The following analysis provides perspective for the above three programs:

		SNAP	TANF	Medicaid
Approximate amount of benefits paid for clients processed through TIERS for Fiscal year 2010	$	1,286,862,426	26,959,002	2,361,465,450
Approximate amount of benefits paid for clients processed through SAVERR for Fiscal year 2010	$	4,078,906,679	76,334,700	15,522,968,717
Approximate amount of benefits paid for clients processed through non HHSC eligibility system for Emergency Assistance (EA)	$	0	88,692,856	0
Approximate administrative expenditure for Fiscal year 2010	$	247,961,526	447,938,447	586,821,420
Approximate total expenditures per 2010 Federal Schedule	$	5,613,730,631	639,925,005	18,471,255,587
Approximate total number of clients served in August 2010, excluding EA		3,997,216	122,407	3,375,586

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. Also, HHSC should modify their quality control reporting to include the percentage of cases that required HHSC personnel to obtain additional documentation from the client to comply with State plan documentation requirements. Currently the quality control reporting only informs management of incorrect benefit calculations, which does not address the quality of documentation. 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 and SAVERR. 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 in 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. User access and privileges should be periodically reviewed and approved by management.

Management Response and Corrective Action Plan:

To address the state's policies of what is required documentation, the HHSC Office of Family Services (OFS) released a TIERS documentation guide on September 9, 2010 to be effective October 1, 2010. This document provides clear guidance to case workers on what is required documentation to support an eligibility decision.

Beginning with the October 2010 sample month, HHSC expanded the SNAP quality control process and management reporting to include a review of documentation and verification supporting the eligibility decision. Findings are shared with OFS TW Policy on a quarterly basis for evaluation.

The HHSC Office of Family Services redesigned the TIERS training curriculum to provide an integrated curriculum with a hands-on experience for the trainee. The redesigned training was implemented for new users in March 2010. All users who received the previous version of the training receive the new training as their region implements TIERS.

During fiscal year 2010, HHSC processed a high volume of backlogged applications and redeterminations using various initiatives, including shipping files between regions. Because of the high volume of work processed during this time, worker data entry error caused many of the errors identified in the audit. HHSC will continue the existing case reading, management evaluation, and quality control processes already in place to identify issues with missing documentation and verification.

Currently, SAVERR users with access to direct data entry are reviewed on an annual basis. HHSC will continue this annual review until the decommissioning of the SAVERR system.

Implementation Dates: *OFS Policy - October 1, 2010*
OFS Training - March 2010
OPSM - October 1, 2010

Responsible Persons: *Lynn W. Blackmore, Todd Byrnes, and Elisa J. Garza*

TIERS

Management Response and Corrective Action Plan:

HHSC will take the following actions to further strengthen eligibility processes and controls:

- *Northrop Grumman is the primary support organization for the server infrastructure and therefore system administrators having knowledge of root account passwords on application servers is consistent with their role as service providers to HHSC. To control access to and use of root accounts, each Northrop Grumman system administrator accesses the application servers using an individual account. The system administrators can only access the root account through the operating system's switch user feature, which identifies the individual system administrator that used the root account. The switch user log is also enabled, which records an audit trail of access to the root account.*
- *With regards to administrative access to the production database, HHSC will remove access to the SYS and SYSTEM accounts for the three individuals.*
- *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 storing for six years all unauthorized attempts to log in to the TIERS portal, (b) monitoring for evidence of any brute force password attacks, (c) encrypting all Internet traffic data through the use of Secure Socket Layer (SSL) protection, and (d) automatically disabling access for all HHS employees and Maximus vendor staff on the day they end employment. Other users are disabled when their accounts have been inactive in excess of 90 days.*
- *Currently, HHSC policy does not require a valid SSN on file prior to the recertification of benefits. There is a requirement that clients follow-up to clear discrepancies in SSA records. Currently, SSNs failing the validation process produce an alert for action by eligibility staff. This process was evaluated by reviewing clients whose Medicaid was recertified without a validated SSN in TIERS. This process was determined to be working effectively as only 14 of the clients listed were TIERS-created clients. HHSC will trigger the validation interface for all invalidated clients several times over the next twelve-month period. TIERS does require many data elements to be entered to ensure complete information in the determination of eligibility. TIERS allows sections to remain pending until complete information is obtained. A TIERS case history report has been developed to support case worker ability to view case details for any previous case disposition. Case Data Change screens were deployed in August 2010. TIERS is a real-time application that will place a case in a mode other than ongoing (change action, complete action, etc.) when a case worker is updating the case record. TIERS does not allow automated disposition to these case records while the case is in process since the system cannot determine the completeness of the changes being made. Automatically disposing these cases could result in inappropriate benefits to be issued or an inaccurate denial of benefits.*

Implementation Date: *General IT Controls - February 2011*
Case data change functionality - August 2010

Responsible Persons: *David Pustka and Leah Burton*

SAVERR

Management Response:

Enterprise Security Management (ESM) reviews audit logs of demand access on a monthly and annual basis. On a monthly basis, HHSC verifies that demand access is only used for specified purposes and to fulfill job duties on a need to know basis. Production operations has developed and implemented a management process to ensure that when demand access is used inquiries are made to verify that access to production is in an authorized and monitored fashion. ESM uses facts and information gathered by production operations to validate the use of demand access or make further inquiries to protect against unauthorized access. In addition, demand access is reviewed annually by ESM, production operations, and the SAVERR management team to ensure that individuals granted demand access meets the requirements of the job duties and demand access is limited to only those individuals whom are required to maintain the access.

Implementation Date: *Ongoing*

Responsible Person: *Leah Burton, Director*

Reference No. 11-10

Eligibility

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2009 to September 30, 2011, October 1, 2008 to September 30, 2010, and October 1, 2007 to September 30, 2009
Award numbers - G1001TXSOSR, G0901TXSOSR, and G0801TXSOSR
Type of finding - Material Weakness and Scope Limitation

Questioned Cost: $ 25,470,664

U.S. Department of Health and Human Services

The Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009, (Public Law 110-329) was signed into law on September 30, 2008. This act provided $600 million in additional funds to the Social Services Block Grant to address necessary expenses resulting from hurricanes, floods, and other natural disasters occurring during 2008 (i.e. Ike and Dolly) for which the President declared a major disaster, and from hurricanes Katrina and Rita, including social, health, and mental health services for individuals, and for repair, renovation, and construction of health facilities, including mental health facilities, child care centers, and other social services facilities. Per OMB Circular A-133 Compliance Supplement 2010, Part 3, "Some non-Federal entities pay the Federal benefits to the eligible participants but arrange with another entity to perform part or all of the eligibility determination. In such cases, the State is fully responsible for Federal compliance for the eligibility determination, as the benefits are paid by the State. Moreover, the State shows the benefits paid as Federal awards expended on the State's Schedule of Expenditures of Federal Awards."

The Health and Human Services Commission (HHSC) paid approximately $25.5 million in benefits to providers for medical claims during fiscal year 2010 under the Social Services Emergency Disaster Relief grant. HHSC delegated eligibility determinations to the individual providers. The medical claims paid are reflected in the State of Texas Schedule of Expenditures of Federal Awards. HHSC was not able to provide sufficient documentation to support its compliance with eligibility requirements for 40 provider claims selected.

Recommendation:

HHSC should ensure that adequate documentation is obtained and maintained to support eligibility determinations when eligibility determinations are delegated to non-state entities.

Management Response and Corrective Action Plan:

HHSC, in conjunction with the Texas Medicaid and Healthcare Partnership (TMHP), will continue to work with the hospitals that received SSBG funds to treat hurricane evacuees to obtain the appropriate documentation to support eligibility determinations and to prove that the services were provided and billed for in accordance with federal requirements. HHSC began the process requesting the required information from the impacted hospitals in December 2010. Unfortunately, HHSC was unable to gather all of the required documentation to provide to KPMG prior to the end of the audit time frame.

Implementation Date: *Complete documentation requests to impacted providers - February 2011*

Review and analyze documentation to ensure paid claims met federal SSBG requirements for payment - May 2011

Document findings from analysis and begin recoupment process for impacted claims - June 2011

Responsible Person: *Jennifer Stansbury*

Reference No. 11-11
Eligibility
(Prior Audit Issues - 10-15, 09-16, 08-11 and 07-12)

CFDA 93.767 - Children's Health Insurance Program
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1005TX5021 and 0905TX5021
Type of finding - Significant Deficiency and Material Non-Compliance

Questioned Cost:	$2,853
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, per the Texas Children's Health Insurance Program (CHIP) Administrator Business Rules 370.42, *Eligibility Applicant Children*, CHIP 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 are 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 CHIP. Resource limit is $10,000 or less in countable liquid value plus excess vehicle value.

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 IT control procedures performed:

- Thirteen Northrop Grumman system administrators have knowledge of the root account's password on the production application servers.
- Administrative access to the production databases was not restricted appropriately. Three consultants had access to the SYS and SYSTEM database accounts.

- Three inactive user accounts with SUDO privileges administrative access existed on the production servers and were moved upon notification. Twelve inactive generic accounts existed on the production servers and were moved upon notification.
- Four user accounts identified by the Health and Human Services Commission (HHSC) to be disabled during the quarter ended March 31, 2010 were not disabled as of August 30, 2010. These accounts were locked by management upon notification.
- Evidence of a periodic operating system user account access review was not available for review and the profiles and roles for application users were not performed during the audit period.

With full administrative access, the root account can be used to provide system access to add, update, or delete programs/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.

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 CHIP. The original design of the TIERS application did not include resource tests for CHIP eligibility. HHSC determined to rely on the caseworkers to manually identify the affected CHIP cases. CHIP 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 CHIP. These children are "deemed eligible" without verification of the resource limits and interfaced into MAXe bypassing the resource edit checks. HHSC corrected this system design effective August 9, 2010.

For children under the age of one when the family FPIL level is between 150% and 185% and the family resources are between $2,000 and $10,000, MAXe is improperly denying benefits. HHSC has identified this design issue and has created a manual work-around for case workers to override MAXe; however, the use of a work-around does not allow for adequate identification of eligible children possibly resulting in children under one being improperly denied benefits. HHSC corrected this system design March 25, 2010.

For forty files reviewed receiving CHIP, seven files were found with the following:

- For one file, the case was transferred to CHIP from Medicaid and the associated eligibility file was not locatable. Therefore the signed application and documentation that the child was uninsured for at least 90 days was not available. The benefits paid for this child for the fiscal year were approximately $727.
- For one file, the beneficiary did not answer the question on the application that the child was uninsured for at least 90 days nor was there other evidence of insured status. The benefits paid for this child for the fiscal year were approximately $1,217.
- For four files, the case was transferred to CHIP from Medicaid and the income used in MAXe did not agree to the proof of income in the eligibility file. Using the proof of income amounts, the children remained eligible. In addition one of these four files also was missing information regarding if the child was uninsured for 90 days. Total benefits paid for the child with missing information were approximately $438.
- For one file, the case was transferred to CHIP from Medicaid and the income used in MAXe system did not agree to the proof of income in the eligibility file. Using the proof of income amounts, the child was not eligible for CHIP or Medicaid. The benefits paid for this child for the fiscal year were approximately $471.

Recommendation:

HHSC should implement procedures in accordance with their security access policies that provide access security controls based on the individual's demonstrated need to view, add, change, or delete data. HHSC should ensure that a completed application and other supporting documentation is maintained for every individual receiving benefits. HHSC should also ensure that the income used in the MAXe system agrees to the proof of income in the eligibility file.

Management Response and Corrective Action Plan:

During fiscal year 2010, HHSC processed a high volume of backlogged applications and redeterminations using various initiatives, including shipping files between regions. Because of the high volume of work processed during this time, worker data entry error caused many of the errors identified in the audit. HHSC will continue the existing case reading, management evaluation, and quality control processes already in place to identify issues with missing documentation and verification.

Implementation Date: *June 2010*

Responsible Person: *Elisa J. Garza*

Reference No. 11-12

Allowable Costs/Cost Principles
Period of Availability of Federal Funds

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2009 to September 30, 2011, October 1, 2008 to September 30, 2010, and October 1, 2007 to September 30, 2009
Award numbers - G1001TXSOSR, G0901TXSOSR, and G0801TXSOSR

CFDA 93.767 - Children's Health Insurance Program
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1005TX5021 and 0905TX5021

Medicaid Cluster
Award years - October 1, 2009 to September 30, 2010, October 1, 2008 to September 31, 2009, and October 1, 2007 to September 31, 2008
Award numbers - 1005TX5MAP, 0905TX5028, 0905TX5048, 0805TX5028, and 0805TX5048

Medicaid Cluster - ARRA
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to December 31, 2009
Award numbers - 1005TXARRA and 0905TXARRA

TANF Cluster
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - G1002TXTANF and G0902TXTANF

Non-Major Programs:
93.566 - Refugee and Entrant Assistance - State Administered Programs
Type of finding - Significant Deficiency and Material Non-Compliance

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 firsthand knowledge of the work performed by the employee."

Questioned Cost:	
TANF	$112,275
Medicaid	517,358
Other	3,390
U.S. Department of Health and Human Services	

The Health and Human Services Commission (HHSC) implemented an automated process for certification for the second period during fiscal year 2010, March 1 through August 31, 2010. With regard to the automated system, HHSC does not have a policy as to the time frame for which the certifications need to be completed. The reports to monitor the supervisors that have not certified their employees are currently under development. HHSC noted there were no fiscal year 2010 certifications outstanding as of January 27, 2011.

When the supervisors are unable/unwilling to certify, the HHSC budget department will determine which department the employee should be assigned. The reassignments are currently performed prior to the next certification period. The result is identified unallowable costs not being corrected during the current certification period. The amount of potential unallowable costs that were not corrected was approximately $100,458 from September 2009 through February 2010 and $420,290 from March 2010 through August 2010.

No compliance exceptions were noted for the second certification period from a sample of 17 employees.

For the first certification period for fiscal year 2010, September 1, 2009 to February 28, 2010, HHSC had a manual approval process. One out of twenty-four certifications selected for testwork was not prepared as the supervisory official with firsthand knowledge of the work performed by the employee was no longer with HHSC at the time of the certification. Total payroll of $112,275 not certified involved three employees working solely on the TANF program. The certification for these three employees was prepared upon request during the audit.

Recommendation:

HHSC should ensure all semi-annual certification are signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. If the supervisor is no longer with HHSC at the time of semi-annual certification, HHSC should ensure the employee or supervisory official that has knowledge of the work performed by the employee signed the certification.

Management Response and Corrective Action Plan:

HHSC Financial Management is in the process of refining the policies and procedures necessary to ensure that the processes related to the Sole Federal Source certification are completed timely and accurately. This will ensure that certifications are signed by the appropriate party. It will also ensure that all declined certifications will be reviewed and that determinations will be made as to whether or not the sole federal source was appropriately charged for any month during the certification period. Inappropriately charged sources will be corrected and the employees will be moved to the appropriate funding stream with program management's concurrence.

Implementation Date: *May 2011*

Responsible Person: *Tracy Henderson*

Reference No. 11-13

Allowable Costs/Cost Principles

Program Income

(Prior Audit Issues - 10-22, 09-14, 08-09, and 07-11)

CFDA 93.767 - Children's Health Insurance Program
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1005TX5MAP, 0905TX5028, and 0905TX5048

Medicaid Cluster
Award years - October 1, 2009 to September 30, 2010, October 1, 2008 to September 30, 2009, and October 1, 2007 to September 30, 2008
Award numbers - 1005TX5MAP, 0905TX5028, and 0905TX5048

Medicaid Cluster - ARRA
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to December 31, 2009
Award numbers - 1005TXARRA and 0905TXARRA
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 rebates. FHSC was owned by Coventry Health Care, Inc. (Coventry) through July 31, 2009, and Coventry managed the First Rebate application. Effective August 1, 2009, FHSC was acquired by Magellan Health Services (Magellan).

In May 2010, the First Rebate Application was also migrated to a new data center owned by Magellan. The legacy supporting hardware and operating system of the First Rebate Application was replaced and is no longer accessible by Coventry. As a result, the logical access controls that supported the application could not be assessed from the period of September 2009 through May 2010.

For the period after May 2010, it was noted access to the First Rebate production servers was not restricted appropriately as an excessive number of accounts (51 generic/system accounts and 22 user accounts) existed on the MBH domain. In addition, 15 generic/system accounts and 5 user accounts with administrative access exist on RICNTDOM0 domain. At the database level, duplicate user accounts existed on First Rebate SQL database, which were left over after the transition from Coventry to Magellan. Upon notification, the duplicate SQL database user accounts were removed.

A periodic review of the database and operating system accounts was not conducted during the audit period.

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 reportable compliance exceptions for vendor drug expenses were noted related to the allowable costs/cost principles and program income related to the major programs noted above.

Recommendation:

Access to administrative IDs should be restricted to a limited number of authorized employees. Unused generic IDs should be locked or monitored. Finally, a periodic review of the database and operating system accounts should be performed.

Management Response and Corrective Action Plan:

As of November 22, 2010, HHSC transitioned the Pharmacy Claims and Rebate Administration system to a new vendor, Affiliated Computer Systems. A corrective action plan for this period from Magellan would not benefit the state, since Magellan is no longer responsible for processing Vendor Drug claims and rebates.

Implementation Date: *November 22, 2010*

Responsible Person: *Andy Vasquez*

Reference No. 11-14

Allowable Costs/Cost Principles

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2009 to September 30, 2011, October 1, 2008 to September 30, 2010, and October 1, 2007 to September 30, 2009
Award numbers - G1001TXSOSR, G0901TXSOSR, and G0801TXSOSR
Type of finding - Significant Deficiency and Non-Compliance

Office of Management and Budget (OMB) Circular A-87, Attachment A, Part C, requires that costs be (1) necessary and reasonable for proper and efficient performance and administration of Federal awards and (2) allocable to Federal awards under the provisions of this Circular. One item of twenty-five selected for test work was not an allowable expenditure. The Health and Human Services Commission (HHSC) used funds from its Social Services Emergency Disaster Relief grant to pay $21,720 for the replacement of two rented trailers that were stolen during the disaster relief effort.

Questioned Cost:	$21,720
U.S. Department of Health and Human Services	

Recommendation:

HHSC should ensure that all charges to federal programs are for allowable activities and costs and/or have approval from the granting agency for unusual circumstances as noted above.

Management Response and Corrective Action Plan:

HHSC will seek a written determination from FEMA of whether the funds used to replace the stolen trailers is an allowable cost. If the cost is unallowable, HHSC plans to perform a method of finance adjustment for the questioned cost amount. In the future, HHSC will ensure that charges to federal programs are for allowable activities and costs and/or have approval from the granting agency for unusual circumstances. Required approvals will be requested prior to expensing costs related to unusual circumstances similar to the specific example mentioned in the audit finding.

Implementation Date: *April 2011*

Responsible Person: *Allen Bledsoe*

Reference No. 11-15
Earmarking
(Prior Audit Issue - 10-20)

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2009 to September 30, 2011, October 1, 2008 to September 30, 2010, and October 1, 2007 to September 30, 2009
Award numbers - G1001TXSOSR, G0901TXSOSR, and G0801TXSOSR
Type of finding - Significant Deficiency and Scope Limitation

The State shall use all of the amount transferred in from CFDA 93.558 - Temporary Assistance for Needy Families (TANF) only for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline as revised annually by the Department of Health and Human Services (HHS) (42USC604(d)(3)(A) and 9902(2)).

Questioned Cost:	$ 0
U.S. Department of Health and Human Services	

The Health and Human Services Commission (HHSC) passes certain of its CFDA 93.667 - Social Services Block Grant (SSBG) funds received as transfer from TANF through to subrecipients through the Family Violence Program. The subrecipients use the monies to aid in the cost of operating shelters. A form is filled out for all clients served to document income eligibility for receipt of funds transferred from TANF. However, all income information is self-reported and no validation mechanism for the reported income exists. Therefore audit evidence is not available to determine whether the expenditures meet the earmarking requirements established for the funds transferred from TANF to SSBG. Total TANF transfer monies passed through to subrecipients during fiscal year 2010 were approximately $6,578,000.

Annually, HHSC submits the Intended Use Report to HHS, which denotes the use of the TANF transfer funds for family violence services. The Intended Use Report also indicates that "families with a caretaker and dependent child(ren) with income at or below 200% of poverty, based on self-declaration, are the eligible population served primarily through shelters".

Recommendation:

Since the Intended Use Report is not officially approved, HHSC should obtain an official waiver from HHS acknowledging that self declaration is an acceptable method of HHSC to verify eligibility or consider utilizing the funds for a different purpose.

Management Response and Corrective Action Plan:

The Family Violence Program (FVP) has sought guidance from our federal funding partner, the Administration for Children and Families (ACF), on this matter and to date, has not received a response that specifically addresses the concern. HHSC will be unable to make a determination, or provide a response and Corrective Action Plan, if needed, until it receives guidance from ACF.

Implementation Date: *Ongoing*

Responsible Person: *Chan McDermott*

Reference No. 11-16

Subrecipient Monitoring

(Prior Audit Issue - 10-19)

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2009 to September 30, 2011, October 1, 2008 to September 30, 2010, and October 1, 2007 to September 30, 2009
Award numbers - G1001TXSOSR, G0901TXSOSR, and G0801TXSOSR
Type of finding - Significant Deficiency and Material Non-Compliance

Questioned Cost:	$ 0
U.S. Department of Health and Human Services	

The Health and Human Services Commission (HHSC) 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, HHSC 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 HHSC within 9 months of the subrecipient's fiscal year. HHSC is to review the report and to issue a management decision within six months, if applicable.

The Family Violence portion of 93.667 - Social Services Block Grant subrecipient monitoring process includes an established contract award process and collection and review of OMB Circular A-133 reports. HHSC places heavy reliance on the site visits to monitor the subrecipients administered the funds in compliance with laws, regulations, and the provisions of the grant agreements. Per review of the site visit procedures, selected expenses are agreed to supporting documentation, financial reports filed with HHSC are reconciled to the general ledger and earmarking requirements are verified. For four of the fifteen files reviewed the monitoring checklist was not completed for one of these elements. There was also no evidence of a supervisor review of the related checklists. Federal funds passed through for 93.667 - Social Services Block Grant were approximately $68 million during fiscal year 2010. The Family Violence portion of 93.667 was approximately $6,580,000.

Additionally, all fifteen standard subrecipient contracts utilized by HHSC for Family Violence and one of four Council of Governments (COGs) selected for Emergency Disaster Relief Funds do not contain the required notification of the CFDA number. The one COG contract was a 2009 award. The three 2010 COG contracts reviewed contained the CFDA number.

Recommendation:

With regard to the Family Violence funds, HHSC should ensure a supervisor reviews the checklist for completeness and maintains proper supporting documentation of its during-the-award monitoring activities. HHSC also should ensure that a CFDA number is included in all contracts with subrecipients to clearly identify the federal award.

Management Response and Corrective Action Plan:

The Family Violence Program monitoring tool (checklist) has been revised to clearly indicate (a) that each element has been reviewed by the contract manager and (b) the outcome of that review. In addition, each monitoring tool (checklist) now includes a place for the supervisor to indicate that the supervisory review was completed.

The FY2010 contracts reviewed did not contain the CFDA numbers because these contracts were awarded before KPMG released its findings last year; however, all FY2011 contracts include both the Social Services Block Grant CFDA number (93.667) and the Family Violence Prevention Services Act (FVPSA) CFDA number (93.671).

Implementation Date: *January 14, 2011*

Responsible Person: *Chan McDermott*

Reference No. 11-17

Special Tests and Provisions - Provider Eligibility

(Prior Audit Issues - 10-13, 09-22, and 08-19)

Medicaid Cluster
Award years - October 1, 2009 to September 30, 2010, October 1, 2008 to September 30, 2009, and October 1, 2007 to September 30, 2008
Award numbers - 1005TX5MAP, 0905TX5028, 0905TX5048, 0805TX5028, and 0805TX5048
Type of finding - Significant Deficiency and Material Non-Compliance

Questioned Cost:	$ 0
U.S. Department of Health and Human Services	

Per 42 CFR Section 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. Per 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 fifty providers receiving Medicaid payments during fiscal year 2010 were selected for review and nineteen files were noted to have the following exceptions. Of the nineteen files, seventeen were enrolled prior to fiscal year 2004 when the Health and Human Services Commission (HHSC) contracted with their current vendor who operates under current HHSC policies and procedures.

- For eighteen providers, a search to ensure the provider was not on the Medicaid exclusion list was not conducted.
- For nine providers, the file had a Provider Agreement available for review but a signed and notarized copy of the Provider Information Form was not available.
- For one provider, the file had a signed and notarized copy of the Provider Agreement but the documentation of the provider's owners and other persons convicted of criminal offenses against Medicare, Medicaid, or the Title XX services program was not included.
- For five providers, there was no signed disclosure of ownership and control interest statement available for review.
- For two providers, there was no evidence of a completed Provider Agreement signed by the provider.
- For one provider, there was no evidence that HHSC verified suspension and debarment. Upon review of the Excluded Parties List System (EPLS), the provider was not suspended or debarred.
- For one provider, there was no evidence the provider met criteria for an Out-of-State provider.

Recommendation:

HHSC should implement procedures to ensure federal requirements and State plan requirements regarding provider eligibility are met. As noted above, the majority of the exceptions relate to older provider agreements. HHSC could consider reissuing and/or amending the older agreements to conform to current regulations and policies and/or implementing a periodic renewal process of two to five years.

Management Response and Corrective Action Plan:

The records that were reviewed during the audit date back to 1977 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 any 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, files requiring OIG review undergo 100% quality review prior to 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 and has remained at that level to date.

TMHP currently receives updated HHSC OIG exclusion lists on a monthly basis. These files are loaded into the S3 System, an application with a suite of interactive portals and customized reports developed for TMHP that assists with the verification required to enroll or re-enroll providers in the Texas Medicaid Program. The Provider Enrollment Specialist interactively matches a provider's information against the TMHP Master File, the Federal Provider Exclusion List, the Texas State Provider exclusion list, the Texas Medicaid Do Not Enroll List, and the Open Investigations so the user can determine if the provider is eligible to be enrolled. An application that is submitted is reviewed against the HHSC and HHSC OIG exclusion lists. Should a provider appear on an exclusion list, TMHP Provider Enrollment staff document those findings within the comments section of the provider record transferred to HHSC OIG for further review. If a provider, who is currently enrolled, is added to the exclusion list after their initial or re-enrollment, TMHP Provider Enrollment would receive notification via a State Action Request Memo (SAR) from HHSC directing TMHP to modify the provider's current enrollment profile. This is accomplished by placing a payment denial code (PDC) on the provider's enrollment profile, restricting current enrollment and future payments.

In response to the audit findings, seventeen of the nineteen providers listed in the detailed exceptions were enrolled prior to 2004 under the previous claims administrator. For all nineteen providers, TMHP has confirmed that they performed a S3 (exclusion check) match on these providers in October 2010 and have noted such in the providers files in Phoenix. Additionally, that information was provided to KPMG as well. HHSC and TMHP consider these nineteen providers to be in good standing.

HHSC is currently analyzing the requirements of Section 6401 of the Patient Protection and Affordable Care Act (ACA) and the impact to the Medicaid Program, which will require additional provider screening, enrollment, and re-enrollment requirements. Provider re-enrollment will be required every three to five years dependent on provider type. Once these new requirements are implemented and providers are re-enrolled in the Medicaid Program, HHSC will be able to ensure that all providers have met federal and state requirements for enrollment.

Implementation Date: *March 2012*

Responsible Person: *Jennifer Stansbury*

Reference No. 11-18

Special Tests and Provisions - Utilization Control and Program Integrity

Medicaid Cluster
Award years - October 1, 2009 to September 30, 2010, October 1, 2008 to September 30, 2009, and October 1, 2007 to September 30, 2008
Award numbers - 1005TX5MAP, 0905TX5028, 0905TX5048, 0805TX5028, and 0805TX5048
Type of finding - Non-Compliance

Per 42 CFR 456.4, the agency must (1) Monitor the statewide utilization control program, (2) Take all necessary corrective action to ensure the effectiveness of the program, (3) Establish methods and procedures to implement this section, (4) Keep copies of these methods and procedures on file, and (5) Give copies of these methods and procedures to all staff involved in carrying out the utilization control program.

Questioned Cost:	$ 0
U.S. Department of Health and Human Services	

Effective November 2009, the Health and Human Services Commission (HHSC) Office of Inspector General (OIG) Utilization Review Unit suspended Nursing Facility Utilization Reviews (NFUR) due to the change in reimbursement methodology driven by a state plan amendment approved by the Centers for Medicare and Medicaid Services (CMS) in December 2008. The change in the reimbursement methodology increased the number of line items subject to review resulting in a system redesign. HHSC OIG plans on resuming the NFUR review in fall 2010. Per review of 25 NFUR files for September 2009 thru October 2009, no exceptions were noted.

Recommendation:

HHSC OIG should retrospectively resume the NUFRs as planned. These reviews should cover the time period dating to the date the reviews were suspended.

Management Response and Corrective Action Plan:

Retrospective reviews were resumed in November 2010 to address new rules that were effective October 2008. The reviews currently being performed will maintain continuity with the activity previously under review at the time of the November 2009 suspension. The nursing facility review process completion is impacted by the following:

- *Dual review duties - conducting hospital utilization reviews*
- *Changes in reimbursement methodology - effective September 1, 2008, the Department of Aging and Disability Services changed the reimbursement methodology for services provided to Medicaid residents from the Texas Index Level for Effort (TILE) to Resource Utilization Group-III (RUG-III)*
- *Increase in the number of categories for reimbursement from 11 to 34*
- *Increase in the number of items for review from 19 to 105 on the Minimum Data Set (MDS) form*
- *Longer completion time due to the above changes and the review process of MDS forms being new to the utilization review staff*
- *New rule requirements including statistically valid random sampling and extrapolation*
- *Provider due process now extends the completion date from the onsite review completion date through the appeal process. Nursing facility reviews with effective date October 9, 2008 were resumed November 16, 2010. Based on the information stated above, it is estimated that nursing facilities will be reviewed by 2014.*

Implementation Date: *November 16, 2010*

Responsible Person: *Judy Knobloch*

Reference No. 11-19

Special Tests and Provisions - EBT Card Security

(Prior Audit Issues - 10-14, 09-19, 08-16, and 07-16)

SNAP Cluster
Award years - October 1, 2009 to September 30, 2010, October 1, 2008 to September 30, 2009, and February 12, 2010 to September 30, 2010
Award number - 6TX400105 and 6TX430155
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, Electronic Benefits Transfer (EBT) cards (7 CFR section 274.12(h)(3)), to prevent their: theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use (7 CFR sections 274.7(b) and 274.11(c)).

Security over EBT cards (i.e., Lone Star cards) was reviewed for 40 local intake offices. The 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, 15 sites were identified with the following exceptions:

- For three sites, the daily reconciliation was not prepared and/or reviewed by management.
- For one site, the daily reconciliation could not be located for two dates selected.
- For five sites, there was no on-site security review and/or corrective action plan.
- For five sites, neither the recipient nor the staff signed the log maintained for physical receipt of EBT cards.
- For three sites, the monthly inventory report for personal identification numbers (PIN) was missing the signature of the supervisor or employee responsible for completing the inventory.
- For four sites, the log of voided cards was missing required information.
- For five sites, the EBT cards and/or PIN packet inventory were not maintained in a secure location.
- For two sites, there was no signature on the log maintained for EBT cards mailed to the recipients.

Recommendation:

HHSC should enforce existing procedures at the various in-take offices to ensure compliance with federal regulations.

Management Response and Corrective Action Plan:

OES has implemented a requirement that all OES staff complete an annual review of EBT policies and procedures. The first review was completed on October 14, 2010. The next review of this material is planned for October 2011. OES is forming a workgroup consisting of statewide regional coordinators to review statewide review findings and best practices. This workgroup will also develop a standardized training for new site coordinators and a refresher training for site coordinators and back-ups to be taken on an annual basis.

In January 2011, HHSC implemented a new business process that reduces the number of EBT cards issued out of the local office. With this process, EBT cards for individuals interviewed via telephone will be mailed by the EBT vendor at the time of the interview. This process is expected to reduce the amount of reconciliation and reporting required by local management.

Implementation Dates: *Conduct first workgroup meeting - February 15, 2011*
Draft training for Regional Director Review - March 15, 2011
Distribute training statewide - March 31, 2011
Site Coordinators complete training - May 31, 2011

Responsible Person: *Elisa J. Garza*

Reference No. 11-20
Reporting
Special Tests and Provisions - EBT Reconciliation
(Prior Audit Issues - 10-18 and 09-23)

SNAP Cluster
Award years - October 1, 2009 to September 30, 2010, October 1, 2008 to September 30, 2009, and February 12, 2010 to September 30, 2010
Award numbers - 6TX400105 and 6TX430155
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, 2009 through August 31, 2010 (covering the full 12 months of the fiscal year 2010) 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 is protected against unauthorized physical and logical access to production EBT systems. Specifically for this control objective, the following exceptions were noted:

- Auditing of activity was not enabled for databases.
- While security logs were in place for the AIX environment, no process for regular review had been put in place.
- The report file server retained an account for a terminated employee (SIMP_DDEWALD) in the environment in operation prior to July 24, 2010.
- All Windows servers were using shared (multi-user) accounts, which do not meet security best practices for auditability.
- Four of five Windows servers did not have antivirus protection installed as required by IBM Information Security Controls (ISeC). Virus definitions were out of date for the server that did have antivirus installed.
- One of five Windows servers had an Administrator account that has not been renamed.
- Three of five Windows servers had accounts that were set to have passwords that never expired, which is not compliant with requirements that passwords be changed every 90 days as required per ISeC.
- For the period from July 24 to August 31, 2010, all four Windows servers tested had accounts set with passwords that never expire.
- Three of three OpenVMS servers had accounts present with excessive system privileges, which created a risk of unauthorized access.
- The TIERS account on the BIGTX1 and BIGTX4 servers had the SETPRV privilege, which allowed the account to set privileges for other users.

- One account on the LILTX1 server for a programmer had system privileges (full control of host).
- Two of three VMS servers (BIGTX1 and BIGTX4) were configured with broad proxy rights, allowing users to connect from any host. In addition, proxy rights were granted to a host (LILAL2) that is no longer in use.
- Permissions on the report file server were set inappropriately, such that all third-party processors can see data for each third-party processor, based on examination of rights for two third-party processors.
- No user accounts had their passwords changed within the last 90 days on the production databases.
- Systemwide password expiration was not activated on the production databases.
- For Windows, there did not appear to be a process in place for notifying Windows administrators of recent attacks and vulnerabilities.
- The access control list that is intended to restrict access to the production hosts, test hosts, and the report server for third-party processors who provide their own data circuits was not in place.
- Telnet, which is an insecure protocol, was available on the network.

Controls provide reasonable assurance that output data and documents are complete and distributed to authorized recipients on a timely basis. Specifically for this control objective, the following exceptions were noted:

- Evidence provided showed that third-party processors can access all third-party processors' data on the report file server.

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:

The Health and Human Services Commission's (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 Corrective Action Plans (CAPs) from the service providers to address the weaknesses identified for the post migration AIX control item findings. HHSC is currently reviewing submitted CAPs and will obtain final agreement on the timeline for remediation by March 2011.

The following control item findings are from the legacy TxEBT VMS systems which were retired with go-live on the AIX systems on July 24, 2010, as such, these findings are no longer relevent:

- *The report file server retained an account for a terminated employee (SIMP_DDEWALD) in the environment in operation prior to July 24, 2010.*
- *All Windows servers were using shared (multi-user) accounts, which does not meet security best practices for auditability.*
- *Four of five Windows servers did not have antivirus protection installed as required by IBM Information Security Controls (ISeC). Virus definitions were out of date for the server that did have anti-virus installed.*
- *One of five Windows servers had an Administrator account that has not been renamed.*
- *Three of five Windows servers had accounts that were set to have passwords that never expired, which is not compliant with requirements that passwords be changed every 90 days as required per ISeC.*
- *Three of three OpenVMS servers had accounts present with excessive system privileges, which created a risk of unauthorized access.*
- *The TIERS account on the BIGTX1 andBIGTX4 servers had the SETPRV privilege, which allowed the account to set privileges for other users.*
- *One account on the LILTX1 server for a programmer had system privileges (full control of host).*

- *Two of three VMS servers (BIGTX1 and BIGTX4) were configured with broad proxy rights, allowing users to connect from any host. In addition, proxy rights were granted to a host (LILAL2) that is no longer in use.*
- *No user accounts had their passwords changed within the last 90 days on the production databases.*
- *System wide password expiration was not activated on the production databases.*
- *For Windows, there did not appear to be a process in place for notifying Windows administrators of recent attacks and vulnerabilities.*
- *The access control list that is intended to restrict access to the production hosts, test hosts, and the report server for third-party processors who provide their own data circuits was not in place.*
- *Telnet, which is an insecure protocol, was available on the network.*

Implementation Date: *June 2011*

Responsible Persons: *Ron Weiss and Kay Jones*

Reference No. 11-21

Special Tests and Provisions - Adult Custodial Parent of Child Under Six When Child Care is not Available
(Prior Audit Issue - 10-26 and 09-24)

TANF Cluster
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - G1002TXTANF and G0902TXTANF

TANF Cluster - ARRA
Award years - October 1, 2009 to September 30, 2010
Award numbers - G1002TXTAN2, G1001TXTAN2, and G0901TXTAN2
Type of finding - Significant Deficiency and Material Non-Compliance

Questioned Cost:	$2,114
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 noncooperation.

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). HHSC works with the Texas Workforce Commission (TWC) to administer the program at the Texas Work Boards. TWC's role is to transmit information from the Texas Work Boards to HHSC who imposes the sanctions.

A sample of 40 beneficiaries who should have had their benefits reduced was selected for review - 20 from SAVERR and 20 from TIERS. Our review noted the following exceptions for TIERS and SAVERR. Of the 20 cases reviewed in TIERS, benefits were not reduced timely for three cases.

- For one case, the benefit was reduced one month late for a $312 overpayment. For a second case, the benefit was reduced three months late for a $780 overpayment. For this case, the case worker did not complete the required actions in a timely manner.

- For one case, the benefit was not reduced timely due to an incorrect use of the pregnancy exemption. There was no proof of pregnancy obtained resulting in two months of overpayments of $572.

Of the 20 cases reviewed in SAVERR, benefits were not reduced timely for one case. The case notes stated "exempt from the non-cooperation" due to living in a specific county. However, the county was not on the TANF exemption list. For the one case, the benefit was reduced two months late for a $450 overpayment.

Recommendation:

HHSC should implement procedures to ensure case files are properly classified when in sanction status and that they are processed timely and ensure documentation of exemptions is supported.

Management Response and Corrective Action Plan:

In October 2010, HHSC implemented procedures to have Customer Care Center (CCC) staff review cases that exception out of the TIERS mass update process to identify any cases where all pending information has been received and can be completed. CCC staff communicates this information to the appropriate regional management for action.

Implementation Date: *October 2010*

Responsible Person: *Elisa J. Garza*

Reference No. 11-22

Special Tests and Provisions - Child Support Non-Cooperation

(Prior Audit Issues - 10-23, 09-18, 08-15, and 07-15)

TANF Cluster
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - G1002TXTANF and G0902TXTANF

TANF Cluster - ARRA
Award years - October 1, 2009 to September 30, 2010
Award numbers - G1002TXTAN2, G1001TXTAN2, and G0901TXTAN2
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost:	$349
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 the 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 Texas Integrated Eligibility Reporting System (TIERS).

A sample of forty beneficiaries who should have had their benefits reduced was selected for review - twenty from SAVERR and twenty from TIERS. Our review noted the following:

- Of the twenty cases reviewed in SAVERR, benefits were not reduced timely for one case. The benefit was reduced one month late due to a 'C' that should have been input on the client screen for child support non-cooperation but was not, resulting in an error of $260.
- Of the twenty cases reviewed in TIERS, benefits were reduced one month late for one case resulting in an overpayment of $89. Further, this particular case did not process through the Mass Update as the client was not noted as being eligible. Therefore, the case "exceptioned out" to be manually worked. There was not a formalized process to manually work "exceptioned out" cases until October 2010.

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:

In October 2010, HHSC implemented procedures to have Customer Care Center (CCC) staff review cases that exception out of the TIERS mass update process to identify any cases where all pending information has been received and can be completed. CCC staff communicates this information to the appropriate regional management for action.

The Office of Eligibility Services will require each region still working in SAVERR to submit its sanction monitoring process. These will be reviewed by state office staff and modified if necessary. Approved procedures will be in place by March 31, 2011.

Implementation Dates: *CCC Process - October 2010*
SAVERR Processes - March 31, 2011

Responsible Person: *Elisa J. Garza*

Health and Human Services Commission
Department of Aging and Disability Services

Reference No. 11-23
Allowable Costs/Cost Principles
(Prior Audit Issues - 10-24 and 09-26)

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2007 to September 30, 2009 and October 1, 2006 to September 30, 2008
Award numbers - G0801TXSOSR and G0701TXSOSR

CFDA 93.767 - Children's Health Insurance Program
Award years - 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 numbers - 0805TX5021, 0705TX5021, 0605TX5021, and 0505TX5021

Aging Cluster
Award years - October 1, 2006 to September 30, 2007 and October 1, 2005 to September 30, 2006
Award numbers - 07AATXT3SP, 07AATXNSIP, 06AATXT3SP, and 06AATXNSIP

Medicaid Cluster
Award years - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, and October 1, 2005 to September 30, 2006
Award numbers - 0705TX5028, 0705TX5048, 0605TX5028, 0605TX5048, 0505TX5028, and 0505TX5048

SNAP Cluster
Award years - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2005, and October 1, 2005 to September 30, 2004
Award numbers - 8TX400105, 7TX400105, and 6TX400105

TANF Cluster
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, G0602TXTANF, and G0602TXTANF

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, Title III, Part E
CFDA 93.566 - Refugee and Entrant Assistance - State Administered Programs
CFDA 93.779 - Centers for Medicare and Medicaid Services Research, Demonstrations and Evaluations
CFDA 97.050 - Presidential Declared Disaster Assistance to Individuals and Households - Other Needs
Type of finding - Non-Compliance

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 noting 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, 2010, which reflects recoupments received and all affected employees for 2010 and preceding years.

Questioned Cost: $ 183,173

U.S. Department of Health and Human Services
U.S. Department of Agriculture
U.S. Department of Homeland Security

As of August 31, 2010, 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, 2010	Federal Portion of Balance Outstanding at August 31, 2010
Department of Aging and Disability Services	$ 211,268	125,484
Health and Human Services Commission	109,564	57,689
Total	$ 320,832	183,173

Recommendation:

The above finding was originally noted in fiscal year 2008. The above agencies should continue to attempt to recoup the funds and/or prepare a method of finance adjustment to reflect the above expenses as state funding.

Management Response and Corrective Action Plan:

The following actions were taken to prevent future overpayments of employees who are not terminated in the system before the regular on-cycle payroll is loaded:

- *Payroll staff provided training and direction to agency paymasters regarding the consolidation and standardization of the overpayment business process. HHS Payroll is responsible for coordinating the identification, management, and reporting of salary overpayments. The agency paymaster's role is to collect overpaid dollars identified by HHS Payroll.*
- *HHS Payroll and Convergys (Now NorthgateArinso) developed a daily query to identify retroactive termination actions made after the payroll deadline and then take remedial action to prevent the overpaid condition.*
- *HHS Payroll provides a monthly report to agency Chief Operating Officers and Chief Financial Officers. The report is used to track the identification and management of the condition and to provide agencies with tools and data with which to hold managers accountable for separating employees timely to prevent overpayments.*
- *The HHS Training Department worked with HHS Payroll to develop a comprehensive manager training program called AccessHR Training Program for Managers (ATPM). This training focuses on payroll calendar deadlines and the relationships of those deadlines to the proper calculation of pay. Through this training instructions are provided on how to accurately and timely perform employee separation/termination activities.*
- *A new Employee Separation Page was developed for employees to self-report intended separation. The page is monitored and used to ensure that actions have been taken to properly separate the employee by the manager.*
- *A new data field was added to the Managers' Separation Page so the manager can document the last day worked by the employee or the day through which they used paid leave. Adding this field provides visibility to actual hours overpaid and facilitates the manager with entering the correct separation effective date.*
- *A system generated e-mail is sent to all HHS managers three days before the on-cycle regular payrolls are loaded and calculated. This e-mail prompts managers to enter the separation effective date for any departing employee in time to prevent an overpayment.*

DADS and HHSC will return the federal share of these overpayments through a method of finance adjustment during fiscal year 2011.

Implementation Date: *Ongoing*

Responsible Person: *Mike Markl*

Health and Human Services Commission
Texas Workforce Commission

Reference No. 11-24

Special Tests and Provisions - Penalty for Refusal to Work

(Prior Audit Issues - 10-25, 9-21, and 08-18)

TANF Cluster
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - G1002TXTANF and G0902TXTANF

TANF Cluster - ARRA
Award years - October 1, 2009 to September 30, 2010
Award numbers - G1002TXTAN2, G1001TXTAN2, and G0901TXTAN2
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost:	$464
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 TANF - the legacy system, System of Application, Verification, Eligibility, Referral, and Reporting (SAVERR), and the pilot system, Texas Integrated Eligibility Reporting System (TIERS). HHSC works with the Texas Workforce Commission (TWC) to administer the program at the Texas Work Boards. TWC's role is to transmit information from the Texas Work Boards to HHSC who imposes the sanctions.

A sample of 40 beneficiaries who should have had their benefits reduced was selected for review - 20 from SAVERR and 20 from TIERS. Our review noted the following exceptions for TIERS and no exceptions were noted for SAVERR. Of the 20 cases reviewed in TIERS, benefits were not reduced timely for two cases. For one of the cases, the benefit was reduced one month late for a $260 overpayment. The design of TIERS does not allow the processing of various sanctions through the Mass Update process or deemed eligible transactions for Foster Care and Adoption Assistance eligible children. Instead Mass Update only processes requests with active EDGs.

For the other case, benefits were not reduced timely due to TWC input error of a sanction date as November 19, 2009 when the TWC notes noted sanction was effective October 29, 2009 resulting in one month overpayment of $204.

Recommendation:

HHSC should implement procedures to ensure case files are properly classified when in sanction status and that they are processed timely. TWC should continue to review their sanction files for accuracy as compared to the supporting documentation.

Management Response and Corrective Action Plan - TWC

The Texas Workforce Commission (TWC) concurs with the finding. TWC's Workforce Policy and Program Assistance (WPPA) staff conducts monthly performance reviews of the Local Workforce Development Boards (LWDBs). One of the components of this monthly analysis is case review readings where sanctions initiated are reviewed to ensure that they have been initiated in accordance with the timely and reasonable attempt policy. However, the case review readings are conducted only on a sample of the monthly cases. Because only a sample is currently reviewed, TWC WPPA is working to develop a report from The Workforce Information System of Texas on the timeliness of initiated sanctions. This report will be implemented and effective by September 2011.

In addition, WPPA staff provides technical assistance to LWDBs when TWC's Subrecipient Monitoring Department has identified issues with the timely initiation of sanctions. Of note recently, a LWDB was placed on sanction status for failure to correct repeat findings, including the timely initiation of sanctions. Further additional guidance will be provided to the LWDBs in the form of the Choices Guide which is scheduled for release in February 2011.

TWC's Subrecipient Monitoring Department continues to monitor the Choices policy on timely basis and reasonableness through on-site visits. The seven day requirement for notification to HHSC was incorporated in the monitoring procedures in September 2009.

Implementation Date: *September 1, 2011*

Responsible Persons: *Patricia Gonzalez and Luis Salas-Tull*

Management Response and Corrective Action Plan - HHSC:

In October 2010, HHSC implemented procedures to have Customer Care Center (CCC) staff review cases that exception out of the TIERS mass update process to identify any cases where all pending information has been received and can be completed. CCC staff communicates this information to the appropriate regional management for action.

In July 2010, HHSC implemented a process to review the timeliness of sanctions received from TWC on a quarterly basis. HHSC communicates the results of the review at the end of each quarter to TWC.

Implementation Date: *October 2010*

Responsible Person: *Elisa J. Garza*

Texas Department of Housing and Community Affairs

Reference No. 11-25
Allowable Costs/Cost Principles
Cash Management
Earmarking
Reporting
Special Tests and Provisions - Environmental Reviews
Special Tests and Provisions - Environmental Oversight
(Prior Audit Issue - 10-30)

CDBG - State-Administered Small Cities Program Cluster
Award year - N/A since disaster-based only
Award number - B-06-DG-48-0002
Type of finding - Significant Deficiency

Questioned Cost:	$0
U.S Department of Housing and Urban Development	

Access to migrate code changes into production as well as system administrator privileges should be restricted appropriately based on job function to help ensure adequate internal controls are in place and segregation of duties exist. Access to deploy and develop code changes should be segregated. Similarly, system administrative access should also be restricted to non-developers. Texas Department of Housing and Community Affairs (TDHCA) outsource both WorlTrac and Portfolio maintenance and operations to multiple third-party providers. Portfolio's primary function is applicant eligibility while WorlTrac is the primary source of the financial transactions. During the performance of general controls and application level test work for the WorlTrac and Portfolio applications, the following items were noted:

- Through February 1, 2010, three developers had access to the administrative server-level IDs for the Portfolio application server, while one developer also had direct administrative access on the application server. These three developers also had Database Administrator (DBA) rights on the production database server. Overall, the three developers could also deploy code changes into production. In addition, there was no policy restricting the use of generic IDs during the same period. Generic IDs were in use by the above developers that allows them access to administrative functions on the servers.
- Access to the disbursement file was open to all Affiliated Computer Services (ACS) Domain users as it is placed on a shared drive. Access should be restricted only to the disbursements team and the ACS Finance team. This access was appropriately restricted as of December 2009.
- One application developer has access to migrate WorlTrac code changes into production and was intentionally assigned this access as part of his daily job function; however, no additional monitoring control was put in place to mitigate the associated risk. This same developer was noted to have administrative access on the WorlTrac application and the database production servers. Additionally, there are no password restrictions in place at the operating system level and no policy restricting the use of generic IDs.

Recommendation:

Management should implement robust information technology general controls over all key applications and underlying systems. Information technology general controls should be in place to restrict high-privileged access to applications, servers and databases, enforce generic ID policies and monitor access rights on the application, and servers and databases. Developer access to administrative functions on any production system results in the risk of unauthorized changes to applications and data. Additionally, developer access to move their code changes into production increases the risk that unauthorized changes to application functionality have been deployed into the production environment. Developer access to production should also be segregated. Further, management should remove system administrative privileges granted to the developers.

Management Response and Corrective Action Plan:

The Texas Department of Community Affairs (TDHCA) agrees with the finding and is committed to effecting remaining corrective actions. As noted above in the current finding and in TDHCA's responses on pages 220 and 221 of SAO Report 10-339, "Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2009," many corrective actions were implemented by mid-FY 2010. TDHCA will continue to work with the vendor, ACS, to implement needed IT controls by February 14, 2011, as described below.

Detailed Responses for Each Audit Issue:

The first two bullet points in this finding were previously noted in SAO Report 10-339. All corrective actions were completed in December 2009 and February 2010, as stated in the SAO Report 10-339 response.

Regarding the first two sentences in the third bullet, in our response in SAO Report 10-339, we stated: "Administrator access and access to migrate code change were removed from developers on January 30, 2010." In January 2010, administrator access and access to migrate code were removed within the WorlTrac application and its supporting database, but through an oversight we did not remove a developer's access at the WorlTrac operating system level until we became aware of this issue in December 2010, during the course of audit fieldwork. As of December 2010, all administrative and production access has been removed from the developer.

Regarding the last sentence of the third bullet, we implemented password restrictions at the application level during the previous audit period, and these same restrictions will be added to the operating system level no later than February 14, 2011. The procedure for Portfolio system generic IDs described in our response in SAO Report 10-339 has also been followed for the WorlTrac system since January 2010. We will formalize this procedure by documenting it in the Texas HAP WorlTrac IT Security Policy no later than February 14, 2011.

Implementation Date: *February 14, 2011*

Responsible Person: *Curtis Howe*

Reference No. 11-26
Reporting
Earmarking
(Prior Audit Issue - 10-28)

CDBG - State-Administered Small Cities Program Cluster
Award year - N/A since disaster-based only
Award numbers - B-06-DG-48-0002 and B-08-DI-48-0001
Type of finding - Significant Deficiency and Scope limitation

Questioned Cost:	$0
U.S. Department of Housing and Urban Development	

The requirements for submission of a Performance Evaluation Report (PER) pursuant to 42.U.S.C. 12708 and 24 CFR 91.520 are waived for Community Development Block Grant (CDBG) Disaster Recovery Grantees Under 2008 CDBG Appropriations. However, the alternative requirement is that each grantee must submit a quarterly performance report, as U.S. Department of Housing and Urban Development (HUD) prescribes, no later than 30 days following each calendar quarter, beginning after the first full calendar quarter after grant award and continuing until all funds have been expended and all expenditures reported. Each quarterly report will include information about the uses of funds during the applicable quarter including (but not limited to) the project name, activity, location, and national objective; funds budgeted, obligated, drawn down, and expended; the funding source and total amount of any non-CDBG disaster funds; beginning and ending dates of activities; and performance measures such as numbers of low- and moderate-income persons or households benefiting. The quarterly report to HUD must be submitted using HUD's Internet-based Disaster Recovery Grant Reporting (DRGR) System and, within 3 days of submission, be posted on the grantee's official Internet site open to the public (February 13, 2009 Federal Register Vol. 74, No. 29, page 7252).

The Department of Housing and Community Affairs (TDHCA) is responsible for submitting the quarterly performance reports for the 2nd Supplemental Rita funding, as well as the Ike/Dolly disaster funds received. The accuracy and completeness of these reports could not be verified as the amounts reported could not be traced to accounting records. The database which supports the reporting is continuously updated for new transactions and adjustments. TDHCA has the capability to query the database as of a specific date; however, during fiscal year 2010, multiple changes were made to the data with effective dates in prior quarters (i.e., the reports had already been filed).

Some of the changes included: (1) HUD contacted TDCHA during fiscal year 2010 and asked that the expenditures be presented in further detail, by project, instead of at a summary level; therefore TDCHA has been modifying and reconciling the database to present the expenditures by project, (2) system changes were also implemented into the DRGR system during the audit year, and (3) action plan modifications and expenditure adjustments were made subsequent to initial filings of some of the quarterly performance reports that resulted in the reports being rejected and requested to be resubmitted by HUD.

Also the DRGR reports are to be submitted within 30 days following quarter end. However, the date submitted on the DRGR system is the last date submitted, including revisions. The e-mail notifications retained by TDHCA were unclear as to which version of the reports they supported. Therefore timeliness was not able to be confirmed.

Additionally, it was noted that the Rita and Ike/Dolly performance reports for quarters ending December 31, 2009, March 31, 2010, and June 30, 2010 were posted to the TDHCA website. However, the timing of when these reports were posted could not be verified to confirm the 3-day posting requirement after submission. The September 30, 2010 performance reports were not on the agency's website as of January 2011.

Recommendation:

TDHCA should continue to work with HUD to ensure the all fiscal year quarterly reports are revised and resubmitted. TDHCA should also ensure that clear documentation is maintained to verify the timing of report submissions and posting of the reports to the THDCA website.

Management Response and Corrective Action Plan:

TDHCA will continue to work with HUD to revise and resubmit the quarterly reports as required. In addition, TDHCA will improve processes to ensure that all documentation is maintained to support the timely submission and posting of the reports.

Implementation Date: *April 15, 2011*

Responsible Person: *Kelly Crawford*

Reference No. 11-27

Reporting

CSBG Cluster - ARRA
Award year - October 1, 2008 to September 30, 2010
Award number - G-0901TXCOS2
Type of finding - Non-Compliance

Questioned Cost:	$0
U.S. Department of Health and Human Services	

The Texas Department of Housing and Community Affairs (THDCA) is required by OMB Circular A-133 and A-102 to submit an SF-269, Financial Status Report for regular and ARRA funding under the CSBG 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. The annual SF-269 report required for the regular CSBG funds is due by December 31 after the end of each fiscal year. The quarterly SF-269 report required for the ARRA CSBG funds is due by the 10th day of the month following quarter-end.

The quarterly ARRA SF-269 reports for the quarters ending December 2009 and March 2010 both were submitted past the 10-day requirement. One was submitted 12 days late and the other was 4 days late. The remaining two quarters were submitted timely. THDCA received correspondence from HHS that the reports were due 30 days after quarter end similar to the non-ARRA SF-269. However subsequent to that correspondence, the program rules were revised and the ARRA SF-269 deadline was redefined as 10 days after quarter end.

Recommendation:

THDCA should continue to file the ARRA SF-269 reports within the 10-day time frame.

Management Response and Corrective Action Plan:

TDHCA acknowledges the recommendation related to the quarterly ARRA SF-269 reports and will continue to file the ARRA SF-269 reports within the 10 day time frame.

Implementation Date: *April 2010*

Responsible Persons: *David Cervantes and Esther Ku*

Office of the Attorney General

Reference No. 11-28
Allowable Costs/Cost Principles
Cash Management
Matching
Period of Availability of Federal Funds
Reporting
(Prior Audit Issue - 10-32)

CFDA 93.563 - Child Support Enforcement
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1004TX4004 and 0904TX4004

CFDA 93.563 - Child Support Enforcement - ARRA
Award year - October 1, 2009 to September 30, 2010
Award numbers - 1004TX4002 and 0904TX4002
Type of finding - Significant Deficiency

Questioned Cost:	$ 0
U.S. Department of Health and Human Services	

Changes to applications should be appropriately documented and authorized prior to deployment into the production environment. Controls should be in place to ensure that changes are authorized, tested, and approved prior to implementation. The Office of the Attorney General (OAG) has an informal process of authorizing, testing and approving change requests. Changes are not consistently documented and not formally authorized or tested by appropriate personnel. The accounting personnel and information technology support (ITS) are small departments and often work as a team to implement changes. Therefore management does not emphasize the need to formally document minor projects. The risk exists that a change will go into production that has not been fully tested, thus affecting the functionality of the system.

Recommendation:

Management should implement a requirement that all changes made to the Accounting System are entered into the ITS Data Services Request System. Also, each change should be tested in a non-production environment to minimize risk. Furthermore, integrated user acceptance testing and management signoff should take place for all changes.

Management Response and Corrective Action Plan:

Even though minor modifications and system maintenance have been made in the past without formally documenting all actions, management is confident in the accuracy of the system changes and the data. Management concurs with the recommendations regarding the change management issue. Major projects continue to be well documented through individual requests entered in the ITS Data Services Request (DSR) system. As indicated during the auditors' review, the documentation for the major projects reflect the user's request, the specifications, the testing, the acceptance, and approval.

Processes were implemented in December 2009 to require that the minor projects initiated by the Accounting Division are documented through the DSR system in the same manner as the major projects. Beginning in January 2011, the ITS Division now requires that all non-major project work, including maintenance, will now be documented by an individual DSR for each work request. These DSRs created by ITS will contain notes detailing the request, resolution, testing, and approval processes. In addition, production problems will be also be documented through their own individual DSR that will be generated by ITS. Accounting will be asked to acknowledge, as soon as possible after-the-fact, that they are aware of the problem and the measures taken by ITS to resolve the issue. These procedures were conveyed to each of the individual staff and management team members who are involved in these processes to help ensure compliance with these policies.

Implementation Date: *January 2011*

Responsible Person: *Rudy Montoya*

Reference No. 11-29

Special Tests and Provisions - Enforcement of Support Obligations

CFDA 93.563 - Child Support Enforcement
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1004TX4004 and 0904TX4004
Type of finding – Non-Compliance

Questioned Cost:	$ 0
U.S. Department of Health and Human Services	

For all cases referred to the IV-D agency or applying for services under 45 CFR section 302.33 or 45 CFR section 309.65(a)(2) in which an obligation to support and the amount of the obligation has been established, the agency must maintain a system for (a) monitoring compliance with the support obligation; (b) identifying on the date the parent fails to make payments in an amount equal to support payable for one month, or an earlier date in accordance with State or tribal law, those cases in which there is a failure to comply with the support obligation; and (c) enforcing the obligation. To enforce the obligation the agency must initiate income withholding, if required by and in accordance with 45 CFR section 303.100 or 45 CFR section 309.110.

State IV-D agencies must initiate any other enforcement action, unless service of process is necessary, within 30 calendar days of identification of the delinquency or other support-related noncompliance, or location of the absent parent, whichever occurs later. If service of process is necessary, service must be completed and enforcement action taken within 60 calendar days of identification of the delinquency or other noncompliance, or the location of the absent parent whichever occurs later. If service of process is unsuccessful, unsuccessful attempts must be documented and meet the State's guidelines defining diligent efforts. If enforcement attempts are unsuccessful, the State IV-D agency should determine when it would be appropriate to take an enforcement action in the future and take it at that time (45 CFR section 303.6). Optional enforcement techniques available for use by the State's are found at 45 CFR sections 303.71, 303.73, and 303.104.

For one case of forty tested, the Office of the Attorney General's Child Support Division (CSD) did not pursue enforcement of support obligations when, in fact, enforcement was necessary. Once the case became delinquent, the CSD system properly alerted the case worker to assess this case for action. At that time, the case worker incorrectly assessed the case as paying when the noncustodial parent (NCP) was actually not fulfilling their child support obligation.

Recommendation:

CSD should reinforce the existing procedures to ensure case workers are appropriately classifying payment status.

Management Response and Corrective Action Plan:

CSD has existing controls that help to mitigate the risk related to enforcement cases. Other levels of control include the Quality Control (QC) program and the Annual Self-Assessment Review. The QC program identifies quality issues in CSD's case initiation, order entry, and case closure processes. The program uses a bi-level review process to determine if the functions are performing according to Field Operations management standards. If not, the reasons for the variations are sought. Feedback is then provided to management at the office, regional, and state levels.

As trends are identified, including the exceptional case identified in KPMG enforcement sample, management and staff members are informed to make necessary corrections to the cases involved. Management will also assess our current monitoring practices, along with reviewing policies and procedures related to enforcement staff members. We view your case review as another opportunity to improve our processes.

Implementation Date: *February 10, 2011*

Responsible Person: *Alicia G. Key*

Reference No. 11-30

Special Tests and Provisions - Provision of Child Support Services for Interstate Cases

CFDA 93.563 - Child Support Enforcement
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
Award numbers - 1004TX4004 and 0904TX4004
Type of finding - Significant Deficiency and Material Non-Compliance

Questioned Cost:	$ 0
U.S. Department of Health and Human Services	

The State IV-D agency must provide the appropriate child support services needed for interstate cases (cases in which the child and custodial parent live in one State and the responsible relative lives in another State), establish an interstate central registry responsible for receiving, distributing and responding to inquiries on all incoming interstate IV-D cases, and meet required time frames pertaining to provision of interstate services. The case requiring action may be an initiating interstate case (a case sent to another State to take action on the initiating State's behalf) or a responding interstate case (a request by another State to provide child support services or information only). Specific time frame requirements for responding and initiating interstate cases are at 45 CFR sections 303.7(a) and 303.7(b)(2), (4), (5) and (6), respectively (45 CFR sections 302.36 and 303.7). Four of forty files selected for test work were noted to have the following exceptions that appear to have been caused by case workers not updating status fields so the CSD system queries would route the cases appropriately.

In one instance, the Office of the Attorney General's Child Support Division (CSD) was the initiating state and was required to refer the case to Texas' interstate central registry for action within 20 calendar days of determining the noncustodial parent (NCP) was in another state and was in receipt of the necessary information to process the case. Notations in the CSD system indicated that on April 29, 2010, information was outstanding and on May 28, 2010 Texas referred the case to the responding state. There are no notations to indicate why the gap is greater than 20 days.

For exception number two, CSD was the responding state and was required to notify the initiating state within 10 working days of receipt of any new information. Per review of the CSD system, the initiating state was not informed about the hearing date and the case was not manually marked 'active' on the interstate screen, which prevented communication to the other state via CseNET (interface between CSD and the interstate central registry).

In the third exception, CSD was the initiating state and was required to provide the responding state with the requested information or provide a status within 30 calendar days of the request for additional information. The CSD system screens show that on September 23, 1010, the responding state sent an acknowledgement as well as a request for additional documents (i.e., birth certificates) from Texas. The custodial parent (CP) brought in the birth certificates on December 10, 2010. There are no notations to indicate why the gap is greater than 30 days.

In the last exception noted, CSD was the responding state and was required to forward the case to the appropriate field office for processing within 10 working days of receipt. The CSD system shows that the case was received from the initiating state on November 2, 2009. The case appears to have been transferred but there are no notations as to the date to verify this was done within 10 working days of receipt.

Recommendation:

CSD should reinforce the existing procedures to ensure case workers are appropriately updating status fields.

Management Response and Corrective Action Plan:

CSD has existing controls that help to mitigate the risk related to interstate cases. Other levels of control include the Quality Control (QC) program and the Annual Self-Assessment Review. The QC program identifies quality issues in CSD's case initiation, order entry, and case closure processes. The program uses a bi-level review process to determine if the functions are performing according to Field Operations management standards. If not, the reasons for the variations are sought. Feedback is then provided to management at the office, regional, and state levels.

Although Texas exceeds the compliance requirement for Interstate Services, the self- assessment identified areas to enhance the handling of interstate cases. In May 2009, CSD developed a workgroup of CSD interstate subject matter experts to develop a project intended to provide field staff members with an online guide for generally handling both initiating and responding interstate cases, and to instruct staff members on the test that Program Improvement performs to determine if a case has met the standards for the Annual Self -Assessment. Concerns over the exceptions identified by KPMG will be addressed as part of this workgroup and its recommendations, including timely referring a case to the responding state, verifying Interstate Demographic Data (DEM) information when reactivating a responding interstate case so CSENet communications will process, notifying an initiating state when a request for information will require additional time before a response can be provided, and ensuring that transfers from the central registry to a field office are properly documented. The completion date for the Self-Assessment Related Interstate Training is August 2011.

Lastly, as trends are identified, including the exceptional cases identified in KPMG interstate sample, management and staff members are informed to make necessary corrections to the cases involved. Management will also assess our current monitoring practices, along with reviewing policies and procedures related to interstate staff members. We view your case review as another opportunity to improve our processes.

Implementation Date: *September 1, 2011*

Responsible Person: *Alicia G. Key*

Department of Public Safety

Reference No. 11-31
Equipment

CFDA 16.803 - Recovery Act - Edward Byrne Memorial Justice Assistance Grant Program - Grants to States and Territories - ARRA
Award year - October 1, 2009 to September 30, 2010
Award numbers - SU-09-A10-22820-01 and SU-09-A10-22822-01
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost:	$ 0
U.S. Department of Justice	

Governmental units will manage equipment in accordance with state laws and procedures (Title 2, Code of Federal Regulations, Part 225, Appendix B). In addition, the Office of Management and Budget Circular A-133 Compliance Supplement, Part 3, Section F, mandates that states receiving federal awards shall use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures. In addition, the Office of the Texas Comptroller of Public Accounts (Comptroller's Office) *SPA Process User's Guide* states that each item of property, capitalized or controlled, must be assigned a unique property inventory number. Each agency is responsible for ensuring that property is tracked and secured in a manner that is most likely to prevent loss, theft, damage, or misuse.

The Department of Public Safety (DPS) policies require that all controlled assets must have an inventory tag attached. Forty-five assets were selected including thirty-five patrol vehicles and content items and ten information technology equipment items. One vehicle radar and nine information technology equipment items were noted not to have an affixed inventory tag. All of these assets were properly safeguarded, locatable based on property record details, identifiable by serial number, and included in the property record system.

Recommendation:

DPS should ensure that inventory tags are affixed to all capitalized inventory items in accordance with state guidelines.

Management Response and Corrective Action Plan:

DPS management agrees with the recommendation and we have implemented controls to ensure that inventory tags are affixed to all capitalized inventory items. We appreciate the efforts the audit team made to assure that all of these assets were properly safeguarded, locatable based on property record details, identifiable by serial number, and included in the property record system.

Implementation Date: *February 2011*

Responsible Person: *Denise Hudson*

Department of State Health Services

Reference No. 11-32
Allowable Costs/Cost Principles
Special Tests and Provisions - Food Instrument and Cash-Value Voucher Disposition
Special Tests and Provisions - Review of Food Instruments and Cash-Value Vouchers to Enforce Price Limitations and Detect Errors
Special Tests and Provisions - Authorization of Above-50-Percent Vendors
(Prior Audit Issues - 10-47, 09-30, 08-25, and 07-31)

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children
Award years - October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009
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 Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Electronic Benefit Transfer (EBT), or Lone Star cards, system to process the transactions for WIC. Developers have access to migrate changes to the production environment. 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, as of September 2008, a periodic review of users is performed; however, this review is only of active users and does not include user privilege levels within EBT for WIC transactions.

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's periodic review of users should include user privilege levels.

Management Response:

WIC IT and Program staff have implemented measures to strengthen security controls for the WIC IT systems. We have restricted and removed access where possible; and currently monitor query access to confirm and validate user identity. Use of the Release Migration Documentation Form (RMDF) and its associated process continues, which provides a method for documentation and management approval for any and all software releases. In addition, a Configuration Manager, hired in April 2009, is responsible for verifying that RMDFs have the required management approval, as well as being responsible for performing the actual release of software into production.

In our responses since December 2009, DSHS Management and the WIC Program Management have considered and accepted the steps outlined above as adequate to mitigate 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. These issues should no longer be a concern after implementation of system redesign and upgrades, currently in the planning stages, which have an anticipated time frame of fiscal year 2013.

The WIC Program, along with WIC IT Support, acknowledges that the current periodic review is for active users, which was based on the recommendations by KPMG Audit Findings. Based on the recommendation, the WIC Program and WIC IT Support are in the process of improving WIC Systems user security methodology. Currently developed processes will be reviewed and validated for applicability to enhance security measures. The WIC Program accepts the current limitations and known risks of the periodic user access reviews performed in the WIC Systems, but will work towards indentifying improvements to security and appropriate user access reviews within the WIC legacy system.

Implementation Date: *December 2009*

Responsible Person: *Everett Lamb*

Texas Department of Rural Affairs

Reference No. 11-33
Reporting
(Prior Audit Issue - 10-60)

CDBG - State-Administered Small Cities Program Cluster
Award years - February 1, 2010 to January 31, 2011 and February 1, 2009 to January 31, 2010
Award numbers - B-10-DC-48-0001 and B-09-DC-48-0001

CDBG - State-Administered Small Cities Program Cluster - ARRA
Award years - February 1, 2009 to January 31, 2011
Award numbers - B-09-DY-48-0001
Type of finding - Non-Compliance

Questioned Cost:	$ 0
US Department of Housing and Urban Development	

The Texas Department of Rural Affairs (TDRA) is required by OMB Circular A-133 and A-102 to submit a Performance Evaluation Report (PER) (OMB No. 2506-0085) within 90 days after the close of its program year in a format suggested by the Department of Housing and Urban Development (HUD). The report is to include a description of the use of the funds during the program year and an assessment of the grantee's use for the priorities and objectives indentified in the plan. TDRA is also required to submit HUD 60002, Section 3 Summary Report, and Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043). For each grant over $200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit form HUD 60002.

For disaster funds, the requirements for submission of a PER pursuant to 42.U.S.C. 12708 and 24 CFR 91.520 are waived for CDBG Disaster Recovery Grantees. However, the alternative requirement is that each grantee must submit a quarterly performance report, as HUD prescribes, no later than 30 days following each calendar quarter, beginning after the first full calendar quarter after grant award and continuing until all funds have been expended and all expenditures reported. Each quarterly report will include information about the use of funds during the applicable quarter including (but not limited to) the project name, activity, location, and national objective; funds budgeted, obligated drawn down, and expended; the funding source and total amount of any non-CDBG disaster funds; beginning and ending dates of activities; and performance measures such as numbers of low- and moderate-income persons or households benefiting. Quarterly reports to HUD must be submitted using HUD's internet- based Disaster Recovery Grant Reporting (DRGR) System and, within 3 days of submission, be posted on the grantee's official Internet site open to the public. (February 13, 2009 Federal Register Vol. 74, No. 29, page 7252).

HUD 6002 Report

In July 2010, TDRA implemented new procedures to enforce the policies and procedures in the subrecipients and contractor agreements to report the necessary information required for the HUD 6002. Specifically, Part I, Column C - Total number of new hires that are Section 3 residents was not complete. TDRA relies on the information reported by the subrecipients and contractors to complete this portion of the report and, prior to July, did not enforce the reporting of this information.

Disaster Report - Quarterly Performance Report

The quarterly reports for periods ended September 30, 2009, June 30, 2010, and September 30, 2010 were not submitted timely for the Rita Disaster Recovery Funds with a range of 10 to 23 days late. Additionally, for the Ike Disaster Recovery Fund, none of the quarterly performance reports were submitted within the 30-day requirement per review of the DRGR System. The range was 1 to 38 days late.

Recommendation:

TDRA has already implemented procedures as noted above to ensure complete information submitted by the subrecipients and contractors for the HUD 6002 Report. TDRA should ensure they submit the quarterly Disaster Recovery Reports within the 30-day window after quarter end or obtain documentation of an extension.

Management Response and Corrective Action Plan:

HUD 6002 Report - As noted above, on July 8, 2010, TDRA initiated a change in procedures to ensure the agency receives complete information from subrecipients and contractors for the HUD 6002 Report.

Disaster Report - We agree with the recommendation to submit the quarterly reports within the 30-day window after quarter end. Every effort is made by staff to ensure that the data entry for the quarterly performance report (QPR) is complete within the 30-day window; however, the submittal of all quarterly reports is dependent heavily on the approval of the Action Plan report by HUD. Once the Action Plan report is approved staff may submit the QPR. DRGR prohibits staff from submitting the QPR prior to the approval of the Action Plan report. The increased volume of activities reported in the DRGR system places additional time constraints on HUD's review. Additionally, TDRA makes every effort to ensure that the DRGR Action Plan budgets are sufficiently updated so that invoices that are received 20-40 days after the reports are submitted can be paid timely. Once staff submits the Action Plan report and the QPR for review, the DRGR system essentially "locks down" for a period of 30-45 days which prohibits staff from making any budget modifications that may be necessary to pay invoices.

Implementation Date: *HUD 6002 Report - July 8, 2010*
Disaster Report - Ongoing

Responsible Persons: *HUD 6002 Report - Mark Wyatt; and Disaster Report - Cecil Pennington*

Reference No. 11-34

Subrecipient Monitoring

CDBG - State-Administered Small Cities Program Cluster - ARRA
Award years - February 1, 2009 to January 31, 2011
Award numbers - B-09-DY-48-0001
Type of finding - Non-Compliance

Questioned Cost:	$ 0
U.S. Department of Housing and Urban Development	

The Texas Department of Rural Affairs (TDRA) passes through a significant amount of federal funds to subrecipients to carry out the objectives of the federal program. Some of these funds were derived from the American Recovery and Reinvestment Act (ARRA) during the fiscal year 2010. TDRA is required by OMB Circular A-133 to determine whether the subrecipients have current Central Contractor Registration (CCR) registrations prior to making sub awards and perform periodic checks to ensure that subrecipients are updating information, as necessary (2 CFR part 176.50).

Out of the fifteen ARRA subrecipients reviewed, one subrecipient did not have any documentation of the CCR registration. Subsequent to year end, the subrecipient's CCR registration was verified by TDRA. Additionally, there were three other subrecipient files that did have the CCR registration documentation, but documentation was not sufficient to determine if the CCR registration was performed prior to the first disbursements.

Recommendation:

TDRA verifies the CCR registration prior to approval of each disbursement. TDRA should maintain documentation of the verification to support the requirement to perform periodic checks to ensure that the subrecipients are updating information, as necessary, as noted above.

Management Response and Corrective Action Plan:

TDRA will continue to verify the CCR registration prior to approval of each disbursement. TDRA will maintain documentation of the CCR verification.

Implementation Date: *An enhanced verification process was implemented on October 26, 2010. TDRA will continue to verify documentation of the CCR registration.*

Responsible Person: *Mark Wyatt*

Texas Education Agency

Reference No. 11-35

Allowable Costs/Cost Principles

(Prior Audit Issue - 10-61)

CFDA 84.048 - Career and Technical Education - Basic Grants to States
Award years - July 1, 2009 to September 30, 2010 and July 1, 2008 to September 30, 2009
Award numbers - V048A090043 and V048A080043A

CFDA 84.287 - Twenty-First Century Community Learning Centers
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - S287C090044, S287C080044, and S287C070044

Educational Technology State Grants Cluster
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - S318X090043, S318X080043, and S318X070043

Educational Technology State Grants Cluster - ARRA
Award years - February 17, 2009 to September 30, 2011
Award numbers - S386A090043

Special Education Cluster (IDEA)
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - H027A090008 and H173A090004, H027A080008 and H173A080004, and H027A070008 and H173A070004

Special Education Cluster (IDEA) - ARRA
Award years - February 17, 2009 to September 30, 2011
Award numbers –H391A090008 and H392A090004

Title I, Part A Cluster
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - S010A090043A, S010A080043, and S010A070043

Title I, Part A Cluster - ARRA
Award years - February 17, 2009 to September 30, 2011
Award numbers - S389A090043
Type of finding - Significant Deficiency

Questioned Cost:	$ 0
U.S. Department of Education	

Access to the Budget Analysis Tool (BAT) application and/or supporting infrastructure is not restricted appropriately due to excessive generic IDs and IDs that were no longer needed on the servers and due to terminated users as well as users with inappropriate access on the application itself.

All user IDs with access to the BAT application and/or supporting infrastructure should belong to identifiable, current employees whose job function specifications require the provisioned level of access. Over the past several years, management of the Texas Education Agency's (TEA) servers has shifted to Team for Texas as required by HB 1516. The State of Texas, including TEA, outsources portions of their information technology to a group of contractors known as Team for Texas. This coupled with the fact that a periodic review of application and supporting infrastructure users is being inconsistently performed, has lead to inappropriate, unidentifiable, and terminated employee/account access for nine users/accounts within BAT application and/or supporting infrastructure.

No compliance exceptions were noted during the review of selected 2010 allowable cost transactions for the major programs noted above.

Recommendation:

TEA should conduct an annual periodic review of the users in the BAT application as well as the supporting infrastructure. To perform this review, TEA should request a list of users in the application, production server, database server, and database from Team for Texas to determine whether all TEA personnel with access are appropriate. Additionally as part of this review, Team for Texas should identify the name and title of each Team for Texas employee listed with access to the servers. User access to the application was re-verified on August 10, 2010 and the underlying infrastructure on September 17, 2010 noting the above issues were resolved.

Management Response and Corrective Action Plan:

ITS Management agrees with the findings. TEA will continue to conduct an annual periodic review of the users in the BAT application environments as well as on supporting infrastructure. Supporting audit review information will be stored in Tracker for future reference.

Implementation Date: *Fiscal year 2011. A full review of the BAT application and infrastructure is in progress; it began January 2011 with a target completion date of February 28, 2011.*

Responsible Person: *Martha Reesing*

Reference No. 11-36
Eligibility for Subrecipients
Matching, Level of Effort, Earmarking
Reporting
Subrecipient Monitoring
Special Tests and Provisions - Developing and Implementing Improvement Plans
(Prior Audit Issue - 10-63)

CFDA 84.048 - Career and Technical Education - Basic Grants to States
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - V048A090043, V048A080043A, and V048A070043

CFDA 84.287 - Twenty-First Century Community Learning Centers
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers- S287C090044, S287C080044, and S287C070044

CFDA 84.357 - Reading First State Grants
Award years - July 1, 2008 to September 30, 2009 and July 1, 2007 to September 30, 2008
Award numbers - S357A080045 and S357A070045

CFDA 84.365 - English Language Acquisition Grants
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - S365A090043A, T365A080043A, and T365A070043

CFDA 84.367 - Improving Teacher Quality State Grants
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - S367A090041, S367A080041A, and S367A070041

Educational Technology State Grants Cluster
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - S318X090043, S318X080043, and S318X070043

Educational Technology State Grants Cluster - ARRA
Award years –February 17, 2009 to September 30, 2011
Award numbers - S386A090043

Special Education Cluster (IDEA)
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - H027A090008 and H173A090004, H027A080008 and H173A080004, and H027A070008 and H173A070004

Special Education Cluster (IDEA) - ARRA
Award years - February 17, 2009 to September 30, 2011
Award numbers - H391A090008 and H392A090004

State Fiscal Stabilization Fund Cluster - ARRA
Award years - July 9, 2009 to September 30, 2010 and February 17, 2009 to August 31, 2010
Award numbers –S394A090044 and S397A090044

Title I, Part A Cluster
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - S010A090043A, S010A080043, and S010A070043

Title I, Part A Cluster - ARRA
Award years - February 17, 2009 to September 30, 2011
Award numbers - S389A090043
Type of finding - Significant Deficiency

Questioned Cost:	$ 0
U.S. Department of Education	

The collection of Public Education Information Management System (PEIMS) data is required of all school districts by TEC §42.006. The *Data Standards* provides instructions regarding the submission of PEIMS data from Local Education Agencies (LEAs) to the Texas Education Agency (TEA). The LEA is responsible for reporting federal and local funds expended through PEIMS along with various types of demographic data and students served. TEA outsourced the development of PEIMS - UNIX application to a third-party consultant. For PEIMS, the following was noted with regard to logical access general controls.

- Developers have access to deploy code changes into the PEIMS - Windows production environment. A shared generic user ID on the PEIMS - Windows production application servers is assessable by the contractors whose primary role is development.
- A periodic review was not performed to identify and review users and groups with access to the PEIMS production environment for appropriateness.
- An excessive number of generic shared administration accounts exist on the PEIMS - UNIX production database.

TEA uses the LEA submitted information for compliance with applicable compliance requirements under various components of Eligibility for Subrecipients, Matching, Level of Effort, and Earmarking, Reporting, Subrecipient Monitoring, and Special Tests and Provisions - Developing and Implementing Improvement Plans. No compliance exceptions were noted with regard to the use of PEIMS data in the applicable analysis related to the applicable compliance requirements.

Recommendation:

TEA should properly segregate duties so that developers do not have access to production. Management should periodically review the current job duties and appropriateness of access to the production environment for all users.

Management Response and Corrective Action Plan:

Management agrees with the findings. TEA will work to segregate duties as far as technically feasible to restrict developer access to production without significantly impacting the support of the application. TEA will also ensure that all PEIMS production changes are properly managed through the official change management process. TEA will also institute periodic reviews of access to the PEIMS production environment for all users.

To properly segregate duties so that developers do not have access to production, a project has been initiated to re-engineer the PEIMS application deployment process to integrate it with TEA's standard version management and change control. There are several steps and dependencies in order to complete this objective.

Phase 1:

1. *Secure PEIMS application code in TEA's standard version management and change control*
2. *Follow the TEA SCM Process for all promotions to Test and Production environments*
3. *Review user access to application and servers*
4. *Change the local administrator password for the development servers*

Phase 2:

1. *Restrict local administrator login and password from developers in Test and Production environments.*
2. *Create MSI (Windows Installer)*
3. *Enhancements to build and deploy MSI*
4. *Remediate application to use trusted third-party passwords*
5. *Secure the database ids/passwords to use the trusted third-party passwords*

Implementation Date:

- *Phase 1 was completed June 2010. Segregation of duties began with the change to the local administrator password for the development servers.*

- *Phase 2 will be completed by May 31, 2011. Phase 2 was started by a subproject to create an MSI for installing PEIMS EDIT+ to the servers. The MSI was created and the testing phase started, but was halted due to lack of resources and budget shortages. Management will look at completing Phase 2 and/or implementing segregation of duties in the replacement system.*

Responsible Persons: *Mark Gentzel and Martha Reesing*

Reference No. 11-37

Subrecipient Monitoring
Maintenance of Effort and Supplement not Supplant
Reporting - Section 1512
Special Tests and Provisions - Participation of Private School Children
Special Tests and Provisions - Schoolwide Programs
Special Tests and Provisions - Comparability
Special Tests and Provisions - Highly Qualified Teachers and Paraprofessionals
(Prior Audit Issues - 10-64, 09-32, and 08-32)

CFDA 84.048 - Career and Technical Education - Basic Grants to States
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - V048A090043, V048A080043A, and V048A070043

CFDA 84.287 - Twenty-First Century Community Learning Centers
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - S287C090044, S287C080044, and S287C070044

CFDA 84.357 - Reading First State Grants
Award years - July 1, 2008 to September 30, 2009 and July 1, 2007 to September 30, 2008
Award numbers - S357A080045 and S357A070045

CFDA 84.365 - English Language Acquisition Grants
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - S365A090043A, T365A080043A, and T365A070043

CFDA 84.367 - Improving Teacher Quality State Grants
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - S367A090041, S367A080041A, and S367A070041

Educational Technology State Grants Cluster
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - S318X090043, S318X080043, and S318X070043

Educational Technology State Grants Cluster - ARRA
Award years - February 17, 2009 to September 30, 2011
Award number - S386A090043

Special Education Cluster (IDEA)
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - H027A090008 and H173A090004, H027A080008 and H173A080004, and H027A070008 and H173A070004

Special Education Cluster (IDEA) - ARRA
Award years - February 17, 2009 to September 30, 2011
Award numbers - H391A090008 and H392A090004

State Fiscal Stabilization Fund Cluster - ARRA
Award years - July 9, 2009 to September 30, 2010 and February 17, 2009 to August 31, 2010
Award numbers - S394A090044 and S397A090044

Title I, Part A Cluster
Award years - July 1, 2009 to September 30, 2010, July 1, 2008 to September 30, 2009, and July 1, 2007 to September 30, 2008
Award numbers - S010A090043A, S010A080043, and S010A070043

Title I, Part A Cluster - ARRA
Award years - February 17, 2009 to September 30, 2011
Award number - S389A090043

<u>Non-major Programs:</u>

CFDA 12.000 - Troops to Teachers
CFDA 20.609 - Safety Belt Performance Grants
CFDA 84.002 - Adult Education - Basic Grants to States
CFDA 84.011 - Migrant Education - State Grant Program
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
CFDA 84.186 - Safe & Drug-Free Schools & Communities - State Grants
CFDA 84.196 - Education for Homeless Children and Youth
CFDA 84.213 - Even Start - State Educational Agencies
CFDA 84.276 - Goals 2000 - State and Local Education Systematic Improvement Grants
CFDA 84.281 - Eisenhower Professional Development State Grants
CFDA 84.282 - Charter Schools
CFDA 84.298 - State Grants for Innovative Programs
CFDA 84.334 - Gaining Early Awareness and Readiness for Undergraduate Programs
CFDA 84.340 - Class Size Reduction
CFDA 84.358 - Rural Education

CFDA 84.366 - Mathematics and Science Partnerships
CFDA 84.369 - Grants for State Assessments and Related Activities
CFDA 84.377 - School Improvement Grants
CFDA 84.387 - ARRA Education of Homeless Children and Youth Recovery Act
CFDA 84.388 - ARRA - School Improvement Grants, Recovery Act
CFDA 93.558 - Temporary Assistance for Needy Families
CFDA 93.630 - Developmental Disabilities Basic Support and Advocacy Grants
CFDA 94.004 - Learn and Serve America - School and Community Based Programs
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 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.

Questioned Cost: $ 0

U.S. Department of Defense
U.S. Department of Transportation
U.S. Department of Education
U.S. Department of Health and Human Services
Corporation for National and Community Service

TEA has an agency-wide committee which allows for coordination of subrecipient monitoring efforts. The Monitoring, Investigation, and Interventions Steering Committee (MIISC) meets weekly to provide a coordinated avenue for representatives across the agency to discuss performance and fiscal issues and propose recommendations to the Commissioner and to other appropriate internal divisions regarding accreditation, interventions, sanctions, special conditions, enforcements, etc. Local Education Agencies (LEAs) identified by monitoring units for additional coordination and/or action are reviewed by the MIISC.

At a summarized level, TEA's subrecipient monitoring procedures include use of a Standard Application System (SAS), the provision of technical assistance to subrecipients, a risk assessment process, program monitoring, and A-133 audit report collection and review. During 2010, TEA also added a Special Monitoring Unit (SMU) and a Fiscal Accountability and Federal Reporting Unit (FAFRU) to address ARRA monitoring. The Division of Financial Audits - Grants Audit Section, the SMU, and the FAFRU conduct a variety of types of desk reviews and audits, which are further defined below for each division.

In addition, TEA utilizes certain edits within their automated draw-down system (TGIF) to assist with period of availability, allowability, and reasonableness of monthly draw-down amounts based on total amounts awarded for both discretionary and formula grants. For expenditure reporting, TGIF contains edits that prevent the subrecipient from submitting an expenditure report for an expense category in which no funds were budgeted in the application, or where the subrecipient attempts to submit expenditures that exceed the maximum allowable budget variation.

Below is an expanded discussion of the various divisions' responsibilities in the monitoring process.

Discretionary Grants Division

The Discretionary Grants Division performs desk reviews, which include amendment reviews and manual approval of draw-down requests when predetermined thresholds have been exceeded. Amendment reviews include a review of budgeted items to ensure allowability under the specific grant program and under the federal cost principles. The manual approval of draw-down requests includes a comparison of actual expenditures to budgeted expenses by expense category and may include a review of supporting documentation such as general ledger detail or payroll records. Also for new open enrollment charter schools, the desk review includes a review of the general ledger, payroll journal, and supporting source documentation for expenditures prior to approving each payment.

Further, the Discretionary Grants Divisions performs a desk review on all final closeout reports, which includes verifying the amount of administrative cost expenditures reported when there are administrative cost limitations, verifying that expenditures for certain program restrictions are met, and verifying the minimum expenditures for cost share are met where applicable. Discretionary Grants desk reviews also include verification that the subrecipient expends payroll, supplies and materials, or capital outlay funds appropriately to align with the beginning or ending date of the grant period, as applicable. General ledgers and payroll journals are reviewed as well as other supporting documentation for expenditures. Staff members also compare actual expenditures to budgeted amounts in the approved grant application.

Formula Grants Administration Division

The Formula Grants Administration Division performs desk reviews, which include amendment reviews, manual approval of draw-down requests when predetermined thresholds have been exceeded, approval of expenditure reports, and appeals from grantees to submit a late expenditure report. The manual approval of draw-down requests and appeals to submit a late expenditure report include a comparison of actual to budgeted expenses by expense category. Subrecipients are also required to submit a general ledger in addition to an explanation of the need to file a late expenditure report for review by staff as part of the appeals process. These documents are reviewed for reasonableness prior to accepting a late expenditure report.

Division of Financial Audits - Grants Audit Section

The Division of Financial Audits (DFA) is responsible for the development of the “base line” risk assessment that is used for the DFA activities denoted below plus is utilized by the DFA - Special Monitoring Unit and the Fiscal Accountability and Federal Reporting Unit as a basis for their initial assessments. The 2010 risk assessment includes 13 risk indicators. A subrecipient is classified as high if indicators 1 to 5 apply OR if indicators 6 or 7 and indicator 8, 9, or 10 and indicator 11, 12, or 13 apply. The risk factors are (1) not filing the annual financial and compliance report, (2) an A-133 finding that is classified as material noncompliance or as a material weakness and was a repeated finding from the prior year, (3) an adverse or disclaimer opinion at the A-133 major program level, (4) TEA auditors reported noncompliance findings and assessed the subrecipient as high risk, (5) failing Maintenance of Effort (MOE) requirements, (6) not required to conduct an A-133 audit, (7) designated as a high risk auditee for A-133, (8) materially delinquent in filing its annual financial and compliance report, (9) a current year A-133 finding that is classified as material noncompliance or as a material weakness, (10) qualified auditor’s opinion on the financial statements, (11) not filing district and campus improvement plans, (12) receiving a special education determination of needs intervention or needs substantial intervention, and (13) receiving a NCLB initial compliance review assessment of high. The 2010 risk assessment process resulted in 80 high-risk subrecipients of approximately 1,370. The 2009 to 2007 risk assessments utilized different criteria that yielded a range of 162 to 444 high risk subrecipients.

The DFA has three primary types of methodologies to apply to their high risk subrecipient. One is a survey performed through correspondence with the subrecipient to assess their written policies and procedures. During fiscal year 2010, 79 of the 80 high risk subrecipients responded to the survey with only 7 being able to provide copies of existing policies and procedures. DFA plans to utilize this information in their 2011 risk assessment process. An assessment was not conducted for one subrecipient because it was consolidated into another school district effective July 2010. The second methodology is an audit which can be performed either on site or via correspondence. An audit involves multiple grants and years and encompasses both a financial and programmatic element. The third methodology is a review, which can be performed either on site or via correspondence. A review is less intensive than an audit and focuses more on one year and/or one type of grant. During fiscal year 2010, five audits were conducted, 3 onsite and 2 via correspondence of the 80 high risk subrecipients.

During the conduct of surveys, reviews, and audits, DFA requests certain fiscal and programmatic records, as appropriate based on the methodology objective noted above. Examples of documents include district and campus improvement plans, priority for services plans, general ledgers, payroll journals, purchase orders, invoices, job descriptions, and personnel activity reports. The information is utilized to conclude on compliance with federal fiscal requirements, including, but not limited to, those promulgated in P.L. 110-107, P.L. 108-446, 2 CFR 225; 230 and 34 CFR 74; 76; 80 and with grant requirements including, but not limited to, the approved grant budget, as amended, and the activities and specific uses of funds described in the grant application. Furthermore, DFA inquires about subrecipient policies and procedures both generally and specifically applicable to federal grants and about subrecipient grant supported activities and grant expenditures.

DFA has additional responsibilities, which include special investigations, reviews of reports for applying agreed-upon procedures (AUP) to state compensatory education, financial stability reviews, and reviews of district and campus improvement plans. During fiscal year 2010, one special investigation, 37 AUPs, and 82 financial stability reviews were conducted. Whereas the state compensatory education AUP are state funding focused, the financial stability reviews do involve subrecipients requesting federal funds. The results of these reviews are provided to the discretionary and formula grants divisions to be utilized during the awarding phase. Lastly, DFA conducts the annual review of LEA compliance with the federal MOE requirements through the analysis of PEIMS financial data. Noncompliance letters are issued to LEAs with requests for action and/or sanctions imposed.

During fiscal year 2009, the section initiated 50 reviews of the 162 high risk subrecipients identified and concluded 27 during the fiscal year. Additionally, DFA conducted five charter school closures reviews, initiated 21 onsite audits and concluded three, and performed six onsite reviews of ARRA grants. In 2009, 43 financial stability reviews were performed along with the annual MOE review noted above.

For the 2007 and 2008 fiscal years combined, DFA completed reviews of 53 subrecipients, which were started in 2007, 2 charter school closures, 4 special investigations, 16 audits, and 50 financial stability reviews.

Division of Financial Audits - Special Monitoring Unit

During 2010, the Special Monitoring Unit (SMU) conducted onsite reviews of the fiscal controls over grants funded under the American Recovery and Reinvestment Act of 2009 (ARRA). SMU focused their reviews on the subrecipient's compliance with the following areas: identify/track ARRA funds separately, cash management, allowable costs, period of availability, time and effort reporting requirements pursuant to OMB A-87/A-122, compliance with reporting requirements pursuant to Section 1512 of ARRA, and infrastructure investment project requirements pursuant to Sections 1511, 1605, and 1606 of ARRA. Procedures included the examining of federal laws, rules and regulations applicable to each ARRA grant monitored, reviewing organizational charts and local policy and procedure manuals and other authoritative records to understand the subrecipient's organization structure and identify internal controls and processes, interviewing subrecipient personnel and other agents about the activities, functions, programs and services implemented for the grant, and reviewing the records created and maintained for the grant, selection of various sample items, and reviewing of source documents.

During fiscal year 2010, out of a total of 24 scheduled ARRA on-site reviews, the SMU completed 22 reviews and 2 were in progress as of year-end. The amount of ARRA grants monitored by SMU awarded to the 24 subrecipients totaled approximately $313,340,000, which was approximately 8.75% of the total ARRA grants awarded to the subrecipients during fiscal year 2010.

Beginning July 2010, the SMU also completed limited desk reviews exclusively on the State Fiscal Stabilization Fund (SFSF) Cluster, which focused on cash management, allowable costs, and 1512 reporting compliance and infrastructure investment project reporting requirements (Sections 1511, 1605, and 1606 of ARRA). Out of a total of 129 scheduled SFSF desk reviews, 79 were completed and 50 were in progress as of year-end. The amount of SFSF grant funds monitored by SMU awarded to the 129 subrecipients totaled approximately $163,500,000, which was approximately 10% of the total SFSF grant funds awarded to subrecipients during fiscal year 2010.

Fiscal Accountability and Federal Reporting Unit

The Fiscal Accountability and Federal Reporting Unit (FAFRU) implemented a risk assessment based on the high-risk criteria in Title 34 of the Code of Federal Regulations (CFR) Sections 74.14 (a) and 80.12 (a) to identify high-risk subrecipients for desk reviews. A subrecipient was determined to be high risk by various divisions of TEA, including the program divisions, the Division of Financial Audits, the Division of Performance-Based Monitoring, and the grant funding divisions, if the subrecipient met one or more of the following criteria: (1) had a history of unsatisfactory (poor) performance, (2) was not financially stable, (3) had a (financial) management system that did not meet the prescribed standards, (4) had not conformed to the terms and conditions of a previous award, or (5) was not otherwise responsible.

As a result of the high-risk designation, the FAFRU implemented the "soft hold" special condition by reviewing and approving grant payments on a reimbursement basis. FAFRU reviewed each reimbursement request for all ARRA and non-ARRA federal grants awarded to the 22 subrecipients determined to be high risk during 2010. The desk review focused on: cash management; allowable, reasonable and necessary costs; period of availability; and ARRA Section 1512 reporting compliance requirements. These desk reviews include the review of detailed general ledgers; payroll journals; time and effort documents; sampling of supporting documentation, including invoices, receipts, contracts, purchase orders, travel vouchers, and cancelled checks; and other documentation that demonstrate how the subrecipient complied with the intent and objectives of the grant.

FAFRU completed the reimbursement request review for 16 of the 22 grantees designated as high risk. Of these 16 high-risk grantees, unit staff reviewed documentation for 22 different grants (state and federal). Of these 22 grants, 5 were ARRA grants. Out of a total of 152 individual requests for reimbursement desk reviews, FAFRU completed 92 desk reviews and 60 are in progress as of year-end.

In addition, FAFRU randomly selected ARRA subrecipients on a monthly basis for ARRA expenditure review. These desk reviews also included the review of detailed general ledgers; payroll journals; time and effort documents; sampling of vouchers and cancelled checks; and other documentation that demonstrated how the subrecipient complied with the intent and objectives of the grant. Out of a total of 35 scheduled reviews, FAFRU completed 18 desk reviews and 17 are in progress as of year-end.

Summary

The total amount awarded for 2009-2010 is $10.7 billion to approximately 1,370 subrecipients. For the past two years, approximately 6% of the expended amounts noted below, and a total of 17% of the FY 2010 subrecipients, had a desk or onsite review/audit by the DFA, SMU, or FAFRU. For the same period of time, the Discretionary Grants Division worked with an additional 23% of the expended funds related to 13% of the 1,370 subrecipients. The Formula Grants Administration Division worked with an additional 16% of the expended funds for 70% of the 1,370 subrecipients; however, the majority of the Formula Grants Administration division efforts do not include a review of supporting documentation for actual expenditures as the review is at a higher level of budget to actual expenses. Therefore only approximately 30% of the subrecipients and 29% of the expenditures involve some type of analysis of actual expenditures.

Total expenditures to subrecipients charged to the major and non-major programs for fiscal year 2010 were:

Federal Program	Amount Charged to the Federal Program
12.000	$ 152,310
20.609	59,500
84.002	41,827,708
84.011	54,854,835
84.013	2,520
84.048	61,205,081
84.144	137,343
84.181	71,361
84.186	17,622,178
84.196	4,830,216

Federal Program	Amount Charged to the Federal Program
84.213	$ 5,383,384
84.276*	(8)
84.281*	(3,376)
84.282	6,747,906
84.287	91,935,877
84.298*	(1,414)
84.334	1,037,740
84.340*	(2,584)
84.357	30,654,554
84.358	6,037,730
84.365	90,131,900
84.366	2,113,891
84.367	240,517,770
84.369	7,028,974
84.377	29,622,042
84.387, ARRA	2,559,258
84.388, ARRA	12,868,559
93.558	10,240,909
93.630	3,515,535
94.004	1,025,190
Education Technology State Grants Cluster	57,218,027
State Fiscal Stabilization Fund Cluster, ARRA	1,554,922,313
Special Education Cluster	926,326,019
Special Education Cluster, ARRA	461,484,386
Title I, Part A Cluster	1,327,705,391
Title I, Part A Cluster, ARRA	515,148,063
Total	$ 5,564,981,089

* TEA no longer receives funding under these CFDAs. The amounts above are refunds from LEAs.

Recommendation:

As noted above, TEA has a well coordinated monitoring process. However, TEA should reconcile the decline in high risk subrecipients over the past four years in light of the current economic environment which could involve a reassessment of the risk indicators. Currently, significant reliance is placed on the results of the subrecipient A-133 audits for the TEA risk assessment input factors. This approach could exclude certain high-risk subrecipients as consideration is not given to dollars received or the last time a desk review or audit was performed, and also does not consider which programs were audited that are included in the A-133 report results. As the risk assessment is the starting point of DFA, SMU, and FAFRU, it is important for TEA to appropriately identify the high risk subrecipients.

Secondly, only 29% of the subrecipients expenditures involve some type of analysis of actual expenditures. TEA should execute the DFA audit plan to include either a review or audit of all high risk subrecipients that are not currently being reviewed by the SMU or FAFRU. Also TEA might want to reconsider the depth of review that is conducted in order to focus on high risk areas for that particular subrecipient which would allow for the most efficient use of TEA resources. Additionally, TEA could consider enhancing the Formula Grants Division role in reviewing some additional support of actual expenditures incurred to minimize the number of subrecipients with no analysis of actual expenditures.

Management Response and Corrective Action Plan:

TEA appreciates acknowledgement of our well coordinated monitoring process and recognition of the additional monitoring processes TEA implemented to ensure subrecipient compliance with the intent, objectives, and requirements of ARRA.

TEA concurs with the recommendation related to the risk assessment indicators and will take immediate steps to implement corrective action by including additional risk indicators, such as total federal dollars received, the last time a desk review or audit was performed, and other indicators as appropriate. TEA will also reconcile the decline in high risk subrecipients over the past four years in light of the current economic environment as suggested in the recommendation.

TEA will also fully implement the DFA audit plan and will include either a review or audit of all high risk subrecipients as resources permit. The DFA will minimize interference in the implementation of the plan that results from unscheduled special investigations. TEA will also evaluate the depth of review that is conducted in order to focus on high risk areas for a particular subrecipient, which will allow for the most efficient use of TEA resources.

Finally, TEA will enhance the role of Formula Grants division or other appropriate staff in reviewing additional support of actual expenditures incurred to reduce the number of formula grant subrecipients with no analysis of actual expenditures as resources permit.

Implementation Date: *September 1, 2011*

Responsible Persons: *Rita Chase and Earin Martin*

Texas Higher Education Coordinating Board

Reference No. 11-38
Allowable Costs/Cost Principles
Period of Availability of Federal Funds
Reporting
Subrecipient Monitoring
(Prior Audit Issue - 10-69)

CFDA 84.048 - Career and Technical Education - Basic Grants to States
Award year - July 1, 2009 to September 30, 2010
Award number - 1042020671200001
Type of finding - Significant Deficiency

Questioned Cost:	$0
U.S Department of Education	

System administrator privileges should be restricted appropriately based on job function to help ensure adequate internal controls are in place and segregation of duties exist. The following logical access issues were found as it relates to Texas Higher Education Coordinating Board (THECB)'s applications - TDR (time and expense reporting application), Perkins (grant management application) and EDC (Education Data Center application that accepts and processes data submitted by public community and technical colleges). The State of Texas, including THECB, outsources portions of their information technology to a group of contractors known as Team for Texas as required by HB 1516.

Network:

- Two users on the network had inappropriate access with administrative privileges. These two users were Team for Texas employees who no longer needed access to the network at THECB.
- Fourteen unidentified accounts had administrative access to the network. These accounts were confirmed to belong to Team for Texas users.
- Overall, 83 users have been granted network administrative access. This level of network access allows users to control Windows servers that house applications such as TDR, Perkins and EDC.

EDC:

- Five terminated employees were found to have continued access on the EDC application. However, the users did not have active network accounts and could not access the application without the ability to sign on to the network.

TDR:

- A Senior Web Developer was found to have administrative access to the TDR Database. This inappropriate access may allow the developer to inject SQL code through the backend or impact the production code indirectly. In addition, it was noted that there is no documented review of access to the TDR systems to determine the appropriateness of access for existing users. This developer's access noted above was removed in January 2010.
- Additionally, it was noted that TDR application access was not revoked for three users upon their termination.

Perkins:

- One unidentified account had administrative access to the Perkins application server (SBWEB41). This account was confirmed to belong to a Team for Texas user.

Overall, it was noted that there is no documented evidence of periodic management review of existing users' access to the network, EDC, and TDR applications, databases, and systems. No compliance exceptions were noted for the compliance requirements noted above with regard to the above major program.

Recommendation:

Management should implement procedures for more timely removal of terminated employees' access, for identifying and noting users with administrative access to their systems, and for restricting such administrative access to a limited group of authorized individuals. Also management should perform and document periodic management reviews.

Management Response and Corrective Action Plan:

A process is in place to ensure the timely removal of THECB network access for terminated employees. A process will be created to generate reports on EDC, TDR, and Perkins systems access to be sent to and reviewed on a scheduled basis by owners of these applications. ITS is also working with Human Resources to improve the process for removing staff access from these applications at the point of termination.

While THECB recognizes and accepts the responsibility for the protection of data related to federal funds, THECB does not have the ability to control employees nor practices of the outsourced third party. THECB submits that the contract with Team for Texas must be managed at the State level for all agencies. THECB has expressed concerns for the last 3 years related to the contract and the need for Team for Texas to address the associated problems. We understand that the Department of Information Resources (DIR) has taken definite and aggressive steps to address these problems. THECB will continue to work with DIR and with the selected third party to handle the outsourced IT services.

Implementation Date: *Third Quarter fiscal year 2011*

Responsible Person: *John House*

Reference No. 11-39

Reporting
Special Tests and Provisions - Individual Record Review
Special Tests and Provisions - Loan Origination and Lender Loan Fees
Special Tests and Provisions - Interest Benefits
Special Tests and Provisions - Special Allowance Payments
Special Tests and Provisions - Enrollment Reports
Special Tests and Provisions - Payment Processing
Special Tests and Provisions - Due Diligence by Lenders in the Collection of Delinquent Loans
Special Tests and Provisions - Timely Claim Filings by Lenders or Servicer

CFDA 84.032L - Federal Family Education Loans -Lenders
Award year - July 1, 2009 to June 30, 2010
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency

Questioned Cost:	$0
U.S Department of Education	

System administrator privileges should be restricted appropriately based on job function to help ensure adequate internal controls are in place and segregation of duties exist. The Federal Family Education Loan (FFEL) program at the Texas Higher Education Coordinating Board (THECB) utilizes two applications for data processing - HELMS is the key application and HelmsNet acts as the interface from external sources into HELMS. The State of Texas, including THECB, outsources portions of their information technology to a group of contractors known as Team for Texas. Overall, HELMS and HelmsNet have several administrative access issues as noted below:

- One unidentified account had administrative access to the HelmsNet database. This account was confirmed to belong to a Team for Texas user.

- Thirty-one Team for Texas employees have knowledge of the root account password on the HELMS AIX production server. In addition, three terminated users continued to have HELMS application access.
- Additionally, the HELMS operating system/AIX server does not meet the password requirements outlined in the THECB Information Security policies.

In addition, the application control "The disbursement of loans must have promissory note and guarantee prior to disbursement of funds." and "The calculation of loan origination and lender loan fees was complete and accurate." were unable to be tested. The functionality of HELMS is no longer available since the FFEL program ceased as of July 1, 2010. No compliance exceptions were noted for the compliance requirements noted above with regard to the above major program.

Recommendation:

Management should remove the administrative access privileges from the unidentified account on the HelmsNet database and restrict the knowledge of the root account password on the HELMS server to those users whose jobs require such functionality. Also management should align their password polices with practice.

Management Response and Corrective Action Plan:

1. *THECB removed the administrative access from the unidentified account on February 8, 2011.*

2. *While THECB recognizes and accepts the responsibility for the protection of data related to federal funds, THECB does not have the ability to control employees nor practices of the outsourced third party. THECB submits that the contract with Team for Texas must be managed at the State level for all agencies. THECB has expressed concerns for the last 3 years related to the contract and the need for Team for Texas to address the associated problems. We understand that the Department of Information Resources (DIR) has taken definite and aggressive steps to address these problems. THECB will continue to work with DIR and with the selected third party to handle the outsourced IT services.*

3. *THECB will review its password policies and align practices to conform to policy.*

Implementation Date: *February 18, 2011*

Responsible Person: *Jerry Kunschik*

Texas Higher Education Coordinating Board
Texas Education Agency

Reference No. 11-40

Procurement and Suspension and Debarment

State Fiscal Stabilization Fund Cluster - ARRA
Award year - July 9, 2009 to September 30, 2011
Award number - S397A090044
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost:	$ 0
US Department of Education	

Texas Education Agency (TEA)–

The requirements for suspension and debarment are contained in OMB guidance 2 CFR part 180 which require the non-Federal entity to perform a verification check for covered transactions, by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity. For fiscal year 2010, approximately $350 million of State Fiscal Stabilization Fund Cluster funds were used to purchase textbooks for elementary and secondary schools. The procurement for these textbook purchases was done by TEA. None of the textbook vendors were verified by TEA as not being suspended or debarred and there was no certification of this from the vendor or clause in their respective contracts. Per review of EPLS, the vendors were not suspended or debarred, so there are no questioned costs.

West Texas A&M -

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.

One of the four non-textbook procurement files did not include the required anti-trust certification as the procurement was exempt from competitive bidding requirements. West Texas A&M includes the anti-trust provisions in their invitation to bid correspondence. During field work, West Texas A&M obtained the anti-trust certification for the respective procurement file.

Recommendation:

A procurement checklist or other similar control should be implemented to ensure that all required signatures and items, including EPLS and terms and conditions, are included in the procurement file prior to the award being made.

Management Response and Corrective Action Plan - TEA:

The Texas Education Agency management agrees with the recommendation and has already taken action to centralize the development of textbook contracts. In November 2009, the agency's contract and legal offices recognized the inconsistent contract terms in the Textbook Publisher Contracts and worked with the division of Instructional Materials to update existing contract templates. Since the division of instructional materials was in the middle of a textbook adoption that requires approval from the State Board of Education, the agency decided to phase in the new contract templates commencing with the electronic and open source textbooks. Competitive solicitations were let to the public in January 2010 that contained the agency's standardized Execution of Offer, Affirmations of Terms and Conditions, and Proposal Preferences. In addition, the agency's Internal Audit Division had also completed an audit of the Textbook Publisher Contracts, Internal Audit Report No. 10-02 and a follow-up to the audit recommendations was conducted in November 2010. The audit follow-up concluded that standardized publisher contract templates were being developed as well as a formal procedure for review of contract templates pending legislative changes. The centralization of all contracting processes ensures that the agency verifies the vendors' status that includes suspension or debarment prior to award of a contract. In addition, all contracts will be reviewed by the agency's contract's division to ensure compliance with mandated terms and conditions.

Implementation Date: *November 2009 - May 2011*

Responsible Person: *Norma Barrera*

Management Response and Corrective Action Plan – West Texas A&M University (WTAMU):

As noted above, West Texas A&M University has obtained the anti-trust certification. The university has controls and processes in place and will continue to insure that all required documents are included with each vendor payment.

Implementation Date: *February 15, 2011*

Responsible Person: *Bryan Glenn*

Section 3b:

Federal Award Findings and Questioned Costs – Other Auditors

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 or higher education institution.

Lamar Institute of Technology

Reference No. 11-101

Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A098695, CFDA 84.032 Award Number Not Applicable, CFDA 84.063 P063P095265, CFDA 84.375 P375A095265, CFDA 84.033 P033A098695, and CFDA 84.268 P268K105265
Type of finding - Significant Deficiency and Non-Compliance

Cost of Attendance

Questioned Cost: $151

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). 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 aid to ensure that total aid is not awarded in excess of the student's financial need (Title 34, Code of Federal Regulations, Sections 673.5, 673.6, 682.603, and 685.301).

Lamar Institute of Technology (Institute) calculated COA incorrectly for 8 (13 percent) of 60 students tested. The Institute packages student assistance based on information contained in a student's Free Application for Federal Student Aid (FAFSA) and subsequently updates the student's COA and financial assistance disbursements based on actual attendance. However, the Institute did not consistently update the COA in its financial aid system. This increases the risk of overawarding funds or disbursing awards to ineligible students; however, although none of these eight students received an overaward.

Additionally, the Institute awarded 1 (2 percent) of 60 students tested an amount of assistance that exceeded the student's documented COA by $151. The Institute could not provide an explanation for the overaward.

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 Institute does not have controls to ensure that it limits high-profile system access to appropriate personnel at the application, database, and server levels. Specifically:

- At the application level, the Institute assigned four information technology personnel roles that gave them access to the financial aid functionality within Banner, the financial aid application. These personnel serve as programmers, business analysts, and third-party consultants.
- At the database level, the Institute assigned database administrator privileges to a programmer and to the administrative coordinator of the director of computer services. Additionally, three vendor programmers had access to the Banner production database.
- At the server level, the Institute has a high number of accounts with access to a job scheduler server, including 1 terminated Lamar University employee, 12 current employees of Lamar University, and 3 vendor employees.

Allowing employees inappropriate or excessive access to areas in the application, database, or servers that are outside their job responsibilities increase the risk of inappropriate changes and does not allow for proper segregation of duties.

Recommendations:

The Institute should:

- Ensure that it consistently updates students' COA.
- Review transactions to ensure that it does not overaward financial assistance to students.
- Restrict access to Banner based on job duties and responsibilities.

Management Response and Corrective Action Plan:

Management concurs with recommendations related to determination of eligibility for financial assistance specifically related to Cost of Attendance, Over-awards and General Controls.

Cost of Attendance

Lamar Institute of Technology did follow a practice of initially packaging student assistance based on projected enrollment information contained in a student's Free Application for Federal Student Aid (FAFSA), with subsequent updates to COA based on actual attendance. Inconsistencies in updating COA in the financial aid system occurred due to issues and hardships encountered during the conversion to and implementation of a new campus-wide fully integrated computing system during the 2009-2010 processing year.

Management will develop a set of queries and comparative processes to properly identify students with discrepancies between the COA established at the point of packaging and the COA relevant to actual enrollment at the point of disbursement.

Implementation Date: *July 1, 2011*

Responsible Persons: *Lisa W. Schroeder and Dr. Vivian Jefferson*

Overload

The school did over-award financial aid to one student due to a change on the FAFSA which resulted in a change to the student's Expected Family Contribution (EFC). Adjustments were not made to properly recalculate eligibility utilizing the updated EFC.

Management will establish a process to review overall calculated eligibility as determined by subtracting Expected Family Contribution from Cost of Attendance. This process will be performed in conjunction with the COA review procedure to ensure that over-awards do not occur.

Implementation Date: *July 1, 2011*

Responsible Persons: *Lisa W. Schroeder and Dr. Vivian Jefferson*

General Controls

Management concurs with the findings associated with general controls and security/access issues related to financial aid. Lamar Institute of Technology (LIT) is in the final phases of a new Banner Enterprise Resource Planning (ERP) system implementation. At this phase of the implementation, LIT will be implementing a new distributed security model in place of the old proprietary model. A review of all contractual obligations between LIT and Lamar University (LU) will be conducted.

LIT will conduct risk assessments in the following areas:

Banner Application Security
A risk assessment will be conducted for LIT Banner security in the area of Banner Financial Aid Security. Appropriate Banner user classes and screens will be identified for review. Security reports will be developed to identify user access. User access will be reviewed for appropriateness. Data owner will approve all user access and proper paperwork will be put in place. Annual reviews of user access will be conducted.

Oracle Data Base Security
A risk assessment will be conducted at the database layer to identify areas of risk. Security reports will be developed to identify user access. A review of the LIT/LU service level agreement will be conducted for contractual obligations. Data owner will approve all user access and proper paperwork will be put in place. Annual reviews of user access will be conducted.

LIT ERP Server Security
A risk assessment will be conducted at the server layer to identify areas of risk. A review of the LIT/LU service level agreement will be conducted for contractual obligations. Data owner will approve all user access and proper paperwork will be put in place. Annual reviews of user access will be conducted.

Implementation Date: *July 1, 2011*

Responsible Persons: *Isaac Barbosa and Jonathan Wolfe*

Reference No. 11-102

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.063 P063P095265, CFDA 84.007 P007A098695, CFDA 84.375 P375A095265, CFDA 84.033 P033A098695, and CFDA 84.268 P268K105265
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 Direct 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. The notification can be sent in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

For the 37 students tested, Lamar Institute of Technology (Institute) did not send disbursement notifications for the students who received Direct Loans. According to the Institute, it did not send disbursement notification to any students who received Direct Loans for the 2009-2010 award year. The Institute relied on the Common Origination and Disbursement (COD) System to send disclosure statements for Direct Loans, instead of sending separate disbursement notifications; however, the COD System's disclosure statements include anticipated loan amounts and disbursement dates and are not considered a substitute for disbursement notifications. Not receiving disbursement notifications promptly could impair students' and parents' ability to cancel their loans.

COD System Reporting

For Direct Loans, an institution must submit the promissory note, loan origination record, and initial disbursement record for a loan to the Secretary of the U. S. Department of Education no later than 30 days following the date of the initial disbursement (Title 34, Code of Federal Regulations, Section 685.301). 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 5-3-30)).

For 1 (2 percent) of 60 students tested, the Institute did not report the student's Direct Loan disbursement records to the COD System in a timely manner. As a result, the Institute's financial aid application did not reflect the same disbursement status or dates as the COD System. Institute personnel could not provide an explanation regarding why the Institute did not report the disbursement records to the COD System.

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 Institute does not have controls to ensure that it limits high-profile system access to appropriate personnel at the application, database, and server levels. Specifically:

- At the application level, the Institute assigned four information technology personnel roles that gave them access to the financial aid functionality within Banner, the financial aid application. These personnel serve as programmers, business analysts, and third-party consultants.

- At the database level, the Institute assigned database administrator privileges to a programmer and to the administrative coordinator of the director of computer services. Additionally, three vendor programmers had access to the Banner production database.

- At the server level, the Institute has a high number of accounts with access to a job scheduler server, including 1 terminated Lamar University employee, 12 current employees of Lamar University, and 3 vendor employees.

Allowing employees inappropriate or excessive access to areas in the application, database, or servers that are outside their job responsibilities increase the risk of inappropriate changes and does not allow for proper segregation of duties.

Recommendations:

The Institute should:

- Establish a process to send disbursement notifications within 30 days before or after crediting a student's account with a Direct Loan.
- Ensure that it reports disbursement records for all Direct Loan disbursements to the COD System in accordance with federal requirements.
- Restrict access to Banner based on job duties and responsibilities.

Management Response and Corrective Action Plan:

Management concurs with recommendations related to disbursements to or on behalf of students, specifically related to disbursement notification letters, COD system reporting, and general controls

Disbursement Notification Letters

Lamar Institute of Technology relied on the Common origination and Disbursement (COD) System to send Disclosure Statements to students participating in the Direct Loan program. It was determined that disclosure statements were not an acceptable substitute for the required Disbursement Notifications.

Management will develop a process to identify any student records with disbursements of subsidized and/or unsubsidized direct loan funds. Data will be collected on each relevant student record to include disbursement dates and amounts of any relevant loan funds. A Disbursement Notification Form will be created to compile individualized data for each student to enable proper communication (in writing or electronically) of specific disbursement amounts, loan types, disbursement dates, and the rights and responsibilities associated with cancelling all or part of any disbursement or loan.

Implementation Date: *July 1, 2011*

Responsible Persons: *Lisa W. Schroeder and Dr. Vivian Jefferson*

COD System Reporting:

Problems associated with timely reporting occurred due to issues related to the conversion to and implementation of a new campus-wide fully integrated computing system during the 2009-2010 processing year along with first time participation in the John D. Ford Direct Loan program.

Management will define a protocol for collecting and subsequently submitting relevant student loan disbursement data to the COD system in a timely manner. A data file submission log will be utilized to monitor submissions, see that appropriate response files are received and loaded into the financial aid system timely and ensure records in the financial aid system are synchronized with those in the COD system as appropriate.

Implementation Date: *July 1, 2011*

Responsible Persons: *Lisa W. Schroeder and Dr. Vivian Jefferson*

General Controls:

Lamar Institute of Technology (LIT) is in the final phases of a new Banner Enterprise Resource Planning (ERP) system implementation. At this phase of the implementation, LIT will be implementing a new distributed security model in place of the old proprietary model. A review of all contractual obligations between LIT and Lamar University (LU) will be conducted. Finally, all appropriate controls will be put in place by July 1, 2011.

LIT will conduct risk assessments in the following areas:

Banner Application Security
A risk assessment will be conducted for LIT Banner security in the area of Banner Financial Aid Security. Appropriate Banner user classes and screens will be identified for review. Security reports will be developed to identify user access. User access will be reviewed for appropriateness. Data owner will approve all user access and proper paperwork will be put in place. Annual reviews of user access will be conducted.

Oracle Data Base Security
A risk assessment will be conducted at the database layer to identify areas of risk. Security reports will be developed to identify user access. A review of the LIT/LU service level agreement will be conducted for contractual obligations. Data owner will approve all user access and proper paperwork will be put in place. Annual reviews of user access will be conducted.

LIT ERP Server Security
A risk assessment will be conducted at the server layer to identify areas of risk. A review of the LIT/LU service level agreement will be conducted for contractual obligations. Data owner will approve all user access and proper paperwork will be put in place. Annual reviews of user access will be conducted.

Implementation Date: *July 1, 2011*

Responsible Persons: *Isaac Barbosa and Jonathan Wolfe*

Lamar State College - Orange

Reference No. 11-103
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.063 P063P094258, CFDA 84.007 P007A097177, CFDA 84.033 P033A097177, and CFDA 84.375 P375A094258
Type of finding - Significant Deficiency and Non-Compliance

Satisfactory Academic Progress

Questioned Cost: $ 60,217

U.S. Department of Education

A student is eligible to receive Title IV, Higher Education Act 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)). An institution's satisfactory academic progress (SAP) policy should include a qualitative component that consists of grades, work projects completed or comparable factors that are measureable against a norm, and a quantitative component that consists of a maximum time frame within which a student must complete his or her education (Title 34, Code of Federal Regulations, Section 668.16(e)).

According to Lamar State College – Orange's (College) SAP policy, students are eligible to receive financial assistance if they maintain a minimum grade point average (GPA) of 2.00, earn at least 70 percent of their attempted course hours, and attempt no more than 150 percent of the published length of their declared degree program.

Eleven (33 percent) of 33 students tested received financial assistance but did not meet the College's SAP requirements. Of those eleven:

- Two had cumulative attempted hours that exceeded the maximum numbers of hours allowed by the SAP policy.
- Nine did not earn at least 70 percent of attempted course hours as required by the SAP policy. Four of those nine students also did not maintain a minimum GPA of 2.00 as required by the SAP policy.

The College awarded $60,217 in financial assistance to those eleven ineligible students.

According to the College, these errors occurred because the College was transitioning to a new financial aid application for the 2009-2010 award year. During the data conversion process from the old application to the new application, the College did not identify students who did not comply with its SAP policy. To attempt to ensure the accuracy of SAP data, the College asserts that it manually reconciled a SAP determination report from the old application to the data in the new application. However, the College did not provide evidence of this reconciliation. As a result, auditors were unable to determine the total number of students who received financial assistance but did not comply with the College's SAP policy.

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 (COA) minus the expected family contribution (EFC). 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." An 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 (Title 34, Code of Federal Regulations, Sections 673.5, 673.6, and 682.603).

A full-time student is defined as an enrolled student who is carrying a full-time academic workload, as determined by the institution, under a standard applicable to all students enrolled in a particular educational program. For an undergraduate student, an institution's minimum standard must equal or exceed 12 semester hours. A half-time student is defined as an enrolled student who is carrying a half-time academic workload, as determined by the institution, which amounts to at least half of the workload of the applicable minimum requirement outlined in the definition of a full-time student (Title 34, Code of Federal Regulations, Section 668.2).

The College uses full-time COA budgets to determine COA for all students receiving financial assistance, regardless of each student's actual or expected enrollment level according to the student's ISIRs. Therefore, if a student indicates on the ISIR that he or she expects to enroll half-time or three-quarter time, the College still uses the COA associated with a full-time COA budget. Using a full-time COA budget to estimate the COA for students who attend less-than-full-time increases the risk of awarding financial assistance that exceeds financial need.

Because the College uses only full-time COA budgets to determine COA, auditors could not determine whether students attending less than full-time were awarded financial assistance that exceeded their financial need for the 2009-2010 school year.

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 College did not maintain appropriate access to its financial aid information technology environment. Specifically, the College did not remove access for one terminated employee to the server that hosts the Appworx (job scheduling) application. The College also did not periodically conduct formal reviews of the user accounts on its network, servers, or databases to identify inappropriate or excessive access.

Additionally, to help ensure appropriate segregation of duties, the College should appropriately restrict access to migrate code changes for its financial aid database to the production environment based on an individual's job function. In general, programmers should not have access to migrate code changes to the production environment. However, three vendor programmers had database administrator access to the production environment of the financial aid database through two generic user accounts. This could allow them to introduce unauthorized changes into the production environment.

Recommendations:

The College should:

- Determine each student's COA and financial need based on the student's expected enrollment.
- Ensure that the financial aid system accurately determines SAP status prior to disbursing financial assistance.
- Restrict access to its financial aid information technology environment based on job duties and responsibilities, and periodically review user accounts on its network, servers, and databases to ensure it maintains appropriate user access.
- Restrict access to migrate code into the production environment to the appropriate personnel.

Management Response and Corrective Action Plan:

Determine Each Student's COA and Financial Need based on the Student's Expected Enrollment

Our policy has always been to award based on full-time enrollment, and then adjust awards down based on actual enrollment. We will refine our procedures to ensure compliance, recognizing that the question concerning expected enrollment is being removed from the FAFSA for the 2011-2012 year and that as a result, students' enrollment plans will not be known. We strive to maintain compliance, and would appreciate some guidance on how to accomplish this task in the future.

Implementation Date: *July 2011*

Responsible Person: *Kerry Olson*

Ensure That The Financial Aid System Accurately Determines SAP Status Prior To Disbursing Financial Assistance

In the old PLUS FAM system, we historically checked academic progress manually for each student. With the change to the Banner FAM system we were planning to use the automated calculation of SAP. We went live in Banner for the fall 2009 semester, but conversion of academic history was delayed until spring of 2010. The decision was made to calculate a SAP in PLUS and migrate it to Banner. I do not remember a request to provide the report we reviewed to determine the accuracy of the calculations, but we can provide the initial report. We believe our calculation of SAP for this year to be an anomaly as a result of the conversion. We strive to evaluate students' SAP accurately based upon our standards of academic progress. For the fall 2010 semester we were able to begin calculating SAP in Banner based on the standards in our policy. Students are evaluated before they are awarded, and if they receive an unsatisfactory result are placed in groups based on which SAP rule(s) they are violating. The system does not allow these students to be awarded as long as they remain in these groups. Students are moved to a satisfactory group only if they successfully complete the appeal process. We believe this process is working successfully. In regard to the two students with excessive cumulative hours, we earlier responded that we allow students to appeal their status for excessive hours. The financial aid handbook states, "your policy may permit that for students who change majors, credits attempted and grades earned that do not count toward the new major will not be included in the SAP determination". During the appeal process, if we find that they have a reasonable number of hours that would not have gone towards their current degree (due to change of major, developmental hours taken, etc.) we will exclude those hours from consideration. We also require them to show when they will complete their current degree plan.

Implementation Date: *September 2010*

Responsible Person: *Kerry Olson*

Restrict Access To Its Financial Aid Information Technology Environment

A review of security processes related to financial aid information technology has been conducted. The College will continue to utilize the 'LSC-O Information Resources Request Form' to restrict LSC-O employee access to the financial aid information technology environment.

The audit of LSC-O employee INB access to the banner databases will continue to be conducted via use of the 'Banner Security Report' sent to each data owner for their review. Updates to the LSC-O employee INB access will be performed based on this review by the data owner. The audit will be conducted at the end of each fall and spring semesters.

We will create audit processes/security reports for LSC-O employee access to: the ARGOS reporting tool, the Appworx scheduling tool, and the LSC-O network via Active Directory. Updates to all access will be performed based on the review by the data owner. All audits of access will be conducted at the end of the fall and spring semesters.

LSC-O will request that Lamar University provide system generated listings that detail user access to LSC-O network shares, severs and databases hosted by Lamar University. The requested information should be received at the end of each fall and spring semesters.

Implementation Date: *May 2011*

Responsible Person: *Linda Burnett*

Restrict Access To Migrate Code Into Production Environment To The Appropriate Personnel

The ability to migrate code to the Banner Oracle production environment is limited to individuals hired by SungardHE. SungardHE is under contract through Lamar University on behalf of LSC-O to provide the Banner Oracle code tree modifications as deemed necessary. LSC-O only requests updates to the Banner oracle code tree that have been tested in a development area by LSC-O staff under the direction of the respective data owner. Prior to SungardHE staff moving code into production, a Lamar University - Change Management Process Request Form completed by either the LSC-O CIO (Linda Burnett), LSC-O Project Manager (Tom Conley), or respective financial aid data owner, must be received by the Lamar University Change Management Coordinator (Rebecca Mitchell). The Lamar University Change Management Coordinator will then schedule the update with the contracted Banner Applications Manager (Kim Skeens). LSC-O will request that SungardHE employees be issued unique accounts for the purpose of moving code to production and further more that the generic accounts be disabled and/or locked.

Implementation Date: *May 2011*

Responsible Person: *Linda Burnett*

Reference No. 11-104

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.063 P063P094258, CFDA 84.007 P007A097177, CFDA 84.033 P033A097177, and CFDA 84.375 P375A094258
Type of finding - Material Weakness and Material 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 Direct Loan, Federal Family Education Loan (FFEL), Federal Perkins Loan, or Teacher Education Assistance for College and Higher Education (TEACH) Grant program 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 anticipated date and amount of the disbursement; (2) the student's right or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan or TEACH Grant proceeds returned to the Secretary of the U.S. Department of Education; and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement (Title 34, Code of Federal Regulations, Section 668.165).

Prior to June 3, 2010, Lamar State College – Orange (College) did not send 2009-2010 award year disbursement notifications to students. The College did not have a process to identify students requiring disbursement notifications when it began using a new financial aid application in Fall 2009. The College received procedures for this process in May 2010 and was able send notifications beginning in June 2010. This issue affected all students who received FFEL loans for the Fall 2009 or Spring 2010 semesters.

Reporting Requirements

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's Common Origination and Disbursement (COD) System. 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. 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 5-3-30)).

For 1 (2 percent) of 60 students tested, the College did not submit Pell disbursement records to the COD System within 30 days of disbursement. The College did not submit Pell disbursement records to the COD System from June 4, 2010 through July 16, 2010. The College's financial aid application sends disbursement records to the COD System, but that process must be initiated manually. Because manual initiation of that process did not occur, for all students with Pell disbursements between June 4, 2010, and June 15, 2010, the College did not report the disbursements to the COD System within the required 30-day time frame. Not reporting disbursements can increase the risk of overawards to students and delay the U.S. Department of Education from receiving accurate Pell disbursement information.

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 College did not maintain appropriate access to its financial aid information technology environment. Specifically, the College did not remove access for one terminated employee to the server that hosts the Appworx (job scheduling) application. The College also did not periodically conduct formal reviews of the user accounts on its network, servers, or databases to identify inappropriate or excessive access.

Additionally, to help ensure appropriate segregation of duties, the College should appropriately restrict access to migrate code changes for its financial aid database to the production environment based on an individual's job function. In general, programmers should not have access to migrate code changes to the production environment. However, three vendor programmers had database administrator access to the production environment of the financial aid database through two generic user accounts. This could allow them to introduce unauthorized changes into the production environment.

Recommendations:

The College should:

- Send e-mail disbursement notifications to all students to whom it disburses federal loans.
- Report all Pell disbursement records to the COD System in a timely manner.
- Restrict access to its financial aid information technology environment based on job duties and responsibilities, and periodically review user accounts on its network, servers, and databases to ensure it maintains appropriate user access.
- Restrict access to migrate code into the production environment to the appropriate personnel.

Management Response and Corrective Action Plan:

Send E-mail Disbursement Notifications To All Students To Whom It Disburses Federal Loans

As we showed the auditors during their visit, we developed a process to notify students of loan disbursements effective the summer 2010 semester. The auditors accepted this process. We continue to use this process.

Implementation Date: *Summer 2010*

Responsible Person: *Kerry Olson*

Report All Pell Disbursement Records To The COD System In A Timely Manner

Beginning with the fall 2010 semester, PELL disbursements are reported to COD on almost a daily basis. The Federal Direct loan program requires information to be sent to COD on a very regular basis. We extract and send PELL information at the same time, so disbursements are reported in a much, more timely manner.

Implementation Date: *September 2010*

Responsible Person: *Kerry Olson*

Restrict Access To Its Financial Aid Information Technology Environment

A review of security processes related to financial aid information technology has been conducted. The College will continue to utilize the 'LSC-O Information Resources Request Form' to restrict LSC-O employee access to the financial aid information technology environment.

The audit of LSC-O employee INB access to the banner databases will continue to be conducted via use of the 'Banner Security Report' sent to each data owner for their review. Updates to the LSC-O employee INB access will be performed based on this review by the data owner. The audit will be conducted at the end of each fall and spring semesters.

We will create audit processes/security reports for LSC-O employee access to: the ARGOS reporting tool, the Appworx scheduling tool, and the LSC-O network via Active Directory. Updates to all access will be performed based on the review by the data owner. All audits of access will be conducted at the end of the fall and spring semesters.

LSC-O will request that Lamar University provide system generated listings that detail user access to LSC-O network shares, servers and databases hosted by Lamar University. The requested information should be received at the end of each fall and spring semesters.

Implementation Date: *May 2011*

Responsible Person: *Linda Burnett*

Restrict Access To Migrate Code Into Production Environment To The Appropriate Personnel

The ability to migrate code to the Banner Oracle production environment is limited to individuals hired by SungardHE. SungardHE is under contract through Lamar University on behalf of LSC-O to provide the Banner Oracle code tree modifications as deemed necessary. LSC-O only requests updates to the Banner oracle code tree that have been tested in a development area by LSC-O staff under the direction of the respective data owner. Prior to SungardHE staff moving code into production, a Lamar University - Change Management Process Request Form completed by either the LSC-O CIO (Linda Burnett), LSC-O Project Manager (Tom Conley), or respective financial aid data owner, must be received by the Lamar University Change Management Coordinator (Rebecca Mitchell). The Lamar University Change Management Coordinator will then schedule the update with the contracted Banner Applications Manager (Kim Skeens). LSC-O will request that SungardHE employees be issued unique accounts for the purpose of moving code to production and further more that the generic accounts be disabled and/or locked.

Implementation Date: *May 2011*

Responsible Person: *Linda Burnett*

Midwestern State University

Reference No. 11-105
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.063 P063P092291, CFDA 84.007 P007A094071, CFDA 84.375 P375A092291, CFDA 84.376 P376S092291, CFDA 84.379 P379T102291, CFDA 84.033 P033A094071, CFDA 84.038 P038A044071, and CFDA 84.268 P268K102291
Type of finding - Significant Deficiency and Non-Compliance

Eligibility and Cost of Attendance

Questioned Cost: $ 442

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). 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 aid to ensure that total aid is not awarded in excess of the student's financial need (Title 34, Code of Federal Regulations, Sections 673.5, 673.6, 682.603, and 685.301).

For 10 (25 percent) of 40 students tested, Midwestern State University (University) incorrectly calculated the student's COA. Due to limitations in the University's financial aid system, University personnel manually assign percentages to weight COA for all semesters in the academic year when packaging Summer financial assistance. However, the University's methodology does not always reflect the University's established COA budgets. As a result, students may be overawarded student financial assistance.

For students with mixed enrollment (such as, enrollment as a part-time student in one semester and as a full-time in another semester), the University incorrectly calculated the Summer semester portion of the student's COA. As a result, the financial assistance it awarded to 2 (5 percent) of 40 students tested exceeded the students' COA. For those two students, the assistance awarded exceeded the COA by $442 and $54, respectively. The University reduced the $54 undisbursed balance of the award for one of the two students to prevent disbursement of the overaward. The remaining overaward resulted in questioned costs of $442.

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 controls to ensure that high profile system access is limited to appropriate personnel at the application and server levels. Specifically:

- The University does not have a policy or policy-level statement regarding segregation of duties for high profile users.

- The account for managing user access to the financial aid application is shared by five information systems personnel.

- One database administrator is inappropriately assigned system administrator rights to the operating system(s) for the servers supporting the financial aid system. Upon notification of the issue, the University removed the root access for the database administrator.

The University also has five users with access to the financial aid application that is beyond what is required to perform their job functions based on their job titles. Three of them have rights assigned to set up budget rules, award and disbursement schedules, fund rules, and additional programmed selection rules. Two of them have rights assigned to set up fund rules. These access rights should be limited to certain personnel with those job responsibilities.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. Use of generic user IDs and sharing user IDs and passwords does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

In addition, the University has weak documented password policies. The policies specify only the frequency of password changes and do not provide other guidelines. Furthermore, the University has inadequate password controls at the application, database, server, and network levels, and those controls do not comply with the state requirements and guidelines, such as the Title 1, Texas Administrative Code, Chapter 202, and the Department of Information Resources' information technology security policy guidelines. Weak and inadequate password policies and practices increase the risk of unauthorized access to the student financial aid data.

Recommendations:

The University should:

- Ensure COA it calculates for the Summer semester reflects the established University COA budgets.
- Implement a policy regarding segregation of duties for high profile users.
- Ensure each user has a unique user ID to manage access at the application level.
- Restrict the access of high profile user IDs to appropriate personnel at the server level.
- Strengthen password policies to ensure access to the federal student financial assistance data is authorized.

Management Response and Corrective Action Plan:

Eligibility and Cost of Attendance:

Summer semester budgets will be compiled by the Director of Financial Aid in March, 2011 and added to the established Fall and/or Spring semester budgets within the Banner system. Testing of these budgets will occur in the Banner TEST system prior to the actual awarding process and will be reviewed and approved by the Director of Financial Aid. The Financial Aid Office will ensure exact budget amounts are being used during summer awarding, in lieu of weighted budget amounts, to ensure appropriate University Fall/Spring/Summer budgets are being referenced during the awarding process.

Implementation Date: *March 2011*

Responsible Person: *Kathy Pennartz*

General Controls:

MSU's Information Systems (IS) Department will ensure the following Banner security measures are in place:

- *Implement a policy regarding segregation of duties for high profile users:*
  - *A policy regarding segregation of duties for high profile users is currently being drafted and will be in place by March 1, 2011.*
- *Ensure each user has a unique user ID to manage access at the application level:*
  - *Regarding the management of user access within the Banner System -- When the Banner system is installed by MSU Information Systems department, a user/account is automatically created during installation which has the ability to manage users and their access. This user/account is referred to as BANSECR wherein its only function is to manage users and their access to all Banner modules. Additional users cannot be created to manage access to Banner as this can only be done by BANSECR; therefore, the BANSECR password must be given to an IS employee in order to create and maintain users and their scope of access within the Banner system. Since BANSECR manages user access to all Banner modules, MSU opted NOT to allow individual data custodians to have access to the BANSECR password as this would allow them to manage users outside of their responsibility. NOTE: Currently at MSU, five (5) Banner modules are installed with an individual data custodian responsible for each module; while it is the responsibility of the data custodian to grant access within their individual modules, MSU Information Systems department is the guardian of the BANSECR password and is responsible to implement each data custodian's plans for users and the scope of each user's data access. And, currently at MSU, four (4) Information Systems personnel have access to the BANSECR password in order to ensure data custodian's needs are met in case of sickness, vacations, travel etc.*
- *Restrict the access of high-profile user IDs to appropriate personnel at the server level:*
  - *Access of high-profile users has been restricted to the appropriate personnel at the server level. This policy will be finalized and an additional in-house audit will be performed by March 1, 2011.*
- *Strengthen password policies to ensure that access to the federal student financial assistance data is authorized:*
  - *Password policy is currently under review; the results and actions of the review will be submitted to the MSU Board of Regents for approval. Target date for implementation is September 1, 2011.*

Implementation Dates: *March 2011 and September 2011 (as detailed above)*

Responsible Person: *Mike Dye*

Reference No. 11-106

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.063 P063P092291, CFDA 84.007 P007A094071, CFDA 84.375 P375A092291, CFDA 84.376 P376S092291, CFDA 84.379 P379T102291, CFDA 84.033 P033A094071, CFDA 84.038 P038A044071, and CFDA 84.268 P268K102291
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 Direct Loan, Federal Family Education Loan (FFEL), Federal Perkins Loan, or Teacher Education Assistance for College and Higher Education (TEACH) Grant Program 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 anticipated date and amount of the disbursement; (2) the student's right or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan or TEACH Grant proceeds returned to the Secretary of the U.S. Department of Education, and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement (Title 34, Code of Federal Regulations, Section 668.165).

Midwestern State University (University) did not initiate the notification process in a timely manner to two loan recipients (based on auditor's review of all financial assistance recipients). As a result, the University sent disbursement notifications to two students more than 30 days after it made the disbursements. The University stated that the late notification occurred because of the heavy volume of awards it needed to process in March 2010, and because of the time involved in switching to the Direct Loan program. Not sending notifications in a timely manner could impair students' and parents' ability to cancel their loans.

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 controls to ensure that it limits high-profile system access to appropriate personnel at the application and server levels. Specifically:

- The University does not have a policy or policy-level statement regarding segregation of duties for high-profile users.
- Five information systems personnel share the account for managing user access to the financial aid application.
- One database administrator is inappropriately assigned system administrator rights to the operating system(s) for the servers supporting the financial aid application. When auditors brought this to the University's attention, the University removed the root access for this database administrator.

The University also has five users with access to the financial aid application that is beyond what is required to perform their job functions based on their job titles. Three of them have rights assigned to set up budget rules, award and disbursement schedules, fund rules, and additional programmed selection rules. Two of them have rights assigned to set up fund rules. The University should limit access rights to only personnel who job responsibilities require this access.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. Use of generic user IDs and sharing user IDs and passwords does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

In addition, the University has weak documented password policies. The policies specify only the frequency of password changes and do not provide other guidelines. Furthermore, the University has inadequate password controls at the application, database, server, and network levels, and those controls do not comply with the state requirements and guidelines, such as the Title 1, Texas Administrative Code, Chapter 202, and the Department of Information Resources' information technology security policy guidelines. Weak and inadequate password policies and practices increase the risk of unauthorized access to the student financial aid assistance data.

Recommendations:

The University should:

- Implement controls to ensure that it sends disbursement notifications no earlier than 30 days before and no later than 30 days after crediting the student's account.
- Implement a policy regarding segregation of duties for high profile users.
- Ensure each user has a unique user ID to manage access at the application level.
- Restrict the access of high-profile user IDs to appropriate personnel at the server level.
- Strengthen password policies to ensure that access to the federal student financial assistance data is authorized.

Management Response and Corrective Action Plan:

Disbursement Notification Letters:

Management acknowledges that disbursement notification letters were not sent to two (2) students within 30 days of making the loan disbursements and was corrected at time of auditor visit. The Financial Aid Office has corrected this by utilizing the electronic Microsoft Outlook calendar to serve as a 'reminder' every 21 days to send the Disbursement Notification Letter; the 21 days allows a 'cushion' of time to ensure the letters are sent within 30 days. Once the electronic 'reminder' is initiated, the Financial Aid Office will begin the Banner process to originate the letters which are printed and mailed to the students. A future enhancement entails the implementation of AppWorx, tentatively within 1-2 years, to automate this process so e-letters can be sent to students in lieu of paper letters.

Implementation Date: *June 2010*

Responsible Person: *Kathy Pennartz*

General Controls:

MSU's Information Systems (IS) Department will ensure the following Banner security measures are in place:

- *Implement a policy regarding segregation of duties for high profile users:*
  - *A policy regarding segregation of duties for high profile users is currently being drafted and will be in place by March 1, 2011.*
- *Ensure each user has a unique user ID to manage access at the application level:*

- *Regarding the management of user access within the Banner System -- When the Banner system is installed by MSU Information Systems department, a user/account is automatically created during installation which has the ability to manage users and their access. This user/account is referred to as BANSECR wherein its only function is to manage users and their access to all Banner modules. Additional users cannot be created to manage access to Banner as this can only be done by BANSECR; therefore, the BANSECR password must be given to an IS employee in order to create and maintain users and their scope of access within the Banner system. Since BANSECR manages user access to all Banner modules, MSU opted NOT to allow individual data custodians to have access to the BANSECR password as this would allow them to manage users outside of their responsibility. NOTE: Currently at MSU, five (5) Banner modules are installed with an individual data custodian responsible for each module; while it is the responsibility of the data custodian to grant access within their individual modules, MSU Information Systems department is the guardian of the BANSECR password and is responsible to implement each data custodian's plans for users and the scope of each user's data access. And, currently at MSU, four (4) Information Systems personnel have access to the BANSECR password in order to ensure data custodian's needs are met in case of sickness, vacations, travel etc.*

- *Restrict the access of high-profile user IDs to appropriate personnel at the server level:*

  - *Access of high-profile users has been restricted to the appropriate personnel at the server level. This policy will be finalized and an additional in-house audit will be performed by March 1, 2011.*

- *Strengthen password policies to ensure that access to the federal student financial assistance data is authorized:*

  - *Password policy is currently under review; the results and actions of the review will be submitted to the MSU Board of Regents for approval. Target date for implementation is September 1, 2011.*

Implementation Dates: *March 2011 and September 2011 (as detailed above)*

Responsible Person: *Mike Dye*

Department of Public Safety

Reference No. 11-107
Allowable Costs/Cost Principles
Matching, Level of Effort, Earmarking
(Prior Audit Issues 10-35 and 09-38)

Homeland Security Cluster
Award years - see below
Award numbers - see below
Type of finding - Material Weakness and Material Non-Compliance

Allowable Costs/Cost Principles - Payroll

Questioned Cost: $7,566

U.S. Department of Homeland Security

In accordance with Title 2, Code of Federal Regulations (CFR), Part 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 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, CFR, Part 225, to be allowable under federal awards, costs must be adequately documented.

The Department of Public Safety's (Department) State Administrative Agency (SAA) manages and administers Homeland Security grant programs, including the Homeland Security Cluster of federal awards, for the State of Texas. **SAA employees complete weekly time sheets to indicate the number of hours worked, including the number of hours charged to each federal award. However, the Department does not base its charges to each federal award solely on the time charged.** Instead, it distributes wages using estimates based on the amount of time employees and management charged as well as the management and administrative (M&A) funds remaining for each grant.

For all 11 monthly payroll charges tested, the Department did not base its payroll charges to federal awards on actual work completed, although most employees did submit weekly timesheets. According to the tool the Department used to allocate payroll charges to federal awards, the Department charged $33,862 to the Homeland Security Cluster for the monthly payrolls tested. For these 11 employees, the Department charged a total of $52,761 for the payroll period to all federal programs administered by the SAA. As a result of incorrectly charging federal grants based on factors other than actual time worked, the Department overcharged the Homeland Security Cluster $7,566 for the 11 payroll charges tested. Total salaries and benefits charged to the Homeland Security Cluster for fiscal year 2010 were $2,201,786. Because the SAA uses this allocation methodology to charge payroll costs to all of its federal awards, this issue affects all federal programs the SAA administers. In addition to the Homeland Security Cluster, the SAA managed and administered eight other federal grant programs, which are listed below.

Additionally, for 1 (9 percent) of the 11 monthly payroll charges tested, the Department could not provide an employee's timesheets for the majority of the time charged during the period tested.

Allowable Costs/Cost Principles – Non-Payroll

The Office of Management and Budget (OMB) requires that costs be allocable to federal awards under the provisions of Title 2, CFR, Part 225. Any cost allocable to a particular federal award or cost objective may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons. Additionally, OMB requires that costs be treated consistently with other costs incurred for the same purposes in like circumstances.

Four (8 percent) of 49 non-payroll expenditures tested that the Department charged to the Homeland Security Cluster were not solely allocable to the Homeland Security Cluster. All four expenditures were paid to temporary staffing firms for M&A services. These services benefited multiple grant programs, including the Homeland Security Cluster and other federal programs listed below, and should have been allocated across the M&A budgets for each of these grant programs. In fiscal year 2010, the Department charged $313,971 to the Homeland Security Cluster for the services of two temporary staffing firms that were included in auditors' allowable costs testing.

The Department does not use an allocation process to ensure that it charges expenditures for contract labor to the correct award. Instead, the Department charges contractor invoices to program budgets that have remaining M&A funds available. The contractor invoices auditors reviewed did not contain detailed descriptions of the work performed; therefore, auditors were unable to determine the amount of questioned costs associated with these errors. Because the Department does not use a proper allocation methodology for contract labor, it is not charging the cost of contract labor to the federal grant programs that benefited from the services provided. This issue also affects other federal programs the SAA administers. In addition to the Homeland Security Cluster, the SAA managed and administered nine other federal grant programs, which are listed below.

Additionally, the Department did not classify one of the four payments for temporary services discussed above as an M&A cost, although it was an administrative cost. As a result, the Department did not treat this expenditure in the same manner that it treated similar expenditures. Not properly recording M&A expenditures could cause the Department to charge more M&A expenditures to Homeland Security Cluster programs than is permitted by the Department's grant agreements. This issue is discussed in more detail below.

Earmarking

According to U. S. Department of Homeland Security grant guidance, the Department is required to limit M&A expenditures to a percentage of the award amount. The percentages were 3 percent for award years 2005, 2008, and 2009 (Title 6, United States Code, Section 609(a)(11)) and 5 percent for award years 2006 and 2007 (Title 42, United States Code, Section 3714(c)(2); Title III, Pub. L. No. 108-334; and Conference Report 109-241 to the Fiscal Year 2006 Department of Homeland Security Appropriations Act (Pub. L. No. 109-90)). The Department establishes separate M&A budget codes within its accounting system to track M&A expenditures and monitors its compliance with earmarking limits. It then classifies expenditures using these budget codes and monitors amounts charged to M&A budget codes to ensure that it does not exceed earmarking limits.

Proper classification and allocation of expenditures across budget codes is important to successful tracking of M&A expenditures and for the Department to ensure that it does not exceed earmarking percentages. As discussed above, however, **the Department does not have a process to allocate direct charges to the appropriate federal programs.** As a result, the Department is relying on incomplete and inaccurate data to monitor its compliance with earmarking requirements. However, that data indicates that the Department complied with earmarking requirements during fiscal year 2010.

The Department received the following Homeland Security Cluster awards:

Grant Number	Beginning Date	End Date
2005-GE-T5-4025	October 1, 2004	September 30, 2009
2006-GE-T6-0068	July 1, 2006	June 30, 2010
2007-GE-T7-0024	July 1, 2007	December 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2009-SS-T9-0064	August 1, 2009	July 31, 2012
2010-SS-T0-0008	August 1, 2010	July 31, 2013

In addition to the Homeland Security Cluster awards, the Department's SAA also manages grant funds for the following grant programs:

- Buffer Zone Protection Program. (CFDA 97.078)
- Emergency Management Performance Grant. (CFDA 97.042)
- Emergency Operations Center Grant Program. (CFDA 97.052)
- Interoperable Emergency Communications Grant. (CFDA 97.001)
- Non-profit Security Grant Program. (CFDA 97.008)
- Operation Stonegarden. (CFDA 97.067)
- Public Safety Interoperable Communications. (CFDA 11.555)
- Regional Catastrophic Preparedness Grant Program. (CFDA 97.111)
- Transit Security Program Grant. (CFDA 97.075)

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 Department did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce code changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Ensure that all payroll and non-payroll costs it charges to the Homeland Security Cluster are allocable to the federal award and that it bases its allocation methods on actual time spent or services provided.
- Maintain sufficient documentation to support the costs it charges to the Homeland Security Cluster.
- Ensure that it charges costs to appropriate budget codes and treats similar costs consistently.

- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department is installing new leadership to manage the State Administrative Agency.

The Department agrees with the recommendations and will implement controls to:

- *Ensure that all costs charged to the Homeland Security are allocable to the federal award and that the allocation method is based on actual time spent or services provided.*
- *Ensure that sufficient documentation is maintained to support costs charged to the Homeland Security Cluster.*
- *Ensure costs are charged to the appropriate budget codes and that similar costs are treated consistently.*

Implementation Date: *May 2011*

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: *February 2011*

Responsible Persons: *Robert Bodisch and Mark Doggett*

Reference No. 11-108
Cash Management
Period of Availability of Federal Funds
Special Tests and Provisions - Subgrant Awards

Homeland Security Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Interest on Advances

Questioned Cost: $ 0

U.S. Department of Homeland Security

Beginning in fiscal year 2005, Homeland Security Grant Program awards to states were exempted from the provisions of the Cash Management Improvement Act (CMIA). Grantees are permitted to draw down funds up to 120 days prior to expenditure/disbursement provided they maintain procedures to minimize the time elapsing between the receipt and disbursement of funds (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 4, Section 97.067). Additionally, grantees must place those funds in an interest-bearing account, and the interest earned must be submitted to the U.S. Treasury at least quarterly. Interest amounts up to $100 per year may be retained by the grantee for administrative expenses (Title 44, Code of Federal Regulations (CFR), Section 13.21).

The Department of Public Safety (Department) did not calculate or monitor interest earned on federal funds for the Homeland Security Cluster, nor did it remit interest earned on federal funds to the U.S. Treasury. The Department has not established a process to calculate or monitor interest earned on advanced federal funds. These funds are received by the Texas Comptroller of Public Accounts and deposited into a treasury account along with non-Homeland Security funds. The Department has not entered into an arrangement with the Texas Comptroller of Public Accounts to isolate the interest earned solely on Homeland Security funds. Therefore, the Department has never remitted any interest earned to the U. S. Treasury. Auditors tested a sample of 85 transactions and estimated an interest liability of $59.89 related to those transactions. The Department drew down $132,498,105 of federal Homeland Security Cluster funds during that period.

Subrecipient Advances

Recipients of federal funds are required to follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients. Pass-through entities must ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity (Title 44, CFR, Section 13.37 a(4)). The U. S. Department of Homeland Security requires that grantees and subgrantees be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and disbursement by the grantee or subgrantee (Title 44, CFR, Section 13.21).

For 7 (13 percent) of 52 subrecipients tested, the Department provided hardship advances to subrecipients without obtaining proof of subsequent disbursement. The Department allows subrecipients to request cash advances in cases of economic hardship. However, it does not follow up with subrecipients that have received hardship advances to ensure that they spent the federal funds. The Department does not require subrecipients to submit proof of payment for advanced funds. As a result, the Department cannot provide reasonable assurance that recipients of hardship advances are minimizing the time between receipt and disbursement of federal funds.

The Department passed through funds and received advanced funds from the following Homeland Security Cluster awards:

Award Number	Beginning Date	End Date
2005-GE-T5-4025	October 1, 2004	September 30, 2009
2006-GE-T6-0068	July 1, 2006	June 30, 2010
2007-GE-T7-0024	July 1, 2007	December 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2009-SS-T9-0064	August 1, 2009	July 31, 2012

Period of Availability of Federal Funds and Special Tests and Provisions – Subgrant Awards

Although the general control weakness described below applies to period of availability of federal funds and special tests and provisions – subgrant awards, auditors identified no compliance issues regarding those compliance requirements.

General Controls

Agencies shall maintain internal control over federal programs that provide reasonable assurance that the agencies 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 Department did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high level security access to MSA. This could enable the programmers to introduce changes to MSA they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Calculate the amount of interest earned on advanced funds for fiscal year 2010 and work with the awarding agency to return the interest earned.
- Establish procedures to calculate and track interest earned on advanced federal funds and ensure that interest exceeding $100 annually is remitted to the U.S. Treasury at least quarterly.
- Conduct follow-up with subrecipients who receive hardship advances to ensure that they are minimizing the time elapsing between receipt and disbursement of federal funds.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations.

DPS will coordinate with Comptroller's Office to calculate interest earned in 2010, and return to the awarding agency. Additionally,

- *we will implement procedures to calculate and track interest earned on advanced federal funds and ensure that interest exceeding $100 annually is remitted to the U.S. Treasury at least quarterly, and*
- *will implement controls to assure that we Conduct follow-up with subrecipients who receive hardship advances to ensure that they are minimizing the time elapsing between receipt and disbursement of federal funds.*

Implementation Date: *June 2011*

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: *Completed February 2011*

Responsible Persons: *Robert Bodisch and Mark Doggett*

Reference No. 11-109

Procurement and Suspension and Debarment

Homeland Security Cluster
Award years - see below
Award numbers - see below
Type of finding - Material Weakness and Material Non-Compliance

In accordance with Title 44, Code of Federal Regulations (CFR), Section 13.36, grantees and subgrantees will use their own procurement procedures, which reflect applicable state and local laws and regulations, provided that the procurements conform to applicable federal law and the standards identified in that CFR section. All procurement transactions must be conducted in a manner providing full and open competition. Procurement by noncompetitive proposals may be used only when the award of a contract is infeasible under small purchase procedures, sealed bids, or competitive proposals.

Questioned Cost: $ 225,000

U.S. Department of Homeland Security

Emergency Procurements

The Department of Public Safety's (Department) purchasing policy outlines proper procurement procedures and emphasizes the importance of competitive bidding, including in the case of emergency purchases. That policy requires staff to notify the Department's accounting function immediately before initiating any bidding or purchasing and provide written justification to the accounting function before processing any payments on the procurement. The policy also states that failure to anticipate need does not constitute an emergency.

The Department classified 4 (80 percent) of the 5 procurements that auditors tested as emergency procurements. **For 3 (75 percent) of those 4 emergency procurements totaling $486,633, the Department was not able to provide sufficient documentation to support that the circumstances constituted an emergency. In each of these three instances, Department documentation indicated that the Department either (1) did not allow sufficient time to complete a competitive bidding process prior to expiration of a current contract or (2) disregarded the results of a competitive bidding process and purchased the services from an existing vendor using an emergency procurement process.** Each of the three emergency procurements was an extension of a previous emergency contract into which the Department had entered. Based on Department documentation and the Department's purchasing policy, those three purchases should have been competitively procured.

For one of the three emergency procurements discussed above, Department management overrode established procurement procedures to award a contract to a preferred vendor. The Department originally solicited and evaluated competitive bids for this purchase. However, when the result of the bid scoring favored a vendor that was not management's preferred vendor, the Department overrode existing controls to cancel the procurement and enter into an emergency contract with its preferred vendor. The amount of this procurement was $225,000. After it awarded the emergency contract to its preferred vendor, the Department modified its request for proposal (RFP) to include specifications not included in the original RFP and initiated another competitive bidding process. Under the revised RFP specifications, the proposal that the Department's preferred vendor submitted was scored the highest. The proposal review team that scored the proposals consisted of the same reviewers who scored the proposals submitted in response to the original RFP, and the Department awarded a new contract to its preferred vendor. After the State Auditor's Office informed Department executive management about the circumstances surrounding this procurement, the Department canceled its contract with the vendor effective January 31, 2011.

Department of Information Resources (DIR) Procurements

The Department's State Administrative Agency (SAA) used existing contracts through the Texas Department of Information Resources (DIR) to procure consultant services to assist in the administration of the homeland security program and other programs that the SAA administered. DIR's contract provides information technology (IT) staff augmentation services to state entities.

Based on information SAA staff provided, SAA management identified specific individuals whom it wanted to hire as consultants. SAA management then contacted the DIR-approved vendor and requested that the vendor provide the services of these specific individuals through the DIR contract. **This allowed the SAA to retain the services of specific individuals and not use the Department's competitive bidding process.**

The Department was not able to provide detailed information regarding the work that the consultants who worked through the DIR contract performed. However, based on Department documentation and interviews conducted with Department staff, the SAA used the DIR contract to obtain management and administrative support for federal programs that the SAA administered. Most of the consultants paid through the DIR contract did not specifically provide IT staff augmentation services. **As a result, the SAA inappropriately used an existing DIR contract to obtain non-IT services and circumvented the Department's established process to procure non-IT consultant services.**

Department invoices indicated the Department paid the consultants discussed above $420,336 during fiscal year 2010 for services performed for federal programs administered by the SAA. Of that amount, the department charged $151,265 to the Homeland Security Cluster. In fiscal year 2011, the SAA entered into a subrecipient agreement with a local government entity and instructed the local government entity to subcontract with a different contractor for the services of the same consultants obtained through the DIR contract.

Because the Department allocates the costs paid under the DIR contract to multiple federal awards, the contracting issues discussed above affected other federal grant programs that the SAA administered, including the programs and awards listed below.

In addition to the Homeland Security Cluster awards, the SAA also manages grant funds for the following grant programs:

- Buffer Zone Protection Program (CFDA 97.078).
- Emergency Management Performance Grant (CFDA 97.042).
- Emergency Operations Center Grant Program (CFDA 97.052).
- Interoperable Emergency Communications Grant (CFDA 97.001).
- Non-profit Security Grant Program (CFDA 97.008).
- Operation Stonegarden (CFDA 97.067).
- Public Safety Interoperable Communications (CFDA 11.555).
- Regional Catastrophic Preparedness Grant Program (CFDA 97.111).
- Transit Security Program Grant (CFDA 97.075).

The issues discussed above affected the following awards that had procurements in fiscal year 2010:

Grant Number	Beginning Date	End Date
2005-GE-T5-4025	October 1, 2004	September 30, 2009
2007-GE-T7-0024	July 1, 2007	December 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2009-SS-T9-0064	August 1, 2009	July 31, 2012

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 Department did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce code changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Consistently follow its established procurement policies related to competitive bidding and emergency procurements.
- Ensure that it uses pre-existing statewide contracts appropriately and only for their intended purpose.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations. The Department has canceled the contract identified by the SAO as well as terminated the contract services provided by the DIR vendor. Additionally, the Department will implement controls to:

- *Ensure procurement policies related to competitive bidding and emergency procurements are followed.*
- *Ensure that pre-existing statewide contracts are used appropriately and only for their intended purpose.*

Implementation Date: *Completed January 2011*

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: *Completed February 2011*

Responsible Persons: *Robert Bodisch and Mark Doggett*

Reference No. 11-110
Reporting
(Prior Audit Issue 10-36)

Homeland Security Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Reporting

Recipients of Homeland Security Cluster funds are required to report the financial status of their federal awards on a quarterly basis through the Federal Financial Report (SF-425). Reports must be submitted for every calendar quarter of the period of performance within 30 days of the end of each quarter (Title 44, Code of Federal Regulations, Section 13.41).

Questioned Cost: $ 0

U.S. Department of Homeland Security

For 4 (67 percent) of 6 reports tested at the Department of Public Safety (Department), the reported amounts of cash receipts and cash disbursements did not agree with data from the Department's accounting system. For 3 (75 percent) of those 4 reports, the Department did not correct the errors in subsequent quarterly reports.

To ensure accurate reporting, the Department requires reconciliations for each budget number included in the Federal Financial Report. Budget analysts are required to document explanations for all differences between internal spreadsheets and the Department's accounting system and all differences between expenditures and revenue. For all four reports discussed above, budget reconciliations were either missing or contained errors. In some cases, the reconciliation totals did not agree with totals in the Federal Financial Report. As a result, the amounts of cash receipts and cash disbursements the Department reported were not completely accurate. For each report, the errors accounted for less than 1 percent of total reportable grant activity.

The following awards were affected by the above finding:

Award Number	Beginning Date	End Date
2006-GE-T6-0068	July 1, 2006	June 30, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies are managing federal awards incompliance 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 Department did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high level security access to the MSA accounting system. This is a weak segregation of duties since a programmer could introduce changes to MSA that the programmer could then exploit as an accounting user. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Complete budget reconciliations correctly, and accurately transfer reconciliation totals to its Federal Financial Reports.
- Document all information supporting the amounts on its Federal Financial Reports.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations and will implement controls to:

- *Ensure budget reconciliations are completed correctly, and reconciliation totals are accurately transferred to the Federal Financial Reports.*
- *Ensure all information supporting the amounts on Federal Financial Reports is documented.*

Implementation Date: *April 2011*

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: *Completed February 2011*

Responsible Persons: *Denise Hudson and Mark Doggett*

Reference No. 11-111
Subrecipient Monitoring
(Prior Audit Issues 10-37 and 09-43)

Homeland Security Cluster
Award years - see below
Award numbers - see below
Type of finding - Material Weakness and Material Non-Compliance

During-the-award Monitoring

Questioned Cost: $ 0

U. S. Department of Homeland Security

Recipients of Homeland Security Cluster funds are required to monitor grant and subgrant supported activities to ensure compliance with applicable federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity (Title 44, Code of Federal Regulations, Section 13.40).

The Department of Public Safety (Department) largely monitors subrecipient activities through review and approval of reimbursement requests, quarterly progress reporting, and site visits it conducts at subrecipients that it selects based on a biennial risk assessment. However, **the Department did not consistently enforce and monitor subrecipient compliance with federal requirements. As a result, the Department's controls did not detect instances of subrecipient noncompliance with federal requirements.** Specifically:

- For 34 (65 percent) of 52 subrecipients tested, either (1) the Department did not monitor the subrecipient's compliance with quarterly reporting requirements or (2) the subrecipient did not comply with quarterly reporting requirements. All 34 subrecipients received federal funds during fiscal year 2010.
- Five (10 percent) of the 49 subrecipients in the test sample with moderate or high scores on the Department's risk assessment had never received a site visit from the Department as of October 7, 2010. As a result, the Department could not provide documentation showing that those subrecipients' procurement and equipment policies and procedures had ever been monitored. In addition, two of those subrecipients were not included in the Department's 2010 risk assessment and, therefore, were not considered for site visits.
- For 4 (9 percent) of 44 subrecipients at which the Department conducted site visits, the Department did not maintain documentation that management had reviewed and approved the documented results of the site visits.
- For 7 (24 percent) of 29 subrecipients at which the Department's site visits had uncovered deficiencies, the Department did not maintain documentation showing that its monitoring staff followed up on those deficiencies.

In addition, **the Department did not fully use its risk assessment to select the subrecipients at which it would conduct site visits.** For example, some subrecipients had high risk assessment scores but the Department did not visit them during 2010; however, the Department did visit several subrecipients with low risk assessment scores.

Also, 1 (2 percent) of 52 subrecipients tested received reimbursement for costs incurred outside of the period of performance specified on the subaward between the Department and the subrecipient. Although subrecipients are denied access to the State Preparedness Assessment and Reporting Service (SPARS) at the close of their period of performance, the Department allows subrecipients to submit invoices via fax or mail for 90 days after the end of that period. The Department then processes those invoices and enters them into SPARS. This subrecipient submitted two invoices in this manner, but Department staff did not identify that the subrecipient's costs were not incurred during the period of performance and that the 90-day period had ended.

Insufficient monitoring during the award period increases the risk that the Department would not detect subrecipients' non-compliance with requirements regarding federally funded projects, which could result in significant liabilities for both the Department and its subrecipients.

A-133 Compliance Monitoring

According to Office of Management and Budget (OMB) Circular A-133, the Department must ensure that subrecipients expending federal funds in excess of $500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department within 9 months of the subrecipient's fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133 Sections 225).

The Department uses a spreadsheet to track subrecipients' compliance with A-133 audit requirements, and it documents its review of submitted audit reports using a Single Audit checklist. **However, the Department did not effectively monitor or enforce subrecipient compliance with the requirement to obtain an A-133 audit. As a result, the Department could not provide documentation to support that all subrecipients complied with the requirement to obtain an A-133 audit or that subrecipients that did not comply had been appropriately sanctioned.**

For 13 (25 percent) of 52 subrecipients tested, the Department did not verify whether the subrecipient obtained an A-133 audit. Ten of those subrecipients were not included in the Department's A-133 tracking spreadsheet and, therefore, the Department did not monitor them for compliance with A-133 audit requirements. The remaining three were included on that spreadsheet, but they either (1) did not respond to the Department's Single Audit questionnaire or (2) did not submit their A-133 audit report within nine months of their fiscal year end. In addition, three subrecipients had findings in their A-133 audit reports, but the Department's tracking spreadsheet did not contain documentation of a management decision because that spreadsheet lacks fields to document follow-up actions and management decisions regarding audit findings. For all cases discussed above, the Department's A-133 monitoring files did not contain evidence that it responded to subrecipient noncompliance in accordance with its sanction policy. Finally, one subrecipient submitted an audit report that the Department did not review within the required six-month time period.

Not ensuring that subrecipients obtain A-133 audits and not following up on deficiencies noted in the subrecipients' audit reports increases the risk that deficiencies could go unaddressed.

The issues noted above effect the following Homeland Security Cluster awards:

Award Number	Beginning Date	End Date
2006-GE-T6-0068	July 1, 2006	June 30, 2010
2007-GE-T7-0024	July 1, 2007	December 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2009-SS-T9-0064	August 1, 2009	July 31, 2012

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies are managing federal awards incompliance 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 Department did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Consistently enforce quarterly reporting requirements for all subrecipients.
- Use its risk assessment to ensure that it will conduct site visits at high-risk subrecipients.
- Maintain supporting documentation of the monitoring activities it performs during site visits at subrecipients.
- Establish and implement procedures to track subrecipients' compliance with requirements to obtain an A-133 audit, and incorporate management review of audit findings into those procedures.
- Issue sanctions when subrecipients do not comply with federal requirements.
- Enhance its policy to guide its risk assessment and site visit selection process, and ensure that this policy includes a requirement to document the Department's rationale for selecting subrecipients for site visits.
- Ensure that subrecipients are reimbursed only for costs incurred within their period of performance.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations and will implement controls to:

- *Ensure quarterly reporting requirements are enforced for all subrecipients.*
- *Ensure that site visits are conducted at high-risk subrecipients.*
- *Ensure supporting documentation of monitoring activities performed is maintained.*

- *Track subrecipients' compliance with requirements to obtain an A-133 audit, and incorporate management review of audit findings into those procedures*
- *Ensure sanctions are issued when subrecipients do not comply with federal requirements.*

Additionally, the risk assessment and site visit selection process will be enhanced to ensure that the policy includes a requirement to document the Department's rationale for selecting subrecipients for site visits. Controls will be implemented to ensure subrecipients are reimbursed only for costs incurred within their period of performance.

Implementation Date: *July 2011*

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: *Completed February 2011*

Responsible Persons: *Robert Bodisch and Mark Doggett*

Reference No. 11-112
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management

Public Assistance Cluster
Award years - see below
Award numbers - see below
Type of finding - Material Weakness and Non-Compliance

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Office of Management and Budget (OMB) Circular A-87, Attachment A, Part C, lists factors affecting allowability of costs, including that costs must be (1) necessary and reasonable for proper and efficient performance and administration of federal awards, (2) allocable to federal awards under the provisions of the circular, and (3) be adequately documented. For the Public Assistance program, allowable costs must be for the federally approved project as described on the project worksheet and supporting documentation.

Questioned Cost: $ 148,531

U.S. Department of Homeland Security

For 1 (2 percent) of 50 items tested, the Department of Public Safety (Department) did not ensure that its drawdowns of federal funds were properly supported. Specifically, errors the Department made while accumulating information in timesheets led to questioned costs of $1,965 in state management costs. While the Department has a control to review drawdown information, that control is not adequate to identify inaccuracies in the manual process of inputting timesheets into a spreadsheet that tracks payroll costs per disaster. During fiscal year 2010, the Department did not perform a subsequent review of the information that was included in the drawdown of federal funds. Not having accurately supported documentation could cause unallowable costs to be awarded to the Department and could jeopardize future funding.

These following programs were affected by the above issue:

Disaster	Grant Number	Start Date
1379	FEMA-1379-DR	June 9, 2001
1606	FEMA-1606-DR	September 24, 2005

Funding Technique

According to the Cash Management Improvement Act Agreement between the State of Texas and the U.S. Department of the Treasury (Treasury-State Agreement), the Public Assistance program exceeds the State's threshold for major federal assistance programs and, therefore, is subject to the Treasury-State Agreement. The Public Assistance program is subject to the pre-issuance funding technique. Under this method, the State is required to request that funds be deposited in the State account no more than three days prior to the day the State makes a disbursement (Treasury-State Agreement, Section 6.2.1). In an August 14, 2002, letter from the Federal Emergency Management Agency (FEMA) Region VI Regional Director to the Department's Division of Emergency Management, an exception was allowed for up to seven days for the withdrawal and disbursal of federal funds to sub-grantees.

For 3 (6 percent) of 50 items tested, the Department did not comply with established time requirements. In these three instances, the Department distributed funds from 8 to 19 days after the receipt of the federal funds. This occurred due to delays in the manual processing of withdrawal and disbursement of funds to sub-grantees. Not following the required time requirements means that subgrantees are not receiving federal funds in a timely manner.

Disbursement Proportions

According to Title 44, Code of Federal Regulation (CFR), Section 206.207, the State must submit a revised plan to FEMA annually for the administration of the Public Assistance program that must include several items, including procedures for processing requests for advances of funds and reimbursements. According to the State of Texas Administrative Plan for Hurricane Ike, for large projects that were 99 or 100 percent complete when written, the Division of Emergency Management shall disburse 75 percent of the entire federal share for Hurricane Gustav and 90 percent of the entire federal share for Hurricane Ike to the applicant upon obligation of funds by FEMA. Additionally, an applicant may request an advance on an approved large project, not to exceed 75 percent of the federal share for any one project.

For 15 (30 percent) of 50 items tested, the Department did not ensure that its draws of federal funds complied with the State of Texas Administrative Plan for Hurricane Ike. Specifically, the Department drew down and disbursed 100 percent of the federal share for approved project costs prior to project completion. This occurred because Department management authorized advance payments for seven subgrantees and for projects that the Department directly managed. This advance of funds exceeded the limit established in the State of Texas Administrative Plan for Hurricane Ike. The Department drew down $1,044,845 for three subrecipient projects included in auditors' testing. Of that amount, $146,566 was not eligible for disbursement at the time of the drawdowns based on the requirements in the State Administrative Plan. This could jeopardize future funding under the Public Assistance Program.

Calculation of Clearance Pattern

According to Title 31, CFR, Section 205.12, the federal government and a state may negotiate the use of mutually agreed-upon funding techniques. Funding techniques should be efficient and minimize the exchange of interest between states and federal agencies. States use clearance patterns to project when funds are paid out, given a known dollar amount and a known date of disbursement. States must ensure that clearance patterns meet the requirements of Title 31, CFR, Section 205.20.

According to the Treasury-State Agreement, the Department must calculate the clearance pattern for period 1 (from deposit date to issuance date, where issuance date is the date of the actual release of payments). The Office of the Comptroller of Public Accounts will calculate the clearance pattern for period 2 from issuance date to clearance date.

The Department's clearance pattern does not conform to the requirements for developing and maintaining clearance patterns in the Treasury-State Agreement. Specifically, the Department:

- Determined the number of days in period 1 incorrectly because it calculated the average period 1 time frame for each draw within the time period and then calculated the average of all of those averages.

- Did not correctly calculate the total number of days from the deposit date to the paid date when it calculated period 1. The Department calculated the total number of days from the deposit date to the paid date as 1,630 days when the correct number of days was 1,637.

Errors in the Department's period 1 calculation may result in the State over/under paying interest liabilities to the federal government.

These following programs were affected by the above exceptions:

Disaster Number	Grant Number	Start Date
1257	FEMA-1257-DR	October 21, 1998
1274	FEMA-1274-DR	May 6, 1999
1356	FEMA-1356-DR	January 8, 2001
1379	FEMA-1379-DR	June 9, 2001
1425	FEMA-1425-DR	July 4, 2002
1479	FEMA-1479-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
1931	FEMA-1931-DR	August 3, 2010
3216	FEMA-3216-EM	September 2, 2005
3261	FEMA-3261-EM	September 21, 2005
3277	FEMA-3277-EM	August 18, 2007
3290	FEMA-3290-EM	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies are managing federal awards incompliance 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 Department did not maintain appropriate segregation of duties for high-profile users of its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Ensure that state management costs are adequately supported by comparing those costs with supporting timesheets and related information.
- Ensure that its process to withdraw and disburse federal funds to subgrantees adheres to the seven-day time frame approved by FEMA.
- Ensure that management does not override FEMA-approved grant guidelines regarding advances of funds in proportion to the approved award amounts without direct approval from FEMA.
- Calculate the clearance pattern for period 1 in accordance with the Treasury-State Agreement.

- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations and will implement controls to:

- *Ensure state management costs are adequately supported by comparing those costs with supporting timesheets and related information.*
- *Ensure the process to withdraw and disburse federal funds to subgrantees adheres to the seven-day time frame approved by FEMA.*
- *Ensure that management does not override FEMA-approved grant guidelines regarding advances of funds in proportion to the approved award amounts without direct approval from FEMA.*

Implementation Date: *August 2011*

The Department recalculated the clearance pattern for period 1 and resubmitted it to the Comptroller of Public Accounts in December 2010.

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: *Completed February 2011*

Responsible Persons: *Denise Hudson, Nim Kidd, and Mark Doggett*

Reference No. 11-113
Procurement and Suspension and Debarment
Matching, Level of Effort, Earmarking
Period of Availability of Federal Funds
(Prior Audit Issue 10-40)

Public Assistance Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Procurement and Suspension and Debarment

Questioned Cost: $ 0

U.S. Department of Homeland Security

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.210).

For all 12 procurements tested, the Department of Public Safety (Department) did not verify that the vendors were not suspended or debarred from federal procurements. Eleven of those 12 procurements were for sheltering services, and the remaining procurement was for the purchase of showers, toilets, and hand-washing stations. Auditors reviewed the EPLS and verified that the vendors for those 12 procurements were not currently suspended or debarred. The 12 procurements totaled $6,683,329.

The Department did not have a process to ensure that vendors providing shelter/emergency services and mutual aid services during emergencies were not suspended or debarred from federal procurements. Failure to verify the suspension and debarment status of all vendors increases the risk that the Department will enter into an agreement with an entity that is not eligible for federal procurements.

Additionally, the Department could not provide evidence that it verified that 2 (4 percent) of 50 subrecipients were not suspended of debarred before entering into an award agreement. For these two subrecipients, the Department was not able to provide evidence of subrecipient award documentation, including the subrecipients' certification that they were not suspended or debarred.

The issue discussed above affected the following awards that had procurements and subawards in fiscal year 2010:

Disaster Number	Grant Number	Start Date
1379	FEMA-1379-DR	June 9, 2001
1791	FEMA-1791-DR	September 13, 2008
3290	FEMA-3290-EM	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

Matching, Level of Effort, Earmarking and Period of Availability of Federal Funds

Although the general control weakness described below applies to matching, level of effort, earmarking; and period of availability of federal funds, auditors identified no compliance issues regarding those compliance requirements.

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 Department did not maintain appropriate segregation of duties for high-profile users of its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Develop and implement a process to verify the suspension and debarment status of all vendors and subrecipients, including those procured under emergency procurement procedures.

- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations.

The Texas Division of Emergency Management has added the requirement to document the review of the suspension and debarment list to the State Operations Center Finance Team procedures checklist.

We will further review controls to ensure the suspension and debarment status is verified for all vendors and subrecipients, including those procured under emergency procurement procedures.

Implementation Date: *July 2011*

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: *Completed February 2011*

Responsible Persons: *Nim Kidd and Mark Doggett*

Reference No. 11-114
Reporting
(Prior Audit Issues 10-41, 09-47, 08-91, and 07-26)

Public Assistance Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function or activity supported by the award. Recipients use the *Federal Financial Report* SF-425 (Office of Management and Budget No. 0348-0061) to report financial activity on a quarterly basis. Reports must be submitted within 30 days of the end of each quarter (Title 44, Code of Federal Regulations, Section 13.41).

Questioned Cost: $ 0

U.S. Department of Homeland Security

The Department of Public Safety (Department) did not always ensure that financial reports it submitted were adequately supported by data in the Department's accounting system. Specifically:

- 1 (9 percent) of 11 SF-425 reports tested included revenue received through cash draws that could not be traced to the accounting system within a reasonable amount.
- 3 (30 percent) of 10 SF-425 reports tested included expenditures that could not be traced to the accounting system within a reasonable amount.

Department management reviewed all reports tested, but those reviews were not sufficient to ensure that all information in the reports was adequately supported. The Department was unable to provide an explanation for the variances between the SF-425 reports and its accounting system. The Department compares information from the SmartLink system and the Federal Payment Management System to prepare its SF-425 reports, but it does not reconcile the information in Smartlink to its accounting system. When the Department submits an inaccurate report, this decreases the reliability of the information intended for the federal government.

Additionally, the Department submitted 5 (45 percent) of 11 SF-425 financial reports tested after the date they were due. It submitted those five reports for the quarter ending June 30, 2010. The Department submitted them an average of 25 days late because it did not provide the responsible employee with procedures or training.

The issues discussed above affect the following awards:

Disaster Number	Grant Number	Start Date
1606	FEMA-1606-DR	September 24, 2005
1658	FEMA-1658-DR	August 15, 2006
1780	FEMA-1780-DR	July 24, 2008
3216	FEMA-3216-EM	September 2, 2005
3277	FEMA-3277-EM	August 18, 2007
3290	FEMA-3290-EM	August 29, 2008

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 Department did not maintain appropriate segregation of duties for high-profile users of its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Document procedures for preparing and submitting required reports, and provide training to its employees to ensure that it submits accurate reports and in a timely manner.
- Develop and implement a process to reconcile the information in its accounting system to Smartlink on a regular basis.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations and will:

- *Document procedures for preparing and submitting required reports, and will train employees to ensure that reports are submitted accurately and in a timely manner.*
- *Develop and implement a process to reconcile the information in its accounting system to Smartlink on a regular basis.*

Implementation Date: June 2011

Additionally, the Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: *Completed February 2011*

Responsible Persons: *Denise Hudson, Nim Kidd, and Mark Doggett*

Reference No. 11-115
Subrecipient Monitoring
Special Tests and Provisions - Project Accounting
(Prior Audit Issue - 10-42 and 09-48)

Public Assistance Cluster
Award years - see below
Award numbers - see below
Type of finding - Material Weakness and Material Non-Compliance

Questioned Cost: $ 0

U.S. Department of Homeland Security

The Department of Public Safety (Department) is required by Office and 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.

The Department does not have a formal system to track, administer, and monitor the subgrants it provides to subrecipients. Without such a system, the Department relies on informal processes that vary by disaster and by staff member. This inhibits the Department's ability to easily locate and maintain subrecipient files. In fiscal year 2010, the Department passed through $397,069,684 to subrecipients.

Award Identification

At the time of the award, pass-through entities must identify to subrecipients the applicable compliance requirements and the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, the federal award name and number, the name of the federal awarding agency, and whether the award is research and development (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

For 2 (4 percent) of 50 subrecipients that received pass-through funds from the Department, the Department was not able to provide the award agreements into which it entered with each subrecipient. As a result, the Department was not able to provide evidence that it communicated all required information, including both award information and applicable requirements.

Incomplete communication of federal compliance requirements in the Department's award documents increases the risk that subrecipients will not follow federal guidelines related to administering subrecipient awards. Inadequate identification of federal awards by the Department may lead to improper reporting of federal funding on a subrecipient's Schedule of Expenditures of Federal Awards (SEFA).

During-the-award Monitoring and Special Tests and Provisions

The Department's primary monitoring tool for Public Assistance subrecipients is the final audit that it conducts on projects designated by the Federal Emergency Management Agency (FEMA) as "large" projects. FEMA determines a funding threshold for each disaster (for example, the threshold for Hurricane Ike was $60,900), and the projects with awarded amounts exceeding that amount are required to have a final audit and a final project accounting prior to payment of the final invoice. The final project audit includes a review of a subrecipient's compliance with applicable state and federal requirements for each large project.

According to the Department's State Administrative Plan (1) emergency projects, such as debris removal, must be complete within 6 months of the disaster declaration and (2) permanent projects, such as building repair, must be complete within 18 months of the disaster declaration. Subrecipients can request that the Department extend those time periods in some circumstances. **For 17 (71 percent) of 24 projects that had exceeded the time periods allowed, the Department could not provide evidence that it approved a time extension.**

For large ongoing projects, subrecipients are required to submit quarterly reports to the Department. For all projects, subrecipients are required to submit a project completion and certification report after the project is complete. **For 8 (19 percent) of 43 subrecipients, the Department could not provide evidence that it received and reviewed those required reports.** For each of those eight subrecipients, the Department could not provide the project completion and certification report.

The Department also did not audit, close, and account for projects that appeared to be complete based on the Department's documentation. Specifically:

- For 2 (17 percent) of 12 large projects that appeared complete, the Department did not request or conduct a final audit.

- For 12 (57 percent) of 21 projects that appeared complete, the Department did not complete final close-out procedures for its audit and could not provide documentation regarding the status of the project.

In addition, the Department uses site inspection visits to monitor subrecipient projects. The Department conducts an on-site visit for some types of large projects and for 20 percent of each subrecipient's small projects. The Department does not conduct on-site visits for projects that were complete at the time the project was approved by FEMA. Based on information the Department provided, **the Department did not use site visits to monitor the 50 subrecipients tested.** Not all of these subrecipients required site visits. **However, at least 6 (12 percent) of the 50 subrecipient projects were large projects requiring a site visit prior to project close-out.** One of these six projects was complete prior to the end of fiscal year 2010.

Insufficient monitoring during the award period increases the risk that the Department would not detect non-compliance by subrecipients administering federally funded projects, which could result in significant liabilities for both the Department and its subrecipients.

A-133 Audit Compliance Monitoring

According to OMB Circular A-133, the Department must ensure that each subrecipient that expends more than $500,000 in federal funds obtains an OMB Circular A-133 Single Audit and provides a copy of the audit report to the Department within 9 months of the end of the subrecipient's fiscal year (OMB Circular A-133, Sections 320 and 400). In addition, the Department must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions (OMB Circular A-133 Section 225).

The Department's Division of Emergency Management Audit and Compliance Unit (Division) is responsible for monitoring its subrecipients' A-133 audit reports. However, the Division did not consistently receive, review, and follow-up on its subrecipients' A-133 audit reports.

For 10 (20 percent) of 50 subrecipients tested that received funding during fiscal year 2010, the Division was unable to provide evidence that it received an A-133 audit report from the subrecipient or verified that an audit was not required. Specifically:

- Three of those 10 subrecipients were not included in the Division's A-133 audit tracking spreadsheet and, as a result, the Division did not monitor them for compliance with A-133 audit requirements.

- For seven of those 10 subrecipients, the Division sent a letter requesting a copy of the subrecipient's A-133 audit report or a certification that an audit was not required, but the Division did not ensure that the subrecipients responded to these letters.

Four of those 10 subrecipients submitted an A-133 audit report to the Federal Audit Clearinghouse in fiscal year 2010, and two of those audit reports identified significant deficiencies.

Because the Division did not receive these A-133 audit reports, it was unable to identify potential issues that would require follow-up; as a result, it was unable to issue management decisions on audit findings associated with these subrecipients. Additionally, while the Department has a policy to sanction subrecipients for failure to comply with audit and compliance requirements, it was unable to determine whether sanctions were necessary without this audit information. Most importantly, the Division and the Department are unaware of potential risks related to subrecipients' compliance with federal compliance requirements.

Additionally, for 1 (2 percent) of 50 subrecipients tested, the Division received and reviewed an A-133 audit report that included a significant deficiency that directly affected the Public Assistance program. However, the Department did not issue a management decision on this finding or follow up to determine the resolution of the finding. While the Department has a tracking system to document its review of A-133 audit findings, that tracking system did not include fields for following up or issuing management decisions on subrecipients' A-133 audit findings. According to Department management, the Department did not generally follow up on subrecipient deficiencies during fiscal year 2010.

Not ensuring that subrecipients obtain A-133 audits and not following up on deficiencies noted in the subrecipients' audit reports increases the risk that deficiencies could go unaddressed.

The issues discussed above affected the following awards:

Disaster	Grant Number	Start Date
1379	FEMA-1379-DR	June 9, 2001
1606	FEMA-1606-DR	September 24, 2005
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008T

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 Department did not maintain appropriate segregation of duties for high-profile users of its accounting system, Management Science of America (MSA). Specifically, two programmers have inappropriate high-level security access to MSA. This could enable the programmers to introduce changes to MSA that they could then exploit as accounting users. Additionally, although the Department provided evidence of a user access review it performed for MSA in August 2010, it was not able to provide evidence of the user access reviews it had scheduled for November 2009 and May 2010. Auditors could not confirm that the Department reviewed user access on a regular basis for the entire audit period. The Department also could not provide evidence of its user access review for Resource Access Control Facility (RACF) mainframe and data file security.

Recommendations:

The Department should:

- Ensure its record contain subrecipients' applications for federal assistance and information related to compliance requirements to ensure that it has communicated the required elements of award information and specific information related to federal compliance to subrecipients.
- Establish a formal process to track and monitor all active subrecipient and Department projects.
- Maintain documentation of its during-the-award monitoring activities.

- Require all subrecipients to certify that they will obtain an A-133 audit if they meet the threshold or certify that they are not required to obtain an A-133 audit and follow-up with its subrecipients to ensure it receives a response.
- Establish a process to issue a management decision on findings in subrecipients' A-133 audit reports within six months of receipt those reports and follow-up on issues identified in those findings.
- Restrict access to MSA, the mainframe, and the network based on job duties and responsibilities, and periodically review access levels to ensure that it grants appropriate access.

Management Response and Corrective Action Plan:

The Department agrees with the recommendations and will:

- *Ensure records contain subrecipients' applications and evidence of communicating compliance requirements.*
- *Establish a formal process to track and monitor all active subrecipient and Department projects.*
- *Maintain documentation of its during-the-award monitoring activities.*
- *Require all subrecipients to certify that they will obtain an A-133 audit if they meet the threshold or certify that they are not required to obtain an A-133 audit and follow-up with its subrecipients to ensure it receives a response.*

The issue related to management decision making on findings in subrecipients' A-133 audit reports was identified by TDEM's Standards and Compliance Office in a report issued in June 2010. As a result of the findings in that report, TDEM immediately revised a number of its single audit review procedures and adopted a policy requiring the issuance of management decisions based on subrecipient single audit findings. The policy is documented in the TDEM Grant Administration Guide of July 2010; however, to strengthen the policy, management will immediately modify it to include a statement that such decisions "shall be made within six months of receiving the subrecipient's audit report, pursuant to A-133.400(d)(5)." This action will ensure a process is in place to issue a management decision on findings in subrecipients' A-133 audit reports within six months of receipt those reports and follow-up on issues identified in those findings.

Implementation Date: *August 2011*

The Department has established controls to ensure that access to MSA, the mainframe, and the network are based on job duties and responsibilities, and periodic review ensure appropriate access. Lastly, the Department has terminated rights for the two programmers with inappropriate security access to MSA.

Implementation Date: *Completed February 2011*

Responsible Persons: *Denise Hudson, Nim Kidd, and Mark Doggett*

Texas A&M Health Science Center

Reference No. 11-116
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.0007 P007A095144, CFDA 84.063 P063P092583, CFDA 84.268 P268K102583, CFDA 93.342 Award Number Not Applicable, and CFDA 93.925 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Satisfactory Academic Progress

Questioned Cost: $ 0

U.S. Department of Education

A student is eligible to receive Title IV, Higher Education Act 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).

Texas A&M Health Science Center's (Health Science Center) written satisfactory academic progress (SAP) policy did not include requirements for students enrolled in the College of Nursing. The Health Science Center did not update its SAP policy to include the College of Nursing when it added that college to its programs in the Summer of 2008. As a result, nursing students may not be aware of SAP requirements for financial assistance. Although it did not formally update its SAP policy, the Health Science Center evaluated nursing students' academic progress through its promotions committee.

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 (COA) minus the expected family contribution (EFC). 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).

The Health Science Center's written COA budgets did not detail adjustments necessary to determine tuition and fees for out-of-state students or non-medical students attending year-round. Furthermore, the Health Science Center was unable to provide documentation of how it calculated the COA adjustments it made in its financial aid application, Banner. The Health Science Center adjusted COA budgets directly in Banner, but it did not update its written COA budgets accordingly. Without support for the COA budget adjustments, auditors were unable to determine whether the Health Science Center accurately determined student COA and financial need.

Recommendations:

The Health Science Center should:

- Update its SAP policy as necessary to reflect all of its current programs.
- Maintain adequate support for all of its COA budgets and adjustments.

Management Response and Corrective Action Plan:

The SAP policy has been updated to include information for College of Nursing students. This was done immediately on the HSC web-site and in all related publications.

Implementation Date: *July 2010*

Responsible Person: *Harold Whitis*

Management has implemented a requirement for the documentation of all COA adjustments that includes entering notes in our student information system at the time of any adjustment and the scanning and indexing of all supporting documentation that justifies the modification.

Implementation Date: *August 2010*

Responsible Person: *Harold Whitis*

Reference No. 11-117

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.007 P007A095144, CFDA 84.063 P063P092583, CFDA 84.268 P268K102583, CFDA 93.342 Award Number Not Applicable, and CFDA 93.925 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 Direct Loan, Federal Family Education Loan (FFEL), Federal Perkins Loan (FPL), or Teacher Education Assistance for College and Higher Education (TEACH) Grant program 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 anticipated date and amount of the disbursement; (2) the student's right or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan or TEACH Grant proceeds returned to the Secretary of the U.S. Department of Education; and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement (Title 34, Code of Federal Regulations, Section 668.165).

For 21 (22 percent) of 96 loans tested, Texas A&M Health Science Center (Health Science Center) did not send the required disbursement notification letter to the student or parent after crediting the student's account with FFEL funds. All 21 exceptions were for College of Medicine December loan disbursements. For these loans, the Health Science Center entered the date parameter for the notification process incorrectly into its financial aid application, Banner. Not receiving these notifications can impair loan recipients' ability to cancel their awards.

Common Origination and Disbursement System Reporting

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's Common Origination and Disbursement (COD) System. 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 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 5-3-30)).

For 2 (50 percent) of 4 Pell recipients tested, the disbursement date in the COD System did not match the disbursement date in the Health Science Center's financial aid application, Banner. The two Pell awards contained correct disbursement amounts, but the summer disbursement dates did not match. The Health Science Center incorrectly reported the date the records were prepared to send to the COD System, instead of the actual disbursement date. As a result, the U.S. Department of Education did not receive accurate Pell disbursement information during the award year.

Additionally, the Health Science Center did not report 23 (31 percent) of 74 Pell disbursements and adjustments to the COD System within 30 days. For the 2009-2010 award year, the Health Science Center reported Pell disbursements and refunds to the COD System only three times during the year. As a result, the U.S. Department of Education did not receive Pell disbursement and adjustment information in a timely manner during the award year.

Recommendations:

The University should:

- Send disbursement notifications to loan recipients no earlier than 30 days before and no later than 30 days after crediting the student's account with loan funds.
- Perform COD System reporting in a timely manner and report actual disbursement dates to the COD System, in accordance with federal requirements.

Management Response and Corrective Action Plan:

Management has automated the generation of disbursement notifications from the student information system. Notifications sent in this manner are documented in the system with the letter type and date sent. This process is run no less than once per week. Reports are generated monthly for review to guarantee that there are no omissions.

Implementation Date: *August 2010*

Responsible Person: *Harold Whitis*

Management has instituted a schedule to have the Pell origination and export process run weekly. This will insure timely reporting that will meet federal requirements. Additionally, all records are reviewed on a monthly basis to ensure that COD and the student information system dates match as required.

Implementation Date: *September 2010*

Responsible Person: *Harold Whitis*

Texas A&M International University

Reference No. 11-118
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.033 P033A094137, CFDA 84.063 P063P093216, CFDA 84.007 P007A094137, CFDA 84.375 P375A093216, CFDA 84.376 P376S093216, and CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Academic Competitiveness Grant

The Academic Competitiveness Grant (ACG) program provides grants to eligible students enrolled as first-year or second-year students in an ACG-eligible program. Grants are up to $750 for first-year students and $1,300 for second-year students (Title 34, Code of Federal Regulations, Sections 691.6 and 691.62).

Questioned Cost: $ 64,097

U.S. Department of Education

Texas A&M International University (University) disbursed ACG grants to 78 students who were enrolled as third-year or fourth-year students and, therefore, were not eligible to receive the grants. The University awarded a total of $64,097 in ACG funds to those ineligible students. Those students met the eligibility requirements during the Spring 2009 semester, when the University initially awarded the grants. However, the students were classified as third-year or fourth-year students at the time of the disbursement of the grants. The edit checks in the University's financial aid application prevented the awarding of ACG grants to third-year or fourth-year students, but they did not prevent the disbursement of ACG grants to third-year or fourth-year students.

Satisfactory Academic Progress

A student is eligible to receive Title IV, Higher Education Act 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)). An institution's satisfactory academic progress (SAP) policy should include (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 time frame in which a student must complete his or her educational program (Title 34, CFR, Section 668.16 (e)). A student is making satisfactory progress if, at the end of the second year, the student has a grade point average (GPA) 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 (b)).

University staff perform SAP determinations manually using paper forms. The University asserts that, as a control, administrative staff perform random, periodic reviews of those forms; however, because those reviews are not documented, auditors were unable to verify the existence of this control. **During testing, auditors identified several inconsistencies in staff's documentation of SAP determinations.** Specifically, auditors noted instances in which:

- The documented cumulative GPA included grades earned from non-institutional courses. According to the University's SAP policy, the cumulative GPA should include only institutional courses.

- The documented cumulative GPA, course completion rate, and total cumulative hours attempted did not incorporate courses completed in the Fall 2008 and/or Spring 2009 semesters. According to the University's SAP policy, SAP determinations are made at the end of the academic year.

- The documented total cumulative hours attempted included hours earned from transfer courses not applicable to a student's degree program. According to the University's SAP policy, a student's total cumulative hours attempted are counted only if they apply to the student's degree program.

Despite these inconsistencies in SAP calculations, based on testing of 40 students, auditors did not identify any students who were ineligible to receive financial assistance for not meeting SAP requirements.

Recommendations:

The University should:

- Develop and implement edit checks in its financial aid application to ensure that it does not disburse ACG funds to third-year or fourth-year students.
- Improve controls over its calculation and review of SAP determinations.

Management Response and Corrective Action Plan:

Academic Competitiveness Grant (ACG)

A BANNER system programming rule that controls ACG disbursements has been implemented to ensure funds are accurately disbursed to eligible students. A Web-Focus audit report has also been created to verify awards are being disbursed accurately according to classification. This allows for a system of checks and balances.

Implementation Date: *June 2010*

Responsible Persons: *Laura Elizondo and Melanie Martinez*

Satisfactory Academic Progress Policy (SAP)

In an effort to improve controls over the calculation and review of SAP compliance, the SAP checklist and folder completion checklist will be separated. The SAP checklist form will be completed after spring grades become available for current TAMIU students in accordance with the TAMIU SAP Policy. For new and transfer students, the form will be completed after the student has been admitted to the institution and a FAFSA becomes available. The new form will differentiate between returning TAMIU students, new, and/or transfer students. It will also include TAMIU Overall GPA, Transfer Overall GPA, and Overall GPA to be used to verify GPA requirements, calculation of 75% required hours used to calculate deficit hours, calculation of transferable degree hours used to calculate maxed out hours, and an audit section used by the administrators during the review/audit of SAP determinations.

Implementation Date: *February 2011*

Responsible Persons: *Laura Elizondo, Isabel Woods, and Melanie Martinez*

Reference No. 11-119

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
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 Direct Loan, Federal Family Education Loan (FFEL), Federal Perkins Loan, or Teacher Education Assistance for College and Higher Education (TEACH) Grant Program 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 anticipated date and amount of the disbursement; (2) the student's right or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan or TEACH Grant proceeds returned to the Secretary of the U.S. Department of Education, and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement (Title 34, Code of Federal Regulations, Section 668.165).

Texas A&M International University (University) did not consistently send the required disbursement notifications to FFEL loan recipients for the Fall 2009 and Spring 2010 semesters within 30 days of disbursing loan proceeds. For 24 (96 percent) of 25 loan recipients tested, the University did not send the required notifications within 30 days. For example, although the majority of the Spring 2010 loan disbursements occurred in February 2010, the University did not send notifications for these disbursements until May 2010.

The University's financial aid application automatically produces disbursement notifications, but the University must manually initiate this process. For the 2009-2010 award year, the University did not consistently initiate this process within the required time frames. Not receiving these notifications can impair loan recipients' ability to cancel their awards.

Recommendation:

The University should improve the review process over disbursement notifications to ensure that it sends notifications to students or parents within the required time frame.

Management Response and Corrective Action Plan:

The loan disbursement notification process has been added to the regular, automated disbursement process which runs twice a week, ensuring that notifications are sent to the student/parent e-mail account immediately after funds are disbursed.

Implementation Date: *June 2010*

Responsible Persons: *Laura Elizondo and Melanie Martinez*

Texas A&M University

Reference No. 11-120

Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.063 P063P095286, CFDA 84.033 P033A094136, CFDA 84.375 P375A095286, CFDA 84.376 PP376S095286, CFDA 84.379 P379T105286, CFDA 84.268 P268K105286, CFDA 84.007 P007A094136, CFDA 93.925 TH08HP13301-01-00 and T0AHP15858-01-00, CFDA 93.342 E15HP17893, 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 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). 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." An 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 (Title 34, Code of Federal Regulations, Sections 673.5, 673.6, and 682.603).

A full-time student is defined as an enrolled student who is carrying a full-time academic workload, as determined by the institution, under a standard applicable to all students enrolled in a particular educational program. For an undergraduate student, an institution's minimum standard must equal or exceed 12 semester hours. A half-time student is defined as an enrolled student who is carrying a half-time academic workload, as determined by the institution, which amounts to at least half of the workload of the applicable minimum requirement outlined in the definition of a full-time student (Title 34, Code of Federal Regulations, Section 668.2).

Texas A&M University (University) overestimated COA for 5 (13 percent) of 40 students tested. This occurred because the five students were enrolled less than full-time, but the University used full-time COA budgets to determine COA for all students receiving financial assistance, regardless of each student's actual enrollment level or expected enrollment level according to the student's ISIRs. For example, if a student indicated on the ISIR that he or she expected to enroll half-time or three-quarter time, the University still used the COA associated with a full-time COA budget. Using a full-time COA budget to estimate the COA for students who attend less than full-time increases the risk of awarding financial assistance that exceeds financial need.

Because the University used only full-time COA budgets to determine COA, auditors could not determine whether students attending less than full-time were awarded financial assistance that exceeded their financial need for the 2009-2010 school year.

Recommendation:

The University should develop less-than-full-time budgets and determine each student's COA and financial need based on the student's actual or expected level of enrollment.

Management Response and Corrective Action Plan:

Scholarships and Financial Aid acknowledges and agrees with the finding. For the 09-10 award year, although the cost of attendance was only prorated for less-than-half-time enrollment, Federal, State and Institutional grants and Perkins loan awards were prorated based on three-quarter time and half-time enrollment status as of census date, thus preventing students from receiving excessive amounts.

For the 2010-2011 award year, along with the grants and Perkins proration, the cost of attendance is being prorated based on three-quarter and half-time attendance. Less-than-half-time attendance will continue to be prorated based on specific federal regulations.

Implementation Date: *August 2010*

Responsible Person: *Delisa Falks*

Reference No. 11-121

Reporting

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award number - CFDA 84.063 P063P082293
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 U.S. Department of Education's 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, June 2010, Part 5, Student Financial Assistance Cluster, III.L.1.f, page 5-3-19). 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 5-3-30).

For 8 (16 percent) of 50 students tested, the disbursement date that Texas A&M University (University) reported to the COD System did not match the disbursement date in the University's financial aid application. For these eight students, the date discrepancies ranged from one day to four days. This occurred because the University reported the anticipated disbursement date to the COD System, and it did not adjust its reporting to the COD System when the actual disbursement date differed from the anticipated disbursement date.

Recommendation:

The University should report actual disbursement dates of Pell Grant funds to the COD System.

Management Response and Corrective Action Plan:

Scholarships and Financial Aid acknowledges and agrees with the finding. Changes have been put in place to ensure the actual date of disbursement is reflected in the COD system. Previously the Disbursement Acknowledgement file was received during the day from COD and disbursement did not run until the following morning. We have implemented a process to run Federal Pell, SMART, ACG and TEACH disbursements in the afternoon directly after the Disbursement Acknowledgment file is received. We monitor the receipt of the file and if we receive it after the cutoff time, we run the disbursements manually.

Implementation Date: *October 2010*

Responsible Person: *Delisa Falks*

Reference No. 11-122

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.038 Award Number Not Applicable, CFDA 84.268 P268K105286 and CFDA 84.379 P379T105286
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 Direct Loan, Federal Family Education Loan (FFEL), Federal Perkins Loan, or Teacher Education Assistance for College and Higher Education (TEACH) Grant Program 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 anticipated date and amount of the disbursement; (2) the student's right or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan or TEACH Grant proceeds returned to the Secretary of the U.S. Department of Education; and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement (Title 34, Code of Federal Regulations, Section 668.165).

For 7 disbursements to 5 (15 percent) of 34 students tested, Texas A&M University (University) did not send disbursement notification letters within the required time frame. A scheduling function within the financial aid application that is responsible for creating disbursement notifications did not operate from April 16, 2010, to September 13, 2010. As a result, in addition to the five students noted during testing, this issue affected all students with loan or TEACH Grant disbursements from April 16, 2010, through August 15, 2010.

On September 13, 2010, the University sent notification letters for all disbursements made within the affected date range. Not receiving these notifications within the required time frame can impair loan and TEACH Grant recipients' ability to cancel or modify their awards.

Recommendation:

The University should send disbursement notification letters within the required time frames.

Management Response and Corrective Action Plan:

Student Business Services acknowledges and agrees with the finding. The failure to send disbursement notifications was the result of an inadvertent omission during a programming change. Once the issue was detected, immediate programming modifications were made and now disbursement notification letters are sent within the required time frames.

Implementation Date: *September 2010*

Responsible Person: *Bob Piwonka*

Reference No. 11-123

Special Tests and Provisions - Return of Title IV Funds

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award number - CFDA 84.063 P063P090387
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)).

When a recipient of Title IV grant or loan assistance does not begin attendance at an institution during a payment period or period of enrollment, all disbursed Title IV grant and loan funds must be returned. The institution must determine which Title IV funds it must return or if it has to notify the lender or the Secretary to issue a final demand letter (Title 34, Code of Federal Regulations, section 668.21). The institution must return those funds for which it is responsible as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance (Title 34, Code of Federal Regulations, section 668.21(b)).

For 6 (43 percent) of 14 students tested, Texas A&M University (University) did not return all Title IV funds within 30 days after the University determined that the students did not begin attendance. These six students received a Perkins loan and/or Pell grant for the Spring 2010 semester, but they did not begin attendance in the Spring semester. In June 2010, the University determined that these students did not begin attendance, but it did not return Title IV funds for these students until August 2010. As a result, the returns occurred between 11 and 17 days late.

This issue also may have affected eight other students who received a Perkins loan and/or Pell grant for the Spring 2010 semester and for whom the University made the determination that the students did not attend the semester during June 2010.

Recommendation:

The University should ensure that Title IV funds are returned no later than 30 days after it becomes aware that a student will not or has not begun attendance.

Management Response and Corrective Action Plan:

Scholarships and Financial Aid acknowledges and agrees with the finding. Previously, the Return of Title IV Funds process required one person to complete the calculation and a second person to perform the return of funds. The process for returning Title IV funds has been changed to allow one person to perform both calculation and return of funds. This ensures the person performing the calculation is also the person adjusting the funds, thus no time delay shall occur between time of calculation and actual return of funds.

Implementation Date: *October 2010*

Responsible Person: *Delisa Falks*

Reference No. 11-124

Special Tests and Provisions - Student Loan Repayments

(Prior Audit Issues 10-56 and 09-53)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
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(c)(2)).

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(b) and (c)). If the borrower does not respond to the final demand letter within 30 days, the institution shall attempt to contact the borrower by telephone before beginning collection procedures (Title 34, Code of Federal Regulations, Section 674.43(f)).

If the borrower does not satisfactorily respond to the final demand letter or following telephone contact, the institution is required to report the account as being in default to a national credit bureau and either use its own personnel to collect the amount due or engage a collection firm to collect the account (Title 34, Code of Federal Regulations, Section 674.45(a)).

Texas A&M University (University) did not consistently perform necessary collection procedures. Specifically:

- For 1 (10 percent) of 10 defaulted students tested, the University did not provide evidence that it attempted to contact the borrower by phone before beginning collection procedures.
- For 7 (70 percent) of 10 defaulted students tested for which the University was required to make the first effort to collect, the University did not provide evidence that it made the required efforts.

The employee position responsible for making these contacts was vacant for a portion of the Spring 2010 semester, which affected the timeliness of the University's collection efforts.

Recommendations:

The University should:

- Attempt to contact borrowers by telephone prior to beginning collection procedures and adequately document these efforts.
- Perform and adequately document the required first collection efforts.

Management Response and Corrective Action Plan:

Student Business Services acknowledges and agrees with the finding. Procedures have been implemented to contact borrowers by telephone prior to beginning collection procedures and to perform first collection efforts. Procedures also address appropriate documentation for these activities. At this time, all notices have been sent and collection efforts are ongoing.

Implementation Date: *December 2010*

Responsible Person: *Bob Piwonka*

Texas Engineering Experiment Station

Reference No. 11-125

Period of Availability of Federal Funds

Research and Development Cluster
Award year - September 30, 2008 to September 29, 2009
Award number - CFDA 12.902 H98230-08-C-0365
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 2,168

U.S. Department of Defense

Where a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any preaward costs authorized by the federal awarding agency (Office of Management and Budget (OMB) Circular A-110, Subpart C, Paragraph 28). Unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions (OMB Circular A-110, Subpart D, Paragraph 71.b).

The Texas Engineering Experiment Station (Station) did not always liquidate obligations within 90 calendar days after the end of the funding period as required. Specifically, 1 (10 percent) of 10 transactions tested that were charged to the federal award after the end of the period of availability was not liquidated until 154 calendar days after the end of the funding period.

The delay occurred because a Station department did not submit an invoice to the Station's fiscal office for payment in a timely manner. Failure to comply with period of availability requirements could adversely affect future research and development funding decisions.

Recommendation:

The Station should strengthen controls to ensure that it liquidates all obligations incurred during an award period not later than 90 calendar days after the end of the funding period.

Management Response and Corrective Action Plan:

The transaction questioned in the audit was paid on March 3, 2010, prior to the approval of a new procedure for non-payroll costs and transfers to sponsored accounts/projects which prevents the posting of expenditures outside the period of availability without approval.

In addition to the new procedures, on May 12, 2010, an approval step was added to the end of the electronic document routing path in the accounting system to ensure that payments of expenditures requested after the period of availability are not released without documented sponsor approval.

Implementation Date: *May 12, 2010*

Responsible Person: *Andy Hinton*

Reference No. 11-126

Procurement and Suspension and Debarment

Research and Development Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 40,321

U.S. Department of Energy
U.S. Department of Defense
National Science Foundation

Title 2, Code of Federal Regulations (CFR), Chapter 215, establishes uniform administrative requirements for federal grants and agreements awarded to institutions of higher education. Title 2, CFR, Section 215.43, requires that "all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition." In addition, Title 2, CFR, Section 215.46, requires that procurement records and files include the following at a minimum: (1) basis for contractor selection, (2) justification for lack of competition when competitive bids or offers are not obtained, and (3) basis for award cost or price.

The Texas Engineering Experiment Station (Station) has established procurement guidelines that require all purchases that exceed $5,000 to either (1) go through a competitive bidding process or (2) when competitive bids or offers are not obtained, have a completed "Sole Source Justification" document prior to a purchase being agreed upon with a vendor. To begin this process, the Station requires all purchases that exceed $5,000 to have a requisition entered into Epik, the Station's financial management system.

The Station did not secure bids or document its rationale for limiting competition for 4 (10 percent) of 40 procurements exceeding $5,000 that auditors tested. The requesting personnel at the Station did not enter the procurements into Epik prior to making the purchases, which resulted in these four procurements bypassing the bidding process without staff documenting the rationale for limiting competition prior to the procurement. The four procurements totaled $40,321.

The issues noted above related to the following awards:

Federal Agency	Award Number (CFDA)	Award Years
U.S. Department of Energy	DE-AC26-07NT42677 (81.089)	September 3, 2008 – March 31, 2011
U.S. Department of Defense	HR0011-09-C-0075 (12.910)	March 31, 2009 – December 31, 2010
U.S. Department of Defense	FA8650-05-D-1912 (12.800)	October 13, 2009 – November 1, 2010
National Science Foundation	CNS-0837717 (47.070)	December 1, 2008 – November 30, 2011

Recommendation:

The Station should design and implement controls to ensure that staff enter requisitions into the financial management system prior to making procurements.

Management Response and Corrective Action Plan:

The Texas Engineering Experiment Station has a procedure in place for noncompliant purchases. All four of the transactions questioned followed the current procedures. However, to further ensure the employees' adherence to purchasing guidelines, additional procurement training will be provided to anyone making a noncompliant purchase. Failure to complete training within 30 days from assignment will result in the noncompliant expenditure being transferred to a non-sponsored source of funds. Should a second occurrence take place by the same employee, then the purchase will not be allowed on a sponsored funding source.

Implementation Date: *April 1, 2011*

Responsible Person: *Andy Hinton*

Texas Southern University

Reference No. 11-127

Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30. 2010
Award numbers - CFDA 84.063 P063P092327, CFDA 84.007 P007A094145, CFDA 84.033 P033A094145, CFDA 84.375 P375A09327, CFDA 84.376 P376S092327, CFDA 84.379 P379T102327, CFDA 84.032 Award Number Not Applicable, CFDA 84.038 Award Number Not Applicable, and CFDA 84.268 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Cost of Attendance

Questioned Cost: $ 0

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). 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 (Title 34, Code of Federal Regulations, Sections 673.5, 673.6, and 682.603).

Texas Southern University (University) incorrectly calculated the COA for 3 (7.5 percent) of 40 students tested. For all three students, the COA assigned to the student by the financial aid system, Banner, did not match the COA in the internal document the University used to calculate Fall semester only, Spring semester only, and Summer semester budgets.

- For one student, the COA in Banner was $3,084 less than the COA on the University's internal budget sheet. This resulted in a potential underaward of $3,084.
- For one student, the COA in Banner was $113 more than the COA on the University's internal budget sheet. This resulted in a potential overaward of $113.
- For one student, the COA in Banner was $98 more than the COA on the University's internal budget sheet. This resulted in a potential overaward of $98.

While the budget differences could have resulted in both underawards and overawards, these three students were not overawarded assistance.

In addition to the three incorrect COA budgets, auditors identified several other budgets in Banner that did not agree with (1) the budgets the University reported to the Texas Higher Education Coordinating Board and (2) the internal budget spreadsheet the University used to calculate Fall semester only, Spring semester, only, and Summer budgets. For example, the budgets in Banner for undergraduate students who are Texas residents, living off campus, and attending the University in either the Fall semester only or Spring semester only were $2,909 less than the budgets on the University's internal budget spreadsheet. As a result, students in this category were potentially underawarded financial assistance funds. During the 2009-2010 award year, a total of 282 students were in this budget category. During the same award year, the University disbursed a total of $119,306,579 in federal student financial assistance.

Awards of Pell Grants

The Federal Pell Grant Program awards grants to help financially needy students meet the cost of their postsecondary education (Title 34, Code of Federal Regulations, Section 690.1). In selecting among students for the Federal Pell Grant program, an institution must determine whether a student is eligible to receive a Federal Pell Grant for the period of time required to complete his or her first undergraduate baccalaureate course of study (Title 34, Code of Federal Regulations, Section 690.6(a)). For each payment period, an institution may pay a federal Pell Grant to an eligible student only after it determines that the student is enrolled in an eligible program as an undergraduate student (Title 34, Code of Federal Regulations, Section 609.75 (a) (2)). For a student to be eligible to receive an Academic Competitiveness Grant (ACG) award, they must also receive a Federal Pell Grant disbursement in the same award year (Title 34, Code of Federal Regulations, Section 691.15(a)).

The University awarded Academic Competitiveness Grant (ACG) funds to one student who did not also receive a Pell Grant (based on auditor's review of all financial assistance recipients). The student was eligible for a Pell Grant, and was initially awarded a Pell Grant for $1,400, but during a semester-end procedure the University inadvertently removed the Pell Grant from the student's account. The student had withdrawn from the University during the semester and the University removed the student's Pell Grant during a procedure to remove funding from students with zero enrolled hours. However, the student had remained in courses long enough to earn the full Pell Grant. When auditors brought this to the University's attention, the University corrected the student's award package so the student would receive the Pell Grant for which the student was eligible. The amount of the new Pell grant awarded was $1,400.

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 has not configured its Banner enterprise software to enforce rules regarding password length or complexity. Banner can be configured to enforce any standards specified in the University's information security policy. Not enforcing password rules increases the risk of unauthorized access to key financial aid processes, student records, and University financial data.

Recommendations:

The University should:

- Review COA budgets entered into Banner to ensure they agree with budgets calculated on internal documents and budgets reported to the Higher Education Coordinating Board prior to packaging of student financial assistance.

- Improve controls over semester-end processes it uses to update financial assistance awards to ensure that it does not incorrectly remove funds for which students are eligible.

- Configure Banner to enforce rules regarding password length and complexity.

Management Response and Corrective Action Plan:

Review COA Budgets:

Management agrees with the recommendation and finding. 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 of financial aid. Additionally, for several categories of students such as Pharmacy and Doctoral commuter and Doctoral resident and non-resident Dorm, there have not been any eligible students enrolled within these categories for multiple years.

Management will update all budget categories regardless to whether eligible recipients are enrolled on campus. The Cost of Attendance Budgets will be calculated and entered by the Associate Director. The Director and Assistant Director will perform a review and sign-off on the calculations. The reviewed spreadsheet will be entered into BANNER by the Associate Director. The System's Analyst and Director will perform a review and sign-off prior to initial process for the award year. The Financial Aid team is researching an upload process to import the Cost-of-Attendance Spreadsheet into the BANNER system and reduce the possibility of errors. The projected implementation date is summer 2011.

Implementation Date: *June 2011*

Responsible Person: *Linda Ballard*

Improve controls over semester-end processes it uses to update financial assistance awards to ensure that it does not incorrectly remove funds for which the student was eligible:

Management agrees with the recommendation. The OSFA Financial Aid Accountant will conduct a weekly review of all withdrawn students to ensure funds have not been canceled for eligible aid recipients that meet the criteria for earned aid. Any errors will be corrected within 24 hours to ensure all eligible recipients receive the appropriate amount of earned aid when the Return to Title IV Calculation is performed.

Implementation Date: *January 10, 2011*

Responsible Person: *Linda Ballard*

Configure Banner to enforce rules regarding password length and complexity:

Management agrees with the finding and recommendation. The Office of Information Technology/ Enterprise Applications division has taken on a Banner Security Project that is scheduled to begin February, 2011. The first phase of the project will include password length and complexity rule enforcement,. Phase I is scheduled for completion by March 31, 2011.

Implementation Date: *March 2011*

Responsible Person: *Kathy Booker*

Reference No. 11-128

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.063 P063P092327, CFDA 84.007 P007A094145, CFDA 84.033 P033A094145, CFDA 84.375 P375A09327, CFDA 84.376 P376S092327, CFDA 84.379 P379T102327, CFDA 84.032 Award Number Not Applicable, CFDA 84.038 Award Number Not Applicable, and CFDA 84.268 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 Direct Loan, Federal Family Education Loan (FFEL), Federal Perkins Loan, or Teacher Education Assistance for College and Higher Education (TEACH) Grant Program 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 anticipated date and amount of the disbursement; (2) the student's right or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan or TEACH Grant proceeds returned to the Secretary of the U.S. Department of Education, and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement (Title 34, Code of Federal Regulations, Section 668.165).

Texas Southern University (University) did not send disbursement notifications to the 27 students who received TEACH Grant Program funds for the 2009-2010 award year. University staff assert that they were unaware of the requirement to send disbursement notifications to TEACH Grant recipients. Not receiving these notifications can impair TEACH Grant recipients' ability to cancel their awards.

Returning Funds to Lender

An institution must disburse loan funds within 3 business days of receipt if the lender provided the funds by electronic funds transfer or master check, or 30 days if the lender provided the funds by check payable to the borrower or copayer to the borrower and the institution. 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 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 (2 percent) of 50 students tested, the University did not return the funds to the lender within 10 business days after the date the funds were required to be disbursed. Instead, it returned the funds to the lender 1 day late (11 days after the date the funds were required to be disbursed.) The delay in returning funds was the result of the University's manual process for returning funds to the lender.

Reporting Requirements

An institution must submit the initial disbursement record for a TEACH Grant to the Secretary of the U.S. Department of Education no later than 30 days following the date of the initial disbursement. The institution must submit subsequent disbursement records, including adjustment and cancellation records, to the Secretary no later than 30 days following the date the disbursement, adjustment, or cancellation is made (Title 34, Code of Federal Regulations, Section 686.37(b)).

The University did not submit disbursement records to the Secretary of the U.S. Department of Education within 30 days of disbursement for two TEACH Grant recipients (based on auditor's review of all financial assistance recipients). Staff assert that they attempted to report these disbursements to the Common Origination and Disbursement (COD) System, but the transmission was not processed. University staff were unaware that these disbursement records were not processed and did not resubmit them until auditors brought the discrepancy to their attention, which was several months after the University made the disbursements. Not reporting disbursements can increase the risk of over awards being made to students and limit the University's monitoring capabilities.

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 has not configured its Banner enterprise software to enforce rules regarding password length or complexity. Banner can be configured to enforce any standards specified in the University's information security policy. Not enforcing password rules increases the risk of unauthorized access to key financial aid processes, student records, and University financial data.

Recommendations:

The University should:

- Sends disbursement notifications to TEACH Grant recipients within the required timeframe.
- Improve its controls over returning funds to the lender to ensure that it returns funds within the required time frame.
- Improve its oversight of submissions to the COD System to ensure that it reports disbursement records as required.
- Configure Banner to enforce rules regarding password length and complexity.

Management Response and Corrective Action Plan:

Send disbursement notifications to TEACH Grant recipients within the required timeframe:

Management agrees with the finding and recommendation. Management has added the TEACH Grant to the disbursement notification process to ensure notifications are sent to students prior to the expiration of the 30 day limit.

Implementation Date: *January 2011*

Responsible Person: *Linda Ballard*

Improve its controls over returning funds to the lender to ensure that it returns funds within the required time frame:

Management agrees with the finding and recommendation. Management has begun implementing automated procedures for calculating the return of funds that will increase accuracy and timeliness. Additionally, management has instituted procedures for weekly review of student withdrawals along with the respective calculations and return of funds to ensure that all funds are returned within the required timeframe.

Implementation Date: *January 2011*

Responsible Person: *Darlene Brown*

Improve its oversight of submissions to the COD System to ensure that it reports disbursement records as required:

Management agrees with the finding and recommendation. The Student Office of Assistance-Financial Aid Accountant will perform a review and comparison of the COD system and BANNER at the end of month to improve the oversight of the submissions to the COD system.

Implementation Date: *January 2011*

Responsible Person: *Linda Ballard*

Configure Banner to enforce rules regarding password length and complexity. Management agrees with the finding and recommendation:

The Office of Information Technology/Enterprise Applications division has taken on a Banner Security Project that is scheduled to begin February, 2011. The first phase of the project will include password length and complexity rule enforcement. Phase I is scheduled for completion by March 31, 2011.

Implementation Date: *March 2011*

Responsible Person: *Kathy Booker*

Texas State University - San Marcos

Reference No. 11-129
Eligibility
Activities Allowed or Unallowed
Cash Management
Period of Availability of Federal Funds
Special Tests and Provisions - Separate Funds
Special Tests and Provisions - Verification
Special Tests and Provisions - Disbursements To or On Behalf of Students
Special Tests and Provisions - Borrower Data Transmission and Reconciliation (Direct Loan)
(Prior Audit Issues 10-70 and 09-65)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.063 P063P090387, CFDA 84.033 P007A094122, CFDA 84.375 P375A090387, CFDA 84.376 P376S090387, CFDA 84.379 P379T100387, CFDA 84.268 P268K100387, CFDA 84.007 P033A094122, CFDA 93.925 T08HP13066, CFDA 84.038 Award Number Not Applicable, and CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Cost of Attendance

Questioned Cost: $ 0

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). 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." An 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 (Title 34, Code of Federal Regulations, Sections 673.5, 673.6, and 682.603).

A full-time student is defined as an enrolled student who is carrying a full-time academic workload, as determined by the institution, under a standard applicable to all students enrolled in a particular educational program. For an undergraduate student, an institution's minimum standard must equal or exceed 12 semester hours. A half-time student is defined as an enrolled student who is carrying a half-time academic workload, as determined by the institution, which amounts to at least half of the workload of the applicable minimum requirement outlined in the definition of a full-time student (Title 34, Code of Federal Regulations, Section 668.2).

Texas State University – San Marcos (University) overestimated COA for 2 (5 percent) of 40 students tested. This occurred because the two students were enrolled less-than-full-time, but the University uses full-time COA budgets to determine COA for all students receiving financial assistance, regardless of each student's actual or expected enrollment level according to the student's ISIRs. Therefore, if a student indicates on the ISIR that he or she expects to enroll half-time or three-quarter time, the University still uses the COA associated with a full-time COA budget. Using a full-time COA budget to estimate the COA for students who attend less-than-full-time increases the risk of awarding financial assistance that exceeds financial need.

Because the University uses only full-time COA budgets to determine COA, auditors could not determine whether students attending less than full-time were awarded financial assistance that exceeded their financial need for the 2009-2010 school year.

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, cash management, period of availability of federal funds, special tests and provisions - separate funds, special tests and provisions - verification, special tests and provisions - disbursements to or on behalf of students, and special tests and provisions - borrower data transmission and reconciliation (direct loan), auditors identified no compliance issues regarding these compliance requirements.

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 did not appropriately restrict access to its Financial Aid Management (FAM) system. Specifically:

- Two programmers had super user access to the production mainframe supporting the FAM system.
- One programmer had access rights to move program code changes into the production environment.
- An unknown number of computer operators shared a generic user ID with system administrator privileges.

Additionally, the University did not appropriately restrict access to its SAP financial management systems. One programmer had access rights to move program code changes into the production environment.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment. Sharing a user ID does not allow for appropriate segregation of duties and user accountability.

Recommendations:

The University should:

- Determine each student's COA and financial need based on the student's actual or anticipated enrollment.
- Limit high-profile access to the FAM system to the appropriate users based on their responsibilities.
- Define user access for migrating code to the production environment of the FAM system and financial management systems in a manner that promotes separation of duties and is based on users' responsibilities.
- Assign each user a unique user ID for all logins.

Management Response and Corrective Action Plan:

Cost of Attendance

This issue will be addressed with the implementation of a new financial aid system (Banner) in fall 2011. The automated and manual processes required for implementation in fall are currently being designed and developed.

Implementation Date: *September 2011*

Responsible Person: *Dr. Christopher Murr*

General Controls

With respect to limiting high-profile access to the FAM system to the appropriate users based on their responsibilities, the Digital VAX has been the principle system for more than 20 years at the university. As the migration to ERP's has occurred, the applications running on the VAX continue to diminish. Accesses necessary to maintain an operational environment for the remaining VAX applications necessitate appropriate staff retains necessary super user accounts in order to keep this antiquated system operational. This requirement goes back to the VAX environment process and procedures compliant with computing requirements of the 1970-1990 era. Texas State University maintains a solid change management process to assure production changes are documented, tested and approved before migration to production. With the migration to the new SIS ERP systems, the legacy VAX system will be shutdown, thus, removing this identified circumstance. This shutdown will occur in the coming months. Also, user access to the production environment of SAP financial management systems is granted in a manner that promotes separation of duties and is based on users' responsibilities.

Implementation Date: *September 2011*

Responsible Person: *Mr. William Rampy*

With respect to defining user access for migrating code to the production environment of the FAM system and financial management systems in a manner that promotes separation of duties and is based on users' responsibilities, the corrective action has been completed.

Implementation Date: *December 2010*

Responsible Person: *Mr. William Rampy*

With respect to assigning each user a unique user ID for all logins, this practice was instituted in April of this year.

Implementation Date: *April 2010*

Responsible Person: *Mr. Michael Krxywonski*

Reference No. 11-130

Reporting

(Prior Audit Issues 10-71 and 09-66)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.063 P063P090387, CFDA 84.007 P007A094122, CFDA 84.268 P268K100387, CFDA 84.033 P033A094122, CFDA 84.375 P375A090387, CFDA 84.376 P376S090387, CFDA 84.379 P379T100387, CFDA 93.925 T08HP13066 and T0AHP15819, CFDA 84.038 Award Number Not Applicable, and CFDA 84.032 Award Number Not Applicable
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 U.S. Department of Education's 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, June 2010, Part 5, Student Financial Assistance Cluster, III.L.1.f, page 5-3-19). 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 5-3-30).

If an institution credits a student's institutional account with institutional funds in advance of receiving Title IV, Higher Education Act (HEA) program funds, the U.S. Department of Education considers that the institution makes that disbursement on the 10th day before the first day of classes (Title 34, Code of Federal Regulations, Section 668.164).

For 11 (14 percent) of 81 Pell disbursements to 40 students tested, the Fall 2009 disbursement date in the COD System did not match the disbursement date shown on the students' institutional accounts. For the Fall 2009 semester, Texas State University – San Marcos (University) reported the date it credited institutional funds to the students' accounts as the disbursement date to the COD System, instead of the 10th day before the first day of classes. According to the University, this issue was the result of a software issue it corrected after the Fall 2009 disbursement period. For all Spring 2010 Pell disbursements tested, the University reported the correct disbursement date to the COD System.

The University disbursed $33,499,071 in Pell funds during the 2009-2010 federal award year; it disbursed $16,310,580 of that amount during the Fall 2009 semester.

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 did not appropriately restrict access to its Financial Aid Management (FAM) system. Specifically:

- Two programmers had super user access to the production mainframe supporting the FAM system.
- One programmer had access rights to move program code changes into the production environment.
- An unknown number of computer operators shared a generic user ID with system administrator privileges.

Additionally, the University did not appropriately restrict access to its SAP financial management systems. One programmer had access rights to move program code changes into the production environment.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment. Sharing a user ID does not allow for appropriate segregation of duties and user accountability.

Recommendations:

The University should:

- Report the actual disbursement date of Pell disbursements to the COD System.
- Limit high-profile access to the FAM system to the appropriate users based on their responsibilities.
- Define user access for migrating code to the production environment of the FAM system and financial management systems in a manner that promotes separation of duties and is based on users' responsibilities.
- Assign each user a unique user ID for all logins.

Management Response and Corrective Action Plan:

Common Origination and Disbursement System Reporting

As stated in our previous year's management response regarding this finding, the issue with Pell reporting was identified prior to the 2008-2009 audit. At that time, the FA system vendor (SunGard) was contacted and a fix implemented in December of 2009 after: 1) the vendor developed the necessary program upgrade; 2) on-site beta-testing of the solution was conducted at Texas State; and 3) necessary programming by Texas State was undertaken to accommodate the fix's integration with other FA system (university-specific) modified programs. The success of the corrective action is demonstrated by there being no related findings for spring and summer of 2010—the semesters after the above fix was implemented.

Implementation Date: *December 2009*

Responsible Person: *Dr. Christopher Murr*

General Controls

With respect to limiting high-profile access to the FAM system to the appropriate users based on their responsibilities, the Digital VAX has been the principle system for more than 20 years at the university. As the migration to ERP's has occurred, the applications running on the VAX continue to diminish. Accesses necessary to maintain an operational environment for the remaining VAX applications necessitate appropriate staff retains necessary super user accounts in order to keep this antiquated system operational. This requirement goes back to the VAX environment process and procedures compliant with computing requirements of the 1970-1990 era. Texas State University maintains a solid change management process to assure production changes are documented, tested and approved before migration to production. With the migration to the new SIS ERP systems, the legacy VAX system will be shutdown, thus, removing this identified circumstance. This shutdown will occur in the coming months. Also, user access to the production environment of SAP financial management systems is granted in a manner that promotes separation of duties and is based on users' responsibilities.

Implementation Date: *September 2011*

Responsible Person: *Mr. William Rampy*

With respect to defining user access for migrating code to the production environment of the FAM system and financial management systems in a manner that promotes separation of duties and is based on users' responsibilities, the corrective action has been completed.

Implementation Date: *December 2010*

Responsible Person: *Mr. William Rampy*

With respect to assigning each user a unique user ID for all logins, this practice was instituted in April of this year.

Implementation Date: *April 2010*

Responsible Person: *Mr. Michael Krxywonski*

Reference No. 11-131

Special Tests and Provisions - Return of Title IV Funds

(Prior Audit Issues 10-72 and 09-68)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094122, CFDA 84.033 P033A094122, CFDA 84.063 P063P090387, CFDA 84.268 P268K100387, CFDA 84.375 P375A090387, CFDA 84.376 P376S090387, and CFDA 84.379 P379T100387
Type of finding - Significant Deficiency and Non-Compliance

Return of Title IV Funds

Questioned Cost: $ 303

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 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)).

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)). When 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 (Title 34, Code of Federal Regulations, Section 668.22(f)(2)(i)).

For 7 (17.5 percent) of 40 students tested, Texas State University – San Marcos (University) incorrectly calculated the percentage of enrollment period that the students completed, resulting in incorrect return amount calculations for all 7 students. The University entered the incorrect date range for the Spring 2010 semester when it populated a table for the automated return amount calculation. As a result of this error, for the seven students identified during testing, the University returned $126 less in Title IV funds than it was required to return, and the students returned $177 less in Title IV funds than they were required to return. This date range error affected a total of 140 students who withdrew during the Spring 2010 semester.

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 did not appropriately restrict access to its Financial Aid Management (FAM) system. Specifically:

- Two programmers had super user access to the production mainframe supporting the FAM system.
- One programmer had access rights to move program code changes into the production environment.
- An unknown number of computer operators shared a generic user ID with system administrator privileges.

Additionally, the University did not appropriately restrict access to its SAP financial management systems. One programmer had access rights to move program code changes into the production environment.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment. Sharing a user ID does not allow for appropriate segregation of duties and user accountability.

Recommendations:

The University should:

- Use the appropriate date range when it calculates amounts of Title IV funds to return.
- Limit high-profile access to the FAM system to the appropriate users based on their responsibilities.
- Define user access for migrating code to the production environment of the FAM system and financial management systems in a manner that promotes separation of duties and is based on users' responsibilities.
- Assign each user a unique user ID for all logins.

Management Response and Corrective Action Plan:

Return of Title IV Funds

Management concurs. Student Business Services and the Financial Aid Office have established a process to provide an additional check to verify the calculated date ranges are entered correctly to help ensure compliance.

Implementation Date: *December 2010*

Responsible Person: *Ms. Cindy Kruckemeyer*

General Controls

With respect to limiting high-profile access to the FAM system to the appropriate users based on their responsibilities, the Digital VAX has been the principle system for more than 20 years at the university. As the migration to ERP's has occurred, the applications running on the VAX continue to diminish. Accesses necessary to maintain an operational environment for the remaining VAX applications necessitate appropriate staff retains necessary super user accounts in order to keep this antiquated system operational. This requirement goes back to the VAX environment process and procedures compliant with computing requirements of the 1970-1990 era. Texas State University maintains a solid change management process to assure production changes are documented, tested and approved before migration to production. With the migration to the new SIS ERP systems, the legacy VAX system will be shutdown, thus, removing this identified circumstance. This shutdown will occur in the coming months. Also, user access to the production environment of SAP financial management systems is granted in a manner that promotes separation of duties and is based on users' responsibilities.

Implementation Date: *September 2011*

Responsible Person: *Mr. William Rampy*

With respect to defining user access for migrating code to the production environment of the FAM system and financial management systems in a manner that promotes separation of duties and is based on users' responsibilities, the corrective action has been completed.

Implementation Date: *December 2010*

Responsible Person: *Mr. William Rampy*

With respect to assigning each user a unique user ID for all logins, this practice was instituted in April of this year.

Implementation Date: *April 2010*

Responsible Person: *Mr. Michael Krxywonski*

Reference No. 11-132

Special Tests and Provisions - Student Status Changes

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094122, CFDA 84.033 P033A094122, CFDA 84.063 P063P090387, CFDA 84.268 P268K100387, CFDA 84.375 P375A090387, CFDA 84.376 P376S090387, and CFDA 84.379 P379T100387
Type of finding - Significant Deficiency and Non-Compliance

Student Status Changes

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 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. 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 1.3.1.1).

For 22 (56 percent) of 39 graduated students tested, Texas State University – San Marcos (University) reported an incorrect enrollment change date to NSLDS. All 22 students graduated in the Spring of 2010. According to the *NSLDS Enrollment Reporting Guide*, the University should have reported the enrollment change date as the date the students completed all course requirements. Instead, the University incorrectly reported the students' commencement date.

Additionally, for 1 (2 percent) of 49 students tested, the University reported the student's graduated status to NSLDS 47 days late. According to the University, it delayed reporting the student's status change until it received the student's grades from a community college at which the student was enrolled.

Inaccurate and delayed information affects determinations made by guarantors, lenders, and servicers of student loans related to in-school status, deferments, grace periods, repayment schedules, and the federal government's payment of interest subsidies.

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 did not appropriately restrict access to its Financial Aid Management (FAM) system. Specifically:

- Two programmers had super user access to the production mainframe supporting the FAM system.
- One programmer had access rights to move program code changes into the production environment.
- An unknown number of computer operators shared a generic user ID with system administrator privileges.

Additionally, the University did not appropriately restrict access to its SAP financial management systems. One programmer had access rights to move program code changes into the production environment.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment. Sharing a user ID does not allow for appropriate segregation of duties and user accountability.

Recommendations:

The University should:

- Use the date a student completed course requirements as the enrollment change date transmitted to NSLDS.
- Report changes in student status to NSLDS, guaranty agencies, and lenders within the required time frames.
- Limit high-profile access to the FAM system to the appropriate users based on their responsibilities.
- Define user access for migrating code to the production environment of the FAM system and financial management systems in a manner that promotes separation of duties and is based on users' responsibilities.
- Assign each user a unique user ID for all logins.

Management Response and Corrective Action Plan:

Student Status Changes

With respect to the date a student completed course requirements as the enrollment change date transmitted to NSLDS, the Registrar's Office acquired a copy of the NSLDS Enrollment Reporting Guide from the National Student Clearinghouse, which has been incorporated into our documentation. Subsequent student completed course requirement dates, submitted for a student, is the last day of the semester. Regarding report changes in student status to NSLDS, guaranty agencies, and lenders within the required timeframes, the Registrar's Office reporting schedule has been set to "every month" in accordance with section 1.7 on page 10 of the NSLDS Enrollment Reporting Guide.

Implementation Date: *August 2010*

Responsible Person: *Ms. Lloydean Eckley*

General Controls

With respect to limiting high-profile access to the FAM system to the appropriate users based on their responsibilities, the Digital VAX has been the principle system for more than 20 years at the university. As the migration to ERP's has occurred, the applications running on the VAX continue to diminish. Accesses necessary to maintain an operational environment for the remaining VAX applications necessitate appropriate staff retains necessary super user accounts in order to keep this antiquated system operational. This requirement goes back to the VAX environment process and procedures compliant with computing requirements of the 1970-1990 era. Texas State University maintains a solid change management process to assure production changes are documented, tested and approved before migration to production. With the migration to the new SIS ERP systems, the legacy VAX system will be shutdown, thus, removing this identified circumstance. This shutdown will occur in the coming months. Also, user access to the production environment of SAP financial management systems is granted in a manner that promotes separation of duties and is based on users' responsibilities.

Implementation Date: *September 2011*

Responsible Person: *Mr. William Rampy*

With respect to defining user access for migrating code to the production environment of the FAM system and financial management systems in a manner that promotes separation of duties and is based on users' responsibilities, the corrective action has been completed.

Implementation Date: *December 2010*

Responsible Person: *Mr. William Rampy*

With respect to assigning each user a unique user ID for all logins, this practice was instituted in April of this year.

Implementation Date: *April 2010*

Responsible Person: *Mr. Michael Krxywonski*

Reference No. 11-133

Special Tests and Provisions - Student Loan Repayments

(Prior Audit Issues 10-73 and 09-69)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award number - CFDA 84.038 Award Number Not Applicable
Type of finding - Material Weakness and Material Non-Compliance

Student Loan Repayments

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(c)(2)).

Under the Federal Perkins Loan Program, institutions are required to send borrowers 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(b) and (c)). If the borrower does not respond to the final demand letter within 30 days, the institution shall attempt to contact the borrower by telephone before beginning collection procedures (Title 34, Code of Federal Regulations, Section 674.43(f)).

If the borrower does not satisfactorily respond to the final demand letter or following telephone contact, the institution is required to report the account as being in default to a national credit bureau and either use its own personnel to collect the amount due or engage a collection firm to collect the account (Title 34, Code of Federal Regulations, Section 674.45(a)). If the institution, or firm it engages, pursues collection activity for 12 months and does not succeed in converting the account to regular repayment status, the institution should either litigate or make a second effort to collect (Title 34, Code of Federal Regulations, Section 674.45(c)). If the institution is unable to place the loan in repayment, the institution shall continue to make annual attempts to collect from the borrower (Title 34, Code of Federal Regulations, Section 674.45(d)).

Texas State University – San Marcos (University) did not consistently contact defaulted borrowers at required intervals or perform necessary collection procedures. Specifically:

- For 5 (42 percent) of 12 defaulted students tested, the University did not provide evidence that it sent the first grace period notice. For an additional 4 (33 percent) of 12 defaulted students tested, the University did not send the first grace period notice within 90 days. Additionally, the University's first grace period notice to all borrowers did not include the amount of principal and interest due on the loan or the projected life of the loan.
- For 3 (25 percent) of 12 defaulted students tested, the University did not provide evidence that it sent the second grace period notice. For an additional 8 (67 percent) of 12 defaulted students tested, the University did not send the second grace period notice within 150 days.
- For 3 (25 percent) of 12 defaulted students tested, the University did not provide evidence that it sent the third grace period notice. For an additional 4 (33 percent) of 12 defaulted students tested, the University did not send the third grace period notice within 240 days.

Auditors identified issues related to grace period notices during the audit of the prior year. Because the sending of grace period notices occurred prior to the time period covered by the current audit, the University did not have an opportunity to correct this issue prior to audit of the current year. Auditors identified the following issues during the current audit:

- For all 12 defaulted students tested, the University did not provide evidence that it sent billing statements to the students.
- For 6 (23 percent) of 26 defaulted loans tested for which the University was required to send first overdue notices, the University did not provide evidence that it sent the first overdue notice. For an additional 1 (4 percent) of those 26 defaulted loans, the University did not send the first overdue notices within 15 days.
- For 2 (13 percent) of 16 defaulted loans tested for which the University was required to send second overdue notices, the University did not provide evidence that it sent the second overdue notice. For an additional 3 (19 percent) of those 16 defaulted loans, the University did not send second overdue notices within 30 days after the first overdue notice.
- For 5 (45 percent) of 11 defaulted loans tested for which the University was required to send a final demand letter, the University did not provide evidence that it sent the final demand letter. For an additional 6 (55 percent) of those 11 defaulted loans, the University did not send final demand letters within 15 days after second overdue notices.
- For 3 (38 percent) of 8 defaulted loans tested for which the University was required to attempt to contact the borrower by telephone, the University did not provide evidence that it attempted this contact prior to beginning collection procedures.
- For 2 (33 percent) of 6 defaulted loans for which the University was required to contact a national credit bureau, the University did not provide evidence that it made the required contacts.
- For 4 (67 percent) of 6 defaulted loans for which the University was required to make the first effort to collect, the University did not provide evidence that it made the required efforts.

- For 2 (100 percent) of 2 defaulted loans for which the University was required initiate litigation or make a second effort to collect on these loans, the University did not provide evidence that it made the required efforts.

- For 2 (100 percent) of 2 loans in default for more than one year, the University did not conduct a yearly attempt to collect.

University personnel use a monthly aging report to identify students to contact regarding Perkins billing. University personnel then manually create notices and contact students who are in default based on aging reports. The above issues resulted from a breakdown in this manual processes.

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 did not appropriately restrict access to its Financial Aid Management (FAM) system. Specifically:

- Two programmers had super user access to the production mainframe supporting the FAM system.

- One programmer had access rights to move program code changes into the production environment.

- An unknown number of computer operators shared a generic user ID with system administrator privileges.

Additionally, the University did not appropriately restrict access to its SAP financial management systems. One programmer had access rights to move program code changes into the production environment.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment. Sharing a user ID does not allow for appropriate segregation of duties and user accountability.

Recommendations:

The University should:

- Send grace period contact letters and initial billing notices to borrowers within the required time frames. Additionally, the University should ensure that the first grace period contact letter includes the amount of principal and interest due on the loan and the projected life of the loan.
- Send Perkins Loan overdue notices and final demand letters within required time frames to all borrowers who do not make the first payment or make a request for deferment, postponement, or cancelation.
- Attempt to contact borrowers by telephone prior to beginning collection procedures and adequately document these efforts.
- Report to a national credit bureau when a borrower fails to respond to the final demand letter and the following telephone contact.
- Perform and adequately document the required first, second, and annual collection efforts.
- Limit high-profile access to the FAM system to the appropriate users based on their responsibilities.
- Define user access for migrating code to the production environment of the FAM system and financial management systems in a manner that promotes separation of duties and is based on users' responsibilities.
- Assign each user a unique user ID for all logins.

Management Response and Corrective Action Plan:

Student Loan Repayments

Management concurs. Due to the limited sample size of defaults, some defaulted students tested fell under prior years' audit findings and Texas State did not have ample time for correction. Management will continue to monitor timeframes, provide more documentation in the files, and continue to follow up with outside agencies for credit reporting. Management is in the process of liquidating the program.

Implementation Date: *Ongoing*

Responsible Person: *Ms. Cindy Kruckemeyer*

General Controls

With respect to limiting high-profile access to the FAM system to the appropriate users based on their responsibilities, the Digital VAX has been the principle system for more than 20 years at the university. As the migration to ERP's has occurred, the applications running on the VAX continue to diminish. Accesses necessary to maintain an operational environment for the remaining VAX applications necessitate appropriate staff retains necessary super user accounts in order to keep this antiquated system operational. This requirement goes back to the VAX environment process and procedures compliant with computing requirements of the 1970-1990 era. Texas State University maintains a solid change management process to assure production changes are documented, tested and approved before migration to production. With the migration to the new SIS ERP systems, the legacy VAX system will be shutdown, thus, removing this identified circumstance. This shutdown will occur in the coming months. Also, user access to the production environment of SAP financial management systems is granted in a manner that promotes separation of duties and is based on users' responsibilities.

Implementation Date: *September 2011*

Responsible Person: *Mr. William Rampy*

With respect to defining user access for migrating code to the production environment of the FAM system and financial management systems in a manner that promotes separation of duties and is based on users' responsibilities, the corrective action has been completed.

Implementation Date: *December 2010*

Responsible Person: *Mr. William Rampy*

With respect to assigning each user a unique user ID for all logins, this practice was instituted in April of this year.

Implementation Date: *April 2010*

Responsible Person: *Mr. Michael Krxywonski*

Texas Tech University

Reference No. 11-134
Eligibility
Activities Allowed or Unallowed
Cash Management
Period of Availability of Federal Funds
Special Tests and Provisions - Separate Funds
Special Tests and Provisions - Borrower Data Transmission and Reconciliation (Direct Loan)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094151, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A094151, CFDA 84.063 P063P092328, CFDA 84.375 P375A092328, CFDA 84.376 P376S092328, and CFDA 84.379 P379T092328
Type of finding - Significant Deficiency and Non-Compliance

Cost of Attendance

Questioned Cost: $ 0

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). 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." An 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 (Title 34, Code of Federal Regulations, Sections 673.5, 673.6, and 682.603).

Texas Tech University (University) incorrectly calculated the COA for 7 (14 percent) of 50 students tested. Specifically:

- The University overstated one student's COA by $350. This occurred because of a data entry error in Banner related to an approved budget increase for car repairs.
- The University understated two students' COAs by a total of $1,040. This occurred because the University did not update these students' COA calculations after the board of regents approved an increase to the budgets on which the University bases its COA calculations. Due to Banner restrictions, the batch posting process to automatically update the budget amounts for all students did not work for some students. As a result, the University understated the COA by $520 for each student, for a total of $1,040.
- The University overstated two students' COAs by a total of $7,782. This occurred because the University erroneously factored tuition and fees for both the Fall and Spring semesters into its COA calculations for those two students. However, the students only attended either the Fall or Spring semester. Banner automatically recalculated the students' tuition and fees based on the adjusted budgets approved by the board of regents. However, Banner recalculated the COA based on planned attendance for both semesters. As a result, the COA was overstated by $3,891 for each student, for a total of $7,782.
- The University understated one student's COA by $704. This occurred because the University erroneously omitted the student from the Summer budget group in Banner, yet it included the student in the Summer aid period. As a result, the student's COA was calculated at 140 percent of the full year amounts, rather than on the summer rates established in the University's budget.

- The University understated one student's COA by $19,385. This occurred because that student's COA included only tuition and fees and a loan fee. The COA erroneously omitted books, transportation, room and board, and miscellaneous components. As a result, the student's COA was understated by $19,385.

It is important to note that, for the 50 student files tested, the University's estimated COA did not lead the University to award student financial assistance that exceeded financial need for the 2009-2010 school year. Therefore, there were no questioned costs. However, the risk of over/underawarding student financial assistance increases when the University does not calculate COA accurately.

Pell Awards

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 (Title 34, Code of Federal Regulations, Section 690.62). 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. Additionally, a student's eligibility for a Pell Grant must first be determined and considered before a student is awarded other assistance such as Direct Subsidized or Direct Unsubsidized loans (Title 34, Code of Federal Regulations, Section 685.200).

Based on a review of the full population of student financial assistance recipients, the University did not award Pell to four students who were eligible to receive Pell funds. Specifically:

- The University did not load two students' EFC/ISIR information properly into Banner; therefore, Pell funds were not awarded. The two students were eligible for Pell awards of $3,600 and $1,800, for a total of $5,400.
- The University coded the student financial assistance period for one student incorrectly in Banner; therefore Pell funds were not awarded. The student was eligible for a Pell award of $1,200.
- The University had requested additional documents from one student; as a result, the University did not award Pell funds while that request was pending. However, the University requested the documents in error, and it never awarded Pell funds to the student. The student was eligible for a Pell award of $5,350.

Satisfactory Academic Progress (SAP)

A student is eligible to receive Title IV, Higher Education Act 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)). An institution's satisfactory academic progress (SAP) policy should include a qualitative component which consists of grades, work projects completed or comparable factors that are measureable against a norm, and 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)).

The University gives a student a "strike" if the student does not comply with the SAP policy. After a student receives three strikes, the University will deny the student financial assistance.

Two (4 percent) of 50 students tested did not comply with the University's SAP policy, but the University did not give those students a strike. The University's former financial aid system determined compliance with the SAP policy, and the University converted SAP statuses from that system to the new financial aid system (Banner) at the beginning of the award year. However, the SAP status information for these two students was calculated and converted incorrectly. The University did not perform adequate reconciliations to ensure that SAP status information was properly calculated and converted into Banner. These two students had no previous strikes and were still eligible to receive assistance for the award year; therefore, there are no questioned costs. However, not appropriately assigning strikes to students in accordance with University policy increases the risk that the University could award assistance to an ineligible student.

Other Compliance Requirements

Although the general control weakness described below applies to activities allowed or unallowed, cash management, period of availability of federal funds, special tests and provisions – separate funds, and special tests and provisions - borrower data transmission and reconciliation (direct loan), auditors identified no compliance issues regarding these compliance requirements.

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 allowed excessive high-profile system access at the application level. Specifically, 23 users had excessive modify access to certain components of Banner, the University's student financial aid system. This included information technology personnel, as well as an individual from the Sponsored Program Accounting and Reporting (SPAR) office who is involved in the cash draw-down process. The access these individuals had included modify access to the various financial aid budgets, federal fund management, global rules, and satisfactory academic progress (SAP) category tables, as well as modify access to award and authorize the disbursement of student financial assistance.

Allowing employees inappropriate or excessive access to areas in an application that are outside of their job responsibilities increases the risk of inappropriate changes and does not allow for proper segregation of duties.

Recommendations:

The University should:

- Adjust COA calculations in Banner to ensure that updates to budget groups are applied to all applicable students.
- Implement controls to ensure that COA changes that require manual changes and/or updates are completed.
- Implement controls to ensure that Banner disburses awards to all eligible students within the parameters defined for each financial assistance program.
- Implement controls to ensure that records for students who do not comply with the SAP policy are correctly updated with strikes in accordance with the University's SAP policy.
- Restrict access to Banner based on job responsibilities to decrease the risk of inappropriate changes and ensure separation of duties.

Management Response and Corrective Action Plan:

- *Cost of Attendance budget components are determined by the Board of Regents after Financial Aid packaging has begun. Student Financial Aid will run ad hoc reports for all student populations to identify tuition and fees not updated by batch processing. Ad hoc reports will be utilized once the global fee document is approved by the Board of Regents each academic year.*

- *A meeting will be scheduled with our Banner consultant to correctly identify a process to allow Student Financial Aid to load all valid ISIR records for active students.*

- *The Office of Student Financial Aid is working with the Enrollment Management Technology Operations (EMTO) Department to develop a report to identify all students whose matriculation data has been updated to ensure all eligible students are awarded within specific parameters such as aid period, graduation date, and enrollment status.*

- *A reporting tool is currently in place to ensure proper assignment of SAP codes.*

Implementation Date: *July 2011*

Responsible Person: *Shannon L. Crossland*

General Controls

- *The Financial Aid Offices and Information Systems have worked together to remove Banner INB access for Financial Aid Offices employees and the Sponsored Program Accounting and Reporting employee as recommended by SAO. In addition, access was removed for two others as recommended by the Director of the TTU Financial Aid Office.*
- *INB access for Information Systems staff is now limited to the DBAs, the Assistant Managing Director for the Student and Student Financial Aid systems, and the Project Leader for the Student Financial Aid System. This access is needed to support the system.*
- *We agree that proper separation of duties requires preventing TTU and HSC from updating each other's Financial Aid records. Information Systems Enterprise Application Security staff are preparing a solution to meet this need. It is scheduled to move to production by August 31, 2011.*

Implementation Date: *August 2011*

Responsible Person: *Heather Horst*

Reference No. 11-135

Reporting

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.063 P063P092328, CFDA 84.007 P007A094151, CFDA 84.033 P033A094151, and CFDA 84.038 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Reporting

Questioned Cost: $ 0
U.S. Department of Education

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's 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, June 2010, Part 5, Student Financial Assistance Cluster, III.L.1.f (page 5-3-19)). 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 5-3-30)).

For 4 (8 percent) of 50 students tested, Texas Tech University (University) did not report to the COD System within 30 days of disbursement for the Spring 2010 semester. Those errors were the result of the University incorrectly configuring certain settings within Banner that were related to Fall 2009 reporting.

Additionally, for 3 (6 percent) of 50 students tested, the cost of attendance listed in Banner did not match the amount reported to the COD System. The University asserted that the Texas Tech University System Board of Regents approved a tuition increase for certain students subsequent to the initial COD System reporting. The University further asserted that because it determined that this increase would not affect the students' eligibility, it did not report the change to the COD System.

Fiscal Operations Report and Application to Participate (FISAP)

To apply for and receive funds for campus-based federal student assistance programs (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant (FSEOG)), institutions must have completed and submitted a FISAP by October 1, 2010 (Title 34, Code of Federal Regulations, Chapter 673.3 and *Instruction Booklet for Fiscal Operations Report and Application to Participate*, page i).

The FISAP the University submitted on October 1, 2010, reported on the University's campus-based program participation for the 2009-2010 award year and included an application for campus-based program funding for the 2011-2012 award year. On that FISAP**, the amount the University reported for state expended scholarships and grants to undergraduates erroneously included $22,314,575** in awards to law students and awards that were not applicable state grants and scholarships, based on FISAP reporting instructions. **Additionally, the University erroneously omitted an applicable state grant totaling $774,404.** The University reported $22,428,053 in state grants and scholarships on the FISAP; however the correct amount was $887,882.

The University reviewed the FISAP prior to submitting it; however, that review was not adequate to ensure that the University followed the FISAP reporting instructions. The U.S. Department of Education considers state grant and scholarship expenditures as a resource when determining the amount of FSEOG an institution may be eligible for. Therefore, erroneously reporting state grant and scholarship expenditures has the potential to affect the amount of FSEOG the University is awarded.

On November 17, 2010, the University submitted a revised FISAP to correct these errors.

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 allowed excessive high-profile system access at the application level. **Specifically, 23 users had excessive modify access to certain components of Banner, the University's student financial aid system.** This included information technology personnel, as well as an individual from the Sponsored Program Accounting and Reporting (SPAR) office who is involved in the cash draw-down process. The access these individuals had included modify access to the various financial aid budgets, federal fund management, global rules, and satisfactory academic progress (SAP) category tables, as well as modify access to award and authorize the disbursement of student financial assistance.

Allowing employees inappropriate or excessive access to areas in an application that are outside of their job responsibilities increases the risk of inappropriate changes and does not allow for proper segregation of duties.

Recommendations:

The University should:

- Properly configure its COD System reporting processes and time frames in Banner.
- Report accurate cost of attendance amounts to the COD System.
- Implement procedures to ensure that its FISAP review process confirms that the University reports all elements in the FISAP based on FISAP instructions.

- Restrict access to Banner based on job responsibilities to decrease the risk of inappropriate changes and ensure separation of duties.

Management Response and Corrective Action Plan:

- *The COD system and reporting processes and time frames have been revised and were in process as of May 2010.*
- *Beginning in July 2011, we will utilize ad hoc reporting to compare Cost of Attendance with Cost of Attendance reported to COD for reconciliation.*
- *TTU FISAP procedures have been documented to include reporting components.*

Implementation Date: *Completed*

Responsible Person: *Shannon L. Crossland*

General Controls

- *The Financial Aid Offices and Information Systems have worked together to remove Banner INB access for Financial Aid Offices employees and the Sponsored Program Accounting and Reporting employee as recommended by SAO. In addition, access was removed for two others as recommended by the Director of the TTU Financial Aid Office.*
- *INB access for Information Systems staff is now limited to the DBAs, the Assistant Managing Director for the Student and Student Financial Aid systems, and the Project Leader for the Student Financial Aid System. This access is needed to support the system.*
- *We agree that proper separation of duties requires preventing TTU and HSC from updating each other's Financial Aid records. Information Systems Enterprise Application Security staff are preparing a solution to meet this need. It is scheduled to move to production by August 31, 2011.*

Implementation Date: *August 2011*

Responsible Person: *Heather Horst*

Reference No. 11-136

Special Tests and Provisions - Verification

(Prior Audit Issue 09-72)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094151, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A094151, CFDA 84.063 P063P092328, CFDA 84.375 P375A092328, CFDA 84.376 P376S092328, and CFDA 84.379 P379T092328
Type of finding - Significant Deficiency and Non-Compliance

Verification

Questioned Cost: $ 0

U.S. Department of Education

An institution may participate under a 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 a 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; and (5) the procedures for making referrals under Title 43, Code of Federal Regulations, Section 668.16. The procedures must provide that the institution 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 required actions 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 procedures for making referrals under Title 34, Code of Federal Regulations, Section 668.16.

In addition, for 1 (2 percent) of 50 verification cases tested, the University could not locate all required documents necessary to verify that the number of members in the household who are attending college, as reported by the student on the student's Institutional Student Information Report (ISIR), was correct.

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 allowed excessive high-profile system access at the application level. Specifically, 23 users had excessive modify access to certain components of Banner, the University's student financial aid system. This included information technology personnel, as well as an individual from the Sponsored Program Accounting and Reporting (SPAR) office who is involved in the cash draw-down process. The access these individuals had included modify access to the various financial aid budgets, federal fund management, global rules, and satisfactory academic progress (SAP) category tables, as well as modify access to award and authorize the disbursement of student financial assistance.

Allowing employees inappropriate or excessive access to areas in an application that are outside of their job responsibilities increases the risk of inappropriate changes and does not allow for proper segregation of duties.

Recommendations:

The University should:

- Ensure that its verification policy includes all required information.
- Retain all documentation received from students that is necessary for verification.
- Restrict access to Banner based on job responsibilities to decrease the risk of inappropriate changes and ensure separation of duties.

Management Response and Corrective Action Plan:

- *The University's Verification policy has been updated to include procedures for making referrals under Title 34, Code of Federal Regulations, Section 668.16.*
- *Student Financial Aid implemented electronic document protocol in December 2010 for receipt of all faxed documents. The documents are received and retained in a secured folder for review, processing and distribution.*

Implementation Date: *Completed*

Responsible Person: *Shannon L. Crossland*

General Controls

- *The Financial Aid Offices and Information Systems have worked together to remove Banner INB access for Financial Aid Offices employees and the Sponsored Program Accounting and Reporting employee as recommended by SAO. In addition, access was removed for two others as recommended by the Director of the TTU Financial Aid Office.*
- *INB access for Information Systems staff is now limited to the DBAs, the Assistant Managing Director for the Student and Student Financial Aid systems, and the Project Leader for the Student Financial Aid System. This access is needed to support the system.*
- *We agree that proper separation of duties requires preventing TTU and HSC from updating each other's Financial Aid records. Information Systems Enterprise Application Security staff are preparing a solution to meet this need. It is scheduled to move to production by August 31, 2011.*

Implementation Date: *August 2011*

Responsible Person: *Heather Horst*

Reference No. 11-137

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094151, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A094151, CFDA 84.063 P063P092328, CFDA 84.375 P375A092328, CFDA 84.376 P376S092328, and CFDA 84.379 P379T092328
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 Direct Loan, Federal Family Education Loan (FFEL), Federal Perkins Loan, or Teacher Education Assistance for College and Higher Education (TEACH) Grant Program 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 anticipated date and amount of the disbursement; (2) the student's right or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan or TEACH Grant proceeds returned to the Secretary of the U.S. Department of Education; and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement (Title 34, Code of Federal Regulations, Section 668.165).

For 29 (78 percent) of 37 students tested for whom disbursement notices were required, Texas Tech University (University) did not send adequate disbursement notices within 30 days. The following causes contributed to these errors:

- After the midyear holiday break, the University did not reactivate its automated process for generating disbursement notices until February 9, 2010, due to internal miscommunication. As a result, the University asserts that it sent disbursement notices for 10,140 loans disbursed from January 4, 2010, to January 8, 2010 more than 30 days after disbursement.
- The University began disbursing Direct Loans for the Summer semester of 2010. The University's initial implementation of the Direct Loan process did not generate disbursement notices within 30 days after disbursement. As a result, the University asserts that it did not send disbursement notices for 1,308 recipients of Direct Loans within 30 days after disbursement.

In addition, the University generated disbursement notification letters for TEACH Grant recipients manually outside of its automated process for generating other disbursement notices. Those disbursement notification letters did not contain the date and amount of the disbursement. The University asserts that it disbursed TEACH Grant funds to 22 recipients during the award year.

Recipients of disbursement notifications that are sent more than 30 days after disbursement or that contained incomplete information may not have been able to make timely and fully informed decisions about accepting disbursements.

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 allowed excessive high-profile system access at the application level. Specifically, 23 users had excessive modify access to certain components of Banner, the University's student financial aid system. This included information technology personnel, as well as an individual from the Sponsored Program Accounting and Reporting (SPAR) office who is involved in the cash draw-down process. The access these individuals had included modify access to the various financial aid budgets, federal fund management, global rules, and satisfactory academic progress (SAP) category tables, as well as modify access to award and authorize the disbursement of student financial assistance.

Allowing employees inappropriate or excessive access to areas in an application that are outside of their job responsibilities increases the risk of inappropriate changes and does not allow for proper segregation of duties.

Recommendations:

The University should:

- Establish a process to ensure that it sends disbursement notices in a timely manner, including disbursement notices for Direct Loans and disbursement notices generated after holiday breaks.
- Establish a process to generate TEACH Grant disbursement notices that include the date and amount of the disbursement.
- Restrict access to Banner based on job responsibilities to decrease the risk of inappropriate changes and ensure separation of duties.

Management Response and Corrective Action Plan:

- *TTU Right to Cancel Loan electronic notification was reinstituted in February 2010 and currently remains active year round including during holiday breaks.*
- *TEACH Grant distribution notifications, including date and amount, were added to current daily loan process distribution notification in July 2010.*

Implementation Date: *July 2010*

Responsible Person: *Shannon L. Crossland*

General Controls

- *The Financial Aid Offices and Information Systems have worked together to remove Banner INB access for Financial Aid Offices employees and the Sponsored Program Accounting and Reporting employee as recommended by SAO. In addition, access was removed for two others as recommended by the Director of the TTU Financial Aid Office.*

- *INB access for Information Systems staff is now limited to the DBAs, the Assistant Managing Director for the Student and Student Financial Aid systems, and the Project Leader for the Student Financial Aid System. This access is needed to support the system.*

- *We agree that proper separation of duties requires preventing TTU and HSC from updating each other's Financial Aid records. Information Systems Enterprise Application Security staff are preparing a solution to meet this need. It is scheduled to move to production by August 31, 2011.*

Implementation Date: *August 2011*

Responsible Person: *Heather Horst*

Reference No. 11-138

Special Tests and Provisions - Return of Title IV Funds

(Prior Audit Issue 09-74)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094151, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A094151, CFDA 84.063 P063P092328, CFDA 84.375 P375A092328, CFDA 84.376 P376S092328, and CFDA 84.379 P379T092328
Type of finding - Significant Deficiency and Non-Compliance

Return of Title IV Funds

Questioned Cost: $ 4,230

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 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)).

Auditors identified the following errors at Texas Tech University (University) for students who attended class during a semester in which they later withdrew:

- For 2 (6 percent) of 33 withdrawals tested, the University incorrectly calculated either the amount of Title IV funds earned or the amount to be returned. This occurred because of data input errors.
- For 1 (5 percent) of 21 withdrawals tested, the University did not return the correct amount of unearned Title IV funds. This occurred because of a data input error.
- For 11 (52 percent) of 21 withdrawals tested, the University did not return all Title IV funds within the required time frame.

Auditors also identified the following errors at the University for students who withdrew from the University prior to the first day of class:

- For 8 (47 percent) of 17 withdrawals tested, the University did not return all Title IV funds within the required time frame.
- For 2 (12 percent) of 17 withdrawals tested, the University did not return all Title IV funds. For those student withdrawals, the University did not return a total of $4,230 in Title IV funds, including $747 in Direct Subsidized loans, $747 in Direct Unsubsidized loans, $1,741 in Subsidized FFELP, and $995 in Unsubsidized FFELP.
- For 2 (100 percent) of 2 withdrawals tested for which Title IV funds were not returned, the University did not notify the lender that the student would not be attending.

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 allowed excessive high-profile system access at the application level. Specifically, 23 users had excessive modify access to certain components of Banner, the University's student financial aid system. This included information technology personnel, as well as an individual from the Sponsored Program Accounting and Reporting (SPAR) office who is involved in the cash draw-down process. The access these individuals had included modify access to the various financial aid budgets, federal fund management, global rules, and satisfactory academic progress (SAP) category tables, as well as modify access to award and authorize the disbursement of student financial assistance.

Allowing employees inappropriate or excessive access to areas in an application that are outside of their job responsibilities increases the risk of inappropriate changes and does not allow for proper segregation of duties.

Recommendations:

The University should:

- Develop and implement controls to ensure that it:
  - Returns Title IV funds within the appropriate time frames.
  - Returns Title IV funds in their entirety when it is required to do so.
  - Notifies lenders that students receiving Title IV funds will not be attending.
  - Correctly calculates the amount of Title IV funds earned and the amount to be returned.
  - Returns the correct amount of Title IV funds.
- Restrict access to Banner based on job responsibilities to decrease the risk of inappropriate changes and ensure separation of duties.

Management Response and Corrective Action Plan:

The previous staff member has been reassigned and an Assistant Advisor hired. In June 2010, the Assistant Advisor assumed responsibility for R2T4 administration to ensure compliance for R2T4 controls. Copies of all reports related to R2T4 are copies to Associate Director of Administrative Maintenance and Compliance for periodic review and quality control.

Implementation Date: *June 2010*

Responsible Person: *Shannon L. Crossland*

General Controls

- *The Financial Aid Offices and Information Systems have worked together to remove Banner INB access for Financial Aid Offices employees and the Sponsored Program Accounting and Reporting employee as recommended by SAO. In addition, access was removed for two others as recommended by the Director of the TTU Financial Aid Office.*
- *INB access for Information Systems staff is now limited to the DBAs, the Assistant Managing Director for the Student and Student Financial Aid systems, and the Project Leader for the Student Financial Aid System. This access is needed to support the system.*
- *We agree that proper separation of duties requires preventing TTU and HSC from updating each other's Financial Aid records. Information Systems Enterprise Application Security staff are preparing a solution to meet this need. It is scheduled to move to production by August 31, 2011.*

Implementation Date: *August 2011*

Responsible Person: *Heather Horst*

Reference No. 11-139

Special Tests and Provisions - Student Status Changes

(Prior Audit Issue 09-75)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Student Status Changes

Questioned Cost: $ 0

U.S. Department of Education

Unless an institutions 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 1.3.1.1).

Sixteen (32 percent) of 50 student status changes tested at the University were not reported to NSLDS in a timely and accurate manner. Specifically:

- 12 (24 percent) of 50 student status changes tested were not reported to NSLDS within the required 60-day timeframe.
- 3 (6 percent) of 50 student's status changes were not reported to NSLDS. These students graduated in May 2010, but they were not reported as graduated.
- 1 (2 percent) of 50 students had no enrollment history reported to NSLDS.

The University does not have a process to monitor the reporting of enrollment status to NSLDS. Without a monitoring process to ensure accurate and timely reporting, the University is not able to detect non-compliance and take appropriate and timely action to address issues. Inaccurate and delayed information affects determinations made by lenders, servicers of student loans related to in-school status, deferments, grace periods, and repayment schedules, as well as the federal government's payment of interest subsidies.

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 allowed excessive high-profile system access at the application level. Specifically, 23 users had excessive modify access to certain components of Banner, the University's student financial aid system. This included information technology personnel, as well as an individual from the Sponsored Program Accounting and Reporting (SPAR) office who is involved in the cash draw-down process. The access these individuals had included modify access to the various financial aid budgets, federal fund management, global rules, and satisfactory academic progress (SAP) category tables, as well as modify access to award and authorize the disbursement of student financial assistance.

Allowing employees inappropriate or excessive access to areas in an application that are outside of their job responsibilities increases the risk of inappropriate changes and does not allow for proper segregation of duties.

Recommendations:

The University should:

- Implement changes to its reporting procedures to ensure that all student status changes are accurately reported to NSLDS within the required time period.
- Establish and implement policies and procedures to monitor the enrollment student status changes reported to NSLDS on the University's behalf.
- Restrict access to Banner based on job responsibilities to decrease the risk of inappropriate changes and ensure separation of duties.

Management Response and Corrective Action Plan:

All processes were updated in January 2010 to include enrollment submission to National Student Loan Clearinghouse (NSC) five times during the regular fall/spring terms and four times during summer terms. TTU corrects and clears all errors two days prior to sending the file to NSC. TTU is notified by NSC when a student is enrolled in two careers at once at which point TTU indicates which career is priority. All errors are resolved when TTU is notified by NSC, and TTU is notified by NSC when file is released to website.

Implementation Date: *January 2010*

Responsible Person: *Shannon L. Crossland*

General Controls

- *The Financial Aid Offices and Information Systems have worked together to remove Banner INB access for Financial Aid Offices employees and the Sponsored Program Accounting and Reporting employee as recommended by SAO. In addition, access was removed for two others as recommended by the Director of the TTU Financial Aid Office.*
- *INB access for Information Systems staff is now limited to the DBAs, the Assistant Managing Director for the Student and Student Financial Aid systems, and the Project Leader for the Student Financial Aid System. This access is needed to support the system.*
- *We agree that proper separation of duties requires preventing TTU and HSC from updating each other's Financial Aid records. Information Systems Enterprise Application Security staff are preparing a solution to meet this need. It is scheduled to move to production by August 31, 2011.*

Implementation Date: *August 2011*

Responsible Person: *Heather Horst*

Texas Tech University Health Sciences Center

Reference No. 11-140

Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Procurement and Suspension and Debarment

Research and Development Cluster
Award years - January 1, 2009 to December 31, 2010, September 1, 2009 to August 31, 2010, September 15, 2009 to September 14, 2010, September 1, 2009 to August 31, 2010, March 1, 2010 to February 28, 2011, September 20, 2009 to August 31, 2010, and July 1, 2008 to November 30, 2009
Award numbers - CFDA 93.395 R01CA82830, CFDA 93.701 2R01RY013610-04A1, CFDA 12.420 W81XWH-07-1-0580, CFDA 93.855 U19AI082623, CFDA 93.281 5R01MH085554-02, CFDA 93.701 1R21AA018160-01, and CFDA 93.855 R01AI079497
Type of finding - Significant Deficiency and Non-Compliance

Salary Limitation

Appropriated funds for the National Institutes of Health (NIH) 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 1 of the federal executive pay scale (Public Law 111-117, Consolidated Appropriations Act, 2010). The Executive Level 1 annual salary rate was $196,700 for the period from January 1, 2009, through December 31, 2009. Effective January 1, 2010, the Executive Level 1 annual salary rate increased to $199,700 (NOT-OD-10-041, Salary Limitation on Grants, Cooperative Agreements, and Contracts).

Questioned Cost: $ 3,961

National Institutes of Health
U.S. Department of Defense

For 2 (5 percent) of 37 payroll items tested, the Texas Tech Health Sciences Center (Health Sciences Center) used NIH funds to pay employees more than the salary limitation. One faculty member's salary exceeded the limitation by $3,934 for the effort reporting period tested. The other faculty member's salary exceeded the limitation by $8 for the effort reporting period tested. The Health Sciences Center does not have a process to ensure compliance with salary limitations. As a result, the Health Sciences Center may use federal funds to pay a salary that exceeds the federal salary limitation.

After-the-fact Confirmation of Payroll

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 (Title 2, Code of Federal Regulations, Section 220(J)(10)). Additionally, Health Sciences Center policy states that activity reports must be certified within 30 days after the reporting period.

For 3 (8 percent) of 37 payroll items tested, the Health Sciences Center did not have employees' certified activity reports on file. As a result, auditors could not verify whether those employees committed effort to the projects from which they were paid. For two additional payroll items tested, an employee did not certify the activity report within 30 days, as required by Health Sciences Center policy. (These two payroll transactions were for the same employee.) The employee certified the activity report 54 days late (84 days after the reporting period).

Additionally, for one payroll item tested, the Health Sciences Center used grant funds to pay an employee 3.6 percent more in salary than the employee certified in effort for the project. (This payroll item was also one of the salary limitation exceptions noted above.) Health Sciences Center policy states that only effort adjustments that vary by more than 5 percent require correction. The design of this policy could result in payroll charges that exceed the amount of effort an employee committed to a project.

Cost Transfers and Adjustments

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 (Title 2, Code of Federal Regulations, Section 220 (C)(4)).

Health Sciences Center policy states that "cost transfers will be denied if there is not sufficient supporting documentation and explanation justifying the benefit to the grant for the cost being moved." The Health Sciences Center's Office of Accounting Services processes cost transfers for non-payroll items, and the Health Sciences Center's Budget Office processes any payroll-related items.

The Health Sciences Center did not provide justification for three payroll cost transfers tested. The transfers were employee benefit items for ($16.67), $37.66, and $3.85. Without justifications for the payroll transfers, auditors were unable to determine whether the cost transfers benefited the appropriate grant.

Additionally, for 1 (10 percent) of 10 transfers tested, the transferred costs were allowable for the project to which the costs were transferred; however, the Health Sciences Center originally charged those costs to an unrelated federal project. The Health Sciences Center did this because, at the time it originally charged these costs, it had not yet established the correct project account. Therefore, the Health Sciences Center made this transfer for reasons of convenience, which is not a valid justification according to federal regulations. The amount transferred totaled $10,561.

Other Compliance Requirements

Although the general controls weaknesses described below also apply to cash management, period of availability of federal funds, and procurement and suspension and debarment, auditors identified no compliance issues regarding these compliance requirements.

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 Health Sciences Center did not maintain adequate segregation of duties between programmers and system administrators for its Personnel and Activity Reporting System (PARs) or for its DirectPay application. Specifically, auditors identified a programmer with system administrator rights to the PARs database and five programmers who had access to the DirectPay application and web server. Allowing employees inappropriate or excessive access to Health Sciences Center systems increases the risk of inappropriate changes and does not allow for segregation of duties.

Recommendations:

The Health Sciences Center should:

- Develop and implement a process to ensure that, for NIH awards, it does not charge salaries that exceed the salary limitation.
- Ensure that employees certify all after-the-fact confirmation activity reports in a timely manner and that those reports accurately reflect employee effort.
- Revise its effort policy to ensure that the allocation of an employee’s salary and wages to federal awards does not exceed the employee’s certified effort for the period.
- Ensure that all cost transfers are justified and have adequate support to comply with Health Sciences Center policy.

- Limit high-profile access to the PARs database and to the DirectPay application code to the appropriate users based on their job responsibilities.

Management Response and Corrective Action Plan:

The Texas Tech University Health Sciences Center agrees with the recommendations of the State Auditor's Office. Institutional policies and procedures will be modified to implement the recommendations as presented. A new effort certification system is also being implemented to go live in April 2011 for the fiscal quarter beginning March 2011.

Implementation Date: *March 2011*

Responsible Person: *Mike Crowder*

Reference No. 11-141

Special Tests and Provisions - R3 - Subrecipient Monitoring

Research and Development Cluster - ARRA
Award years - September 1, 2009 to August 31, 2010, October 1, 2009 to September 30, 2010, March 1, 2009 to February 28, 2011, April 6, 2010 to April 5, 2012, and August 2, 2010 to July 31, 2011
Award numbers - CFDA 93.701 R01EY013610-04A1 (ARRA), CFDA 17.258 2910XSW000 (ARRA), CFDA 93.703 1H8ACS11424-0100 (ARRA), CFDA 93.718 90RC004001 (ARRA), and CFDA 93.701 3R01AI071223 (ARRA)
Type of finding - Significant Deficiency and Non-Compliance

Subrecipients of Recovery Act Funding

Questioned Cost: $ 0

National Institutes of Health
U.S. Department of Labor

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) maintain records that identify adequately the source and application of Recovery Act funds; (2) separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of Recovery Act funds; and (3) require their subrecipients to include on their Schedule of Expenditures of Federal Awards (SEFA) information to specifically identify Recovery Act funding (Title 2, Code of Federal Regulations, Section 176.210).

For all five of its subrecipients of Recovery Act funds in fiscal year 2010, the Texas Tech University Health Sciences Center (Health Sciences Center) did not require its subrecipients to identify these funds as Recovery Act funds in their SEFAs. The Health Sciences Center did not have procedures to ensure that the required Recovery Act information was included in the subaward agreement. The Health Sciences Center used a federal demonstration partnership template for the Recovery Act awards; however, the template did not include the required language.

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 Health Sciences Center did not maintain adequate segregation of duties between programmers and system administrators for its Personnel and Activity Reporting System (PARs) or for its DirectPay application. Specifically, auditors identified a programmer with system administrator rights to the PARs database and five programmers who had access to the DirectPay application and web server. Allowing employees inappropriate or excessive access to Health Sciences Center systems increases the risk of inappropriate changes and does not allow for segregation of duties.

Recommendations:

The Health Sciences Center should:

- At the time of subaward, notify its subrecipients of the requirement to identify Recovery Act funds separately on their SEFAs.
- Limit high-profile access to the PARs database and to the DirectPay application code to the appropriate users based on their job responsibilities.

Management Response and Corrective Action Plan:

The Texas Tech University Health Sciences Center agrees with the recommendations of the State Auditor's Office. Institutional policies and procedures will be modified to implement the recommendations as presented. A new effort certification system is also being implemented to go live in April 2011 for the fiscal quarter beginning March 2011.

Implementation Date: *March 2011*

Responsible Person: *Mike Crowder*

Department of Transportation

Reference No. 11-142
Davis-Bacon Act
(Prior Audit Issue 10-82)

Highway Planning and Construction Cluster
Award years - Multiple
Award numbers - Federal project HP 2008(045), STP 2009(699)ES, STP 2006(572)MM, and STP 2006(438)MM
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Transportation – Federal Highway Administration

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 (CFR), Sections 5.5-5.6). In addition, contractors or subcontractors are required 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, CFR, Sections 3.3-3.4). 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 Department of Transportation (Department) was not always able to provide documentation showing that it collected certified payrolls from its contractors. **For 4 (8 percent) of 50 projects tested, the contractors did not always submit payroll certifications for fiscal year 2010.** The total value of those four projects, including payroll and non-payroll costs, was $7,471,792.

For three of the four projects discussed above, the contractors were supposed to submit certified payrolls using the Department's automated system, the Electronic Project Records System (EPRS). The Department can use EPRS to identify any unreported payroll certifications, but personnel in the Department's district offices did not consistently monitor EPRS information. For the fourth project discussed above, the contractor was required to submit certified payrolls through a manual process. According to management at a Department district office, a new district staff person became responsible for monitoring payroll certification submittals and determined that this contractor had not submitted payroll certifications for six months. The contractor subsequently submitted payroll certifications for all six months on one certification.

The Department does not have a standardized process for tracking certified payrolls that contractors submit. Each area office within each district office determines its own method for ensuring that contractors submit payroll certifications. As of December 8, 2010, the Department's 25 district offices had a total of 101 area offices.

When contractors do not consistently submit required payroll certifications, the Department cannot ensure that contractor and subcontractor employees are properly classified and being paid the appropriate wage rate in accordance with the Davis-Bacon Act.

In addition, the insufficient wage report that the Department can generate from EPRS does not identify contractor timesheets that report more than eight hours of "regular time" pay per day. By not including that information in the report, the Department could be unaware of instances in which contractors are not paying employees overtime rates based on the prevailing wages for that area.

Recommendations:

The Department should:

- Establish a consistent, statewide process to ensure that it collects and tracks payroll certifications from each contractor, whether manually or through EPRS, as required by the Davis-Bacon Act.
- Modify the existing insufficient wage paid report that EPRS generates to identify and report instances in which a contractor is not paying correct prevailing wage rates for employees' overtime hours.

Management Response and Corrective Action Plan:

The department concurs with the recommendations. The department will assemble a work group of division, district, and area office staff to develop a plan for an effective system for tracking of payrolls. Possible options may include manual systems or electronic.

The issue is that EPRS does not flag more than 8 hours per day. Working more than 8 hours a day does not necessarily constitute overtime as overtime is computed based on a 40 hour work week, not an 8 hour day. EPRS does flag a discrepancy for more than 40 hours per week on an individual project. The department uses the certification statement provided by the US Department of Labor (DOL). It will be determined if levels beyond that required by the DOL are warranted.

Implementation Date: *December 2011*

Responsible Person: *Russel Lenz*

Reference No. 11-143
Period of Availability of Federal Funds
(Prior Audit Issue 10-81)

Highway Planning and Construction Cluster
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency

Questioned Cost: $ 0

U.S. Department of Transportation – Federal Highway Administration

Agencies shall maintain internal control over federal programs that provides reasonable assurance that agencies 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 Department of Transportation (Department) uses the Federal Project Authorization and Agreement (FPAA) system to process and track project approvals from the Federal Highway Administration. The FPAA system details when federal funds are authorized, which is the starting point for the period of availability of federal funds. The Department must obtain approval from the Federal Highway Administration prior to starting construction work on a project and expending federal funds (Title 23, Code of Federal Regulations, Section 630.106).

The Department did not appropriately restrict access to the FPAA system. Specifically, two programmers had access to move code into the production environment of FPAA. In general, programmers should not have access to migrate code changes to the production environment. Allowing programmers inappropriate access increases the risk of unauthorized changes and does not allow for adequate segregation of duties.

The Department's Finance Division manages the FPAA system, and that division does not enforce the same change management processes that the Department enforces for enterprisewide systems. The Department asserted that there were no changes made to the FPAA system in fiscal year 2010.

Recommendation:

The Department should establish and enforce change management procedures for systems the Finance Division manages, including eliminating programmers' access to migrate code changes to the production environment and maintaining adequate documentation of changes made to systems.

Management Response and Corrective Action Plan:

The Department will continue to evaluate and improve controls over change management of the FPAA system. Currently the Department has assigned one individual the responsibility for the development of code changes to FPAA and two separate individuals the responsibility for change deployment. The Department also requires program personnel to submit a programming request form for all change requests to the FPAA system. This programming request form, documents all information related to program changes including the programmer responsible for testing code changes and the individual responsible for moving code into production.

The Department is also in the process of implementing business process improvements to the FPAA system including utilizing a different platform to house the FPAA system. This platform change should enhance change management processes including improved access security. The Department plans to evaluate having the Technology Services Division host the FPAA system on the Department's enterprise server. This would allow the Finance Division to continuing operating the FPAA system, and TSD the responsibility to move code into production. Any evaluation of controls performed will consider the cost of controls versus assessed risk for reasonableness and cost effectiveness.

Implementation Date: *May 2010*

Responsible Person: *Mark Pollard*

Reference No. 11-144

Procurement and Suspension and Debarment
Subrecipient Monitoring
Special Tests and Provisions - R3 - Subrecipient Monitoring
(Prior Audit Issues 10-84 and 09-80)

Highway Planning and Construction Cluster
Highway Planning and Construction Cluster - ARRA
Award years - Multiple
Award numbers - Multiple
Type of finding - Material Weakness and Material Non-Compliance

Questioned Cost: $ 0

U.S. Department of Transportation – Federal Highway Administration

The Department of Transportation (Department) is required by Office and 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. In addition, the Department has the responsibility for the construction of all federal aid projects, and it is not relieved of such responsibility by authorizing performance of the work by a local public agency or other federal agency. State transportation departments are responsible for ensuring that such projects receive adequate supervision and inspection to insure that projects are completed in conformance with approved plans and specifications (Title 23, Code of Federal Regulations, Section 635.105(a)).

Pre-award Monitoring

At the time of the award, pass-through entities must identify to subrecipients the applicable compliance requirements and the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, the federal award name and number, the name of the federal awarding agency, and whether the award is research and development (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

Additionally, federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), 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, Section 180.300). Covered transactions include all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.220 and 180.970).

Auditors tested 41 agreements executed between 1998 and 2010 and identified exceptions in all of the agreements tested. Specifically:

- For 38 (93 percent) of 41 subrecipient agreements tested, the Department did not properly identify federal award information to the subrecipient.
- For 32 (78 percent) of 41 subrecipient agreements tested, the Department did not require the subrecipient to certify that it was not suspended or debarred.
- For 2 (5 percent) of 41 subrecipient agreements tested, the Department did not notify the subrecipient of the requirement that invoices or requests for funds must be for expenses already incurred.
- For 4 (10 percent) of 41 subrecipient agreements tested, the Department did not notify the subrecipient of Single Audit requirements.
- For 5 (12 percent) out of 41 subrecipient agreements tested, the Department did not include an approved budget that listed allowed activities and costs.
- For 1 (2 percent) of 41 subrecipient agreements tested, the Department did not notify the subrecipient of OMB A-87 cost principles.
- For 1 (25 percent) of 4 subrecipient agreements signed after September 2009, the Department did not ensure that at least one of the subrecipient's staff had attended training on the local government project procedures required as part of its funding agreement, which the Department implemented to ensure that subrecipients are aware of project and grant requirements.

The Department did not properly identify federal award information and compliance requirements to the subrecipient consistently. While the Department uses a standard template for award agreements with subrecipients, the template did not consistently include identification of the federal award title and number or the CFDA title and number. The template also did not consistently identify the name of the federal awarding agency or compliance requirements. The template does, however, refer to the master advanced funding template agreement, which requires the subrecipient to comply with federal compliance requirements and provides other specific information regarding allowable costs and other requirements.

The template the Department used requires the subrecipient to refrain from doing business with other entities that are suspended or debarred; however, it does not require the subrecipient to certify that it is not suspended or debarred. Award templates dated after September 23, 2009, contained language that required the subrecipient to certify that it was not suspended or debarred.

Inadequate identification of federal awards by the Department may lead to improper reporting of federal funding on a subrecipient's Schedule of Expenditures of Federal Awards (SEFA). Additionally, when the Department does not verify that subrecipients are not suspended or debarred, this increases the risk that the Department will enter into an agreement with an entity that is not eligible to receive federal funding. Incomplete communication of federal compliance requirements in the Department's award documents increases the risk that subrecipients will not follow federal guidelines related to administering subrecipient awards.

Subrecipients of Recovery Act Funding

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) maintain records that identify adequately the source and application of Recovery Act funds; (2) separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the federal award number, the CFDA number, and the amount of Recovery Act funds; and (3) require their subrecipients to include on their SEFA information to specifically identify Recovery Act funding (Title 2, Code of Federal Regulations, Section 176.210).

Recipients of Recovery Act awards are also required to ensure that the subrecipients that receive Recovery Act funds maintain active registrations in the Central Contractor Registration (CCR) and obtain a Dun and Bradstreet Data Universal Numbering System (DUNS) number (Title 2, Code of Federal Regulations, Section 176.50, and Recovery Act, Section 1512(h). This information is needed to allow the recipient to properly monitor subrecipient expenditures of Recovery Act funds and for oversight by the federal awarding agencies, offices of inspector general, and the U.S. Government Accountability Office.

The Department did not consistently comply with Recovery Act requirements with respect to its subrecipients. Specifically, for seven Recovery Act subrecipient awards tested:

- 5 (71 percent) did not contain evidence that the Department verified that subrecipients had obtained a DUNS number or were registered with CCR prior to award.
- 6 (86 percent) did not contain evidence that the Department, at the time of the award, notified the subrecipients of the requirement to include appropriate identification of Recovery Act funds in their SEFAs.
- 1 (14 percent) did not contain evidence that the Department ensured that the budget proposed to the subrecipient separately identified Recovery Act funds.
- 5 (71 percent) did not contain evidence that the Department separately identified to each subrecipient, and documented at the time of disbursement of funds, the Federal award number, CFDA number, and the amount of Recovery Act funds.

While the Department uses a standard template for award agreements with subrecipients, that template does not include identification of the federal award title and number, CFDA title and number, or name of the federal awarding agency. Additionally, at the time of testing, the Department did not have a process to ensure that subrecipients were registered with CCR and had obtained a DUNS number, or to notify subrecipients of required Recovery Act award notifications at time of disbursement of funds.

Inadequate identification of Recovery Act awards by the Department may lead to improper reporting of federal funding on a subrecipient's SEFA. During fiscal year 2010, the Department passed-through $21,920,542 in Recovery Act funds to subrecipients.

During-the-Award Monitoring

The Department does not have standardized processes to ensure adequate during-the-award monitoring of subrecipients by its district offices. As a result, there are different levels and types of monitoring across the district offices.

District offices provided documentation of their during-the-award monitoring for 47 subrecipients tested. This documentation included reviews of invoices for allowability, period of availability, and reporting. However, auditors identified the following issues at the district offices:

- For 7 (27 percent) of 26 subrecipients tested for which Davis-Bacon Act requirements applied, the Department was unable to provide evidence that it monitored the subrecipients' compliance with Davis-Bacon Act requirements.
- For 2 (7 percent) of 27 subrecipients tested for which quality assurance requirements applied, the Department was unable to provide evidence that it monitored the subrecipients' compliance with quality assurance requirements.

Although the Department provides monitoring guidelines to district and regional offices for the monitoring of subrecipients through its *Local Government Project Procedures Manual*, implementation of the guidelines and processes for monitoring are determined by the region and district level staff. In addition, the Department does not have a standard process for reviewing each district office's procedures and activities related to subrecipient monitoring.

By not providing direct oversight or review of monitoring procedures and activities used in each district office or region, the Department is not able to ensure that sufficient monitoring occurs at the statewide level. This also increases the risk that the Department would not detect non-compliance by subrecipients administering federally funded projects.

Recommendations:

The Department should:

- Ensure existing award documentation and award documentation templates with subrecipients include all required award notification and information according to federal requirements including CFDA title and number, federal award name and number, whether the award is research and development, name of the federal awarding agency, and applicable compliance requirements.
- Develop and implement a process to, at the time of award, notify its subrecipients of the requirement to provide appropriate identification of Recovery Act funds in their SEFAs.
- Develop and implement a process to, at time of award, verify that all subrecipients that receive Recovery Act funding are registered with the CCR and have obtained a DUNS number.
- Develop and implement a process to separately identify to each subrecipient, and document at the time of disbursement of funds, the federal award number, CFDA number, and amount of Recovery Act funds.
- Develop and implement a standardized process for conducting during-the-award monitoring of subrecipients statewide.
- Develop and implement a statewide, standardized process for reviewing district offices to ensure that they are properly monitoring subrecipient compliance with federal requirements, including compliance with Davis-Bacon Act and quality assurance requirements.

Management Response and Corrective Action Plan:

Current templates contain the CFDA title and number, the name of the federal awarding agency, and applicable compliance requirements. Additional steps will be implemented to ensure that the most current version of each template is always used.

We will revise all existing templates to ensure that they include an explicit statement of whether the award is research and development. At the time a contract is entered, no federal award name and number has been assigned. Therefore, we will also include language providing that a copy of the Federal Project Authorization and Agreement documentation will be provided to the subrecipient when it is approved by the Federal Highway Administration. This documentation will ensure that the subrecipient is informed of the federal award name and number as soon as it is reasonably available.

At this time, it is not anticipated that additional Recovery Act funds will be awarded.

We will revise all existing templates to require that subrecipients are registered with the CCR and have obtained a DUNS number.

We will attempt to identify all existing subrecipients and to notify them by letter of necessary federal requirements.

Implementation Date: *December 2011*

Responsible Person: *Janice Mullinex*

We have fully implemented a process to separately identify and document to each ARRA subrecipient, at the time of disbursement of funds, the federal award number, CFDA number, and amount of Recovery Act funds. An automated e-mail is sent to ARRA subrecipients upon disbursement of funds.

Implementation Date: *October 2010*

Responsible Person: *Russel Lenz*

Monitoring of subrecipient projects occurs throughout the department. The department will explore options to standardize and improve monitoring of subrecipients using a department wide approach.

Implementation Date: *Unknown*

Responsible Person: *Steve Simmons*

Reference No. 11-145
Reporting
(Prior Audit Issue 10-83)

Highway Planning and Construction Cluster
Highway Planning and Construction Cluster - ARRA
Award years - Multiple
Award numbers - Multiple - ARRA 2010(669) and ARRA 2010(578)
Type of finding - Significant Deficiency and Non-Compliance

Recovery Act Section 1512 Reports

Questioned Cost: $ 0

U.S. Department of Transportation - Federal Highway Administration

Section 1512 of the American Recovery and Reinvestment Act (Recovery Act) requires that recipients submit quarterly reports to the federal government. Information required to be submitted includes (1) the amount of Recovery Act funds received; (2) the amount of Recovery Act funds received that were expended; (3) a detailed list of all projects or activities for which Recovery Act funds were expended; (4) an estimate of the number of jobs created or retained; and (5) detailed information on any subcontracts or subgrants awarded by the recipient, including the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282) (Recovery Act Section 1512(c)).

Two (4 percent) of 51 Recovery Act Section 1512 reports tested at the Department of Transportation (Department) were not supported by applicable accounting records. For these reports, Department staff incorrectly transposed two Department project numbers with two federal project numbers in the database it uses to create the reports. As a result, the Department underreported the amount of Recovery Act funds spent by $29,994.

Quarterly reports are submitted to the federal government to comply with Recovery Act Section 1512 reporting requirements and provide transparency regarding Recovery Act funds spent. When the Department submits an inaccurate report, this decreases the reliability of the information intended for the federal government and the general public.

PR-20 Reports

Office of Management and Budget (OMB) Circular A-133 Compliance Supplement requires the Department to submit a PR-20, Voucher for Work Under Provisions of the Federal-Aid and Federal Highway Acts, as Amended (OMB No. 2125-0507). The PR-20 is required to report the total expenditures for a project that received federal aid from the Federal Highway Administration (FHWA). The report should be completed and submitted promptly after the close-out of a project.

The Department has a significant backlog of PR-20 reports it must submit to the FHWA. Auditors identified this issue in the prior audit period, and the Department implemented a corrective action plan to reduce the backlog of reports. In fiscal year 2010, the Department submitted 1,455 PR-20 reports, a significant increase from the 600 PR-20 reports it submitted in fiscal year 2009. However, as of August 31, 2010, the Department had not submitted PR-20 reports for 1,147 projects that had been closed for more than 90 days. The projects for which the Department must still submit PR-20 reports date back to September 1992. The FHWA relies on the Department to submit PR-20 reports to close out funding and records on funded projects. Auditors tested a sample of 25 PR-20 reports the Department submitted during the year and did not identify any compliance errors.

Recommendations:

The Department should:

- Develop and implement procedures to ensure the accuracy and completeness of data it enters into the database it uses to create Recovery Act Section 1512 reports.
- Continue to follow its corrective action plan for reducing the backlog of PR-20 reports it must submit to FHWA.

Management Response and Corrective Action Plan:

In this instance, two federal-aid project numbers were transposed between two department control-section-job (CSJ) numbers. This error occurred on a 1511 certification so it was carried forward until it had been corrected. Controls were in place to prevent over-reporting of expenditures, but this type of error had not been envisioned. System control will be modified to notify staff of this type of discrepancy.

Implementation Date: *April 2011*

Responsible Person: *Russel Lenz*

The Department will continue to follow its corrective action plan for reducing the backlog of PR-20 reports it must submit to FHWA.

Implementation Date: *Currently implemented*

Responsible Person: *Brian Ragland*

Reference No. 11-146

Special Tests and Provisions - Quality Assurance

(Prior Audit Issues 10-87 and 09-81)

Highway Planning and Construction Cluster
Award years - Multiple
Award numbers - Multiple
Type of finding - Material Weakness and Material Non-Compliance

Control Weaknesses in SiteManager

Agencies 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)).

Questioned Cost: $ 0

U.S. Department of Transportation – Federal Highway Administration

The Department of Transportation (Department) uses SiteManager as its system of record for quality assurance testing on its highway construction projects. However, **SiteManager does not have sufficient controls to ensure that (1) only certified testers are able to enter and sign off on test records and (2) a tester does not also sign off as the reviewer.**

For 39 (23 percent) of 171 quality assurance samples tested, the tester and reviewer were the same individual. Department staff assert that, due to staff sizes and resource requirements, the Department is unable to ensure that each test is performed and signed off on by separate individuals. Not segregating these duties or allowing uncertified testers to complete test records may result in insufficient quality assurance testing or deficiencies in projects that cost the Department time and money to correct.

Additionally, **Department staff can turn off the "sample deficiency indicator" in SiteManager without documenting a justification in SiteManager**. Staff had turned off this indicator for 3 (8 percent) of 40 projects tested. The Department provided auditors with justification for turning off the indicator for these three projects, but this information was not included in SiteManager and Department management was not monitoring this information. The indicator tracks deficiencies in quality assurance testing and notifies project management each time an estimate is created in SiteManager when sample testing deficiencies exist. The indicator also prevents final payment to contractors if there are any testing deficiencies outstanding on a project. When the indicator is turned off for a project, SiteManager no longer tracks deficiencies in sample testing for that project.

Quality Assurance Program

Title 23, Code of Federal Regulations (CFR), Chapter 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 Title 23, CFR 637, Chapter 207, and be approved by the [Federal Highway Administration] FHWA." Additionally, Title 23, CFR 637, Chapter 209, requires that only qualified personnel conduct sampling and testing to be used in the acceptance decision.

The Department did not always comply with the quality assurance program approved by the FHWA. Specifically:

- **Quality assurance tests for 1 (3 percent) of 40 projects tested did not comply with the requirements for each type of material as specified in the Department's *Guide Schedule for Sampling and Testing*.** This quality assurance test included a blank test documented in SiteManager and a project in SiteManager for which the required test could not be found.

- **Quality assurance tests for 6 (15 percent) of 40 projects tested were conducted by an individual who was not a certified tester.**

Additionally**, documentation for 15 (9 percent) of 171 quality assurance samples tested was not located in SiteManager**. The Department's district offices rely on SiteManager to document the results of material sampling and testing. However, district offices did not consistently retain documentation of the testing information after entering data into SiteManager. District offices still use manual methods, in conjunction with SiteManager, to document quality assurance testing, and sometimes the manually documented tests are not entered into SiteManager. Not documenting all tests in SiteManager may result in insufficient quality assurance testing.

Recommendations:

The Department should:

- Continue implementing statewide procedures to ensure consistency in the use of SiteManager, including prohibiting the use of blank tests.
- Implement controls in SiteManager to ensure that there is appropriate segregation of duties between personnel conducting sample testing and personnel reviewing sample testing.
- Implement controls in SiteManager to ensure that certified testers complete sampling tests.
- Evaluate the process for turning off the sample deficiency indicator in SiteManager to ensure that staff consistently document a justification and the appropriate authorization.

Management Response and Corrective Action Plan:

The department concurs with the recommendations and will:

- *Implement policy or system changes to require the approval of at least two different individuals for test samples.*
- *Implement policy or system changes to require the entry of the name of the certified tester performing the test along with the effective and expiration dates of their certification.*
- *Implement policy or system changes to require justification for turning off the sample indicator. Authorization for this function is currently limited to the District Director of Construction and their staff and the department believes this is the appropriate level of authority.*

Implementation Date: *December 2011*

Responsible Person: *Russel Lenz*

Reference No. 11-147

Procurement and Suspension and Debarment

CFDA 20.106 - Airport Improvement Program
Award year - September 1, 2009 to August 31, 2010
Award numbers - 3-48-SBGP-46-2008, 3-48-SBGP-41-2007, 3-48-SBGP-45-2007, 3-48-SBGP-36-2006, 3-48-SBGP-37-2006, 3-48-SBGP-54-2009
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Transportation - Federal Aviation Administration

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all non-procurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.210 and 180.220).

For 7 (18 percent) of 40 procurements tested, the Department of Transportation (Department) did not verify that the vendor or contractor was not suspended or debarred from federal procurements. These seven procurements were design contracts, and the Department's standard contract template for design/engineer/consultant contracts did not include a clause for vendor certification of suspension and debarment status.

In 2009, the Department redesigned its standard contract template to include a suspension and debarment clause. However, the Department did not verify that vendors or contractors on its pre-existing design/ engineer/consultants contracts were not suspended or debarred. Contracts for the seven procurements noted above were issued prior to the redesign of the contract template. Auditors reviewed the EPLS and verified that the vendors for the seven procurements were not currently suspended or debarred. The value of the seven contracts totaled $1,270,115.

When the Department does not verify that contractors are not suspended or debarred, this increases the risk that it will enter into an agreement with an entity that is not eligible for federal procurements.

Recommendation:

The Department should verify and document that all vendors or contractors on active design/engineer/ consultant contracts issued prior to the redesign of the contract template are not suspended or debarred from federal procurement.

Management Response and Corrective Action Plan:

On January 25, 2011, a report from the Excluded Parties List System was run for all Texas contractors that would include any entity the Aviation Division may have contracted for services. The report was reviewed and there were no vendors or contractors that had contracted with the Aviation Division on the debarment list.

Implementation Date: *January 2011*

Responsible Person: *David Fulton*

Reference No. 11-148

Reporting

(Prior Audit Issues 10-90 and 09-77)

CFDA 20.106 - Airport Improvement Program
CFDA 20.106 - Airport Improvement Program - ARRA
Award year - September 1, 2009 to August 31, 2010
Award number - 3-48-SBGP-39-2005, 3-48-SBGP-058-2009 (ARRA), 3-48-SBGP-059-2009 (ARRA), 3-48-SBGP-060-2009 (ARRA), 3-48-SBGP-061-2009 (ARRA), 3-48-SBGP-062-2009 (ARRA), 3-48-SBGP-063-2009 (ARRA),
Type of finding - Significant Deficiency and Non-Compliance

Standard Form 272 and 425 Reports

Questioned Cost: $ 0

U.S Department of Transportation - Federal Aviation Administration

The Federal Aviation Administration's (FAA) *Airport Improvement Program Handbook* (Handbook) and Program Guidance Letters (PGL) provide specific guidance for the administration of Airport Improvement Program block grants. According to this guidance, prior to October 1, 2009, grantees were required to submit the Standard Form 272 (SF-272) quarterly for each block grant and submit a final SF-272 when grants were completed (Handbook, Sections 1301 and 1314(a), and PGL 05-02). Effective October 1, 2009, the FAA replaced the SF-272 report with the SF-425 report (PGL 10-01).

One (13 percent) of 8 reports tested was not adequately supported by data in the Department of Transportation's (Department) accounting system. The Department did not include one of its draws in the reported amounts. While Department management reviewed this report prior to submission, this review was not sufficient to detect the omission. As a result, the Department understated its cash draws by $161,482. The Department corrected this error when auditors brought it to the Department's attention.

The Department transitioned to the SF-425 report in October 2009 as required by the FAA. Auditors did not identify any exceptions in SF-425 reports tested for fiscal year 2010.

Recovery Act Section 1512 Reports

Section 1512 of the American Recovery and Reinvestment Act (Recovery Act) requires that recipients submit quarterly reports to the federal government. Information required to be submitted includes (1) the amount of Recovery Act funds received; (2) the amount of Recovery Act funds received that were expended; (3) a detailed list of all projects or activities for which Recovery Act funds were expended; (4) an estimate of the number of jobs created or retained; and (5) detailed information on any subcontracts or subgrants awarded by the recipient, including the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282) (Recovery Act Section 1512(c)).

For each of the six Recovery Act reports the Department submitted for the period ending June 30, 2010, the Department listed the airports to which it passed funding as subrecipients. However, in September 2010, the Department determined that those airports were not subrecipients, and it reclassified the expenditures associated with those airports as direct expenditures. It did not submit corrected reports to the FAA.

Quarterly reports are submitted to the federal government to comply with Recovery Act Section 1512 reporting requirements and provide transparency regarding Recovery Act funds spent. Failure to make necessary corrections decreases the reliability of the information intended for the federal government and the general public.

Recommendations:

The Department should:

- Ensure that the financial reports it submits are accurate and supported by data in its accounting system.
- Ensure that it properly classifies entities on its Recovery Act Section 1512 reports.

Management Response and Corrective Action Plan:

Action Plan for SF 425 finding (first bullet above):

The SF 272 report that included the cash draw that was inadvertently omitted was completed before implementation of the new procedures instituted as a result of the previous 2009 audit. As a result of SAO Report 10-339, Reference No. 10-90, the corrective action taken was the development of a report from the Finance Division (FIN) that listed all draws within FIMS. This ensured that no draws were omitted from the reports. That FIN report was developed in January 2010 and is utilized today. This audit finding was for a SF 272 completed prior to January 2010 and even before conversion to the SF 425. The report from FIN is utilized today, as it has been since January 2010, and thus, is the corrective action needed for this audit finding.

Implementation Date: *January 2010*

Action Plan for Recovery Act Section 1512 Reports (second bullet above):

At the time the June 2010 ARRA 1512 reports were submitted, TxDOT was classifying airport grantees as subrecipients so the reports were and are correct for that time period. The 1512 report cannot be corrected because the federal reporting system does not allow changes and modifications to those previous reporting periods. Following initial entry, there is a very short time period for corrections but that is for only days. TxDOT is not able to modify the reports to show for the June 2010 time frame that grantees were vendors because they were considered subrecipients in June and the federal reporting system does not allow changes after submission.

Implementation Date: *Not applicable*

Responsible Person: *David Fulton*

Reference No. 11-149

Special Tests and Provisions - Revenue Diversion

CFDA 20.106 - Airport Improvement Program
Award year - September 1, 2009 to August 31, 2010
Award numbers - Multiple
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Transportation - Federal Aviation Administration

In February 2009, the Federal Aviation Administration (FAA) concurred on a policy for the Department of Transportation (Department) to monitor general aviation airport sponsors for revenue diversion. That policy requires the Department to monitor annual financial reports (AFR) and airport sponsor self-certification forms submitted by the airport sponsors. To monitor AFRs, the Department stated that it would (1) request copies of sponsor AFRs in the sponsor agreements, (2) review 25 percent of AFRs on a random basis, (3) notify the FAA if it identifies potential revenue diversion based on its AFR review, and (4) follow up as directed by the FAA. To monitor self-certification forms, the Department stated that it would (1) send self-certification forms to 25 percent of sponsors, (2) review returned forms, (3) notify the FAA if it identifies potential revenue diversion, and (4) follow up as directed by the FAA.

The Department did not consistently monitor its airport sponsors in accordance with its FAA-approved policy. Specifically, for 3 (9 percent) of 32 airport sponsors tested that were listed as submitting an AFR, the Department could not provide evidence that it received or reviewed the AFRs. For each of these three airport sponsors, the Department received an Office of Management and Budget Circular A-133 audit report or letter certifying that an A-133 audit was not required, but it did not receive an AFR.

The Department tracks its receipt and review of AFRs using a spreadsheet, but that spreadsheet contained errors. Specifically, for 3 (10 percent) of the 29 AFRs tested that the Department received, the Department did not document its review of the AFRs on the spreadsheet. As a result, **auditors could not verify whether the Department had reviewed 25 percent of AFRs as required by its monitoring policy.**

In addition, for 2 (15 percent) of the 13 airport sponsors tested, the Department did not review the self-certification forms because the airport sponsors did not return the forms the Department sent to them. While the Department's agreement may not specifically require receipt and review of the forms it sends out, it is reasonable to assume that this is the intent of the self-certification requirement. The Department also did not consistently use its monitoring spreadsheet to track its review of sponsor airport self-certification forms. Specifically, for 2 (18 percent) of the 11 self-certification forms tested that the Department received, the Department did not document its receipt and review of the forms in its monitoring spreadsheet. As a result, **auditors could not determine whether the Department reviewed self-certification forms from 25 percent of airport sponsors as required by its monitoring policy.**

Insufficient monitoring for revenue diversion poses a risk that airport sponsors could be diverting revenue from airport activities toward unallowable activities. By not reviewing information related to revenue diversion as required by its monitoring agreement with the FAA, the Department may be unable to detect revenue diversion and report it to the FAA as its agreement requires.

Recommendation:

The Department should develop and implement a documented process to receive, review, track, and follow up on AFRs and self-certification forms that it requires airport sponsors to submit.

Management Response and Corrective Action Plan:

Revenue diversion for general aviation airports has historically been rare at best. By nature of their operation, it is unfortunately rare that a general aviation airport generates sufficient revenue to fully fund their operations. Only commercial service airports that receive their funding directly from the Federal Aviation Administration historically generate revenue greater than operations costs, thus providing a risk for revenue diversion at that level of airport. In most all instances, local governments that own general aviation airports must provide other revenue sources to fund their airport. Therefore revenue diversion for general aviation airports has not been a concern for or has been identified as a risk by the Federal Aviation Administration. Regardless, TxDOT has performed the services for these issues in the same manner as the Federal Aviation Administration does for the grants they manage themselves for commercial service airports. However, we do agree that existing documentation does not fully show actions taken. While the appropriate actions are taken for receipt, review, tracking and follow-up, the current spreadsheet does not necessarily reflect those actions. The tracking spreadsheet will be modified to add appropriate areas to show dates for the above listed monitoring actions.

Implementation Date: *March 2011*

Responsible Person: *David Fulton*

University of Houston

Reference No. 11-150
Cash Management
Activities Allowed or Unallowed
Eligibility
Period of Availability of Federal Funds
Special Tests and Provisions - Separate Funds
Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094166, CFDA84.033 P033A084166 and P033A094166, CFDA 84.063 P063P072333 and P063P092333, CFDA 84.268 P268K102333, CFDA 84.375 P375A092333, CFDA 84.376 P376S092333, and CFDA 84.379 P379T102333
Type of finding - Significant Deficiency

Cash Management

Questioned Cost: $ 0

U.S. Department of Education

The U.S. Department of Education provides financial assistance funds to institutions under the advance, just-in-time, reimbursement, or cash monitoring payment methods. The advance payment method permits institutions to draw down financial assistance funds prior to disbursing funds to eligible students and parents. The institution's request for funds must not exceed the amount immediately needed to disburse funds to students or parents. A disbursement of funds occurs on the date an institution credits a student's account or pays a student or parent directly with either student financial assistance funds or its own funds. The institution must make the disbursements as soon as administratively feasible, but no later than three business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to the U.S. Department of Education. If an institution maintains excess cash for more than seven calendar days, the Secretary of the U.S. Department of Education may take actions such as requiring the institution to reimburse the Secretary for the costs incurred, or providing funds to the institution under the reimbursement payment method or the cash monitoring payment method described in Title 34, Code of Federal Regulations, Section 668.166.

For 2 (4 percent) of 50 cash draws tested, the University of Houston's (University) request exceeded the amount it immediately needed to disburse funds to students for the specific awards tested. In addition, for 1 (2 percent) of 50 draws tested, the adjustment the University requested from the U.S. Department of Education was not supported by disbursements for the specific award tested. For these draws, the University requested payments or adjustments in the federal system for the incorrect federal award numbers, although supporting documentation of related disbursements reflected the correct award numbers. All draws tested had evidence of University review and approval, however this control did not prevent the errors identified. The University subsequently identified and corrected all errors prior to auditors' testing. These errors did not cause the University's cumulative draws to exceed expenditures when aggregating all federal awards.

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, eligibility, period of availability of federal funds, special tests and provisions - separate funds, and special tests and provisions - disbursements to or on behalf of students, auditors identified no compliance issues regarding these compliance requirements.

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 did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system. The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Ensure that its drawdowns of Title IV funds reflect the award numbers for which it disbursed funds to students.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan: -

Cash Management

Research Accounting will continue to utilize reconciliation and review procedures to help ensure the accuracy of all cash draws, including identification and correction of errors. We have informed our Research Accounting personnel of the importance of their responsibilities for adequately reviewing the support for all such transactions.

Implementation Date: *January 2011*

Responsible Person: *Karin Livingston*

General Controls:

We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.

Implementation Date: *June 10, 2010*

Responsible Persons: *Katina McGhee and Keith Martin*

Reference No. 11-151

Reporting

(Prior Audit Issues 10-94 and 09-83)

Student Financial Assistance Cluster
Award year- July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A094166, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P092333, CFDA 84.268 P268K102333, CFDA 84.375 P375A092333, CFDA 84.376 P376S092333, and CFDA 84.379 P379T102333
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 U.S. Department of Education's 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, Part 5, Student Financial Assistance Cluster, III.L.1.f (page 5-3-19)). 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 5-3-30)).

For 6 (12 percent) of 50 students tested, the University of Houston (University) did not report the Pell disbursement to the COD System within 30 days of disbursement. These disbursements occurred on or between August 24, 2009, and September 16, 2009. The University did not submit a batch file to the COD System for these dates. The University discovered the oversight and submitted the disbursements to the COD System on October 20, 2009 or October 21, 2009.

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 did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system. The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Submit Pell disbursement reports to the COD System within the required 30-day time frame.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

Pell Reporting:

We have updated our policies and procedures to report Pell disbursements in a timely manner in accordance with Federal regulation. The actual disbursement date will be reported to the COD system. We are in the process of hiring additional staff to ensure that we process and report Pell in accordance with Federal regulations and requirements.

Implementation Date: *August 2010*

Responsible Person: *Izzy Anderson*

General Controls:

We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.

Implementation Date: *June 10, 2010*

Responsible Persons: *KatinaMcGhee and Keith Martin*

Reference No. 11-152

Special Tests and Provisions - Verification

(Prior Audit Issue - 10-95)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A094166, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P092333, CFDA 84.268 P268K102333, CFDA 84.375 P375A092333, CFDA 84.376 P376S092333, and CFDA 84.379 P379T102333
Type of finding - Significant Deficiency and Non-Compliance

Verification

Questioned Cost: $ 0

U.S. Department of Education

An institution shall require each applicant whose Free Application for Federal Student Aid (FAFSA) is selected for verification on the basis of edits specified by the Secretary of the U.S. Department of Education to verify all of the applicable items, which include household size; number of household members who are in college; adjusted gross income (AGI); U.S. income tax 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 Houston (University) did not verify all required information on selected FASFAs in accordance with federal regulations. For 3 (6 percent) of 50 students tested, the University did not correctly update its records and the *Institutional Student Information Record* (ISIR). Specifically:

- For 1 student tested, the University did not correctly update its records and the ISIR to reflect information on the household members enrolled at least half-time in college; however, the student's eligibility was not affected by this error.
- For 1 student tested, the University did not correctly update its records and the ISIR to reflect information on the parent's untaxed income and benefits. Auditors could not determine whether the student's financial assistance was affected because the University stated it no longer had the ability to make corrections to the student's financial assistance.
- For 1 student tested, the University did not correctly update its records and the ISIR to reflect information on the student's adjusted gross income; however, the student's eligibility was not affected by this error.

The University does not have an adequate process to monitor verification. Without an adequate process to detect non-compliance and take appropriate and timely action to address issues, the University risks over awarding financial assistance.

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 did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system. The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Implement controls to correctly update its records and ISIR after verifying FAFSA information.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

Verification:

We have updated our policies and procedures to correctly update records requiring verification of FAFSA information. We have hired and trained additional staff within the quality control unit for improving quality and accuracy of data by monitoring verifications to eliminate risk of errors.

Implementation Date: *December 2010*

Responsible Person: *Candida DuBose*

General Controls:

We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.

Implementation Date: *June 10, 2010*

Responsible Persons: *Katina McGhee/Keith Martin*

Reference No. 11-153

Special Tests and Provisions - Return of Title IV Funds

(Prior Audit Issues 10-97 and 09-86)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094166, CFDA 84.032 Award Number Not Applicable, CFDA 84.063 P063P092333, CFDA 84.268 P268K102333, CFDA 84.375 P375A092333, CFDA 84.376 P376S092333, and CFDA 84.379 P379T102333
Type of finding - Significant Deficiency and Non-Compliance

Return of Title IV Funds

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, Section 668.22(a)(1)). If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student 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 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 9 (18 percent) of 50 students tested, the University of Houston (University) did not return the correct amount of Title IV funds. Specifically:

- For eight students, the University erroneously used nine days instead of eight days for Spring break in its computation of the enrollment period.
- For one student, the University used an incorrect withdrawal date in its return calculation, resulting in an incorrect determination that it did not need to return any funds. Based on the correct withdrawal date, the University should have returned $1,307.

As a result of these nine errors, the University and the affected students returned $1,212 more in Title IV funds than was required. The Spring break calculation error affected all 104 students with an official withdrawal that required a return of funds in Spring 2010.

Additionally, the University did not consistently return Title IV funds in a timely manner. Specifically:

- For all 28 unofficial withdrawals tested, the University did not determine the withdrawal date within 30 days of the end of enrollment period as required. The University explained that it delayed running the query it uses to identify unofficial withdrawals after the end of the term until all student grades were posted. One of the colleges within the University posts grades significantly later than other colleges. The University has revised its procedures to account separately for the grading policy of this college in its query for unofficial withdrawals.
- For 2 (6 percent) of 36 students tested for whom the University was required to return Title IV funds, the funds were not returned within 45 days after the date the University determined that the students withdrew.

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 did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system. The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Implement controls to ensure that it completes returns of Title IV funds in a timely manner and in accordance with federal regulations.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

Return of Title IV Funds:

We have reviewed all records for the 2009-2010 award year to identify all students for whom return of Title IV funds were required. Policies and Procedures for all Return of Title IV withdrawals have been updated to require that all official withdrawals will be reviewed weekly and funds will be returned (where necessary) within 21 business days. For unofficial withdrawals, returns will be processed within three weeks of the end of the enrollment period. This is to ensure the returns are within the required timeframe as set by the federal guidelines. We have reviewed our policies and procedures to address the federal requirements, regulations and timeliness.

Implementation Date: *August 2010*

Responsible Person: *Candida DuBose*

General Controls:

We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.

Implementation Date: *June 10, 2010*

Responsible Persons: *Katina McGhee*
Keith Martin

Reference No. 11-154

Special Tests and Provisions - Student Status Changes

(Prior Audit Issues 10-98, 09-87, 08-74 and 07-58)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A094166, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P092333, CFDA 84.268 P268K102333, CFDA 84.375 P375A092333, CFDA 84.376 P376S092333, and CFDA 84.379 P379T102333
Type of finding - Significant Deficiency and Non-Compliance

Student Status Changes

Questioned Cost: $ 0

U.S. Department of Education

Unless an institution expects to submit its next student status confirmation report to 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, 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 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 1.3.3.1).

For 4 (8 percent) of 50 student status changes tested, the University did not report the status change to NSLDS. For an additional 8 student status changes tested, the University did not report the status change to NSLDS within the required 60-day time frame. For 7 of these 8 status changes, the University reported an incorrect effective date to NSLDS. All of the students affected either officially or unofficially withdrew from the University.

The University does not have an adequate process to report enrollment status to NSLDS for withdrawn students. Specifically, the University did not follow its written procedures for reporting students who unofficially withdrew. In addition, the University believes there may be an error in the programming logic used to extract and report students who officially withdrew from the University. Without an adequate process to ensure accurate and timely reporting, the University is not able to detect non-compliance and take appropriate and timely action to address issues. Inaccurate and delayed information affects determinations made by lenders, servicers of student loans related to in-school status, deferments, grace periods, and repayment schedules, as well as the federal government's payment of interest subsidies.

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 did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system. The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Report all student status changes accurately to NSLDS within the required time period.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

Student Status Changes:

We have implemented procedures to ensure that student status changes are identified and reported to NSLDS and the lender / guarantors within the required time period. As a quality control, the Office of Scholarships and Financial Aid will report an enrollment change to NSLDS for any student receiving Title IV aid and who has officially withdrawn from the University. Additional measures have been implemented to ensure more accurate and timely reporting to NSLDS.

Implementation Date: *December 2010*

Responsible Persons: *Debbie Hermann and Jessica Thomas*

We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.

Implementation Date: *June 10, 2010*

Responsible Persons: *Katina McGhee and Keith Martin*

Reference No. 11-155

Special Tests and Provisions - Borrower Data Transmission and Reconciliation (Direct Loan)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A094166, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P092333, CFDA 84.268 P268K102333, CFDA 84.375 P375A092333, CFDA 84.376 P376S092333, and CFDA 84.379 P379T102333
Type of finding - Significant Deficiency and Non-Compliance

Direct Loan Reporting

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). Each month, the COD System provides institutions with a School Account Statement (SAS) data file that consists of cash summary, cash detail, and (optional at the request of the institution) 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, Code of Federal Regulations, Sections 685.102(b), 685.301, and 685.303).

For 4 (8 percent) of 50 students tested, the University of Houston (University) reported an incorrect disbursement date to the COD System. In all four cases, the errors were a result of the University reporting an anticipated date to the COD System, rather than an actual date.

Additionally, for 3 (6 percent) of 50 students tested, the University did not report the disbursement to the COD System within 30 days of the disbursement. It reported one disbursement to the COD System as a pending disbursement, and it did not correct that until it made a manual correction 78 days later. For the other two disbursements, the delay was a result of a University oversight in submitting the disbursement record.

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 did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system. The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Report actual disbursements dates to the COD System and report Direct loan disbursement records within the required time frames.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

Direct Loan Reporting:

We have updated policies and procedures to report direct loan disbursements in a timely manner in accordance with Federal regulation. The actual disbursement date will be reported to the COD system. The loan unit has also hired additional staff to ensure the University processes and reports direct loans to the COD system in accordance with Federal regulations and requirements.

Implementation Date: *January 2011*

Responsible Person: *Lear Hickman*

General Controls:

We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.

Implementation Date: *June 10, 2010*

Responsible Persons: *Katina McGhee and Keith Martin*

Reference No. 11-156

Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Procurement and Suspension and Debarment

Research and Development Cluster
Research and Development Cluster - ARRA
Award years - September 1, 2009 to August 31, 2010, August 1, 2009 to July 31, 2010, August 1, 2009 to July 31, 2010, October 1, 2009 to September 30, 2010, and September 1, 2009 to August 31, 2010
Award numbers - CFDA 47.070 IIS-0712941, CFDA 84.305 R305A050056, CFDA 93.701 1 R01 EY018165-01A1 (ARRA), CFDA 84.359 2472, and CFDA 93.701 3R01EY013175-07S2 (ARRA)
Type of finding - Significant Deficiency and Non-Compliance

Limited Competition

Title 2, Code of Federal Regulations (CFR), Section 215, establishes uniform administrative requirements for federal grants and agreements awarded to institutions of higher education. Title 2, CFR, Section 215.46, requires that procurement records and files include the following at a minimum: (1) basis for contractor selection; (2) justification for lack of competition when competitive bids or offers are not obtained; and (3) basis for award cost or price.

Questioned Cost: $ 30,000

National Science Foundation
U.S. Department of Education
National Eye Institute

For 1 (2 percent) of 48 procurements with limited competition that auditors tested, the University of Houston (University) did not document an adequate basis for contractor selection. The University filled out and retained a sole source justification form, but that form stated that the reason for limited competition was that the contract was competitively bid at the principal investigator's (PI) previous institution. The University did not obtain documents from the PI's previous institution supporting the PI's assertion. The University paid $30,000 to the contractor. This award was from the National Science Foundation.

Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, CFR, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all nonprocurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Sections 180.220 and 180.970).

For 4 (15 percent) of 26 covered transactions that auditors tested, the University did not verify that the vendor was not suspended or debarred from federal procurements. Auditors reviewed the EPLS and determined that none of the four vendors was suspended or debarred from federal procurements. For two of these transactions, the University did not perform the verification because the department that prepared the procurements had not established suspension and debarment procedures for federally funded procurements. For the other two transactions, the University did not perform the verification because it had not established suspension and debarment verification procedures for procurements made with American Recovery and Reinvestment Act (Recovery Act) funds. The lack of suspension and debarment procedures affected all four procurements made with Recovery Act funds during the fiscal year for which the University was required to verify suspension and debarment status.

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, allowable costs/cost principles, cash management, and period of availability of federal funds, auditors identified no compliance issues regarding these compliance requirements.

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 did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system. The University of Houston System (System) is responsible for granting access to that system. **A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users.** The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Obtain and retain all documentation required to provide an adequate basis for contractor selection.
- Establish procedures for all departments that prepare federally funded procurements to ensure that, when the University enters into a covered transaction, the University verifies that the entity is not suspended or debarred or otherwise excluded from federal contracts.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

Limited Competition

The Controller will modify the University of Houston procurement policy for all purchases over $5,000, including purchases for grants transferred from other institutions, to require that documentation be obtained and retained that substantiates (a) basis for contractor selection; (b) justification for lack of competition when competitive bids or offers are not obtained; and (c) basis for award cost or price.

Implementation Date: *March 1, 2011*

Responsible Person: *Mike Glisson*

Suspension and Debarment

The Division of Research will implement procedures to verify that prospective subrecipients to a federal grant are not suspended, debarred, or otherwise excluded from federal contracts, regardless of the dollar amount of the subrecipient award. In addition, the Controller will modify the University of Houston procurement policy to require verification that a prospective vendor/contractor that will be paid in part with federal funds for a procurement contract that is expected to equal or exceed $25,000 is not suspended, debarred, or otherwise excluded from federal contracts.

Implementation Date: *March 1, 2011*

Responsible Persons: *Beverly Rymer and Mike Glisson*

General Controls

We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.

Implementation Date: *June 20, 2010*

Responsible Persons: *Katina McGhee and Keith Martin*

Reference No. 11-157

Special Tests and Provisions - R3 - Subrecipient Monitoring

Research and Development Cluster - ARRA
Award years - September 24, 2009 to August 31, 2010 and July 1, 2009 to June 30, 2010
Award numbers - CFDA 93.701 5 RC1 RR028465-02 (ARRA) and CFDA 47.082 MCB-0920463 (ARRA)
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Health and Human Services
National Science Foundation

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) agree to maintain records that identify adequately the source and application of Recovery Act awards; (2) separately identify to each subrecipient, and document at the time of the disbursement of funds, the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and the amount of Recovery Act funds; and (3) provide identification of Recovery Act awards in their Schedule of Expenditures of Federal Awards (SEFA). This information is needed to allow the recipient to properly monitor subrecipient expenditures of Recovery Act funds and for oversight by the federal awarding agencies, offices of inspector general, and the Government Accountability Office (Title 2, Code of Federal Regulations, Section 176.210).

The University of Houston (University) did not identify Recovery Act information to 2 (100 percent) of 2 subrecipients at the time of the disbursement of funds, and it does not have a procedure to do so.

For fiscal year 2010, this affected subaward expenditures totaling $79,299. Failure to notify subrecipients about Recovery Act information at the time of disbursement may result in inaccurate reporting of Recovery Act funds by subrecipients.

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 did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system. The University of Houston System (System) is responsible for granting access to that system**. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users.** The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Develop a procedure to inform subrecipients of required Recovery Act information at the time it disburses funds to the subrecipients.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

The Division of Research will institute procedures to notify subrecipients via e-mail of the federal award number, Catalog of Federal Domestic Assistance number, and amount of American Recovery and Reinvestment Act funds disbursed at the time of disbursement to subrecipients.

Implementation Date: *February 1, 2011*

Responsible Person: *Beverly Rymer*

General controls

We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.

Implementation Date: *June 10, 2010*

Responsible Persons: *Katina McGhee and Keith Martin*

University of Houston - Downtown

Reference No. 11-158

Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2009 through June 30, 2010
Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.007 P007A094118, CFDA 84.033 P033A094118, CFDA 84.063 P063P20092306, CFDA 84.375 P375A20092306, and CFDA 84.376 P376S20092306
Type of finding - Significant Deficiency

Cost of Attendance

Questioned Cost: $ 0

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). 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).

The University of Houston – Downtown's (University) written COA budget does not detail adjustments necessary to determine tuition and fees for part-time students in the Fall and Spring semesters. Furthermore, the University was not able to provide documentation of how it calculated adjustments it made in PowerFAIDS to part-time students' tuition and fees during packaging of student financial assistance. According to University personnel, the part-time budget adjustments within PowerFAIDS were based on tuition and fees from the 2008-2009 award year because information on 2009-2010 tuition and fees was not available at the time the University programmed PowerFAIDS. Because support for tuition and fees adjustments was not available and the written budget did not provide sufficient detail for part-time students, University personnel cannot be assured that PowerFAIDS budget adjustments for part-time students accurately reflect tuition and fees normally assessed part-time students.

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 did not maintain adequate segregation of duties within PowerFAIDS, its financial aid system. One information technology employee had administrative access to PowerFAIDS and the database and servers on which PowerFAIDS resides. Proper segregation of duties is required so that no employee has complete control of a business process. If an employee has administrative access to each component of a system (application, database, and servers), he or she could introduce unauthorized (errant or fraudulent) changes to the data or functionality of the production environment.

Recommendations:

The University should:

- Ensure the COA budgets within the financial aid application contain sufficient detail to verify COA for part-time students.
- Maintain appropriate segregation of duties in its financial aid application, database, and servers.

Management Response and Corrective Action Plan:

Cost of Attendance

To help ensure that the COA budgets within the financial aid application contain sufficient detail to verify COA for part-time students we will prepare a supporting spreadsheet for undergraduate students: full time (12 or more hours), three quarter time (9-11 hours), half-time time (6-8 hours), and less than half-time (less than 6 hours) and for graduate students: full time (9 or more hours), three quarter (7-8 hours) and half-time (5-6 hours) students. The University's official Tuition and Fee schedule will be maintained as an attachment.

Implementation Date: *May 31, 2011*

Responsible Person: *LaTasha Goudeau*

General Controls

The University is in the process of converting from PowerFaids to BANNER's financial aid application which will integrate financial aid with the BANNER student system. Within the BANNER environment there is a separation of duties and no one individual will have control of the business process. There is separation between application, database and servers. BANNER financial aid is expected to go live on February 28, 2011.

Implementation Date: *February 2011*

Responsible Person: *LaTasha Goudeau*

Reference No. 11-159

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.007 P007A094118, CFDA 84.033 P033A094118, CFDA 84.063 P063P20092306, CFDA 84.375 P375A20092306, and CFDA 84.376 P376S20092306
Type of finding - Significant Deficiency and Non-Compliance

Returning Funds to a Lender

Questioned Cost: $ 0

U.S. Department of Education

An institution must disburse loan funds within 3 business days of receipt if the lender provided the funds by electronic funds transfer (EFT) or master check, or 30 days if the lender provided the funds by check payable to the borrower or copayer to the borrower and the institution. 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 Federal Family Education Loan (FFEL) 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 3 (5 percent) of 58 FFEL disbursements tested, the University of Houston - Downtown (University) did not disburse the funds to students' accounts within 3 business days of receipt from the lender. The delays in disbursements were not the result of eligibility issues. The University's financial aid office posts the EFT to the students' account within PowerFAIDS. However, the University's cashier's office must release the funds in a separate system in order for the funds to disburse to the students' accounts. For these three disbursements, the University posted the EFT in PowerFAIDS within three business days. However, the University did not release the EFT in the separate system in a timely manner. As a result, the three disbursements were released within four, five, and eight business days after receipt. Delays in disbursement of loan funds could result in students not having funds when needed.

Financial Assistance History

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 eligibility determinations. 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).

For all three mid-year transfer students tested, the University could not provide evidence of financial assistance history review prior to disbursing financial aid. The University does not have a policy or procedure to ensure it verifies and documents financial assistance history of mid-year transfer students prior to aid disbursement. As a result, the University may award funds in excess of federal limits to a student who received financial assistance at another institution at the start of the award year.

Common Origination and Disbursement System Reporting

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's Common Origination and Disbursement (COD) System. 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. (OMB Compliance Supplement, A-133, Part 5, Student Financial Assistance Cluster III.N.3 (page 5-3-19)) 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 5-3-30)).

For all 36 Pell Grant disbursements tested, the actual date of the disbursement did not match the disbursement date the University reported to the COD System. PowerFAIDS creates an origination date when running the COD System reporting process and reports that origination date as the Pell disbursement date. Although, PowerFAIDS can report the actual amount disbursed, it cannot identify and report the corresponding disbursement date to the COD System. As a result, the U.S. Department of Education is not obtaining accurate Pell disbursement information during the award year.

Additionally, the University did not submit any Pell disbursement records to the COD System from April 19, 2010 to June 10, 2010. During this time, the University identified 7 students for whom it did not submit Pell disbursement records within the 30-day reporting requirement.

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 did not maintain adequate segregation of duties within PowerFAIDS, its financial aid system. One information technology employee had administrative access to PowerFAIDS and the database and servers on which PowerFAIDS resides. Proper segregation of duties is required so that no employee has complete control of a business process. If an employee has administrative access to each component of a system (application, database, and servers), he or she could introduce unauthorized (errant or fraudulent) changes to the data or functionality of the production environment

Recommendations:

The University should:

- Ensure that all departments complete the necessary steps to ensure that they disburse loan funds to students within three business days of receipt from the lender.
- Maintain documentation supporting its review of NSLDS financial assistance history for mid-year transfer students.
- Report actual disbursement dates to the COD System in a timely manner.
- Maintain appropriate segregation of duties in its financial aid application, database, and servers.

Management Response and Corrective Action Plan:

Returning Funds to a Lender

The conversion of PowerFaids to BANNER financial aid should help to ensure that funds are applied in a timely manner. However, since the University is now in the Federal Direct Loan program rather than the Federal Educational Loan Program (FELP) this should not be an issue since the University draws down Direct Loan funds from the U.S. Department of Education once a borrower's funds are applied to his/her account by the Business Office. We will communicate to the appropriate departments the audit findings related to the requirements to complete the steps necessary to help ensure that all funds are applied to a student's account in a timely manner.

Financial Assistance History

The University of Houston-Downtown concurs with this recommendation. The transfer file functionality was not part of PowerFaids and as result was not well done. BANNER incorporates this functionality and all mid-year transfer and first-time enrollees will be placed on the transfer file.

Common Origination and Disbursement Reporting

We concur that PowerFaids could not report the actual disbursement date to COD but defaulted to report date. The conversion from PowerFaids to Banner financial aid system should remedy this situation as BANNER has the ability to report the actual disbursement date.

The University was in error by not running Pell disbursement record during the period April 19, 2010 to June 10, 2010 and was the result of human error. In conjunction with the conversion from PowerFaids to BANNER financial aid system we will establish procedures to help ensure that actual disbursement dates are reported in a timely manner to COD.

General Controls

The University is in the process of converting from PowerFaids to BANNER's financial aid application which will integrate financial aid with the BANNER student system. Within the BANNER environment there is a separation of duties and no one individual will have control of the business process. There is separation between application, database and servers. BANNER financial aid is expected to go live on February 28, 2011.

Implementation Date: *February 2011*

Responsible Person: *Latasha Goudeau*

University of Houston - Victoria

Reference No. 11-160
Eligibility
Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.268 Award Number Not Applicable, CFDA 84.007 P007A04901, CFDA 84.063 P063P093632, CFDA 84.033 P033A094901, CFDA 84.376 P376S093632, and CFDA 84.379 P379T10632
Type of finding - Significant Deficiency and Non-Compliance

Financial Need

Questioned Cost: $ 49,708

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). 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 aid to ensure that total aid is not awarded in excess of the student's financial need (Title 34, Code of Federal Regulations, Sections 673.5, 673.6 and 682.603).

The University of Houston – Victoria (University) performed all initial COA budget calculations correctly. However, after student enrollment levels changed, **the University did not consistently revalidate the students' enrollment status to ensure it awarded students the correct amount of financial assistance. As a result, the University overawarded financial assistance to 2 (5 percent) of 40 students tested based on the COA in the University's PeopleSoft system.** Specifically:

- For one student, the University awarded direct unsubsidized loans in excess of the student's COA. This occurred due to changes in the student's enrollment level for the Spring 2010 semester. The University initially awarded the student financial assistance based on full-time enrollment. However, the student dropped to three-quarter time enrollment for the Spring 2010 semester prior to the disbursement of financial assistance. The University did not repackage the student's financial assistance to reflect the change in COA, which caused the student to be awarded $2,372 more than the student's COA.
- For the other student, the University initially awarded the student financial assistance based on three-quarter time enrollment, but the student dropped to half-time enrollment for the Spring 2010 semester prior to the disbursement of financial assistance. The University did not repackage the student's financial assistance, which could have resulted in an overaward of financial assistance. In this case, the student was not overawarded financial assistance because the student was co-enrolled at another institution during the Spring 2010 semester; however, the University did not have correct documentation in its system to reflect the student's co-enrollment status.

Based on a review of the entire population, as a result of not repackaging financial assistance awards prior to disbursement of financial assistance, the University overawarded a total of $49,708 in financial assistance to 22 students (including the student discussed above).

Special Tests and Provisions - Disbursements To or On Behalf of Students

Although the general control weaknesses described above apply to disbursements, auditors identified no compliance issues regarding disbursements for the student financial assistance cluster.

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 did not properly maintain high-profile user accounts in the security module of the PeopleSoft Enterprise Resource Planning (ERP) system. The University of Houston System (System) is responsible for granting access to that system. A total of 7 PeopleSoft administrator accounts and 145 other user accounts had the ability to manually create user accounts and assign roles to users. The ability to create user accounts and assign user roles should be very limited and should be provided only to users who need this ability as part of their job responsibilities. Allowing users inappropriate or excessive access to systems increases the risk of inappropriate changes to systems. After auditors brought this to the System's attention, it reduced the number of users with this access to 44.

Recommendations:

The University should:

- Adjust financial assistance awards when changes in students' enrollment status affect their COA.
- Periodically review user accounts with the ability to create user accounts, and assign appropriate user roles based on job responsibilities. The University should provide this ability only to a limited number of users.

Management Response and Corrective Action Plan:

Financial Need

The two students who were identified as having a cost of attendance overaward were resolved.

- *The student who was identified as being awarded an unsubsidized loan in excess of Cost of Attendance, subsequently submitted a Special Consideration Request which included a computer purchase and additional transportation expenses which occurred during the 2009-10 academic year. Our approval of the special consideration request did not require the University of Houston-Victoria to return the unsubsidized loan funds ($2,372) to the lender since the student was no longer in an overaward situation.*
- *The Office of Financial Aid obtained the Consortium Agreement Form and supporting documentation from the other student after identifying the student was co-enrolled. The student's electronic file in the system was updated to reflect the student's full-time status and full-time cost of attendance for the Spring 2010 semester.*

University of Houston PeopleSoft Project Office technical personnel made programming changes to the Custom Overaward Report in order to identify students who may have a federal financial need and/or a federal cost of attendance overaward. Testing was completed to insure that all students in both categories were included in the report prior to implementation of the change.

Implementation Date: *July 29, 2010*

Responsible Person: *Carolyn Mallory*

General Controls

We reviewed the listing of all individuals who had Administrator accounts and the ability to manually create accounts and assign roles to users within the PeopleSoft Enterprise Resource Planning system. We removed this access for all users that did not require this functionality in order to perform their job duties. We have implemented procedures to provide for a quarterly review of individuals with the ability to create and assign roles based on their job duties and responsibilities and will modify access accordingly.

Implementation Date: *June 10, 2010*

Responsible Persons: *Katina McGhee and Keith Martin*

University of North Texas

Reference No. 11-161

Cash Management

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094085 and CFDA 84.033 P033A094085
Type of finding - Significant Deficiency

Questioned Cost: $ 0

U.S. Department of Education

The U.S. Department of Education provides financial assistance funds to institutions under the advance, just-in-time, reimbursement, or cash monitoring payment methods. The advance payment method permits institutions to draw down financial assistance funds prior to disbursing funds to eligible students and parents. The institution's request for funds must not exceed the amount immediately needed to disburse funds to students or parents. A disbursement of funds occurs on the date an institution credits a student's account or pays a student or parent directly with either student financial assistance funds or its own funds. The institution must make the disbursements as soon as administratively feasible, but no later than three business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to the U.S. Department of Education. If an institution maintains excess cash for more than seven calendar days, the Secretary of the U.S. Department of Education may take actions such as requiring the institution to reimburse the Secretary for the costs incurred, or providing funds to the institution under the reimbursement payment method or the cash monitoring payment method described in Title 34, Code of Federal Regulations, Section 668.166.

For 2 (4 percent) of 50 cash draws tested, the University of North Texas's (University) request for funds was not supported by expenditures reflected on corresponding monthly reconciliations. As a result, for 1 (2 percent) of 50 cash draws tested, the University's request for funds exceeded the amount it immediately needed to disburse funds to students by $1,530 for one federal program tested. However, this did not result in an excess cash balance overall because excess expenditures had accumulated for other federal programs included in the same draw.

For federal programs other than the Direct Loan program, the University bases its draw amounts per federal program on expenditure reconciliation totals, after monthly reconciliations for the programs are complete. For one draw, the University completed the request for funds more than a month after it completed the reconciliation for the program, and the request omitted an expenditure decrease that was reflected on the subsequent monthly reconciliation. For the other draw, the University based its calculation of the draw amount on an incorrect assumption, which caused a discrepancy between the draw and the supporting monthly reconciliation. The University repeated the same error for draw calculations related to all 5 monthly reconciliations reviewed for this federal program from February 2010 to June 2010. Although the calculated draw amounts were based on excess program expenditures of $1,249, the University did not request excess funds for the program.

Recommendation:

The University should ensure that its cash draws for Title IV funds are adequately supported.

Management Response and Corrective Action Plan:

Management agrees with the findings and recommendations of the auditors. Management has implemented a review process to ensure that its cash draws are adequately supported.

Implementation Date: *April 2010*

Responsible Person: *Barbara MacDonald*

Reference No. 11-162

Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094085, CFDA 84.033 P033A094085, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P092293, CFDA 84.268 P268K102293, CFDA 84.375 P375A092293, CFDA 84.376 P376S092293, and CFDA 84.379 P379T102293
Type of finding - Significant Deficiency and Non-Compliance

Cost of Attendance (COA)

Questioned Cost: $ 0

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). 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." An 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and is computed by the federal central processor and included on the student's Institutional Student Information Record (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 (Title 34, Code of Federal Regulations, Sections 673.5, 673.6, 682.603, 668.2, and 690.2).

For 1 (2 percent) of 50 students tested, the University of North Texas (University) incorrectly calculated the COA. The University understated the student's budget by $634. This occurred because the University erroneously reduced the student's transportation budget when the student enrolled at three-quarter time in the Summer 2010 semester. The transportation component of the budget is not dependent on the enrollment status of the student, unless the student enrolls less-than-half-time. The University did not overaward student financial assistance to the student as a result of this error. However, the risk of overawarding or underawarding student financial assistance increases when the University does not calculate COA accurately.

National SMART Grant

Under the National Science and Mathematics Access to Retain Talent Grant (National SMART Grant) program, a student who meets certain eligibility requirements is also eligible to receive a National SMART Grant if the student is receiving a federal Pell Grant disbursement in the same award year (Title 34, Code of Federal Regulations, Section 691.15(a)).

Based on a review of the full population of student financial assistance recipients**, the University awarded one student a National SMART Grant for $1,000, even though it had canceled the student's Pell Grant** because the student was awarded Pell Grants at two institutions for the Spring 2010 semester. The University canceled the student's National SMART Grant on September 22, 2010, after auditors brought this issue to its attention.

Recommendations:

The University should:

- Complete manual updates to COA budgets accurately.
- Do not award and disburse National SMART Grants to students who do not also receive Pell Grant awards.

Management Response and Corrective Action Plan:

Management agrees with the findings and recommendations of the auditors. The manual error identified will be reviewed with the employee, and periodic review for the accuracy of the COA budgets that are set manually will occur.

Implementation Date: *February 2011*

Responsible Person: *Lacey Thompson*

Management agrees with the findings and recommendations of the auditors. The manual error identified will be reviewed with the employee, and periodic review for the accuracy of awarding National SMART Grants to students who also receive Pell Grant awards will occur.

Implementation Date: *January 2011*

Responsible Person: *Kirsten Lehrmann*

Reference No. 11-163

Reporting

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award number - CFDA 84.063 P063P082293
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 U.S. Department of Education's 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, June 2010, Part 5, Student Financial Assistance Cluster, III.L.1.f (page 5-3-19)). 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 5-3-30)).

For 2 (4 percent) of 50 students tested, the University of North Texas (University) did not report Pell disbursement records to the COD System within 30 days of disbursement for the Fall 2009 semester. In these two cases, the COD System process date for these students' records was 50 and 56 days after the date of disbursement. The University asserts that it attempted to submit these disbursement records in a timely manner, but the COD System rejected the records because the citizenship status field was blank. The University did not then manually adjust the citizenship status code field in its system and resubmit the records in a timely manner. The University asserts that, at the time of Fall 2009 disbursements, it was developing a process to respond to records that the COD System rejected due to a missing citizenship status code.

Recommendations:

The University should submit records to the COD System within the required 30-day time frame and resubmit records in a timely manner after the COD System rejects them.

Management Response and Corrective Action Plan:

Management agrees with the findings and recommendations of the auditors. Disbursement records will be submitted to the COD System within the 30 day timeframe after the disbursement of funds to be in compliance with federal regulations.

Implementation Date: *November 2010*

Responsible Person: *Barbara MacDonald*

Reference No. 11-164
Special Tests and Provisions - Return of Title IV Funds
(Prior Audit Issue 10-103)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094085, CFDA 84.063 P063P092293, CFDA 84.268 P268K102293, CFDA 84.375 P375A092293, CFDA 84.376 P376S092293, and CFDA 84.379 P379T102293
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 1,903

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, Section 668.22(a)(1)). If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student 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)(3)-(4)).

When a recipient does not begin attendance at an institution during a payment period or period of enrollment, all disbursed Title IV grant and loan funds must be returned. For remaining amounts of Direct Loan funds disbursed directly to the student for the payment period or period of enrollment, 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 of the U.S. Department of Education will issue a final demand letter to the borrower (Title 34, Code of Federal Regulations, Sections 668.21(a)(1) and(2)). The institution must return those Title IV funds as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance (Title 34, Code of Federal Regulations, Section 668.21(b)).

For five (11 percent) of 47 students requiring a return calculation, the University of North Texas (University) did not return the correct amount of Title IV funds. Specifically:

- For four students, the University incorrectly used seven days instead of eight days for Spring break in its computation of the enrollment period.
- For one student, the University incorrectly reinstated the financial aid that it had returned per its initial return calculation, based on instructors' confirmation that the student had begun attendance. However, instructors did not provide a last date of attendance supporting the assumption that the student had earned all of the Title IV funds.

As a result of these five errors, the University and the affected students tested should have returned an additional $1,903 in Title IV funds. The Spring break calculation issue also affected all 115 students with an official withdrawal that required a return of funds in Spring 2010.

For two other students tested, the University either could not locate the return worksheet or the return worksheet did not contain updated information on the student's status. In both instances, no Title IV funds needed to be returned.

Additionally, the University did not return $4,377 in Title IV funds in a timely manner for 1 (11 percent) of 9 students identified as not having begun attendance. The student certified non-attendance for the Spring 2010 semester on the initial withdrawal form faxed to the University in January 2010, but the University did not incorporate that information into its return calculation until May 2010. As a result, although the funds were returned, they were not returned within 30 days from the date the University first became aware that the student did not attend.

Recommendations:

The University should accurately calculate returns of Title IV funds and return these funds within the required time frames.

Management Response and Corrective Action Plan:

Management agrees with the findings and recommendations of the auditors. The university will take action to assure accurate calculations for the return of Title IV funds are enacted and that the return of these funds will fall within the required timeframe in order to meet federal regulations.

Implementation Date: *May 2010*

Responsible Person: *Barbara MacDonald*

University of Texas at Austin

Reference No. 11-165
Reporting
Activities Allowed or Unallowed
Cash Management
Eligibility
Period of Availability of Federal Funds
Special Tests and Provisions - Separate Funds
Special Tests and Provisions - Verification
Special Tests and Provisions - Return of Title IV Funds
Special Tests and Provisions - Student Status Changes
Special Tests and Provisions - Borrower Data Transmission and Reconciliation (Direct Loan)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.063 P063P092336, CFDA 84.007 P007A094173, CFDA 84.038 P038A044173, CFDA 84.268 P268K102336, CFDA 84.033 P033A094173, CFDA 84.375 P375A092336, and CFDA 84.376 P376S082336
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 U.S. Department of Education's 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, Part 5, Student Financial Assistance Cluster, III.L.1.f (page 5-3-19)). 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 5-3-30)).

For 2 (4 percent) of 50 students tested, the University of Texas at Austin (University) reported incorrect data to the COD System. For one student, the University reported the incorrect enrollment date on the origination record to the COD System. The University reported the student as enrolled one semester prior to the student beginning enrollment for the award year. For the other student, the University reported the incorrect disbursement date on the disbursement record to the COD System. According to the University, it reported the first date in the disbursement process instead of the date funds became available to the student.

Other Compliance Requirements

Although the general control weakness described below applies to activities allowed or unallowed, cash management, eligibility, period of availability of federal funds, special tests and provisions - separate funds, special tests and provisions - verification, special tests and provisions - return of Title IV funds, special tests and provisions - student status changes, and special tests and provisions - borrower data transmission and reconciliation (direct loan), auditors identified no compliance issues regarding these compliance requirements.

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 did not have sufficient change management controls for the information systems that its Office of Accounting and Office of Student Financial Services use. Specifically, the Office of Accounting and Office of Student Financial Services have not segregated duties for personnel who make programming changes and migrate those changes to the production environment. This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer student financial assistance.

Recommendations:

The University should:

- Report accurate data on the origination and disbursement records to the COD System in accordance with federal requirements.
- Establish a formal change management process that prevents programmers in the Office of Accounting and Office of Student Financial Services from making code changes and also migrating those changes to the production environment.

Management Response and Corrective Action Plan:

The University concurs with the finding.

The Office of Student Financial Services (OSFS) has corrected the programming error used for reporting enrollment and disbursement dates to the COD System. The correction has been monitored and enrollment dates are now transmitting in compliance with federal regulations. The reporting of an incorrect disbursement date was a human error. Our IT and Accounting units have made process improvement changes to the program allowing automation of disbursement information reducing the need for human intervention, which will eliminate manual errors.

We agree with the principle that controls surrounding programmer access to alter and deploy software are necessary, and we are on schedule with a two year plan to enact enhanced change management controls. At present, all change requests within OSFS are logged and monitored through an incident and change management tool. Only select, senior members of the OSFS IT team are able to deploy code to production, and the office maintains logs that allow for post-deployment review.

The OSFS and Office of Accounting, in coordination with IT staff from across the university, have analyzed various tools and procedures necessary to segregate ditties for personnel who make programming changes from those who migrate those changes to the production environment. We are working with a software vendor and have implemented a pilot program, to be completed and evaluated by April 2011. At that time, the software will be deployed or we will institute a locally developed solution, which has been designed as a back-up process.

Implementation Dates:	*Reporting of Data - Implemented December 2010* *Change management - August 2011*
Responsible Persons:	*Reporting of Data - Gloria De Leon* *Change management - Graham Chapman*

Reference No. 11-166

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.063 P063P092336, CFDA 84.007 P007A094173, CFDA 84.038 P038A044173, CFDA 84.268 P268K102336, CFDA 84.033 P033A094173, CFDA 84.375 P375A092336, and CFDA 84.376 P376S082336
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 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. The notification can be sent in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

For 16 (42 percent) of 38 students tested who received FFELP Loans, the University of Texas at Austin (University) did not send disbursement notifications within the required 30 days. The University manually runs a program to send notifications to students for disbursements made on the first two days of disbursement for the Fall semester. This process allows the University to perform an internal review of disbursements prior to sending notifications. However, after the University completed this review, it failed to manually run the program to send the notifications for disbursements made on those dates. As a result, the University did not send disbursement notifications within the required time frame to 5,489 students who received disbursements on August 17, 2009 or August 18, 2009. The total amount of FFELP loans disbursed was $32,769,929. Not receiving disbursement notifications promptly could impair students' or parents' ability to cancel their loans.

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 did not have sufficient change management controls for the information systems that its Office of Accounting and Office of Student Financial Services use. Specifically, the Office of Accounting and Office of Student Financial Services have not segregated duties for personnel who make programming changes and migrate those changes to the production environment. This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer student financial assistance.

Recommendations:

The University should:

- Send disbursement notifications to loan recipients within 30 days before or after crediting a student's account with a FFELP Loan.
- Establish a formal change management process that prevents programmers in the Office of Accounting and Office of Student Financial Services from making code changes and also migrating those changes to the production environment.

Management Response and Corrective Action Plan:

The university concurs with the finding.

Currently, the disbursement notification is a manual procedure, which we failed to run after a review of the disbursement process. The Office of Student Financial Affairs (OSFS) will investigate automating the notification process and will establish controls to verify completion. Due to limited resources, we will evaluate the cost benefit of any automation as part of our investigation.

We agree with the principle that controls surrounding programmer access to alter and deploy software are necessary, and we are on schedule with a two year plan to enact enhanced change management controls. At present, all change requests within OSFS are logged and monitored through an incident and change management tool. Only select, senior members of the OSFS IT team are able to deploy code to production, and the office maintains logs that allow for post-deployment review.

The OSFS and Office of Accounting, in coordination with IT staff from across the university, have analyzed various tools and procedures necessary to segregate duties for personnel who make programming changes from those who migrate those changes to the production environment. We are working with a software vendor and have implemented a pilot program, to be completed and evaluated by April 2011. At that time, the software will be deployed or we will institute a locally developed solution, which has been designed as a back-tip process.

Implementation Dates: *Disbursement notification - December 2011*
Change management - August 2011

Responsible Persons: *Disbursement notification - Gloria De Leon*
Change management - Graham Chapman

Reference No. 11-167

Special Tests and Provisions - Student Loan Repayments

(Prior Audit Issues 10-116 and 09-91)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.063 P063P092336, CFDA 84.007 P007A094173, CFDA 84.038 P038A044173, CFDA 84.268 P268K102336, CFDA 84.033 P033A094173, CFDA 84.375 P375A092336, and CFDA 84.376 P376S082336
Type of finding - Significant Deficiency and Non-Compliance

Defaulted Borrowers

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(c)(2)).

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(b) and (c)).

For 28 (56 percent) of 50 defaulted loans tested, the University of Texas at Austin (University) did not send the final demand letter within 15 days of the second overdue notice. The University was unaware of the requirement to send final demand letters within this time frame. According to the University, this issue was corrected as of December 1, 2009; however, the University did not maintain documentation to support whether it sent students final demand letters until March 1, 2010. No issues were identified for students scheduled to receive final demand letters after March 1, 2010. Not sending this required communication within the required time frame increases the risk that students will be unaware that their defaulted Perkins loans will be sent to a collection agency and they will not have appropriate time to correct their balance and prevent their loans from going to a collection agency.

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 did not have sufficient change management controls for the information systems that its Office of Accounting and Office of Student Financial Services use. Specifically, the Office of Accounting and Office of Student Financial Services have not segregated duties for personnel who make programming changes and migrate those changes to the production environment. This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer student financial assistance.

Recommendations:

The University should:

- Send all required notices and letters to borrowers within the required time frames.
- Establish a formal change management process that prevents programmers in the Office of Accounting and Office of Student Financial Services from making code changes and also migrating those changes to the production environment.

Management Response and Corrective Action Plan:

The university concurs with the finding that all required notices and letters to borrowers should be sent within the required timeframes.

The final demand letters meeting the 15 day requirement were manually generated beginning in December 2009, when the university became aware of the requirement. However, we concur that we did not maintain programmatic proof that this was implemented until March 2010 when the process was automated in order to generate the letters, and maintain support, programmatically. In addition to meeting the federal requirements to protect and support our students, the university follows in-house collection procedures prior to sending loans to an external agency for collection. These procedures include sending additional warning letters at four and five months past due, allowing students additional time and notice prior to their loans being sent to a collection agency at six months past due.

We agree with the principle that controls surrounding programmer access to alter and deploy software are necessary, and we are on schedule with a two year plan to enact enhanced change management controls. At present, all change requests within the Office of Accounting (OA) are logged and monitored through an incident and change management tool. The office maintains deployment logs that allow for post-deployment review.

The Office of Student Financial Services and the Office of Accounting, in coordination with IT staff from across the university, have analyzed various tools and procedures necessary to segregate duties for personnel who make programming changes from those who migrate those changes to the production environment. We are working with a software vendor and have implemented a pilot program, to be completed and evaluated by April 2011. At that time, the software will be deployed or we will institute a locally developed solution, which has been designed as a back-tip process.

Implementation Dates:	*Notification letters - Implemented March 2010* *Change management - August 2011*
Responsible Persons:	*Notification letters - Karen Derouen* *Change management - Dana Cook*

Reference No. 11-168

Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Equipment and Real Property Management
Period of Availability of Federal Funds
Procurement and Suspension and Debarment
Reporting
Special Tests and Provisions - Awards with ARRA Funding
Special Tests and Provisions - Key Personnel
Special Tests and Provisions - Indirect Cost Limitation

Research and Development Cluster
Research and Development Cluster - ARRA
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency and Non-Compliance

Allowable Costs/Cost Principles

Questioned Cost: $ 0

Federal Agencies that Provide R&D Awards

The costs of services provided by specialized service facilities operated by an institution are allowable if the costs of such services are charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that (1) does not discriminate against federally-supported activities of the institution, including usage by the institution for internal purposes, and (2) is designed to recover only the aggregate costs of the services. Service rates shall be adjusted at least biennially and shall take into consideration over/underapplied costs of the previous period(s) (Title 2, Code of Federal Regulations, Section 220 Appendix A, J.47). Working capital reserves are generally considered excessive when they exceed 60 days of cash expenses for normal operations incurred for the period, exclusive of depreciation, capital costs, and debt principal costs (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 3, Section B).

The University of Texas at Austin (University) did not ensure that the costs of services provided by specialized service facilities were designed to recover only the aggregate costs of the services. In addition, the University did not adjust service rates as required.

One (8 percent) of the 13 service centers auditors tested had working capital reserves that exceeded 60 days of cash expenses. During fiscal year 2010, the service center had annual operating expenses of $606,312 (or monthly expenses of $50,526) and a year-end fund balance of $686,275. **After excluding amounts set aside for future capital expenses, the service center had a remaining fund balance of $371,275, which is equivalent to over 7 months of its operating expenses**.

The University reviews fiscal year-end service center fund balances annually to (1) ensure that service center rates are appropriate to cover expenses and (2) identify service centers with excessive fund balances. Following the close of fiscal year 2009, the University determined that the service center discussed above had an excessive fund balance. The University began reviewing that service center's rates, but that review was not completed during this audit. **The University has not adjusted the rates for this service center rates since 2001.**

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, cash management, equipment and real property management, period of availability of federal funds, procurement and suspension and debarment, reporting, special tests and provisions – awards with ARRA funding, special tests and provisions – key personnel, and special tests and provisions – indirect cost limitation, auditors identified no compliance issues regarding these compliance requirements.

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 did not have sufficient change management controls for the information systems that its Office of Accounting uses. Specifically, the Office of Accounting has not segregated duties for personnel who make programming changes and migrate those changes to the production environment. This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer research and development awards.

Recommendations:

The University should:

- Establish a process to regularly review fund balances and adjust service center rates at least biannually.
- Establish a formal change management process that prevents programmers in the Office of Accounting from making code changes and also migrating those changes to the production environment.

Management Response and Corrective Action Plan:

While we review rates and working balances on a periodic basis, the University agrees the rate review was not completed in a timely manner. A final review of the proposal is near completion and service center rates and working capital balance have been deemed appropriate. Based on our review, federal awards have not been levied excessive charges and current rates will remain in effect.

We will review all service centers over the next seven months placing priority on the most material balances and/or operating volume to ensure none have excessive balances. By August 31, 2011, UT plans to have reviewed service centers comprising at least 60% of all cumulative balances for all service centers, ensured rates are appropriate and/or are adjusted to be appropriate, and that balances are in line with federal guidelines. We will also implement practices to recommend closures of service centers where volume of activity does not warrant the cost of operating the university service as a service center.

Implementation timelines are as follows:

- *Define high risk service center designation and service center closure recommendations – August 31, 2011*
- *Complete 60% of biennial reviews of service centers - August 31, 2011*

- *Complete the remaining 40% of biennial reviews of service centers - August 31, 2012*

We agree with the principle that controls surrounding programmer access to alter and deploy software are necessary, and we are on schedule with a two year plan to enact enhanced change management controls. At present, all change requests within Office of Accounting (OA) are logged and monitored through an incident and change management tool. Only select, senior members of the OA IT team are able to deploy code to production, and the office maintains logs that allow for post-deployment review.

The Office of Accounting and Office of Student Financial Services, in coordination with IT staff from across the university, have analyzed various tools and procedures necessary to segregate duties for personnel who make programming changes from those who migrate those changes to the production environment. We are working with a software vendor and have implemented a pilot program, to be completed and evaluated by April 2011. At that time, the software will be deployed or we will institute a locally developed solution, which has been designed as a back-up process.

Implementation Dates:	*Rate and service center reviews - August 2012* *Change management - August 2011*
Responsible Persons:	*Rate and service center reviews - Janie Kohl* *Change management - Dana Cook*

University of Texas at Brownsville

Reference No. 11-169
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Procurement and Suspension and Debarment
Special Tests and Provisions - Awards with ARRA Funding

Research and Development Cluster
Research and Development Cluster - ARRA
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency

Questioned Cost: $ 0

Federal Agencies that Provide R&D Awards

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 Brownsville (University) did not have sufficient controls over the change management process for custom changes to its Colleague Enterprise Resource Planning (ERP) system, which it uses to administer research and development grants. **Specifically, information technology and Colleague ERP support team members who make programming changes to the application code also can migrate those changes to the production environment.** In addition to the programming group manager, all six of the programming support team members for Colleague ERP had access to production systems. Allowing this level of access to programming staff increases the risk of unauthorized programming changes being made to Colleague ERP.

Recommendation:

The University should establish a formal change management process that prevents information technology and Colleague ERP programmers from making code changes and also migrating those changes to the production environment.

Management Response and Corrective Action Plan:

The Administrative Computing & ERP staff and the Information Security Officer will develop a formal process to:

1. *Accept user custom program change requests and requests for new programs using an automated system for change management. This will be a system whereby requests are documented and assigned to programmers.*
2. *A checklist of required steps/ tasks for software development will be completed and attached to each ticket to ensure that programmers, users and administrators have reviewed, tested and approved the system change.*
3. *Once a new program or program change has been completed, the open ticket will be assigned to the system team who does not perform programming for review and finalization of the documentation.*
4. *The systems team will perform the required installation (move) of the modified program to the LIVE environment for production.*
5. *The system team will close the ticket.*

Additionally, all software tools which allow access to programmers to install/ move modified programs or new programs to the LIVE environment will be disabled.

Change Management tickets will be available for review by management or audit personnel at any time.

Implementation Date: *May 2011*

Responsible Person: *Gustavo Barreda*

University of Texas at El Paso

Reference No. 11-170
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.007 P007A094176, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A94176, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P092338, CFDA 84.375 P375A092338, CFDA 84.376 P376S092338, and CFDA 84.379 P379T102338
Type of finding - Significant Deficiency and Non-Compliance

Cost of Attendance

Questioned Cost: $ 3,223

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). 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." An 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 (Title 34, Code of Federal Regulations, Sections 673.5, 673.6, and 682.603).

For 1 (2 percent) of 50 students tested, the University of Texas at El Paso (University) awarded assistance in excess of the student's COA. The University originally awarded assistance to the student based on expected full-time enrollment for the entire academic year. However, when the student enrolled only three-quarter time, the University updated the student's COA budget to reflect this enrollment level for the Fall semester only. Because the student's awards did not exceed the COA for the full year, the University did not adjust the student's awards. However, the student attended only the Fall semester. As a result, the University overawarded the student $879.

Aggregate Loan Limits

For independent students who have not already received an undergraduate degree, the aggregate unpaid principal amount of all subsidized and unsubsidized Stafford Loan Program loans, excluding the amount of capitalized interest, may not exceed $57,500 (Title 34, Code of Federal Regulations, Section 682.204(b)).

For 1 (2 percent) 50 students tested, the University awarded Stafford loans in excess of the aggregate loan limit. The University awarded the student loans for the Fall semester based on the most recent aggregate loan amounts on the student's ISIR; however, the ISIR did not include loans that were awarded late in the prior year's Summer term. When the University received an updated ISIR, which noted that the student exceeded the aggregate loan limit, the University incorrectly determined that the student was eligible for Stafford loans. As a result, the University awarded $1,344 in Stafford loans to the student, and that student's loans exceeded the aggregate limit. The prior year's award also exceeded the aggregate limit by $1,000.

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 did not maintain appropriate access to its financial aid application, Banner. Specifically, the University did not remove the access of one former employee to Banner in a timely manner. Additionally, 12 users had excessive access to modify student budgets and fund rules in Banner. Not maintaining appropriate access to Banner increases the risk of unauthorized access to key financial aid processes and student records.

Recommendations:

The University should:

- Update student awards when it adjusts COA budgets to prevent overawards.
- Review calculations of aggregate loan amounts for accuracy when it identifies a student as nearing or exceeding aggregate loan limits.
- Remove access to Banner in a timely manner when individuals' employment is terminated.
- Periodically review user access to Banner and appropriately limit user access based on job responsibilities.

Management Response and Corrective Action Plan:

Cost of Attendance

Awards are currently being adjusted based on COA reflecting the student's actual enrollment to prevent over awards. Reports are run off BANNER after census date to match what was reported on a student's ISIR (Institutional Student Information Report) and their actual enrollment.

Aggregate Loan Limits

We are reviewing ISIR's as soon as we receive them along with NSLDS (National Student Loan Data System) information to identify students possibly reaching their aggregate loan limits.

General Controls

In order to assure BANNER access is removed in a timely manner when an employee is terminated we have set up a more formal procedure. Upon separation/termination our administrative assistant will send a notice to our Help Desk requesting the removal of access.

In order to maintain appropriate access to BANNER, the number of users with access to modify student budgets and fund rules in BANNER has been reduced to members of the office's management team. Currently, only the Financial Aid Director, Associate Director, and Assistant Director (accounting) have access to modify budgets. Only the Associate Director and Financial Aid Analyst have access to modify d fund rules in BANNER. A periodical review of user access will be conducted during a staff member's annual performance evaluation.

Implementation Date: *October 2010*

Responsible Person: *Ron Williams*

Reference No. 11-171

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.379 P379T102338, CFDA 84.007 P007A094176, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A94176, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P092338, CFDA 84.375 P375A092338, and CFDA 84.376 P376S092338
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 Direct Loan, Federal Family Education Loan (FFEL), Federal Perkins Loan, or Teacher Education Assistance for College and Higher Education (TEACH) Grant Program 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 anticipated date and amount of the disbursement; (2) the student's right or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan or TEACH Grant proceeds returned to the Secretary of the U.S. Department of Education; and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement (Title 34, Code of Federal Regulations, Section 668.165).

The University of Texas at El Paso (University) sent disbursement notifications containing the anticipated date and amount of the disbursement to all 267 TEACH Grant recipients. However, **none of those disbursement notifications included required language** informing the recipients of (1) the student's right or parent's right to cancel all or a portion of that TEACH Grant or TEACH Grant disbursement or (2) the procedures and the time by which the student or parent must notify the institution that he or she wishes to cancel the grant. University staff assert that they informed TEACH Grant recipients of this information verbally and that they were unaware of the requirement to send such disbursement notifications in writing to TEACH Grant recipients.

Additionally, in two instances, the University did not initiate the disbursement notification letter generation process in time to ensure that it sent notifications within the required time frames. As a result, the University sent 37 disbursement notifications more than 30 days after the disbursement date.

Not sending disbursement notifications in a timely manner or not including all of the required information in the notifications could impair TEACH Grant recipients' ability to cancel their awards.

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 did not maintain appropriate access to its financial aid application, Banner. Specifically, the University did not remove the access of one former employee to Banner in a timely manner. Additionally, 12 users had excessive access to modify student budgets and fund rules in Banner. Not maintaining appropriate access to Banner increases the risk of unauthorized access to key financial aid processes and student records.

Recommendations:

The University should:

- Send, either in writing or electronically, disbursement notifications containing all required language within the required time frame to loan and TEACH Grant recipients.

- Remove access to Banner in a timely manner when individuals' employment is terminated.
- Periodically review user access to Banner and appropriately limit user access based on job responsibilities.

Management Response and Corrective Action Plan:

Disbursement Notifications

Written disbursement notices are being sent out containing all required language within the required time frame to loan and now TEACH Grant recipients. This is being done as these awards are disbursed.

General Controls

In order to assure BANNER access is removed in a timely manner when an employee is terminated we have set up a more formal procedure. Upon separation/termination our administrative assistant will send a notice to our Help Desk requesting the removal of access.

In order to maintain appropriate access to BANNER, the number of users with access to modify student budgets and fund rules in BANNER has been reduced to members of the office's management team. Currently only the financial aid director, associate director, and assistant director (accounting) have access to modify budgets and fund rules in BANNER. A periodic review of user access will be conducted during a staff member's annual performance evaluation.

Implementation Date: *October 2010*

Responsible Person: *Maria Carrizales*

University of Texas Health Science Center at Houston

Reference No. 11-172

Allowable Costs/Cost Principles

Research and Development Cluster
Award years - August 1, 2009 to July 31, 2010, July 1, 2009 to June 30, 2010, March 1, 2010 to February 28, 2011, and September 23, 2009 to August 31, 2010
Award numbers - CFDA 93.701 1 R21AI079624 and 1 R01HL093029, CFDA 93.837 5 R01 HL088128, and CFDA 93.855 1 R56AI077679
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

National Institutes of Health

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 220(J)(10)).

The University of Texas Health Science Center at Houston (Health Science Center) did not complete in a timely manner after-the-fact time and effort certifications for 4 (11 percent) of 36 payroll transactions tested. According to Health Science Center policy, completion is considered timely if it occurs within 30 days after the reports are made available to department personnel for certification. Department personnel completed the 4 time and effort certifications between 58 and 70 days after the Health Science Center made the reports available for certification. The Health Science Center has a follow-up process through which it generates reports of late effort certifications and, based on the number of days a certification is late, it sends a notification to the department academic and administrative leadership or to the respective dean for the department. However, that follow-up process is not always effective. 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 Health Science Center should consistently adhere to its follow-up policy for delinquent effort certifications to ensure that it completes time and effort certifications within the time frame established in its policy.

Management Response and Corrective Action Plan:

Current follow-up policies for delinquent effort certification were implemented in June of 2010. We have reviewed our internal process and will consistently adhere to the follow-up policy for delinquent effort certification.

Implementation Date: *January 2011*

Responsible Person: *Dr. Peter Davies*

Reference No. 11-173

Cash Management

Research and Development Cluster
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Defense

Recipients shall maintain advances of federal funds in interest-bearing accounts. For those entities for which the Cash Management Improvement Act (CMIA) and its implementing regulations do not apply, interest earned on federal advances deposited in interest-bearing accounts shall be remitted annually to U.S. Department of Health and Human Services. Interest amounts up to $250 per year may be retained by the recipient for administrative expense. State universities and hospitals shall comply with CMIA, as it pertains to interest (Title 2, Code of Federal Regulations (CFR), Section 215.22(l)). In addition, Title 31, CFR, Section 205, which implements the CMIA, requires state interest liability to accrue if federal funds are received by a state prior to the day the state pays out the funds for federal assistance program purposes. State interest liability accrues from the day federal funds are credited to a state account to the day the state pays out the federal funds for federal assistance program purposes (Title 31, CFR, Section 205.15).

The University of Texas Health Science Center at Houston (Health Science Center) received scheduled payments on grants funded by the U.S. Department of Defense. According to its records, the Health Science Center had 17 projects active during fiscal year 2010 with terms that included scheduled payments. These funds may be considered advanced funds if expenditures are not paid prior to receiving the funds. **The Health Science Center did not calculate or remit to the federal government interest on funds it received in advance of expenditures for these awards.**

Recommendation:

The Health Science Center should develop and implement procedures to calculate and remit interest payments to the federal government when federal funds are credited to its accounts before it uses those funds.

Management Response and Corrective Action Plan:

The Health Science Center has developed and implemented procedures to calculate and remit interest to the federal government in accordance with Title 31, CFR, Section 205.

Implementation Date: *November 2010*

Responsible Person: *Michael Tramonte*

Reference No. 11-174

Equipment and Real Property Management

Research and Development Cluster
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

National Institutes of Health

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 ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value when a recipient compensates the federal awarding agency for its share (Title 2, Code of Federal Regulations, Section 215.34). Additionally, a state recipient must dispose of equipment acquired under a federal grant in accordance with state laws and procedures. The Office of the Texas Comptroller of Public Accounts' State Property Accounting (SPA) Process User's Guide specifies that inventory must be recognized as missing, but the institution must make efforts to search for the property until found or resolved for two years (*SPA Process User's Guide*, Chapter 6 and Appendix C).

The University of Texas Health Science Center Houston (Health Science Center) sells surplus equipment at auction, often in lots of similar equipment. In fiscal year 2010, the Health Science Center vacated a building and moved research functions from that building to another building. During this process, the Health Science Center sold equipment that would no longer be needed at auction. The Health Science Center tracks equipment sold at auction by the equipment's asset tag.

The Health Science Center did not maintain accurate disposition data for 4 (10 percent) of 40 equipment dispositions tested. Specifically:

- The Health Science Center could not locate two pieces of equipment in its surplus warehouse during semi-annual inventories of the surplus warehouse. Upon notification by the auditors, the Health Science Center located and corrected the disposition records for one of these items.

- The Health Science Center could not locate two pieces of equipment following the move from one building to another.

The Health Science Center assumed that the asset tags for the three items it could not locate had fallen off and that it had sold these items in a lot at auction. The Health Science Center retired the assets as if they had been sold at auction, instead of following state property accounting requirements to track the items as missing for two years while making efforts to search for the items. As a result, the items could not be traced to specific auction lots. Without records of the items being included in auction lots, the final disposition records may not be correct, and the items could have been stolen or misplaced.

Recommendations:

The Health Science Center should:

- Establish a process to identify and track all assets sold in lots, including assets that no longer have their original asset tag.

- Consistently follow state property accounting requirements to mark an item as missing, including warehouse inventory, for two years prior to retiring the item.

Management Response and Corrective Action Plan:

Capital Asset Management procedures will be changed to mark assets not located as missing for two years prior to retiring the items.

Implementation Date: *February 2011*

Responsible Person: *Michael Tramonte*

Reference No. 11-175
Procurement and Suspension and Debarment
(Prior Audit Issue 09-103)

Research and Development Cluster
Award year - September 1, 2009 to August 31, 2010
Award number - CFDA 93.596 1001914017110001
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 with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), 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, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all non-procurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.220 and 180.970).

To ensure compliance with federal suspension and debarment requirements, staff at the University of Texas Health Science Center at Houston (Health Science Center) complete a buyer debarment checklist, which includes a certification that the buyer checked EPLS prior finalizing a procurement contract. **The Health Science Center did not provide documentation that it verified the vendor was not suspended or debarred at the time of procurement for 1 (5 percent) of 20 procurements tested.** The Health Science Center could not provide evidence that the buyer completed the buyer debarment checklist for this purchase. Failure to complete the checklist and check EPLS increases the risk that the Health Science Center could award a contract to a suspended or debarred vendor. However, auditors subsequently checked EPLS and verified that it did not list the vendor in this case as excluded.

Recommendations:

The Health Science Center should:

- Ensure that staff complete the buyer debarment checklist for all procurement transactions that exceed $25,000.
- Retain sufficient documentation to demonstrate that it checked EPLS, collected a certification from the entity, or added a clause or condition to the covered transaction with the entity regarding suspension, debarment, and exclusion.

Management Response and Corrective Action Plan:

Management will re-enforce/re-train buyers through e-mail notification and monthly buyers meetings of the requirements to check EPLS, complete the debarment checklist, and maintain the checklist in the master purchase order file for all procurement transactions that exceed $25,000.

Implementation Date: *February 2011*

Responsible Person: *Michael Tramonte*

University of Texas M. D. Anderson Cancer Center

Reference No. 11-176
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Program Income
Special Tests and Provisions - Key Personnel

Research and Development Cluster
Award years - See below
Award numbers - See below
Type of finding - Significant Deficiency and Non-Compliance

Allowable Costs/Cost Principles

Questioned Cost: $ *255,528*

U.S. Department of Health and Human Services
U.S. Department of Defense

Research grants may be subject to laws and/or administrative regulations that limit the allowance for indirect costs under each grant to a stated percentage of the direct costs allowed. The maximum allowable under the limitation should be established by applying the stated percentage to a direct cost base, which shall include all items of expenditure authorized by the sponsoring agency for inclusion as part of the total cost for the direct benefit of the work under the grant (Title 45, Code of Federal Regulations, Part 74, Appendix E, Section v(C)). In addition, the University of Texas M.D. Anderson Cancer Center's (Cancer Center) indirect cost rate agreement with the U. S. Department of Health and Human Services requires that indirect cost calculations use a modified total direct cost base consisting of all salaries and wages, fringe benefits, materials, 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).

For 1 (3 percent) of 39 awards tested, the Cancer Center overcharged indirect costs to the federal award. For this award, the Cancer Center incorrectly included subgrant expenditures exceeding $25,000 in the direct cost base it used to calculate indirect cost charges. In August 2010, the Cancer Center adjusted its indirect charges on that award so that, at the end of fiscal year 2010, the Cancer Center had not exceeded its indirect cost allowance for this award.

Additionally, **based on review of the population of subgrants, auditors identified 9 other federal awards for which the Cancer Center overcharged a total of $255,528 in indirect costs.** In each of these instances, the overcharge was due to the Cancer Center including subgrant expenditures exceeding $25,000 in the modified total direct cost base it used to calculate indirect cost charges. To help ensure that it does not include subgrant expenditures exceeding $25,000 in the direct cost base it uses to calculate indirect costs, the Cancer Center establishes separate account codes for the first $25,000 in subgrant expenditures and any subgrant expenditures exceeding $25,000. The Cancer Center then manually allocates expenditures to these two separate account codes when it receives invoices for subgrant expenditures. However, for the 9 grants for which it overcharged $255,528 in indirect costs, the Cancer Center did not correctly distribute subgrant expenditures to the two different accounts.

CFDA	Award Number	Award Year
93.397	5 P50 CA127001 02	September 1, 2008 to August 31, 2013
93.000	1 29XS143 01	June 26, 2009 to May 14, 2012
93.701	2 R01 CA069425 08 A2	February 25, 1999 to August 31, 2011
93.701	5 RC2 MD004783 02	September 27, 2009 to July 31, 2011
93.395	5 R21 CA137633 02	June 15, 2009 to May 31, 2011
93.397	5 P50 CA083639 10	September 30, 1999 to August 31, 2010
93.000	N01-CN-35159 07	September 30, 2003 to September 29, 2012
93.396	5 R01 CA069480 13	June 21, 1999 to July 31, 2011
12.420	W81XWH-07-1-0306 04	June 1, 2007 to June 30, 2011
93.393	5 R01 CA119215 05	September 25, 2006 to July 31, 2011

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, cash management, period of availability of federal funds, program income, and special tests and provisions – key personnel, auditors identified no compliance issues regarding these compliance requirements.

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 Cancer Center did not have sufficient change management controls for the Geac general accounting system that its administrative and financial services staff use. Specifically, the Cancer Center has not segregated duties for personnel who make Geac programming changes and migrate those changes to the production environment. Two programmers have access to migrate code to the production environment. This increases the risk of unintended programming changes being made to Geac, which the Cancer Center uses to administer research and development.

Additionally, the Cancer Center did not have sufficient user access controls for the Effort Certification (ECRT) system servers that its administrative and financial services staff use. Specifically, six inappropriate user accounts with system administrator level access were found on the ECRT servers in the production environment. Furthermore, the Cancer Center does not perform periodic reviews of user accounts with high profile access on the production ECRT servers. A lack of a periodic review increases the risk that users can access the ECRT servers without Cancer Center management knowledge. In this case, the level of access for the users who should not have had access was system administrator access, which is a high level of access.

Recommendations:

The Cancer Center should:

- Ensure that it does not included subgrant expenditures in excess of $25,000 in the direct cost base it uses to charge indirect costs to federal awards.
- Establish a formal change management process that prevents programmers from making Geac code changes and also migrating those changes to the production environment.
- Conduct a formal, periodic review process of user accounts at the server level.

Management Response and Corrective Action Plan:

Allowable Costs/Cost Principles

The Cancer Center has reviewed and corrected the subgrant expenditures to exclude these from the direct cost base. In addition, the Cancer Center will proactively review requisitions and subcontract invoices to ensure that subgrant expenditures in excess of $25,000 are not included in the direct cost base.

Implementation Date: *February 2011*

Responsible Person: *Claudia Delgado*

General Controls

AFS uses a fire-call ID to authorize movement of files to production. The department will review and, if necessary, modify procedures for use of the fire-call ID, so that segregation of duties between programming staff and production move authorization is preserved. It must be noted, however, that the frequency of changes to the production environment for the GEAC application, which will be decommissioned within two years, is minimal.

AFS will work with the DCOTS department to implement an annual access review.

Implementation Date: *February 2011*

Responsible Person: *Debbie Luquette*

Reference No. 11-177

Reporting

Research and Development Cluster
Award year - March 1, 2010 to March 31, 2013
Award number - CFDA 12.420 W81XWH-10-1-0074
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Defense

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients should use the standardized financial reporting forms or such other forms as may be authorized by the Office of Management and Budget (OMB) (Title 2 Code of Federal Regulations (CFR), Sections 215.51 and 215.52). Although the CFR has not been updated to include the new form, recipients use the Federal Financial Report (FFR), Form SF-425, as a standardized format to report the financial status of their federal awards and, when applicable, cash status (OMB Circular A-133 Compliance Supplement, June 2010, Part 3, Section L, 3-L-1 to 3-L-8).

The University of Texas M.D. Anderson Cancer Center (Cancer Center) prepares and inputs information for the FFR using a manual process. **For 1 (3 percent) of 33 reports reviewed, the Cancer Center incorrectly input data into key FFR fields related to the indirect cost base and the indirect costs charged.** These errors resulted in the Cancer Center understating total disbursements by $388 for the quarter ending June 30, 2010 ($252 in base expenses for indirect charges and $136 for indirect charges). The Cancer Center's review and approval of the report did not detect and correct the error.

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 Cancer Center did not have sufficient change management controls for the Geac general accounting system that its administrative and financial services staff use. Specifically, the Cancer Center has not segregated duties for personnel who make Geac programming changes and migrate those changes to the production environment. Two programmers have access to migrate code to the production environment. This increases the risk of unintended programming changes being made to Geac, which the Cancer Center uses to administer research and development.

Additionally, the Cancer Center did not have sufficient user access controls for the Effort Certification (ECRT) system servers that its administrative and financial services staff use. Specifically, six inappropriate user accounts with system administrator level access were found on the ECRT servers in the production environment. Furthermore, the Cancer Center does not perform periodic reviews of user accounts with high profile access on the production ECRT servers. A lack of a periodic review increases the risk that users can access the ECRT servers without Cancer Center management knowledge. In this case, the level of access for the users who should not have had access was system administrator access, which is a high level of access.

Recommendation:

The Cancer Center should:

- Enhance its review procedures to ensure that it accurately reports its financial information.
- Establish a formal change management process that prevents programmers from making Geac code changes and also migrating those changes to the production environment.
- Conduct a formal, periodic review process of user accounts at the server level.

Management Response and Corrective Action Plan:

Reporting

The Cancer Center has added another level of review to ensure that it accurately reports its financial information.

Implementation Date: *February 2011*

Responsible Person: *Claudia Delgado*

General Controls

AFS uses a fire-call ID to authorize movement of files to production. The department will review and, if necessary, modify procedures for use of the fire-call ID, so that segregation of duties between programming staff and production move authorization is preserved. It must be noted, however, that the frequency of changes to the production environment for the GEAC application, which will be decommissioned within two years, is minimal.

AFS will work with the DCOTS department to implement an annual access review.

Implementation Date: *February 2011*

Responsible Person: *Debbie Luquette*

Reference No. 11-178

Special Tests and Provisions - Indirect Cost Limitation

Research and Development Cluster
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency

Questioned Cost: $ 0

U.S. Department of Defense

According to the Department of Defense Appropriations Act (Act) of 2010, none of the funds made available under the Act may be used to pay negotiated indirect cost rates on a contract, grant, or cooperative agreement (or similar arrangement) entered into by the Department of Defense and an entity in excess of 35 percent of the total cost of the contract, grant, or agreement (or similar arrangement). The Act states that this limitation shall apply only to contracts, grants, or cooperative agreements entered into after the date of enactment of the Act using funds made available in the Act for basic research (Department of Defense Appropriations Act, 2010, Title VIII General Provisions, Section 8101).

This indirect cost limitation requirement was first included in the Department of Defense Appropriations Act of 2008, which applied to new awards made on or after November 14, 2007, using fiscal year 2008, fiscal year 2009, or fiscal year 2010 Department of Defense basic research funds, as well as funding modifications using the same funds (Office of Management and Budget Circular A-133, Part 5, Research and Development Cluster, Section N).

The University of Texas M.D. Anderson Cancer Center (Cancer Center) does not have a process to identify and monitor Department of Defense grants that include an indirect cost limitation. Without this process, the Cancer Center could exceed the indirect cost rate limitation.

Recommendation:

The Cancer Center should develop and implement a process to identify and monitor grants with indirect cost limitations.

Management Response and Corrective Action Plan:

The Cancer Center has developed and implemented a process to identify and monitor grants with the indirect cost limitation.

Implementation Date: *February 2011*

Responsible Person: *Claudia Delgado*

Reference No. 11-179

Special Tests and Provisions - R3 - Subrecipient Monitoring

Research and Development Cluster - ARRA
Award years - See below
Award numbers - See below
Type of finding - Significant Deficiency and Non-Compliance

Subrecipients of Recovery Act Funding

Questioned Cost: $ 0

U.S. Department of Health and Human Services

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) agree to maintain records that identify adequately the source and application of Recovery Act awards; (2) separately identify to each subrecipient, and document at the time of the disbursement of funds, the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and the amount of Recovery Act funds; and (3) provide identification of Recovery Act awards in their Schedule of Expenditures of Federal Awards (SEFA). This information is needed to allow the recipient to properly monitor subrecipient expenditures of Recovery Act funds and for oversight by the federal awarding agencies, offices of inspector general, and the Government Accountability Office (Title 2, Code of Federal Regulations, Section 176.210).

The University of Texas M.D. Anderson Cancer Center (Cancer Center) did not identify Recovery Act information to 16 (100 percent) of 16 subrecipients at the time of disbursement of funds, and it does not have a procedure to do so. For fiscal year 2010, this affected subaward expenditures totaling $2,093,720. Failure to notify subrecipients about Recovery Act information at the time of disbursement may result in inaccurate reporting of Recovery Act funds by subrecipients.

The issues discussed above affected the following awards:

CFDA	Award Numbers	Award Years
93.701	5 R01 CA 124782 04 (ARRA)	July 1, 2009 to June 30, 2011
93.701	3 R01 CA093729 08 S1 (ARRA)	August 1, 2009 to July 31, 2011
93.701	3 R01 CA121197 03 S1 (ARRA)	August 1, 2009 to July 31, 2011
93.701	1 R21 CA129671 01 A1 (ARRA)	August 1, 2009 to July 31, 2011
93.701	5 R01 CA131327 02 (ARRA)	August 12, 2009 to July 31, 2011
93.701	1 RC2 ES018789 01 (ARRA)	September 24, 2009 to July 31, 2011
93.701	1 RC2 DE020958 01 (ARRA)	September 25, 2009 to August 31, 2011
93.701	5 RC2 MD004783 02 (ARRA)	September 27, 2009 to July 31, 2011
93.701	1 RC2 AR059010 01 (ARRA)	September 29, 2009 to August 31, 2011
93.701	1 RC2 CA148263 01 (ARRA)	September 30, 2009 to August 31, 2011

Recommendations:

The Cancer Center should provide appropriate documentation at the time of the disbursement of funds, including the federal award number, CFDA number, and the amount of Recovery Act funds.

Management Response and Corrective Action Plan:

The Cancer Center will provide appropriate documentation at the time of the disbursement of funds, including the federal award number, CFDA number, and the amount of Recovery Act funds to the subrecipient.

Implementation Date: *February 2011*

Responsible Person: *Claudia Delgado*

University of Texas at San Antonio

Reference No. 11-180
Eligibility
Activities Allowed or Unallowed
Cash Management
Period of Availability of Federal Funds
Reporting
Special Tests and Provisions - Separate Funds
Special Tests and Provisions - Student Status Changes
Special Tests and Provisions - Institutional Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P093294, CFDA 84.268 P268K103294, CFDA 84.007 P007A094169, CFDA 84.033 P033A094169, CFDA 84.375 P375A093294, CFDA 84.376 P376S093294, and CFDA 84.379 P379T103294
Type of finding - Significant Deficiency and Non-Compliance

Satisfactory Academic Progress

Questioned Cost: $ 16,324

U.S. Department of Education

A student is eligible to receive Title IV, Higher Education Act 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).

The University of Texas at San Antonio's (University) satisfactory academic progress policy requires an undergraduate student receiving federal aid to (1) maintain a minimum 2.00 cumulative GPA, or 1.80 GPA for freshman students; (2) successfully complete at least 67 percent of the student's attempted credit hours; and (3) meet the student's degree objectives without attempting more than 150 percent of the published length of the program of study. If a student does not meet these requirements, the student may be placed on financial aid termination. If the student is placed on financial aid termination, the student may appeal the termination. For students who are readmitted to the University after satisfactory academic progress is measured for the award year, the University considers the satisfactory academic progress measured when the student was last enrolled in the University.

The University disbursed $16,324 in financial assistance to 1 (2.5 percent) of 40 students tested, even though that student did not meet the University's satisfactory academic progress policy. This occurred because of an error in data migration from the prior financial aid application to Banner. When the student was last enrolled, the student failed to make satisfactory academic progress, and information regarding the student's failed satisfactory academic progress status was recorded correctly in the prior financial aid application. However, that information was not transferred correctly from the prior financial aid application to Banner; as a result, information in Banner indicated the student had made satisfactory academic progress. The student was readmitted after the University began using Banner, and the University relied on information in Banner to award assistance. As a result, the University incorrectly awarded $16,324 in assistance to the student.

A total of 22 students who received assistance during the award year had last enrolled when the University was still using the prior financial aid application but were readmitted after the University had started using Banner.

Other Compliance Requirements

Although the general control weakness described below applies to activities allowed or unallowed, cash management, period of availability of federal funds, reporting, special tests and provisions - separate funds, special tests and provisions - student status changes, and special tests and provisions - institutional eligibility, auditors identified no compliance issues regarding these compliance requirements.

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 did not maintain appropriate access to its financial aid application, Banner, and its associated operating environment. Specifically:

- Auditors were unable to associate 82 active Banner accounts with current University personnel.
- Three information technology (IT) managers had database administrator roles within the Banner database that allowed them to introduce unauthorized changes into the production environment.
- Two accounts assigned to the database administrator role belonged to individuals who did not require that level of access.

Additionally, the University does not perform formal reviews of user accounts at the server level. Auditors identified four accounts on the server that hosts the Banner database that were associated with individuals whose employment had been terminated.

The weaknesses described above increase the risk of inappropriate changes and do not allow for proper segregation of duties.

Recommendations:

The University should:

- Improve controls to ensure that students who are readmitted to the University are eligible to receive assistance based on satisfactory academic progress.
- Disable Banner accounts that cannot be matched with active University personnel and strengthen the access control in its termination process.
- Remove database administrator access for IT managers and others whose job responsibilities do not require such access.
- Disable server accounts associated with terminated employees and implement a periodic review of server level accounts.

Management Response and Corrective Action Plan:

Improve controls to ensure that students who are readmitted to the University are eligible to receive assistance based on satisfactory academic progress.

As indicated in the finding, one student was readmitted to UTSA after Banner was implemented. The student had previously been terminated on the old NATISIS system because they did not meet the satisfactory academic progress (SAP) standards. When we migrated to Banner, the termination did not move into Banner correctly and listed the student as in good standing. Once a student is terminated on Banner, that status stays unless the student appeals and is approved or continues to attend and regains eligibility by meeting the SAP standards. This includes readmitted students to UTSA. If they previously were terminated, stop attending UTSA, and are readmitted, the status will remain as terminated until the student appeals and is approved or continues to attend and becomes in good standing. As students are readmitted, we will determine SAP status prior to their first semester. This will include a review of information obtained from NATISIS.

Implementation Date: *May 2011*

Responsible Person: *Lisa Blazer*

Disable Banner accounts that cannot be matched with active University personnel and strengthen the access control in its termination process.

The 82 Banner accounts have all been reviewed and handled appropriately. Most of the accounts were for users who have since left the university. Those accounts are now locked, expired, and/or cleaned of all access.

The Department of Human Resources now provides separation notices for employees to the Banner Security Team. Then, Banner Security reviews user access and sets an "Active To" date and locks the account to prevent use of the Banner System after separation. Once the account has been locked and/or expired for 90 days the account is cleaned of all access. The newly revised Add/Drop Report now provides us more pertinent information for separations that we may use to increase our effectiveness and response time. Furthermore, Banner Security conducts monthly access reviews with multiple aims: cleaning accounts of all access that have been locked/expired for 90 days, locking accounts for users who separated without notice, verifying unknown user accounts, and maintaining the general integrity of user accounts.

Banner Security has created Policies & Procedures Manual that documents these practices. Additionally, a separate Banner User Account Policies and Procedures Manual is available for Banner Users, focusing more on issues that directly affect users such as account requests, locking/expiring/cleaning of existing accounts, and password guidelines. Both manuals are updated as new policies and processes become available.

Implementation Date: *December 2010*

Responsible Person: *Joe DeCristoforo*

Remove database administrator access for IT managers and others whose job responsibilities do not require such access.

The DBA role access for the Director SIS Operations and the System Analyst III has been removed. Concerning the OIT managers with DBA access, it is part of their job function to upload code and package changes to the Banner system which requires the level of access. The IT managers are not permitted to upload their own work into production. The team lead must submit their work to another team lead to implement the change.

Implementation Date: *December 2010*

Responsible Person: *Anthony Espinoza*

Disable server accounts associated with terminated employees and implement a periodic review of server level accounts.

The accounts of the terminated employees in question have been disabled. Accounts of terminated employees are disabled on the last day of employment. As a check to ensure all accounts have been disabled, a quarterly review of the accounts on the server that hosts the Banner database has been implemented. The first quarterly review was completed on 12/10/2010. The results of the review are documented in a tool utilized by OIT (PlanIT).

Implementation Date: *December 2010*

Responsible Person: *Anthony Espinoza*

Reference No. 11-181

Special Tests and Provisions - Verification

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P093294, CFDA 84.268 P268K103294, CFDA 84.007 P007A094169, CFDA 84.033 P033A094169, CFDA 84.375 P375A093294, CFDA 84.376 P376S093294, and CFDA 84.379 P379T103294
Type of finding - Significant Deficiency and Non-Compliance

Verification

Questioned Cost: $ 137

U.S. Department of Education

An institution shall require each applicant whose Free Application for Federal Student Aid (FAFSA) is selected for verification on the basis of edits specified by the Secretary of the U.S. Department of Education, to verify all of the applicable items, which 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 San Antonio (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 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 1 (2 percent) of 50 students tested, the University did not accurately verify all required items on the FAFSA. Specifically, for that student, the University incorrectly identified the household size as five and the number of household members who are in college as one. Based on review of the student's tax return and verification worksheet, the correct household size was four and the correct number of household members in college was two. As a result of this error, the University understated the student's expected family income and overawarded the student $137 in Pell grants. The University corrected the error in September 2010 and reduced the student's Pell award accordingly.

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 did not maintain appropriate access to its financial aid application, Banner, and its associated operating environment. Specifically:

- Auditors were unable to associate 82 active Banner accounts with current University personnel.
- Three information technology (IT) managers had database administrator roles within the Banner database that allowed them to introduce unauthorized changes into the production environment.
- Two accounts assigned to the database administrator role belonged to individuals who did not require that level of access.

Additionally, the University does not perform formal reviews of user accounts at the server level. Auditors identified four accounts on the server that hosts the Banner database that were associated with individuals whose employment had been terminated.

The weaknesses described above increase the risk of inappropriate changes and do not allow for proper segregation of duties.

Recommendations:

The University should:

- Accurately update its records and the Institutional Student Information Record based on results of the FAFSA verification process.
- Disable Banner accounts that cannot be matched with active University personnel and strengthen the access control in its termination process.
- Remove database administrator access for IT managers and others whose job responsibilities do not require such access.
- Disable server accounts associated with terminated employees and implement a periodic review of server level accounts.

Management Response and Corrective Action Plan:

Accurately update its records and the Institutional Student Information Record based on results of the FAFSA verification process.

The verification team members utilize an excel spreadsheet to compare the verifiable information from Banner (Institutional Student Information Record) with the information supplied through verification documentation. Prior to the audit, team members were manually entering the data from Banner, thus leaving room for human error. Since the audit, we have created an automated download from Banner to the spreadsheet to reduce human errors. The verification team members now receive the spreadsheet for each student with the ISIR information and use that information to compare and process the verification documentation. The supervisor also does quality control on 10% of the verifications processed every 2 weeks. Because we also participate in the Quality Assurance Program through the Department of Education, we are required to perform 2 FSA Assessments each year. For the 2010-11 award year, the compliance team will be completing the Verification FSA Assessment, which will require an additional quality control review by that team.

Implementation Dates: *Quality Control - September 2010; FSA Assessment – August 2011*

Responsible Person: *Lisa Blazer*

Disable Banner accounts that cannot be matched with active University personnel and strengthen the access control in its termination process.

The 82 Banner accounts have all been reviewed and handled appropriately. Most of the accounts were for users who have since left the university. Those accounts are now locked, expired, and/or cleaned of all access.

The Department of Human Resources now provides separation notices for employees to the Banner Security Team. Then, Banner Security reviews user access and sets an "Active To" date and locks the account to prevent use of the Banner System after separation. Once the account has been locked and/or expired for 90 days the account is cleaned of all access. The newly revised Add/Drop Report now provides us more pertinent information for separations that we may use to increase our effectiveness and response time. Furthermore, Banner Security conducts monthly access reviews with multiple aims: cleaning accounts of all access that have been locked/expired for 90 days, locking accounts for users who separated without notice, verifying unknown user accounts, and maintaining the general integrity of user accounts.

Banner Security has created Policies & Procedures Manual that documents these practices. Additionally, a separate Banner User Account Policies and Procedures Manual is available for Banner Users, focusing more on issues that directly affect users such as account requests, locking/expiring/cleaning of existing accounts, and password guidelines. Both manuals are updated as new policies and processes become available.

Implementation Date: *December 2010*

Responsible Person: *Joe DeCristoforo*

Remove database administrator access for IT managers and others whose job responsibilities do not require such access.

The DBA role access for the Director SIS Operations and the System Analyst III has been removed. Concerning the OIT managers with DBA access, it is part of their job function to upload code and package changes to the Banner system which requires the level of access. The IT managers are not permitted to upload their own work into production. The team lead must submit their work to another team lead to implement the change.

Implementation Date: *December 2010*

Responsible Person: *Anthony Espinoza*

Disable server accounts associated with terminated employees and implement a periodic review of server level accounts.

The accounts of the terminated employees in question have been disabled. Accounts of terminated employees are disabled on the last day of employment. As a check to ensure all accounts have been disabled, a quarterly review of the accounts on the server that hosts the Banner database has been implemented. The first quarterly review was completed on December 10, 2010. The results of the review are documented in a tool utilized by OIT (PlanIT).

Implementation Date: *December 2010*

Responsible Person: *Anthony Espinoza*

Reference No. 11-182

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P093294, CFDA 84.268 P268K103294, CFDA 84.007 P007A094169, CFDA 84.033 P033A094169, CFDA 84.375 P375A093294, CFDA 84.376 P376S093294, and CFDA 84.379 P379T103294
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 Direct Loan, Federal Family Education Loan (FFEL), Federal Perkins Loan, or Teacher Education Assistance for College and Higher Education (TEACH) Grant Program 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 anticipated date and amount of the disbursement; (2) the student's right or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan or TEACH Grant proceeds returned to the Secretary of the U.S. Department of Education; and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement (Title 34, Code of Federal Regulations, Section 668.165).

The University of Texas at San Antonio (University) did not send disbursement notifications to 37 (62 percent) of the 60 students who received TEACH Grant funds for award year 2009-2010 within the required time frame. The University disbursed TEACH Grant funds to one of these students on February 25, 2010, but it did not send the disbursement notification until July 15, 2010. For the remaining 36 students, the University disbursed funds between February 26, 2010, and March 30, 2010, but it did not send the disbursement notifications until May 10, 2010. The University relied on a manual process for sending TEACH Grant disbursement notifications, and it did not perform that process within 30 days for the February 2010 and March 2010 TEACH Grant disbursements. Not receiving these notifications within the required time frame can impair TEACH Grant recipients' ability to cancel their awards.

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 did not maintain appropriate access to its financial aid application, Banner, and its associated operating environment. Specifically:

- Auditors were unable to associate 82 active Banner accounts with current University personnel.
- Three information technology (IT) managers had database administrator roles within the Banner database that allowed them to introduce unauthorized changes into the production environment.
- Two accounts assigned to the database administrator role belonged to individuals who did not require that level of access.

Additionally, the University does not perform formal reviews of user accounts at the server level. Auditors identified four accounts on the server that hosts the Banner database that were associated with individuals whose employment had been terminated.

The weaknesses described above increase the risk of inappropriate changes and do not allow for proper segregation of duties.

Recommendations:

The University should:

- Send disbursement notifications to TEACH Grant recipients within the required time frame.
- Disable Banner accounts that cannot be matched with active University personnel and strengthen the access control in its termination process.
- Remove database administrator access for IT managers and others whose job responsibilities do not require such access.
- Disable server accounts associated with terminated employees and implement a periodic review of server level accounts.

Management Response and Corrective Action Plan:

Send disbursement notifications to TEACH Grant recipients within the required time frame.

Because the 2009-10 award year was the first year UTSA participated in the TEACH Grant program, we were initially sending out disbursement notifications manually. We have since created an automated process that runs every Thursday once we begin disbursing TEACH Grant each semester (after census date).

Implementation Date: *September 2010*

Responsible Person: *Lisa Blazer*

Disable Banner accounts that cannot be matched with active University personnel and strengthen the access control in its termination process.

The 82 Banner accounts have all been reviewed and handled appropriately. Most of the accounts were for users who have since left the university. Those accounts are now locked, expired, and/or cleaned of all access.

The Department of Human Resources now provides separation notices for employees to the Banner Security Team. Then, Banner Security reviews user access and sets an "Active To" date and locks the account to prevent use of the Banner System after separation. Once the account has been locked and/or expired for 90 days the account is cleaned of all access. The newly revised Add/Drop Report now provides us more pertinent information for separations that we may use to increase our effectiveness and response time. Furthermore, Banner Security conducts monthly access reviews with multiple aims: cleaning accounts of all access that have been locked/expired for 90 days, locking accounts for users who separated without notice, verifying unknown user accounts, and maintaining the general integrity of user accounts.

Banner Security has created Policies & Procedures Manual that documents these practices. Additionally, a separate Banner User Account Policies and Procedures Manual is available for Banner Users, focusing more on issues that directly affect users such as account requests, locking/expiring/cleaning of existing accounts, and password guidelines. Both manuals are updated as new policies and processes become available.

Implementation Date: *December 2010*

Responsible Person: *Joe DeCristoforo*

Remove database administrator access for IT managers and others whose job responsibilities do not require such access.

The DBA role access for the Director SIS Operations and the System Analyst III has been removed. Concerning the OIT managers with DBA access, it is part of their job function to upload code and package changes to the Banner system which requires the level of access. The IT managers are not permitted to upload their own work into production. The team lead must submit their work to another team lead to implement the change.

Implementation Date: December 2010

Responsible Person: Anthony Espinoza

Disable server accounts associated with terminated employees and implement a periodic review of server level accounts.

The accounts of the terminated employees in question have been disabled. Accounts of terminated employees are disabled on the last day of employment. As a check to ensure all accounts have been disabled, a quarterly review of the accounts on the server that hosts the Banner database has been implemented. The first quarterly review was completed on 12/10/2010. The results of the review are documented in a tool utilized by OIT (PlanIT).

Implementation Date: *December 2010*

Responsible Person: *Anthony Espinoza*

Reference No. 11-183

Special Tests and Provisions - Return of Title IV Funds

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P093294, CFDA 84.268 P268K103294, CFDA 84.007 P007A094169, CFDA 84.033 P033A094169, CFDA 84.375 P375A093294, CFDA 84.376 P376S093294, and CFDA 84.379 P379T103294
Type of finding - Significant Deficiency and Non-Compliance

Return of Title IV Funds

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 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)).

For 1 (2 percent) of 46 students tested, the University of Texas at San Antonio (University) did not return the proper amount of funds. The University correctly calculated the amount of funds to return using the Return of Title IV worksheet; however, the University returned $39 more in Pell grant funds than required due to a manual error. By returning more funds than required, the University disbursed less financial aid to the student than the student had earned.

For 1 (3 percent) of 31 students tested, the University did not return Pell grant funds within 45 days after the date the University determined that the student withdrew. The University initially removed the grant funds from the student's account within the required time frame, but it erroneously re-disbursed the funds to the student a few days later because it had not locked that student's account. The University returned the funds several months later when it identified the error during a supervisory review of the student's account.

For 19 (63 percent) of 30 students who unofficially withdrew from the University, the University did not determine the withdrawal date within 30 days after the end of the semester, as required. The University did not begin the process to identify these potential unofficially withdrawn students and to determine their withdrawal dates until after the required 30-day timeframe. Not determining withdrawal dates in a timely manner delays the return of Title IV funds.

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 did not maintain appropriate access to its financial aid application, Banner, and its associated operating environment. Specifically:

- Auditors were unable to associate 82 active Banner accounts with current University personnel.
- Three information technology (IT) managers had database administrator roles within the Banner database that allowed them to introduce unauthorized changes into the production environment.
- Two accounts assigned to the database administrator role belonged to individuals who did not require that level of access.

Additionally, the University does not perform formal reviews of user accounts at the server level. Auditors identified four accounts on the server that hosts the Banner database that were associated with individuals whose employment had been terminated.

The weaknesses described above increase the risk of inappropriate changes and do not allow for proper segregation of duties.

Recommendations:

The University should:

- Develop and implement controls to ensure that it:
  - Returns the correct amount of Title IV funds.
  - Returns Title IV funds within the appropriate time frames.
  - Determines the withdrawal dates for students with unofficial withdrawals within 30 days of the end of the semester, as required.
- Disable Banner accounts that cannot be matched with active University personnel and strengthen the access control in its termination process.
- Remove database administrator access for IT managers and others whose job responsibilities do not require such access.
- Disable server accounts associated with terminated employees and implement a periodic review of server level accounts.

Management Response and Corrective Action Plan:

Develop and implement controls to ensure that it:

- *Returns the correct amount of Title IV funds.*
- *Returns Title IV funds within the appropriate time frames.*
- *Determines the withdrawal dates for students with unofficial withdrawals within 30 days of the end of the semester, as required.*

We implemented a step-by-step checklist to be used for students who withdraw prior to census as well as after census. This checklist includes re-disbursing earned funds based on the Return of Title IV calculation that were backed out by the system. The policies and procedures are to be enhanced to clarify before and after census processing utilizing a step-by-step checklist to be used on each file processed for Return of Title IV. Unofficial withdrawals are to be processed within 30 days of the end of term processing dates provided by the Office of the Registrar. Return of Title IV files are processed weekly in groups. The processor's supervisor will review 10% of each group.

Implementation Date: *January 2011*

Responsible Person: *Lisa Blazer*

Disable Banner accounts that cannot be matched with active University personnel and strengthen the access control in its termination process.

The 82 Banner accounts have all been reviewed and handled appropriately. Most of the accounts were for users who have since left the university. Those accounts are now locked, expired, and/or cleaned of all access.

The Department of Human Resources now provides separation notices for employees to the Banner Security Team. Then, Banner Security reviews user access and sets an "Active To" date and locks the account to prevent use of the Banner System after separation. Once the account has been locked and/or expired for 90 days the account is cleaned of all access. The newly revised Add/Drop Report now provides us more pertinent information for separations that we may use to increase our effectiveness and response time. Furthermore, Banner Security conducts monthly access reviews with multiple aims: cleaning accounts of all access that have been locked/expired for 90 days, locking accounts for users who separated without notice, verifying unknown user accounts, and maintaining the general integrity of user accounts.

Banner Security has created Policies & Procedures Manual that documents these practices. Additionally, a separate Banner User Account Policies and Procedures Manual is available for Banner Users, focusing more on issues that directly affect users such as account requests, locking/expiring/cleaning of existing accounts, and password guidelines. Both manuals are updated as new policies and processes become available.

Implementation Date: *December 2010*

Responsible Person: *Joe DeCristoforo*

Remove database administrator access for IT managers and others whose job responsibilities do not require such access.

The DBA role access for the Director SIS Operations and the System Analyst III has been removed. Concerning the OIT managers with DBA access, it is part of their job function to upload code and package changes to the Banner system which requires the level of access. The IT managers are not permitted to upload their own work into production. The team lead must submit their work to another team lead to implement the change.

Implementation Date: *December 2010*

Responsible Person: *Anthony Espinoza*

Disable server accounts associated with terminated employees and implement a periodic review of server level accounts.

The accounts of the terminated employees in question have been disabled. Accounts of terminated employees are disabled on the last day of employment. As a check to ensure all accounts have been disabled, a quarterly review of the accounts on the server that hosts the Banner database has been implemented. The first quarterly review was completed on 12/10/2010. The results of the review are documented in a tool utilized by OIT (PlanIT).

Implementation Date: *December 2010*

Responsible Person: *Anthony Espinoza*

Reference No. 11-184

Special Tests and Provisions - Borrower Data Transmission and Reconciliations (Direct Loans)

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award number - CFDA 84.268 P268K103294
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). 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, Code of Federal Regulations, Sections 685.102(b), 685.301, and 685.303).

For 23 (58 percent) of 40 students tested at the University of Texas at San Antonio (University), the disbursement date shown in the DLSS did not match the date the University disbursed the funds. The University disbursed the funds on January 2, 2010; however, the DLSS showed the disbursement date as December 30, 2009. For disbursements made on January 2, 2010, the University incorrectly programmed the disbursement date as December 30, 2009, in its student financial aid system; it also loaded the incorrect date into the DLSS. This issue affected disbursement date reporting for 9,697 students. Reporting incorrect disbursement dates increases the risk of overawards being made to students and limits the University's monitoring capabilities.

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 did not maintain appropriate access to its financial aid application, Banner, and its associated operating environment. Specifically:

- Auditors were unable to associate 82 active Banner accounts with current University personnel.
- Three information technology (IT) managers had database administrator roles within the Banner database that allowed them to introduce unauthorized changes into the production environment.
- Two accounts assigned to the database administrator role belonged to individuals who did not require that level of access.

Additionally, the University does not perform formal reviews of user accounts at the server level. Auditors identified four accounts on the server that hosts the Banner database that were associated with individuals whose employment had been terminated.

The weaknesses described above increase the risk of inappropriate changes and do not allow for proper segregation of duties.

Recommendations:

The University should:

- Improve its oversight of submissions to the DLSS to ensure that it reports disbursement dates correctly.
- Disable Banner accounts that cannot be matched with active University personnel and strengthen the access control in its termination process.
- Remove database administrator access for IT managers and others whose job responsibilities do not require such access.
- Disable server accounts associated with terminated employees and implement a periodic review of server level accounts.

Management Response and Corrective Action Plan:

The University should improve its oversight of submissions to the DLSS to ensure that it reports disbursement dates correctly.

The 2009-10 award year was the first full year that UTSA started processing and disbursing loans through the Direct Loan Program. As we were setting up for the award year, the Associate Director contacted COD to find out how to set up the disbursement dates to ensure we report information correctly. At that time, COD advised our office to set up the disbursement date earlier than the 10 days prior to the semester because their office was closed on our initial disbursement date for the spring term due to the holiday. We set up our spring disbursement date on Banner based on what we thought we were required to do according to COD. At that time, we were requesting funds prior to disbursement for direct loans. In an effort to project the dollar amount we needed for the initial spring disbursements, we ran our regular disbursement process in the hopes that the student loans would simply memo instead of disburse. When we did that on 12/31/2009, the funds started to actually disburse. We actually stopped the process and then pulled back any loan funds that had disbursed so that we would be in compliance with the 10 days rule and did not disburse the loans funds until a few days later to stay in compliance. Unfortunately, we submitted the COD file within a few days after our disbursement but neglected to change the disbursement date. Therefore, the date on Banner did not match the date on COD. While this did not cause any issues, it does mean we do not have a match. We no longer request money prior to disbursement and we also will not set up the disbursement date prior to the 10 days on Banner, regardless of the days COD is closed for the holiday. For the next new year set up (2011-12), the loan periods and disbursement date process will be reviewed by the supervisor (Director of Student Financial Aid) and also by the Compliance Team as part of the normal set up process. This will allow us to have an additional review to ensure dates are set up correctly. Also, prior to the COD report submission, a quality control review will occur to ensure dates match between Banner and COD.

Implementation Date: *August 2010*

Responsible Person: *Lisa Blazer*

Disable Banner accounts that cannot be matched with active University personnel and strengthen the access control in its termination process.

The 82 Banner accounts have all been reviewed and handled appropriately. Most of the accounts were for users who have since left the university. Those accounts are now locked, expired, and/or cleaned of all access.

The Department of Human Resources now provides separation notices for employees to the Banner Security Team. Then, Banner Security reviews user access and sets an "Active To" date and locks the account to prevent use of the Banner System after separation. Once the account has been locked and/or expired for 90 days the account is cleaned of all access. The newly revised Add/Drop Report now provides us more pertinent information for separations that we may use to increase our effectiveness and response time. Furthermore, Banner Security conducts monthly access reviews with multiple aims: cleaning accounts of all access that have been locked/expired for 90 days, locking accounts for users who separated without notice, verifying unknown user accounts, and maintaining the general integrity of user accounts.

Banner Security has created Policies & Procedures Manual that documents these practices. Additionally, a separate Banner User Account Policies and Procedures Manual is available for Banner Users, focusing more on issues that directly affect users such as account requests, locking/expiring/cleaning of existing accounts, and password guidelines. Both manuals are updated as new policies and processes become available.

Implementation Date: *December 2010*

Responsible Person: *Joe DeCristoforo*

Remove database administrator access for IT managers and others whose job responsibilities do not require such access.

The DBA role access for the Director SIS Operations and the System Analyst III has been removed. Concerning the OIT managers with DBA access, it is part of their job function to upload code and package changes to the Banner system which requires the level of access. The IT managers are not permitted to upload their own work into production. The team lead must submit their work to another team lead to implement the change.

Implementation Date: *December 2010*

Responsible Person: *Anthony Espinoza*

Disable server accounts associated with terminated employees and implement a periodic review of server level accounts.

The accounts of the terminated employees in question have been disabled. Accounts of terminated employees are disabled on the last day of employment. As a check to ensure all accounts have been disabled, a quarterly review of the accounts on the server that hosts the Banner database has been implemented. The first quarterly review was completed on 12/10/2010. The results of the review are documented in a tool utilized by OIT (PlanIT).

Implementation Date: *December 2010*

Responsible Person: *Anthony Espinoza*

University of Texas Southwestern Medical Center at Dallas

Reference No. 11-185
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P093281, CFDA 84.007 P007A094161, and CFDA 84.033 P033A094161
Type of finding - Significant Deficiency

Satisfactory Academic Progress

Questioned Cost: $ 0

U.S. Department of Education

A student is eligible to receive Title IV, Higher Education Act 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).

The University of Texas Southwestern Medical Center at Dallas's (Medical Center) published satisfactory academic progress (SAP) policy requires that graduate students maintain at least a 3.0 cumulative grade point average (qualitative standard) and earn at least 9 hours per academic semester (quantitative standard). However, **the Medical Center's SAP determination process was insufficient to ensure that the Medical Center identified and flagged in its student financial aid application all graduate students who did not meet the quantitative standard of the SAP policy.** The SAP determination query was set to identify students who earned fewer than six hours in a semester, rather than students who earned fewer than nine hours in a semester. As a result, the Medical Center's SAP determination query did not identify nine graduate students who did not meet the SAP quantitative requirement. The Medical Center asserted that all nine students met the SAP requirements or would have been granted aid upon appeal; however, incorrect SAP query parameters could result in ineligible students receiving financial assistance.

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 Medical Center did not appropriately restrict access to its student financial aid application. Specifically, three users had excessive access to the student financial aid application database. Two of these users were programmers and one was a former temporary employee.

Additionally, auditors identified the following situations in which multiple users shared a generic user ID:

- Four users shared a generic user ID to migrate code to the production environment for the student financial aid application. Two of these individuals were programmers for that application.
- A group of 28 individuals shared a generic high-profile user ID for the student financial aid application server.
- The domain administrators group, which included 28 individuals, shared a generic high-profile user ID for the network.

Allowing employees inappropriate or excessive access to Medical Center systems increases the risk of inappropriate changes and does not allow for segregation of duties. Sharing a user ID and password does not allow for user accountability and does not follow the Medical Center's published password policy.

Additionally, two user accounts for the student financial aid application were still active but were unused or were not assigned to a specific individual. Inactive or unassigned user accounts should be deactivated. Leaving inactive or unassigned accounts active can lead to possible unauthorized entry into the application.

Recommendations:

The Medical Center should:

- Revise its SAP query parameters to ensure it identifies and flags all students who do not meet the requirements of the SAP policy.
- Limit high-profile access to the student financial aid database to the appropriate users based on their responsibilities.
- Define user access for migrating student financial aid application code to the production environment in a manner that promotes separation of duties and is based on users' responsibilities.
- Assign each user a unique user ID and password for all logins.
- Disable inactive or unused user accounts for the student financial aid application.

Management Response and Corrective Action Plan:

Satisfactory Academic Progress

The parameters of the SAP Determination Query in the student financial aid application have been revised to ensure the results identify all students who do not meet the requirements of the SAP policy.

Implementation Date: *October 2010*

Responsible Person: *Charles Kettlewell*

General Controls

It is important to note that all of the access control issues are unique to an existing proprietary mainframe computer system (SIS) which will be retired in March of 2012 in favor of more modern system architecture (Oracle/PeopleSoft).

High-profile access to the student financial aid database has been limited to the appropriate users based on their responsibilities.

The audit team identified situations where three users shared administrative access to the database and 28 individuals shared generic high-profile user stat us for the Network and Application Server.

The three users with administrative access to the main database were high-level users whose responsibilities required high access levels to perform system tasks. Inherent within the system architecture is the storage of working files that are maintained for exclusive use by the specific User ID. Therefore, to avoid conflicted data, the users are required to work with a shared generic login. This need will be removed once more modern system architecture and security is implemented in March 2012.

SIS runs on an Open VMS system, not a Windows System. Due to the cost of hardware and hardware maintenance, we have implemented the Open VMS system that runs the SIS product on a virtualization technology called Charon. This technology is very much like VMWare, except that the emulated hardware layer is VAX and the Operating System is Open VMS instead of Windows or Linux. The Domain administrator account and groups have elevated access to the HOST system, but do not have authority on the Open VMS GUEST named SWVX12 where SIS runs. System account access on the Open VMS system is limited to the three Open VMS system administrators. Due to the age of the Open VMS/VAX operating system, many of the more modern methods of implementing policy-based access controls are not available. The access to the Windows server is governed by Active Directory Authentication and the administrator role is assigned to members of the Systems and Operations Group that have System/Database support as their primary role. As a mitigating control, all personnel within the division of Systems and Operations (the 28) possess successfully adjudicated NACI High background investigations performed by the federal Office of Personnel Management.

Implementation Date: *March 2012*

Responsible Person: *Charles Kettlewell*

Change management procedures have been implemented for migrating student financial aid application code to the production environment to mitigate risks created by limited resources and the system functionality. Access for this purpose is already tightly restricted to the extent the size of the technical support team allows. However, application code change management procedures were changed immediately to require documentation of 1) a summary of all changes made, 2) itemized approval of the changes prior implementation in production mode, and 3) final system change approval by the primary business owner.

Implementation Date: *January 2011*

Responsible Person: *Charles Kettlewell*

Unique logins for the self-contained database system are already standard in all cases except where temporary working files are utilized that must remain in a common access directory for consistent processing. Shared logins are only used where the common access directory is required. This functionality is inherent to the existing proprietary system which is being retired in March 2012 in favor of more modern architecture.

Implementation Date: *March 2012*

Responsible Person: *Charles Kettlewell*

The inactive or unused user accounts in the student financial aid application have been deleted. The accounts identified in the finding were for two former employees of the Institution who were expected to provide occasional on-going contract work where the access levels would have been required. Their access rights within the system were tightly contained within the system and would have required two additional gateway access points to reach and the individual's login passwords within the system which had been changed following non-employment. Their access rights were retained largely as a template within the system to aid in future setup.

Implementation Date: *January 2011*

Responsible Person: *Charles Kettlewell*

Reference No. 11-186

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2009 to June 30, 2010
Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P093281, CFDA 84.007 P007A094161, and CFDA 84.033 P033A094161
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 Direct Loan, Federal Family Education Loan (FFEL), Federal Perkins Loan, or Teacher Education Assistance for College and Higher Education (TEACH) Grant Program 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 anticipated date and amount of the disbursement; (2) the student's right or parent's right to cancel all or a portion of that loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement and have the loan proceeds returned to the holder of that loan or TEACH Grant proceeds returned to the Secretary of the U.S. Department of Education, and (3) the procedures and time by which the student or parent must notify the institution that he or she wishes to cancel the loan, loan disbursement, TEACH Grant, or TEACH Grant disbursement (Title 34, Code of Federal Regulations, Section 668.165).

For 11 (28 percent) of 39 students tested who received loans, the University of Texas Southwestern Medical Center at Dallas (Medical Center) did not retain evidence that it sent the required disbursement notification letters. These 11 students received loan funds, but these funds did not result in credit balances on the students' accounts. The Medical Center asserts that when students do not have credit balances on their accounts, the Medical Center mails loan disbursement notifications to the student, but it does not retain copies of those notifications.

Additionally, when a student receives loan funds that result in a credit balance to the student's account, the Medical Center e-mails the disbursement notification to the student. However, the **e-mail notifications do not contain the actual disbursement date of the loan.**

Not receiving the disbursement notifications or not being notified of the actual loan disbursement dates could impair students' and parents' ability to cancel their loans.

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 Medical Center did not appropriately restrict access to its student financial aid application. Specifically, three users had excessive access to the student financial aid application database. Two of these users were programmers and one was a former temporary employee.

Additionally, auditors identified the following situations in which multiple users shared a generic user ID:

- Four users shared a generic user ID to migrate code to the production environment for the student financial aid application. Two of these individuals were programmers for that application.
- A group of 28 individuals shared a generic high-profile user ID for the student financial aid application server.
- The domain administrators group, which included 28 individuals, shared a generic high-profile user ID for the network.

Allowing employees inappropriate or excessive access to Medical Center systems increases the risk of inappropriate changes and does not allow for segregation of duties. Sharing a user ID and password does not allow for user accountability and does not follow the Medical Center's published password policy.

Additionally, two user accounts for the student financial aid application were still active but were unused or were not assigned to a specific individual. Inactive or unassigned user accounts should be deactivated. Leaving inactive or unassigned accounts active can lead to possible unauthorized entry into the application.

Recommendations:

The Medical Center should:

- Retain documentation demonstrating that it sent loan disbursement notifications within the required time frames.
- Include all of the required disclosures, such as the disbursement date of funds, in e-mail disbursement notifications.
- Limit high-profile access to the student financial aid database to the appropriate users based on their responsibilities.
- Define user access for migrating student financial aid application code to the production environment in a manner that promotes separation of duties and is based on users' responsibilities.
- Assign each user a unique user ID and password for all logins.
- Disable inactive or unused user accounts for the student financial aid application.

Management Response and Corrective Action Plan:

Disbursement Notification Letters

Loan disbursement procedures have been revised to include retaining backup documentation to confirm that the date of the loan notification is within the required time frames.

Implementation Date: *January 2011*

Responsible Person: *Charles Kettlewell*

The standard content used in e-mail disbursement notifications has been revised to include the disbursement date of the funds.

Implementation Date: *January 2011*

Responsible Person: *Charles Kettlewell*

General Controls

It is important to note that all of the access control issues are unique to an existing proprietary mainframe computer system (SIS) which will be retired in March of 2012 in favor of more modern system architecture (Oracle/PeopleSoft).

High-profile access to the student financial aid database has been limited to the appropriate users based on their responsibilities.

The audit team identified situations where three users shared administrative access to the database and 28 individuals shared generic high-profile user stat us for the Network and Application Server.

The three users with administrative access to the main database were high-level users whose responsibilities required high access levels to perform system tasks. Inherent within the system architecture is the storage of working files that are maintained for exclusive use by the specific User ID. Therefore, to avoid conflicted data, the users are required to work with a shared generic login. This need will be removed once more modern system architecture and security is implemented in March 2012.

SIS runs on an Open VMS system, not a Windows System. Due to the cost of hardware and hardware maintenance, we have implemented the Open VMS system that runs the SIS product on a virtualization technology called Charon. This technology is very much like VMWare, except that the emulated hardware layer is VAX and the Operating System is Open VMS instead of Windows or Linux. The Domain administrator account and groups have elevated access to the HOST system, but do not have authority on the Open VMS GUEST named SWVX12 where SIS runs. System account access on the Open VMS system is limited to the three Open VMS system administrators. Due to the age of the Open VMS/VAX operating system, many of the more modern methods of implementing policy-based access controls are not available. The access to the Windows server is governed by Active Directory Authentication and the administrator role is assigned to members of the Systems and Operations Group that have System/Database support as their primary role. As a mitigating control, all personnel within the division of Systems and Operations (the 28) possess successfully adjudicated NACI High background investigations performed by the federal Office of Personnel Management.

Implementation Date: *March 2012*

Responsible Person: *Charles Kettlewell*

Change management procedures have been implemented for migrating student financial aid application code to the production environment to mitigate risks created by limited resources and the system functionality. Access for this purpose is already tightly restricted to the extent the size of the technical support team allows. However, application code change management procedures were changed immediately to require documentation of 1) a summary of all changes made, 2) itemized approval of the changes prior implementation in production mode, and 3) final system change approval by the primary business owner.

Implementation Date: *January 2011*

Responsible Person: *Charles Kettlewell*

Unique logins for the self-contained database system are already standard in all cases except where temporary working files are utilized that must remain in a common access directory for consistent processing. Shared logins are only used where the common access directory is required. This functionality is inherent to the existing proprietary system which is being retired in March 2012 in favor of more modern architecture.

Implementation Date: *March 2012*

Responsible Person: *Charles Kettlewell*

The inactive or unused user accounts in the student financial aid application have been deleted. The accounts identified in the finding were for two former employees of the Institution who were expected to provide occasional on-going contract work where the access levels would have been required. Their access rights within the system were tightly contained within the system and would have required two additional gateway access points to reach and the individual's login passwords within the system which had been changed following non-employment. Their access rights were retained largely as a template within the system to aid in future setup.

Implementation Date: *January 2011*

Responsible Person: *Charles Kettlewell*

Reference No. 11-187

Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds
Special Tests and Provisions - Awards with ARRA Funding
Special Tests and Provisions - Indirect Cost Limitation

Research and Development Cluster
Research and Development Cluster - ARRA
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency and Non-Compliance

Cash Management

Questioned Cost: $ 0

U.S. Department of Defense

Recipients shall maintain advances of federal funds in interest-bearing accounts. For those entities to which the Cash Management Improvement Act (CMIA) and its implementing regulations do not apply, interest earned on federal advances deposited in interest-bearing accounts shall be remitted annually to the U.S. Department of Health and Human Services. Interest amounts up to $250 per year may be retained by the recipient for administrative expense. State universities and hospitals shall comply with CMIA, as it pertains to interest (Title 2, Code of Federal Regulations (CFR), Section 215.22(L)). In addition, Title 31, CFR, Section 205, which implements the CMIA, requires state interest liability to accrue if federal funds are received by a state prior to the day the state pays out the funds for federal assistance program purposes. State interest liability accrues from the day federal funds are credited to a state account to the day the state pays out the federal funds for federal assistance program purposes (Title 31, CFR, Section 205.15).

The University of Texas Southwestern Medical Center at Dallas (Medical Center) received scheduled payments on grants funded by the U.S. Department of Defense. According to its records, the Medical Center had 32 active projects during fiscal year 2010 with terms that included scheduled payments. These funds may be considered advanced funds if expenditures are not paid prior to receiving the funds. **The Medical Center did not calculate or remit to the federal government interest on funds it received in advance of expenditures for these awards.**

Other Compliance Requirements

Although the general controls weaknesses described below apply to activities allowed or unallowed, allowable costs/cost principles, period of availability of federal funds, special tests and provisions – awards with ARRA funding, and special tests and provisions – indirect cost limitation, auditors identified no compliance issues regarding these compliance requirements.

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 Medical Center did not appropriately restrict access to the Online Administrative System (OAS), which is the Medical Center's accounting system. Specifically:

- One programmer had super user access to the production mainframe supporting OAS.
- Eight former Medical Center employees had active OAS user accounts to the accounting and/or purchasing applications.

Allowing employees inappropriate or excessive access to Medical Center systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment.

Additionally, the Medical Center asserted that it last reviewed user access to OAS in 2008; however, it did not provide documentation of its most recent review. The Medical Center did not review user access to OAS during fiscal year 2010. The absence of periodic reviews of user access rights increases the risk that unauthorized access to information resources may not be prevented or detected.

Recommendations:

The Medical Center should:

- Develop and implement procedures to calculate and remit interest payments to the federal government when federal funds are credited to its accounts before it uses those funds.
- Periodically review user accounts and restrict access to OAS to current employees based on job duties and responsibilities.
- Remove programmer access to the OAS production mainframe to promote separation of duties.

Management Response and Corrective Action Plan:

Cash Management

The Medical Center will use its existing procedures and processes to calculate and pay interest to the federal government on awards in which the Medical Center has received funding in advance of expenditures and the sponsor requires such interest.

Implementation Date: *January 2011*

Responsible Person: *Don Mele*

General Controls

An OAS user access audit is in progress. A list of OAS users will be submitted to all "reports to" managers listed in the University's legacy HR system. This report will contain Employee Name, Employee ID, and whether or not the employee has access to the Accounting (ACCT) and/or Purchasing (PUIS) applications. This report will be submitted to the "reports to" manager for validation of appropriate access, with a reply requested within two weeks. Generation and submission of these user access validation reports will take place each June.

Implementation Date: *June 2011*

Responsible Person: *Andrea Marshall*

The person identified by the SAO as having super-user access is not an application programmer. He is a database administrator supporting the OAS application who also performs system support duties as a system programmer essential to maintain the mainframe operating system running the OAS application. He does not make application program changes on OAS. Per the Senior Systems Engineer in the System Operations Group (SOG), this person requires unrestricted access to the mainframe programs and data at the operating system level to perform his duties as a system programmer. We believe this risk is necessary and acceptable. Removing the employee's access is not a feasible option at this time.

The primary OAS accounts for the eight people identified in this audit had already been revoked in RACF, the mainframe security system, at the time of the audit and, therefore, could no longer log on to OAS. The user accounts that were reviewed in the audit were set up to give the users access to specific functions in OAS (purchasing and accounting) that were in addition to the standard access to OAS. However, when the primary account for the person was revoked, he/she could no longer access these additional functions. So there was no risk of inappropriate access to these functions. Per the Senior Systems Engineer in SOG, passwords are set to automatically expire in RACF every 90 days unless they are reset. The actual revoked flag that is included in reports is not set until a login attempt is made after this time frame.

Implementation Date: *Not Applicable*

Responsible Person: *Andrea Marshall*

Reference No. 11-188

Equipment and Real Property Management

Research and Development Cluster
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency and Non-Compliance

Equipment Inventory Records

Questioned Cost: $ 0

U.S. Department of Health and Human Services

A recipient's equipment records for equipment acquired with federal funds and federally-owned equipment should be maintained accurately and include all of the following: a description of the equipment; manufacturer's serial number or other identification number, the source of the equipment, including the award number; whether title vests in the recipient or the federal government; acquisition date and cost; the percentage of federal participation in the cost of the equipment; location and condition of the equipment; unit acquisition cost; and ultimate disposition data for the equipment (Title 2, Code of Federal Regulations, Section 215.34 (f)).

The University of Texas Southwestern Medical Center at Dallas (Medical Center) did not maintain complete equipment property records for 21 (53 percent) of 40 equipment items tested. Specifically:

- For three equipment items, the Medical Center recorded an incorrect serial number for the equipment in its property records.
- For 18 equipment items, the Medical Center did not record the serial number for the equipment in its property records.

The Medical Center has a process to track serial numbers as it enters information about equipment into its inventory management system; however, it did not always enter the serial numbers into its inventory management system. Not maintaining complete and accurate inventory records could result in non-traceable missing, lost, or stolen equipment.

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 Medical Center did not appropriately restrict access to the Online Administrative System (OAS), which is the Medical Center's accounting system. Specifically:

- One programmer had super user access to the production mainframe supporting OAS.
- Eight former Medical Center employees had active OAS user accounts to the accounting and/or purchasing applications.

Allowing employees inappropriate or excessive access to Medical Center systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment.

Additionally, the Medical Center asserted that it last reviewed user access to OAS in 2008; however, it did not provide documentation of its most recent review. The Medical Center did not review user access to OAS during fiscal year 2010. The absence of periodic reviews of user access rights increases the risk that unauthorized access to information resources may not be prevented or detected.

Recommendations:

The Medical Center should:

- Establish a process to ensure that it maintains complete and accurate inventory records for equipment.
- Periodically review user accounts and restrict access to OAS to current employees based on job duties and responsibilities.
- Remove programmer access to the OAS production mainframe to promote separation of duties.

Management Response and Corrective Action Plan:

We understand the state auditors' interpretation on this issue. We would like to obtain additional information from our federal awarding agency to ensure that our inventory records are in compliance with all federal rules and regulations with an implementation date of August 31, 2011.

Implementation Date: *August 31, 2011*

Responsible Person: *Paul Belew*

General Controls

An OAS user access audit is in progress. A list of OAS users will be submitted to all "reports to" managers listed in the University's legacy HR system. This report will contain Employee Name, Employee ID, and whether or not the employee has access to the Accounting (ACCT) and/or Purchasing (PUIS) applications. This report will be submitted to the "reports to" manager for validation of appropriate access, with a reply requested within two weeks. Generation and submission of these user access validation reports will take place each June.

Implementation Date: *June 2011*

Responsible Person: *Andrea Marshall*

The person identified by the SAO as having super-user access is not an application programmer. He is a database administrator supporting the OAS application who also performs system support duties as a system programmer essential to maintain the mainframe operating system running the OAS application. He does not make application program changes on OAS. Per the Senior Systems Engineer in the System Operations Group (SOG), this person requires unrestricted access to the mainframe programs and data at the operating system level to perform his duties as a system programmer. We believe this risk is necessary and acceptable. Removing the employee's access is not a feasible option at this time.

The primary OAS accounts for the eight people identified in this audit had already been revoked in RACF, the mainframe security system, at the time of the audit and, therefore, could no longer log on to OAS. The user accounts that were reviewed in the audit were set up to give the users access to specific functions in OAS (purchasing and accounting) that were in addition to the standard access to OAS. However, when the primary account for the person was revoked, he/she could no longer access these additional functions. So there was no risk of inappropriate access to these functions. Per the Senior Systems Engineer in SOG, passwords are set to automatically expire in RACF every 90 days unless they are reset. The actual revoked flag that is included in reports is not set until a login attempt is made after this time frame.

Implementation Date: *Not Applicable*

Responsible Person: *Andrea Marshall*

Reference No. 11-189

Reporting

Research and Development Cluster - ARRA
Award year - September 15, 2009 to September 14, 2010
Award number - CFDA 93.701 3R01NS049517-05S1 (ARRA)
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Department of Health and Human Services

Section 1512 of the American Recovery and Reinvestment Act (Recovery Act) requires that recipients submit quarterly reports to the federal government. Information required to be submitted includes (1) the amount of Recovery Act funds received; (2) the amount of Recovery Act funds received that were expended; (3) a detailed list of all projects or activities for which Recovery Act funds were expended; (4) an estimate of the number of jobs created or retained; and (5) detailed information on any subcontracts or subgrants awarded by the recipient, including the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282) (Recovery Act, Section 1512(c)).

The University of Texas Southwestern Medical Center at Dallas (Medical Center) did not always accurately report the amount of Recovery Act funds expended in the quarterly reports required by Section 1512 of the Recovery Act. For 1 (3 percent) of 35 Section 1512 reports tested for the quarter ended June 30, 2010, the Medical Center inaccurately reported the total amount expended for the award. The Medical Center reported the total amount expended was $221,268; however, the Medical Center's accounting records show the total amount expended was $242,201, a difference of $20,933.

The Medical Center does not have a formal, documented process, such as a review and approval of Section 1512 reports, to ensure that the Recovery Act information it reports is accurate and complete. Quarterly reports are submitted to the federal government to comply with Recovery Act Section 1512 reporting requirements and provide transparency regarding Recovery Act funds spent. When the Medical Center submits an inaccurate report, this decreases the reliability of the information intended for the federal government and the general public.

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 Medical Center did not appropriately restrict access to the Online Administrative System (OAS), which is the Medical Center's accounting system. Specifically:

- One programmer had super user access to the production mainframe supporting OAS.
- Eight former Medical Center employees had active OAS user accounts to the accounting and/or purchasing applications.

Allowing employees inappropriate or excessive access to Medical Center systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment.

Additionally, the Medical Center asserted that it last reviewed user access to OAS in 2008; however, it did not provide documentation of its most recent review. The Medical Center did not review user access to OAS during fiscal year 2010. The absence of periodic reviews of user access rights increases the risk that unauthorized access to information resources may not be prevented or detected.

Recommendations:

The Medical Center should:

- Design and implement controls to ensure that it prepares accurate and complete quarterly financial reports for the Recovery Act and that it enters correct information into the federal reporting Web site.
- Periodically review user accounts and restrict access to OAS to current employees based on job duties and responsibilities.
- Remove programmer access to the OAS production mainframe to promote separation of duties.

Management Response and Corrective Action Plan:

Reporting

The Medical Center will establish review procedures to ensure that the reported information is accurate. The Medical Center is currently receiving reports from the Comptroller's Office after the Section .1512 reports are submitted. These reports will be reviewed by the supervisor to confirm the accuracy of the submitted information.

Implementation Date: *April 2011*

Responsible Person: *Don Mele*

General Controls

An OAS user access audit is in progress. A list of OAS users will be submitted to all "reports to" managers listed in the University's legacy HR system. This report will contain Employee Name, Employee ID, and whether or not the employee has access to the Accounting (ACCT) and/or Purchasing (PUIS) applications. This report will be submitted to the "reports to" manager for validation of appropriate access, with a reply requested within two weeks. Generation and submission of these user access validation reports will take place each June.

Implementation Date: *June 2011*

Responsible Person: *Andrea Marshall*

The person identified by the SAO as having super-user access is not an application programmer. He is a database administrator supporting the OAS application who also performs system support duties as a system programmer essential to maintain the mainframe operating system running the OAS application. He does not make application program changes on OAS. Per the Senior Systems Engineer in the System Operations Group (SOG), this person requires unrestricted access to the mainframe programs and data at the operating system level to perform his duties as a system programmer. We believe this risk is necessary and acceptable. Removing the employee's access is not a feasible option at this time.

The primary OAS accounts for the eight people identified in this audit had already been revoked in RACF, the mainframe security system, at the time of the audit and, therefore, could no longer log on to OAS. The user accounts that were reviewed in the audit were set up to give the users access to specific functions in OAS (purchasing and accounting) that were in addition to the standard access to OAS. However, when the primary account for the person was revoked, he/she could no longer access these additional functions. So there was no risk of inappropriate access to these functions. Per the Senior Systems Engineer in SOG, passwords are set to automatically expire in RACF every 90 days unless they are reset. The actual revoked flag that is included in reports is not set until a login attempt is made after this time frame.

Implementation Date: *Not Applicable*

Responsible Person: *Andrea Marshall*

Reference No. 11-190

Subrecipient Monitoring
Special Tests and Provisions - R3 - Subrecipient Monitoring

Research and Development Cluster
Research and Development Cluster - ARRA
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency and Non-Compliance

Pre-award Monitoring

The University of Texas Southwestern Medical Center at Dallas (Medical Center) is required by Office and 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 contracts or grant agreements.

Questioned Cost: $ 0

Federal Agencies that Provide R&D Awards

The Medical Center did not properly identify all required federal award information and compliance requirements to its subrecipients at the time of award. Specifically, for 45 (100 percent) of 45 subrecipient awards tested, the Medical Center's subrecipient award agreement did not contain the Catalog of Federal Domestic Assistance (CFDA) title. The subrecipient agreement and contract template the Medical Center used did not include language that states the CFDA title. Therefore, this issue applies to all of the Medical Center's subrecipient awards. Additionally, 2 (4 percent) of 45 subrecipient award agreements tested did not contain the CFDA number.

Subrecipients of Recovery Act Funding

The American Recovery and Reinvestment Act (Recovery Act) of 2009 required recipients to (1) maintain records that identify adequately the source and application of Recovery Act funds; (2) separately identify to each subrecipient, and document at the time of subaward and at the time of disbursement of funds, the federal award number, the CFDA number, and the amount of Recovery Act funds; and (3) require their subrecipients to include on their Schedule of Expenditures of Federal Awards (SEFA) information to specifically identify Recovery Act funding (Title 2, Code of Federal Regulations, Section 176.210).

Recipients of Recovery Act awards are also required to ensure that the subrecipients that receive Recovery Act funds maintain active registrations in the Central Contractor Registration (CCR) and obtain a Dun and Bradstreet Data Universal Numbering System (DUNS) number (Title 2, Code of Federal Regulations, Section 176.50, and Recovery Act, Section 1512(h). This information is needed to allow the recipient to properly monitor subrecipient expenditures of Recovery Act funds and for oversight by the federal awarding agencies, offices of inspector general, and the U.S. Government Accountability Office.

For 7 (100 percent) of 7 Recovery Act subrecipient awards tested, the Medical Center:

- **Did not, at the time of award, notify the subrecipients of the requirement to include appropriate identification of Recovery Act funds in their SEFAs.**
- **Did not, at the time of award, ensure that subrecipients were registered with the CCR.**
- **Did not separately identify to each subrecipient, and document at the time of disbursement of funds, the Federal award number, CFDA number, and the amount of Recovery Act funds.**

The Medical Center's Recovery Act subrecipient agreement and contract template did not have language that notified subrecipients of the requirement to include appropriate identification of Recovery Act funds in their SEFAs. Additionally, the Medical Center did not have a process to ensure that subrecipients were registered with the CCR at the time of award of Recovery Act funds or to notify its subrecipients of the required Recovery Act information at time of disbursement of Recovery Act funds. As a result, these issues affect all of the Medical Center's Recovery Act subrecipient awards.

Recommendations:

The Medical Center should:

- Ensure that subrecipient award documentation templates contain CFDA title and number.
- Develop and implement a process to, at the time of award, notify its subrecipients of the requirement to provide appropriate identification of Recovery Act funds in their SEFAs.
- Develop and implement a process to, at the time of award, verify that all subrecipients that receive Recovery Act funding are registered with the CCR.
- Develop and implement a process to separately identify to each subrecipient, and document at the time of disbursement of funds, the Federal award number, CFDA number, and the amount of Recovery Act funds.

Management Response and Corrective Action Plan:

Pre-award Monitoring

The Medical Center's Research Grants and Contracts Office has implemented procedures to include in its contracts to subrecipients the CFDA Number and Title, as required by 0MB Circular A-133, Subpart D 400(d) (1).

Implementation Date: *February 2011*

Responsible Person: *Cheryl Anderson*

Subrecipients of Recovery Act Funding

The Research Grants and Contracts Office has implemented procedures to include in its contracts to subrecipients of ARRA funding, a notification of the requirement to include appropriate identification of Recovery Act funds in their SEFA.

Implementation Date: *February 2011*

Responsible Person: *Cheryl Anderson*

The Research Grants and Contracts Office has implemented procedures to ensure that the subrecipients were registered with the CCR, as required by 2 CFR Part 176.50 and 176.210.

Implementation Date: *February 2011*

Responsible Person: *Cheryl Anderson*

The Medical Center's Office of Post-Award Administration has implemented a procedure to identify, by letter, to each subrecipient of ARRA funds at the time of disbursement of funds, the federal award number, the CFDA number, and the amount of Recovery Act funds disbursed, as required by 2 CFR Part 176.210(c).

Implementation Date: *January 2011*

Responsible Person: *Don Mele*

Reference No. 11-191

Special Tests and Provisions - Key Personnel

Research and Development Cluster
Award year - September 1, 2009 to August 31, 2010
Award number - CFDA 93.397 5 P50 CA091846 09
Type of finding - Significant Deficiency

Key Personnel Effort

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 pertain 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.

Based on completed effort certifications tested at the University of Texas Southwestern Medical Center at Dallas (Medical Center), 1 (7 percent) of 15 key personnel did not correctly report the minimum required effort on an NIH project. For this project, the NOGA required the principal investigator to commit a minimum of 5 percent of his effort to the project for fiscal year 2010, but the principal investigator certified no effort on the project for that time period. However, the progress report for the project and other preliminary effort information indicated that the principal investigator was involved with the grant during the time period as required. **This indicates that the Medical Center should strengthen its monitoring of key personnel effort commitment and certification.**

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 Medical Center did not appropriately restrict access to the Online Administrative System (OAS), which is the Medical Center's accounting system. Specifically:

- One programmer had super user access to the production mainframe supporting OAS.
- Eight former Medical Center employees had active OAS user accounts to the accounting and/or purchasing applications.

Allowing employees inappropriate or excessive access to Medical Center systems increases the risk of inappropriate changes and does not allow for segregation of duties. In general, programmers should not have access to migrate code changes to the production environment.

Additionally, the Medical Center asserted that it last reviewed user access to OAS in 2008; however, it did not provide documentation of its most recent review. The Medical Center did not review user access to OAS during fiscal year 2010. The absence of periodic reviews of user access rights increases the risk that unauthorized access to information resources may not be prevented or detected.

Recommendations:

The Medical Center should:

- Strengthen its monitoring of key personnel effort commitment and certification to ensure compliance with the effort requirements of federal awards.
- Periodically review user accounts and restrict access to OAS to current employees based on job duties and responsibilities.
- Remove programmer access to the OAS production mainframe to promote separation of duties.

Management Response and Corrective Action Plan:

Key Personnel Effort

The Medical Center agrees that a sampled effort report was not completed correctly. Additional information has been provided to the auditors to confirm that the effort was met. The department administrator has been contacted, the issue has been discussed, and the effort report has been reviewed and corrected by the investigator. The Medical Center has established compliance monitoring procedures for effort reporting and monitoring is ongoing. These procedures will be reviewed and adjustments to the process will be made accordingly. Education and training provided to investigators and to the department pre-approvers and administrators emphasizing the review of committed effort and the reporting of cost sharing is on ongoing issue and will continue.

Implementation Date: *March 2011*

Responsible Person: *Diane Sheppard*

General Controls

An OAS user access audit is in progress. A list of OAS users will be submitted to all "reports to" managers listed in the University's legacy HR system. This report will contain Employee Name, Employee ID, and whether or not the employee has access to the Accounting (ACCT) and/or Purchasing (PUIS) applications. This report will be submitted to the "reports to" manager for validation of appropriate access, with a reply requested within two weeks. Generation and submission of these user access validation reports will take place each June.

Implementation Date: *June 2011*

Responsible Person: *Andrea Marshall*

The person identified by the SAO as having super-user access is not an application programmer. He is a database administrator supporting the OAS application who also performs system support duties as a system programmer essential to maintain the mainframe operating system running the OAS application. He does not make application program changes on OAS. Per the Senior Systems Engineer in the System Operations Group (SOG), this person requires unrestricted access to the mainframe programs and data at the operating system level to perform his duties as a system programmer. We believe this risk is necessary and acceptable. Removing the employee's access is not a feasible option at this time.

The primary OAS accounts for the eight people identified in this audit had already been revoked in RACF, the mainframe security system, at the time of the audit and, therefore, could no longer log on to OAS. The user accounts that were reviewed in the audit were set up to give the users access to specific functions in OAS (purchasing and accounting) that were in addition to the standard access to OAS. However, when the primary account for the person was revoked, he/she could no longer access these additional functions. So there was no risk of inappropriate access to these functions. Per the Senior Systems Engineer in SOG, passwords are set to automatically expire in RACF every 90 days unless they are reset. The actual revoked flag that is included in reports is not set until a login attempt is made after this time frame.

Implementation Date: *Not Applicable*

Responsible Person: *Andrea Marshall*

Water Development Board

Reference No. 11-192
Reporting

CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds - ARRA
Award year - February 1, 2009 to August 31, 2014
Award number - 2F-96692301 (ARRA)
Type of finding - Significant Deficiency and Non-Compliance

Questioned Cost: $ 0

U.S. Environmental Protection Agency

Section 1512 of the American Recovery and Reinvestment Act (Recovery Act) requires that recipients submit quarterly reports to the federal government. Information required to be submitted includes (1) the amount of Recovery Act funds received; (2) the amount of Recovery Act funds received that were expended; (3) a detailed list of all projects or activities for which Recovery Act funds were expended; (4) an estimate of the number of jobs created or retained; and (5) detailed information on any subcontracts or subgrants awarded by the recipient, including the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282) (Recovery Act Section 1512(c)). The prime recipient of Recovery Act funds is responsible for the reporting of all data required by Recovery Act Section 1512 for its subrecipients. As the prime recipient of Recovery Act funds, the Water Development Board (Board) obtains this information from its subrecipients and submits it to the federal government.

The report the Board submitted for the quarter ending June 30, 2010, for the Capitalization Grants for Drinking Water State Revolving Funds program did not include all activity in the reporting period and was not supported by the Board's accounting records. Errors related to three subrecipients resulted in the understatement of expenditures by $624,493, which was 2 percent of the $29,027,062 expenditures for all subrecipients included in the report. The Board did not detect the errors because it does not have a review process prior to submitting the report.

Quarterly reports are submitted to the federal government to comply with Recovery Act Section 1512 reporting requirements and provide transparency regarding Recovery Act funds spent. When the Board submits an inaccurate report, this decreases the reliability of the information intended for the federal government and the general public.

Recommendation:

The Board should develop and implement controls to ensure that the information it includes in its quarterly Recovery Act reports is accurate. At a minimum, controls should include a review process that reconciles reported information to supporting accounting records.

Management Response and Corrective Action Plan:

TWDB concurs with the finding and has developed a process that reconciles reported information to supporting accounting records. It is noted that the amounts identified as under-reported were included in subsequent submissions thereby realizing complete and accurate reporting.

Implementation Date: *February 2011*

Responsible Person: *John Steib*

Reference No. 11-193

Subrecipient Monitoring

CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds
CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds - ARRA
Award years - September 21, 2004 to December 31, 2010, September 27, 2005 to September 15, 2011, and February 1, 2009 to August 31, 2014
Award numbers - FS-996795-08, FS-996795-09, and 2F-96692301 (ARRA)
Type of finding - Significant Deficiency and Non-Compliance

The Water Development Board (Board) is required by Office and 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.

Questioned Cost: $ 0

U.S. Environmental Protection Agency

Pre-award Monitoring

Recipients of American Recovery and Reinvestment Act (Recovery Act) awards are required to ensure that the subrecipients that receive Recovery Act funds maintain active registrations in the Central Contractor Registration (CCR) and obtain a Dun and Bradstreet Data Universal Numbering System (DUNS) number (Title 2, Code of Federal Regulations, Section 176.50, and Recovery Act, Section 1512(h)). This information is needed to allow the recipient to properly monitor subrecipient expenditures of Recovery Act funds and for oversight by the federal awarding agencies, offices of inspector general, and the U.S. Government Accountability Office.

The Board must review and perform periodic checks to confirm that subrecipients receiving Recovery Act funds have current CCR registrations before and during the award period. To accomplish this, the Board requests CCR information as part of the subrecipient application process and uses a checklist to ensure that the subrecipient provided that information. **For 6 (24 percent) of 25 subrecipients tested, the subrecipient did not include CCR information on the application or the Board did not complete a checklist.** In addition, there was no evidence that the Board (1) verified CCR registrations upon the receipt of the application and prior to the first award disbursement or (2) monitored the registration throughout the year. Although the Board indicated that it made those checks, it had no procedures to document that it made those checks.

A-133 Single Audit Compliance Monitoring

According to OMB Circular A-133, the Board must ensure that each subrecipient that expends more than $500,000 in federal funds obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Board within 9 months of the end of the subrecipient's fiscal year (OMB Circular A-133, Sections 320 and 400). In addition, the Board must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Board must take appropriate action using sanctions (OMB Circular A-133 Sections 225).

For 2 (12 percent) of 17 subrecipients originally tested, the Board did not ensure that the subrecipient either obtained a Single Audit or provided a certification that it was exempt from Single Audit requirements. Further analysis of the subrecipient population identified one more subrecipient that did not obtain a Single Audit or provide a certification that it was exempt. The Board provided documentation indicating that it made some effort to collect that information. **In addition, the Board did not ensure that 9 (8 percent) of 109 subrecipients submitted audit reports within nine months of the end of their fiscal year.**

These issues increase the risk that the Board will not be aware of instances in which subrecipients fail to comply with federal requirements and increase the potential of program funds not being spent as intended.

Recommendations:

The Board should:

- Develop and implement a procedure to ensure that it verifies CCR registration information for every Recovery Act applicant at the time of application, prior to the first disbursement of funds, and periodically throughout the life of the project. The Board also should maintain documentation of these verifications.

- Streamline and simplify the process for tracking its receipt of audit reports from subrecipients' Single Audits and confirmations from subrecipients. The Board also should use available tools, including sanctions, to encourage subrecipients to comply with the requirements to submit an audit report or a certification of exemption.

Management Response and Corrective Action Plan:

The Board should develop and implement a procedure to ensure that it verifies CCR registration information for every Recovery Act applicant at the time of application, prior to the first disbursement of funds, and periodically throughout the life of the project. The Board also should maintain documentation of these verifications.

TWDB concurs with the finding and has developed an operating procedure to ensure the CCR is verified on receipt of the application, at the point of initial disbursement of funds, and ensure the CCR is renewed at the appropriate times thereafter. This verification will be documented in a tracking spreadsheet that will be included in each sub-recipient file for reference.

Implementation Date: *February 2011*

Responsible Person: *John Steib*

The Board should streamline and simplify the process for tracking its receipt of audit reports from subrecipients' Single Audits and confirmations from subrecipients. The Board also should use available tools, including sanctions, to encourage subrecipient to comply with the requirement to submit an audit report or a certification of exemption.

Management concurs that the process for tracking the receipt of Single Audit reports could be streamlined. There should be continuous improvement in efficiency, and management has identified both short-term and long-term improvements. Management will also identify tools and procedures for working with subrecipients to further improve the receipt of Single Audits.

Implementation Date: *June 2011*

Responsible Persons: *Piper Montemayor and Carleton Wilkes*

This page intentionally left blank.

Summary Schedule of Prior Audit Findings

Federal Portion of
Statewide Single Audit Report

For the Year Ended August 31, 2010

This page intentionally left blank.

Summary Schedule of Prior Year Audit Findings - Table of Contents

Prior Year Audit Findings - KPMG

Agriculture, Department of 450
Assistive and Rehabilitative Services, Department of 454
Family and Protective Services, Department of 455
Health and Human Services Commission 460
Housing and Community Affairs, Department of 484
Human Services, Department of 488
Office of Attorney General 490
Parks and Wildlife Department 491
State Health Services, Department of 493
Texas Department of Rural Affairs 495
Texas Education Agency 498
Texas Higher Education Coordinating Board 506
Texas Workforce Commission 513

Prior Year Audit Findings - Other Auditors

Adjutant General's Department 516
Angelo State University 526
Lamar State College - Port Arthur 527
Prairie View A&M University 530
Public Safety, Department of 537
Sam Houston State University 557
Stephen F. Austin State University 563
Sul Ross State University 569
Tarleton State University 571
Texas A&M University 578
Texas A&M University - Commerce 580
Texas A&M University - Corpus Christi 583
Texas A&M University - Kingsville 584
Texas Southern University 585
Texas State Technical College - West Texas 588
Texas State University - San Marcos 590
Texas Tech University 604
Transportation, Department of 609
University of Houston 631
University of Houston - Clear Lake 639
University of Houston - Downtown 641
University of Houston - Victoria 642
University of North Texas 644
University of North Texas Health Science Center at Fort Worth 651
University of Texas at Arlington 654
University of Texas at Austin 665
University of Texas at Dallas 674
University of Texas at El Paso 676
University of Texas Health Science Center at Houston 677
University of Texas Health Science Center at San Antonio 681

University of Texas M.D. Anderson Cancer Center 684
University of Texas Medical Branch at Galveston 688
University of Texas - Pan America 694
University of Texas at Permian Basin 699
University of Texas at San Antonio 704
University of Texas at Tyler 705
Water Development Board 709
West Texas A&M University 712

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 2009 Schedule of Findings and Questioned Costs
- Each finding in the 2009 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, 2010) has been prepared to address these responsibilities.

Department of Agriculture

Reference No. 10-04
Subrecipient Monitoring

CFDA 10.558 - Child and Adult Care Food Program
Award Year - October 1, 2008 to September 30, 2009
Award numbers - 6TX300352 and 6TX300332
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Agriculture

The administering agency is required to assess institutional compliance by performing reviews of independent centers, sponsoring organizations of centers, and sponsoring organizations of day-care homes, including reviews of 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 (1-1-09) § 226.6 (m)(6)(i)(ii)

For 1 of the 41 subrecipients selected for review, Texas Department of Agriculture (TDA) was unable to locate the most recent on-site review instrument. For this subrecipient, an on-site review was last performed in fiscal year 2007. TDA was able to provide letters of two correspondences sent to this subrecipient, one notifying the subrecipient of a site visit on February 28, 2007, and the other post-visit, indicating a review was conducted on February 28, 2007 where TDA had no findings. However, the actual monitoring tool could not be located.

In addition, TDA was unable to locate the most recent on-site visit and related written correspondence for the second subrecipient selected for review. Per TDA, this file was damaged and discarded after a flood caused by Hurricane Ike at the Houston site office. Additionally, KPMG could not obtain copies of the mail correspondence between TDA and the subrecipient regarding this site review. Per TDA, the letters had been lost in the flood, and any electronic files had been erased after the subsequent retirement of the TDA reviewer.

Also 7 CFR Section 226.6 states, "The State agency must annually review at least 33.3% of all institutions. At least 15% of the total number of facility reviews required must be unannounced. The State agency must review institutions according to the following schedule:

(i) Independent centers and sponsoring organization 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% of the sponsoring organizations facilities;

(ii) Sponsoring organizations with more than 100 facilities must be reviewed at least once every two years. These reviews must include reviews of 5% of the first 1,000 facilities and 2.5% of the facilities in excess of 1,000; and

(iii) New institutions that are sponsoring organizations of five or more facilities must be reviewed within the first 90 days of program operations.

TDA relies on the regional field offices to conduct the 15% unannounced reviews. TDA does not currently track these reviews to ensure the correct percentage is being conducted. TDA is notified of the reviews through receipt of the associated monitoring report. The two-year requirement is informally tracked; therefore TDA is unable to readily provide evidence that they are complying with the provision. TDA policy includes a 90-day technical review of new institutions; however, TDA does not have a mechanism in place to track the performance or our results of these reviews to demonstrate compliance.

Corrective Action:

Corrective action was taken.

Reference No. 10-05

Special Tests and Provisions - R3, Subrecipient Monitoring-Applicable to all major programs with expenditures of ARRA awards

Emergency Food Assistance Program Cluster - ARRA
Award Year - October 1, 2008 to September 30, 2009
Award number - 6TX400816
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Agriculture

The Department of Agriculture (TDA) passes through a significant amount of federal funds to subrecipients to carry out the objectives of the federal programs. Some of these funds were derived from the American Recovery and Reinvestment Act (ARRA) during fiscal year 2009. TDA is required by OMB Circular A-133, to communicate to subrecipients at the time of the award and at the time of disbursement of ARRA funds, the federal award number, CFDA number and the amount of ARRA funds. When ARRA funds are subawarded for an existing program, the information furnished to subrecipients should distinguish the subawards of incremental ARRA funds from regular subawards under the existing program. Additionally, TDA is required to communicate to subrecipients to separately identify ARRA funding on the subrecipient's Schedule of Expenditures of Federal Awards (SEFA) (2 CFR part 176.210).

At the time of the subaward, TDA separately identified the required ARRA information to the subrecipients including the SEFA requirement. However, upon the disbursement of ARRA funds and commodities, TDA did not identify to each subrecipient the federal award number, CFDA number, or the amount of ARRA funds or commodities. Per discussion with management, they were unaware of the compliance requirement to identify the required information with the disbursement of ARRA funds and commodities. During fiscal year 2009, approximately $6,236,000 of commodities and $253,000 of administrative costs in total were passed through to fifteen subrecipients.

Corrective Action:

Corrective action was taken.

Reference No. 10-06
Subrecipient Monitoring

Emergency Food Assistance Program Cluster - ARRA
Award Year - October 1, 2008 to September 30, 2009
Award number - 6TX840816
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Agriculture

The Texas Department of Agriculture (TDA) passes through a significant amount of federal funds to subrecipients to carry out the objectives of the federal program. Some of these funds were derived from the American Recovery and Reinvestment Act (ARRA) during fiscal year 2009. TDA is required by OMB Circular A-133 to determine whether the subrecipients have current Central Contractor Registration (CCR) registrations prior to making sub awards and performed periodic checks to ensure that subrecipients are updating information, as necessary. (2 CFR part 176.50)

TDA was unaware of the CCR/DUNS requirement and did not verify that their 15 food bank subrecipients were registered with CCR at the time of the ARRA subaward or prior to the first disbursement. For two of the food banks selected for review, TDA verified in September 2009 that they were registered with CCR at the time of the award. TDA subsequently notified all food banks and had them register with CCR by September 30, 2009. During fiscal year 2009, approximately $253,000 of ARRA administrative funds and $6,236,000 of ARRA commodities were disbursed to the 15 food banks prior to verification of CCR registration.

An eligible recipient agency (ERA) certifies households eligible to receive Emergency Food Assistance Program (TEFAP) commodities for household consumption by applying income eligibility criteria established by the State agency (7 CFR section 251.5 (b)). These criteria are approved in advance by the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA) as part of the State agency's distribution plan (7 CFR Section 251.6(a)).

When TDA conducts an on-site review of an ERA, TDA also conducts an on-site review on five of the ERA's sub-agencies. TDA's monitoring tool of the sub-agencies notes, "What eligibility guidelines a recipient must meet to receive food?" There is no documentation of individual recipients being reviewed for eligibility and/or application of the policy by the food banks. During fiscal year 2009, approximately $6,236,000 of ARRA commodities and $38,658,000 of non-ARRA commodities were passed through to 15 subrecipients (i.e., food banks).

Corrective Action:

Corrective action was taken.

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

Initial Year Written: 2008
Status: Implemented

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 for 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, 3 of the 34 admin users were developers. Lastly, 4 out of 34 admin user IDs were assigned to unknown users.
- One out of seventeen 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.

Corrective Action:

Corrective action was taken.

Department of Assistive and Rehabilitative Services

Reference No. 10-07
Eligibility
(Prior Audit Issue - 09-07)

CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States
Award years - October 1, 2008 to September 30, 2010 and October 1, 2007 to September 30, 2009
Award numbers - H126A090065 and H126A080065
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

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 Division for Blind Services (DBS) and 40 Division for Rehabilitation Services (DRS) consumers, 3 DBS and 2 DRS consumers were not determined eligible within 60 days and there was no notation in the case notes explaining exceptional or unforeseen circumstances. There was no agreement by the consumer to a specific extension of time. To address the prior year finding for DBS, DBS management implemented a 45-day review process in order to identify consumers pending eligibility decisions. The three DBS applications for the consumers noted above were dated prior to Spring 2009 when DBS implemented the 45-day review process.

Corrective Action:

This finding was reissued as current year reference number: 11-03.

Department of Family and Protective Services

Reference No. 10-08
Allowable Costs/Cost Principles
(Prior Audit Issues - 09-09, 08-04, 07-05, and 06-05)

CFDA 93.558 - Temporary Assistance for Needy Families
Award years - October 1, 2008 to September 30, 2009 and October 1, 2007 to September 30, 2008
Award numbers - G0902TXTANF and G0802TXTANF

CFDA 93.658 - Foster Care - Title IV-E
Award years - October 1, 2008 to September 30, 2009 and October 1, 2007 to September 30, 2008
Award numbers - G0901TX1401 and G0801TX1401

CFDA 93.659 - Adoption Assistance
Award years - October 1, 2008 to September 30, 2009 and October 1, 2007 to September 30, 2008
Award numbers - G0901TX1407 and G0801TX1407

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2007 to September 30, 2009 and October 1, 2007 to September 30, 2008
Award numbers - G0901TXSOSR and G0801TXSOSR
Type of finding - Significant Deficiency and 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, 2009. 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 2009.

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 regard to the RMTS Web-based system, eight INET developers have privileges on the server with the ability to access 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 2009 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).

Corrective Action:

This finding was reissued as current year reference number: 11-05.

Reference No. 10-09

Matching

CFDA 93.658 - Foster Care - Title IV-E - ARRA
Award year - October 1, 2008 to September 30, 2009
Award number - G0901TX1402
Type of finding - Significant Deficiency

Initial Year Written: 2009
Status: Implemented

U.S. Department of Health and Human Services

The percentage of required State funding and associated federal financial participation (FFP) varies by type of expenditure. The federal Medical Assistance Percentage (FMAP) rates are published annually in the Federal Register. These rates, which vary by State, are used for Title IV-E purposes to compute the federal share of maintenance assistance payments made under the Foster Care program. Under Section 5001(a) and (b) of ARRA, the FMAP rate was temporarily increased for the Foster Care CFDA 93.658 program retroactive to October 1, 2008. Of the four basic provisions to ARRA FMAP rates, certain types of expenditures within the Foster Care CFDA 93.658 program are eligible for the Hold Harmless and Across-the-Board ARRA provisions as noted below.

- *Hold Harmless:* The "regular" FMAP rate for FYs 2009, 2010, and 2011 will be compared to the "regular" rates for the prior one, two or three fiscal years, respectively, and the highest rate of that comparison will be used for FYs 2009, 2010, and the first quarter of FY 2011, respectively.
- *Across-the-Board:* After the hold harmless provision (above) is applied, an increase of 6.2 percent will be added to the FMAP rate of every State.

During the performance of audit procedures, the Master Code Allocation Table was noted to have been established with incorrect percentages. Certain project codes which were ineligible for the ARRA rate provisions were incorrectly matched with stimulus at 7.29%. In many instances, the Foster Care maintenance projects ARRA portion should have been diluted to account for the specific allowable Title IV-E FMAP percentage. The Department of Protective and Family Services (DFPS) corrected the approximately $12,000 of under matching (i.e., DFPS should have utilized more general revenue) prior to August 31, 2009 by making a method of finance adjustment and updated the respective reports filed with the federal government. Therefore, there are no questioned costs as of August 31, 2009.

Corrective Action:

Corrective action was taken.

Reference No. 10-10

Special Tests and Provisions - R3, Subrecipient Monitoring-Applicable to all Major Programs with Expenditures of ARRA Awards

Subrecipient Monitoring

CFDA 93.658 - Foster Care - Title IV-E - ARRA
Award year - October 1, 2008 to September 30, 2009
Award number - G0901TX1402
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written:	2009
Status: Implemented	
U.S. Department of Health and Human Services	

The Department of Family and Protective Services (DFPS) passes through a significant amount of federal funds to subrecipients to carry out the objectives of the federal programs. Some of these funds were derived from the American Recovery and Reinvestment Act (ARRA) during fiscal year 2009. DFPS is required by OMB Circular A-133, to communicate to subrecipients at the time of the award and at the time of disbursement of ARRA funds, the federal award number, CFDA number and the amount of ARRA funds. When ARRA funds are subawarded for an existing program, the information furnished to subrecipients should distinguish the subawards of incremental ARRA funds from regular subawards under the existing program. Additionally, DFPS is required to communicate to subrecipients to separately identify ARRA funding on the subrecipient's Schedule of Expenditures of Federal Awards (SEFA). (2 CFR part 176.210)

DFPS was unaware of the ARRA specific requirements noted above, and therefore did not communicate to the subrecipients prior to disbursement the federal award number, CFDA number, and the amount of ARRA funds. Also, DFPS did not communicate to the subrecipients that ARRA funds are to be separately identified in the SEFA and expenditure reports. DFPS disbursed approximately $24,000 of ARRA expenditures in fiscal year 2009 without notifying the one subrecipient at time of disbursement.

In addition, DFPS modified their subrecipient monitoring policy May 2009 to exclude the state and local governments from the Excluded Parties List System (EPLS) verification process. Per review of 40 subrecipient files, one contract was approved subsequent to May 2009 and no longer included the suspension and debarment language and DFPS did not verify the EPLS listing prior to approving the contract. Per review of the EPLS, the subrecipient is not suspended or debarred so there are no questioned costs.

Corrective Action:

Corrective action was taken.

Department of Family and Protective Services
Texas Workforce Commission

Reference No. 10-11
Eligibility
(Prior Audit Issues - 09-11, 08-07, 07-08, 06-09, 05-03, 04-37, and 04-38)

CFDA 93.658 - Foster Care - Title IV-E
Award years - October 1, 2008 to September 30, 2009 and October 1, 2007 to September 30, 2008
Award numbers - G0901TX1401 and G0801TX1401

CFDA 93.658 - Foster Care - Title IV-E - ARRA
Award year - October 1, 2008 to September 30, 2009
Award number - G0901TX1402
Type of finding - Significant Deficiency and Non-Compliance

Criminal Record Check and Child Abuse and Neglect Registry Check (DFPS)

Initial Year Written: 2003
Status: 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 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 a crime involving violence, including rape, sexual assault, or homicide, but not including other physical assault or battery.
4. 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 time frames 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 2009 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 by seven months.

Re-determination of Eligibility (DFPS)

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 2009, one instance was found where the eligibility re-determination was overdue by one month. 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. The child was determined to be eligible to continue to receive Foster Care assistance so there are no questioned costs.

Child-Care (TWC)

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 2009, one instance was found where a child who was not eligible for federal foster care funds. Two additional instances were found where the documentation to support the child care related payments could not be obtained at a sufficient level of detail. DFPS works with another state agency, Texas Workforce Commission (TWC), who passed the child care funding through to the Texas Local Workforce Development Boards. Neither DFPS nor TWC are currently able to provide a billing detail of children with their associated period of service to support the federal expenditures submitted under Foster Care, CFDA 93.658. The amount paid to one child determined to be ineligible was approximately $1,900 of Foster Care, CFDA 93.658 funding. The total amount of Foster Care CFDA 93.658 expenditures in fiscal year 2009 related to child care services was approximately $3,786,500.

Corrective Action:

Corrective action was taken.

Health and Human Services Commission

Reference No. 10-12
Eligibility
(Prior Audit Issues - 09-17, 08-12, and 07-13)

CFDA 93.558 - Temporary Assistance for Needy Families
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, and October 1, 2006 to September 30, 2007
Award numbers - G0902TXTANF, G0802TXTANF, G0702TXTANF

Supplementary Nutrition Assistance Program Cluster
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - 6TX400105

Medicaid Cluster
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, and October 1, 2006 to September 30, 2007
Award numbers - 0905TX5028, 0905TX5048, 0805TX5028, 0805TX5048, 0705TX5028, and 0705TX5048

Medicaid Cluster - ARRA
Award year - October 1, 2008 to September 30, 2009
Award number - 05-0905TXARRA
Type of finding - Material Weakness Control and Material 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 Supplementary Nutrition Assistance Program (SNAP formerly known as the Food Stamp Program) - the legacy system, System of Application, Verification, Eligibility, Referral, and Reporting (SAVERR), and Texas Integrated Eligibility Reporting System (TIERS).

Per review of the regulations and State Plan documents for Medicaid, TANF, and SNAP 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 SNAP (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 SNAP 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 SNAP 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 SNAP 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 SNAP 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 the production environment through the "wasadmin" account.
- The Oracle database password policy is not enforced.
- Two individuals had TIERS Security Administrator role and provisioning role in the application. In addition, four individuals had a provisioning role in the TIERS application. The provisioning role was disabled upon notification.
- Inactive user accounts with administrative access and generic access existed on the operating systems for the Web, database, and application servers. Five inactive generic accounts were noted on the Oracle database. Two inactive user accounts were noted on Oracle database for one selected server. A terminated vendor employee's account with SUDO access still existed in the selected servers. All accounts were removed upon notification.
- The URL for the TIERS login screen is available on the internet and while a 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. Selection 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 toward 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 caseworker 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 (TWC). Through IEVS, applicants' social security numbers are matched to respective agencies' records to verify earned and unearned sources of income. The IEVS interface process for TIERS was implemented into production during fiscal year 2009; however, some federal files had not been processed by year-end. Specifically: (1) The TWC wage process was fully implemented in March 2009 and the TWC unemployment insurance benefit process was fully implemented in April 2009; (2) The SSA production response file was received by HHSC in August 2009; and (3) HHSC has received the IRS token file but the IRS response file was not expected until October 2009. Use of IEVS is required for Medicaid by 42 CFR 435.940 and TANF by the State Plan. IEVS is optional for SNAP (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 caseworker is not able to advance to the next input screen without entering information into all the required fields. The system design requires caseworkers 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 caseworker 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. TIERS is not designed to pend these "place holder" inputs nor does it require the caseworker 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.
- The design of TIERS does not allow the processing of various sanctions through the Mass Update process or deemed eligible transactions for Foster Care and Adoption eligible children. Instead Mass Update only processes requests with active EDGs.

Forty files processed through TIERS were reviewed for SNAP and TANF, and fifty files were reviewed for the Medicaid program. The following table summarizes the results of this file review. Details regarding these summarized exceptions follow the table.

		SNAP	TANF	Medicaid
Number of files reviewed **		40	40	50
Benefits paid to/on behalf of households reviewed	$	169,716	56,453	45,025
Number of files with over/(under) payments		14	2	NA
Total calculated overpayments	$	1,172	233	NA
Total calculated (underpayments)	$	(4,001)	(36)	NA
Number of files with insufficient documentation		2	10	11
Benefits associated with files with insufficient documentation*	$	19,400	21,492	27,087

* Eligibility and/or accuracy of benefits received could not be verified due to lacking supporting documentation.

** Certain files included both over/under payments and insufficient documentation. Those files are reflected once in the summary below as an over/under payment file.

For 40 files reviewed receiving SNAP, 16 files were found to be incomplete or the benefits were calculated in error as noted below. The sixteen files paid benefits of $80,115 for the fiscal year of which $16,571 resulted in net questioned costs.

- For 14 files, there was insufficient support for income or incorrect income used. Benefit overpayments of $1,172 in five files and benefit underpayments of $3,761 in seven files were noted. The remaining two files with benefits of $19,400 had insufficient documentation.
- For two files, benefits were increased late after a new allotment chart became effective. Benefits under paid were $240.
- For one file, there was no support for Texas residency. The benefit amount paid to this household during the fiscal year is included in the fourteen file analysis above.

For 40 files reviewed receiving TANF, 12 files were found to be incomplete or had benefits calculated in error as noted below. The 12 files paid benefits of $24,171 for the fiscal year of which $21,689 resulted in net questioned costs.

- For three files, there was no support for Texas residency. The benefit amount paid to these households during the fiscal year was $4,947.
- For two files, the support of US Citizenship was not available. The benefit amount paid to these households during the fiscal year was $6,526.
- For four files, the SSA verifications were not available. The benefit amount paid to these households during the fiscal year was $4,233.
- One file, support was not available for either US Citizenship or SSA verifications. The benefit amount paid to this household during the fiscal year was $5,786.
- 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. Additionally, one child received benefits under a different EDG number. Benefit overpayments were $233.
- For one file, unearned income was incorrectly used in determining the benefit amount. Benefit underpayments were $36.

For 50 files reviewed receiving Medicaid, eligibility for 11 files was found to be incomplete or had benefits calculated in error as noted below. The 11 files paid benefits of $27,087 for the fiscal year.

- For one file, there was no support for Texas residency documented in the file during field work. Evidence of Texas residency was subsequently provided. No benefits were paid on behalf of the household during the fiscal year.
- For one file, there was no validation of citizenship documented in the file during fieldwork. Validation was subsequently performed and a birth certificate was provided. Benefits paid on behalf of the household during the fiscal year were $3,940.
- For one file, the eligibility redetermination was not performed in a timely manner. Client was terminated two months after required redetermination date for not submitting an application. Benefits paid on behalf of the household during the fiscal year were $88.
- For one file, the application was not signed by the client. Benefits paid on behalf of the household during the fiscal year were $11,652.
- For four files, the current application could not be provided; therefore current eligibility and benefits could not be reviewed. Benefits paid on behalf of the households during the fiscal year were $2,467.
- For one file, no SSN validation was noted. Benefits paid on behalf of the household during the fiscal year were $8,940.
- For one file, an incorrect income amount was used. The amount was greater than 60 days old while policy requires information to be less than 60 days old. No benefits were paid on behalf of the household during the fiscal year.
- For one file, there was no support for Texas residency or support for income used in determining eligibility. No benefits were paid on behalf of the household during the fiscal year.

SAVERR

Forty files processed through SAVERR were reviewed for SNAP and TANF and 50 files were reviewed for the Medicaid program. The following table summarizes the results of this file review. Details regarding these summarized exceptions follow the table.

		SNAP	TANF	Medicaid
Number of files reviewed**		40	40	50
Benefits paid to/on behalf of households reviewed	$	168,072	47,543	76,353
Number of files with over/(under) payments		10	1	NA
Total calculated overpayments	$	2,456	4	NA
Total calculated (underpayments)	$	(2,638)	0	NA
Number of files with insufficient documentation		6	8	10
Benefits associated with files with insufficient documentation*	$	35,465	11,208	6,191

* Eligibility and/or accuracy of benefits received could not be verified due to lack of supporting documentation.

** Certain files included both over/under payments and insufficient documentation. Those files are reflected once in the summary below as an over/under payment file.

For 40 files reviewed receiving SNAP benefits, 16 files were found to be incomplete or the benefits calculated in error as noted below. The 16 files paid benefits of $72,310 for the fiscal year of which $35,283 resulted in net questioned costs.

- Two files were not made available for review. Therefore, eligibility could not be verified. Per HHSC one of these files was destroyed in the storage facility by Hurricane Ike. The benefit amount paid to these households during the fiscal year was $14,053.
- For one file, a signed application was not available. The benefit amount paid to these households for fiscal year was $276.
- For one file, the current application could not be provided. The benefit amount paid to this household during the fiscal year was $4,938.
- For five files, net income was calculated incorrectly. For one of these files, the household was incorrectly denied benefits for three months. The benefit overpayments were $1,243 for four files and the fifth file resulted in an underpayment of $884.
- For one file, there was no support for Texas residency and income was calculated incorrectly. Benefits were overpaid of $189.
- For two files, income was calculated incorrectly and was not adequately supported. The benefit overpayment was $900 for one file and the second file resulted in an underpayment of $333.
- For two files, income was not adequately supported. The benefit amount paid to these household during the fiscal year was $16,198.
- For one file, income was calculated incorrectly and benefits were incorrectly denied. The benefit underpayment was $1,421.
- For one file, proof of income was not available for one certification period and income was calculated incorrectly for a second certification period. Benefit overpayments were $124.

For 40 files reviewed receiving TANF, nine files were found to be incomplete or had benefits calculated in error as noted below. The nine files paid benefits of $11,753 for the fiscal year of which $11,212 resulted in net questioned costs.

- For two files, the current application could not be provided thus there was no support for income or Texas residency. The benefit amount paid to these households for the fiscal year was $1,290.
- For three files, there was insufficient support for income or incorrect income was used. Benefit overpayment for one file was $4. The benefit amount paid to the remaining two households was $3,304.
- For one file, there was no support for Texas residency. The benefit amount paid to this household for the fiscal year was $469.
- For one file, there was no proof of US Citizenship. The benefit amount paid to this household during the fiscal year was $1,134.
- For one file, redetermination for eligibility was not done timely. The benefit amount paid to this household for the fiscal year was $4,043.
- For one file, no support for income used in determining eligibility and no support for Texas residency were found. The benefit amount paid to this household for the fiscal year was $968.

For 50 files reviewed receiving Medicaid, eligibility for ten files was found to be incomplete or had benefits calculated in error as noted below. The ten files paid benefits of $6,191 for the fiscal year.

- For one file, the application was not available for review. No benefits were paid on behalf of the household during the fiscal year.
- For one file, the application was not signed and US Citizenship documentation was missed. Benefits paid on behalf of the household during the fiscal year were $171.
- For one file, there was no evidence of validation of social security number and no current application. Benefits paid on behalf of the household during the fiscal year were $208.
- For two files, there was missing citizenship validation. Benefits paid on behalf of the households during the fiscal year were $2,979.
- For one file, there was no application and no support for income used in determining eligibility. No benefits were paid on behalf of the household during the fiscal year.
- For one file, the income used for determining eligibility was not calculated correctly. The family was not eligible for benefits. Benefits paid on behalf of the household during the fiscal year were $1,363.
- For one file, the incorrect income amount was used in determining eligibility. The household was still eligible for benefits using the correct income amount.
- For one file, there was no application and incorrect income was used; however, the household remained eligible.
- For one file, there was missing US Citizenship documentation and incorrect income was used. The household was not eligible. Benefits paid on behalf of the household during the fiscal year were $1,470.

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. Seventy-four 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.

Qualified aliens, as defined by 8 USC 1641, who entered the United States on or after August 22, 1996, are not eligible for Medicaid for a period of five years. At the application level of SAVERR, the five-year wait period is not automatically enforced. Each caseworker is required to make the appropriate determination for aid.

Summary

The following analysis provides perspective for the above three programs:

		SNAP	TANF	Medicaid
Approximate amount of benefits paid for clients processed through TIERS for Fiscal year 2009	$	895,507,212	17,298,809	1,750,598,681
Approximate amount of benefits paid for clients processed through SAVERR for Fiscal year 2009	$	3,398,343,524	79,582,033	14,043,228,865
Approximate amount of benefits paid for clients processed through non-HHSC eligibility system for Emergency Assistance (EA)	$	0	94,898,455	0
Approximate administrative expenditure for Fiscal year 2009	$	204,561,864	398,888,851	910,729,262
Approximate total expenditures per 2009 federal Schedule	$	4,498,412,600	590,668,148	16,704,556,808
Approximate total number of clients served through TIERS in August 2009		751,240	25,152	615,581
Approximate total number of clients served through SAVERR in August 2009		2,362,730	83,341	2,391,916
Approximate total number of clients served in August 2009, excluding EA		3,113,970	108,493	3,007,497

Corrective Action:

This finding was reissued as current year reference number: 11-09.

Reference No. 10-13

Special Tests and Provisions - Provider Eligibility

(Prior Audit Issues -09-22 and 08-19)

Medicaid Cluster
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, and October 1, 2006 to September 30, 2007
Award numbers - 0905TX5028, 0905TX5048, 0805TX5028, 0805TX5048, 0705TX5028, and 0705TX5048
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 2009 were selected for review and 33 files were noted to have the following exceptions. Of the 33 files, 32 were enrolled prior to fiscal year 2004 when HHSC contracted with their current vendor who operates under current HHSC policies and procedures.

- For 32 providers, a search to ensure the provider was not on the Medicaid exclusion list was not conducted.
- For one provider, page 1 of the "Disclosure of Ownership and Control Interest Statement" was missing; however, page 2 was included with signatures.
- For nine providers, the file had a Provider Agreement available for review but a signed and notarized copy of the Provider Information Form was not available.
- For five providers, there were no signed disclosure of ownership and control interest statement available for review.
- For one provider, there was no evidence of completed Provider Agreement signed by the provider.
- For one provider, there was no evidence that HHSC verified suspension and debarment. Upon review of the EPLS, the providers were not suspended or debarred.
- For three providers, there was no evidence that providers met the criteria for an Out-of-State provider.

Corrective Action:

This finding was reissued as current year reference number: 11-17.

Reference No. 10-14

Special Tests and Provisions - Issuance Document Security

(Prior Audit Issues - 09-19, 08-16, and 07-16)

Supplementary Nutrition Assistance Program Cluster
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - 6TX400105
Type of finding - Significant Deficiency and Material Non-Compliance

Initial Year Written: 2006
Status: Partially Implemented

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., Lone Star 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, 14 sites were identified with the following exceptions:

- For two sites, the daily reconciliation was not prepared and/or reviewed by management.
- For three sites, the EBT cards and/or PIN packet inventory were not maintained in a secure location.
- Two sites did not have adequate segregation of duties in place between access to the EBT cards and PINs to activate the cards.
- For one site, there was no signature on the log maintained for various cards that were mailed to the recipients.
- For three sites, the log of voided cards was missing required information.
- For six sites, either the recipient or the staff did not sign the log maintained for physical receipt of EBT cards.
- For one site, one monthly inventory report for PINs was missing.
- For one site, there was no corrective action plan.
- For one site, EBT cards were kept physically secured and PIN packets were not located.
- For one site, the PIN packets could not be located.

Corrective Action:

This finding was reissued as current year reference number: 11-19.

Reference No. 10-15
Eligibility
(Prior Audit Issues - 09-16, 08-11, and 07-12)

CFDA 93.767 - Children's Health Insurance Program
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, and October 1, 2005 to September 30, 2006
Award numbers - 0905TX5021, 0805TX5021, 0705TX5021, and 0605TX5021
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 CHIP Administrator Business Rule 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 CHIP. Resource limit is $10,000 or less in countable liquid value plus excess vehicle value.

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 Texas Integrated Eligibility Reporting System (TIERS). Frequently cases are referred from Medicaid to CHIP. The original design of the TIERS application did not include resource tests for CHIP eligibility. HHSC determined to rely on the caseworkers to manually identify the affected SCHIP cases. CHIP 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 CHIP. These children are "deemed eligible" without verification of the resource limits and interfaced into MAXe bypassing the resource edit checks.

For children under the age of one when the family FPIL level is between 150% and 185% and the family resources are between $2,000 and $10,000, TIERS does not automatically determine eligibility. HHSC has identified this design issue and has created a manual workaround for case workers to override the MAXe. However, the use of a work around does not allow for adequate identification of eligible children possibly resulting in children under one being improperly denied benefits.

For one of 40 cases, the child's eligibility for Medicaid was redetermined prematurely based on state policy of continuous eligibility for six months. As a result of the redetermination, the child was properly determined to no longer be eligible for Medicaid and transferred to CHIP for September 2008. However, based on state policy of Medicaid eligibility for six months, CHIP funds were incorrectly used when Medicaid was the proper funding source. Subsequent to September 2008, the child was CHIP eligible; however, no cost share was applied resulting in no collection of the $350 CHIP premium.

Additionally, for a second case that was transferred to CHIP from Medicaid, the eligibility file was not available for verification of the child's benefits. The benefits paid for this child for the fiscal year were approximately $623.

Corrective Action:

This finding was reissued as current year reference number: 11-11.

Reference No. 10-16
Eligibility

CFDA 97.050 - Presidential-Declared Disaster Assistance to Individuals and Households - Other Needs
Award years - Declared 9/24/05 (#1606); 5/1/07 (#1697); 6/29/07 (#1709); 7/24/08 (#1780); 9/13/08 (#1791)
Award numbers - FEMA-1606-DR; FEMA-1697-DR; FEMA-1709-DR; FEMA-1780-DR; FEMA-1791-DR
Type of finding - Significant Deficiency

Initial Year Written:	2009
Status: Implemented	
U.S. Department of Homeland Security	

Per 44 CFR 206.120, "(d) State administrative plan requirements. The state shall develop a plan for the administration of the Other Needs assistance that describes, at a minimum, the following items: (iv) Eligibility determinations. (A) *Under a cooperative agreement*: The procedure for eligibility determinations when the FEMA application and inspection systems are used by the state but additional eligibility criteria are necessary to make state eligibility determinations." Per the State of Texas Administrative Plan for CFDA 97.050, "An applicant must….meet the citizenship requirements set forth in the Welfare Reform Act. This is verified when the applicant signs the registration form (90-69B FEMA Form)."

For one sample item of 40 reviewed, the 90-69B FEMA Form was incomplete as the certification of the applicant acknowledging US citizenship was lacking. HHSC followed up with the applicant and obtained a revised copy of the 90-69B FEMA Form, which included the required citizenship certification. Based on discussions with management, the 90-69B FEMA Form was obtained multiple times but not verified by HHSC as being scanned into the Department of Homeland Security's NEMIS database. The applicant was determined to be eligible so there is no questioned cost.

Corrective Action:

Corrective action was taken.

Reference No. 10-17
Allowable Costs/Cost Principles
Period of Availability of Federal Funds

Major Programs:
CFDA 93.558 - Temporary Assistance for Needy Families
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, and October 1, 2006 to September 30, 2007
Award number - G0902TXTANF, G0802TXTANF, and G0702TXTANF

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2008 to September 30, 2010 and October 1, 2007 to September 30, 2009
Award numbers - G0901TXSOSR and G0801TXSOSR

CFDA 93.767 - Children's Health Insurance Program
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, and October 1, 2005 to September 30, 2006
Award numbers - 0905TX5021, 0805TX5021, 0705TX5021, and 0605TX5021

CFDA 97.050 – Presidential-Declared Disaster Assistance to Individuals and Households - Other Needs
Award years - Declared 9/24/05 (#1606); 5/1/07 (#1697); 6/29/07 (#1709); 7/24/08 (#1780); 9/13/08 (#1791)
Award numbers - FEMA-1606-DR; FEMA-1697-DR; FEMA-1709-DR; FEMA-1780-DR; FEMA-1791-DR

Medicaid Cluster
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, and October 1, 2006 to September 30, 2007
Award numbers - 0905TX5028, 0905TX5048, 0805TX5028, 0805TX5048, 0705TX5028, and 0705TX5048
Non-Major Programs:
CFDA 93.006 - State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program

CFDA 93.110 - Maternal and Child Health Federal Consolidated Programs
CFDA 93.566 - Refugee and Entrant Assistance - State Administered
CFDA 97.088 - Disaster Assistance Projects

Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Health and Human Services

U.S. Department of Homeland Security

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 firsthand knowledge of the work performed by the employee."

Health and Human Services Commission (HHSC) noted an error with the SQR query used to identify the list of employees working solely on a single award and thus requiring certifications. The query improperly excluded all employees who either terminated or transferred during the certification period. Specifically, the following items were noted. In each of these instances, certifications were prepared upon request during the audit.

- For Social Service Block Grants, CFDA 93.667, one employee certification of four was not prepared as the employee was either terminated or transferred during the certification period.
- For the CFDA 97.050 - Presidential Declared Disaster Assistance to Individuals and Households - Other Needs program, 10 employees of 24 requiring certification were not prepared.

Total payroll and benefits expenditure incurred during fiscal year 2009 related to employees working solely on a single award were:

Federal Program	Amount Charged to the Federal Program	Amount Certified	Amount Not Certified
93.558 - Temporary Assistance for Needy Families	$ 835,511	$ 776,905	$ 58,606
93.667 - Social Services Block Grant	205,931	186,138	19,793
93.767 - Children's Health Insurance Program	406,606	397,512	9,094
93.777 - State Survey and Certification of Health Care Providers and Suppliers	565,129	544,737	20,392
93.778 - Medical Assistance Program	57,682,877	53,879,832	3,803,045
97.050 – Presidential-Declared Disaster Assistance to Individuals and Households - Other Needs	3,129,085	827,527	1,301,558
Total Major Programs	$62,825,139	$57,612,651	$5,212,488
93.006 - State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	43,784	39,149	4,635
93.110 - Maternal & Child Health Federal Consolidated Programs	54,634	52,323	2,311
93.566 - Refugee and Entrant Assistance - State Administered	620,729	603,771	16,958
97.088 - Disaster Assistance Projects	58,294	58,294	0
Total Non-Major Programs	777,441	753,537	23,904
Total	$63,602,580	$58,366,188	$5,236,392

Corrective Action:

Corrective action was taken.

Reference No. 10-18

Special Tests and Provisions - EBT Reconciliation

(Prior Audit Issue - 09-23)

Supplementary Nutrition Assistance Program Cluster
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - 6TX400105
Type of finding - Significant Deficiency

Initial Year Written: 2008
Status: Partially Implemented

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 Supplementary Nutrition Assistance Program (SNAP) 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 auditors' report covering the period September 1, 2008 through August 31, 2009 (covering the full 12 months of the fiscal year 2009) 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 1977, as amended (7 USC 2016(i) and 7 CFR Section 274.12). Specifically for this control objective, the following exceptions were noted:

- Evidence was not provided that the corporate orientation class was completed for 12 of 30 selected newly hired employees.
- Evidence was not provided that 30 newly hired employees and 25 current sampled employees completed the "Agreement Regarding Confidential Information, Intellectual Property, and Other Matters" form.
- Criminal background checks were not completed for 12 of 30 sampled employees.
- Evidence was not provided that 30 of 30 sampled employees completed, read, and certified to the anti-drug statement provided by IBM.
- New hire checklists were not provided 3 of 30 sampled newly hired employees.
- Termination checklists were not provided for 4 of 25 sampled employees.

Controls provide reasonable assurance that the EBT system is protected against unauthorized physical and logical access to production EBT systems. Specifically for this control objective, the following exceptions were noted:

- Auditing of activity was not enabled for database administrator accounts.
- All Windows servers were using shared (multi-user) accounts, which do not meet security best practices for auditability.
- Four of five Windows servers did not have antivirus protection installed as required by IBM Information Security Controls (ISeC).
- One of five Windows servers had an Administrator account that has not been renamed.
- One of five Windows servers (Transfer) had a shared folder that was accessible by all users on the Texas EBT network (Everyone group had full control of folder).
- Three of five Windows accounts had accounts that are not compliant with requirements that passwords be changed every 60 days as required ISeC.

- Three of three OpenVMS servers had accounts present with excessive system privileges, which create a risk of unauthorized access.
- The TIERS account on the BIGTX2 and BIGTX5 servers had the SETPRV privilege, which allowed the account to set privileges for other users.
- One account on the LILTX2 server for a programmer had system privileges (full control of host).
- Two of three VMS servers (BIGTX2 and BIGTX5) were configured with broad proxy rights, allowing users to connect from any host. In addition, proxy rights were granted to a host (LILAL2) that is no longer in use.
- Passwords for database accounts were not changed during the audit period. Changing passwords every 60 days is required by ISeC Technical Specifications Section 12 (Sybase Adaptive Server Enterprise) section 1.1 (Password Requirements).
- Systemwide password expiration was not activated on a database.
- Router's access control lists (ACL) permitted third-party providers who provide their own data circuits to access all parts of the EBT network.
- The Cisco 3640 router did not restrict traffic to the report server network. Users who accessed the Texas EBT network can pass through the 3640 router.
- Telnet, which is an insecure protocol, was allowed to access routers internally.
- There were firewall rules in place for hosts or groups that no longer required access, and therefore, the rules should be removed.
- There was one firewall administrative account in place that was shared (including the password) with two other administrators. They did not perform work related to Texas EBT. In addition, the password was shared with other network devices, again not related to Texas EBT.

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.

Corrective Action:

This finding was reissued as current year reference number: 11-20.

Reference No. 10-19

Subrecipient Monitoring

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2008 to September 30, 2010 and October 1, 2007 to September 30, 2009
Award numbers - G0901TXSOSR and G0801TXSOSR
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Health and Human Services

Health and Human Services Commission (HHSC) 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, HHSC 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 HHSC within 9 months of the subrecipient's fiscal year. HHSC is to review the report and to issue a management decision within six months, if applicable.

The Emergency Disaster Relief Funds (Disaster) portion of CFDA 93.667 - Social Services Block Grant does not perform any site visits of their six Council of Government (COG) subrecipients. Additionally, for two of six COGs selected for Disaster test work, there were no quarterly progress or expenditure reports. For four of the six COGs, there was no specific support or calculation for administrative expenditures as required by the Disaster monitoring policy. Federal grant funds passed through to COGs during fiscal year 2009 totaled approximately $15,215,000.

Additionally, the standard subrecipient contracts utilized by HHSC for Family Violence and Disaster subrecipients do not contain the required notification of the CFDA number.

Corrective Action:

This finding was reissued as current year reference number: 11-16.

Reference No. 10-20

Earmarking

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2008 to September 30, 2010 and October 1, 2007 to September 30, 2009
Award numbers - G0901TXSOSR and G0801TXSOSR
Type of finding - Significant Deficiency and Scope Limitation

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Health and Human Services

The state shall use all of the amount transferred in from CFDA 93.558 - Temporary Assistance for Needy Families (TANF) only for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline as revised annually by HHS (42USC604(d)(3)(A) and 9902(2)).

Health and Human Services Commission (HHSC) passes certain of its CFDA 93.667 - Social Services Block Grant (SSBG) funds received as transfer from TANF through to subrecipients through the Family Violence Program. The subrecipients use the monies to aid in the cost of operating shelters. A form is filled out for all clients served to document income eligibility for receipt of funds transferred from TANF, however, all income information is self-reported and no validation mechanism for the reported income exists. Therefore audit evidence is not available to determine whether the expenditures meet the earmarking requirements established related to funds transferred from TANF to SSBG. Total TANF transfer monies passed through to subrecipients during fiscal year 2009 were approximately $8,360,000.

Annually, HHSC submits the Intended Use Report to the Department of Health and Human Services (HHS), which denotes the use of the TANF transfer funds for family violence services. The Intended Use Report also indicates that "families with a caretaker and dependent child(ren) with income at or below 200% of poverty, based on self declaration, are the eligible population served primarily through shelters. "

Corrective Action:

This finding was reissued as current year reference number: 11-15.

Reference No. 10-21

Special Tests and Provisions - Inpatient Hospital and Long-Term Care Facility Audits

Medicaid Cluster
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, and October 1, 2006 to September 30, 2007
Award numbers - 0905TX5028, 0905TX5048, 0805TX5028, 0805TX5048, 0705TX5028, and 0705TX5048
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Health and Human Services

The State Medicaid agency pays for inpatient hospital services and long-term care (LTC) facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The State Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State Plan (42 CFR Section 447.253).

The Office of Inspector General's (OIG) division of Health and Human Service Commission (HHSC) executes a review of long-term care facility costs reports. Per review of 50 cost reports, one audit had no documentation of inquiry on how the provider ensures staff met professional certification or licensure requirements. A second audit file was noted as closed yet upon review of the federal tax summary, worker's compensation summary, benefits summary, and the report maintained in the file were draft documents. OIG was unable to provide final versions of these documents utilized by rate analysis in their final settlement procedures.

Corrective Action:

Corrective action was taken.

Reference No. 10-22

Allowable Costs/Cost Principles

(Prior Audit Issues - 09-14, 08-09, and 07-11)

CFDA 93.767 - Children's Health Insurance Program
Award years - 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 numbers - 0805TX5021, 0705TX5021, 0605TX5021, and 0505TX5021

Medicaid Cluster
Award years - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, and October 1, 2005 to September 30, 2006
Award numbers - 0805TX5028, 0805TX5048, 0705TX5028, 0705TX5048, 0605TX5028, and 0605TX5048
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).

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 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 24 user IDs have administrative access to the First Rebate production server AZPH-SRV-DB09 at CVTY\CVTY-SE-Sever-Admin group. There are five generic IDs in this group.
- Approximately 21 user IDs have administrative access to the First Rebate production server AZPH-SRV-DB09 at CVTY\Domain Admin group. There are nine generic IDs in this group.
- Approximately 46 user IDs have administrative access to the First Rebate production server AZPH-SRV-DB09 at RICNTDOM0 Domain admin group. There are nine generic IDs in this group.
- Two user IDs with administrative access to the production database were considered inactive and removed upon notification.
- Windows is the operating system for First Rebate Application. The security policy requires passwords to contain at least 8 characters, however, only six 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 for vendor drug expenses were noted related to the allowable costs/cost principles related to the major programs noted above.

Corrective Action:

This finding was reissued as current year reference number: 11-13.

Reference No. 10-23

Special Tests and Provisions - Child Support Non-Cooperation

(Prior Audit Issues - 09-18, 08-15, and 07-15)

CFDA 93.558 - Temporary Assistance for Needy Families
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, and October 1, 2006 to September 30, 2007
Award numbers - G0902TXTANF, G0802TXTANF, and G0702TXTANF
Type of finding - Significant Deficiency and 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.

Health and Human Service 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 Texas Integrated Eligibility Reporting System (TIERS).

A sample of 40 beneficiaries who should have had their benefits reduced was selected for review - 20 from SAVERR and 20 from TIERS. Our review noted the following:

- Of the 20 cases reviewed in SAVERR, benefits were not reduced timely for two cases. For one of the cases, benefits were reduced one month late due to a 'C' that should have been input on the client screen for child support non-cooperation but was not, resulting in an error of $216. The second case benefits were not reduced 100% for non-cooperation resulting in overpayment of benefits in the amount of $21.
- Of the 20 cases reviewed in TIERS, benefits were reduced three months late for one case due to the continuing ongoing mode system design issue resulting in an overpayment of $249. The design of TIERS does not allow the processing of various sanctions through the Mass Update process or deemed eligible transactions for Foster Care and Adoption eligible children. Instead Mass Update only processes requests with active EDGs.

Corrective Action:

This finding was reissued as current year reference number: 11-22.

Health and Human Services Commission
Department of Aging and Disability Services
Department of Assistive and Rehabilitative Services
Department of State Health Services

Reference No. 10-24
Allowable Costs/Costs Principle
(Prior Audit Issue - 09-26)

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children
Award years - October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - 6TX700506

CFDA 84.126 - Rehabilitation Services - Vocational Rehabilitation Grants to States
Award years - 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 20, 2007, and October 1, 2004 to September 30, 2006
Award numbers - H126A080064, H126A080065, H126A070064, H126A060064, H126A060065, H126A050065,

CFDA 93.558 - Temporary Assistance for Needy Families
Award years - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, and October 1, 2005 to September 30, 2006
Award numbers - G0802TXTANF, G0602TXTANF, and G0602TXTANF

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2006 to September 30, 2008 and October 1, 2007 to September 30, 2009
Award numbers - G0701TXSOSR and G0801TXSOSR

CFDA 93.767 - Children's Health Insurance Program
Award years - 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 numbers - 0805TX5021, 0705TX5021, 0605TX5021, and 0505TX5021

CFDA 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
Award years - October 1, 2007 to September 30, 2009 and October 1, 2006 to September 30, 2008
Award numbers - 08B1TXSAPT and 07B1TXSAPT

CFDA 97.050 – Presidential-Declared Disaster Assistance to Individuals and Households - Other Needs
Award years - Declared 9/24/05 (#1606); 5/1/07 (#1697); 6/29/07 (#1709); 7/24/08 (#1780); 9/13/08 (#1791)
Award numbers - FEMA-1606-DR; FEMA-1697-DR; FEMA-1709-DR; FEMA-1780-DR; FEMA-1791-DR

Supplementary Nutrition Assistance Program Cluster
Award years - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, and October 1, 2005 to September 30, 2006
Award number - 6TX400105

Medicaid Cluster
Award years - October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, and October 1, 2005 to September 30, 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 10.560 - State Administrative Expenses for Child Nutrition
CFDA 93.052 - National Family Caregiver Support, Title III, Part E
CFDA 93.110 - Maternal and Child Health Federal Consolidated Programs
CFDA 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance
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 (ETV)
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 93.994 - Maternal and Child Health Services Block Grants to the States
Aging Cluster
Disability Insurance/SSI Cluster
Type of finding - Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Health and Human Services
U.S. Department of Agriculture
U.S. Department of Education
U.S. Department of Homeland Security

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, 2009, which reflects recoupments received and all affected employees for 2009 and preceding years. As of August 31, 2009, 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, 2009	Federal Portion of Balance Outstanding at August 31, 2009
Department of Aging and Disability Services	$ 356,999	213,000
Department of Assistive and Rehabilitative Services	15,304	13,754
Department of State Health Services	147,438	15,840
Health and Human Services Commission	120,859	58,992
Total	$ 640,600	301,586

Corrective Action:

This finding was reissued as current year reference number: 11-23.

Health and Human Services Commission
Texas Workforce Commission

Reference No. 10-25
Special Tests and Provisions - Penalty for Refusal to Work
(Prior Audit Issues - 09-21 and 08-18)

CFDA 93.558 - Temporary Assistance for Needy Families
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, and October 1, 2006 to September 30, 2007
Award numbers - G0902TXTANF, G0802TXTANF, and G0702TXTANF
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.

Health and Human Service 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 Texas Integrated Eligibility Reporting System (TIERS). HHSC works with the Texas Workforce Commission (TWC) to administer the program at the Texas Local Workforce Development Boards (LWDBs). TWC's role is to transmit information from the LWDBs to HHSC who impose the sanctions.

A sample of 40 beneficiaries who should have had their benefits reduced was selected for review - 20 from SAVERR and 20 from TIERS. Our review noted the following exceptions for TIERS and no exceptions were noted for SAVERR. Of the 20 cases reviewed in TIERS, benefits were not reduced timely for two cases. For one of the cases, the case in the system was not in the correct mode for TIERS to identify the changes to benefits as the case shows 'Change Mode' when it needs to be in 'Ongoing' mode for changes to be implemented resulting in one extra month of benefits of $232. The design of TIERS does not allow the processing of various sanctions through the Mass Update process or deemed eligible transactions for Foster Care and Adoption eligible children. Instead Mass Update only processes requests with active EDGs.

For the other case, benefits were not reduced timely due to lag time in receipt of the non-cooperation date from the LWDBs resulting in one month overpayment of $250.

Corrective Action:

This finding was reissued as current year reference number: 11-24.

Reference No. 10-26

Special Tests and Provisions - Adult Custodial Parent of Child Under Six When Child Care is not Available
(Prior Audit Issue - 09-24)

CFDA 93.558 - Temporary Assistance for Needy Families
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, and October 1, 2006 to September 30, 2007
Award numbers - G0902TXTANF, G0802TXTANF, and G0702TXTANF
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

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.

Health and Human Service 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 Texas Integrated Eligibility Reporting System (TIERS). HHSC works with the Texas Workforce Commission (TWC) to administer the program at the Texas Local Workforce Development Boards (LWDBs). TWC's role is to transmit information from the LWDBs to HHSC who impose the sanctions.

A sample of 40 beneficiaries who should have had their benefits reduced was selected for review - 20 from SAVERR and 20 from TIERS. Our review noted the following exceptions for TIERS and no exceptions were noted for SAVERR. Of the 20 cases reviewed in TIERS, benefits were not reduced timely for four cases.

- For one case, the case in the system was not in the correct mode for TIERS to identify the changes to benefits resulting in one month overpayment of $300. The design of TIERS does not allow the processing of various sanctions through the Mass Update process or deemed eligible transactions for Foster Care and Adoption eligible children. Instead Mass Update only processes requests with active EDGs.
- For two cases, benefits were not reduced timely due to lag time in receipt of the non-cooperation date from the LWDBs resulting in monthly overpayments for both of $334 and $216.
- For one case, the benefit was reduced three months late for $877 overpayment.

Corrective Action:

This finding was reissued as current year reference number: 11-21.

Health and Human Services Commission
Department of Family and Protective Services

Reference No. 10-27

Procurement and Suspension and Debarment

(Prior Audit Issues - 09-25, 08-21, 07-19, 06-15, 06-14, 06-13, 05-17, 05-14, and 05-05)

CFDA 93.558 - Temporary Assistance for Needy Families
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, and October 1, 2006 to September 30, 2007
Award numbers - G0902TXTANF, G0802TXTANF, and G0702TXTANF

CFDA 93.658 - Foster Care - Title IV-E
Award years - October 1, 2008 to September 30, 2009 and October 1, 2007 to September 30, 2008
Award numbers - G0901TX1401 AND G0801TX1401

CFDA 93.667 - Social Services Block Grant
Award years - October 1, 2008 to September 30, 2010 and October 1, 2007 to September 30, 2009
Award numbers - G0901TXSOSR and G0801TXSOSR

CFDA 93.767 - Children's Health Insurance Program
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, October 1, 2006 to September 30, 2007, and October 1, 2005 to September 30, 2006
Award number - 0905TX5021, 0805TX5021, 0705TX5021, and 0605TX5021

Supplementary Nutrition Assistance Program Cluster
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008 and October 1, 2006 to September 30, 2007
Award number - 6TX400105

Medicaid Cluster
Award years - October 1, 2008 to September 30, 2009, October 1, 2007 to September 30, 2008, and October 1, 2006 to September 30, 2007
Award numbers - 0905TX5028, 0905TX5048, 0805TX5028, 0805TX5048, 0705TX5028, and 0705TX5048
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2004
Status: Implemented

U.S. Department of Health and Human Services
U.S. Department of Agriculture

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.
- 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.

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, Supplementary Nutrition Assistance Program (SNAP) Cluster, and Children's Health Insurance Program (CHIP) CFDA 93.767, one vendor procurement file affecting all four programs did not have documentation of bids submitted by vendors and one vendor procurement file affecting only SNAP Cluster and CHIP did not have documentation of bids submitted by vendors. The total of the two contracts was approximately $25,900.

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 three programs had no documentation of emergency justification approval at the time of purchase. However, subsequent to the purchase, documentation was completed noting approval of the purchase; therefore, there are no questioned costs. A second vendor procurement file also affecting all three programs did not contain documentation of the EPLS review to ensure the vendor was not suspended or debarred. Per review of EPLS, the vendor was not suspended or debarred, so there are no questioned costs.

Corrective Action:

Corrective action was taken.

Texas Department of Housing and Community Affairs

Reference No. 10-28
Reporting

CFDA 14.228 - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
Award year - N/A since disaster-based only
Award number - B-06-DG-48-0002
Type of finding - Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Housing and Urban Development (HUD)

The requirements for submission of a Performance Evaluation (PER) pursuant to 42.U.S.C. 12708 and 24 CFR 91.520 are waived for Community Development Block Grant (CDBG) Disaster Recovery Grantees Under 2008 CDBG Appropriations. However, the alternative requirement is that each grantee must submit a quarterly performance report, as HUD prescribes, no later than 30 days following each calendar quarter, beginning after the first full calendar quarter after grant award and continuing until all funds have been expended and all expenditures reported. Each quarterly report will include information about the uses of funds during the applicable quarter including (but not limited to) the project name, activity, location, and national objective; funds budgeted, obligated, drawn down, and expended; the funding source and total amount of any non-CDBG disaster funds; beginning and ending dates of activities; and performance measures such as numbers of low- and moderate-income persons or households benefiting. Quarterly report to HUD must be submitted using HUD's Internet based DRGR system and, within 3 days of submission, be posted on the grantee's official Internet site open to the public. (February 13, 2009 Federal Register Vol. 74, No. 29, page 7252)

The performance reports for quarters ending December 31, 2008, March 31, 2009, June 30, 2009, and September 30, 2009, were not posted to Texas Department of Housing and Community Affairs' (TDHCA) Website. Since notification, management of TDHCA has posted the above noted performance reports to their Website.

Corrective Action:

This finding was reissued as current year reference number: 11-26.

Reference No. 10-29
Cash Management
Earmarking
Reporting
Subrecipient Monitoring
(Prior Audit Issue - 09-27)

CFDA 14.228 - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
Award year - N/A since disaster-based only
Award number - B-06-DG-48-002

CFDA 93.568 - Low-Income Home Energy Assistance
Award years - October 1, 2008 to September 30, 2010, October 1, 2007 to September 30, 2009, October 1, 2006 to September 30, 2008, and October 1, 2005 to September 30, 2007
Award numbers - G-09B1TXLIEA, G-08B1TXLIEA, G-07B1TXLIEA, and G-06B1TXLIEA
Type of finding - Significant Deficiency

Initial Year Written:	2008
Status: Implemented	
U.S. Department of Health and Human Services	
U.S. Deparment of Housing and Urban Development	

Texas Department of Housing and Community Affairs (TDHCA) utilize the following Community Affairs contract systems for monitoring contracts with subrecipients: the legacy Genesis Community Affairs Contract System, the TDHCA Community Affairs Contract System (CACS), and a Housing Contract System (HCS). In addition, TDHCA utilizes PeopleSoft for its general ledger system. These systems reside on the production Windows domain (network) and users are required to authenticate through the network to gain access to the applications, servers, and databases. It was noted that in some of these systems, 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 - Four 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 four users are developers. It was also noted that two generic IDs are accessed by programmers. Application was retired April 2009.
- PeopleSoft - One developer/analyst has database administrator privileges, application administrator rights, and access to migrate code changes into production as of January 2009. 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. The access for this developer was removed as of May 2009.
- At the network level, one developer has domain administrative privileges. This impacts the PeopleSoft reporting server, as the reporting server is Windows-based and on the network.

No material compliance issues were noted with regard to the major programs noted above.

Corrective Action:

Corrective action was taken.

Reference No. 10-30

Allowable Costs/Cost Principles
Special Tests and Provisions - Environmental Reviews

CFDA 14.228 - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
Award year - N/A since disaster-based only
Award number - B-06-DG-48-0002
Type of finding - Significant Deficiency and Material Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S Department of Housing and Urban Development

Access to migrate code changes into production as well as system administrator privileges should be restricted appropriately based on job function to help ensure adequate internal controls are in place and segregation of duties exist. Access to deploy and develop code changes should be segregated. Similarly, system administrative access should also be restricted to non-developers. Texas Department of Housing and Community Affairs (TDHCA) outsource both WorlTrac and Portfolio maintenance and operations to multiple third-party providers. Portfolio's primary function is applicant eligibility while WorlTrac is the primary source of the financial transactions. During the performance of general controls test work for the WorlTrac and Portfolio applications, the following items were noted:

- Three developers have access to the administrative server-level IDs for the Portfolio application server, while one developer also has direct administrative access on the application server. These three developers also have DBA rights on the production database server. Overall, the three developers could also deploy code changes into production. In addition, there is no policy restricting the use of generic IDs. Generic IDs are in use by the above developers that allows them access to administrative functions on the servers. Additionally, user access reviews as it relates to Portfolio are not defined and/or performed periodically. If performed, evidence of access review is not retained.
- Of 25 Portfolio changes selected, 4 exceptions were noted in that evidence of authorization. Testing and approval were not consistently retained and in one case, approvals were obtained after code was deployed into production.
- Access to the disbursement file is open to all ACS Domain users as it is placed on a shared drive. Access should be restricted only to the disbursements team and the ACS Finance team.
- Three application developers have access to migrate WorlTrac code changes into production and were intentionally assigned this access as part of their daily job functions; however, no additional monitoring control was put in place to mitigate the associated risk. Also, three developers were noted to have administrative access on the WorlTrac application and one developer has administrative access on the production database.
- For 40 selected WorlTrac changes, no end-user testing had been performed prior to deployment. As a policy, QA testing of WorlTrac changes is not performed by the end user prior to deployment, unless specifically requested. Also, 13 of 40 WorlTrac changes did not contain any approval before or after deployment into production. In addition, the generic ID with DBA privileges on the WorlTrac database is accessed by two System Administrators, and one Developer.
- No policy document exists to define user access review requirements for the WorlTrac application. Also, no user access privileges review was performed for the WorlTrac application during the audit period. Further, a password policy was not adequately defined for the WorlTrac application. Its underlying systems did not have password requirements defined. Lastly, no Information Security Policies and Procedures exist for the WorlTrac application specific to the Texas HAP/SPRP project.

Developers were granted access to production to assist in troubleshooting, end user support, and application changes. However, developer access to administrative functions on any production system results in the risk of unauthorized changes to applications and data. Additionally, developer access to move their code changes into production increases the risk that unauthorized changes to application functionality have been deployed into the production environment.

During the performance of application controls test work for the WorlTrac and Portfolio applications, the following items were noted:

- During review of disbursements to contractors, 14 of 40 disbursement files did not contain all the required documentation to support the expenditures. Each of the 14 files had some of the required documentation. This function is performed by the primary contractor. (24 CFR Section 570.482)
- With regard to the environmental inspection process, 1 of 40 files reviewed did not contain the required environmental inspection and environmental clearance documents. Environmental files are maintained in WorlTrac (24 CFR Section 58.4(b)(1), 58.34, and 58.35).

Corrective Action:

This finding was reissued as current year reference number: 11-25.

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 Management 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 is 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 staffs 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 January 19, 2007, a total of $363,779 in principal has been collected.

Management Response and Corrective Action Plan 2007:

FEMA and HHSC staffs 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 January 31, 2008, a total of $425,878 in principal has been collected.

Management Response and Corrective Action Plan 2008:

FEMA and HHSC staffs 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 December 31, 2008, a total of $483,535 in principal has been collected.

Management Response and Corrective Action Plan 2009:

FEMA and HHSC staffs 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 December 31, 2009, a total of $514,141.72 in principal has been collected.

Management Response and Corrective Action Plan 2010:

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, 2010, a total of $591,587.11 in principal has been collected.

Implementation Date: *Ongoing*

Responsible Person: *Allen Bledsoe*

Office of the Attorney General

Reference No. 10-32
Allowable Costs/Cost Principles
Cash Management
Matching
Period of Availability of Federal Funds
Reporting

CFDA 93.563 - Child Support Enforcement
Award years - October 1, 2008 to September 30, 2009 and October 1, 2007 to September 30, 2008
Award numbers - G9909CS and G9908CS

CFDA 93.563 - Child Support Enforcement - ARRA
Award year - October 1, 2008 to September 30, 2009
Award number - G9909CI
Type of finding - Significant Deficiency

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Health and Human Services

Changes to applications should be appropriately documented and authorized prior to deployment into the production environment. Controls should be in place to ensure that changes are authorized, tested, and approved prior to implementation. Office of Attorney General (OAG) has an informal process of authorizing, testing and approving change requests. Changes are not consistently documented and not formally authorized or tested by appropriate personnel. The accounting personnel and information technology support (ITS) are small departments and often work as a team to implement changes. Therefore management does not emphasize the need to formally document minor projects. The risk exists that a change will go into production that has not been fully tested, thus affecting the functionality of the system.

No compliance issues were noted with regard to the major programs noted above.

Corrective Action:

This finding was reissued as current year reference number: 11-28.

Parks and Wildlife Department

Reference No. 09-28

Reporting

Fish and Wildlife Cluster
Award years - 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 numbers - F117D, F59D, F92D, FW190, W104S, W128R, W129R, and W132R
Type of finding - Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

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 on 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 2008:

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.

Management Response and Corrective Action Plan 2009:

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 2010, the SF 269s will reconcile to what the general ledger shows as federal and state expenditures.

Management Response and Corrective Action Plan 2010:

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 2010, the SF 269s will reconcile to what the general ledger shows as federal and state expenditures.

Implementation Date: *September 2010*

Responsible Person: *Kim Dudish*

Department of State Health Services

Reference No. 10-45

Special Tests and Provisions - Food Instrument Disposition

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children
Award years - October 1, 2008 to September 30, 2009 and October 1, 2007 to September 30, 2008
Award number - 6TX700506
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Agriculture

Prior to March 27, 2007, a State agency was required to account for the disposition of all Food Instruments (FIs) within 150 days of the FI's first valid date for participant use. That time frame was reduced to 120 days for all FIs issued on or after March 27, 2007. The State agency must identify all FIs as either issued or voided; and identify issued FIs as either redeemed or unredeemed. Redeemed FIs 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 FI (7 CFR Section 246.12(q)).

Upon review of the monthly food instrument disposition reconciliations performed, the Department of State Health Services (DSHS) procedures include sending letter signed by a Food Issuance and Redemption Services (FIRS) Manager to the WIC regional offices to determine the appropriate disposition of any vouchers that have not been recorded as used or voided. The WIC regional office then responds and provides documentation for DSHS personnel to update their records accordingly. Upon review of 40 letters to WIC providers, it was noted that one of the letters was not signed by the DSHS manager. Additionally, one of the vouchers noted in a disposition letter was not resolved until 126 days. As such, the compliance requirement to account for disposition of all FIs within 120 days was not met. No questioned cost as voucher was properly reconciled.

Corrective Action:

Corrective action was taken.

Reference No. 10-46

Special Tests and Provisions - Review of Food Instruments to Enforce Price Limitations and Detect Errors

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children
Award years - October 1, 2008 to September 30, 2009 and October 1, 2007 to September 30, 2008
Award number - 6TX700506
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Agriculture

A State agency operating a retail food delivery system must take the following actions to ensure that payments of WIC food funds to vendors conform to program regulations and the State agency's vendor agreement:

a. *Food Instruments (FI) Review Process* - The State agency must have in place a process for reviewing all, or a representative sample of, FIs submitted by vendors for redemption. The review is done on an aggregate basis rather than on a vendor basis. Because of the wide disparity in the number of FIs processed by State agencies, there are no criteria for determining what constitutes a representative sample, other than that it must be a representative sample of FIs submitted. At a minimum, this process must be able to detect:

   (1) Redeemed monetary amounts that exceed the maximum monetary purchase amounts established by the State agency for each type of FI.

(2) Other errors, including purchase price missing; participant, parent/caretaker, or proxy signature missing; vendor identification missing; FIs transacted or redeemed after the specified time period; and altered purchase price.

(3) Questionable FIs, which while they may not clearly contain errors, nevertheless require follow-up to determine whether an error has occurred.

b. *Follow-up on Erroneous or Questionable FIs* - The State agency must follow up on FIs containing errors and other questionable FIs detected through this process within 120 days following detection. Regulations at 7 CFR Sections 246.12(k)(2) through (k)(5) describe appropriate follow-up actions (7 CFR section 246.12(k)).

The Department of State Health Services (DSHS) selects a "box" at random of paper food instruments submitted on a monthly basis. A box typically contains 20 to 25 claims from multiple vendors. Each food voucher is audited for countersignature, redemption date, vendor name and address, written prices (alterations, white-out, etc.) and verification of paid amount. Upon review of 40 food instruments from three different months' box audits, two food instruments containing price alterations were not identified in the box audit or included as a note in the summary folder. As such, no follow-up procedures were performed on the food instruments as required by the regulations. Both the exceptions were from the same box audit.

Corrective Action:

Corrective action was taken.

Reference No. 10-47

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 Issues - 09-30, 08-25, and 07-31)

CFDA 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children
Award years - October 1, 2008 to September 30, 2009 and October 1, 2007 to September 30, 2008
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 the 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 the production environment. In addition, as of September 2008, a periodic review of users is performed; however, this review is only of active users and does not include user privilege levels within WIC EBT or WIC TX WIN.

No system 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: 11-32.

Texas Department of Rural Affairs

Reference No. 10-59

Procurement and Suspension and Debarment

CFDA 14.228 - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
Award years - February 1, 2009 to January 31, 2010 and February 1, 2008 to January 31, 2009
Award numbers - B-09-DC-48-0001 and B-08-DC-48-0001
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Housing and Urban Development

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 the federal statutes and executive orders and their implementing regulations. Department of Rural Affairs (TDRA) requires the following for procurement:

- Verify the procurements provide full and open competition
- Verify that contracts are not awarded to suspended or debarred parties by checking Excluded Parties List System (EPLS)
- Verify that there is written justification if the purchase was limited to one vendor
- Verify that solicitations include a clear and accurate description of the requirements

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 the bidder, nor the person represented by the bidder, or any person acting for the represented person has:

(1) Neither violated the antitrust laws codified by Chapter 15, Business & Commerce Code, or the federal antitrust laws;

(2) Nor directly or indirectly communicated the bid to a competitor or other person engaged in the same line of business.

During our test work, two out of four vendor files did not include verification that the vendors were not suspended or debarred per review of EPLS. In addition, for samples of 24 Council of Government (COG) contracts, all were not checked for suspension or debarment as TDRA's procurement policy does not require COGs to be verified. Upon review of the EPLS, the vendors were not suspended or debarred so there are no questioned costs.

Additionally, the terms and conditions associated with TDRA's vendor contracts and purchase orders and COG contracts do not include certification for anti-trust laws as required by the State of Texas.

Corrective Action:

Corrective action was taken.

Reference No. 10-60

Reporting

CFDA 14.228 - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii
Award years - February 1, 2009 to January 31, 2010 and February 1, 2008 to January 31, 2009
Award numbers - B-09-DC-48-0001 and B-08-DC-48-0001
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Housing and Urban Development

The Texas Department of Rural Affairs (TDRA) is required by OMB Circular A-133 and A-102 to submit a Performance Evaluation Report (PER) (OMB No. 2506-0085) within 90 days after the close of its program year in a format suggested by Department of Housing and Urban Development (HUD). The report is to include a description of the use of the funds during the program year and an assessment of the grantee's use for the priorities and objectives identified in the plan. TDRA is also required to submit HUD 60002, Section 3 Summary Report, and Economic Opportunities for Low- and Very Low-Income Persons (OMB No. 2529-0043). For each grant over $200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit form HUD 60002.

For disaster funds, the requirements for submission of a Performance Evaluation (PER) pursuant to 42.U.S.C. 12708 and 24CFR 91.520 are waived for Community Development Block Grant (CDBF) Disaster Recovery Grantees under 2008 CDBG Appropriations. However, the alternative requirement is that each grantee must submit a quarterly performance report, as HUD prescribes, no later than 30 days following each calendar quarter, beginning after the first full calendar quarter after grant award and continuing until all funds have been expended and all expenditures reported. Each quarterly report will include information about the uses of funds during the applicable quarter including (but not limited to) the project name, activity, location, and national objective; funds budgeted, obligated, drawn down, and expended; the funding source and total amount of any non-CDBG disaster funds; beginning and ending dates of activities; and performance measures such as numbers of low -and moderate-income persons or households benefiting. Quarterly reports to HUD must be submitted using HUD's Internet based DRGR system and, within 3 days of submission, be posted on the grantee's official Internet site open to the public. (February 13, 2009 Federal Register Vol. 74, No. 29, page 7252)

PER Report

During our test work over the program year 2008 PER report that was submitted in state fiscal year 2009, the active program years of 2006, 2007, and 2008 were agreed to supporting documentation. The following exceptions by program year were noted:

2006

- A footing error of $19,500 caused the Local Administration (line item #5) amounts reported of $5,015,915 to be underreported.
- The Meet Urgent Community Development Needs improperly excluded one county of $350,000.
- The Benefit to Low/Moderate Income Persons is overstated by $369,500, a combination of the above two errors.

2007

- The Prevent/Eliminate Slum/Blight was overstated by $50,000 for one county for administrative costs.
- The Benefit to Low/Moderate Income Persons reported was understated due to the error noted above.

2008

- The Prevent/Eliminate Slum/Blight was understated by $143,600 for two counties improperly excluded plus all administration excluded.
- The Benefit to Low/Moderate Income Persons reported was overstated due to the error noted above.

HUD 60002

For three quarterly HUD 60002 reports, there were three translation errors when entering the supporting information into the on-line form. In addition, a manual error was noted in the creation of the supporting documentation when comparing the summary used to population the HUD 60002. These errors are noted below:

Key line item	Amount Reported	Amount per Supporting Documentation
For Q2 for FY09 – part II, 1 (D)	$ 135	$ 56
For Q2 for FY09 – part II, 2 (A)	638,200	691,480
For Q4 for FY08 – part II, 1 (D)	153	65
For Q4 for FY08 – part II, 2 (D)	92	2

Additionally, it was noted that TDRA does not enforce the policies and procedures in the subrecipients and contractors agreements to report the necessary information required for the HUD 60002. Specifically, part 1, Column C - Total number of New Hires that are Section 3 residents is not complete.

Disaster Report - Quarterly Performance Report

One of two quarterly reports reviewed was posted to TDRA's Web site; however documentation was not available to determine if the report was posted within the three-day requirement noted above.

Corrective Action:

This finding was reissued as current year reference number: 11-33.

Texas Education Agency

Reference No. 10-61

Allowable Costs/Cost Principles

CFDA 84.011 - Migrant Education - State Grant Program
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; and July 1, 2006 to September 30, 2008
Award numbers - S011A080044; S011A070044; and S011A060044

CFDA 84.048 - Career and Technical Education - Basic Grants to States
Award years - July 1, 2008 to September 30, 2009 and July 1, 2007 to September 30, 2008
Award numbers - V048A080043 and V048A070043

CFDA 84.287 - Twenty-First Century Community Learning Centers
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; and July 1, 2006 to September 30, 2008
Award numbers - S287C080044; S287C070044; S287C060044

CFDA 84.365 - English Language Acquisition Grants
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; and July 1, 2006 to September 30, 2008
Award numbers - T365A080043; T365A070043; T365A060043

Special Education (IDEA) Cluster
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; and July 1, 2006 to September 30, 2008
Award numbers - H027A080008 and H173A080004; H027A070008 and H173A070004; H027A060008 and H173A060008
Type of finding - Significant Deficiency

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Education

Access to the Budget Analysis Tool (BAT) application and/or supporting infrastructure is not restricted appropriately. All user IDs with access to the BAT application and/or supporting infrastructure should belong to identifiable, current employees whose job function specifications require the provisioned level of access. Over the past several years, management of Texas Education Agency's (TEA) servers has shifted from TEA-managed to IBM/Team for Texas managed. This coupled with the fact that a periodic review of application and supporting infrastructure users is being inconsistently performed, has led to inappropriate, unidentifiable, and terminated employee/account access for nine users/accounts within the BAT application and/or supporting infrastructure.

No compliance exceptions were noted during the review of selected 2009 allowable cost transactions for the major programs noted above.

Corrective Action:

This finding was reissued as current year reference number: 11-35.

Reference No. 10-62
Reporting
Special Tests and Provisions - Sub grant Process
Special Tests and Provisions - Priority for Services
(Prior Audit Issue - 09-35)

CFDA 84.011 - Migrant Education - State Grant Program
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - S011A080044; S011A070044; S011A060044
Type of finding - Material Weakness and Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

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. In 2009, a "Firecall" user account was created to serve as a primary user account to migrate changes into the production environment. The user IDs password is protected by the NGS Program Manager and the password is changed after every use to make sure no unauthorized access occurs. However, we noted that even though this "Firecall" user account is the primary user account migrating changes into the production environment, developers of the NGS application still maintained their system administrator privileges, which enables them to update the production environment without using the 'Firecall' user account.

No periodic reviews are performed for NGS to determine the appropriateness of privileges granted to individual user accounts within the application (segregation of duties). A periodic review of inactive IDs is performed and such IDs are deleted, however this still does not address the entire risk of inappropriate access.

Change management procedures for authorization, testing, and approval are followed informally. No formal approval is required prior to production moves and only informal discussion e-mails exist as evidence of approval prior to production deployment. For one out of two releases tested, no response of formal final approval was documented. In addition, no formal change management procedures have been documented. Northrop Grumman corrected the change management procedures subsequent to February 2009.

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. TEA did not maintain the support from NGS for the CSPR report filed during fiscal year 2009 for the school year 2007-08. NGS is a fluid database so the numbers were reasonable but not exact due to updated data.

Recommendation:

Access to develop and deploy changes should be segregated. If access cannot be segregated, strong monitoring controls will need to be implemented in order to further mitigate the risk of unauthorized changes to production. A periodic review of all users should be performed at least annually. Additionally, TEA should maintain support for all reports filed.

Management Response and Corrective Action Plan - 2009:

During TEA's review of the previous audit with the KPMG auditors, we discussed the problem of disabling the programmer accounts entirely. Due to the small size of the team that maintains NGS and the security model employed by the NGS Website, staff members share multiple roles and require access to the production environment. TEA will work to segregate duties as much as possible where technically feasible. Change management procedures are in place (formal Change Requests are documented and approved), but no physical and/or logical security blocks development staff from making unauthorized changes to the production environment.

One of the NGS programmers functions as the DBA and disabling that account would make routine tasks performed on a daily basis very difficult to do. The KPMG auditors suggested that instead of using the Fire Call account we should look at implementing a Change Detection Process (CDP) whereby all changes made to the production system are monitored by the Project Manager so that any unauthorized changes will be detected on a daily basis.

The NGS staff will create Change Detection Software (CDS) that will reside on the Project Manager's workstation. That workstation is password protected and is not accessible to anyone through the NGS network. The CDS will perform a periodic (period to be determined) scan of the production system. The CDS will establish a baseline image of the production system and the periodic scan will match against that image to record all changes made in the prior period. When the detected changes have been approved or rejected by the Project Manager the scan then will become the baseline for the next scan. With this CDP, the auditors should be able to establish that all changes made to the production system were authorized changes approved by management.

Management Response and Corrective Action Plan - 2010:

Following the recommendation of the KPMG auditors, the NGS staff has implemented a Change Detection Process (CDP) whereby all changes made to the production system are monitored by the Project Manager so that any unauthorized changes will be detected on a daily basis. The Change Detection Software (CDS) application was implemented on September 24, 2010. After some initial configuration and testing, the system began daily monitoring and logging of any changes to the production environment on September 27, 2010. The NGS staff is monitoring changes in stored procedures, files, tables, directories and databases. The system runs each night from the Project Manager's computer, which is secured through a password known only by the Project Manager. The system creates a log of each scan and provides the Project Manager with an interface to view the scan daily. If the Project Manager finds that something is changed, he can then investigate whether the change was part of a planned or approved change, such as a build implementation.

NGS staff regularly reviews the logs and the operation of the system and makes refinements if necessary. This CDP has been successful in detecting changes being made to the production environment and has mitigated the risk of unauthorized changes to production.

Implementation Date: *September 24, 2010*

Responsible Person: *Christina Villarreal*

Reference No. 10-63

Matching, Level of Effort, Earmarking
Reporting
Subrecipient Monitoring

CFDA 84.011 - Migrant Education - State Grant Program
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - S011A080044; S011A070044; and S011A060044

CFDA 84.048 - Career and Technical Education - Basic Grants to States
Award years - July 1, 2008 to September 30, 2009 and July 1, 2007 to September 30, 2008
Award numbers - V048A080043 and V048A070043

CFDA 84.287 - Twenty-First Century Community Learning Centers
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - S287C080044; S287C070044; and S287C060044

CFDA 84.357 - Reading First State Grants
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - S357A080045; S357A070045; and S357A060045

CFDA 84.365 - English Language Acquisition Grants
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - T365A080043; T365A070043; and T365A060043

CFDA 84.367 - Improving Teacher Quality State Grants
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - S367A080041; S367A070041; and S367A060041

Special Education (IDEA) Cluster
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - H027A080008 and H173A080004; H027A070008 and H173A070004; H027A060008, and H173A060008

Special Education (IDEA) Cluster - ARRA
Award year - February 17, 2009 to September 30, 2011
Award numbers - H391A090008 and H392A090004

Title I, Part A Cluster
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - S010A080043; S010A070043; and S010A060043

Title I, Part A Cluster - ARRA
Award year - February 17, 2009 to September 30, 2011
Award number - S389A090043A
Type of finding - Material Weakness

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Education

The collection of Public Education Information Management System (PEIMS) data is required of all school districts by TEC §42.006. The *Data Standards* provide instructions regarding the submission of PEIMS data from Local Education Agency (LEA) to Texas Education Agency (TEA). The LEA is responsible for reporting federal and local funds expended through PEIMS along with various types of demographic data and students served. During fiscal year 2009, TEA ran parallel processing with PEIMS - Mainframe (Legacy system) and PEIMS - UNIX. Subsequent to year-end, TEA converted all data to PEIMS - UNIX and no longer utilizes the Legacy System. Both PEIMS - Mainframe and UNIX were within the 2009 audit scope. TEA outsourced the development of PEIMS - UNIX application to a third-party consultant. The following was noted with regard to logical access and change management general controls.

- Formal TEA change management policies and procedures for PEIMS "application layer" (for PEIMS UNIX and Legacy systems) exist but are not being consistently followed, and no formal documentation of initial authorization, testing, and final approval of changes prior to deployment into production is maintained.

- Developers have access to deploy code changes into the PEIMS production environment for the application layer.
- Shared generic user IDs on the PEIMS_UNIX production application servers are accessible by the contractors whose primary roles were development, allowing them to migrate code changes into production.
- A process is not in place to identify and review users and groups with access to the PEIMS UNIX production environment for appropriateness.
- Thirteen generic shared administration accounts exist on the PEIMS - UNIX production database.

TEA uses the LEA submitted information for compliance with applicable compliance requirements under various components of Matching, Level of Effort, and Earmarking, Reporting, and Subrecipient Monitoring. No compliance exceptions were noted with regard to the use of PEIMS data.

Corrective Action:

This finding was reissued as current year reference number: 11-36.

Reference No. 10-64

Subrecipient Monitoring

(Prior Audit Issues - 09-32, 08-32)

CFDA 84.011 - Migrant Education - State Grant Program
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - S011A080044; S011A070044; and S011A060044

CFDA 84.048 - Career and Technical Education - Basic Grants to States
Award years - July 1, 2008 to September 30, 2009 and July 1, 2007 to September 30, 2008
Award numbers - V048A080043 and V048A070043

CFDA 84.287 - Twenty-First Century Community Learning Centers
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - S287C080044; S287C070044; and S287C060044

CFDA 84.357 - Reading First State Grants
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - S357A080045; S357A070045; and S357A060045

CFDA 84.365 - English Language Acquisition Grants
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award number s- T365A080043; T365A070043; and T365A060043

CFDA 84.367 - Improving Teacher Quality State Grants
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - S367A080041; S367A070041; and S367A060041

Special Education (IDEA) Cluster
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - H027A080008 and H173A080004; H027A070008 and H173A070004; H027A060008, and H173A060008

Special Education (IDEA) Cluster - ARRA
Award year - February 17, 2009 to September 30, 2011
Award numbers - H391A090008 and H392A090004

Title I, Part A Cluster
Award years - July 1, 2008 to September 30, 2010; July 1, 2007 to September 30, 2009; July 1, 2006 to September 30, 2008
Award numbers - S010A080043; S010A070043; and S010A060043

Title I, Part A Cluster - ARRA

Award year - February 17, 2009 to September 30, 2011
Award number - S389A090043A

Non-Major Programs:

CFDA 10.553 - School Breakfast Program
CFDA 10.555 - National School Lunch Program
CFDA 12.000 - Troops to Teachers
CFDA 84.002 - Adult Education - Basic Grants to States
CFDA 84.013 - Title I Program for Neglected and Delinquent Children
CFDA 84.181 - Special Education - Grants for Infants and Families
CFDA 84.186 - Safe and Drug-Free Schools and Communities - State Grants
CFDA 84.196 - Education for Homeless Children and Youth
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 84.332 – Comprehensive School Reform Demonstration
CFDA 84.334 - Gaining Early Awareness and Readiness for Undergraduate Programs
CFDA 84.358 - Rural Education
CFDA 84.366 - Mathematics and Science Partnerships
CFDA 84.369 - Grants for State Assessments and Related Activities
CFDA 84.377 - School Improvement Grants
CFDA 84.387 - ARRA - Education for Homeless Children and Youth Recovery Act
CFDA 84.938 – Hurricane Education Recovery
CFDA 93.558 - Temporary Assistance for Needy Families
CFDA 93.630 - Developmental Disabilities Basic Support and Advocacy
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 – Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Type of finding - Significant Deficiency and Material Non-Compliance

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Agriculture
U.S. Department of Education
U.S. Department of Health and Human Services
U.S. Department of Defense
U.S. Department of Homeland Security
Corporation for National and Community Service

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 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, 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 non-compliance and/or material weaknesses in internal controls," that classify subrecipients as high risk grantees.

During 2009, the Division of Financial Audits completed a risk assessment which resulted in a total of 162 high risk subrecipients. From the high-risk subrecipients, the Division of Financial Audits assessed the Grant Awards to each subrecipient and assessed the risk for each Grant Award and identified 500 awards with high risk. Of the 500 awards, 46 grant awards had a high concentration of high risk subrecipient. The Division identified 21 high risk grant programs with total amounts expended that exceeded $3 million or three tenths of one percent of the total amount expended from all of the grant programs with a high risk subrecipient. These 21 grants were selected for monitoring. No audits or site visits were completed for these 21 grants. The Division of Financial Audits closed three open grant audits; closed thirty-eight open grant reviews, and started an additional twenty grant audits and nineteen grant reviews during fiscal year 2009. In addition, the risk assessment does not incorporate the not-for-profit subrecipients.

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.

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, 8 were closed by August 31, 2009. In 2008, division auditors initiated 16 audits or investigations pursuant to a complaint or referral, of which 7 are currently closed by August 31, 2009. In 2009, division auditors initiated 11 audits or investigations pursuant to a compliant or referral. 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 on-site 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 on-site follow-up visits included the selection of sample items to ascertain if the subrecipient corrected the identified deficiency. Auditors conducted 3 on-site follow-up visits in 2007; 11 in 2008, and 12 in 2009.

Further, it was noted that the subrecipient sample selection included exceptions related to the review of A-133 reports received in fiscal year 2009 within 6 months of receipt in order to promptly issue a management decision on any applicable audit findings. Additionally, the Division did not monitor any of the not-for-profit organizations for the submission of the A- 133 audit reports.

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 total funds passed through in 2007 and 2008. Of the approximately 1,400 subrecipients, 162 were assessed as high-risk in 2009. Of this number, none of the subrecipients underwent a follow-up review, audit, investigation, or compliance review during 2009.

Total payments to subrecipients charged to the major and non-major programs for fiscal year 2009 were:

Federal Program	Amount Charged to the Federal Program
12.000	$ 223,191
84.002	41,735,244
84.011	53,577,556

Federal Program	Amount Charged to the Federal Program
84.013	3,736
84.048	58,847,544
84.181	71,507
84.186	18,005,872
84.196	6,256,133
84.213	5,755,695
84.282	6,312,606
84.287	84,090,810
84.298	1,197,913
84.318	23,754,683
84.332	(1,219)
84.334	1,037,823
84.357	59,761,615
84.358	7,219,370
84.365	89,909,933
84.366	961,484
84.367	231,011,883
84.369	4,360,676
84.377	14,070,484
84.387 - ARRA	22,973
84.938	(395)
93.558	19,541,081
93.630	3,466,210
93.938	(44)
94.004	1,428,286
97.036	(14,393)
Child Nutrition Cluster	1,346,972,026
Special Education (IDEA) Cluster	944,264,561
Special Education (IDEA) Cluster - ARRA	33,190,448
Title I, Part A Cluster	1,269,679,846
Title I, Part A Cluster - ARRA	24,312,266
Total	$ 4,351,027,404

Corrective Action:

This finding was reissued as current year reference number: 11-37.

Texas Higher Education Coordinating Board

Reference No. 10-65
Reporting

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2008 to June 30, 2009
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Material Weakness and Non-Compliance

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)).

Initial Year Written: 2009
Status: Implemented

U.S. Department of Education

The Texas Higher Education Coordinating Board (Coordinating Board) did not maintain appropriate user access to its Higher Education Loan Management System (HELMS). Specifically:

- Two users from the monitoring and reporting team had excessive access to update due diligence data for borrower records, process claims, enter new repayment information, and change payment schedules.
- One user from the monitoring and reporting team had excessive access to process claims, enter new repayment information, and change payment schedules.
- One user from the monitoring and reporting team had excessive access to enter new repayment information.

Additionally, the Coordinating Board did not maintain appropriate user access to the server on which HELMS resides. Specifically:

- Two former employees of Team for Texas (a group of contractors establishing Texas state data centers) had access to the system administrator group on the server.
- One generic system user ID had access to the server.

Allowing employees inappropriate or excessive access to Coordinating Board systems increases the risk of inappropriate changes and does not allow for segregation of duties. Use of generic user IDs does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

Lender's Interest and Special Allowance Request and Report

To receive payments of interest benefits and special allowance payments, lenders 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 Lender Servicers 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 regarding the Coordinating Board's LaRS reports:

- In Part I (Loan Origination and Lender Loan Fees) of the LaRS report for the quarter ending September 30, 2008, the Coordinating Board incorrectly classified 6 loans. This affected 4 rows of the report. These loans were first disbursed after July 1, 2008, and they should have been reported in the 1 percent origination fee category but were instead reported in the 1.5 percent category. These errors occurred because these loans were guaranteed and originally scheduled to be disbursed before July 1, 2008. This resulted in an overcharge of 0.5 percent in loan origination fees to the borrowers. The total balance of these 6 loans was $11,026.
- In Part III (Special Allowance) of the LaRS report for the quarter ending September 30, 2008, the Coordinating Board omitted 14 lines. In Part III (Special Allowance) of the LaRS report for the quarter ending December 31, 2008, the Coordinating Board omitted 12 lines. Both reports were filed manually, and these omissions appeared to be due to user errors.
- In Part V (Loan Portfolio Status) of the LaRS reports for multiple quarters, the Coordinating Board incorrectly included loan amounts for 5 (83 percent) of 6 judgmentally selected student loans in the "over 270 days past due" category. For these loans, no further collection efforts were required because a claim had already been paid. The Coordinating Board continued to report the loans as in repayment because it had not written them off. Loans that are not in the current due diligence cycle are not guaranteed. As a result, these loans should not have been reported. Although these accounts were correctly identified in HELMS, in "Claim paid" status, they continued to receive special allowance payments starting July 1, 2008, on the unpaid loan balances. The Coordinating Board has identified all accounts in "Claim paid" status with unpaid remaining balances and stated that it would report related special allowance payment adjustments for the quarter ending September 30, 2009. The 5 accounts in error had combined loan balances of $3,397 as of the quarter ending June 30, 2009, which represented 65 percent of the total loan balance of the 6 accounts tested. The total loan balance for accounts in repayment status that were more than 270 days past due was $8,374 as of the quarter ending June 30, 2009.
- In Part V of the LaRS reports for multiple quarters, the Coordinating Board incorrectly included loan amounts for 4 (80 percent) of 5 judgmentally selected student loans selected from the "Claims filed, but not yet paid" category that were more than 400 days past due. While these loans were automatically identified in HELMS in "Claim filed" status on the 270th past due date, the Coordinating Board did not actually file a claim with the guaranty agency. Lenders are required to timely file claims with the guaranty agency for payment of death, disability, closed schools, false certification, bankruptcy, and default claims. A timely filing violation occurs when lenders fail to submit default, death, disability, ineligible borrower, closed school, or false certification claims within the prescribed time frames prescribed. As of the quarter ending June 30, 2009, these loans were all in timely filing violation status and needed to be cured. 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. These loans continued to receive special allowance payments as of the quarter ending June 30, 2009. The 4 accounts in error had a combined loan balance of $73,348 as of the quarter ending June 30, 2009, which represented 87 percent of the total loan balance of the 5 accounts tested. The total loan balance for claims more than 400 past due days was $124,706 as of the quarter ending June 30, 2009.
- The Coordinating Board does not reconcile the errors on an error report that is generated from the LaRS process prior to submitting the LaRS report. Not reconciling these errors could result in students not being reported and the submission of an incomplete LaRS report.

With the exception of the issue noted above regarding Part I of the LaRS, information was not available to enable auditors to calculate questioned costs related to the other errors.

Corrective Action:

Corrective action was taken.

Reference No. 10-66

Special Tests and Provisions - Due Diligence by Lenders or Servicers in the Collection of Delinquent Loans

(Prior Audit Issues - 09-59 and 08-53)

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2008 to June 30, 2009
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2007
Status: Implemented

U.S. Department of Education

The Texas Higher Education Coordinating Board (Coordinating Board) did not maintain appropriate user access to its Higher Education Loan Management System (HELMS). Specifically:

- Two users from the monitoring and reporting team had excessive access to update due diligence data for borrower records, process claims, enter new repayment information, and change payment schedules.
- One user from the monitoring and reporting team had excessive access to process claims, enter new repayment information, and change payment schedules.
- One user from the monitoring and reporting team had excessive access to enter new repayment information.

Additionally, the Coordinating Board did not maintain appropriate user access to the server on which HELMS resides. Specifically:

- Two former employees of Team for Texas (a group of contractors establishing Texas state data centers) had access to the system administrator group on the server.
- One generic system user ID had access to the server.

Allowing employees inappropriate or excessive access to Coordinating Board systems increases the risk of inappropriate changes and does not allow for segregation of duties. Use of generic user IDs does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

Lender Due Diligence in Collecting Guaranty Agency Loans

A lender is required to maintain complete and accurate records of each loan that it holds. In determining whether the lender meets the due diligence compliance requirements pertaining to collection of delinquent loans, the documentation an institution maintains must include a collection history showing the date and subject of each communication between the lender and the borrower or endorser related 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)).

For loans that are 1-15 days delinquent, the lender should send the borrower one written notice or collection letter informing the borrower of the delinquency and urging the borrower to make payments sufficient to eliminate the delinquency. For loans that are 16-180 days delinquent, the lender must engage in at least 4 diligent efforts to contact the borrower by telephone and send at least 4 collection letters urging the borrower to make the required payments on the loan (Title 34, Code of Federal Regulations, Section 682.411(c) and (d)).

For 1 (2.4 percent) of 41 loans tested, the Coordinating Board did not send the borrower 3 written collection letters for a loan that was 68 days delinquent. According to federal regulations, the first collection letter should have been sent by the 15th date of delinquency. For this loan, the Coordinating Board also did not follow its internal policy and procedures for sending a collection letter on the 10th, 50th, and 60th day of delinquency. The Coordinating Board's policy is designed to comply with the federal requirement to perform 4 due diligence efforts for loans that are 16 - 180 days delinquent. However, because the Coordinating Board made required phone calls to the borrower, there was not a gap of 45 days or more between collection activities.

According to the Coordinating Board, it did not send the collection letters in a timely manner because of a manual processing error. The borrower's record in HELMS had a return mail code that prevented HELMS from automatically generating the required collection letters. The Coordinating Board did not remove the return mail code after it received the borrower's correct address. The Coordinating Board manually corrected the error by removing the return mail code on February 18, 2009, which was 68 days after the borrower missed the payment. The Coordinating Board sent written collection letters to the borrower on the same date.

Corrective Action:

Corrective action was taken.

Reference No. 10-67

Special Tests and Provisions -Timely Claim Filings by Lenders or Servicers
Special Tests and Provisions - Individual Record Review
Special Tests and Provisions - Loan Origination and Lender Loan Fees
Special Tests and Provisions - Interest Benefits
Special Tests and Provisions - Special Allowance Payments
Special Tests and Provisions - Enrollment Reports
Special Tests and Provisions - Payment Processing

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lenders
Award year - July 1, 2008 to June 30, 2009
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2009
Status: Implemented

U.S. Department of Education

The Texas Higher Education Coordinating Board (Coordinating Board) did not maintain appropriate user access to its Higher Education Loan Management System (HELMS). Specifically:

- Two users from the monitoring and reporting team had excessive access to update due diligence data for borrower records, process claims, enter new repayment information, and change payment schedules.
- One user from the monitoring and reporting team had excessive access to process claims, enter new repayment information, and change payment schedules.
- One user from the monitoring and reporting team had excessive access to enter new repayment information.

Additionally, the Coordinating Board did not maintain appropriate user access to the server on which HELMS resides. Specifically:

- Two former employees of Team for Texas (a group of contractors establishing Texas state data centers) had access to the system administrator group on the server.
- One generic system user ID had access to the server.

Allowing employees inappropriate or excessive access to Coordinating Board systems increases the risk of inappropriate changes and does not allow for segregation of duties. Use of generic user IDs does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

Timely Claim Filing

An institution shall demonstrate to the Secretary of the U.S. Department of Education (Secretary) that the institution is capable of adequately administering Title IV programs under each of the standards established to continue its participation in any Title IV, Higher Education Act (HEA) program. The Secretary considers an institution to have that administrative capability if the institution meets several standards, including that the institution administers Title IV, HEA programs with adequate checks and balances in its system of internal controls (Title 34, Code of Federal Regulations, Section 668.16(c)).

A lender may file a claim against the Secretary's guarantee on a federal guaranteed student loan if the borrower has defaulted on a loan (Title 34, Code of Federal Regulations, Section 682.511(a)(i)).

For 1 (2 percent) of 42 cases tested, the Coordinating Board incorrectly filed a $769.36 claim on March 27, 2009, for a loan that was canceled prior to disbursement and was therefore not in default. On July 24, 2006, the Texas Guaranteed Student Loan Corporation notified the Coordinating Board that this loan was canceled prior to disbursement. The Coordinating Board updated HELMS to reflect a cancelation for the first disbursement, but not for the second disbursement. As a result, the Coordinating Board incorrectly billed the U.S. Department of Education for interest benefits and special allowance payments (SAP) for the second disbursement. The Coordinating Board asserted that this occurred because of a manual processing error.

The Coordinating Board made appropriate interest subsidy and origination fee adjustments in the amount of $104.39 on the *Lender's Interest and Special Allowance Request and Report* (LaRS report) it submitted to the U.S. Department of Education for the quarter ending September 30, 2009. Furthermore, auditors were able to verify that the Coordinating Board correctly adjusted its average daily balance required for the U.S. Department of Education to calculate the SAP adjustment; therefore, there were no remaining questioned costs.

Special Tests and Provisions

The general control weaknesses described above apply to the following special tests and provisions; however, auditors identified no compliance issues regarding these compliance requirements:

- Special Tests and Provisions - Individual Record Review.
- Special Tests and Provisions - Loan Origination and Lender Loan Fees.
- Special Tests and Provisions - Interest Benefits.
- Special Tests and Provisions - Special Allowance Payments.
- Special Tests and Provisions - Enrollment Reports.
- Special Tests and Provisions - Payment Processing.

Corrective Action:

Corrective action was taken.

Reference No. 10-68

Special Tests and Provisions - Curing Due-Diligence and Timely Filing Violations

(Prior Audit Issues - 09-60, 08-54, 07-53, and 06-49)

CFDA 84.032 - Federal Family Education Loans (FFEL) - Lender
Award year - July 1, 2008 to June 30, 2009
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2005
Status: Implemented

U.S. Department of Education

The Texas Higher Education Coordinating Board (Coordinating Board) did not maintain appropriate user access to its Higher Education Loan Management System (HELMS). Specifically:

- Two users from the monitoring and reporting team had excessive access to update due diligence data for borrower records, process claims, enter new repayment information, and change payment schedules.
- One user from the monitoring and reporting team had excessive access to process claims, enter new repayment information, and change payment schedules.
- One user from the monitoring and reporting team had excessive access to enter new repayment information.

Additionally, the Coordinating Board did not maintain appropriate user access to the server on which HELMS resides. Specifically:

- Two former employees of Team for Texas (a group of contractors establishing Texas state data centers) had access to the system administrator group on the server.
- One generic system user ID had access to the server.

Allowing employees inappropriate or excessive access to Coordinating Board systems increases the risk of inappropriate changes and does not allow for segregation of duties. Use of generic user IDs does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

Cures

A lender requests payment of interest benefits and special allowance payments 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.

For the quarter ending June 30, 2009, HELMS contained incorrect void start date information for 1 (9 percent) of 11 accounts tested. A timely claim violation caused this loan to lose its guarantee effective January 7, 2009; however, the void start date was manually entered into the Coordinating Board's system incorrectly. HELMS contained April 12, 2009, as the void start date which caused the Coordinating Board not to rebate funds for the associated loan for the 95 days between the actual void start date and the void start date recorded in HELMS.

Corrective Action:

Corrective action was taken.

Reference No. 10-69

Allowable Costs/Cost Principles
Period of Availability of Federal Funds

CFDA 84.048 - Career and Technical Education - Basic Grants to States
Award years - July 1, 2009 to September 30, 2010 and July 1, 2008 to September 30, 2009
Award numbers - V048A090043 and V048A080043
Type of finding - Significant Deficiency

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department fo Education

High-privileged access in the 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 high-privileged access to the production environment. During the performance of general controls work for the Time Distribution Reporting application (TDR), it was determined that a Senior Web Developer had write access to the TDR Database. In addition, it was noted that there is no documented review of access to the TDR system to determine the appropriateness of access for existing users. This inappropriate access may allow the developer to inject SQL code through the backend or impact the production code indirectly.

No compliance issues were noted for payroll sample items selected with regard to the above major program. The related timesheets were properly certified and approved and the allocation of expenditures was recalculated without exception. Total salary charged to the major program for fiscal year 2009 was approximately $895,000.

Corrective Action:

This finding was reissued as current year reference number: 11-38.

Texas Workforce Commission

Reference No. 10-78

Special Tests and Provisions - UI Benefit Payments

CFDA 17.225 - Unemployment Insurance
Award years - October 1, 2008 through September 30, 2011 and October 1, 2007 through September 30, 2010
Award numbers - UI-18049-09-55-A-48 and UI-16774-08-55-A-48
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Labor

State Workforce Agencies (SWAs) are required by 20 CFR section 602.11(d) to operate a Benefits Accuracy Measurement (BAM) program to assess the accuracy of UI benefit payments and denied claims. The program estimates error rates, that is, numbers of claims improperly paid or denied and dollar amounts of benefits improperly paid or denied by projecting the results from investigations of small random samples to the universe of all claims paid and denied in a State. Specifically, the SWA's BAM unit is required to draw a weekly sample of payments and denied claims, review the records, and contact the claimant, employers, and third parties (either in-person, by telephone, or by fax) to verify all the information pertinent to the paid or denied claim that was sampled. BAM investigators review cases for adherence to state law and policy. For claims that were overpaid, underpaid, or erroneously denied, the BAM investigator determines the amount of payment error or, for erroneously denied claims, the potential eligibility of the claimant; the cause of and the responsibility for any payment error; the point in the UI claims process at which the error was detected; and actions taken by the agency and employer prior to the payment or denial decision that is in error. Federal regional office staff members review a sub-sample of completed cases each year in each State. BAM covers State Unemployment Compensation, Unemployment Compensation for Federal Employees, and Unemployment Compensation for Ex-Service Members.

In accordance with *ET Handbook* No. 395, 4th Edition, Chapter VI, section 12 "Completion of Cases and Timely Data Entry," a SWA is required to promptly complete and investigate the information being collected by questioning claimant and employers before the passage of time adversely affects recollections. Therefore, the following time limits are established for completion of all cases for the year. (The year includes all batches of weeks ending in the calendar year.):

- Paid Cases - A minimum of 70 percent of cases must be completed within 60 days of the week ending date of the batch, and 95 percent of cases must be completed within 90 days of the week ending date of the batch; and 98 percent of cases for the year must be completed within 120 days of the ending data of the calendar year.
- Denied Cases - A minimum of 60 percent of cases must be completed within 60 days of the week ending date of the batch, and 85 percent of cases must be completed within 90 days of the week ending date of the batch; and 98 percent of cases for the year must be completed within 120 days of the ending data of the calendar year.

A case is complete when the investigation has been concluded as required, all official actions for the Key Week (except appeals) have been completed, the supervisor has signed off, and the results have been entered into the computer.

Texas Workforce Commission (TWC) did not meet the stated criteria for the minimum paid or denied case reviews within the defined period by the *ET Handbook* No. 395, 4th Edition. Specifically the following results are noted for the calendar year 2008:

Type of Review	60-day Requirement	90-day Requirement	120-day Requirement
Paid cases	55.3%	79.62%	92.51%
Denied cases - monetary	57.31%	81.87%	91.23%
Denied cases - separation	Percentage met	81.29%	91.82%
Denied cases – non-separation	Percentage met	83.81%	93.06%

Corrective Action:

Corrective action was taken.

Reference No. 10-79

Subrecipient Monitoring

Employment Services Cluster - ARRA
Award year - February 17, 2009 to June 30, 2011
Award number - ES-17590-08-55-A-48

Workforce Investment Act Cluster - ARRA
Award year - February 17, 2009 to June 30, 2011
Award number - AA-17150-08-55-A-48
Type of finding - Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Labor

The Texas Workforce Commission (TWC) passes through a significant amount of federal funds to subrecipients to carry out the objectives of the federal programs. Some of these funds were derived from the American Recovery and Reinvestment Act (ARRA) during fiscal year 2009. TWC is required by OMB Circular A-133 to determine whether the subrecipients have current Central Contractor Registration (CCR) registrations prior to making sub awards and performed periodic checks to ensure that subrecipients are updating information, as necessary. (2 CFR part 176.50)

TWC informed the subrecipients that they were required to have a current registration with CCR under ARRA but due to the Department of Labor's guidance to distribute ARRA funding, TWC did not require the subrecipients to have the CCR prior to disbursing funds. Therefore in fiscal year 2009, 12 of 28 subrecipients with ARRA Workforce Investment Act Cluster funding and 4 of 28 subrecipients with ARRA Employment Services Cluster funding did not have a current registration in the CCR prior to receiving their first disbursement of ARRA funds.

Corrective Action:

Corrective action was taken.

Reference No. 10-80

Special Tests and Provisions - Match with IRS 940 FUTA Tax Form

CFDA 17.225 - Unemployment Insurance
Award year - October 1, 2006 through September 30, 2009
Award number - UI158270755
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Labor

The Texas Workforce Commission (TWC) is required to annually certify for each taxpayer the total amount of contributions required to be paid under the state law for the calendar year and the amounts and dates of such payments in order for the taxpayer to be allowed the credit against the FUTA tax (26 CFR section 31.3302(a)-3(a)). In order to accomplish this certification, states annually perform a match of employer tax payments with credit claimed for these payments on the employer's IRS 940 FUTA tax form.

For a sample of 30 employers, one employer was incorrectly certified to the Internal Revenue Service (IRS) by TWC. The TWC tax system had an incorrect date field, which affected tax years prior to 2007. TWC noted that the calendar year 2007 file submitted in January 2009 had approximately 3,900 incorrect employer records out of 414,474 total records. There is no impact on SUTA payments or the UI Trust fund; these payments were paid correctly. The certifications of the 3,900 employer records sent to the IRS incorrectly stated that the payments were timely, when in fact they were not.

As indicated above, the requirement in question reports to the IRS on how much and when an employer paid State Unemployment Taxes (SUTA). Annually, employers complete federal Form 940, Federal Unemployment Tax (FUTA), indicating on the form if they paid their SUTA taxes timely. Doing so provides the employer a 5.4% credit against the 6.2% FUTA tax. If they fail to pay their SUTA timely, the credit against FUTA is reduced by 10 percent. To ensure the employer claiming the credit has, in fact, timely paid their SUTA taxes, the IRS requests a certification each year from TWC. The certification contains how much and when SUTA taxes were paid by each employer. Assuming the employers that were not properly certified still prepared their Form 940 correctly by indicating the late dates of payment of their SUTA; the inaccurate certification would have had no impact. However, if one of 3,900 employers indicated on their Form 940 that they had paid the SUTA taxes timely when they had not, the employer would have erroneously received full credit. TWC has no means of determining the net impact on the FUTA tax payments.

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 2009 Schedule of Findings and Questioned Costs
- Each finding in the 2009 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, 2009, has been audited by other auditors.

Adjutant General's Department

Reference No. 10-01
Cash Management
Program Income

CFDA 12.401 - National Guard Military Operations and Maintenance Projects
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Cash Management:

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Defense

To the extent available, program income, rebates, refunds, and other income and receipts must be disbursed before requesting additional federal cash draws (Title 2, Code of Federal Regulations, Part 215.22).

In addition, National Guard Regulation (NGR), Chapter 10, Section 10-7, mandates the following:

- Program income is reported on reimbursement or liquidation of advance payment vouchers as soon as such income is considered "received" pursuant to state accounting procedures. Unliquidated amounts of program income will be carried forward on the next voucher.
- The amount the State requests for reimbursement will be reduced by the amount of program income received. However, the maximum estimated cost reflected in the appropriate budget will increase by the amount of program income; but the maximum federal funding limitation reflected in the agreement will not increase.

The Adjutant General's Department (Department) did not disburse program income, rebates, refunds, or other income and receipts prior to requesting advance funding or submitting reimbursement requests. Department program managers are responsible for spending the program income earned as a result of activities within their programs, and the Department's State Property and Fiscal Office prepares an annual summary detailing the program income earned and expended from fiscal year 1998 to the present. However, program managers and staff do not have a clear understanding of the use of program income.

None of the 52 reimbursement requests tested included accounting for program income, rebates, refunds, or other income. These 52 requests also did not include receipts to adjust the amounts being requested. The 52 requests totaled $12,275,491.45. As of November 16, 2009, Department accounting records show $177,043.72 in program income retained in program accounts for fiscal year 2009.

Program Income:

Program income earned during the project period shall be retained by the recipient and used in accordance with federal awarding agency regulations or the terms and conditions of the award (Title 2, Code of Federal Regulation, Section 215.24).

National Guard Regulation (NGR) 5-1 states that, for purposes of National Guard Bureau (NGB) Cooperative Agreements, program income shall mean the gross income received by the state military department that is directly generated by a cooperative agreement supported activity. NGR 5-1 requires that program income be reported on reimbursement or liquidation of advance payment vouchers as soon as such income is considered "received" pursuant to state accounting procedures.

The Adjutant General's Department (Department) did not correctly determine, record, and use program income earned in accordance with the program requirements and NGR 5-1, as applicable. However, the Department's program income expenditures for fiscal year 2009 complied with requirements for the National Guard Military Operations and Maintenance Projects program. In addition, the Department does not consistently calculate program income using program receipts in accordance with its rental agreements.

Auditors tested 37 Department transactions to record program income earned and the 5 Department expenditures of program income. The program income earned totaled $66,041.19 and the program income expended totaled $17,634.93. Auditors identified the following:

- The Department (1) did not calculate program income in accordance with the contract agreement provisions or (2) collected program income from sources not allowed by the contract agreement for 3 (8 percent) of the 37 program income transactions tested. For these three errors, program income earned, and therefore reapplied to the program, was $380 less than the established amount. Specifically:
  - For 2 of these errors, the program income amount in the Department's accounting system did not match the supporting price sheet.
  - For 1 of these errors, the program income was earned from a source that was not allowed by the contract agreement.
- The Department did not record program income in the proper account for 2 (5 percent) of the 42 program income transactions tested.
- The Department added three of the five program income expenditures to the associated Appendix budget for the Master Cooperative Agreement as required by the contract grant agreement, but it did not amend the Appendices for the other two expenditures.

Department program managers are responsible for spending the program income earned as a result of activities within their program. The Department's State Property and Fiscal Office prepares an annual summary detailing the program income earned and expended from fiscal year 1998 to the present. However, Department program managers and program staff do not have a clear understanding regarding the use of program income, and the Department did not consistently include the program income for the fiscal year in the budget information for its Master Cooperative Agreement Appendices.

The issues discussed above affected the following awards:

Award Numbers	Award Years
DAHA41-04-2-1000 (MCA)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1001 (Appendix 1)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1002 (Appendix 2)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1003 (Appendix 3)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1004 (Appendix 4)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1005 (Appendix 5)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1007 (Appendix 7)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1014 (Appendix 14)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1021 (Appendix 21)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1022 (Appendix 22)	October 1, 2003 - September 30, 2009

Award Numbers	Award Years
DAHA41-04-2-1023 (Appendix 23)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1024 (Appendix 24)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1028 (Appendix 28)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1040 (Appendix 40)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1010 (Appendix 10)	October 1, 2005 - September 30, 2009
W912L1-04-2-3034 (RSMS)	February 25, 2005 - September 30, 2009
W912L1-05-2-3055 (Geospatial)	September 15, 2005 - September 30, 2009
W912L1-06-2-3059 (Peace Prairie)	March 9, 2007 - June 30, 2009
W912L1-07-2-3061 (ALERRT)	September 25, 2007 - March 31, 2010
W912L1-08-2-3070 (JBOT)	October 1, 2008 - March 31, 2010

Recommendations:

The Department should:

- Develop and implement controls to ensure that it records program income in the account that accurately reflects the program providing the service, and that it adds the program income to the appropriate agreement.
- Implement controls to disburse program income, rebates, refunds, and other income and receipts, once that income is added to the appropriate agreement, before requesting additional federal cash draws.
- Develop and implement controls to ensure that it uses program income in accordance with federal and program requirements.
- Develop and implement controls to ensure that it calculates program income in accordance with contract agreement provisions and collects program income only from allowable sources.

Management Response and Corrective Action Plan 2009:

Cash Management:

Management agrees that the methodology for adding program income to the budget should be changed. The Adjutant General's Department will develop policies and procedures to ensure efficient and accurate recording of program income be developed and implemented to speed disbursement of that income from the Adjutant General's accounts.

Program Income:

Management agrees that the program income controls should be strengthened. Management will undertake a review of the revenue sources to ensure adequate controls and documentation are in place. The Adjutant General's Department will ensure formal fee schedules and recordkeeping systems are in place.

Management Response and Corrective Action Plan 2010:

Program Income - For the one transaction where program income was earned from a source that was not allowed by the contract agreement; a payment in the amount of $150 was processed to USPFO on 17 June 2010. In regards to the other program income issues State Services, Garrison Command, and Training Center Command met in July 2010. Fees and collection process controls were clarified, updated, and standardized prior to and immediately after this meeting. The State Auditor's Office follow-up testing indicated that the department has developed and implemented controls to ensure that it calculates program income in accordance with contract agreement provisions and collects program income only from allowable sources.

Cash Management – The department has a cash management internal audit scheduled to start on 4April 2011. The cash management portion of this finding will be fully implemented in addressing all findings and concerns identified through this audit.

Implementation Date: *June 30, 2011*

Responsible Persons: *Mr. Duane Waddill and Ms. Pam Darden*

Reference No. 10-02

Equipment and Real Property Management

CFDA 12.401 - National Guard Military Operations and Maintenance Projects
Award years - see below
Award numbers - see below
Type of finding - Material Weakness and Material Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Defense

Governmental units will manage equipment in accordance with state laws and procedures (Title 2, Code of Federal Regulation, Part 225, Appendix B). In addition, the Office of Management and Budget Circular A-133 Compliance Supplement, Part 3, Section F, mandates that states receiving federal awards shall use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures. Texas Government Code, Section 403.273, also 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. In addition, the Office of the Texas Comptroller of Public Accounts' (Comptroller's Office) *SPA Process User's Guide* states that each item of property, capitalized or controlled, must be assigned a unique property inventory number. Each agency is responsible for ensuring that property is tracked and secured in a manner that is most likely to prevent loss, theft, damage, or misuse. Agencies must know at all times where all property under their control is located. Agencies must also complete Form 73-283 after conducting an annual physical inventory, and the agency head must submit this form to the Comptroller's office no later than 20 days after the last day of the fiscal year.

The Adjutant General's Department (Department) does not have sufficient internal controls over its equipment. Auditors identified several deficiencies that are discussed below.

State Property Accounting System Information and Purchase Documentation:

Auditors identified discrepancies in the State Property Accounting (SPA) system and purchase documentation for 16 (19 percent) of 84 property records tested. Specifically:

- 3 equipment purchases should have been recorded as capitalized assets but were not.
- 4 equipment items had serial numbers in the purchase documentation that were not in SPA.
- 5 equipment items had serial numbers in SPA that did not match the serial numbers on the purchase documentation.
- 4 equipment items had duplicate serial numbers in SPA.

These discrepancies occurred because of data entry errors into SPA (for which there was no Department review process) and because the Department assigned incorrect coding to equipment transactions in its accounting system.

Location and Property Tag Information:

Thirty-four (40 percent) of the 84 equipment items that auditors attempted to physically locate had discrepancies in the location and property tag information listed in SPA. Specifically:

- 3 equipment purchases were not capitalized but should have been, which resulted in the assigned tag number not being recorded in SPA.
- 10 equipment items were in locations that differed from the location listed in SPA.
- 4 equipment items could not be located. Specifically:
- 3 of the 4 items were recorded in SPA, but Department could not locate these items.
- 1 of the 4 items was selected from Department expenditure data, but the Department could not locate the purchasing documentation necessary to reference the item in SPA and locate the item.
- 16 equipment items did not have the assigned property tags affixed to them.
- 1 equipment item lacked supporting purchase documentation.

These discrepancies occurred because the Department does not perform a secondary review of data entry into SPA, the Department assigned incorrect coding to equipment transactions in its accounting system, there is a lack of controls over issuing equipment and property tags, the Department's method of receiving equipment is decentralized, there is a lack of documentation retention, and a failure to confirm the annual inventory certifications that employees perform. In addition, if property is received at an installation other than Camp Mabry, the Department's property manager is frequently not informed. The four equipment items that could not be located cost $34,421.

Annual Inventories:

The Department certified its annual inventory to the Comptroller's Office without receiving and confirming all inventory certifications from equipment custodians. The Department also submitted its certification to the Comptroller's Office 15 days after the due date. The Department also did not ensure that all equipment custodians verified the inventory and did not resolve all discrepancies in inventory results. In addition, the Department did not consistently update the inventory in SPA with information for equipment purchases.

The Department performed its annual inventory by asking 20 employees who are assigned equipment in SPA to complete inventory verification reports. However:

- Twelve (60 percent) of the 20 employees did not complete an inventory verification report.
- Seven (35 percent) of the 20 employees submitted inventory verification reports that included discrepancies that the Department did not correct.

Updates to the State Property Accounting System:

Six equipment items in SPA (five of which were controlled assets) were not assigned to a responsible person. No locations were listed for these items in SPA. The Department also had surplus equipment that was still assigned to 29 individuals in SPA, and it had not yet made the adjustments in SPA to correctly record the responsible person and location. In addition, the Department did not update SPA to add equipment purchased for 5 (50 percent) of 10 control forms that were included in the annual inventory documentation.

Reconciliations

The Department's process to reconcile SPA with the Uniform Statewide Accounting System (USAS) is adequate if the correct information is in both systems. Auditors reviewed the reconciliation documentation and determined that the reconciliation process identified purchases of capital assets that were correctly entered into SPA but were not entered into USAS as capitalized assets. However, auditors determined that two computer equipment items were incorrectly coded in USAS as expenditures instead of being capitalized and were not entered into SPA through the purchasing process. As a result, these purchase transactions should have been included in the reconciliation. The Department asserted that it would adjust the fiscal year 2010 beginning balance.

The weaknesses in controls discussed above increase the risk for misuse or theft of equipment and use of federal and state funds for inappropriate or unallowable purposes. The Department's equipment acquisitions for fiscal year 2009 totaled $1,257,065. Property records in SPA show that the Department had a total of $5,422,088.36 in equipment at the end of fiscal year 2009.

The issues discussed above affected the following awards:

Award Numbers	Award Years
DAHA41-04-2-1000 (MCA)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1001 (Appendix 1)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1002 (Appendix 2)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1003 (Appendix 3)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1004 (Appendix 4)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1005 (Appendix 5)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1007 (Appendix 7)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1014 (Appendix 14)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1021 (Appendix 21)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1022 (Appendix 22)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1023 (Appendix 23)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1024 (Appendix 24)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1028 (Appendix 28)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1040 (Appendix 40)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1010 (Appendix 10)	October 1, 2005 - September 30, 2009
W912L1-04-2-3034 (RSMS)	February 25, 2005 - September 30, 2009
W912L1-05-2-3055 (Geospatial)	September 15, 2005 - September 30, 2009
W912L1-06-2-3059 (Peace Prairie)	March 9, 2007 - June 30, 2009
W912L1-07-2-3061 (ALERRT)	September 25, 2007 - March 31, 2010
W912L1-08-2-3070 (JBOT)	October 1, 2008 - March 31, 2010

Recommendations:

The Department should:

- Ensure that the property records in SPA agree with the actual property the Department possesses.
- Attach property tags to the equipment to which the tags are assigned.
- Establish and implement controls to eliminate the possibility of equipment items being issued or moved without tracking where the equipment is located and to whom it is assigned.
- Ensure that it receives all inventory verifications prior to certifying its annual inventory to the Comptroller's Office.
- Dispose of surplus equipment in accordance with all requirements.
- Make corrections in SPA for discrepancies identified during the annual inventory.
- Enter equipment information into SPA using Form 24-R.
- Code all capital equipment in its accounting system using the correct object code.

Management Response and Corrective Action Plan 2009:

Management agrees with the findings and recommendations of the auditors. Management had already identified these issues and has begun the process of hiring staff whose sole function is inventory management and control. Additionally, management is in the process of obtaining services from an independent third party to conduct a complete inventory and reconciliation of the Adjutant General's Department records.

Management Response and Corrective Action Plan 2010:

The Adjutant General's Department (department) identified 44 inventory items where there was some concern. Each of these 44 inventory items have been researched, corrected, and verified. The department now has a full time inventory employee, and has completed a contracted out 100% physical inventory on every property item. The State Auditor's Office follow-up tested equipment management and an additional sample of inventory items and found errors. The department has identified and evaluated possible causes for these errors and the cause and associated errors will be addressed and the controls in this area strengthened by 31 March 2011.

Implementation Date: *March 31, 2011*

Responsible Persons: *Ms. Pam Darden and Mr. Greg Riley*

Reference No. 10-03

Procurement and Suspension and Debarment
Allowable Costs/Cost Principles

CFDA 12.401 - National Guard Military Operations and Maintenance Projects
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Defense

Agencies 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 Adjutant General's Department (Department) uses the Uniform Statewide Accounting System (USAS) as its accounting system of record and the Integrated Engineering Management System (IEMS) as its cross-functional purchasing and accounting database system. Both systems are accessed through the Texas Military Forces (TXMF) network because most of the Department's elements operate on the TXMF network. Audit procedures included review of general level controls over USAS, IEMS, and the TXMF network.

The Department does not have formal policies or procedures regarding the periodic review of user access within IEMS at the application level or at the server level. The Department reviews user access in IEMS at the application level when there is turnover in a program manager position, which can occur every few years in some instances. Auditors reviewed the IEMS user list of 284 employees at the application level and determined that 29 users have access levels allowing them to request a purchase and provide both budget approval and final approval for that purchase, indicating a lack of segregation of duties. The IEMS user list also contains three users who have access levels allowing them entry capability (to include requesting a purchase), and these three users are not current employees. In addition, at least 42 individuals are assigned administrator level access to the IEMS database and to the server housing the IEMS application and database. These 42 individuals also have access to migrate IEMS code releases to the Department's production environment. Most of these 42 individuals have these access rights because they inherited the access rights of other roles as provided for in Microsoft Active Directory and because the IEMS database administrator position is currently vacant.

The Department provided no evidence regarding its periodic review of user access to the TXMF network. The Department asserts that its review of access history is done manually and by exception. Auditors reviewed user access to the TXMF network and identified the following:

- One administrative assistant has administrative access to the TXMF network.

- One user with administrative access to the TXMF network is no longer employed by the Department. This user was a previous employee of the TXMF.

In addition, the Department does not have change management policies or procedures for its automated systems. The Department asserts it is developing these policies and procedures.

Not reviewing user access could result in inappropriate access of the Department's systems. Allowing users and developers inappropriate or excessive access to areas in IEMS that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties. In addition, not having policies and procedures over change management could result in unauthorized or inappropriate changes made to the Department's automated systems.

Procurement and Suspension and Debarment

National Guard Regulation (NGR) 5-1, Section 3-10, states that acquisition of goods and services in performance of the cooperative agreement shall be according to state contracting procedures per Title 32, Code of Federal Regulations (CFR), Section 33.36, which states the following:

- When procuring property and services under a grant, a state will follow the same policies and procedures it uses for procurements from its non-federal funds.
- Grantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not limited to, rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

State procurement guidelines include the following:

- 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.
- The Texas Comptroller of Public Accounts' *The State of Texas Procurement Manual*, Section 2-28, states that, for procurements that are not subject to alternate procurement methods and are for estimated purchases of $5,000 to $25,000, agencies must obtain at least three informal bids, two of which must be from vendors certified as historically underutilized business (HUB) by the State.
- The Department's *Purchasing Guide* requires that purchases between $5,000 and $25,000 must obtain three informal verbal bids. Agencies must use the Centralized Master Bidders List (CMBL) to locate vendors who service the specific highway district for the specified class and item number. Two (2) bids must be solicited from certified HUB program. If it will enhance competition, the agency may add non-CMBL vendors to the final bid list, but written approval from the head of the agency is required to supplement non-CMBL vendors.

The Department did not consistently follow requirements for competitive bidding and retain justification for purchases when there were fewer than three bidders. Auditors identified the following during testing:

- Three closely related purchases that were individually under $5,000 should have been combined for a total purchase of $5,930 and, therefore, should have been subject to competitive bidding. Although the purchases were submitted on the same day and for the same service, they were assigned consecutive purchase order numbers, and the Department's purchasers did not require that the purchases be combined and competitively bid.
- For one $14,948.28 purchase, purchasers did not ensure that the requester obtained at least three bids from the CMBL and HUB vendors, and they did not include documentation to explain the procurement method.
- For one $127,178 purchase, purchasers did not retain adequate documentation in the procurement file, including documentation for a comparison of vendors' qualifications or for use of the CMBL.

These issues occurred because of a lack of oversight by the Department's purchasing staff and lack of a structured system for monitoring procurement and contracting documents. The issues affected the following awards:

Award Numbers	Award Years
DAHA41-04-2-1000 (MCA)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1001 (Appendix 1)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1002 (Appendix 2)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1003 (Appendix 3)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1004 (Appendix 4)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1005 (Appendix 5)	October 1, 2003 -September 30, 2009
DAHA41-04-2-1007 (Appendix 7)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1014 (Appendix 14)	October 1, 2003 -September 30, 2009
DAHA41-04-2-1021 (Appendix 21)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1022 (Appendix 22)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1023 (Appendix 23)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1024 (Appendix 24)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1028 (Appendix 28)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1040 (Appendix 40)	October 1, 2003 - September 30, 2009
DAHA41-04-2-1010 (Appendix 10)	October 1, 2005 - September 30, 2009
W912L1-04-2-3034 (RSMS)	February 25, 2005 - September 30, 2009
W912L1-05-2-3055 (Geospatial)	September 15, 2005 - September 30, 2009
W912L1-06-2-3059 (Peace Prairie)	March 9, 2007 - June 30, 2009
W912L1-07-2-3061 (ALERRT)	September 25, 2007 - March 31, 2010
W912L1-08-2-3070 (JBOT)	October 1, 2008 - March 31, 2010

Allowable Costs/Cost Principles

Although the general control weaknesses described above apply to allowable costs/cost principles, auditors identified no compliance issues regarding allowable costs/cost principles.

Recommendations:

The Department should:

- Strengthen general controls around IEMS. This may include developing and implementing policies and procedures regarding the periodic review of user access in the Department's automated systems and network and assigning a database administrator to IEMS. It may also require the Department to ensure that it (1) maintains documentation of its periodic review of user access to the TXMF network and (2) develops and implements policies and procedures regarding change management for its automated systems. Alternatively, the Department should develop and implement manual controls for purchases that compensate for the information technology general control weaknesses discussed above.
- Verify that purchasers are aware of the potential for project splitting, and ensure that requesters are aware of the requirements for competitively bidding projects.
- Ensure that requesters use the CMBL and HUB vendors when obtaining bids, and maintain documentation of this in the procurement files.
- Ensure that purchasers maintain documentation on comparison of vendors in the procurement files.
- Develop and implement a process for monitoring procurement files to ensure that staff obtain and retain proper documentation to support purchases.

Management Response and Corrective Action Plan 2009:

Management agrees that the IEMS system has control weaknesses. This system is owned by the State of Idaho and is not being used by the Adjutant General's Department as a system of record. Additionally, the system is being reviewed and possibly enhanced by the National Guard Bureau for use by all states. The department will undertake the alternative recommendation and review its processes to ensure manual mitigation procedures are in place to compensate for those system weaknesses while awaiting National Guard Bureau action.

Management agrees with the findings related to the TXMF network access. The National Guard Bureau conducted a system scan in July 2009 and did not identify these issues. However, these issues will be addressed through the final certification process of the network to Department of Defense standards by the National Guard Bureau.

Management agrees with the findings and recommendations that the Construction, Facilities, Maintenance, and Operations purchasing section's procedures should be strengthened and will ensure the implementation of the recommendations.

Management Response and Corrective Action Plan 2010:

Strengthening controls in IEMS and the TXMF network certification is currently in process and will be completed by 31 August 2010. After completing a review of the Adjutant General's Department (department) purchasing system and related processes, management consolidated all purchasing processes to State Services effective 1 September 2010. State Services has also added additional purchasing personnel to strengthen the system and the associated control processes. These actions were completed 1 September 2010.

Implementation Date: *September 1, 2010*

Responsible Persons: *Mr. Duane Waddill and Ms. Pam Darden*

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

Initial Year Written: 2008
Status: Implemented

U.S. Department of Education

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.

Corrective Action:

Corrective action was taken.

Lamar State College - Port Arthur

Reference No. 10-31

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.268 P268K094241, CFDA 84.063 P063P084241, CFDA 84.007 P007A086986, CFDA 84.033 P033A086986, and CFDA 84.375 P375A084241
Type of finding - Significant Deficiency and Non-Compliance

Disbursement Notices

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Education

If an institution credits a students' account at the institution with Direct 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 students' right or parents' 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. The notification can be sent in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

To help ensure compliance with federal disbursement notification requirements, Lamar State College - Port Arthur (College) staff use a voucher summary report from the previous night's refund process to identify loan disbursements. However, students who receive loans but who do not receive refunds are not on that report. Based on the review of the voucher summary report, the College creates and sends a disbursement notification to the student. However, it is possible that a student could have a loan disbursement that covered only tuition and fees. In these instances, identifying the disbursement would require checking the detailed disbursement report, rather than the refund report. The College's current process for disbursement notification does not include this review. Auditors did not identify any instances of non-compliance as a result of this control weakness.

In addition, the College's loan disbursement notifications for all seven students tested who received federal direct student loans did not include some of the required information. Specifically, the notifications did not inform the students or parents of their right to cancel loans, either in full or in part, including corresponding procedures by which the students or parents must notify the College that they wish to cancel the loan. The College sent the loan notifications within the required time frame, and the notifications contained the correct information about the disbursement amounts and dates. The College began offering Direct Loans during the Spring 2009 semester, and College staff assert that the notifications lacked required information as a result of an unintentional omission.

Recommendations:

The College should:

- When making disbursement notification determinations, ensure that it reviews information necessary to identify all federal aid disbursements to student accounts, even if such disbursements would not result in a refund to the student.
- Ensure that it includes all required loan disbursement information in disbursement notifications sent to students and parents.

Management Response and Corrective Action Plan 2009:

#1. When making disbursement notification determinations, ensure that it reviews information necessary to identify all federal aid disbursements to student accounts, even if such disbursements would not result in a refund to the student.

Management Concurs -

Upon learning of the omission of the instructions on what a student or parent needs to do to cancel all or a portion of their loan the revision was made to the disbursement notification letter immediately.

#2 Ensure that it includes all required loan disbursement information in disbursement notifications sent to students and parents.

Management Concurs –

Immediate changes were made to the process of determining who was to receive a disbursement notification letters after the telephone conversation with auditors concerning the process by which we were using. Auditors brought to our attention of the fact that potential student, under very specific circumstances might not be identified for a disbursement letter. Changes were made immediately to ensure that all loan borrowers would receive a disbursement notification letter. The combination of the loan worksheet and the internal report of disbursements of loans identify the student and/or parent.

Management Response and Corrective Action Plan 2010:

Management Concurs

Procedures for identifying students who did not receive refunds and needed a disbursement notification letter showed that borrowers for the new award year were processed by using a worksheet supplied by the Assistant Director. This worksheet identified all students receiving a loan. When the second disbursement was made in the Spring a report was run showing students that had been paid. Using this report all payments were reviewed to make sure that students who may have not received refunds were sent a disbursement notification letter. This report was not specified in the procedures process.

Implementation of Corrective Action: Action was taken effective the date of the consultation audit cycle in August 23, 2010, and was applied for the Fall 2010 semester -1st class day August 23, 2010. New procedures for identifying students who need disbursement notification letters are in place with our new Banner Software. A report is generated after every disbursement cycle listing all students who were disbursed a student loan. Using this report letters are generated.

Implementation Date: August 23, 2010

Responsible Person: Diane Hargett

Management Concurs

A transposition error resulted in the incorrect amount on a disbursement notification letter.
This notification letter will be converted to an automated process to prevent this error again.

An outdated letter was sent in error using the incorrect notification information. This letter has been deleted to prevent this from happening again.

Implementation of Corrective Action: Action was taken effective the date of the consultation audit cycle in August 23, 2010, and was applied for the Fall 2010 semester – 1st class day August 23, 2010. The notification letter has been converted to an automated process implemented in yet another software upgrade/migration. The incorrect letter was deleted immediately.

Implementation Date: August 23, 2010

Responsible Person: Diane Hargett

Common Origination and Disbursement System Reporting

An institution makes a disbursement of Title IV, Higher Education Act (HEA) program funds on the date that the institution credits a students' account at the institution or pays a student or parent directly with (1) funds received from the U.S. Secretary of Education; (2) funds received from a lender under the Federal Family Education Loan Programs; or (3) institutional funds used in advance of receiving Title IV, HEA program funds (Title 34, Code of Federal Regulations, Section, 668.164(a)). 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 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 2009, 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 5-3-29)).

For 2 (5 percent) of 40 student records tested (associated with 2 of 69 disbursements) at the College, the actual date of the Pell Grant disbursement did not match the disbursement date the College reported to the COD System. There was a difference of one day in the disbursement dates. The College explained that there was a malfunction in its computer system in both instances that prevented the information from being correctly transmitted from the College's system to the COD System.

The College is testing its system so that this error does not occur in the future. The College's total Pell Grant expenditures for 2008-2009 school year were $1,969,923.00.

Corrective Action:

Corrective action was taken.

Prairie View A&M University

Reference No. 10-33
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.268 P268K092319, CFDA 84.063 P063P082319, CFDA 84.007 P007A084098, CFDA 84.033 P033A084098, CFDA 84.375 P375A082319, CFDA 84.376 P376S082319, CFDA 84.379 P379T082319, and CFDA 93.925 Award number Not Applicable.
Type of finding - Material Weakness and Non-Compliance

General Controls

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Education

U.S. Department of Health and Human Services

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)).

Prairie View A&M University (University) did not maintain appropriate user access for Banner, its financial aid application. Auditors identified several areas within Banner that enabled employees to have excessive access privileges for modification. Specifically:

- 16 users had inappropriate access to the super user security class, which allowed them to modify all screens or objects within Banner.
- 23 users had inappropriate access to modify the setting up of financial aid budgets in Banner, as well as the creation of budgets in Banner.
- 9 users had excessive access to modify the fund packaging rules tables in Banner.
- 24 users had excessive access to modify the structured query language for all Banner global rules.
- 23 users had excessive access to modify the satisfactory academic progress rules in Banner.
- 22 users had inappropriate modify access to the RBRCOMP screen. This screen is where the various components to a budget are set up.
- 8 users had inappropriate modify access to the RFRMGMT screen. This screen is where the minimum maximum amounts are set up for each fund.
- 25 users had inappropriate modify access to the RFRDEFA screen. This screen is where the disbursement dates are set up for each fund.
- 23 users had inappropriate modify access to the RORPOST screen. This screen is where the batch posting rules are set up, which includes loading of required documents on the document required screen based on the Institutional Student Information Record (ISIR) comment codes.
- 24 users had inappropriate modify access to the RORTPRD screen. This screen is where the start and end dates for each semester are set.

Additionally, the University has not performed a review of user access to Banner, the Oracle database, or its network. Allowing employees inappropriate or excessive access to areas in Banner that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, five University employees shared the user ID and password used by the University's database administrator, which provided them with excessive access to migrate code into Banner's production environment

The University did not have formal system development policy and procedures in place when it implemented Banner. The University implemented its current system development policy and procedure in May 2009. Having a policy and procedures helps to ensure that the changes that are made will be able to meet user needs, that the controls in place adequately cover the risks to the University, and that the new system will be able to integrate with the University's existing system.

Corrective Action:

Corrective action was taken.

Budget Amounts

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)).

When entering students' cost of attendance (COA) budgets into its financial aid system tables, the University included incorrect loan fee amounts for three budget groups. The University entered $200, when the correct amount was $100. This was limited to the following three budget groups: (1) student was a full-time undergraduate from out of state entering the University in the Spring semester; (2) student was a three-quarter time undergraduate in-state resident entering the University in the Spring semester; and (3) student was a full-time undergraduate from out of state entering the University for the Spring and Summer 1 semesters. A total of 42 students were affected by the incorrect cost of attendance budgets. As a result, the University included incorrect loan fee amounts within all Pell-based budgets that it reported to the U.S. Department of Education's Common Origination and Disbursement (COD) system. Reporting incorrect COA budgets could result in students being underawarded or overawarded financial assistance. None of the items tested resulted in incorrect award amounts.

Awards of Pell Grants

The Federal Pell Grant Program awards grants to help financially needy students meet the cost of their post-secondary education (Title 34, Code of Federal Regulations, Section 690.1). In selecting among students for the Federal Pell Grant program, an institution must determine whether a student is eligible to receive a Federal Pell Grant for the period of time required to complete his or her first undergraduate baccalaureate course of study (Title 34, Code of Federal Regulations, Section 690.6(a)). For each payment period, an institution may pay a federal Pell Grant to an eligible student only after it determines that the student is enrolled in an eligible program as an undergraduate student (Title 34, Code of Federal Regulations, Section 609.75 (a)(2)). In selecting 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)).

Based on a review of the full population of student financial aid recipients, the University awarded FSEOG to three students who did not receive Pell Grants. These three students were eligible for Pell Grants, but incorrect changes to their student classification data in the University's financial aid system had removed their Pell Grant eligibility in error. The students' classification status was undergraduate when initially awarded, but the students' classification status changed to graduate and Pell funds were removed from the students' funding. When auditors brought this to the University's attention, the University corrected the three students' award packages so they would receive the Pell Grants to which they were eligible. The amount of the new Pell funds awarded totaled $4,238.

Satisfactory Academic Progress Policy

A student is eligible to receive Title IV, Higher Education Act 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).

The University's satisfactory academic progress policy requires an undergraduate student receiving federal aid to (1) maintain a minimum 2.00 cumulative GPA, (2) successfully complete at least 75 percent of the student's credit hours, and (3) meet the student's degree objectives within 180 total attempted hours. If a student does not meet these requirements, the student may be placed on financial aid probation or financial aid suspension. If the student is placed under financial aid suspension, the student may appeal the suspension. All appeals that are denied could be awarded in error if the manual adjustment is not made to the automated system.

The University disbursed financial assistance to 1 (2.5 percent) of 40 students tested, even though that student did not meet the University's satisfactory academic progress policy. The University awarded the student a total of $8,880 in assistance because the University did not manually adjust its automated system to reflect that the student's satisfactory academic progress appeal was denied. The University later detected this error and canceled the assistance, but it had already disbursed $8,800 for the Spring semester to this student. The University cleared the student's account with the U.S. Department of Education after canceling the funds; therefore, there is no questioned cost associated with the error.

COA Calculation

The determination of the federal student assistance award amount is based on financial need. Financial need is defined as the student's COA minus the expected family contribution (EFC). 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 aid to ensure that total aid is not awarded in excess of the student's financial need (Title 34, Code of Federal Regulations, Section 685.301).

The University incorrectly calculated the COA for 4 (10 percent) of 40 students tested. While the University's financial aid system automatically calculates COA for Fall and Spring semesters, University staff manually calculates the Summer semester portion of each student's COA. This could result in an overaward if the student does not have any excess unmet need. For the four students noted, the staff incorrectly calculated the Summer semester portion of the student's COA. One student was a full-time graduate student who incorrectly had a loan fee of $75 added to the student's COA. The remaining three students were part-time for the Summer semester: One student had a $500 room charge incorrectly added to the student's COA, one student had a $425 book allowance incorrectly omitted from the student's COA, and one student had $406 in personal expenses incorrectly omitted from the student's COA. However, the incorrect COA calculations did not have an effect on the amount of assistance awarded to students because the students had excess unmet needs.

Recommendations:

The University should:

- Review COA budget component amounts prior to packaging of student financial assistance to prevent errors in COA calculations.
- Improve controls over processes it uses to update its financial aid system when a student's status changes to ensure that is does not incorrectly remove funding eligibility.
- Improve controls over the manual process used to update the financial aid system to reflect the current status of students' satisfactory academic progress policy appeals.
- Improve controls over manual calculations of COA.

Management Response and Corrective Action Plan 2009:

We agree with this finding. In order to prevent further occurrences, a report will be created to monitor yearly and semester loan fees to determine compliance. This report will then be reviewed by financial aid staff on a weekly basis.

Management will develop a process to: 1) identify students that are transitioning from Undergraduate to Graduate status; 2) use the Federal Pell Reconciliation process in Banner to isolate exceptions and ensure that changes to classification do not affect previous awards.

We agree with this finding. In order to prevent further occurrences, a report will be created to monitor whether aid has been disbursed to students that do not meet the Satisfactory Academic Progress Policy. This report will then be reviewed by financial aid staff on a weekly basis.

A program will be developed to accurately review budget components prior to packaging. A report will be generated to ensure that students are given the proper budgets and counselor updates are correct. This report will then be reviewed by financial aid staff on a weekly basis and certified by the Assistant Provost or one of the Associate Directors.

Management Response and Corrective Action Plan 2010:

Management agrees with this audit recommendation and will review its Cost of Attendance (COA) process and develop a procedure that will prevent errors in COA calculations. This procedure will ensure a student's change status change is updated properly and will reflect the current status of students' satisfactory academic progress policy appeals.

Implementation Date: *October 1, 2011*

Responsible Person: *Kelvin Francois*

Reference No. 10-34

Special Tests and Provisions - Disbursements To or On Behalf of Students

(Prior Audit Issue - 08-38)

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.268 P268K092319, CFDA 84.063 P063P092319, CFDA 84.007 P007A084098, CFDA 84.033 P033A084098, CFDA 84.375 P375A082319, CFDA 84.376 P376S082319, and CFDA 93.925 Award number Not Applicable.
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2007
Status: Partially Implemented

U.S. Department of Education

U.S. Department of Health and Human Services

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)).

Prairie View A&M University (University) did not maintain appropriate user access for Banner, its financial aid application. Auditors identified several areas within Banner that enabled employees to have excessive modify access privileges. For example:

- 16 users had inappropriate access to the super user security class, which allowed them to modify all screens or objects within Banner.
- 23 users had inappropriate access to modify the setting up of financial aid budgets in Banner, as well as the creation of budgets in Banner.
- 9 users had excessive access to modify the fund packaging rules tables in Banner.
- 24 users had excessive access to modify the structured query language for all Banner global rules.
- 23 users had excessive access to modify the satisfactory academic progress rules in Banner.
- 22 users had inappropriate modify access to the RBRCOMP screen. This screen is where the various components to a budget are set up.
- 8 users had inappropriate modify access to the RFRMGMT screen. This screen is where the minimum maximum amounts are set up for each fund.
- 25 users had inappropriate modify access to the RFRDEFA screen. This screen is where the disbursement dates are set up for each fund.
- 23 users had inappropriate modify access to the RORPOST screen. This screen is where the batch posting rules are set up, which includes loading of required documents on the document required screen based on the Institutional Student Information Record (ISIR) comment codes.
- 24 users had inappropriate modify access to the RORTPRD screen. This screen is where the start and end dates for each semester are set.

Additionally, the University has not performed a review of user access to Banner, the Oracle database, or its network. Allowing employees inappropriate or excessive access to areas in Banner that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, five University employees shared the user ID and password used by the University's database administrator, which provided them with excessive access to migrate code into Banner's production environment.

The University did not have formal system development policy and procedures in place when it implemented Banner. The University implemented its current system development policy and procedure in May 2009. Having a policy and procedures helps to ensure that the changes that are made will be able to meet user needs, that the controls in place adequately cover the risks to the University, and that the new system will be able to integrate with the University's existing system.

Corrective Action:

Corrective action was taken.

Disbursement Notification Letters

If an institution credits a students' account at the institution with Direct 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. The notification can be sent in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

For 7 (18 percent) of 39 students tested who received Direct Loans, the University did not send disbursement notifications within the required 30 days for the Fall 2008 semester. The University implemented a new financial aid system and did not set up the automated process for disbursement notification letters in time to ensure that it sent disbursement notifications within the 30-day requirement for some of the disbursements it made on the first day of the Fall 2008 disbursement cycle (August 18, 2008). As a result, the University sent disbursement notification letters one day late for some of the disbursements that occurred on the first day of the Fall 2008 disbursement cycle, including for the seven students discussed above. Auditors did not note any late disbursement notification letters for the Spring 2009 semester. Not receiving these notifications promptly could impair students' and parents' ability to cancel their loans.

Common Origination and Disbursement System Reporting

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's 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 2009, 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 5-3-29)).

For 1 (4 percent) of 25 students with Pell disbursements tested, the University did not report the amount and date of the Pell disbursement to the COD System. According to University staff, the student's information was recorded in Banner but was rejected by the COD System. The student's information was not manually corrected; therefore, the University did not report information subsequently to the COD System. The University did not have an adequate procedure in place to ensure data not accepted by COD was corrected and submitted timely.

Recommendations:

The University should:

- Maintain controls to ensure that it sends disbursement notification notices within 30 days before or after crediting a student's account with a Direct Loan.

- Improve its oversight of the Pell reporting process to ensure that student information that Banner does not retrieve during the process for reporting to the COD System is captured and reported to the COD System in a timely manner.

Management Response and Corrective Action Plan 2009:

Though management respectfully acknowledges we did not send fall Disbursement Notification Letters in the required 30 days, we have already corrected this issue. Prior to December 2008, the process for generating the letters was completely manual. Management determined the aforementioned process as neither efficient nor effective. An AppWorx consultant was hired to reengineer and automate the Disbursement Notification Letter process. Beginning spring 2009, disbursement data was derived from Banner using AppWorx and e-letters distributed to students via Form Fusion.

Management acknowledges that one (1) individual was not reported to COD and was later manually corrected. In order to prevent this situation from occurring again, a federal Pell Reconciliation List will be requested at the beginning of each week via the Common Origination and Disbursement (COD) System. This list will be imported into Banner. Using an existing Banner report, the Pell Reconciliation List (Disbursement Data) will be compared to existing federal Pell disbursements in Banner. Exceptions will be reviewed and corrected.

Management Response and Corrective Action Plan 2010:

Management agrees with this audit recommendation and has revised the process and modified the Notification Letter. Additional time is required to ensure the process is functioning as intended.

Implementation Date: *February 1, 2011*

Responsible Person: *Kelvin Francois*

Department of Public Safety

Reference No. 10-35
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Period of Availability of Federal Funds
(Prior Audit Issue - 09-38)

Homeland Security Cluster
Award years - see below
Award numbers - see below
Type of finding - Material Weakness and Material Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Homeland Security

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

Allocation of Costs

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:

- Reflects an after-the-fact distribution of the actual activity of each employee.
- Accounts for the total activity for which each employee is compensated.
- Are prepared at least monthly and must coincide with one or more pay periods.
- Is 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.

According to the Department, it 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 maintains 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 smaller program's percentage of total revenue and applies it to the employee's salary. Any salary amounts not covered by the smaller program are applied to one of the larger programs until all of the funds for that program have been expended, then the Department moves on to the next largest program and repeats the process until all funds are expended.

For all 12 payroll expenditures tested, the Department did not properly allocate payroll expenses to various grants. All 12 payroll expenditures tested totaling $37,923 were charged to one grant when the supporting timesheets showed that the employees worked on multiple grants. Total salaries charged to the Homeland Security Cluster for fiscal year 2009 were $1,950,439.

Activities Allowed or Unallowed, Allowable Costs, and Period of Availability

Office of Management and Budget (OMB) Circular A-87, Attachment A, Part C, requires that costs be (1) necessary and reasonable for proper and efficient performance and administration of federal awards and (2) allocable to federal awards under the provisions of the circular. When a funding period is specified for a grant, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal awarding agency. Unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions (Title 44, Code of Federal Regulations, Section 13.23).

Six (21 percent) of 28 non-payroll expenditure items tested were transfers from one Homeland Security program budget to another. The Department was unable to provide sufficient supporting documentation of the original expenditures to support that the costs were allowable, were allocable, and were obligated and liquidated within the period of availability of federal funds. These expenditures totaled $4,316.

During cash management testing, auditors noted two draws for which the Department did not provide adequate documentation to support the draw amount. Specifically:

- One (8 percent) of 12 draws tested did not have sufficient supporting documentation to support the draw amount. This draw was for $1,045 and the supporting documentation summed to $0.
- One (3 percent) of 34 draws tested lacked sufficient supporting documentation to determine whether the costs supporting the draw equaled the draw amount. The draw's supporting documentation summed to $1,583,293, while the total draw amount was $2,842,112, a difference of $1,258,819.

The key controls identified over Activities Allowed or Unallowed and Allowable Costs/Cost Principles and Period of Availability do not appear to have been in place over non-payroll expenses during fiscal year 2009. Direct non-payroll expenses go directly from vendors to accounting and are not reviewed by State Administrative Agency management. There was no documentation of review and approval of expenditures by the State Administrative Agency Manager as specified on the Department's payment vouchers.

Additionally, the Department stated that it uses a revenue-based process to allocate management and administration costs among the grants each month. However, it could not provide auditors with an explanation of that allocation process.

The Homeland Security Cluster has the following awards:

Grant Number	Beginning Date	End Date
2005-GE-T5-4025	October 1, 2004	December 31, 2009
2006-GE-T6-0068	July 1, 2006	December 31, 2009
2007-GE-T7-0024	July 1, 2007	June 30, 2010
2007-SG-N6-0002	November 1, 2006	October 31, 2009
2007-SG-N6-0006	November 1, 2006	September 30, 2008
2007-TU-XM-0009	October 1, 2007	March 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2008-SG-T8-0009	September 1, 2008	August 31, 2011

Corrective Action:

This finding was reissued as current year reference number: 11-107.

Reference No. 10-36

Reporting
Cash Management
Matching, Level of Effort, Earmarking
Procurement and Suspension and Debarment

Homeland Security Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Homeland Security

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the *Financial Status Report* (FSR), SF-269 (Office of Management and Budget (OMB) No. 0348-0039), or SF-269A (OMB No. 0348-0038) 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 (Title 44, Code of Federal Regulations, Section 13.41).

Three (50 percent) of six reports tested for the Homeland Security Cluster were not adequately supported by data in the Department's accounting system. Specifically:

- Two of the quarterly reports did not reconcile to the Department's accounting records because of a data entry error. For one of the reports, the Department corrected the error in the subsequent quarterly report. For the other report, the Department did not recognize the error until after the deadline to file an amended report.
- One of the quarterly reports did not reconcile to the Department's accounting records because the quarterly costs at the time the report was created were estimated instead of actual costs. For the account associated with this error, the actual costs are not allocated until the following quarter.

Department management reviewed all reports tested prior to submission, but this review was not sufficient to ensure that all information in the reports was accurate. The total difference in the reported amounts when compared to the accounting system data was $42,999.

The Homeland Security Cluster has the following awards:

Grant Number	Beginning Date	End Date
2005-GE-T5-4025	October 1, 2004	December 31, 2009
2006-GE-T6-0068	July 1, 2006	December 31, 2009
2007-GE-T7-0024	July 1, 2007	June 30, 2010
2007-SG-N6-0002	November 1, 2006	October 31, 2009
2007-SG-N6-0006	November 1, 2006	September 30, 2008
2007-TU-XM-0009	October 1, 2007	March 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2008-SG-T8-0009	September 1, 2008	August 31, 2011

Cash Management; Matching, Level of Effort, Earmarking; and Procurement and Suspension and Debarment

Although the general control weaknesses described above apply to cash management; matching, level of effort, earmarking; and procurement and suspension and debarment, auditors identified no compliance issues regarding those compliance requirements.

Corrective Action:

This finding was reissued as current year reference number: 11-110.

Reference No. 10-37

Subrecipient Monitoring

(Prior Audit Issue - 09-43)

Homeland Security Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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: 2008
Status: Partially Implemented

U.S. Department of Homeland Security

The Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

The Department uses its grant management system, the State Preparedness Assessment and Reporting Service (SPARS), for subrecipients to submit proposed projects, expenditures, reimbursement requests, and reports for review and approval. SPARS provides automated controls over subrecipient project approvals, budgets, and period of availability.

There was a gap in contractual agreements between the Department and the SPARS vendor, K2Share, LLC from April 1, 2009, to June 9, 2009, which resulted in SPARS being unavailable to the Department and subrecipients during that time. This meant that the Department could not rely on automated controls in SPARS to ensure that subrecipient expenditures were allowable, allocable, and obligated and liquidated within the period of availability of federal funds during that time. According to the Department, manual controls similar to those in SPARS were in place during that time, including review of expenditure requests by grant coordinators and reimbursement requests by grant technicians. The only difference was that subrecipients were limited to emergency requests and had to make requests by telephone, fax or mail (and not through SPARS). The Department input all of the expenditures handled outside SPARS into SPARS when it signed the new contract agreement and SPARS was once again available.

<u>During-the-Award Monitoring</u>

A pass-through entity is responsible for monitoring the subrecipient's use of federal awards 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 (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

The Department did not always maintain sufficient documentation of during-the-award monitoring activities and management review of those activities. Specifically:

- For 1 (3 percent) of 40 subrecipients tested for the Homeland Security Cluster, the Department did not provide supporting documentation showing that it reviewed and approved the subrecipient's expenditures for compliance with federal requirements including allowability, period of availability, and cash management. The expenditures without support totaled $130.
- For all 40 subrecipients tested, the Department did not ensure the subrecipients submitted quarterly status reports as required by grant rules.
- Two (5 percent) of 40 subrecipients tested were not included on the list of active subrecipients the Department used to determine the subrecipients for which the Department would perform site visits in fiscal year 2009.
- For 12 other subrecipients tested, the Department did not obtain evidence from the subrecipients that expenditures were paid prior to the subrecipients' requesting reimbursement.

A-133 Audit Compliance Monitoring

According to OMB Circular A-133, Compliance Supplement Part 3, Section M, the Department must ensure that subrecipients that expend $500,000 or more in federal funds obtain an A-133 Single Audit and provide a copy of the audit report to the Department. The Department is required to review the audit report, issue a management decision on audit findings within six months, and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Auditors could not always determine whether the Department ensured that subrecipients had obtained required audits, whether the Department issued a management decision on audit findings within six months after receipt, or whether the Department ensured that subrecipients took timely and appropriate corrective action on audit findings. The Department does not have any formal or informal policies and procedures for the methodology it uses to compile the list of subrecipients that require A-133 monitoring. Therefore, auditors could not determine whether the Department appropriately monitored all subrecipients. Eight (20 percent) of 40 subrecipients tested did not have any documentation related to A-133 Single Audits in the Department's A-133 monitoring files.

Two subrecipients tested that submitted A-133 audit reports to the Department had audit findings related to Homeland Security. One other subrecipient had a control finding that could affect Homeland Security grant funds. However, there was no evidence that the Department issued a management decision or followed up on those findings.

The Department does not have a process for reviewing subrecipients' A-133 audit reports and making management decisions on findings. In addition, the Department follows up on A-133 audit findings only when it makes site visits to subrecipients; however, the process the Department uses to determine which subrecipients to visit does not take A-133 findings into consideration. The Department makes a limited number of site visits each year. For example, according to the Department's records, its monitors visited 21 (6 percent) of the 350 subrecipients with Homeland Security expenditures in fiscal year 2009. Consequently, subrecipients with A-133 audit findings are unlikely to be visited within six months of the issuance of the audit report.

The Homeland Security Cluster has the following awards:

Grant Number	Beginning Date	End Date
2005-GE-T5-4025	October 1, 2004	December 31, 2009
2006-GE-T6-0068	July 1, 2006	December 31, 2009
2007-GE-T7-0024	July 1, 2007	June 30, 2010
2007-SG-N6-0002	November 1, 2006	October 31, 2009
2007-SG-N6-0006	November 1, 2006	September 30, 2008
2007-TU-XM-0009	October 1, 2007	March 31, 2010
2008-GE-T8-0034	September 1, 2008	August 31, 2011
2008-SG-T8-0009	September 1, 2008	August 31, 2011

During fiscal year 2009, the Department passed $71,194,165 through to subrecipients for the Homeland Security Cluster.

Corrective Action:

This finding was reissued as current year reference number: 11-111.

Reference No. 10-38

Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Cash Management
Period of Availability of Federal Funds

CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Award years - see below
Award numbers - see below
Type of finding - Material Weakness and Non-Compliance

General Controls

Initial Year Written: 2009
Status: Implemented

U.S Department of Homeland Security

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Office of Management and Budget (OMB) Circular A-87, Attachment A, Part C, requires that costs be (1) necessary and reasonable for proper and efficient performance and administration of federal awards and (2) allocable to federal awards under the provisions of the circular. For the Public Assistance Program, allowable costs must be for the federally approved project as described on the project worksheet and supporting documentation.

The Department did not always charge allowable direct costs to the Public Assistance Program. One (2 percent) of 50 direct costs tested were unallowable. Specifically, a cost for $2 was for another federal program that the Department incorrectly charged to the Public Assistance program.

The Department charged a total of $50,629,285 in direct expenditures to the Public Assistance Program during fiscal year 2009.

Additionally, the Department did not always establish new budget codes in a timely manner, which resulted in the Department charging non-Public Assistance Program expenditures to budget codes assigned to Public Assistance Program grants. For example, the Department initially charged nine items originally selected for audit testing to a Public Assistance Program budget code and later transferred those expenses into a non-federal budget after it established new budget codes. Auditors verified that all of the identified expenditures were correctly transferred out of the Public Assistance Program budget. The Department asserted that it implemented this practice to expedite payment to vendors for disaster relief activities. However, auditors were unable to determine whether the Department transferred all expenditures it incorrectly charged to Public Assistance program out of the Public Assistance Program budget codes. Therefore, auditors were unable to determine whether the direct cost population represents, with a reasonable degree of certainty, expenses solely for the Public Assistance Program.

Awards that had expenditures for the Public Assistance Program during fiscal year 2009 were:

Disaster Number	Grant Number	Start Date
1379	FEMA-1379-DR	June 9, 2001
1479	FEMA-1479-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
3216	FEMA-3216-EM	September 2, 2005
3261	FEMA-3261-EM	September 21, 2005
3277	FEMA-3277-EM	August 18, 2007
3290	FEMA-3290-EM	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

Cash Management and Period of Availability of Federal Funds

Although the general control weaknesses described above apply to cash management and period of availability of federal funds, auditors identified no compliance issues regarding those compliance requirements.

Corrective Action:

Corrective action was taken.

Reference No. 10-39

Matching, Level of Effort, Earmarking

CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially-Declared Disasters)
Award years - see below
Award numbers - see below
Type of finding - Material Weakness

General Controls

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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: 2009
Status: Implemented

U.S. Department of Homeland Security

The Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use. Non-federal entities may be required to share in the cost of programs.

Matching

The specific program regulations, general agency award guidance, or individual federal award specifies applicable matching requirements, including the minimum amount or percentage of contributions or matching funds provided by the entity (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 Title 44, Code of Federal Regulations, Section 13.24, including the allowable cost principles of OMB Circular A-87. These requirements include that matching contributions must be verifiable, from allowable sources, and composed of allowable costs.

The Department was not able to provide auditors with a complete population of costs it used to meet matching requirements for the Public Assistance Program. During fiscal year 2009, the Department charged costs with matching requirements to budget codes that were assigned to costs with no matching requirements. This could prevent the Department from ensuring that costs its uses to meet matching requirements for the Public Assistance Program met required percentages. The Department was also unable to identify all active Department projects for the Public Assistance Program because the Department does not have a formal tracking system for projects. This prevents the tracking of projects with associated matching requirements.

During cash management testing, auditors were able to identify 14 Department projects that included matching requirements. Based on testing of these 14 Department projects, auditors did not identify any instances of non-compliance related to matching requirements for the Public Assistance Program.

Disasters that had expenditures for the Public Assistance Program during fiscal year 2009 were:

Disaster Number	Grant Number	Start Date
1379	FEMA-1379-DR	June 9, 2001
1479	FEMA-1479-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
3216	FEMA-3216-EM	September 2, 2005
3261	FEMA-3261-EM	September 21, 2005
3277	FEMA-3277-EM	August 18, 2007
3290	FEMA-3290-EM	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

Corrective Action:

Corrective action was taken.

Reference No. 10-40

Procurement and Suspension and Debarment

CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially-Declared Disasters)
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Homeland Security

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

Procurement and Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all non-procurement transactions (i.e., subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.220 and 180.970).

The Department of Public Safety (Department) did not ensure that the vendors associated with procurements it made using emergency procurement processes were not suspended or debarred from the Public Assistance Program during fiscal year 2009. Specifically, for 7 (44 percent) of 16 vendors tested, the Department did not verify that the vendors were not suspended or debarred. Of those seven procurements, five were procurements of shelters/emergency services, one was a mutual aid agreement, and the other one was an agreement to allow a local entity to procure services on the behalf of the State.

The Department did not have a process to ensure that vendors providing shelter/emergency services and mutual aid services during emergencies for the State were not suspended or debarred. Failure to verify the suspension and debarment status of all vendors could lead to the Department granting a procurement contract to a vendor that has been suspended or debarred.

Auditors conducted an EPLS search for each vendor for which the Department did not have a suspension and debarment certification and determined that none of the vendors were suspended or debarred.

The issue discussed above affected the following awards:

Disaster Number	Grant Number	Start Date
1379	FEMA-1379-DR	June 9, 2001
1479	FEMA-1479-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
3216	FEMA-3216-EM	September 2, 2005
3261	FEMA-3261-EM	September 21, 2005
3277	FEMA-3277-EM	August 18, 2007
3290	FEMA-3290-EM	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

Corrective Action:

This finding was reissued as current year reference number: 11-113.

Reference No. 10-41
Reporting
(Prior Audit Issues - 09-47, 08-91, and 07-26)

CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially-Declared Disasters)
Award years - see below
Award numbers - see below
Type of finding - Material Weakness and Material Non-Compliance

General Controls

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Homeland Security

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.

In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the *Financial Status Report* (FSR) SF-269 (Office of Management and Budget (OMB) No. 0348-0039) or SF-269A (OMB No. 0348-0038) 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 (Title 44, Code of Federal Regulations, Section 13.41).

In lieu of submitting FSR SF-269 reports, OMB Circular A-133 Compliance Supplement, Part 4 97.036-8, allows recipients to report financial information for each approved disaster using the FEMA 20-10 form (OMB No. 1660-0025).

The Department did not always ensure that financial reports it submitted for the Public Assistance Program were adequately supported by data in the Department's accounting system. Specifically:

- 46 (92 percent) of 50 FEMA 20-10 financial reports tested did not have support for the subrecipient share of outlays and, consequently, the total outlays.
- 5 (10 percent) of 50 FEMA 20-10 financial reports tested did not have support for the federal share of outlays.

Department management reviewed all reports tested, but this review was not sufficient to ensure that all information in the reports was adequately supported. The errors noted in the subrecipient share of outlays were due to the lack of a grant management system to track actual amounts spent by subrecipients on small projects. The Department estimates the state/local share amount using the approved local share percentage, rather than the actual amount spent.

The Department uses SmartLink, the federal drawdown system, to complete the federal share of outlays section of the 20-10 reports. However, the Department does not perform a regular reconciliation between SmartLink and the Department's accounting system, MSA. In addition, MSA includes several budget codes that were assigned to multiple disasters for the Public Assistance Program. This increases the risk that supporting information for the reported amounts could not be extracted from the accounting system. This also could cause FEMA to miscalculate program forecasting, cause Department management to make incorrect decisions, and cause the Department to generate incorrect project reports.

Disasters that were active for the Public Assistance Program during fiscal year 2009 were:

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	January 8, 2001
1379	FEMA-1379-DR	June 9, 2001
1425	FEMA-1425-DR	July 4, 2002
1479	FEMA-1479-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
3216	FEMA-3216-EM	September 2, 2005
3261	FEMA-3261-EM	September 21, 2005
3277	FEMA-3277-EM	August 18, 2007
3290	FEMA-3290-EM	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

Corrective Action:

This finding was reissued as current year reference number: 11-114.

Reference No. 10-42
Subrecipient Monitoring
Special Tests and Provisions - Project Accounting
(Prior Audit Issue - 09-48)

CFDA 97.036 - Disaster Grants - Public Assistance (Presidentially-Declared Disasters)
Award years - see below
Award numbers - see below
Type of finding - Material Weakness and Material Non-Compliance

General Controls

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Homeland Security

Agencies shall maintain internal control over federal programs that provides reasonable assurance that the agencies 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 Department of Public Safety (Department) did not maintain appropriate segregation of duties for high-profile users in its accounting system, Management Science of America (MSA). Specifically, six employees had administrator access to MSA that allowed them to set up users, but setting up users was not part of their job duties. Two of these employees were also MSA programmers, and this is an inappropriate segregation of duties because a programmer could introduce code changes to MSA that the programmer could then exploit as an accounting user. Additionally, the Department does not perform reviews of user access to MSA on a regular basis or formally document reviews of user access.
In addition, the administrator listings for the Department's network and mainframe security show that the Department uses 16 generic users IDs for the network and 6 generic users IDs for the mainframe that are not descriptive enough to determine appropriateness or accountability for use.

Subrecipient and Special Tests and Provisions Population

With respect to subrecipient monitoring, Office of Management and Budget (OMB) Circular A-133, Subpart D, 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."

For large projects, the Department of Public Safety (Department) must make an accounting to the Region Director (RD) of eligible costs for each approved large project. The Department must 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 Federal Emergency Management Agency (FEMA)-State Agreement, and that payments for that project have been made in accordance with Title 44, Code of Federal Regulations, Section 13.21 (Title 44, Code of Federal Regulations, Section 206.205).

The Department was unable to identify all active subrecipient and Department projects for the Public Assistance Program. The Department does not have a formal tracking system for subrecipients that includes information for all subrecipients, such as risk assessment information, information on monitoring activities (for example, reviews of financial and performance reports), and information from other contacts with its subrecipients. The Department also does not have a system to actively track Department projects. The Department's accounting system is not able to maintain records that identify expenses for specific projects, nor does the Department have a grants management system that is capable of tracking those projects. Therefore, the Department could not ensure that it monitored all subrecipient projects that it was required to monitor. During fiscal year 2009, the total amount of funding the

Department passed through to non-state subrecipients was $744,793,544 and the total amount the Department passed through to other state agencies and higher education institutions was $218,808,098.

Award Notification

At the time of the award, pass-through entities must identify to subrecipients the applicable compliance requirements and the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, the award name and number, and the name of federal awarding agency (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

For all 50 subrecipient projects tested, the Department did not include the CFDA number on the award documentation it provided to the subrecipient. The Department uses a standard template for subrecipient awards, but it did not include the CFDA number in that template. This increases the risk of subrecipients misreporting Public Assistance Program expenditures on their schedule of expenditures of federal awards.

During-the-award Monitoring and Special Tests and Provisions

A pass-through entity is responsible for monitoring the subrecipient's use of federal awards 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 (OMB Circular A-133 Compliance Supplement, Part 3, Section M). Additionally, grantees must submit progress reports to the 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 (Title 44, Code of Federal Regulations, Section 206.204).

To comply with the requirement to make an accounting of all large projects, the Department (1) requires subrecipients to submit status reports for all active large projects during the award and (2) performs a project audit on all large projects after a subrecipient has informed the Department that all project objectives are complete. The purpose of the project audit is to ensure that the subrecipient complied with all applicable federal and state requirements prior to final payment of any remaining project funds and closure of the project. The results of this audit are submitted to the federal oversight agency, FEMA, prior to project closure.

The Department did not always maintain sufficient documentation of during-the-award monitoring activities and management review of those activities. Specifically:

- For 1 (11 percent) of 9 subrecipient large projects tested, the Department did not provide evidence that the subrecipient submitted quarterly status reports. These reports are required by the *Disaster Recovery Manual*, published by the Texas Division of Emergency Management to assist the Department in preparing quarterly reports for the RD. There are no federal reporting requirements for subrecipients; however, FEMA's *Public Assistance Guide*, Chapter 5, states that "the State is expected to impose some reporting requirements on applicants so that it can prepare quarterly reports."
- For 5 (10 percent) of 50 subrecipient large project audits tested, the Department did not provide evidence that it provided the results of the audits to the subrecipients in a timely manner.
- For 2 (4 percent) of 50 subrecipient large project audits tested, there was no evidence that Department management approved the project audit report.

The weaknesses discussed above may cause instances of subrecipient non-compliance to go undetected.

A-133 Audit Compliance Monitoring

According to OMB Circular A-133, Compliance Supplement Part 3, Section M, the Department must ensure that subrecipients expending federal funds of $500,000 or more have an OMB Circular A-133 Single Audit performed and provide a copy of the audit report to the Department. The Department is required to review the audit report and to issue a management decision, if applicable.

For 16 (48 percent) of 33 subrecipients tested, the Department did not verify whether the subrecipient was required to have an A-133 Single Audit. According to the Federal Audit Clearinghouse, 11 (68 percent) of 16 subrecipients tested obtained A-133 Single Audits for their 2008 fiscal years. The Department does not have procedures to ensure that all active subrecipients who receive at least $500,000 in federal funds during a year obtained an A-133 Single Audit. Instead, the Department inquires about subrecipient A-133 Single Audits only if the Department passed through any amount of federal funds to the subrecipient in the prior year. Additionally, as discussed above, the Department cannot identify a list of all active subrecipients for which it should inquire about A-133 Single Audits.

The Department does not have an official process to issue management decisions on findings from A-133 Single Audits within six months of receipt of an audit report or follow up on the status of audit findings applicable to the Public Assistance Program. In addition, the Department does not have a formal sanction policy to address instances of non-compliance by subrecipients. This may cause risks applicable to the Public Assistance Program to go unaddressed.

Disasters that were active for the Public Assistance Program during fiscal year 2009 were:

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	January 8, 2001
1379	FEMA-1379-DR	June 9, 2001
1425	FEMA-1425-DR	July 4, 2002
1479	FEMA-1479-DR	July 17, 2003
1606	FEMA-1606-DR	September 24, 2005
1624	FEMA-1624-DR	January 11, 2006
1658	FEMA-1658-DR	August 15, 2006
1709	FEMA-1709-DR	June 29, 2007
1780	FEMA-1780-DR	July 24, 2008
1791	FEMA-1791-DR	September 13, 2008
3216	FEMA-3216-EM	September 2, 2005
3261	FEMA-3261-EM	September 21, 2005
3277	FEMA-3277-EM	August 18, 2007
3290	FEMA-3290-EM	August 29, 2008
3294	FEMA-3294-EM	September 10, 2008

Corrective Action:

This finding was reissued as current year reference number: 11-115.

Reference No. 09-44

Matching, Level of Effort, Earmarking

CFDA 20.233 Border Enforcement Grant
Award years - see below
Award numbers - 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

Initial Year Written: 2008
Status: Implemented

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

Corrective Action:

Corrective action was taken.

Reference No. 09-45

Procurement and Suspension and Debarment

CFDA 20.233 Border Enforcement Grant
Award years - see below
Award number - see below
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2008
Status: Implemented

U.S. Department of Transportation

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, 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

Corrective Action:

Corrective action was taken.

Reference No. 09-46
Reporting

CFDA 20.233 Border Enforcement Grant
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency

Initial Year Written: 2008
Status: Implemented

U.S. Department of Transportation

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.

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

Corrective Action:

Corrective action was taken.

Reference No. 09-47
Reporting
(Prior Audit Issues 08-91 and 07-26)

CFDA 97.039 - Hazard Mitigation Grant (including CFDA 83.548)
Award years- see below
Award number - see below
Type of Finding – Significant Deficiency and Non-Compliance

Initial Year Written: 2006
Status: Partially Implemented

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

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 2008:

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.

Management Response and Corrective Action Plan 2009:

DPS management partially agrees with this finding. However, the Emergency Management Division (EMD) does not have the means to implement some of the recommendations.

CFDA 97-039 – Hazard Mitigation Grant (including CFDA 83.548.

TDEM Mitigation Section modified internal reporting documentation to show actual match expenditures rather than a formula of straight 25% in April 2009. We have been reporting that on our quarterly reports since that time. It is not feasible for us to change all previous reports.

2010 Update:

During the 2010 follow up testing it was noted that the Department has developed a process that facilitates the collection of information related to actual amounts incurred, however what was reported on the financial reports did not always agree to the supporting documentation.

Management Response and Corrective Action Plan 2010:

The Department will implement controls to assure that the amounts the Department reports on its financial reports agree with the supporting documentation.

Implementation Date: *March 1, 2011*

Responsible Person: *Denita Powell*

Reference No. 05-38
Allowable Costs/Cost Principles
Cash Management

CFDA 20.218 - National Motor Carrier Safety
Award years - See below
Award numbers - 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: Implemented

U.S. Department of Transportation

- Reflects an after-the-fact distribution of the actual activity of each employee,
- Accounts 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.

Corrective Action:

Corrective action was taken.

Sam Houston State University

Reference No. 10-43
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award number - CFDA 84.032 Award Number Not Applicable, 84.007 P007A084110, 84.033 P033A084110, 84.038 Award Number Not Applicable, 84.063 P063P082301, 84.376 P3765082301, and 84.379 P379T092301
Type of finding -Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
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)).

Sam Houston State University (University) did not maintain appropriate user access to the SIS Plus Financial Aid Management (FAM) system, its financial aid application. Specifically, University programmers have access to production code, and one programmer is responsible for migrating code from test to production. The University should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. Additionally, the University does not perform formal, periodic reviews of user access rights in FAM. Allowing employees inappropriate or excessive access to areas in FAM that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregations of duties.

Recommendations:

The University should strengthen controls to ensure that it:

- Implements separation of duties between programmers and server administrators so that programmers do not have direct access to production code.
- Performs periodic formal reviews of user access to its systems**.**

Management Response and Corrective Action Plan 2009:

General Controls - Management Response and Corrective Action Plan:

Sam Houston State University acknowledges the ability for programmers to promote code to production without automated technology enforced review. SHSU has previously identified this problem and in 2007, as a short-term solution, implemented management-enforced processes that require code to be reviewed by a code review manager before it may be promoted to production. These code reviews are documented within the Information Resources Work Order system, along with any related programming changes. Spot checks are randomly performed by the Director of this group to identify any failures to follow procedure.

For a long-term solution, further segregation of the legacy production environment is being designed and implemented, which will allow improved code control. These enhanced restrictions are estimated to be completed by September 1, 2010. At this point, policy requires all mainframe code changes to be promoted by the designated code review manager (or backup); only after successful code review is completed. A similar environment and process is being designed and implemented with the implementation of SunGard Higher Education's Banner Unified Digital Campus (UDC) software.

Sam Houston State University acknowledges that user access within the SIS/PLUS Financial Aid Management software was not formally reviewed for in relation to employee job assignments. SIS/PLUS software was discontinued after the completion of the academic year 2008-2009. SHSU is currently implementing Banner (UDC) software; implementation of the Financial Aid module was achieved in February 2009 for the financial aid application year 2009-2010. With Banner, the user security procedure significantly changed. User access levels are managed through the Banner security matrix. The process of submitting the security matrix through the work order system began in June 2009. The Financial Aid Office Director is responsible for maintaining the matrix for the FAO. Within the matrix, form or screen level access is determined and assigned to each business process role, such as Financial Aid Counselor and Data Entry Assistant. Each employee is entered into the matrix and assigned one or more roles based on job functions. An updated matrix is sent to the Information Resources through the Work Order system. Information Resources updates employee access based on the provided matrix. The FAO is notified of completion through the Work Order system.

The security matrix is updated upon employment changes within the FAO and concurrent with the annual regulatory update of New Year specific forms. A thorough review of user form level access is conducted to ensure the security is tailored to meet the needs of the department. This review is consistent with the Information Resource recommendation of an annual review of granted access.

Management Response and Corrective Action Plan 2010:

Implementing separation of duties between programmers and server administrators so that programmers do not have direct access to production code:

Sam Houston State University is on track for a September 1, 2010 implementation of separation of duties between programmers and those that promote code to our production environment. Currently, the ability to promote code to production has been isolated to three programmers rather than the entire programming staff. These programmers are responsible for ensuring that each program has been code reviewed according to the existing procedure and then promoting the code as necessary. Additionally, these programmers are prohibited by management controls from promoting their own code. By September 1, 2010, this access will be further restricted to a new staff member that has recently been hired and will be training to promote code to production. This Administrative Coordinator position is a clerical staff member that has no coding responsibilities. As a backup and business continuity plan, the three programmers currently responsible for code promotion will fill in for the Administrative Coordinator when unavailable.

Implementation Date: *September 1, 2010*

Responsible Person: *Jacob Chandler*

Aggregate Loan Limits

For students who have not already received an undergraduate degree, the aggregate unpaid principal amount of all subsidized Stafford Loan Program loans in combination with loans received by the student under the Federal Direct Stafford/Ford Loan Program, but excluding the amount of capitalized interest, may not exceed $23,000 (Title 34, Code of Federal Regulations, Section 682.204(b)).

The University has an automated process that prevents the disbursement of a student's awards when an award would exceed the student's aggregate subsidized Stafford loans. The University also has a manual process that financial aid counselors can use to determine whether the student is eligible for any subsidized Stafford loan and the amount of subsidized Stafford loan to offer that would not exceed the aggregate limit.

For 1 (2.7 percent) of 37 students tested, a University counselor determined the proper loan amount to offer but did not change the loan amount in the system prior to clearing the hold, which released the funds for disbursement. As a result, the University awarded that student a loan under the subsidized Stafford Loan Program that caused the aggregate unpaid principal amount of the student's subsidized Stafford Loans to exceed the $23,000 maximum. The student was awarded $2,946 in excess of the maximum. The student was eligible to receive this amount under the Unsubsidized Stafford Loan program.

Corrective Action:

Corrective action was taken.

Reference No. 10-44

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award number - CFDA 84.032 Award Number Not Applicable, 84.007 P007A084110, 84.033 P033A084110, 84.038 Award Number Not Applicable, 84.063 P063P082301, 84.376 P3765082301, and 84.379 P379T092301
Type of finding -Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
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)).

Sam Houston State University (University) did not maintain appropriate user access to the SIS Plus Financial Aid Management (FAM) system, its financial aid application. Specifically, University programmers have access to production code, and one programmer is responsible for migrating code from test to production. The University should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. Additionally, the University does not perform formal, periodic reviews of user access rights in FAM. Allowing employees inappropriate or excessive access to areas in FAM that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregations of duties.

Pell Reporting

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's 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 (OMB Compliance Supplement A-133, March 2009, 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 5-3-29)).

The University's financial aid system automatically reports Pell disbursements to the COD system. However, the financial aid system reports the estimated disbursement amount and the estimated disbursement date. The estimated disbursement date used to report to the COD System is defined separately from, and is unrelated to, the date the financial aid system is scheduled to actually disburse Pell awards. The financial aid system does not update the disbursement information in the COD System when the actual disbursement is made. As a result, the University reported incorrect disbursement dates to the COD System for all 18 students tested.

Recommendations:

The University should strengthen controls to ensure that it:

- Implements separation of duties between programmers and server administrators so that programmers do not have direct access to production code.
- Performs periodic formal reviews of user access to its systems**.**
- Establishes a process to correct Pell disbursement data in the COD System after the University updates estimated disbursement dates with actual disbursement dates.

Management Response and Corrective Action Plan 2009:

General Controls - Management Response and Corrective Action Plan:

Sam Houston State University acknowledges the ability for programmers to promote code to production without automated technology enforced review. SHSU has previously identified this problem and in 2007, as a short-term solution, implemented management enforced processes that require code to be reviewed by a code review manager before it may be promoted to production. These code reviews are documented within the Information Resources Work Order system, along with any related programming changes. Spot checks are randomly performed by the Director of this group to identify any failures to follow procedure.

For a long-term solution, further segregation of the legacy production environment is being designed and implemented, that will allow improved code control. The estimated completion for these enhanced restrictions is September 1, 2010. At this point, policy requires all mainframe code changes to be promoted by the designated code review manager (or backup); only after successful code review is completed. A similar environment and process is being designed and implemented with the implementation of SunGard Higher Education's Banner Unified Digital Campus (UDC) software.

Sam Houston State University acknowledges that user access within the SIS/PLUS Financial Aid Management software was not formally reviewed for in relation to employee job assignments. SIS/PLUS software was discontinued after the completion of the academic year 2008-2009. SHSU is currently implementing Banner (UDC) software; implementation of the Financial Aid module was achieved in February 2009 for the financial aid application year 2009-2010. With Banner, the user security procedure significantly changed. User access levels are managed through the Banner security matrix. The process of submitting the security matrix through the work order system began in June 2009. The Financial Aid Office Director is responsible for maintaining the matrix for the FAO. Within the matrix, form or screen level access is determined and assigned to each business process role, such as Financial Aid Counselor and Data Entry Assistant. Each employee is entered into the matrix and assigned one or more roles based on job functions. An updated matrix is sent to the Information Resources through the Work Order system. Information Resources updates employee access based on the provided matrix. The FAO is notified of completion through the Work Order system.

The security matrix is updated upon employment changes within the FAO and concurrent with the annual regulatory update of New Year specific forms. A thorough review of user form level access is conducted to ensure the security is tailored to meet the needs of the department. This review is consistent with the Information Resource recommendation of an annual review of granted access.

Pell Grant Reporting - Management Response and Corrective Action Plan:

Sam Houston State University acknowledges the limitations of the SIS/PLUS Financial Aid Management with regard to reporting the actual disbursement dates of Pell Grants. The solution is the implementation of SunGard's Banner Unified Digital Campus (UDC) software which will provide integration between the campus business areas, including all departments involved in student account activity such as the offices of Undergraduate Admission, Graduate Admissions, Registrar, Bursar and Financial Aid. The implementation of the Financial Aid module for academic year 2009-2010 was the initial step toward SHSU's goal of a unified digital campus.

The Financial Aid module is currently operating as a standalone system with interface software created in SHSU Information Resources. The functionality of processes that request, track, and release Pell Grant disbursements through Banner and into Student Receipt System result in a median difference of one day between the date of actual disbursement and the reported disbursement date. Upon implementation of the Student Accounts Receivable and Cashiering modules of Banner, University departments will be integrated resulting in improved electronic communication and reporting. The scheduled implementation dates for these modules are January 2011 and June 2011.

Banner UDC software is widely utilized in higher education and has proven results in the Pell Grant reporting area. The processes and procedures through which Pell Grant disbursement data is gathered and reported through COD are established. The disbursement dates and amounts reported to COD will reflect the actual dates and disbursements reflected in student account records and regular functionality will be verified by FAO personnel.

Management Response and Corrective Action Plan 2010:

Implementing separation of duties between programmers and server administrators so that programmers do not have direct access to production code:

Sam Houston State University is on track for a September 1, 2010 implementation of separation of duties between programmers and those that promote code to our production environment. Currently, the ability to promote code to production has been isolated to three programmers rather than the entire programming staff. These programmers are responsible for ensuring that each program has been code reviewed according to the existing procedure and then promoting the code as necessary. Additionally, these programmers are prohibited by management controls from promoting their own code. By September 1, 2010, this access will be further restricted to a new staff member that has recently been hired and will be training to promote code to production. This Administrative Coordinator position is a clerical staff member that has no coding responsibilities. As a backup and business continuity plan, the three programmers currently responsible for code promotion will fill in for the Administrative Coordinator when unavailable.

Regarding periodic formal review of program access within the legacy system, we have prompted campus staff to review access to their programs in the June edition of the Information Resources Update. (See http://www.shsu.edu/~ucs_www/update/pdf/updates2010.pdf) Information Resources staff have also emailed each program owner requiring them to confirm via email that they have reviewed program access by June 25, 2010. Program access for Banner is still requested, reviewed and maintained in the same mechanism described in the previous audit response.

Implementation Date: *September 1, 2010*

Responsible Person: *Jacob Chandler*

User Access to Financial Aid Banner:

Implementation of the Financial Aid module was accomplished in February 2009 for the financial aid application year 2009-2010. In June 2009, a Banner Security Matrix was implemented to manage user security. All users are identified uniquely and assigned user groups based on their job duties. The security matrix is updated upon employment changes within the FAO and a comprehensive review is conducted concurrent with the annual regulatory update of new year-specific forms. An updated matrix is sent to Information Resources through the Work Order system. Information Resources updates employee access based on the provided matrix. The FAO is notified through the Work Order system as the updates are promoted into production.

Implementation Date: *June 9, 2010*

Responsible Person: *Lisa Tatom*

Use of Actual Disbursement Dates for Pell in COD:

SHSU has made timely progress in the implementation of SunGard's Banner Unified Digital Campus (UDC) software which will provide integration between the campus business areas, including all departments involved in student account activity such as the offices of Undergraduate Admission, Graduate Admissions, Registrar, Bursar and Financial Aid. The Financial Aid module is currently still standalone. The functionalities necessary to provide the actual Pell Disbursement Date are included in the Finance module. The Finance module, including cashiering and student accounts receivable functionality, is on schedule to be implemented in March 2011.

Implementation Date: *March 2011*

Responsible Person: *Lisa Tatom*

Stephen F. Austin State University

Reference No. 10-48
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.038 Award Number Not Applicable, CFDA 84.007 P007A084129, CFDA 84.033 P033A084129, CFDA 84.063 P063P082315, CFDA 84.375 P375A082315, CFDA 84.376 P376S082315, and CFDA 84.379 P379T092315
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
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)).

Stephen F. Austin University (University) did not maintain appropriate user access to PLUS, its financial aid application. Auditors identified several areas within PLUS that enabled employees to have excessive modify access privileges. Specifically:

- Eleven users had excessive access to modify the minimum/maximum aid limits for the various federal funds.
- One user had excessive access to modify the disbursement date tables.

Additionally, the University has not performed a review of user access to PLUS or its Enterprise Resource Platform (ERP). Allowing employees inappropriate or excessive access to areas in PLUS that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties.

The University also should appropriately restrict access to migrate PLUS code changes to the production environment based on an individual's job function to help ensure that adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, 20 users, including programmers, have access to an application that provides them excessive access to migrate code into PLUS's production environment. The University's current change management procedures do not promote segregation of duties and do not comply with the University's change management policy. The University also does not maintain consistent documentation of authorization, testing, and approval of changes to PLUS.

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 (COA) minus the expected family contribution (EFC). 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 (Title 34, Code of Federal Regulations, Sections 673.5, 673.6 and 682.603).

For 1 (2.5 percent) of 40 students tested, the University calculated COA incorrectly based on the wrong residency status. The University has tuition rates for Texas residents, non-residents, and Arkansas and Louisiana residents. This student was not on the Office of Admission's change in residency report submitted to the Financial Aid office for determining residency status for COA. Consequently, the student was classified as a non-resident for the COA calculation when the student was actually a Louisiana resident. As a result of this misclassification, the student's COA was overstated, and the student was overawarded $4,456 in subsidized Stafford loans.

Recommendations:

The University should:

- Restrict access to PLUS based on job duties and responsibilities, and periodically review PLUS access levels to ensure that appropriate access is granted.
- Ensure that all changes to PLUS are authorized, tested, and approved and that it maintains supporting documentation for these changes.
- Perform formal, documented, and periodic reviews of users on the ERP.
- Ensure change management procedures are in place to promote segregation of duties and comply with the University's change management policy.
- Establish additional procedures to verify that a student's change in residency is captured so that the University calculates COA correctly when determining award amounts.

Management Response and Corrective Action Plan 2009:

PLUS access and changes:

The University is converting from PLUS to Banner in February 2010. Access in Banner will be restricted based on job duties and responsibilities. A procedure to periodically review access will be implemented. The University has implemented procedures to ensure that all changes to Banner are authorized, tested and approved with supporting documentation maintained in accordance with record retention guidelines.

Reviews of ERP access:

The University currently performs reviews of access to the ERP platform, but no formal documentation is maintained. Procedures will be implemented to formally document the reviews.

Change Management Procedures:

The University has enacted change management procedures that comply with our policy.

Cost of Attendance:

The University has established automated procedures in Banner to ensure that changes in residency are captured to appropriately calculate cost of attendance. For the student indentified in the audit, the questioned cost of $4,456 has been resolved by retroactively transferring the amount from a subsidized to an unsubsidized loan.

Management Response and Corrective Action Plan 2010:

PLUS Access and Changes:

The university converted from PLUS to Banner in February 2010 for students enrolling and attending fall 2010. Access in Banner is restricted based on job duties and responsibilities. A procedure to periodically review access has been implemented. The university has implemented procedures to ensure that all changes to Banner are authorized, tested, and approved with supporting documentation maintained in accordance with record retention guidelines.

Implementation Date: *August 31, 2010*

Responsible Person: *Paul Davis*

Reviews of ERP access:

SFASU's ITS department has developed procedures to have system owners review access and formally acknowledge and document the review twice a year. The first review is October 2010.

Implementation Date: *October 31, 2010*

Responsible Person: *Paul Davis*

Change Management Procedures:

SFASU has enacted change management procedures that comply with our policy.

Implementation Date: *January 31, 2010*

Responsible Person: *Paul Davis*

Cost of Attendance:

SFASU Office of Financial Aid has developed a report in the Banner system to compare residency codes and identify residency changes. The report is currently in use. The questioned cost from the audit has been resolved by transferring the amount from a subsidized to an unsubsidized loan.

Implementation Date: *August 31, 2010*

Responsible Person: *Mike O'Rear*

Reference No. 10-49

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year – July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.038 Award Number Not Applicable, CFDA 84.007 P007A084129, CFDA 84.033 P033A084129, CFDA 84.063 P063P082315, CFDA 84.375 P375A082315, CFDA 84.376 P376S082315, and CFDA 84.379 P379T092315
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Education

Stephen F. Austin University (University) did not maintain appropriate user access to PLUS, its financial aid application. Auditors identified several areas within PLUS that enabled employees to have excessive modify access privileges. Specifically:

- Eleven users had excessive access to modify the minimum/maximum aid limits for the various federal funds.
- One user had excessive access to modify the disbursement date tables.

Additionally, the University has not performed a review of user access to PLUS or its Enterprise Resource Platform (ERP). Allowing employees inappropriate or excessive access to areas in PLUS that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties.

The University also should appropriately restrict access to migrate PLUS code changes to the production environment based on an individual's job function to help ensure that adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, 20 users, including programmers, have access to an application that provides them excessive access to migrate code into PLUS's production environment. The University's current change management procedures do not promote segregation of duties and do not comply with the University's change management policy. The University also does not maintain consistent documentation of authorization, testing, and approval of changes to PLUS.

Common Origination and Disbursement System Reporting

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's 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 (OMB Compliance Supplement A-133, March 2009, 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 5-3-29)).

The University did not accurately report the disbursement dates for Pell awards to the COD System. PLUS has an automated procedure that reports estimated disbursement information, including the date and amount of the award, to the COD System electronically. Due to changes in PLUS, the system had an incorrect estimated disbursement date for the Spring 2009 semester, and the University was not aware of this prior to the PLUS system reporting the estimated disbursement date to the COD System. Additionally, the PLUS system does not update the COD System with the actual disbursement date.

As a result of this issue, the University reported incorrect Pell disbursement dates reported to the COD System for 13 (65 percent) of 20 students tested. Twelve students had incorrect disbursement dates caused by the changes that were made to the PLUS system and one had an estimated disbursement date reported that could not be corrected when the actual disbursement was delayed.

Recommendations:

The University should:

- Restrict access to PLUS based on job duties and responsibilities, and periodically review PLUS access levels to ensure that appropriate access is granted.
- Ensure that all changes to PLUS are authorized, tested, and approved and that it maintains supporting documentation for these changes.
- Perform formal, documented, and periodic reviews of users on the ERP.
- Ensure change management procedures are in place to promote segregation of duties and comply with the University's change management policy.
- Establish a process to correct Pell disbursement data in the COD System after the University updates estimated disbursement dates with actual disbursement dates.

Management Response and Corrective Action Plan 2009:

PLUS access and changes:

The University is converting from PLUS to Banner in February 2010. Access in Banner will be restricted based on job duties and responsibilities. A procedure to periodically review access will be implemented. The University has implemented procedures to ensure that all changes to Banner are authorized, tested, and approved with supporting documentation maintained in accordance with record retention guidelines.

Reviews of ERP access:

The University currently performs reviews of access to the ERP platform, but no formal documentation is maintained. Procedures will be implemented to formally document the reviews.

Change Management Procedures:

The University has enacted change management procedures that comply with our policy.

COD System Disbursement Dates:

The University's financial aid software provider issued a Time-of-Solution Modification on February 12, 2009 to correct the software problem with COD disbursement dates. The University implemented the software update on February 17, 2009.

Management Response and Corrective Action Plan 2010:

PLUS Access and Changes:

The University converted from PLUS to Banner in February 2010 for students enrolling and attending fall 2010. Access in Banner is restricted based on job duties and responsibilities. A procedure to periodically review access has been implemented. The university has implemented procedures to ensure that all changes to Banner are authorized, tested, and approved with supporting documentation maintained in accordance with record retention guidelines.

Implementation Date: *August 31, 2010*

Responsible Person: *Paul Davis*

Reviews of ERP access:

SFASU's ITS department has developed procedures to have system owners review access and formally acknowledge and document the review twice a year. The first review is October 2010.

Implementation Date: *October 31, 2010*

Responsible Person: *Paul Davis*

Change Management Procedures:

SFASU has enacted change management procedures that comply with our policy.

Implementation Date: *January 31, 2010*

Responsible Person: *Paul Davis*

COD System Disbursement Dates:

SFASU's software provider corrected the software problem in February 2009. We Continue to review our COD submissions on a monthly basis to monitor our Pell disbursements.

Implementation Date: *February 17, 2009*

Responsible Person: *Mike O'Rear*

Sul Ross State University

Reference No. 09-49
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award numbers - 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

Initial Year Written: 2008
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).

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.

Recommendations:

The University should establish controls over manual adjustments it uses in determining financial need.

Management Response and Corrective Action Plan 2008:

The University 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.

Management Response and Corrective Action Plan 2009:

The University had implemented an internal office auditing process by which budgets were not to be manually calculated without another staff member overseeing this change. Additional monitoring will be done to make sure that this is does not happen.

Management Response and Corrective Action Plan 2010:

Certain changes in the administrative reporting structure have come about with the retirement of Rena Gallego, Director of Financial Aid, effective June 1, 2010, and the Financial Aid Office is under the supervision of the Executive Director of Enrollment Services.

A new policy outlining documentation, data entry, and approval policies has been drafted and approved. A minimum of two staff members are required to process a budget adjustment, one to document and calculate the requested adjustment and another to review, approve, and enter the adjustment in management computer system (BANNER). The Budget Adjustment Worksheet must be completed and signed by both staff members and, in some cases, approved by the Executive Director of Enrollment Services. The Budget Adjustment Worksheet and all supporting documents will be scanned into the electronic imaging system.*

** The Executive Director of Enrollment Services will approve these adjustments until a permanent Director of Financial Aid is in place as the Interim Director is also serving as a full-time Financial Aid Specialist.*

We believe the administrative support is now in place that acknowledges the serious nature of this finding and that appropriate procedures have been put in place to ensure corrective action is enforced.

Implementation Date: *June 1, 2010*

Responsible Person: *Robert Cullins*

Tarleton State University

Reference No. 10-50
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Cost of Attendance

Initial Year Written: 2009
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) 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 financial need (Federal Work Study and Federal Supplemental Educational Opportunity Grant, Title 34, Code of Federal Regulations (CFR), Section 673.5; Federal Family Education Loans (FFEL), Title 34, CFR, 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." An 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).

Furthermore, Title 34, CFR, Section 668.2, defines a full-time student as an enrolled student who is carrying a full-time academic workload, as determined by the institution, under a standard applicable to all students enrolled in a particular educational program. The student's workload may include any combination of courses, work, research, or special studies that the institution considers sufficient to classify the student as a full-time student. However, for an undergraduate student, an institution's minimum standard must equal or exceed 12 semester hours or 12 quarter hours per academic term for a program that measures progress in credit hours and uses standard terms (semesters, trimesters, or quarters). Additionally, a half-time student is defined as an enrolled student who is carrying a half-time academic workload, as determined by the institution, which amounts to at least half of the workload of the applicable minimum requirement outlined in the definition of a full-time student (Title 34, CFR, Section 668.2).

For 1 (3 percent) of 40 students tested, Tarleton State University (University) overestimated the student's COA. The University uses full-time COA budgets to determine COA for students receiving loans, regardless of students' expected enrollment according to their ISIRs. Therefore, if a student indicates on the ISIR that he or she expects to enroll half-time or three-quarter time, the University still uses the COA associated with a full-time COA budget. Using a full-time COA budget to estimate the COA for students who attend less-than-full-time increases the risk of awarding financial assistance that exceeds financial need. For the one student for whom the University overestimated COA, the ISIR showed that the student expected to attend half-time for the 2008-2009 school year. The University estimated this student's COA at $17,180 (which includes tuition and fees of $5,590) based on full-time enrollment. Based on the University's published estimated cost of tuition and fees schedule, the COA for half-time enrollment (in 6 hours) would be $13,469 (which includes tuition and fees of $2,438). The difference between the tuition and fees for full-time enrollment and a half-time enrollment is $3,152.

It is important to note that for the 40 student files tested, the University's estimated COA did not lead the University to award student financial assistance that exceeded financial need for the 2008-2009 school year. Therefore, there were no questioned costs. A total of 5,630 students at the University received federal student financial assistance for the 2008-2009 school year. Of those 5,630 students, 181 (3 percent) indicated on their ISIRs that they expected to enroll half-time. The University's total loan expenditures for the 2008-2009 school year were $39,656,259.

Recommendations:

The University should:

- Determine each student's COA and financial need based on the student's expected enrollment.
- Improve internal controls so that it re-evaluates students' eligibility for student financial assistance if changes in students' enrollment status affect students' loan disbursements.

Management Response and Corrective Action Plan 2009:

For the 2010-2011 award year, the Student Financial Aid Office will change the process by which we calculate the cost of attendance for part-time students based on the recommendations from auditors in reference to our previous system of pro-rating grants for part-time students. We will initially populate the cost of attendance based on the expected enrollment status as indicated by the student on the FAFSA form. All students needing to change their enrollment status will be processed manually by staff either through an enrollment change form submitted by the student or at census date for each semester. For 2010-2011, we will develop full-time cost of attendance for the entire year, part-time cost of attendance for the entire year, and a mixed cost of attendance for students that attend full-time in one semester and part-time in another semester.

As of January 2010, the Office of Student Financial Aid has updated the Financial Aid Office procedures manual and the Student Financial Aid University Web page with the current Satisfactory Academic Policy and the current acceptable requirements for student appeal requests.

Management Response and Corrective Action Plan 2010:

For the 2010-2011 award year, the Student Financial Aid Office changed the process by which we calculate the cost of attendance for part-time students based on the recommendations from auditors. We will initially populate the cost of attendance based on the expected enrollment status as indicated by the student on the FAFSA form. All students needing to change their enrollment status will be processed manually by staff through an enrollment change request form submitted by the student. For 2010-2011, we have developed full-time cost of attendance budgets and part-time cost of attendance budgets for the aid year.

Implementation Date: *June 2010*

Responsible Person: *Betty Murray*

Satisfactory Academic Progress

A student is eligible to receive Title IV, Higher Education Act 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, CFR, Section 668.16(e), and, if applicable, the provisions of Title 34, CFR, Section 668.34 (Title 34, CFR, Section 668.32(f)). Additionally, an institution is required to have specific policies defining the effect of course incompletes, withdrawals, repetitions, and non-credit remedial courses on satisfactory progress and to provide specific procedures under which a student may appeal a determination that the student is not making satisfactory progress (Title 34, CFR, Section 668.16(d)).

The University did not have sufficient controls to ensure that it consistently awarded student financial assistance to students who made satisfactory academic progress. As a result, the University overawarded FFEL subsidized and unsubsidized loans to 1 (2.5 percent) of 40 students tested. The student received $2,405 more in awards than the student was eligible to receive. The University has a standard, undocumented method of reviewing student withdrawals in the Fall semester. In this case, the student withdrew from all Fall 2008 semester classes before that semester was complete. The University initially categorized the student as not eligible for student financial assistance for the upcoming Spring 2009 semester and notified the student so that she had an opportunity to appeal before the semester began. The student appealed and was granted an appeal to be eligible for Spring 2009 semester assistance if she enrolled in and completed 12 hours in that semester. However, the student enrolled in only 6 hours for the Spring 2009 semester and, therefore, was not eligible to receive student financial assistance for the Spring 2009 semester.

Corrective Action:

Corrective action was taken.

Reference No. 10-51

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2008 through June 30, 2009
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Education

If an institution credits a student's account at the institution with Direct Loan, Federal Perkins Loan (FPL), Federal Family Education Loan Program (FFELP) loan, or TEACH Grant Program 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 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 (Title 34, Code of Federal Regulations, Section 668.165).

For 1 (3.1 percent) of 32 students tested who received loans, Tarleton State University (University) did not notify the student of the date and amount of the Fall 2008 semester FFELP disbursement within 30 days before or after the disbursement. The student received an award letter stating that she needed to complete a loan application, but the University did not send the student a loan disbursement notification. In this case, the University's automated notification process was interrupted because the student received additional, non-federal scholarships after the packaging of student financial assistance but prior to disbursement, which resulted in the manual adjustment of student financial assistance to avoid overawarding federal assistance. Not receiving these notifications promptly could impair students' and parents' ability to cancel their loans.

Corrective Action:

Corrective action was taken.

Reference No. 10-52

Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Period of Availability of Federal Funds

Research and Development Cluster
Award years – March 1, 2009 to February 28, 2010
Award numbers - CFDA 10.450 09IE08700026 and CFDA 15.000 08IE08710054
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S Department of Agriculture

U.S. Department of Interior

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 costs 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 (Title 2, Code of Federal Regulations, Section 220(J)(10)).

Office of Management and Budget (OMB) 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. A properly designed and implemented internal control system includes written policies governing A-133 compliance areas. OMB Circular A-110 requires that recipients shall have "written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable federal cost principles and the terms and conditions of the award" (OMB A-110, Section 21(b)(6)). In addition, Texas A&M University System policy 15.01.01 "Administration of Sponsored Agreements - Research and Other," Section 7.5, states that "each system member shall have written procedures for determining the allowability of costs of federally sponsored agreements and monitor those procedures according to OMB Circular A-110."

Tarleton State University (University), which is a member of the Texas A&M University System, did not complete after-the-fact confirmations of effort certifications for 2 (25 percent) of 8 employees tested. Monthly salary charges to the federal program for those two employees totaled $10,166. Two departments at the University, the Center for Agribusiness Excellence (CAE) and Common Information Systems (CIMS), paid these two employees from federal grants when the employees did not commit 100 percent effort to projects funded by the federal grants (i.e., the employees were not "dedicated personnel"). The University asserts that most employees who contribute effort to these projects are dedicated personnel, and therefore, it did not complete after-the-fact confirmations. Failure to certify effort can result in required adjustments to accounts funded by federal research and development grants going undetected. During fiscal year 2009, the University charged $764,087 in payroll-related costs to the CAE and CIMS programs.

Three University departments manage federally funded research and development programs. These departments include CAE, CIMS, and the Texas Institute for Applied Environmental Research (TIAER). Each department performs its own grant and contract administration, including time and effort certification. As a result, these departments do not administer grants and contract in a consistent manner. For example, CAE and CIMS do not perform after-the-fact confirmations of effort certifications while TIAER performs these confirmations.

In addition, the University did not have a sufficient policy that addressed federal grant administration related to allowable costs and cost principles. For example, the University's policy did not specify the types of costs that are allowed or unallowed when funded by federal grants, did not address funding periods, and did not distinguish between direct and indirect costs. The policy also did not reference monitoring procedures according to OMB Circulars A-21 and A-110. Failure to have adequate policies increases the risk of non-compliance with federal requirements, which may lead to unallowable and questioned costs.

Recommendations:

The University should:

- Develop and implement a centralized process to require employees who do not contribute 100 percent of their effort to a single federal program but who are paid from federal research and development grants to complete effort certification reports.
- Develop and implement a policy that references appropriate OMB circulars and includes information on the types of expenditures allowed and unallowed, funding periods, and descriptions of direct and indirect costs.

Management Response and Corrective Action Plan 2009:

As was reported in the findings, there are three University departments that manage federally funded research and development programs: CAE, CIMS, and TIAER. TIAER administers a uniform process for after-the-fact time and effort reporting. CAE and CIMS will refine its processes for after-the-fact confirmation of time and effort reporting for its relevant employees.

TIAER will continue its process. Since the audit, CAE and CIMS have been communicating with Business Services toward a better process of documenting their time and effort for any employee that is not being paid 100% from a single grant, which will be no less frequently than every six months in accordance with Title 2, Code of Federal Regulations, Section 220(J)(10). These documents will be forwarded to the Business Office for filing purposes. Tarleton State University will meet with the three departments to determine whether a more consistent, uniform process can be utilized either within TimeTraq or another available technology to be able to more centrally keep track of time and effort reporting.

As for the second recommendation, Tarleton State University will review existing policies and regulations through the A&M System and will develop a Standard Administrative Procedure that compliments existing A&M System policies and regulations. It will contain reference to the relevant OMB circulars, and will be updated as necessary.

Management Response and Corrective Action Plan 2010:

CAE and CIMS have refined its processes for after-the-fact confirmation of time and effort reporting for its relevant employees. Testing of time and effort during the 2010 review indicated 1 out of the 15 confirmations tested was incorrectly certified at more than 100% effort. The certification error has been communicated to the appropriate department. Upon receipt of the confirmations in Business Services, they will be reviewed, with any issues communicated to the departments, prior to being placed in the permanent files.

TIAER will continue its process. Since the audit, CAE and CIMS have been communicating with Business Services toward a better process of documenting their time and effort for any employee that is not being paid 100% from a single grant, which will be no less frequently than every six months in accordance with Title 2, Code of Federal Regulations, Section 220(J)(10). These documents are forwarded to the Business Office for filing purposes. Tarleton State University is in the process of reviewing an electronic system provided by the A&M system offices for reporting time and effort certification with an expected implementation date of September 1, 2011.

As for the second recommendation, Tarleton State University has reviewed existing policies and regulations through the A&M System and has revised its procedures to include reference to OMB Circulars.

Implementation Date: *June 10, 2010*

Responsible Person: *Ms. DeAnna Powell*

Reference No. 10-53

Cash Management

Research and Development Cluster
Award year - March 1, 2009 to February 28, 2010
Award numbers - CFDA 10.450 09IE08700026 and CFDA 15.000 08IE08710054
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S Department of Agriculture

U.S. Department of Interior

A federal program agency must limit a funds transfer to a state to the minimum amount needed by the state and must time the disbursement to be in accordance with the actual, immediate cash requirements of the state in carrying out a federal assistance program or project. 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. States should exercise sound cash management in funds transfers to subgrantees in accordance with Office of Management and Budget (OMB) Circular A–102 (Title 31, Code of Federal Regulations, Section 205.33).

Tarleton State University (University) submits invoices to funding agencies for its federal research and development contracts. Although the University has documented invoicing procedures, those procedures do not provide detailed guidance for how staff should prepare invoices. In addition, those procedures do not include a requirement that an individual other than the invoice preparer review the invoices for accuracy. Additionally, the University does not reconcile all invoice activity to its accounting system (FAMIS) as required by its invoicing procedures.

The University's Center for Agribusiness Excellence (CAE) administers a fixed-price, cost-reimbursement contract through which CAE invoices sponsors in equal, fixed amounts throughout the award year for the components for data warehouse and data mining. However, CAE is supposed to invoice for travel, equipment, software, supplies, and materials on a reimbursement basis. Five (38 percent) of 13 CAE invoices tested were for travel costs that were for an amount that differed from the amount the University actually paid for the travel. Specifically, for these five invoices, the amount invoiced for travel expenditures was $330 more than the actual expenditures. It is the University's practice to request reimbursement for travel costs based on the maximum federal allowable rate, rather than based on actual expenditure amounts.

Additionally, the University does not maintain evidence that individuals other than the invoice preparers review invoices for either the CAE or Common Information Systems (CIMS) research programs. For all 13 invoices tested for the CAE and for all 13 invoices tested for the CIMS program, auditors could not verify that an individual other than the invoice preparer reviewed the invoices prior to processing. Without a documented review, the federal sponsors may receive invoices for unallowable costs or incorrectly calculated costs.

There are three departments that manage federally funded research and development programs at the University. These include the CAE and CIMS programs, as well as the Texas Institute for Applied Environmental Research (TIAER) program. Operations related to Grant and Contracts administration for the funds awarded to each program are performed separately in each of the three departments. This includes invoicing federal sponsors. In addition to the processes being decentralized, since they are performed separately in each program's department, they are also not performed consistently within the departments. The CAE and CIMS departments do not perform reviews of invoicing, and CAE does not prepare invoices based on actual costs. There is a review of invoices for TIAER and they are based on actual costs.

Corrective Action:

Corrective action was taken.

Reference No. 10-54

Procurement and Suspension and Debarment

Research and Development Cluster
Award year - March 1, 2009 to February 28, 2010
Award number - CFDA 10.450 09IE08700026
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S Department of Agriculture

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all non-procurement transactions (i.e., subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.220 and 180.970).

Tarleton State University's (University) process is to check the EPLS for the suspension and debarment status of the vendor for all procurements. However, it does not maintain any evidence of its EPLS verification. In addition, the University uses a procurement contract template containing a clause referencing the excluded parties list. However, for 1 (8 percent) of 12 procurements tested, the procurement contract did not contain a suspension and debarment clause, and the University retained no other evidence that it determined the suspension and debarment status of the vendor. The procurement totaled $1,827,071.75. Auditors verified that the vendor was not suspended or debarred.

In addition, the University retained no evidence that it determined the suspension and debarment status for the vendor associated with one subaward, which was the only subaward initiated during the fiscal year that involved federal research and development funding. The subaward totaled $2,046,225.92. Auditors verified that the entity associated with the subaward was not suspended or debarred.

Recommendation:

The University should perform suspension and debarment verifications for all covered transactions (procurements of $25,000 or greater and all subawards) and maintain evidence of the verification.

Management Response and Corrective Action Plan 2009:

Universities and agencies within The Texas A&M University System have been provided an opportunity to utilize a vendor software solution that allows users to run export control related checks on people (e.g., employees, students, and visitors), vendor companies, and the subject matter of research projects. Tarleton had a trial use of this software, but opted not to purchase the software solution this fiscal year. Instead, the Purchasing Department utilizes the Excluded Parties List System to check the suspension and debarment status of vendors prior to executing a purchase order. The Purchasing Department has changed its practice of solely documenting the file that the vendor is not suspended or debarred to one of printing the certification and attaching it to the paperwork.

Management Response and Corrective Action Plan 2010:

For purchases of $25,000.00 or more involving Federal Funds. Purchasing staff verify the status of the primary vendor's standing through the EPLS and retain a printed copy of the suspension and debarment status in the procurement file. Any subcontractors involved in the procurement are verified through the EPLS and a printed copy of the suspension and debarment status retained in the procurement file regardless of the dollar amount.

Implementation Date: *January 2010*

Responsible Person: *Ms. Beth Chandler*

Texas A&M University

Reference No. 10-55

Special Tests and Provisions - Return of Title IV Funds

(Prior Audit Issues - 09-51 and 08-45)

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A074136, and CFDA 84.063 PO63J075286
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: 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 (Title 34, Code of Federal Regulations, Section 668.22(a)(1)). If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student 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)(3)-(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 6 (15 percent) of 40 students tested, Texas A&M University (University) made errors in the return of Title IV fund calculations. For four of these six students, the errors did not affect the overall return amounts. However, for the remaining two students, the errors resulted in the University not returning the proper amount of Title IV funds. Specifically:

- For one student, the University returned $1,596 and the student returned $1,961. However, the University should have returned $3,224 and the student should have returned $333.
- For one student, the University returned $3,847 and the student returned $2,425, for a total of $6,272. However, the University should have returned $5,545 and the student should not have returned any funds. The difference between the total amount returned and the total amount that should have been returned is due to the University not including room and board charges in the institutional charges section of the Title IV worksheet.

For all six students, the University did not include room and board charges in the institutional charges section of the return of Title IV worksheet, which resulted in return calculation errors for students living on campus at the University. In addition to the six students associated with the errors identified during audit testing, this omission affected all students living on campus for whom a return of Title IV funds was required.

Corrective Action:

Corrective action was taken.

Reference No. 10-56

Special Tests and Provisions - Student Loan Repayments

(Prior Audit Issue - 09-53)

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award number - CFDA 84.038 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

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(c)(2)).

For borrowers in default status, Texas A&M University (University) made the required contacts, but it did not make all of the required contacts in a timely manner. Specifically:

- For all 40 borrowers in default tested, the University did not make first contact with the borrowers on or within 90 days after the start of their grace period.
- For all 40 borrowers in default tested, the University did not make second contact with the borrowers on or within 150 days after the start of their grace period.
- For all 40 borrowers in default tested, the University did not make third contact with the borrowers on or within 240 days after the start of their grace period.

The University interpreted the requirements discussed above to mean that contacts should not be made until after 90 days, 150 days, and 240 days, instead of on these days or within these time periods. As a result, it made contact at 105 days, 165 days, and 255 days, respectively.

An institution is also 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(b) and (c)).

- For 2 (5.0 percent) of 40 borrowers in default tested, the University did not send a second overdue notice within 30 days after the first overdue notice. The University did, however, send a second overdue notice to these borrowers 35 days after the first notice. For each of these borrowers, the normal process for generating a second overdue notice did not take effect because the University flagged the overdue loan being tested as a collections loan due a University process designed to take collections action against previous loans by the borrower.
- For all 40 borrowers in default tested, the University did not send a final demand letter within 15 days after the second overdue notice. The University did send final demand letters, but configured its system so that the system generated the final demand letters approximately 30 days after the second overdue notice, rather than within 15 days after the second overdue notice.

Corrective Action:

This finding was reissued as current year reference number: 11-124.

Texas A&M University - Commerce

Reference No. 10-57
Eligibility
Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084016, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084016, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P080384, CFDA 84.268 P268K090384, CFDA 84.375 P375A080384, CFDA 84.376 P376S080384, and CFDA 84.379 P379T090384
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
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)).

Auditors identified the following weaknesses related to general controls over information systems at Texas A&M University-Commerce (University):

- The University did not have adequate segregation of duties in place at the application level for Banner, the University's student financial assistance system. Specifically, 9 of the 11 system users in the Office of Financial Aid have the ability to create and set up budgets and budget components. These employees can also set up disbursement dates, minimum and maximum amounts for federal awards, and financial assistance packaging rules, and they have access to other high-risk configuration screens. Additionally, one user in the Bursar's Office has access to modify structured query language. Allowing employees inappropriate or excessive access to areas in Banner that are outside of their job functions increases the risk of inappropriate changes and impedes segregation of duties. Performing periodic, documented reviews of employees' access to Banner would help ensure the University maintains appropriate segregation of duties.
- The University did not have controls to ensure that high-profile roles are limited to appropriate personnel, and it did not maintain segregation of duties at the server and database levels. Specifically:
  - Two database administrators shared 18 high-profile user IDs for the Oracle database in which the University stores student financial assistance information. Sharing user IDs reduces accountability for changes when users access the database.
  - University database administrators perform system administrator functions while using high-profile user IDs. This lack of segregation of duties increases the risk of potential conflicts associated with permitting high-level access to databases that house student financial assistance information and high-level access to servers and systems. Compensating controls can help reduce this risk. However, this weakness, combined with the issue regarding individuals sharing high-profile user IDs, increases the risk of inappropriate access and manipulation of data that affects disbursements of student financial assistance.
  - Eighteen active Oracle user IDs are inappropriately assigned the database administrator role. This increases the risk that student financial assistance production data could be modified without proper authorization.
  - The University does not perform formal periodic reviews of user access to Banner, the Oracle database, the server, or its network. Allowing employees inappropriate or excessive access to areas in Banner that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties.
  - System patches were installed on the Banner system, but the University did not follow its change management policy when installing the patches.

Corrective Action:

Corrective action was taken.

Eligibility and 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 (COA) minus the expected family contribution (EFC). 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 aid to ensure that total assistance is not awarded in excess of the student's financial need (Title 34, Code of Federal Regulations, Sections 673.5, 673.6, 682.603, and 685.301).

For 2 (5 percent) of 40 students tested, the University incorrectly calculated the COA budget. Specifically, it incorrectly calculated the COA budget for two students who attended the Summer semester as a percentage of the Fall and Spring semesters combined. When the students attended only the Fall or Spring semester, and then attended the Summer semester, their COA budgets were inflated. In these instances, the COA equaled the budget for the Fall semester plus the Spring semester, rather than for only one semester (Fall or Spring, as applicable) plus the Summer semester. For these two students combined, the COA budgets were overstated by $5,903. Although University staff assert that they use an automated overaward program on a daily basis to ensure that each student's total award does not exceed his or her need, it was unable to produce an archived copy of the report generated by that program with evidence that appropriate University personnel reviewed that report. When COA budgets are inflated for students who attend only the Fall or Spring semester (but not both) and the Summer semester, this increases the risk of overawarding financial assistance to these students. However, the COA errors auditors identified did not result in financial assistance that exceeded financial need for these two students.

Recommendations:

The University should:

- Correct COA budget calculations for students who attend only the Fall semester and the Summer semester or students who attend only the Spring semester and the Summer semester.
- Document and maintain its review of the report generated by its automated overaward program to ensure that it calculates COA correctly.

Management Response and Corrective Action Plan 2009:

Testing of budget calculations will occur during the setup of a new academic year. Budget calculations will be tested for the following combinations; Fall and Spring, Fall only, Spring only, Fall-Summer, and Spring-Summer terms. Each will be reviewed in the Banner test system and signed off by an Information Technology Office representative, Assistant Financial Aid Director for Technology, with final signoff by Director of Financial Aid prior to moving to Banner production. Upon migration to Banner production, a final review by Assistant Director for Technology with signoff by Director of Financial Aid will occur. This process will be utilized for this summer 2010 term.

Beginning February 1, 2010, all financial aid exception reports will be archived in the financial aid shared drive; folder "Exception Reports".

Management Response and Corrective Action Plan 2010:

Financial aid reports are archived and continue to be archived since implementation date of 2/2010; responsible party is Assistant Director for Technology and Reporting.

Cost of education budgets for the fall and spring 2010-2011 were tested throughout months of April and May; signed off on June 14th prior to awarding for fall and spring 2010-2011 cycles. Testing of cost of education budgets for the summer 2011 year, and to comply with auditor's recommendations requires the implementation of BANNER financial aid module 8.9 released by SunGuard in September, 2010. This module is scheduled to be installed in test environment on January 8, 2011 with testing to conclude in early February and rolled into production on February 15th, 2011. Full implementation in production is scheduled for March 21st, 2011; sign off March 31St, 2011prior to awarding for summer 2011 terms.

Implementation Date: *March 31, 2011*

Responsible Person: *Maria Ramos*

Texas A&M University - Corpus Christi

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 numbers - 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

Initial Year Written:	2008
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).

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.

Corrective Action:

Corrective action was taken.

Texas A&M University - Kingsville

Reference No. 10-58
Activities Allowed or Unallowed
Allowable Costs/Cost Principles

Research and Development Cluster - ARRA
Non-Major Programs - TRIO Cluster
Award years - June 4, 2009 to September 30, 2010, and October 1, 2004 to September 30, 2009
Award numbers - CFDA 93.701 3P40RR018300-07S1, and CFDA 84.217A P217A040040
Type of finding - Significant Deficiency and Non-Compliance

Certification of Effort

Initial Year Written: 2009
Status: Implemented

National Institutes of Health
U.S Department of Education

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 (Title 2, Code of Federal Regulations, Section 220(J)(10)).

Texas A&M University - Kingsville (University) follows the Texas A&M University System time and effort certification policy, which requires, at a minimum, that time and effort certifications be completed on a semi-annual basis, but it is recommended that the certifications be processed on a semester basis. In addition, the policy states that "once the reports are made available in the system, the individuals have a maximum of 45 days to sign or submit their certifications in the system." The University did not complete an after-the-fact effort certification for 1 (3 percent) of 32 payroll transactions tested until 95 days after the pay period ending August 31, 2009. The effort certification was signed on December 4, 2009, after auditors requested evidence of the certification. The effort certification, which involved effort paid from American Recovery and Reinvestment Act (ARRA) funds, was not completed in a timely manner because the certification report was not programmed to include the new ARRA accounts. Total salaries and wages affected by the programming issue were $16,385. Delays in certifying effort can result in adjustments to accounts funded by federal research and development grants not being made in a timely manner.

Direct Costs

Office of Management and Budget (OMB) Circular A-21, Sections C.2 and C.3 establish principles for determining costs applicable to grants, contracts, and other agreements with educational institutions. According to that circular, for costs to be allowable they must (a) be reasonable; (b) be allocable to sponsored agreements under the principles and methods in the circular; (c) be given consistent treatment through application of the generally accepted accounting principles and methods in the circular; and (d) conform to any limitations or exclusions set forth in the principles or in the sponsored agreement regarding the types or amounts of cost items.

One (2 percent) of 50 charges to federal awards tested at the University was unallowable. The University incorrectly charged $915 in travel costs for a summer study abroad program to the TRIO Cluster - Ronald E. McNair Scholars Program for fiscal years 2008-2009. Although provisions in the grant agreement allowed certain travel costs, they did not allow foreign travel costs. As a result, the University spent federal award funds for costs that were not allowable under provisions of the grant agreement.

Corrective Action:

Corrective action was taken.

Texas Southern University

Reference No. 09-62

Special Tests and Provisions - Return of Title IV Funds

(Prior Audit Issue 08-58)

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award numbers - CFDA 84.063 P063P072327, CFDA 84.007 P007A074145, CFDA 84.375 P375A072327, and CFDA 84.376 P376S072327
Type of finding - Material Weakness and Material 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 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 2008:

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.

Management Response and Corrective Action Plan 2009:

The auditor reviewed a sample of students that received Title IV funds and withdrew from the University. In one instance, a student withdrew and TSU calculated the refund amount correctly; however, the funds were not returned within the required timeframe. TSU implemented new procedures in 2009. Additionally, the University did a 100% recalculation of Title IV refunds for academic years 2008 and 2009. The one exception in the audit sample occurred prior to the implementation of the new procedures. Of the sample tested there were no exceptions in calculations, eligibility, and student status changes. We believe that our revised procedures adequately address the audit issue. TSU will continue to review procedures and transactions to ensure that the current procedures are working as planned.

Management Response and Corrective Action Plan 2010:

Effective November 15, 2010, TSU has modified the processes for performing R2T4 calculations since the recent audit. We strongly believe that these changes bring TSU into compliance by increasing the calculation accuracy and timing of return funds. The measures we have taken include (but are not limited to) the re-establishment of the R2T4 processes that were intended to become institutionalized. Currently, the manual process includes the following:

- *Student Accounting performs the R2T4 calculations on a weekly basis. This begins with a Banner query to identify all students who have withdrawn from the term after the first day of the term through the last date of the term. A separate query is run to identify any students that have been retroactively withdrawn from a previous term.*
- *Student Accounting enters the data into an internal Master (Excel) Critical Spreadsheet, restricted to authorized financial personnel and equipped with the appropriate formulas and compares the results to the Department of Education worksheet. All financial aid information, term and withdrawal dates, and institutional costs used in the calculation are extracted from Banner. Student Accounting coordinates with the Registrar's Office and confirms the accuracy of the term dates disclosed in Banner.*
- *Student Accounting works in conjunction with the Financial Aid Accountant to ensure that all funds are adjusted from the student's account and returned as soon as possible but not later than 45 days from the date of the withdrawal. Student Accounting returns the funds for the institution's portion. Student Accounting receives verification from Financial Aid that the Direct Loans information was updated in COD for the student.*
- *Student Accounting sends the student a letter notifying them of the amount to be returned and their obligations. Copies of these letters are maintained electronically.*
- *Student Accounting keeps an RT24 Activity Log which details the following: the students withdrawn, withdraw date, calculated return amount, student account adjustment date (date that the account was adjusted), funds return date (the date the funds were returned), and where the funds were returned.*

The optimal internal control of which the University intends to place reliance upon full implementation is the automation of the RT24 calculation in the Banner application. As of calendar Q4 2010, this process is in progress and being tested in conjunction with the Banner 8 Upgrade Project which is planned for go live in late December 2010. Subsequent to the upgrade, Student Accounting will parallel the manual process with the automated Banner process and validate/reconcile for a period of three (3) to six (6) months to confirm the validity, accuracy and completeness of the automated process- in production post Banner 8 upgrade. (Upon six consecutive parallels of manual-to-automated validation, the manual process may be decommissioned upon concurrence of the Student Accounting and Financial Aid functions).

Implementation Date: *January 31, 2011*

Responsible Person: *Beverly Ruffin*

Reference No. 09-64

Allowable Costs/Cost Principles

Research and Development Cluster
Award years- Multiple
Award numbers - 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

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).

Initial Year Written: 2008
Status: Implemented

Federal Agencies that Provide R&D Grants

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 fourteen 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.

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.

Corrective Action:

Corrective action was taken.

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 has inappropriate access to the System, which gives them the ability to post disbursement transactions and process refunds.

Recommendations:

The College should restrict access to the System based on job duties and responsibilities.

Management Response and Corrective Action Plan 2007:

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:

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.

Management Response and Corrective Action Plan 2009:

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 award aid (AIDE) and process refunds (RFND). This evaluation of access will be finalized prior to February 10, 2010.

2010 Update:

During the 2010 follow-up test work, auditors determined that the College ensured that its financial aid staff had appropriate access to the Student Information System. However, auditors also determined that employees outside of the financial aid staff had inappropriate access to the Student Information System. Therefore, this finding will remain outstanding. It should be noted that student financial aid funds are awarded and disbursed by different departments.

Management Response and Corrective Action Plan 2010:

We will identify all financial aid related system entitlements, and limit them to either financial aid staff or appropriate people within the business office. Additionally, we will ask other departmental managers to review current access of their employees and make adjustments that may be needed.

Implementation Date: *March 2011*

Responsible Person: *Connie Chance*

Texas State University - San Marcos

Reference No. 10-70
Eligibility
Activities Allowed or Unallowed
Cash Management
Period of Availability of Federal Funds
Special Tests and Provisions - Separate Funds
Special Tests and Provisions - Verification
Special Tests and Provisions - Disbursements To or On Behalf of Students
Special Tests and Provisions - Student Status Changes
(Prior Audit Issue - 09-65)

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.375 P375A080387, CFDA 84.007 P007A084122, CFDA 84.033 P033A084122, CFDA 84.038 P038A044122, CFDA 84.063 P063P080387, CFDA 84.268 P268K090387, CFDA 84.376 P376S080387, and CFDA 84.379 P379T090387
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2008
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)).

Texas State University - San Marcos (University) did not maintain appropriate user access for the financial aid module (FAMS) of its financial system. Specifically, an unknown number of computer operators used a generic user ID with system administrator privileges. This does not allow for appropriate segregation of duties and prevents user accountability.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, five programmers/developers and the special assistant to the vice president of information technology had the ability to move program code changes into the production environment.

In addition, the University does not perform formal periodic reviews of user access to production data and system administrator privileges on Virtual Memory System (VMS). Allowing employees inappropriate or excessive access to areas in VMS that are outside of the job functions increases the risk of inappropriate changes and does not allow for segregations of duties. Three users have two user IDs with privileged access to VMS. Users with privileged access should only have one user ID with this type of access. The University indicated on December 3, 2009, that it has removed these three user IDs from having "ALL" access and that the users have been notified to log in with their University-assigned user IDs.

Academic Competitiveness Grant

The Academic Competitiveness Grant (ACG) program provides grants to eligible, full-time regular undergraduate students enrolled in their first or second academic years in an ACG-eligible program at a two- or four-year degree-granting institution. Grants are up to $750 for first-year students and up to $1,300 for second year students (Title 34, Code of Federal Regulations, Sections 691.6 and 691.62).

Based on a review of the full population of student financial assistance recipients, the University awarded one student $650 in ACG funds when the student was not in the first or second academic year and, therefore, not eligible to receive the grant. The student met eligibility requirements at the end of the Spring 2008 semester but attended a Summer semester at a different institution. Upon completion of the Summer 2008 semester, the student was ineligible for the ACG award based on academic year requirements.

Activities Allowed or Unallowed, Cash Management, Period of Availability of Federal Funds, Special Tests and Provisions - Separate Funds, Special Tests and Provisions - Verification, Special Tests and Provisions - Disbursements To or On Behalf of Students, and Special Tests and Provisions - Student Status Changes

Although the general control weaknesses described above apply to activities allowed or unallowed, cash management, period of availability of federal funds, special tests and provisions - separate funds, special tests and provisions - verification, special tests and provisions - disbursements to or on behalf of students, and special tests and provisions - student status changes, auditors identified no compliance issues regarding these compliance requirements.

Corrective Action:

This finding was reissued as current year reference number: 11-129.

Reference No. 10-71
Reporting
(Prior Audit Issue - 09-66)

Student Financial Assistance Cluster
Award year - July 1, 2008, to June 30, 2009
Award numbers - CFDA 84.063 P063P080387, CFDA 84.007 P007A084122, CFDA 84.038 P038A044122, CFDA 84.268 P268K090387, CFDA 84.033 P033A084122, CFDA 84.375 P375A080387, CFDA 84.376 P376S080387, and CFDA 84.379 P379T090387
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2008
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)).

Texas State University - San Marcos (University) did not maintain appropriate user access for the financial aid module (FAMS) of its financial system. Specifically, an unknown number of computer operators used a generic user ID with system administrator privileges. This does not allow for appropriate segregation of duties and prevents user accountability.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, five programmers/developers and the special assistant to the vice president of information technology had the ability to move program code changes into the production environment.

In addition, the University does not perform formal periodic reviews of user access to production data and system administrator privileges on Virtual Memory System (VMS). Allowing employees inappropriate or excessive access to areas in VMS that are outside of the job functions increases the risk of inappropriate changes and does not allow for segregations of duties. Three users have two user IDs with privileged access to VMS. Users with privileged access should only have one user ID with this type of access. The University indicated on December 3, 2009 that it has removed these three user IDs from having "ALL" access and that the users have been notified to log in with their University-assigned user IDs.

Common Origination and Disbursement System Reporting

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's 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 2009, 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 5-3-29).

For 45 (63 percent) of 72 Pell disbursements made to 40 students tested at the University, the disbursement date the University reported to the COD System did not match disbursement date in the University's financial aid system. However, the University did report the correct disbursement amount to the COD System for all Pell disbursements tested. The University commonly reports anticipated disbursements 30 days in advance of the actual expected date of disbursement. The batch process that reports disbursements to COD captures the anticipated disbursement date instead of the actual disbursement date. As a result, the date reported to the COD System may differ from the actual disbursement date if the disbursement occurred on a different date than anticipated.

Corrective Action:

This finding was reissued as current year reference number: 11-130.

Reference No. 10-72

Special Tests and Provisions - Return of Title IV Funds

(Prior Audit Issue - 09-68)

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.268 P268K090387, CFDA 84.063 P063P080387, CFDA 84.007 P007A084122, CFDA 84.038 P038A044122, CFDA 84.033 P033A084122, CFDA 84.375 P375A080387, CFDA 84.376 P376S080387, and CFDA 84.379 P379T090387
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Education

Texas State University - San Marcos (University) did not maintain appropriate user access for the financial aid module (FAM) of its financial system. Specifically, an unknown number of computer operators used a generic user ID with system administrator privileges. This does not allow for appropriate segregation of duties and prevents user accountability.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, five programmers/developers and the special assistant to the vice president of information technology had the ability to move program code changes into the production environment.

In addition, the University does not perform formal periodic reviews of user access to production data and system administrator privileges on Virtual Memory System (VMS). Allowing employees inappropriate or excessive access to areas in VMS that are outside of the job functions increases the risk of inappropriate changes and does not allow for segregations of duties. Three users have two user IDs with privileged access to VMS. Users with privileged access should only have one user ID with this type of access. The University indicated on December 3, 2009, that it has removed these three user IDs from having "ALL" access and that the users have been notified to log in with their University-assigned user IDs.

Return of Title IV Funds

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, Section 668.22(a)(1)). If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student 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)(3)-(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 1 (2.5 percent) of 40 students tested, the University did not return Title IV funds within the required 45-day time frame after the University determined the student withdrew. The University's process for initiating a return of Title IV funds is contingent on the Student Financial Aid Office receiving an official withdrawal form from the Registrar's Office. The Student Financial Aid Office was notified on October 15, 2008, through email that the student had died on October 13, 2008. However, the Student Financial Aid Office did not receive the official withdrawal form until August 4, 2009. The University returned the funds on August 17, 2009.

Corrective Action:

This finding was reissued as current year reference number: 11-131.

Reference No. 10-73

Special Tests and Provisions - Student Loan Repayments

(Prior Audit Issue - 09-69)

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.038 P038A044122
Type of finding - Material Weakness and Material Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Education

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)).

Texas State University - San Marcos (University) did not maintain appropriate user access for the financial aid module (FAMS) of its financial system. Specifically, an unknown number of computer operators used a generic user ID with system administrator privileges. This does not allow for appropriate segregation of duties and prevents user accountability.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, five programmers/developers and the special assistant to the vice president of information technology had the ability to move program code changes into the production environment.

In addition, the University does not perform formal periodic reviews of user access to production data and system administrator privileges on Virtual Memory System (VMS). Allowing employees inappropriate or excessive access to areas in VMS that are outside of the job functions increases the risk of inappropriate changes and does not allow for segregations of duties. Three users have two user IDs with privileged access to VMS. Users with privileged access should only have one user ID with this type of access. The University indicated on December 3, 2009 that it has removed these three user IDs from having "ALL" access and that the users have been notified to log in with their University-assigned user IDs.

Student Loan Repayments

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(c)(2)).

Under the federal Perkins Loan Program, institutions are required to send borrowers 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(b) and (c)).

The University did not consistently contact defaulted borrowers at required intervals. Specifically:

- For all eight defaulted students tested, the University did not make the three required grace period contacts within the required time frames. The University incorrectly calculated the initial grace period start date to be the first day of the following month after the borrower dropped below half-time enrollment, instead of the day after the borrower dropped below half-time enrollment. Additionally, the first grace period notice to the borrowers did not include the amount of principal and interest due on loan or the projected life of the loan.
- For all eight defaulted students tested, the University did not provide evidence that billing statements were sent to the students.
- For 5 (45 percent) of 11 defaulted loans tested, the University did not send the first overdue notices within 15 days. For an additional 2 (18 percent) of the 11 defaulted loans tested, the University did not provide evidence that it sent the first overdue notice.
- For 2 (33 percent) of 6 defaulted loans tested, the University did not send second overdue notices within 30 days after the first overdue notice. For an additional 1 (17 percent) of the 6 defaulted loans, the University did not provide evidence that it sent the second overdue notice.
- For 2 (50 percent) of 4 defaulted loan tested, the University did not send final demand letters within 15 days after second overdue notices. For an additional 1 (25 percent) of the 4 defaulted loans, the University did not provide evidence that it sent the final demand letter.
- For 2 (67 percent) of 3 defaulted loans tested, the University did not provide evidence that it attempted to contact the borrower twice after the final demand letter.
- For all three defaulted loans for which the University was required to contact credit bureaus, the University did not provide evidence that it made the required contacts. The University also did not provide evidence that it made the first effort to collect, initiate litigation, or make a second effort to collect on these loans.
- For two loans in default for more than one year, the University did not conduct a yearly attempt to collect.

University personnel use a monthly aging report to identify students to contact regarding Perkins billing. University personnel then manually create notices and contact students who are in default based on the aging reports. The above issues resulted from a breakdown in manual processes.

Corrective Action:

This finding was reissued as current year reference number: 11-133.

Reference No. 10-74

Special Tests and Provisions - Borrower Data Transmission and Reconciliation

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.268 P268K090387
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2009
Status: Implemented

U.S. Department of Education

Texas State University - San Marcos (University) did not maintain appropriate user access for the financial aid module (FAMS) of its financial system. Specifically, an unknown number of computer operators used a generic user ID with system administrator privileges. This does not allow for appropriate segregation of duties and prevents user accountability.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, five programmers/developers and the special assistant to the vice president of information technology had the ability to move program code changes into the production environment.

In addition, the University does not perform formal periodic reviews of user access to production data and system administrator privileges on Virtual Memory System (VMS). Allowing employees inappropriate or excessive access to areas in VMS that are outside of the job functions increases the risk of inappropriate changes and does not allow for segregations of duties. Three users have two user IDs with privileged access to VMS. Users with privileged access should only have one user ID with this type of access. The University indicated on December 3, 2009 that it has removed these three user IDs from having "ALL" access and that the users have been notified to log in with their University-assigned user IDs.

Borrower Data Transmission and Reconciliation

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). 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, Code of Federal Regulations, Sections 685.102(b), 685.301, and 685.303).

For 2 (5 percent) of 40 students tested (or 2 of 194 disbursements), the University did not report disbursement records to the DLSS within 30 days of disbursement. The University was late in reporting to the DLSS in October 2008, which was the reporting period for both of these disbursements. As a result, the University submitted these disbursements 32 days and 39 days after disbursement.

Corrective Action:

Corrective action was taken.

Reference No. 10-75

Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Period of Availability of Federal Funds

Research and Development Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Direct Costs

Allowable costs charged to federal programs must (1) be reasonable; (2) be allocable to sponsored agreements; (3) be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (4) conform to any limitations or exclusions set forth in cost principles or in the sponsored agreement as to types or amounts of cost items (Title 2, Code of Federal Regulations, Section 220(C)). When a funding period is specified, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any pre-award costs authorized by the federal awarding agency (Title 2, Code of Federal Regulations, Section 215.28).

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Defense
U.S. Department of Agriculture
U.S. Department of Commerce
U.S. Department of Interior
U.S. National Science Foundation
U.S. Department of Homeland Security
U.S. Department of Education
U.S. Environmental Protection Agency
U.S. Department of Health and Human Services

Texas State University's - San Marcos (University) wireless cellular communication services policy (UPPS No. 05.03.11) establishes University policy concerning the use, availability, and acquisition of wireless cellular communication services by University employees, including grant-funded employees. Under that policy, a department head is responsible for initiating the processing of an allowance for using an employee's personal cellular instrument and service for business purposes. The allowance is processed through the University's payroll system and is included as additional compensation on the employee's remuneration statement.

The University also has established policies and procedures for delegating "authority to sign specific contracts, or specific types of contracts, to certain regular employees." That policy states that "a contract signed by an unauthorized person is not binding on the University. A person who signs without proper authorization may be personally liable for any damages incurred by the University or the state."

Auditors determined that 1 (3 percent) of 40 expenditures tested at the University was unallowable because the cost was not allocable to the sponsored agreement to which it was charged. In September 2008, the University paid a stipend of $110 for personal cellular service to a University employee who was assigned as a principal investigator for several federal grants. The University charged this stipend to a sponsored agreement, but the University paid the employee's base salary from non-federal funds. In addition, the University did not report effort for or receive compensation from services performed on any sponsored project for the time period associated with this expenditure.

Although the University has a policy for providing such an allowance for personal cellular service, the policy is unclear regarding when an employee who receives the allowance is or is not working and certifying effort on a federally sponsored project. The University has the responsibility for proper fiscal management, conduct of sponsored projects, and ensuring that all expenditures charged to a project are reasonable, allocable, and allowable. The expenditure discussed above resulted in questioned costs of $110.

In addition, 4 (8 percent) of 51 grant agreements tested were signed by an unauthorized individual. The four grants totaled $2.4 million. For these four grant agreements, the University did not follow its policy on contracting authority. This resulted in contracts being signed that may not be binding, and it could create a personal liability on the part of the individual who signed the grant agreements.

The issues discussed above affected the following awards:

CFDA	Award Numbers	Award Years
12.300	N00014-08-1-1107	June 20, 2008 to December 31, 2009
10.200	2008-38869-19174	July 15, 2008 to June 14, 2010
66.202	EM-96634101-0	September 6, 2006 to September 30, 2010
11.426	NA06NOS4260118	September 1, 2006 to August 31, 2010
15.921	J2124080047	August 1, 2008 to June 30, 2010

Indirect Costs

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 be excluded only 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 3 (8 percent) of 40 indirect cost rate items tested at the University, the indirect cost the University charged was not in accordance with the University's indirect cost rate agreement with the cognizant federal agency. Specifically:

- For two of these indirect cost rate items, the University initially undercharged the amount of indirect costs allowable per the indirect cost rate agreement. This occurred because project budgets were amended when additional federal funding was received; however, the indirect cost budget was not amended in the system the University uses to calculate indirect costs. As a result, the system ceased to apply the approved indirect cost rate once the original budget was exceeded. The University corrected this in a subsequent period by processing manual journal vouchers to recover the costs.
- For one of these indirect cost rate items, the University exceeded the approved indirect cost rate. During a two-month period, the University did not use its system to calculate the indirect costs associated with the grant and instead processed manual journal vouchers to recover the costs. When automated processing of the indirect cost resumed, the system did not recognize the amounts previously recovered by processing journal vouchers. As a result, the rate was applied to the same direct cost base twice for a two-month period. Indirect costs recovered exceeded the allowable amount by $1,633.

The issues discussed above affected the following awards:

CFDA	Award Numbers	Award Years
47.075	SES-0729264	November 1, 2007 to October 31, 2010
15.640	401817M112	February 28, 2007 to February 28, 2012
12.300	N00014-08-1-1107	June 20, 2008 to December 31, 2009

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 costs 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 (Title 2, Code of Federal Regulations, Section 220(J)(10)).

The University's time and effort certification policy in effect for fiscal year 2009 required that time and effort certifications be completed within 21 days of receipt.

For 16 (64 percent) of 25 aggregate payroll expenditures tested (consisting of 44 detailed payroll transactions) at the University, employees time and effort certifications for the applicable period were not completed in a timely manner (completion was considered to be timely if it occurred within 21 days of the end of the certification period). The late certifications were more prevalent for positions that were classified as other than professional. Of the 16 late certifications, 12 (75 percent) were for individuals in positions classified as other than professional. Although the University performed effort certifications for all employees tested, not completing the certifications within the time frame established in its policy can result in adjustments to accounts funded by federal research and development grants not being made in a timely manner.

The issues discussed above affected the following awards:

CFDA	Award Numbers	Award Years
10.200	2008-38869-19174	July 15, 2008 to June 14, 2010
12.000	NAN0982	October 31, 2008 to August 15, 2009
12.300	N00014-08-1-1107	June 20, 2008 to December 31, 2009
47.075	SES-0648278	March 1, 2007 to February 28, 2010
97.077	2008-DN-A R1012-02	September 15, 2008 to August 31, 2009
84.002	9410003711037.00	October 1, 2008 to September 30, 2009
84.324	R324B070018	August 1, 2008 to July 31, 2010
84.031	P031C080008	September 1, 2008 to September 30, 2009
66.460	582-8-77060	December 1, 2007 to November 30, 2009
47.076	HRD-0402623	November 1, 2007 to October 31, 2008
15.608	201818G902	January 17, 2008 to August 31, 2009
47.074	DEB-0816905	September 1, 2008 to August 31, 2010
93.086	09FE0128/03	September 30, 2008 to September 29, 2009

Recommendations:

The University should:

- Develop and implement procedures to ensure that employees who charge costs, particularly personal cellular service, to a sponsored agreement demonstrate that those costs are allocable to the project during the time period in which the costs are charged.
- Follow its published policies and procedures for contracts and grant administration and ensure that individuals who sign contracts have the appropriate authority to do so.
- Develop and implement procedures to ensure that it trains personnel on account setup procedures for grants and awards and that it charges indirect costs accurately and consistently to sponsored agreements.
- Ensure that employees complete time and effort certifications within the time frames established in its policy.

Management Response and Corrective Action Plan 2009:

Management Concurs. The University will draft and put in place policy and associated procedures to ensure that cellular costs (and certain other services) charged to sponsored programs are charged on a proportional basis to the amount of certified effort on a sponsored program.

Management concurs. The University has begun to gather signatures from all parties relating to delegated signature authority. The University expects to be in full compliance by May 31, 2010.

Management Concurs. The University will draft and put in place procedures to ensure that sponsored programs are charged indirect costs accurately and consistently.

Management Concurs. The University is currently configuring an electronic effort reporting system. This system should ensure that effort reports are completed within policy established time frames.

Management Response and Corrective Action Plan 2010:

10-75 to our knowledge was not tested for compliance. As Management stated in an email dated 9-22-2010, not enough data had accumulated for reasonable testing of compliance with management's response to this finding. All process changes have been put in place and data continues to accumulate. Enough data should exist for testing during the next review.

Implementation Date: *Implemented*

Responsible Person: *W. Scott Erwin*

Reference No. 10-76

Cash Management

Research and Development Cluster
Award years - June 20, 2008 to December 31, 2009 and October 1, 2008 to September 30, 2010
Award numbers - CFDA 12.300 N000174-08-1-1107 and CFDA 84.002 94100037110037
Type of finding - Significant Deficiency

Initial Year Written: 2009
Status: Implemented

U.S. Department of Defense
U.S. Department of Education

Title 2, Code of Federal Regulations (CFR), Sections 215 and 220, require that non-federal entities receiving federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Specifically, institutions shall ensure that no one person has complete control over all aspects of a financial transaction (Title 2, CFR, Section 220(C)). In addition, Title 2, CFR, Section 215.22(b), requires federal award recipients to maintain procedures that minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the recipient.

Texas State University's - San Marcos (University) practice is to request federal funds only after it incurs expenses, thereby minimizing the time elapsing between transfer and disbursement. However, the University does not perform a consistent supervisory review of all types of requests for federal funds.

The University runs a report detailing federal award expenses and requests federal funds based on the amount of expenses it has incurred. The University reviews and approves both the report and the funds request to ensure amounts on those documents match amounts on drawdowns of federal funds and invoices the University has submitted to the awarding agency by mail. However, the University does not require review and approval for invoices submitted to the awarding agency electronically. Four (10 percent) of 40 federal funds requests tested were invoices submitted electronically and, therefore, were not reviewed and approved. The lack of supervisory review and approval for electronic invoices increases the risk of errors during the funds request process. However, auditors examined the four electronic invoices and did not identify any errors.

Corrective Action:

Corrective action was taken.

Reference No. 10-77

Procurement and Suspension and Debarment

Research and Development Cluster
Award years – see below
Award numbers – see below
Type of finding - Significant Deficiency and Non-Compliance

Procurement

Initial Year Written: 2009
Status: Partially Implemented

National Oceanic and Atmospheric Administration

U.S. Environmental Protection Agency

National Science Foundation

U.S. Department of Defense

U.S. Fish and Wildlife

U.S. Department of Justice

Title 2, Code of Federal Regulations (CFR), Section 215, establishes uniform administrative requirements for federal grants and agreements awarded to institutions of higher education. 2 CFR Section 215.46 requires that procurement records and files shall include the following at a minimum: (1) basis for contractor selection; (2) justification for lack of competition when competitive bids or offers are not obtained; and (3) basis for award cost or price.

Texas State University - San Marcos (University) has established procedures for processing contracted services contracts and documented them in University Policies and Procedures Statement No. 03.04.01. Employees are required to select a contractor on the basis of "best value" or demonstrated competence and qualifications, and on the amount of the fee. For 1 (4 percent) of 26 procurements tested, the University did not retain documentation supporting the basis of its contractor selection. The University recorded the procurement as a professional and contract services contract for $35,500. The University's policy discussed above does not specifically address procurement file retention. Failure to fully record and retain documentation related to procurement transactions results in ineffective monitoring and increases the risk of entering into contractual agreements that do not provide the University with best value.

The University also requires employees to complete a "Justification for Proprietary, Sole Source or Brand Procurement" form when competitive bids or offers are not obtained. However, for 1 (11 percent) of 9 non-competitive procurements tested, the University did not retain the required form that sufficiently explained the rationale to limit competition. As a result, the University did not comply with its internal policy, which is intended to mitigate the risk of non-compliance with federal regulations.

In addition, the University uses its accounting system to initiate and approve requisitions. Auditors reviewed assigned roles within the accounting system and determined that 50 (5 percent) of 990 users could both initiate and approve requisitions during a portion of fiscal year 2009. In May 2009, the University significantly reduced the segregation of duty risk by editing assigned roles so that only nine users could both initiate and approve requisitions. After fiscal year 2009, the University made further edits of the assigned roles and reduced the number of individuals with the dual roles to four users. The University's information technology security policy requires the approval of the vice president before granting a user both of these roles. According to University staff, some grants do not have administrative support; therefore, one person has been assigned both roles. The lack of segregation of duties between requisitioner and approver increases the risk that federal funds will not be spent as intended.

The issues noted above are related to the following awards:

Federal Agency	Award Numbers (CFDA)	Award Years
National Oceanic and Atmospheric Administration	NA06NOS4260118 (11.426)	September 1, 2006 - August 31, 2010
National Science Foundation	BCS-0820487 (47.075)	September 15, 2008 - August 31, 2010

Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, CFR, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all non-procurement transactions (that is, subawards to subrecipients) irrespective of award amount (Title 2, CFR, Sections 180.220 and 180.970).

The University did not maintain documentation confirming that suspension and debarment determinations were made for all seven covered procurement transactions tested. Although University policy is to conduct an EPLS search for each vendor name at the time of procurement, the University has not implemented procedures to document the search. As a result, auditors could not determine whether the University complied with federal requirements to verify that the entity is not suspended or debarred or otherwise excluded from federal contracts.

Auditors conducted an EPLS search for all entities for which the University did not have a suspension and debarment certification and determined that the entities were not suspended or debarred.

The issues noted above are related to the following awards:

Federal Agency	Award Numbers (CFDA)	Award Years
National Oceanic and Atmospheric Administration	NA05NOS4261162 (11.426)	September 1, 2005 - August 31, 2009
	NA06NOS4260118 (11.426)	September 1, 2006 - August 31, 2010
U.S. Environmental Protection Agency	EM-96634101-0 (66.202)	September 6, 2006 - September 30, 2010
National Science Foundation	CHE-0821254 (47.079)	August 1, 2008 - July 31, 2011
	BCS-0820487 (47.075)	September 15, 2008 - August 31, 2010
U.S. Department of Defense	W911NF-07-1-0280 (12.431)	May 15, 2007 - May 14, 2009
U.S. Fish and Wildlife	201818G902 (15.608)	January 17, 2008 - August 31, 2009
U.S. Department of Justice	2008-DD-BX-0568 (16.580)	September 1, 2008 - August 31, 2010

Recommendations:

The University should:

- Implement policies and procedures to document the basis for contractor selection.
- Ensure that employees complete and retain the required justification forms for all non-competitive procurements.
- Implement segregation of duties between the roles associated with initiating requisitions and approving requisitions in its accounting system.
- Establish procedures to ensure that staff document suspension and debarment determinations.
- Maintain sufficient documentation to prove that it made suspension and debarment determinations at the time of procurement.

Management Response and Corrective Action Plan 2009:

Recommendations:

- *Implement policies and procedures to document the basis for contractor selection.*
- *Ensure that employees complete and retain the required justification forms for all non-competitive procurements.*
- *Establish procedures to ensure that staff document suspension and debarment determinations.*
- *Maintain sufficient documentation to prove that it made suspension and debarment determinations at the time of procurement.*

University Management is in agreement with the recommendation.

The Purchasing Office has procedures in place, which require completion and retention of supporting purchasing documentation as noted in UPPS No. 03.04.01.

Additional mandatory training will be provided and documented for purchasing Staff in Central Purchasing and the College of Science Purchasing Office. Training will cover the importance of completing, evaluating, and retaining the appropriate documents into the requisition at the time of the purchase.

A procedure is in place to provide the correct documentation and explanation supporting the purchase in question. The Central Purchasing Office will reinforce the importance of including this documentation and make sure that all documentation is attached to the requisition. Additional mandatory training will be provided and documented for purchasing Staff in Central Purchasing and the College of Science Purchasing Office.

The Purchasing Office has a suspension and debarment determination procedure in place to verify and maintain sufficient documentation.

The Purchasing Staff will receive additional mandatory training and be made fully aware of the importance of this procedure. A report has been designed and will be initiated as a check/balance to prevent any oversight in the procurement process.

Recommendation:

- *Implement segregation of duties between the roles associated with initiating requisitions and approving requisitions in its accounting system.*

Management Concurs. The University will consistently enforce its policy such that all dual roles from all University staff are segregated. There are currently no individuals on campus that possess both security roles.

Management Response and Corrective Action Plan 2010:

10-77 As of Monday Dec 13, 2010 there are no Financial Services employees with dual roles.

Implementation Date: *Implemented*

Responsible Person: *Jacque Allbright*

Texas Tech University

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

Initial Year Written: 2008
Status: Partially Implemented

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.

Corrective Action:

This finding was reissued as current year reference number: 11-136.

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 numbers - CFDA 84.007 P007A074151, CFDA 84.032 Award Number Not Applicable, CFDA 84.063 P063P072328
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2008
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)).

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 in 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.

Corrective Action:

This finding was reissued as current year reference number: 11-138.

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

Initial Year Written: 2008
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)).

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).

Corrective Action:

This finding was reissued as current year reference number: 11-139.

Reference No. 08-67

Procurement and Suspension and Debarment

Research and Development Cluster
Award years - 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 numbers - 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: 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.

Corrective Action:

Corrective action was taken.

Department of Transportation

Reference No. 10-81
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Special Tests and Provisions - Project Approvals

Highway Planning and Construction Cluster
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Transportation – Federal Highway Administration

Agencies shall maintain internal control over federal programs that provides reasonable assurance that agencies 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 Department of Transportation (Department) uses the Federal Project Authorization and Agreement (FPAA) system to process and track project approvals from the Federal Highway Administration. These approvals are required prior to starting construction work on a project and expending federal funds.

The Department's Finance Division manages the FPAA system, and that division does not enforce the same change management processes that the Department enforces for enterprisewide systems. As a result, adequate segregation of duties does not exist for making code changes for the FPAA system and migrating those changes to the production environment. One programmer had access to migrate code changes for the FPAA system to the production environment. For 2 (33 percent) of 6 code changes tested, that programmer both made the code change and moved the code change into the production environment. Additionally, that division does not maintain adequate documentation of changes it makes to the FPAA system, including documentation of testing, authorization, and migrating the changes to the production environment. Three (50 percent) of 6 code changes tested did not have adequate documentation of the changes made.

When a programmer has access to migrate code into the production environment, this increases the risk that unauthorized changes could be made to the system without proper approvals. Without adequate documentation of testing, authorization, and migration of code to the production environment, there is an increased risk that changes may have unintended effects on the reliability of data in the system.

Although the general control weakness described above applies to activities allowed or unallowed, allowable costs/cost principles, and special tests and provisions - project approvals, auditors identified no compliance issues regarding these compliance requirements

Corrective Action:

This finding was reissued as current year reference number: 11-143.

Reference No. 10-82

Davis-Bacon Act

Highway Planning and Construction Cluster
Award years - Multiple
Award numbers - Federal project IM 03564(410), STP 2008(148), IM 0448(14), STP 2009(171), STP 2005(675)MM, STP 2008(76), BR 2007(268), STP 2008(877)HES, STP 2009(554)ES, HP 2009(333), IM 0106(93), HP 2007(324), and NH 2008(293)
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Transportation - Federal Highway Administration

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).

Additionally, the Department of Transportation's (Department) *Construction Contract Administration Manual* requires that the Department conduct at least three labor compliance interviews of contractor and subcontractor project employees for each project per quarter when work was performed during the quarter. The Department uses these interviews to identify non-compliance with the Davis-Bacon Act and to ensure that contractors and subcontractor employees are properly classified and are being paid the appropriate wage rate in accordance with the Davis-Bacon Act.

All projects tested had standardized contracts that contained the required prevailing wage rate clause. However, the Department does not have a statewide standard process for ensuring that it collects the weekly certified payrolls for all projects or that it conducts and documents the required wage rate interviews.

Auditors requested payroll certifications for all weekly payrolls in fiscal year 2009. The Department was not always able to provide documentation that it collected the certified payroll from its contractors and subcontractors or conducted wage rate interviews. Specifically:

- Four (10 percent) of 40 projects tested did not provide all payroll certifications for payroll submitted in the fiscal year. These four projects had total contractor payments, including payroll and non-payroll costs, of $590,515.15 for fiscal year 2009.
- Eleven (37 percent) of 30 projects tested did not have documentation to show that the Department conducted employee interviews.

Without submission of the required payroll certification and documentation of these interviews, the Department cannot ensure that contractor and subcontractor employees are properly classified and being paid the appropriate wage rate in accordance with the Davis-Bacon Act.

Corrective Action:

This finding was reissued as current year reference number: 11-142.

Reference No. 10-83
Reporting

Highway Planning and Construction Cluster
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Transportation - Federal Highway Administration

The Department of Transportation (Department) is required by Office of Management and Budget (OMB) Circular A-133 to submit a PR-20, *Voucher for Work Under Provisions of the Federal-Aid and Federal Highway Acts, as Amended* (OMB No. 2125-0507). The PR-20 is required to report the total expenditures for a project that received federal aid from the Federal Highway Administration. The report should be completed and submitted promptly after the close-out of a project.

The Department did not submit PR-20 reports in a prompt or orderly manner. The Department does not have a standard procedure for how it determines which reports to submit, and it asserted that a lack of dedicated staff over several years has contributed to this issue.

Auditors reviewed a list of projects that have been closed in the Department's financial system, but for which the Department had not yet submitted a PR-20. Based on the information on that list, the Department had not submitted PR-20s for 1,914 projects with close-out dates as early as August 1998.

The Department provided to auditors 600 PR-20 reports that it submitted to the Federal Highway Administration in fiscal year 2009. Auditors tested a sample of 40 PR-20 reports and did not identify any compliance errors. However, because of the lack of a standardized process for submitting reports, auditors could not determine whether the reports provided represent all reports submitted for the fiscal year.

The Federal Highway Administration relies on the Department to submit PR-20 reports in order to close out funding and records on funded projects.

Corrective Action:

This finding was reissued as current year reference number: 11-145.

Reference No. 10-84
Subrecipient Monitoring
(Prior Audit Issue - 09-80)

Highway Planning and Construction Cluster
Award years - Multiple
Award numbers - Multiple
Type of finding - Material Weakness and Material Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Transportation - Federal Highway Administration

As a pass-through entity, the Department of Transportation (Department) is required by Office of Management and Budget (OMB) Circular A-133, March 2009 Compliance Supplement Part 3, Section M Subrecipient Monitoring, to monitor subrecipients' use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that subrecipients administer federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Identification of Subrecipients

The Department was not able to identify a complete and accurate list of subrecipients for the Highway Planning and Construction Cluster. The Department's Finance Division identifies subrecipients through reports it generates by querying the Uniform Statewide Accounting System (USAS) for payments for federal construction activities. The Department then manually removes payments to vendors and other state agencies and uses the resulting payments as its population of subrecipients to report on its Schedule of Expenditures of Federal Awards. However, this process incorrectly identifies some entities as subrecipients instead of vendors. For example, this process results in local entities that provide "force services" such as law enforcement presence at a road construction site being incorrectly identified as subrecipients instead of vendors.

Auditors were not able to quantify the number of entities the Department had incorrectly identified as subrecipients. However, auditors selected a sample for testing and determined that 5 (11 percent) of 47 entities selected were originally identified by the Department as subrecipients but were actually vendors. The payments to these vendors were generally low-dollar transactions due to the nature of the services they provided. Therefore, the Department's incorrect identification of these vendors as subrecipients had a more significant effect on the number of subrecipients the Department reported than on the total dollar amount of subrecipient pass-through expenditures.

Pre-Award Monitoring

At the time of the award, pass-through entities must identify to subrecipients the applicable compliance requirements and the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, the award name and number, and the name of federal awarding agency (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 3, Section M).

The Department did not properly identify federal award information and compliance requirements to the subrecipient. While the Department uses a standard template for award agreements with subrecipients, this template does not include identification of the federal award title and number or the CFDA title and number. It also does not identify the name of the federal awarding agency. The template does, however, refer to the Master Advanced Funding Template Agreement, which requires the subrecipient to comply with federal compliance requirements and provides other specific information regarding allowable costs and other requirements.

The template the Department uses requires the subrecipient to refrain from doing business with other entities that are suspended or debarred; however, it does not require the subrecipient to certify that it is not suspended or disbarred.

Auditors identified the following:

- For 2 (5 percent) of 41 subrecipient agreements tested, the Department's district office overseeing the subrecipients provided no award documentation; as a result, auditors could not determine whether these awards contained required information.
- For the remaining 39 subrecipient awards tested, the award documentation the Department provided to the subrecipient did not identify the federal award or CFDA titles or numbers.

Inadequate identification of federal awards by the Department may lead to improper reporting of federal funding on the subrecipient's Schedule of Expenditures of Federal Awards. Additionally, when the Department does not verify that subrecipients are not suspended or debarred, this increases the risk that the Department will enter into an agreement with an entity that is not eligible to receive federal funding.

During-the-Award Monitoring

The Department does not have standardized processes to ensure adequate during-the-award monitoring by Department district offices. As a result, there are different levels and types of monitoring throughout the district offices. For example, some district offices provided documentation that included evidence of on-site monitoring visits, while other district offices used invoice reviews as their primary monitoring tool.

District offices provided documentation of their during-the-award monitoring for 41 subrecipients tested. This documentation included reviews of invoices for allowability, period of availability, and reporting. However:

- District offices that oversaw 2 (5 percent) of 41 subrecipients tested did not provide sufficient evidence of key monitoring, including review of invoices. Therefore, auditors could not determine whether the district offices monitored those subrecipients' compliance with federal requirements.
- For 3 (10 percent) of 29 subrecipients with matching requirements, the district offices did not provide evidence that they reviewed the invoices to ensure that the subrecipients complied with local matching requirements.

The Department also conducts other monitoring of subrecipients' compliance with the Davis-Bacon Act and requirements regarding equipment, procurement, real property acquisition, and quality assurance. However, the Department's documentation of this monitoring was not consistently provided to auditors. Specifically, based on the documentation the Department provided to auditors:

- For 15 (41 percent) of 37 subrecipients tested, the district offices did not provide documentation that they reviewed the subrecipients' cash management practices for compliance.
- For 9 (64 percent) of 14 subrecipients tested, the district offices did not provide documentation of monitoring the subrecipients' compliance with Davis-Bacon Act requirements.
- For 5 (45 percent) of 11 subrecipients tested, the district offices did not provide documentation of monitoring the subrecipients' compliance with equipment and real property management requirements.
- For 6 (19 percent) of 32 subrecipients tested, the district offices did not provide documentation of monitoring the subrecipients' compliance with federal and state procurement requirements.
- For 1 (50 percent) of 2 subrecipients tested, the district office did not provide documentation of monitoring the subrecipient's real property acquisitions.
- For 5 (45 percent) of 11 subrecipients tested, the district offices did not provide documentation of monitoring the subrecipients' quality assurance testing, project extensions, or project approvals.

Without a standardized process for during-the-award monitoring, the Department cannot determine whether its district offices adequately monitor the Department's subrecipients and, therefore, cannot determine whether subrecipients comply with federal requirements.

A-133 Single Audit Requirements

The Department must ensure that subrecipients expending federal funds of $500,000 or more obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department. The Department is required to review the audit report and to issue a management decision, if applicable.

The Department does not have a standardized process to ensure that all subrecipients that expend more than $500,000 in federal funding in a fiscal year obtain an A-133 Single Audit as required by OMB Circular A-133. The Department's External Audit Office, which monitors A-133 Single Audits, does not consistently receive certifications from subrecipients that do not provide A-133 Single Audit reports when they expended less than $500,000 in federal funds in the fiscal year.

For 15 (37 percent) of 41 subrecipients tested, the Department did not provide an A-133 Single Audit report or a certification from the subrecipient that an audit was not required. For 7 (47 percent) of those 15 subrecipients, auditors determined that the subrecipient submitted an A-133 Single Audit report to the Federal Audit Clearinghouse, indicating that the Department should have received an A-133 Single Audit report from these subrecipients.

The External Audit Office tracks and reviews A-133 Single Audit reports submitted by subrecipients. It also uses an audit checklist to facilitate review of the audits and forwards issues that it identifies to the appropriate division when the External Audit Office determines that follow-up is necessary.

Auditors identified the following:

- For 13 (52 percent) of the 25 A-133 Single Audit reports received by the External Audit Office, the External Audit Office did not provide the review checklist it used to review the audit.
- For 1 (4 percent) of the 25 A-133 Single Audit reports received by the External Audit Office, the review did not identify an issue related to the subrecipient's reporting of Highway Planning and Construction Cluster reimbursements.
- For 1 (4 percent) of the 25 audits received by the External Audit Office, the External Audit Office did not provide documentation that it followed up on a finding regarding the subrecipient's compliance with Davis-Bacon Act requirements.

These issues increase the risk that the Department will not be able to determine whether subrecipients comply with federal requirements and whether subrecipients having issues not detected through the subrecipient monitoring process.

Corrective Action:

This finding was reissued as current year reference number: 11-144.

Reference No. 10-85

Special Tests and Provisions - Use of Other State or Local Government Agencies

Highway Planning and Construction Cluster
Award years - Multiple
Award numbers - Various
Type of finding - Material Weakness and Material Non-Compliance

The Department of Transportation (Department) may use other public land acquisition organizations to conduct real property acquisitions for federal aid projects. The other organizations must comply with the Department's policies and practices for acquisition. The Department must monitor the real property acquisition activities of the other organizations to ensure compliance with state and federal law and requirements (Title 23, Code of Federal Regulations, Section 710.201(h)).

Initial Year Written: 2009
Status: Implemented

U.S. Department of Transportation - Federal Highway Administration

To ensure that the other organizations comply with state and federal laws and regulations for real property acquisitions, the Department reviews land acquisition documentation and requires the other organizations to provide a certification of compliance to act in accordance with state and federal Laws prior to reimbursement.

The Department did not ensure that four local public agencies (LPA) conducted land acquisitions in accordance with the acquisition agreements prior to reimbursing the LPAs for the acquisition. The acquisition agreements state that the LPA must conduct the acquisition in accordance with federal and state acquisition laws. However, the Department was unable to provide documentation that it verified that the LPA complied with federal and state acquisition laws for 21 (53 percent) of the 40 acquisitions tested for 4 LPAs. The cost of those 21 acquisitions totaled $1,794,539. However, auditors confirmed that these acquisitions were for real property used for highway construction. Specifically, auditors noted the following errors in the 21 projects:

- The Department was unable to provide the LPA's certification of compliance and was unable to provide documentation that it reviewed the land acquisition documentation for 13 (33 percent) of the 40 acquisitions tested.
- The Department was unable to provide the LPA's certification of compliance for 5 (13 percent) of the 40 acquisitions tested.

- The Department was unable to provide documentation that it reviewed the land acquisition documentation for 3 (8 percent) of the 40 acquisitions tested.

Without adequate monitoring, the Department cannot ensure that the LPA complies with state and federal laws and regulations.

Corrective Action:

Corrective action was taken.

Reference No. 10-86

Special Tests and Provisions - Project Extensions

Highway Planning and Construction Cluster
Award years - Multiple
Award number - MG 2004(394)
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Transportation - Federal Highway Administration

The Department of Transportation (Department) is required by Office of Management and Budget Circular A-133 and Title 23, Code of Federal Regulations, Section 635.121, to obtain approval from the Federal Highway Administration (FHWA) for project extensions affecting project costs or the amount of liquidated damages, except in projects administered by the Department as identified by Title 23, United States Code, Section 106(c).

The Department uses change orders from SiteManager, its construction administration system, to initiate the process for submitting a federal letter of authority to obtain approval for a project extension from the FHWA.

Auditors tested change orders that required federal approval. For one of nine change order totaling $777,931, the Department was not able to provide documentation that it completed the change order or obtained approval from the FHWA.

The FHWA requires timely, correct, and complete information from the Department on projects that the FHWA administers. When the Department does not submit the required approval requests to the FHWA, the FHWA is unable to make informed management decisions on projects.

Corrective Action:

Corrective action was taken.

Reference No. 10-87
Special Tests and Provisions - Quality Assurance
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
(Prior Audit Issue - 09-81)

Highway Planning and Construction Cluster
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency and Non-Compliance

Control Weaknesses in SiteManager

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Transportation - Federal Highway Administration

Agencies 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)).

SiteManager, the Department of Transportation's (Department) construction administration system, does not adequately ensure that appropriate Department personnel review and approve contractor transactions prior to payment. In addition, Department district offices are able to set up and define the personnel who are allowed to review and approve each transaction in SiteManager. SiteManager also allows assigned users to both approve an estimate and submit the estimate for payment. This increases the risk of payments to contractors for unallowable costs.

In addition, SiteManager does not have sufficient controls to ensure that (1) only authorized testers are able to enter test records and (2) deficiencies are cleared appropriately prior to contractor payment.

Special Tests and Provisions- Quality Assurance Program

Title 23, Code of Federal Regulations (CFR), Chapter 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, Chapter 209, requires that only qualified personnel conduct sampling and testing to be used in the acceptance decision.

Although the Department had some controls in place for its quality assurance programs, it does not have a standardized process for documentation of sampling and testing. The Department's district offices rely on SiteManager to document the results of its material sampling and testing. District offices do not consistently retain documentation of the testing information after data entry into SiteManager. Therefore, auditors relied on the information in SiteManager for testing but auditors also reviewed additional documentation the Department provided.

The Department did not always comply with the quality assurance program approved by the Federal Highway Administration. Specifically:

- 8 (20 percent) of 40 tests did not comply with the requirements for each type of material as specified in the Department's *Guide Schedule for Sampling and Testing*. These eight tests included blank tests documented in SiteManager and projects in SiteManager for which the required test could not be found.
- 5 (13 percent) of 38 tests completed were conducted by an individual who was not a certified tester.

Additionally, for 5 (13 percent) of 40 projects that auditors reviewed in SiteManager, the Department did not have the "Deficient Sample Indicator" turned on. This indicator prevents payment to the contractor when a sample tested does not meet the Department's material requirements. For these five projects, auditors could not determine whether the Department paid the contractor prior to resolving any deficiencies.

Control weaknesses in SiteManager and a lack of standardized process for adherence to the Department's approved quality assurance program increase the risk that the Department will not identify deficiencies that adversely affect the quality of federally funded highway projects.

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Although the SiteManager control weaknesses described above apply to activities allowed or unallowed and allowable costs/cost principles, auditors identified no compliance issues regarding these compliance requirements.

Corrective Action:

This finding was reissued as current year reference number: 11-146.

Reference No. 10-88
Subrecipient Monitoring

Highway Safety Cluster
Award years -Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency and Material Non-Compliance

Award Identification

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Transportation - National Highway Safety Traffic Administration

At the time of the award, pass-through entities must identify to subrecipients the applicable compliance requirements and the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, the award name and number, and the name of federal awarding agency (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 3, Section M). Additionally, when a non-federal entity enters into a subaward agreement, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code Federal Regulations, Section 180.300).

For all 40 subrecipients tested for the Highway Safety Cluster, the Department of Transportation (Department) did not provide the CFDA title and number, the award name and number, the name of the federal agency, or the applicable compliance requirements to subrecipients at the time of award. The Department's standard grant agreement for fiscal year 2009 did not contain CFDA-related information.

For 4 (10 percent) of the 40 subrecipients tested for the Highway Safety Cluster, the Department also did not notify the subrecipient of OMB Circular A-133 audit requirements or verify that the subrecipient was not suspended or debarred from federal procurements. These four awards were for incentive grants awarded to law enforcement agencies for their participation in safety belt and impaired driving enforcement efforts. The Department's standard award agreement for this type of award did not contain clauses regarding OMB A-133 audit requirements or suspension and debarment.

In fiscal year 2009, the Department reported $26,569,288 in federal pass-through to local entities. Not communicating the required award information and federal requirements to subrecipients increases the risk that subrecipients may not be informed and not comply with federal requirements. The absence of clear communication related to the federal award also increases the potential for misreporting of federal awards by the Department and the subrecipients on the Schedule of Expenditures of Federal Awards.

A-133 Single Audit Monitoring

According to OMB Circular A-133, Compliance Supplement Part 3, Section M, the Department must ensure that subrecipients expending federal funds of $500,000 or more obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department. The Department is required to review the audit report and to issue a management decision, if applicable. OMB Circular A-133, March 2009 Compliance Supplement Part 3, Section M, requires the Department to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report. In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions.

Twenty-nine (76 percent) of 38 subrecipients tested either did not have an A-133 Single Audit on record with the Department for fiscal year 2008 when an audit was required or did not have confirmation on file that the audit was not required. According to the Federal Audit Clearinghouse, 8 (28 percent) of these 29 subrecipients had submitted an A-133 Single Audit report for fiscal year 2008. The audit report for one of these entities contained a finding related to the data collection form not being submitted in a timely manner to the OMB-designated federal clearinghouse. The Department was not aware of the issue because it did not obtain the audit report from the subrecipient. The Department did not have a process to ensure that it maintained a log of audit reports received or audit findings that required follow-up. Additionally, the Department did not have a sanction policy for subrecipients of Highway Safety Cluster awards that do not adhere to A-133 Single Audit requirements. Weak monitoring results in diminished oversight and increases the potential of program funds not being spent as intended.

Recommendations:

The Department should:

- Communicate the required elements of award information and specifics related to federal compliance requirements by including that information in the award agreement.
- Require subrecipients to certify that they will obtain an A-133 Single Audit if they meet the threshold or certify that they are not required to obtain an A-133 Single Audit.
- Create a list of subrecipients that submit A-133 Single Audit reports and subrecipients that are not required to submit A-133 Single Audit reports.
- Review A-133 Single Audit reports that subrecipients submit, keep a log of findings in those reports, and follow up as appropriate.
- Develop a sanctions policy for subrecipients that repeatedly do not submit required A-133 Single Audit reports and for subrecipients that do not correct findings in those reports.

Management Response and Corrective Action Plan 2009:

Award Identification Finding

Recommendation:

"Communicate the required elements of award information and specifics related to federal compliance requirements by including that information in the award agreement."

Corrective Action

- *By the end of March 2010, the eGrants system will include the Catalog of Federal Domestic Assistance (CFDA) information for the current grant lifecycle (FY 2010) projects and visible on the Proposal Task Number page.*
- *Starting with the upcoming grant lifecycle (FY 2011), the CFDA information will also be included on the Grant Agreements.*

- *Starting immediately, all new incentive grants awarded to law enforcement agencies participating in the safety belt and impaired driving enforcement efforts will contain clauses in the Terms and Conditions regarding OMB A-133 audit requirements or suspension and debarment as recommended.*

A-133 Single Audit Monitoring

The last four recommendations deal with A-133 Single Audit monitoring. Subrecipients are supposed to obtain an A-133 Single Audit if they meet the threshold or certify that they are not required to obtain an A-133 Single Audit.

Recommendation:

"Require subrecipients to certify that they will obtain an A-133 Single Audit if they meet the threshold or certify that they are not required to obtain an A-133 Single Audit."

Corrective Action

- *Starting immediately, the Traffic Safety Section, in conjunction with the Audit Office, will utilize the eGrants system to notify subrecipients about A-133 Single Audit requirements.*
- *Starting with the upcoming grant lifecycle (FY 2011), the Traffic Safety Section, in conjunction with the Audit Office, will make modifications to the eGrants system to require subrecipients to certify that they will obtain an A-133 Single Audit if they meet the threshold or certify that they are not required to obtain an A-133 Single Audit.*

Recommendation:

"Create a list of subrecipients that submit A-133 Single Audit reports and subrecipients that are not required to submit A-133 Single Audit reports."

Corrective Action

- *By the end of 2010, the Audit Office, in conjunction with the Traffic Safety Section, will create a list of subrecipients that submit A-133 Single Audit reports and subrecipients that are not required to submit A-133 Single Audit reports.*
- *By the end of 2010, the Traffic Safety Section, in conjunction with the Audit Office, will make modifications to the eGrants system to support this action.*

Recommendation

"Review A-133 Single Audit reports that subrecipients submit, keep a log of findings in those reports, and follow up as appropriate."

Corrective Action

- *Starting immediately, the Audit Office will review all Single Audit Reports for the Traffic Safety subrecipients and will keep a log of all audit findings contained in these reports.*
- *Starting immediately, the Traffic Safety Section will follow up on these audit findings as appropriate.*
- *By the end of 2010, the Traffic Safety Section, in conjunction with the Audit Office, will make modifications to the eGrants system to support this action.*

Recommendation

"Develop a sanction policy for subrecipients that repeatedly do not submit required A-133 Single Audit reports and for subrecipients that do not correct findings in those reports."

Corrective Action

By the end of 2010, the Traffic Safety Section, in conjunction with the Audit Office, will develop a sanctions policy for subrecipients that repeatedly fail to submit the required A-133 Single Audit reports and for subrecipients that do not correct findings in those reports. This sanctions policy will be included in the 2010 update of the Traffic Safety Program Manual.

Management Response and Corrective Action Plan 2010:

Award Identification:

TxDOT has revised our eGrants system to now include on our traffic safety grant agreements the CFDA number, fund source description, and name of our federal funding agency as requested by the State Audit Office. Attached are screen shots from eGrants that captures the fund source and demonstrates how the CFDA numbers and titles are linked (see Attachment A). Also attached (Attachment B) is a screen shot of what the first page of our new traffic safety grants for FY2011 look like. Starting in FY2011, the Click It or Ticket Incentive grants and the Impaired Driving Mobilization Incentive grants now include the full set of terms and conditions just like the other traffic safety grants (this includes the A-133 audit requirement or suspension and debarment conditions, see Attachment C – example of an executed incentive grant).

A-133 Single Audit Monitoring:

TRF-TS is using eGrants to assist with notifying subrecipients about the A-133 Single Audit Requirements. Beginning in October 2010, a new process was implemented in order for traffic safety subrecipients to receive a grant. They have to read and agree to a statement in the Texas eGrants system that they will either submit the A-133 Single Audit Report or the letter if they do not meet the threshold. Attached (Attachment D) is a screen shot to show where the agencies and organizations agree to provide TxDOT with appropriate documents relating to the A-133 Audit requirements. The instructions for completing the information in eGrants are also included in Attachment D. Attachment E is a listing of FY2011 subrecipients that have agreed to the statement. By January 31, 2011, TRF will also develop a process to create a list of subrecipients that identifies those that submitted an A-133 Single Audit Report, a letter if they do not meet the threshold, or indicate if a report or letter is delinquent. These reports or letters will apply to the year currently due (i.e., as of December 2010, the reports or letters due are for FY2009). This report will be provided to the National Highway Traffic Safety Administration (NHTSA) semiannually starting in 2011 on the following dates: March 1 and October 1. TRF will utilize eGrants to remind agencies that either the Single Audit Reports or Letters are due.

The TxDOT AUD office is reviewing all Single Audit Reports for Traffic Safety subrecipients and keeps a log of audit findings contained in these reports. There are no traffic safety audit findings at this time. If the AUD Office identifies a traffic safety audit finding, TRF-TS will immediately follow up with the subrecipient on any findings. TxDOT has made modifications to the eGrants system (see Attachment F) to document any audit findings for a subrecipient.

TxDOT is drafting a sanctions policy for recipients that repeatedly fail to submit the required A-133 Single Audit reports and for subrecipients that do not correct findings. The sanctions policy will be included in the update of the Traffic Safety Program Manual (TSPM). The final version of the TSPM is scheduled to be issued formally by March 31, 2011.

Implementation Date: *January 31, 2011 for creating the detailed subrecipient list and March 31, 2011 for finalizing the sanctions in the Traffic Safety Program Manual.*

Responsible Person: *Terry Pence*

During-the-Award Monitoring

A pass-through entity is responsible for monitoring the subrecipient's use of federal awards 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 (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

The Department monitors subrecipient grant performance to verify compliance with state and federal requirements, as well as to verify that project objectives and performance measures are being achieved. Project monitoring is conducted in a number of ways, including the regular review of project performance reports and request for reimbursements and on-site monitoring reviews of project operations, management, and financial records and system.

For 3 (9 percent) of 32 subrecipients tested that were required to receive on-site monitoring, the Department did not provide documentation that it conducted such monitoring. For one additional subrecipient tested, the Department did not have evidence in eGrants, the Web-based system the Department uses to manage grant projects, that it performed the required monitoring. For this subrecipient, the Department provided other documentation that it performed on-site monitoring. By the Department not maintaining documentation of on-site monitoring, there is no reasonable assurance that such monitoring occurred and that issues identified through monitoring are appropriately addressed to ensure subrecipient compliance with federal laws and regulations.

The Department's Traffic Safety Section has a policy that requires subrecipients to enter and submit a performance report for review by the Department prior to allowing the subrecipient to request reimbursement for all or a part of the report period. Due to a user misconfiguration of the eGrants setting meant to support this policy, in the sample of subrecipients tested, 1 (3 percent) of 37 subrecipients entered a performance report but did not submit the report for review. Although the report was not submitted, the subrecipient submitted the accompanying request for reimbursement and the Department approved the request for reimbursement. The entered performance report was substantially complete. The Department was in compliance with this requirement. While the misconfiguration was detected and corrected by the Department, 11 performance report submissions in 2009 (out of the 2,229 that had been submitted up to the time of correction) bypassed the policy due to the misconfiguration.

Corrective Action:

Corrective action was taken.

Reference No. 10-89

Subrecipient Monitoring

Special Tests and Provisions - R3, Subrecipient Monitoring-Applicable to all Major Programs with Expenditures of ARRA Awards

CFDA 20.106 - Airport Improvement Program
CFDA 20.106 - Airport Improvement Program - ARRA
Award years - Multiple
Award numbers - Multiple
Type of finding - Significant Deficiency and Material Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Transportation – Federal Aviation Administration

As a pass-through entity, the Department of Transportation (Department) is required by Office of Management and Budget (OMB) Circular A-133, March 2009 Compliance Supplement Part 3, Section M Subrecipient Monitoring, to monitor subrecipients' use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that subrecipients administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. The Department must also identify to first-tier subrecipients the requirement to register in the Central Contractor Registration (CCR) system, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and keep that information current (American Recovery and Reinvestment Act (ARRA), Section 1512(h), , and Title 2, Code of Federal Regulations, Section 176.50c).

Pre-Award Monitoring

The Department attempts to comply with the requirements related to communicating award identification elements to its subrecipients by including the required information in its project participation agreements with subrecipients. However, those agreements did not always include the required information. Specifically, for 40 (95 percent) of 42 subrecipient files tested for the Airport Improvement Program, the Department was unable to provide evidence that it communicated the CFDA number to its subrecipients. The templates the Department used for award documentation did not contain CFDA numbers. This increases the risk that subrecipients could report program expenditures incorrectly on the schedule expenditures of federal awards and periodic reports required by the program. In addition, the lack of program identification may result in subrecipients not being informed of compliance requirements that are specific to the program, which increases the risk of non-compliance. For fiscal year 2009, the Department passed-through $71,384,983 in federal funds.

In addition, for 1 (33 percent) of 3 subrecipients tested that received ARRA awards, the Department did not provide evidence that it verified the subrecipient's CCR registration prior to the award. The Department disbursed $23,421.50 in ARRA funding to this subrecipient during fiscal year 2009. This could create inefficiencies in reporting ARRA information in a timely and accurate manner. In fiscal year 2009, the Department reported $1,019,156.86 in federal pass-through ARRA funds to local entities.

During-the-Award Monitoring

The Department is required to monitor the activity of subrecipients that acquire real property. The Departments aviation unit has a land acquisition manager who handles the appraisal process, issues letters of intent, and performs site visits of the properties to speak with property owners.

For 1 (14 percent) of 7 subrecipients tested for the Airport Improvement Program, the Department did not provide evidence that it sent letters of intent or written appraisals to property owners. According to the Department, an outside firm was hired to conduct this service for one airport project due to the large number of property owners involved. However, the Department did not receive or retain copies of letters of intent or letters of written appraisals sent to property owners by the outside firm. This increases the risk that property owners are not provided information required by laws and regulations and exposes the Department to potential liability.

A-133 Audit Requirements

The Department must ensure that subrecipients that spend $500,000 or more in federal funds obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department. The Department is required to review the audit report and to issue a management decision, if applicable. OMB Circular A-133, March 2009 Compliance Supplement Part 3, Section M, requires the Department to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report. In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions.

For 32 (76 percent) of 42 subrecipients tested for the Airport Improvement Program, the Department did not provide evidence that it verified the subrecipients had obtained Single Audits.

The Department provides award documentation through project participation agreements. These agreements state that each airport should have an annual audit conducted. However, the agreements do not specify the requirement to obtain a Single Audit if the subrecipient has spent more than $500,000 in federal funds. In addition, the Department has no process to track subrecipients' Single Audit reports. Some subrecipients send audit reports to the Department, but the Department does not track the reports or keep a list of subrecipients that do not provide audit reports. For subrecipients that submit Single Audit reports, the Department does not track audit findings and management responses, and it does not administer sanctions for continued non-compliance. In prior periods, the Department considered airports that received program benefits from the Department as vendors, as these relationships had both vendor and subrecipient characteristics. However, for fiscal year 2009, the Department classified the relationships with these entities as subrecipients. The reclassification of these entities as subrecipients contributed significantly to the control weaknesses described above. Weak monitoring results in diminished oversight and increases the potential of program funds not being spent as intended.

Corrective Action:

Corrective action was taken.

Reference No. 10-90
Reporting
(Prior Audit Issue - 09-77)

CFDA 20.106 - Airport Improvement Program
Award years - Multiple
Award numbers - 348SBGP33-2005 and 348SBGP53-2008
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Transportation - Federal Aviation Administration

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the *Financial Status Report* (FSR) SF-269 (Office of Management and Budget (OMB) No. 0348-0039) or SF-269A (OMB No. 0348-0038) 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 (Title 49, Code of Federal Regulations, Section 18.41).

The Federal Aviation Administration's (FAA) *Airport Improvement Program Handbook* (Handbook) and Program Guidance Letters (PGL) provide specific guidance for the administration of the Airport Improvement Program block grants. According to the Handbook and PGL, 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 (Handbook, Sections 1301 and 1314(a), and PGL 05-02).

Two (5 percent) of 40 reports tested for the Airport Improvement Program were not adequately supported by data in the Department of Transportation's (Department) accounting system. The Department did not resolve these discrepancies. For both reports, the Department did not include one of its draws in the reported amounts. Department management reviewed all reports tested prior to report submission, but this review was not sufficient to ensure that all information in the reports was accurate. By not ensuring that all draws are included in the reports, the accuracy of reporting is affected, and adjustments may be required on subsequent reports. The total difference between the reported amounts and amounts in the Department's accounting system data was $9,900.

Corrective Action:

This finding was reissued as current year reference number: 11-148.

Reference No. 10-91

Reporting

CFDA 20.509 - Formula Grants for Other Than Urbanized Areas
Award year - October 1, 2008 to September 30, 2009
Award number - TX-18-X028-02, TX-18-X029-04, TX-18-X030-01, and TX-18-X031-02
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Transportation - Federal Transit Administration

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the *Financial Status Report* (FSR) SF-269 (Office of Management and Budget (OMB) No. 0348-0039) or SF-269A (OMB No. 0348-0038) 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 (Title 49, Code of Federal Regulations, Section 18.41). Federal Transit Administration Circular 9040.1F requires recipients to submit an FSR annually on an accrual basis documenting costs incurred and available balances.

For 5 (83 percent) of 6 FSRs tested for the Formula Grants for Other Than Urbanized Areas program, the Department of Transportation (Department) reported non-federal share amounts that were not supported by its accounting records. The Department did not use or have accounting records to determine non-federal outlays and the non-federal share of unliquidated obligations. The Department serves as a pass-through for this program and did not track the local source amount of the non-federal share. The Department is capable of tracking the state source amount of the non-federal share; however, it did not use state accounting records to determine the non-federal amounts it reported on its FSRs. The Department determined non-federal outlay and unliquidated obligation amounts by multiplying the federal outlay amounts by the mandated matching requirements, instead of using actual non-federal costs incurred.

Recommendation:

The Department should develop a process that would facilitate the collection of information related to actual non-federal costs incurred by subrecipients.

Management Response and Corrective Action Plan 2009:

The Department will develop and implement a process by which it can collect information from its subrecipients regarding the reporting of the non-federal match on the FSRs. This collected information will be used in completing the FSRs. The Department will also work with the State Comptroller as it develops the new financial system ("Project One") for state agencies and notify the Comptroller of the requirement to collect this information.

Management Response and Corrective Action Plan 2010:

The Public Transportation Division of TxDOT is working on developing new billing forms to start effective September 1, 2010 to collect local match information. Billing form information will be used to complete FSR's. The Project One is in the design phase and schedule is directed by the Comptroller's Office.

Implementation Date: *April 1, 2011*

Responsible Person: *Eric Gleason*

Reference No. 10-92

Subrecipient Monitoring

CFDA 20.509 - Formula Grants for Other Than Urbanized Areas
CFDA 20.509 - Formula Grants for Other Than Urbanized Areas - ARRA
Award year - October 1, 2008 to September 30, 2009
Award numbers - TX-18-X029-00, TX-18-X030-02, TX-18-X031-02, TX-18-X032-00, and TX-86-X001-01 (ARRA)
Type of finding - Material Weakness and Material Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Transportation - Federal Transit Administration

The Department of Transportation (Department) as a pass-through entity is responsible for monitoring subrecipients' use of federal awards. The Department currently monitors 39 rural transit districts and several intercity bus providers to ensure they comply with the requirements for the Formula Grants for Other Urbanized Areas program. Monitoring is accomplished through the Department's 25 district public transportation coordinators who oversee various federal programs within their jurisdictions. Public transportation coordinators perform numerous duties including quarterly on-site visits, annual compliance on-site reviews, review of financial records, approval of monthly invoices, tracking of procurement activities, reviews of reports, issuance of improvement action plans when deficiencies are noted, discussion of problems encountered or need for technical assistance, and monitoring of compliance with federal regulations and provisions of grant agreements.

Pre-award Documentation

At the time of the award, pass-through entities must identify to subrecipients the applicable compliance requirements and the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, the award name and number, and the name of federal awarding agency (Office of Management and Budget (OMB) Circular A-133 Compliance Supplement, Part 3, Section M). However:

- For all 41 subrecipient agreements tested, the Department did not include the federal award number on the award documentation it provided to the subrecipient. The Department uses a standard template for subrecipient awards, but it did not include the federal award number in that template.
- For 6 (15 percent) of 41 subrecipient agreements tested, the Department also did not notify subrecipients of the federal awarding agency's name; for 4 of those 6, it also did not include the CFDA number for the grant. These subrecipient agreements were all for intercity bus providers. The standard agreement for this type of subrecipient did not contain the awarding agency's name or CFDA number.

These issues increase the risk of subrecipients misreporting program expenditures on their schedule of expenditures of federal awards.

During the Award Monitoring

The Department monitors its subrecipients compliance with federal requirements through several methods. As part of the monitoring process, the Department's Public Transportation Coordinators conduct monthly invoice reviews to ensure matching, cash management, period of availability, and program income requirements are being met. The review does not include a review for the allowability of items purchased with federal funds. However, the Department does conduct quarterly on-site visits, which include a limited review of transactions for allowable costs and activities. Additionally, the Department conducts an annual compliance review of its subrecipients, which includes nine program areas. A review of Charter Services and School Bus Operations to ensure compliance with applicable federal regulations related to this Special Test.

Public Transportation Coordinators perform additional duties, which include monitoring and documenting the subrecipients compliance with federal procurement guidelines multiple times throughout the year and performing biannual equipment inventories.

The Department does not consistently conduct annual compliance reviews and other periodic monitoring, including review of Charter Services or school bus operations. Specifically:

- For 8 (20 percent) of 41 subrecipients tested, the Department did not perform an annual compliance review or annual review of Charter Services and School bus operations for fiscal year 2009.
- For 15 (42 percent) of 36 subrecipients tested, auditors could not verify that the Public Transportation Coordinator had performed its required biennial equipment inventory due to insufficient documentation.
- For 3 (16 percent) of 19 subrecipients tested, the Department's Public Transportation Coordinator did not document the procurement of equipment by subrecipients to ensure compliance with federal requirements. Total cost of the three pieces of equipment was $164,368.

The Department does not consistently perform quarterly on-site reviews to determine the allowability of the subrecipient's costs. Specifically:

- For 6 (15 percent) of 41 subrecipients tested, the Department did not perform any quarterly on-site reviews to review allowable costs for fiscal year 2009.
- For 2 (5 percent) of the 41 subrecipients tested, the Department did not perform its required second quarter review for allowable costs.
- Additionally, the Department's process for reviewing allowable costs in its quarterly review is to select two expenditures, to review for allowability. However, the Department does not perform a monthly review of all expenditures of the subrecipient.

The Department does not consistently review monthly invoices to determine its subrecipient's compliance with matching, cash management, program income, and period of availability requirements. Specifically:

- For 13 (32 percent) of 41 subrecipients tested, the federal match amount on monthly invoices could not be verified due to lack of supporting documentation.
- For 12 (32 percent) of 37 subrecipients tested, the program income amount on monthly invoices could not be verified due to lack of supporting documentation.
- For 1 (3 percent) of 41 subrecipients tested, farebox revenue was not subtracted from operating expense prior to determining the federal share amount for reimbursement. This resulted in an overcharge of $1,312 to the federal share of operating expenses on the monthly invoice causing the miscalculation of the federal match amount.
- For 1 (2 percent) of 41 subrecipients tested, the subrecipient charged 70 percent of operating assistance expenses to the 5311 Rural and Small Areas program instead of the required 50 percent. This resulted in an overcharge of $4,052 to the federal share of operating expenses on the monthly invoice.
- For 1 (2 percent) of 41 subrecipients tested, the subrecipient charged $5,476 of expense incurred by the 5307 Large Urban Cities program to the 5311 Rural and Small Areas program. The total invoice amount of $6,200 also was miscoded as well. The $6,200 were operating expenses, however, the Public Transportation Coordinator charged the operating expenses to the administrative account since the operating account was fully expended.

By not reviewing monthly invoices for match and program income requirements, the Department could be charging the incorrect amount of federal funds to the 5311 program and subrecipients could profit at the federal government's expense. In addition, by not properly conducting on-site visits both quarterly and annually, the Department is increasing the risk of significant non-compliance with federal rules and regulations including non-compliance with allowable activities and special tests and provisions. Furthermore, the Department by not verifying subrecipients are following federal procurement guidelines and performing inventory of purchased equipment with federal funds could result in the subrecipient purchasing unallowable items or disposing of vehicles without the Department's approval and knowledge. Each of the issues identified above may also bring sanctions and recoup future payments to the Department.

Recommendations:

The Department should:

- Follow established policy and procedures and perform complete annual compliance reviews for all subrecipients.
- Follow established policy and procedures and perform quarterly on-site monitoring visits for all subrecipients.
- Implement a monthly monitoring process to verify allowable activities and costs for subrecipients.
- Implement a monthly monitoring process to verify the subrecipients meet match and program income requirements.
- Follow established policy and procedures for documentation of inventories of equipment.
- Maintain adequate supporting documentation for the procurement of equipment and follow established policy and procedures for documentation of compliance with procurement requirements.
- Include all required federal award information in award documentation provided to subrecipients.

Management Response and Corrective Action Plan 2009:

The Department agrees with the recommendations and has already taken some action to correct. Prior to June 2009, the public transportation monitoring function was decentralized to TxDOT's 25 district offices. Staff assigned to these duties was in most cases also responsible for numerous other non-public transportation tasks. Effective June 1, 2009, TxDOT reorganized so that district personnel performing public transportation duties report directly to the division. The consolidation of the functions and staff into the Public Transportation Division provides direct oversight for the field functions including how policies and procedures are carried out.

In regard to monthly monitoring processes to verify allowable activities and costs and verification of match and program income requirements, the Department will seek out resources, such as the Texas Transportation Institute and TxDOT's Audit Office, to prepare a guidance document for the Department that will provide information on supporting documentation for billings and allowable expenditures for both TxDOT staff and subrecipients.

In regard to award documentation provided to subrecipients, for new grant agreements the Code of Federal Domestic Assistance (CFDA) number, federal agency and federal grant numbers will be identified in the project grant agreements. The standard template for federally funded agreements will be amended, if needed, to include any missing required information. No federally funded grant agreement will be executed without the required information.

Management Response and Corrective Action Plan 2010:

Pre-award monitoring – The Public Transportation Division (PTN) of TxDOT has corrected the agreement templates to include all required federal information on the agreement forms as of 7/15/2010.

Implementation Date: *July 15, 2010*

Responsible Person: *Eric Gleason*

During the Award Monitoring – PTN has policies in place requiring monitoring and will review annually to ensure all field staff are conducting scheduled monitoring as of 2/10/2010.

Implementation Date: *February 10, 2010*

Responsible Person: *Eric Gleason*

Audit and Sanction Monitoring

The Department must ensure that subrecipients expending federal funds of $500,000 or more obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Department. The Department is required to review the audit report and to issue a management decision, if applicable. However:

- One (3 percent) of 35 subrecipients tested that were required to obtain an audit did not obtain the audit completed within the required time frame.
- For 4 (67 percent) of 6 subrecipients that were not required to obtain an audit, the Department did not perform an annual compliance review of the subrecipients.
- For 2 (6 percent) of 32 subrecipient A-133 Single Audits reports the Department received, the Department did not forward the findings to the Public Transportation Division or External Audit, which is the office that monitors subrecipients' Single Audit reports, for management decision and follow up. One of these audit reports specifically listed a Davis-Bacon finding for the Formula Grants program, while the other audit report listed a finding that encompassed all major federal programs.

There is also a control weakness within the Single Audit report reviews that the Department's External Audit Office performs. External Audit is unaware of which subrecipients are required to submit Single Audit reports. Currently External Audit does not perform any type of confirmation with subrecipients to verify whether they are or are not required to submit a Single Audit report. Furthermore, External Audit's review practice is to only forward findings to divisions if it determines the findings should be forwarded. Auditors identified one instance in which External Audit did not forward a finding specifically for the Formula Grants for Other Than Urbanized Areas Program to a division for review and follow up. External Audit also does not formally document Single Audit report issues or how those issues were resolved.

These issues increase the risk that the Department will not be able to determine whether subrecipients comply with federal law and whether subrecipients having issues is not detected through the subrecipients monitoring process.

Corrective Action:

Corrective action was taken.

Reference No. 10-93

Subrecipient Monitoring

Special Tests and Provisions - R3, Subrecipient Monitoring-Applicable to all Major Programs with Expenditures of ARRA Awards

CFDA 20.509 - Formula Grants for Other Than Urbanized Areas - ARRA
Award year - October 1, 2008 to September 30, 2009
Award number - TX-86-X001-01 and TX-86-X002-00
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Transportation - Federal Transit Administration

The American Recovery and Reinvestment Act (ARRA) of 2009 required recipients to separately identify to each subrecipient--and document at the time of sub-award and at the time of disbursement of funds--the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of ARRA funds. In addition, recipients must require their subrecipients to (1) agree to maintain records that identify adequately the source and application of ARRA awards; (2) separately identify to each subrecipient and document at the time of subaward and disbursement of funds, the federal award number, CFDA number, and amount of ARRA funds; and (3) provide identification of ARRA awards in their schedule of expenditures of federal awards (SEFA) and require subrecipients to do the same (Title 2, Code of Federal Regulations, Section 176.210). Recipients of ARRA awards also are required to ensure subrecipients that receive ARRA funds maintain active registrations in the Central Contractor Registration (CCR) and obtain a Dun and Bradstreet Data Universal Numbering System (DUNS) number (Title 2, Code of Federal Regulations, Section 176.50). This information is needed to allow the recipient to properly monitor subrecipient expenditures of ARRA funds and for oversight by the federal awarding agencies, offices of inspector general, and the Government Accountability Office.

The Department of Transportation (Department) did not consistently comply with ARRA requirements with respect to its subrecipients for the Formula Grants for Other Than Urbanized Areas program. Specifically:

- For all 45 ARRA project grant agreements tested, the Department did not notify the subrecipient of the federal award number at the time of the award. The Department's standard agreement for subrecipient awards did not contain the federal award number.
- For 39 (87 percent) of 45 ARRA project grant agreements tested, the Department did not notify the subrecipient at the time of award of the requirement that subrecipients provide identification of ARRA awards in their SEFAs. The Department executed the agreements prior to additional clarification from the U.S. Office of Management and Budget regarding ARRA requirements.
- For all five subrecipients who received ARRA disbursements during the fiscal year, the Department did not notify the subrecipient at the time of ARRA disbursement of the federal award number, CFDA number, amount of ARRA funds disbursed, requirement to maintain records that identify adequately the source and application of ARRA awards, and provide identification of ARRA awards in their SEFAs.

The Department was not aware of the ARRA requirement for pre-award identification and disbursement notification at the time of the initial execution of the ARRA grant agreements because it executed ARRA grant agreements prior to guidance being established for ARRA disbursement requirements. During fiscal year 2009, the Department executed 47 ARRA project grant agreements and passed through $982,277 to five ARRA subrecipients.

Recommendations:

The Department should:

- Ensure ARRA project grant agreements with subrecipients contain all of the required federal award information.
- Provide subrecipients all of the required federal award notifications at the time of each disbursement of ARRA funds.

Management Response and Corrective Action Plan 2009:

The Department agrees with the recommendations and has already taken some action to correct.

For new grant agreements the Code of Federal Domestic Assistance (CFDA) number, federal agency, federal grant numbers, and the SEFA requirements will be identified in the project grant agreements. For current grant agreements, amendments have been/will be processed adding missing information. Finally, the standard template for federally funded agreements will be amended, if needed, to include any missing required information. No federally funded grant agreement will be executed without the required information.

Staff will also update the billing reimbursement request form with the required information and provide subrecipients with the revised form. This may be done electronically for existing reimbursement forms already in use by the subrecipient, but will be included in any reimbursement forms not yet sent out. The subrecipient signature (required) on this form will serve as the notification.

Management Response and Corrective Action Plan 2010:

The Public Transportation Division (PTN) has corrected the agreement template to include all required federal information on the agreement forms as of 7/1/2010. PTN is working to modify all ARRA billing forms effective September 1, 2010 to include the required payment notification.

Implementation Date: *September 1, 2010*

Responsible Person: *Eric Gleason*

University of Houston

Reference No. 10-94
Reporting
Activities Allowed or Unallowed
Cash Management
Eligibility
Period of Availability of Federal Funds
Special Tests and Provisions - Separate Funds
(Prior Audit Issue - 9-83)

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084166, CFDA 84.063 P063P082333, CFDA 84.375 P375A082333, and CFDA 84.376 P376S082333
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2008
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)).

The University of Houston (University) did not maintain appropriate user access to its financial aid system. Specifically:

- Twenty-four users had excessive access to the award aid with override function in the financial aid system.
- Twenty-two users had excessive access to the disburse aid with override function.
- Five user IDs had excessive access to the financial aid setup tables. One of the five user IDs was a generic user ID that staff members shared.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. Use of generic user IDs and sharing user IDs and passwords does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, 19 users had inappropriate access to migrate code changes into the production environment for the financial aid system. The University should perform a formal periodic review of user access on the system, database, and server related to financial aid. Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties.

Pell Payment Data Reporting

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's 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 2009, 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 5-3-29)).

For 18 (45 percent) of 40 students tested, the University did not report disbursement records to the COD System within 30 calendar days of the disbursement date. Specifically:

- For 14 of 18 students, their disbursement records were reported one day late due to a lack of understanding of the new student financial aid system. During the Fall 2008 semester, the student financial aid system was still in the process of being modified to prevent non-timely reporting of disbursement records, in response to the prior year audit issue.
- For 8 of 18 students, their disbursement records were reported late because the University did not recognize that the outgoing files did not contain the disbursement records from the financial aid system (4 of these were among the 14 discussed above that the University reported 1 day late). The University was unable to provide support or evidence to indicate why the outgoing files did not include these disbursement records. The University is developing controls to verify the completeness of files it creates from its financial aid system and then submits to the COD System.

The University does not have procedures to reconcile the data it submits to the COD System with the data in its financial aid system. This prevents the University from recognizing disbursement records that it does not submit to the COD System in a timely manner.

Activities Allowed or Unallowed, Cash Management, Eligibility, and Period of Availability of Federal Funds, and Special Tests and Provisions - Separate Funds

Although the general control weaknesses described above apply to activities allowed or unallowed, cash management, eligibility, period of availability of federal funds, and special tests and provisions - separate funds, auditors identified no compliance issues regarding these compliance requirements.

Corrective Action:

This finding was reissued as current year reference number: 11-151.

Reference No. 10-95

Special Tests and Provisions - Verification

Student Financial Assistance Cluster
Award year - July 1 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084166, CFDA 84.063 P063P082333, CFDA 84.375 P375A082333, and CFDA 84.376 P376S082333
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Education

The University of Houston (University) did not maintain appropriate user access to its financial aid system. Specifically:

- Twenty-four users had excessive access to the award aid with override function.
- Twenty-two users had excessive access to the disburse aid with override function.
- Five user IDs had excessive access to the financial aid setup tables. One of the five user IDs was a generic ID that staff members shared.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. Usage of generic user IDs and sharing user IDs and passwords does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, 19 users had inappropriate access to migrate code changes into the production environment for the financial aid System. The University should perform a formal periodic review of user access on the system, database, and server related to financial aid. Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties.

Verification Policy

Institutions are required to establish and use written policies and procedures for verifying information contained in a student financial assistance application, the Free Application for Federal Student Aid (FAFSA), in accordance with Title 34, Code of Federal Regulations (CFR), Section 668.53. The CFR defines several elements the written policies and procedures must include.

The University's verification policies and procedures do not contain all of the elements required by the CFR. Specifically, the University's policies and procedures do not contain:

- The time period within which an applicant shall provide the documentation.
- The method the University uses to notify students of verification results, if, as a result of verification, the applicant's expected family contribution changes and results in a change in the applicant's award or loan.
- Procedures stating the University shall furnish, in a timely manner to each applicant selected for verification a clear explanation of (1) the documentation needed to satisfy the verification requirement and (2) the applicant's responsibilities with regard to the verification of application information.

Verification of Applicants

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, CFR, Section 668.56).

The University did not verify all required information on selected FAFSAs in accordance with federal regulations. For 1 (3 percent) of 40 verification cases tested, the University did not correctly update its records and the *Institutional Student Information Report* (ISIR) to reflect information on the student's household size. For 1 (3 percent) of 40 verification cases tested, the University did not correctly update its records and the ISIR to reflect information on the student's household members enrolled at least half-time in college. In each case, the student's eligibility was not affected by the error.

Corrective Action:

This finding was reissued as current year reference number: 11-152.

Reference No. 10-96

Special Tests and Provisions - Disbursements To or On Behalf of Students

(Prior Audit Issue - 09-85)

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084166, CFDA 84.063 P063P082333, CFDA 84.375 P375A082333, and CFDA 84.376 P376S082333
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2008
Status: Implemented

U.S. Department of Education

The University of Houston (University) did not maintain appropriate user access to its financial aid system. Specifically:

- Twenty-four users had excessive access to the award aid with override function.
- Twenty-two users had excessive access to the disburse aid with override function.
- Five user IDs had excessive access to the financial aid setup tables. One of the five user IDs was a generic user ID that staff members shared.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. Use of generic user IDs and sharing user IDs and passwords does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, 19 users had inappropriate access to migrate code changes into the production environment for the financial aid system. The University should perform a formal periodic review of user access on the system, database, and server related to financial aid. Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties.

Disbursement Notifications

If an institution credits a student's account at the institution with Direct 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) 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. The notification can be sent in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

For 44 (50 percent) of 88 Perkins and Federal Family Education Loan Program (FFELP) disbursements to students tested, the University did not have documentation that it sent the required disbursement notifications within the required time frame. Prior to the Spring 2009 semester, the University did not track disbursement notifications in its financial aid system. As a result, for Fall 2008 disbursements, the University was unable to provide evidence that it sent the required notifications. For disbursements the University made in the Spring 2009 and Summer 2009 semesters, the University was able to provide evidence that it sent the notifications in a timely manner. Not receiving these notifications promptly could impair students' and parents' ability to cancel their loans.

Corrective Action:

Corrective action was taken.

Reference No. 10-97

Special Tests and Provisions - Return of Title IV Funds

(Prior Audit Issue - 09-86)

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084166, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084166, CFDA 84.063 P063P082333, CFDA 84.375 P375A082333, and CFDA 84.376 P376S082333
Type of finding - Material Weakness and Material Non-Compliance

General Controls

Initial Year Written: 2008
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)).

The University of Houston (University) did not maintain appropriate user access to its financial aid system. Specifically:

- Twenty-four users had excessive access to the award aid with override function in the financial aid system.
- Twenty-two users had excessive access to the disburse aid with override function.
- Five user IDs had excessive access to the financial aid setup tables. One of the five user IDs was a generic user ID that staff members shared.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. Use of generic user IDs and sharing user IDs and passwords does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, 19 users had inappropriate access to migrate code changes into the production environment of the financial aid system. The University should perform a formal periodic review of user access on the system, database, and server related to financial aid. Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties.

Return of Title IV Funds

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, Section 668.22(a)(1)). If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student 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)(3)-(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 did not consistently return Title IV funds in a timely manner. Specifically:

- For 15 (38 percent) of 40 students tested, the University had not completed return of Title IV funds calculations as of auditors' first day of onsite work. Most of the students were unofficial withdrawals. The University subsequently provided its calculations to auditors for testing.
- For 13 (54 percent) of 24 unofficial withdrawals tested, the University did not determine the withdrawal date within 30 days of the end of enrollment period as required.
- For 25 (83 percent) of 30 students tested for whom the University was required to return Title IV funds, the funds were not returned within 45 days after the date the University determined that the students withdrew.

Additionally, for 6 (15 percent) of 40 students tested, the University did not return the correct amount of Title IV funds. Specifically:

- For four of these six students, the University incorrectly omitted room and board charges from the return calculation.
- For one of these six students, the University used seven days instead of eight days for Spring break in the computation of enrollment period. The University also incorrectly omitted room and board charges from the return calculation, but this did not affect the return amount.
- For one of these six students, due to special circumstances, the University did not process a return of funds, even though all funds are required to be returned.

Questioned costs associated with these 6 errors totaled $5,873. However, total questioned costs could not be determined because auditors could not estimate the number of unofficial withdrawals that still needed a return calculation. In addition, the Spring break calculation error affected all students with an official withdrawal that required a return of funds in Spring 2009. In addition, the error in institutional charges appears to affect all on-campus students because the University omitted room and board charges from all calculations that auditors tested. While this last issue does not affect the total funds to be returned, it resulted in an overestimation of the funds to be returned by the students and an underestimation of the funds to be returned by the University.

The University also did not make a post-withdrawal disbursement of $1,183 to one student who required this disbursement.

None of the students tested was identified as not having begun attendance. The University's system is currently unable to differentiate among students who never began attending, received all "F" grades, or dropped all of their classes (unofficial withdrawals). This may result in the University's failure to notify lenders of students who do not attend classes.

Corrective Action:

This finding was reissued as current year reference number: 11-153.

Reference No. 10-98

Special Tests and Provisions - Students Status Changes

(Prior Audit Issues - 09-87, 08-74, and 07-58)

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2006
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)).

The University of Houston (University) did not maintain appropriate user access to its financial aid system. Specifically:

- Twenty-four users had excessive access to the award aid with override function in the financial aid system.
- Twenty-two users had excessive access to the disburse aid with override function.
- Five user IDs had excessive access to the financial aid setup tables. One of the five user IDs was a generic user ID that staff members shared.

Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties. Usage of generic user ids and sharing user IDs and passwords does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

The University also should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, 19 users had inappropriate access to migrate code changes into the production environment for the financial aid system. The University should perform a formal periodic review of user access on the system, database, and server related to financial aid. Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties.

Student Status Changes

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)).

The 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 1.3.1.1).

The University did not report student status changes to NSLDS accurately and in a timely manner. Specifically, for the 40 student status changes tested:

- The University did not report one student status change to NSLDS. The student withdrew, and the University did not report this to NSLDS.
- The University did not report five student status changes within the required time frame.
- The University did not report six student status changes to the lender/guarantor within the required time frame.
- The University reported the incorrect change type to NSLDS for two student status changes.
- The date of the student status change in the University's system did not match the date reported to NSLDS for four student status changes.

These errors were the result of manual data entry errors and delays in reporting. The University periodically reviews a judgmental sample of students and determines whether student status changes were accurately reported. However, this review process did not help to ensure the accurate and timely reporting of all the student status changes tested.

The University's policies and procedures do not specify time frames for updating student status for Federal Family Education Loan Program (FFELP) and Direct Loan Program recipients. Without a process to ensure accurate and timely reporting, the University is not able to detect non-compliance and take appropriate and timely action to address issues.

Corrective Action:

This finding was reissued as current year reference number: 11-154.

University of Houston - Clear Lake

Reference No. 10-99
Eligibility
Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.268 Award Number Not Applicable, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 PO63P20083465, CFDA 84.033 PO33A084160, CFDA 84.379 P379T093465, CFDA 84.007 POO7A084160, and CFDA 84.376 P376S083465
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2009
Status: Implemented

U.S. Department of Education

Nineteen users initially had the capability to migrate code objects (such as COBOL programs, SQL statements, pages, and forms) into the production environment of the financial aid application (PeopleSoft). Allowing employees inappropriate or excessive access to University systems increases the risk of inappropriate changes and does not allow for segregation of duties.

Eligibility

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). 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 (Title 34, Code of Federal Regulations, Section 685.301).

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 (Title 34, Code of Federal Regulations, Section 690.62). 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. Additionally, a student's eligibility for a Pell Grant must first be determined and considered before a student is awarded other assistance such as Direct Subsidized or Direct Unsubsidized loans (Title 34, Code of Federal Regulations, Section 685.200).

The University calculated financial need incorrectly for two students. As a result, the University:

- Overawarded Direct Subsidized loans to 1 (2.5 percent) of 40 students tested. The student registered full-time but attended half-time. The University adjusted the student's COA after the student's enrollment status changed, but it did not adjust the financial assistance award accordingly. The University awarded the student $8,458 more in need-based awards than his COA and EFC allowed. The University did not have sufficient controls in place to ensure that it awarded the student the correct amount.

- Underawarded a federal Pell Grant award to 1 (8.3 percent) of 12 students tested. The University awarded the student $841 in Pell Grant funds when the student was eligible to receive $1,261. The student originally provided information to the University that specified that the student intended to graduate at the end of the Fall 2008 semester; therefore, the University reduced the student's 2008-2009 assistance package to include Fall 2008 semester attendance only. However, the student did not graduate at the end of the Fall 2008 semester and enrolled half-time for the Spring 2009 semester. The University then manually increased the student's assistance package to include Spring 2009 semester assistance. However, the University did not award this student Pell Grant funds for the Spring 2009 semester and awarded only federal Direct Subsidized and Unsubsidized loans to this student. The University corrected the federal Pell Grant award to this student on June 18, 2009.

Special Tests and Provisions - Disbursements to or On Behalf of Students

Although the general control weaknesses described above apply to disbursements to or on behalf of students, auditors identified no compliance issues regarding disbursements of student financial assistance.

Corrective Action:

Corrective action was taken.

University of Houston - Downtown

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: 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.

Corrective Action:

Corrective action was taken.

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 numbers - 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: 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 electronic (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 is 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.

Corrective Action:

Corrective action was taken.

University of North Texas

Reference No. 10-100

Cash Management
Activities Allowed or Unallowed
Period of Availability of Federal Funds
Reporting
Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084085, CFDA84.033 P033A074085 and P033A084085, CFDA 84.063 P063P072293 and P063P082293, CFDA 84.375 P375A072293 and P375A082293, and CFDA 84.376 P376S072293, and P376S082293
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
Status: 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)).

The University of North Texas (University) did not maintain appropriate user access to the Enterprise Information System (EIS), its financial aid application. Auditors identified two generic user IDs that, according to the University, senior counselors, management, and the financial aid technical staff shared. These user IDs had modify/update capabilities to all the setup tables in the financial aid module in EIS. Allowing employees inappropriate or excessive access to areas in EIS that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties. Sharing user IDs and passwords also does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

Cash Management

The U.S. Department of Education (ED) provides financial aid funds to institutions under the advance, just-in-time, reimbursement, or cash monitoring payment methods. The advance payment method permits institutions to draw down financial aid funds prior to disbursing funds to eligible students and parents. The institution's request for funds must not exceed the amount immediately needed to disburse funds to students or parents. A disbursement of funds occurs on the date an institution credits a student's account or pays a student or parent directly with either student financial assistance funds or its own funds. The institution must make the disbursements as soon as administratively feasible, but no later than three business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to the U.S. Department of Education. If an institution maintains excess cash for more than seven calendar days, the Secretary of the U.S. Department of Education may take actions such as requiring the institution to reimburse the Secretary for the costs incurred, or providing funds to the institution under the reimbursement payment method or the cash monitoring payment method described in Title 34, Code of Federal Regulations, Sections 668.163(d) and (e), respectively.

For 3 (7.5 percent) of 40 cash draws tested, the University of North Texas's (University) request exceeded the amount it immediately needed to disburse funds to students or parents. According to staff, on March 23, 2009, the University repeated a draw by drawing $131,583.83 against expenditures that the University had previously drawn against on February 19, 2009. The repeated draw caused the excess in the three requests described above. The University's expenditures exceeded cumulative draws for more than 7 days. The interest on the funds held did not exceed $250; therefore, the questioned cost was zero.

Activities Allowed or Unallowed, Period of Availability of Federal Funds, Reporting, and Special Tests and Provisions - Disbursements To or On Behalf of Students

Although the general control weaknesses described above apply to activities allowed or unallowed, period of availability of federal funds, reporting, and disbursements to or on behalf of students, auditors identified no compliance issues regarding these compliance requirements.

Corrective Action:

Corrective action was taken.

Reference No. 10-101

Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084085, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084085, CFDA 84.063 P063P072293 and P063P082293, CFDA 84.375 P375A072293 and P375A082293, and CFDA 84.376 P376S082293
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
Status: 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)).

The University of North Texas (University) did not maintain appropriate user access to the Enterprise Information System (EIS), its financial aid application. Auditors identified two generic user IDs that, according to the University, senior counselors, management, and the financial aid technical staff shared. These user IDs had modify/update capabilities to all the setup tables in the financial aid module in EIS. Allowing employees inappropriate or excessive access to areas in EIS that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties. Sharing user IDs and passwords also does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

Federal Supplemental Educational Opportunity Grant Awards

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)).

Based on a review of the full population of student financial aid recipients, the University awarded FSEOG to one student who did not initially receive a Pell Grant. During the manual awarding of FSEOG, the University used the wrong EFC and cost of attendance for this student. As a result, the University determined the student's Pell eligibility incorrectly and erroneously awarded $500 in FSEOG to this student.

National SMART Awards

For each award year, the Secretary of the U.S. Department of Education establishes and announces the National Science and Mathematics Access to Retain Talent (SMART) Grant scheduled awards depending on the availability of funds for all students who are eligible for a grant. The maximum National SMART Grant scheduled award for an eligible student may be up to $4,000 for each of the third and fourth academic years of the student's eligible program (Title 34, Code of Federal Regulations, Section 691.62).

Based on a review of the full population of student financial aid recipients, the University awarded one student SMART grant funds in excess of the annual amount allowed. The student exhausted the $4,000 maximum during the Fall and Spring semesters. The student enrolled for the Summer semester, and the University erroneously awarded $2,000 of additional SMART funds to the student, thus exceeding the $4,000 maximum.

Satisfactory Academic Progress Policy

A student is eligible to receive Title IV, Higher Education Act 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)). An institution's Satisfactory Academic Progress (SAP) policy should include a quantitative component that consists of a maximum time frame 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 time frame graduate students have to complete their programs (U.S. Department of Education, *Student Financial Aid Handbook*, Volume 2, page 2-126).

The University's SAP policy did not include a maximum time frame of attempted hours within which graduate students must complete their programs. The University's policy regarding the maximum time frame in which a student is expected to complete a program of study pertained only to undergraduate students.

Corrective Action:

Corrective action was taken.

Reference No. 10-102

Special Tests and Provisions - Verification

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084085, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084085, CFDA 84.063 P063P072293 and P063P082293, CFDA 84.375 P375A072293 and P375A082293, and CFDA 84.376 P376S082293
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2009
Status: Implemented

U.S. Department of Education

The University of North Texas (University) did not maintain appropriate user access to the Enterprise Information System (EIS), its financial aid application. Auditors identified two generic user IDs, which according to the University, the senior counselors, management, and the financial aid technical staff shared. These user IDs had modify/update capabilities to all the setup tables in the financial aid module in EIS. Allowing employees inappropriate or excessive access to areas in EIS that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties. Sharing user IDs and passwords also does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

Verification Policy

Institutions are required to establish and use written policies and procedures for verifying information contained in a student financial assistance application, the Free Application for Federal Student Aid (FAFSA), in accordance with Title 34, Code of Federal Regulations (CFR), Section 668.53. The CFR defines several elements the written policies and procedures must include.

The University's verification policies and procedures do not contain all of the elements required by the CFR. Specifically, the University's policies and procedures do not contain:

- The consequences of an applicant's failure to provide required documentation within the specified time period.
- The method the University uses to notify an applicant of verification results if, as a result of verification, the applicant's expected family contribution changes and results in a change in the applicant's award or loan.
- The procedures the University requires an applicant to follow to correct application information determined to be in error.
- The procedures for making referrals under Title 34, CFR, Section 668.16.
- Procedures stating that the University shall furnish, in a timely manner to each applicant selected for verification a clear explanation of: (1) the documentation needed to satisfy the verification requirement and (2) the applicant's responsibilities in regard to the verification of application information.

As a result, the University may not:

- Ensure that it complies with all federal requirements when conducting student verification.
- 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.

Verification of Applicants

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, CFR, Section 668.56).

The University did not verify all required information on selected applications in accordance with federal regulations. For 1 (2.5 percent) of 40 verification cases tested, the University did not correctly update its records and the *Institutional Student Information Report* (ISIR) to reflect the student's/parent's untaxed income and benefits reported on the 2007 U.S. income tax return. Specifically, the individual retirement account deduction amount was not reported. Due to the student's high estimated family contribution, the student's eligibility was not affected by the error.

Corrective Action:

Corrective action was taken.

Reference No. 10-103

Special Tests and Provisions - Return of Title IV Funds

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084085, CFDA84.033 P033A074085 and P033A084085, CFDA 84.063 P063P072293 and P063P082293, CFDA 84.375 P375A072293 and P375A082293, and CFDA 84.376 P376S072293 and P376S082293
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
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)).

The University of North Texas (University) did not maintain appropriate user access to the Enterprise Information System (EIS), its financial aid application. Auditors identified two generic user IDs that, according to the University, senior counselors, management, and the financial aid technical staff shared. These user IDs had modify/update capabilities to all the setup tables in the financial aid module in EIS. Allowing employees inappropriate or excessive access to areas in EIS that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties. Sharing user IDs and passwords also does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

Return of Title IV Funds

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, Section 668.22(a)(1)). When a recipient does not begin attendance at an institution during a payment period or period of enrollment, all disbursed Title IV grant and loan funds must be returned. The institution must determine which Title IV funds it must return or if it has to notify the lender or the Secretary of the U.S. Department of Education to issue a final demand letter. For remaining amounts of Federal Family Educational Loan and Direct Loan funds disbursed directly to the student for the payment period or period of enrollment, 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 of the U.S. Department of Education will issue a final demand letter to the borrower (Title 34, Code of Federal Regulations, Sections 668.21(a)(1) and(2)). The institution must return those Title IV funds as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance (Title 34, Code of Federal Regulations, Section 668.21(b)).

In 2 (5 percent) of 40 cases tested, the University did not return the correct amount of Title IV funds. The University regarded the two students as unofficial withdrawals, even though the students did not begin attendance. As a result, the University calculated the amount to be returned as 50 percent of the $12,489 disbursed to the students. However, the return calculations should have resulted in 100 percent of the funds disbursed to these students being returned. Questioned costs of $3,714 represent the amount of Title IV funds the University is still required to return. Additionally, for these two students, the University did not notify the lender or the Secretary of the U.S. Department of Education of the students' withdrawal. Furthermore, based on a review of the full population of students, the University appears to have treated an additional 18 students in the same manner. The University did not have a process for informing the lender or the Secretary of the U.S. Department of Education. As a result, the lenders were placed at risk of not being able to collect the debt in a timely manner.

Corrective Action:

This finding was reissued as current year reference number: 11-164.

Reference No. 10-104

Special Tests and Provisions - Student Status Changes

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084085, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084085, CFDA 84.063 P063P072293 and P063P082293, CFDA 84.375 P375A072293 and P375A082293, and CFDA 84.376 P376S082293
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
Status: 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)).

The University of North Texas (University) did not maintain appropriate user access to the Enterprise Information System (EIS), its financial aid application. Auditors identified two generic users IDs that, according to the University, senior counselors, management, and the financial aid technical staff shared. These user IDs had modify/update capabilities to all the setup tables in the financial aid module in EIS. Allowing employees inappropriate or excessive access to areas in EIS that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties. Sharing user IDs and passwords also does not allow for user accountability, increases the risk of unauthorized data changes, and nullifies the purpose of an audit trail.

Student Status Changes

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 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 1.3.1.1).

The NSLDS states that for an institution to be in compliance, a correct reporting of a "G" for graduated status rather than a "W" for withdrawn status assists the government in identifying an individual student's completion of programs of study.

One of 40 (2.5 percent) student status changes tested at the University was not accurately reported to NSLDS. The student was reported as withdrawn when the student had actually graduated. The final file upload of graduated students to the NSC occurred prior to the date on which the student's degree was posted. Therefore, the student was not included in the final degree file of Fall 2008 graduated students provided to the NSC. As a result, graduated students whose degrees are posted after the final degree file upload to the NSC may not be reported accurately.

Corrective Action:

Corrective action was taken.

Reference No. 10-105

Special Tests and Provisions - Institutional Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084085, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084085, CFDA 84.063 P063P072293 and P063P082293, CFDA 84.375 P375A072293 and P375A082293, and CFDA 84.376 P376S082293
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Education

Each institution's most recent *Eligibility and Certification Approval Report* (ECAR) lists the institution's main campus and any additional approved locations. For any other locations at which an institution offers 50 percent or more of an eligible program, the institution must either submit an application for approval of that location or notify the U.S. Department of Education of that location (Title 34, Code of Federal Regulations, Sections 600.20(c) and 600.21(a)(3)).

The University of North Texas (University) met all but one of the applicable institutional eligibility requirements. For award year 2008-2009, the University disbursed a total of $182,173 in Title IV funds to students taking classes at three unreported additional locations at which the University offered 50 percent or more of an eligible program. The University has been providing funding for the past nine years at unreported locations at which it offered 50 percent or more of an eligible program. The University expended a total of $181,574,501 in student financial assistance funds for the fiscal year ended August 31, 2009.

As part of the process for reporting additional locations, the University's Office for Institutional Research and Effectiveness (IRE) is responsible for providing adequate notice to the University's Office of Student Financial Aid and Scholarships (SFAS) that a program will meet the 50 percent threshold at a new location. IRE did not provide timely notice to SFAS, which led to the University not reporting the additional locations.

Corrective Action:

Corrective action was taken.

University of North Texas Health Science Center at Fort Worth

Reference No. 10-106
Activities Allowed or Unallowed
Allowable Costs/Cost Principles

Research and Development Cluster
Award year - March 20, 2009 to March 19, 2010
Award number - CFDA 12.431 W911NF-09-1-0086
Type of finding - Significant Deficiency and Non-Compliance

Allowable Costs

Allowable costs charged to federal programs must (1) be reasonable; (2) be allocable to sponsored agreements; (3) be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (4) conform to any limitations or exclusions set forth in cost principles or in the sponsored agreement as to types or amounts of cost items (Title 2, Code of Federal Regulations, Section 220(C)).

Initial Year Written: 2009
Status: Implemented

U.S. Department of Defense

The University of North Texas Health Science Center at Fort Worth's (Health Science Center) policy states that principal investigators are required to exercise oversight of the financial transactions and financial status of each grant and contract sufficient to ensure that charges are (1) reasonable and necessary; (2) allowable under the terms and conditions of the award; (3) properly allocated to and among multiple awards and funding sources; and (4) limited to the funds awarded for the project.

One (2 percent) of 54 expenditures tested at the Health Science Center was unallowable under the grant agreement. An administrative coding error caused the Health Science Center to charge $1,006 for the care of laboratory pigs to the incorrect grant. The grant agreement specifically prohibited the use of grant funds for laboratory animals. The Health Science Center had received a waiver to use grant funds on goats, but that waiver did not extend to pigs. Although the principal investigator assigned to the grant reviewed and approved the expenditure, the review and approval did not identify that the expenditure was not associated with the grant to which it was charged. After auditors identified the unallowable cost, the Health Science Center corrected the error by reassigning the cost to the appropriate grant.

Corrective Action:

Corrective action was taken.

Reference No. 10-107

Procurement and Suspension and Debarment

Research and Development Cluster
Award years - May 10, 2008 to April 30, 2013
Award number - CFDA 93.837 5R25HL007786-17
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

National Institutes of Health

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all non-procurement transactions (i.e., subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.210 and 180.220).

To ensure compliance with federal suspension and debarment requirements, the University of North Texas Health Science Center at Fort Worth (Health Science Center) has incorporated a federal procurement, suspension, and debarment certification clause into its invitation for bid document. Vendors are required to sign this document for purchases of $25,000 or more, regardless of whether the procurement is proprietary or competitively bid. The Health Science Center then maintains the signed invitation for bid document in the contract file.

The Health Science Center did not consistently maintain documentation that supported its suspension and debarment determinations. For 1 (20 percent) of 5 covered procurement transactions tested, the Health Science Center did not retain a signed invitation for bid in the contract file. As a result, auditors could not confirm that the Health Science Center verified that the vendor was not suspended or debarred at the time of the procurement. Therefore, the Health Science Center did not comply with federal requirements or its internal policy.

Auditors reviewed the EPLS Web site for the vendor for which the Health Science Center did not have a suspension and debarment certification and determined that the vendor was not suspended or debarred.

Corrective Action:

Corrective action was taken.

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 numbers - 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

Initial Year Written:	2008
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 North Texas Health Science at Fort Worth (Health Science Center) emailed right-to-cancel notifications to students and then archived the emails. However, the archiving process in the email application failed to archive all of the emails. 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.

Corrective Action:

Corrective action was taken.

University of Texas at Arlington

Reference No. 10-108
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.376 P375A082335 and P376S082335, CFDA 84.007 P007A084172, and CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Financial Need

Initial Year Written: 2009
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). 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 108711).

For Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 aid to ensure that total aid is not awarded in excess of the student's financial need (Title 34, Code of Federal Regulations, Sections 673.5, 673.6 and 682.603).

The University of Texas at Arlington (University) incorrectly calculated the COA for 3 (8 percent) of 40 students tested, resulting in one overaward. Specifically:

- For one of these three students, the University incorrectly used non-resident status to calculate the student's COA, resulting in an overaward of $2,005.76.
- For the other two students, the University understated the students' COA by not factoring the students' majors into the calculation. The University subsequently adjusted the students' COA, which did not result in any changes to their awards.

The University used an incorrect EFC to calculate financial need for 2 (5 percent) of 40 students tested, resulting in two overawards. Specifically:

- For one student, the University incorrectly used the difference between the student's 12-month EFC and the student's 3-month EFC to perform the student financial need calculation, instead of using the 9-month EFC. As a result, the student's need was overstated by $4,185. Upon notification that the student would not enroll in the Summer 2008 term, the University failed to comply with its policy to recalculate the EFC.
- For the other student, the University incorrectly used the student's 3-month EFC instead of the 4-month EFC in the student's Spring 2009 financial need calculation due to a data entry error. As a result, the student's need was overstated by $2,519.

Questioned costs for the three overaward situations were $5,985 and were associated with FFEL subsidized loans.

Recommendations:

The University should:

- Adjust its COA and EFC calculations for the five students associated with errors identified during audit testing and correct the resulting three overawards.
- Implement controls to ensure that its financial aid system disburses awards to students within the parameters defined for each financial aid program.

Management Response and Corrective Action Plan 2009:

1. *The COA and EFC corrections have been made, and the awards adjusted as appropriate. Funds were returned as required.*
2. *We have created a report to identify ineligible students in the future, and any necessary adjustments have been made for 2009-2010.*

Management Response and Corrective Action Plan 2010:

The COA and EFC corrections have been made, and the awards adjusted as appropriate. Funds were returned as required. We will continue to monitor and make necessary corrections as appropriate. The exception reports that were created are working to identify cost of attendance and EFC errors.

Management's Response to Follow-Up Audit 2010:

In the initial audit, there were four bullet point findings related to COA and EFC errors that were pointed out by the audit. We are pleased that in the SAO follow-up audit, there were no similar errors noted for the first, third, and fourth bullet points stated in the initial findings.

The COA and EFC calculation errors for the five students that resulted in three over awards which was reported in the initial audit were corrected as appropriate prior to the follow-up audit conducted by the SAO. Additionally, controls such as implementing an exception report were also put in place prior to the SAO audit follow-up. In the follow-up testing for accurate calculations of the COA and EFC, it is our understanding that an instance of one error would result in the initial reported item being re-issued and not cleared. This is the case with this follow-up testing. We will continue to closely review the exception reports to ensure that the future COA and EFC calculations are calculated accurately based on the parameters defined for each financial aid program. The three cost of attendance errors did not result in reduced financial aid awards for the three students, and additional testing of the automated COA budget assignment process is now in place. One finding was a result of a student's change of major after the COA budget was built. Based on our current policy, we do not routinely update COA budgets based on a change of major.

Implementation Date: *October 2010*

Responsible Person: *Karen Krause*

FSEOG Awards

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 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 shall award the remaining FSEOG funds to those eligible students with the lowest EFC who will not receive federal Pell Grants (Title 34, Code of Federal Regulations, Section 676.10(a)). An institution may award an FSEOG grant for an academic year in an amount it determines a student needs to continue his or her studies; however, an FSEOG award may not be awarded for a full academic year that is less than $100 or more than $4,000 (Title 34, Code of Federal Regulations, Section 676.20(a)).
One (2.5 percent) of 40 students tested received an FSEOG award of $3,010 even though the student's EFC did not qualify him as a student with the lowest EFC. Although the University received the student's ISIR early in the award cycle, the auditor identified another Pell recipient in the sample with an EFC of $0 and a similar ISIR date who did not receive an FSEOG award.

Based on a review of the full population of student financial aid recipients, the University awarded FSEOG to 163 students who did not receive Pell Grants. Specifically:

- The University awarded 120 students FSEOG because their EFC range fell within the University's automated packaging parameters, which incorrectly included all students in the $4,001-5,000 EFC range. Only students with an EFC up to $4,041 were eligible for Pell Grants in the award year. As a result, students with an EFC in the $4,042-$5,000 range were incorrectly awarded FSEOG, even though they were not eligible for and did not receive Pell Grants.
- The University awarded 42 students FSEOG as part of manual awards that it made to meet matching requirement for TEXAS Grants, a State of Texas financial aid program. These students also were not eligible for and did not receive Pell Grants.
- The University manually awarded one student FSEOG through a change in grant type when the student was no longer eligible for the grant the student had previously received.

These 163 awards represented questioned costs of $426,116.

Based on a review of the full population of student financial aid recipients, the University also awarded 13 students FSEOG awards below the $100 minimum for the program. This was the result of an error in the University's financial aid system, PeopleSoft, which allowed disbursements below the minimum threshold for the grant. The University canceled all 13 awards on September 25, 2009 to ensure compliance. These awards totaled $668.

Corrective Action:

Corrective action was taken.

National SMART Awards

Under the National Science and Mathematics Access to Retain Talent Grant (National SMART Grant) program, a student who meets certain eligibility requirements is also eligible to receive an a National Smart Grant if the student is receiving a federal Pell Grant disbursement in the same award year (Title 34, Code of Federal Regulations, Section 691.15(a)).

Based on a review of the full population of student financial aid recipients, the University awarded one student a National SMART Grant for $2,000, even though her Pell Grant had been canceled subsequent to the receipt of a corrected ISIR. The University canceled the National SMART Grant on September 9, 2009, after auditors identified the issue and brought it to the University's attention.

Corrective Action:

Corrective action was taken.

Reference No. 10-109

Reporting

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.063 P063P082335, CFDA 84.007 P007A084172, CFDA 84.033 P033A084172, and CFDA 84.038 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Pell Payment Data Reporting

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Education

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's 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 2009, 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 5-3-29).

The University of Texas at Arlington (University) complied with the reporting requirements for Pell payment data, with the following exceptions:

- For one (3 percent) of 40 students tested, the Summer 2008 disbursement date of July 1, 2008, the University reported to the COD System did not match the actual disbursement date of May 19, 2008, in the student's account. The University indicated that it could not report disbursements for students enrolled in Summer 2008 until the start of the federal financial aid year on July 1, 2008. As a result, the University also did not report the disbursement record within 30 days of disbursement.
- For 7 (18 percent) of 40 students tested, the University did not successfully report disbursement records to the COD System within 30 days of disbursement. In six instances, the University made multiple attempts to transmit the students' disbursement information to the COD System in a timely manner. However, the University's financial aid system, PeopleSoft, produced error messages stating that the disbursements had not been made to the students' accounts yet, even though partial disbursements had already been credited to the students' accounts. The other instance was due to the issue noted above.
- For 4 (10 percent) of 40 students tested, the University reported the incorrect enrollment date to the COD System for the Spring 2009 semester. The University reported the enrollment date as December 15, 2008, even though the Spring semester began on January 20, 2009. This occurred because the University's Spring 2009 semester included a Winter inter-session that began on December 15, 2008. To correctly capture and report students who attend the Winter inter-session, the University recorded the Spring 2009 session start date as December 15, 2008, in PeopleSoft. This issue affected all students who began attendance in the Spring 2009 semester.

Fiscal Operations Report and Application to Participate (FISAP)

To apply for and receive funds for the campus-based federal student aid programs (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant), institutions must complete and submit a *Fiscal Operations Report and Application to Participate* (FISAP) by October 1 of each year. The U.S. Department of Education uses the information institutions provide in the FISAP to determine the amount of funds they will receive for each campus-based program. The institution must provide accurate data and must retain accurate and verifiable records for program review and audit purposes (Title 34, Code of Federal Regulations, Section 673.3).

The FISAP the University submitted on October 1, 2009 reported on the University's campus-based program participation for the 2008–2009 award year. Through this FISAP, the University also applied for campus-based program funding for the 2010 - 2011 award year. However, due to insufficient review procedures prior to submission, the FISAP the University submitted on October 1, 2009 contained the following errors:

- The $10,715,947 amount the University reported for the Federal Perkins Loan program loan principal collected as of June 30, 2009, (Part III Section A Field 5) was incorrect. The correct amount was $10,755,946. This error occurred because of a transposition error for the prior year FISAP amount used in the calculation.
- The $549,317 amount the University reported for the loan principal canceled for all other authorized pre-K or K-12 teaching service (Part III Section A Field 9) was incorrect. The correct amount was $554,748. This error occurred because of an incorrect calculation. This error and the error described above resulted in an understatement of the amount reported for cash on hand as of June 30, 2009 (Part III Section A Field 1.1) by a net amount of $45,430 and an overstatement by the same amount of the principal amount outstanding of borrowers not in repayment status reported on Part III Section C Field 3.
- The numbers of borrowers the University reported under Part III, Section A Fields 4, 8, 9, and 26 were incorrect because of calculation errors, incorrect transposition of prior year FISAP numbers, or the inclusion of duplicate recipients in current year number. These errors also affected the calculated field in Part III Section C Field 1.1(b).
- The $101,508 amount the University reported for institutional expenditures for the federal Work Study Job Location and Development Program (Part V, Section E, Field 21) was incorrect and did not agree with amounts in the University's accounting records. The correct amount was $104,697. This error occurred because of the omission of an allowable expense. Total expenditures on Part V, Section E, Field 20 should have been $154,697.

The University submitted a revised FISAP correcting these errors on December 2, 2009.

Recommendations:

The University should:

- Identify and resolve issues in its financial aid system to ensure that it reports disbursement records to the COD System in a timely manner or request a waiver from the U.S. Department of Education.
- Implement procedures to ensure that all elements it reports on its FISAP are accurate, and implement a formal review to reconcile amounts reported on its FISAP to supporting documentation.

Management Response and Corrective Action Plan 2009:

1. *We have put processes in place to resolve disbursement records that do not transmit properly within the 30 day time frame and will continue to monitor for records not meeting the 30-day window.*
2. *As noted in the findings, the errors in the FISAP report were corrected by submitting a revised FISAP report on December 2, 2009. To ensure that all elements in future FISAP reports are accurate, a process has been put in place to have a second person review the report and reconcile amounts reported to the supporting documentation.*

Management Response and Corrective Action Plan 2010:

1. *We have trained 2 staff members to monitor the exception reports for records that do not properly transmit. We regularly review the exception reports and make the necessary corrections to allow the records to transmit within the 30 day period.*

Management's Response to Follow-Up Audit 2010:

In the initial audit, there were three bullet point findings related to Pell Payment Data Reporting and four bullet point findings related to FISAP. For the second bullet point concerning reporting Pell disbursements within 30 days of the disbursement date, we are pleased that in the follow-up audit conducted there was only one spring 2010 second scheduled Federal Pell Grant award which was reported on day 31. We continue to monitor reporting for the second scheduled award to report payments in a timely manner.

We are also pleased that for the other six bullet points, there was no corresponding finding noted in the follow up audit.

2. *To ensure that all elements in future FISAP reports are accurate, a process has been put in place to have a second person review the report and reconcile amounts reported to the supporting documentation. Data provided by Campus Partners will be used to complete the FISAP report in the future. The UT Arlington Accounting Data is reconciled to Campus Partners on a monthly basis.*

Management's Response to Follow-Up Audit 2010:

As allowable by regulation, the updated FISAP report was submitted on Nov. 9 well before the Dec. 15 deadline to update Federal Perkins Loan cash on hand, updated Federal Pell Grant expenditures and to make any corrections to the report. One other item, total tuition and fees for undergraduate students was also updated on the submission on Nov. 9, 2010. One additional staff member will review the report in the future to ensure that any typographical errors will be corrected prior to the initial submission of the FISAP.

Implementation Date: *Bullet point 1 - January 2011*
Bullet point 2 - June 2010

Responsible Person: *Bullet point 1 Karen Krause*
Bullet point 2 Sandy Crater

Reference No. 10-110

Special Tests and Provisions - Verification

Student Financial Assistance Cluster
Award year - July, 1 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084172, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084172, CFDA 84.063 P063P082335, CFDA 84.375 P375A082335, CFDA 84.376 P376S082335, and CFDA 84.038 Award Number Not Applicable
Type of finding - Non-Compliance

Initial Year Written: 2009
Status: Implemented

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, the Free Application for Federal Student Aid (FAFSA), in accordance with Title 34, Code of Federal Regulations (CFR), Section 668.53. The CFR defines several elements the written policies and procedures must include.

The University of Texas at Arlington's (University) verification policies and procedures do not contain all of the elements required by the CFR. Specifically, the University's policies and procedures do not contain:

- The time period within which an applicant shall provide the documentation.
- The consequences of an applicant's failure to provide required documentation within the specified time period.
- 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.

- The procedures the institution requires an applicant to follow to correct application information determined to be in error.
- The procedures for making referrals under Title 34, CFR, Section 668.16.
- Procedures stating that the University shall furnish in a timely manner to each applicant selected for verification a clear explanation of the applicant's responsibilities with regard to the verification of application information and the consequences of failing to complete any required action.

Having inadequate policies and procedures increases the risk that the University may not perform verification in accordance with federal requirements.

Corrective Action:

Corrective action was taken.

Reference No. 10-111

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084172, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084172, CFDA 84.063 P063P082335, CFDA 84.375 P375A082335, CFDA 84.376 P376S082335, and CFDA 84.038 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Early Disbursement of 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 class for a payment period (Title 34, Code of Federal Regulations, Section 668.164 (f)(1)).

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Education

In the Fall 2008 semester, the University disbursed funds more than 10 days before the first day of class for 18 (45 percent) of 40 students tested. In each case, the University disbursed the funds 11 days before the start of class, instead of the required 10 days before the start of class. According to University management, at the time these disbursements occurred, the University was manually disbursing funds to student accounts. The University disbursed these funds late in the evening 11 days before the start of classes, believing that the disbursement process would not be completed until after midnight and the funds would be correctly disbursed 10 days before the start of classes. However, the disbursement process completed early, resulting in the errors.

Corrective Action:

Corrective action was taken.

Disbursement 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 time by which the student or parent must notify the institution that he or she wishes to cancel the loan. (Title 34, Code of Federal Regulations, Section 668.165(a)(2)(3)).

The University could not provide evidence that it sent disbursement notification letters to 37 (100 percent) of 37 students tested. Additionally, the University provided a sample disbursement notification letter, but the notification letter did not include three required elements: (1) the date and amount of the disbursement, (2) a clause informing the student or parent of his or her right to cancel a portion of that loan and to have the loan proceeds returned to the holder of that loan, and (3) the time by which the student must notify the school that he or she wishes to cancel the loan or disbursement.

Recommendations:

The University should:

- Include all required information in disbursement notification letters.
- Retain documentation indicating that it sent all disbursement notification letters to all loan recipients within the required time frame.

Management Response and Corrective Action Plan 2009:

- *General notifications were being sent to students; however, the process has been revised so that the notifications now include all required elements.*
- *Correct notifications are now being sent routinely and the information is now being retained in the office.*

Management Response and Corrective Action Plan 2010:

- *Loan notification has been corrected beginning with the fall, 2009 (prior to the audit), and we continue to meet the requirement. The required information is included in the disbursement notification letters.*

Management's Response to Follow-Up Audit 2010:

A comparison will be made between the disbursement roster and the e-mail notification roster to ensure that notification is sent for each disbursement.

- *Documentation of the information sent to students and who received the information is retained.*

Implementation Date: *Bullet point 1 – June 20, 2009*
Bullet point 2 – December 2010

Responsible Person: *Bullet point 1 Karen Krause*
Bullet point 2 Lea Anne Sikora

Reference No. 10-112

Special Tests and Provisions - Return of Title IV Funds

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084172, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084172, CFDA 84.063 P063P082335, CFDA 84.375 P375A082335, CFDA 84.376 P376S082335, and CFDA 84.038 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
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 (Title 34, Code of Federal Regulations, Section 668.22(a)(1)). If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student 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)(3)-(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)).

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)). When 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 (Title 34, Code of Federal Regulations, Section 668.22(f)(2)(i)).

For 12 (29 percent) of 42 students tested, the University of Texas at Arlington (University) incorrectly calculated the percentage of enrollment period completed, resulting in incorrect return calculations for 11 students. The University used 116 days for the length of the Spring 2009 semester instead of 108 days because the University's automated return calculation worksheet did not account for the scheduled Spring break days. The University's annual review of its worksheet calculations did not identify that the holiday schedule was incorrectly configured, and annual test calculations were only performed for the Fall 2008 semester. As a result of this error, the University returned $426.65 in excess funds for 10 of 42 students tested. Six students tested also returned $166.40 in excess funds. For 1 student, the incorrect calculation resulted in the University and the student not returning any funds, even though a return of $3,764.18 was required. This issue affected a total of 109 students who withdrew during the Spring 2009 semester.

In addition, for 1 (33 percent) of 3 students tested who never began attendance and for whom $6,187.50 in funds were required to be returned to the lender, the University did not capture tuition funds from the loans and return them to the lender. Instead, the University notified the lender that the student failed to attend any classes and that the lender should collect the disbursed funds immediately from the student.

Further, for 1 (3 percent) of 40 students tested for eligibility requirements, the University canceled the entire Spring 2009 semester Pell award, even though the return calculation reflected that the student earned a portion of the award. The student completed 6.5 percent of the enrollment period and earned $45.83. When auditors brought this to the University's attention, the University credited the student's account $42.30. The difference between these two amounts, $3.53, is included as a questioned cost.

Recommendations:

The University should:

- Correct its return worksheet issue to ensure that the amount of Title IV funds to be returned is calculated correctly by accounting for breaks of at least five consecutive days in return calculations.
- Enhance its monitoring controls by running test calculations of the percentage of enrollment period completed and the amount of funds to be returned for all semesters.
- Returns funds to lenders in a timely manner for students who never began attendance.

Management Response and Corrective Action Plan 2009:

- *Awards were calculated and necessary adjustments have been made. The Office of Financial Aid has established the spring schedule with the Office of Records and Registration, and will remove the 8 days of spring break from the total number of days in the term for future spring R2T4 (Return to Title IV) calculations. A file with the calendar information will be maintained in the Office of Financial Aid.*
- *Test calculations will be run on all terms of enrollment in the future.*
- *The staff will continue to monitor the drop reports to calculate the correct dollar value that should be returned to the lender when the student never begins attendance. Written procedures are on file.*

Management Response and Corrective Action Plan 2010:

- This *issue was unique to the spring term due to our Spring Break. The spring 2010 schedule was reviewed and tested prior to the beginning of the term.*

Management's Response to Follow-Up Audit 2010:
An additional review of the calendar will be completed by the Executive Director to ensure compliance.

- *We have developed and will maintain a calendar to ensure compliance and will test each relevant term as we begin our annual aid year set up.*
- *Staff will continue to monitor the drop reports to calculate the correct dollar value that should be returned to the lender when the* student never begins attendance at UT Arlington.

Implementation Date: *October 2010*

Responsible Person: *Lea Anne Sikora and Karen Krause*

Reference No. 10-113

Special Tests and Provisions - Student Status Changes

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Material Non-Compliance

Initial Year Written: 2009
Status: 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 Texas at Arlington (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 1.3.1.1).

For 7 (39 percent) of 18 students tested who graduated after the end of the Spring 2009 semester, the University did not notify the guaranty agency or lender within 30 days that the students had graduated. For these students, the University notified the guaranty agency or lender between 37 and 95 days late. Without timely reporting to guarantors, lenders, and servicers of student loans, the determination of a student's in-school status, deferment, grace period and repayment schedule, as well as the federal government's payment of interest subsidies, is inaccurate.

In addition, for 16 (40 percent) of 40 students tested, the status change type in the University's automated system, PeopleSoft, did not match the change type reported to NSLDS or the lender. All 16 students graduated from the University, but the NSLDS enrollment detail report showed the students as withdrawn. The NSLDS specifies that, for an institution to be in compliance, a correct reporting of a "G" for graduated status, rather than a "W" for withdrawn status, assists the government in identifying an individual student's completion of programs of study.

Further, for 17 (42 percent) of 40 students tested, the date of the enrollment change in the University's automated system did not match the date reported to NSLDS or the lender. For these students, the dates differed by between 1 and 40 days. Without reporting the correct date of an enrollment change to NSLDS, guarantors, lenders, and servicers of student loans, the determination of a student's in-school status, deferment, grace period, and repayment schedule, as well as the federal government's payment of interest subsidies, is inaccurate.

The University had not established policies and procedures for reporting and monitoring student status changes to ensure that the University notifies NSLDS, guaranty agencies, or lenders, of changes in student status in a timely and accurate manner. Without a process to ensure accurate and timely reporting, the University is not able to detect non-compliance and take appropriate and timely action to address issues.

Corrective Action:

Corrective action was taken.

University of Texas at Austin

Reference No. 10-114
Reporting
Activities Allowed or Unallowed
Cash Management
Eligibility
Period of Availability of Federal Funds
Program Income
Special Tests and Provisions - Separate Funds
Special Tests and Provisions - Verification
Special Tests and Provisions - Disbursements to or On Behalf of Students
Special Tests and Provisions - Student Status Changes

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084173, CFDA 84.032 Award Number Not Applicable, CFDA 84.033 P033A084173, CFDA 84.038 Award Number Not Applicable, CFDA 84.063 P063P082336, CFDA 84.375 P375A082336, and CFDA 84.376 P376S082336
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
Status: 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)).

The University of Texas at Austin (University) does not have sufficient change management controls for the information systems its Office of Accounting and Office of Student Financial Services use. Specifically, the Office of Accounting and Office of Student Financial Services have not segregated duties for personnel making programming changes and migrating those changes to the production environment. This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer student financial aid.

Common Origination and Disbursement System Reporting

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's 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 2009, 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 5-3-29)).

For 1 (2.5 percent) of 40 students tested (1 of 76 disbursements), the University did not report student disbursement data to the COD System within 30 days of the disbursement. The University reported this information to the COD System 103 days after the disbursement date. According to the University, this was due to a manual oversight.

Fiscal Operations Report and Application to Participate (FISAP)

To apply for and receive funds for campus-based federal student assistance programs (Federal Perkins Loan, Federal Work Study, and Federal Supplemental Educational Opportunity Grant), institutions must have completed and submitted a Fiscal Operations Report and Application to Participate (FISAP) by October 1, 2009 (Title 74, Code of Federal Regulations, Chapter 11362).

The FISAP that was due on October 1, 2009, reported on the University's campus-based program participation for the 2008 – 2009 award year and applied for campus-based program funding for the 2010 – 2011 award year. That FISAP contained the following error: The amounts the University reported for Pell, Academic Competitiveness Grants (ACG), and Science and Mathematics to Retain Talent (SMART) grants were $29,438,031, $1,820,277, and $1,539,261, respectively. The correct amounts were $28,625,788, $1,593,053, and $1,190,843, respectively. For these funds, the University erroneously reported the amount awarded instead of the amount disbursed.

The University reviewed the FISAP prior to submission; however, that review was not adequate to identify all errors on the FISAP prior to report submission. The University corrected all errors identified prior to the December 15 deadline.

Other Compliance Requirements

Although the general control weaknesses described above apply to activities allowed or unallowed, cash management, eligibility, period of availability of federal funds, program income, special tests and provisions - separate funds, special tests and provisions - verification, special tests and provisions - disbursements to or on behalf of students, and special tests and provisions - student status changes, auditors identified no compliance issues regarding these compliance requirements.

Corrective Action:

Corrective action was taken.

Reference No. 10-115

Special Tests and Provisions - Return of Title IV Funds

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.063 P063P082336, CFDA 84.007 P007A084173, CFDA 84.033 P033A084173, CFDA 84.375 P375A082336, CFDA 84.376 P376S082336, CFDA 84.032 Award Number Not Applicable, CFDA 84.038 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2009
Status: Implemented

U.S. Department of Education

The University of Texas at Austin (University) does not have sufficient change management controls for the information systems its Office of Accounting and Office of Student Financial Services use. Specifically, the Office of Accounting and Office of Student Financial Services have not segregated duties for personnel making programming changes and migrating those changes to the production environment. This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer student financial assistance programs.

Return of Title IV Funds

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, Section 668.22(a)(1)). If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student 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 (CFR), Sections 668.22(a)(3)-(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, CFR, Section 668.173(b)).

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 (1) payment period or period of enrollment, (2) academic year in which the student withdrew, or (3) educational program from which the student withdrew (Title 34, CFR, Section 668.22(j)).

For 10 (53 percent) of 19 students tested who unofficially withdrew, the University did not determine the students' withdrawal date within 30 days of the end of the semester. This occurred because the University misinterpreted the regulations as allowing 30 days to mark a student as having a possible unofficial withdrawal and then 45 additional days to determine the withdrawal date and return the funds. The University agreed that it had not always determined the withdrawal date within 30 days of the end of the semester, but it returned the funds within 45 days of the date that it made the determination that a student had unofficially withdrawn.

Corrective Action:

Corrective action was taken.

Reference No. 10-116
Special Tests and Provisions - Student Loan Repayments
(Prior Audit Issue - 09-91)

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.038 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2008
Status: Partially Implemented

U.S. Department of Education

The University of Texas at Austin (University) does not have sufficient change management controls for the information systems its Office of Accounting and Office of Student Financial Services use. Specifically, the Office of Accounting and Office of Student Financial Services have not segregated duties for personnel making programming changes and migrating those changes to the production environment. This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer student financial assistance programs.

Defaulted Borrowers

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(c)(2)).

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(b) and (c)).

An institution must ensure that exit counseling is conducted with each borrower either in person, by audiovisual presentation, or by interactive electronic means. The institution must ensure that exit counseling is conducted shortly before the borrower ceases at least half-time study at the institution. As an alternative, in the case of a borrower enrolled in a correspondence program or a study-abroad program that the institution approves for credit, the borrower may be provided with written counseling material by mail within 30 days after the borrower completes the program. If a borrower withdraws from the institution without the institution's prior knowledge or fails to complete an exit counseling session as required, the institution must ensure that exit counseling is provided through either interactive electronic means or by mailing counseling materials to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from the institution or failed to complete exit counseling as required (Title 34, Code of Federal Regulations, Section 674.42 (b)(1)).

The University did not consistently conduct exit interviews or make all required contacts with defaulted borrowers, potentially delaying the University's efforts to collect loan repayment funds. Specifically:

- For 3 (7.5 percent) of 40 defaulted loans tested, the University did not conduct an exit interview or provide written counseling material to the borrower. This involved a manual process that the Office of Student Financial Services did not perform for these three students. Failure to consistently conduct exit interviews increases the risk that borrowers will be uninformed about their obligations and miss scheduled loan repayments.
- For all 29 defaulted loans with 9-month grace periods tested, the University did not make a second contact within 150 days of the start of the grace period. In addition to the loans tested, prior to March 2009, this issue affected all defaulted loans for students whose loans had 9-month grace periods. The University was unaware of the requirement to send the notification within this time frame. The University corrected this issue as of March 1, 2009. Not sending this required communication within the required time frame increases the risk that borrowers will be unprepared to begin making scheduled payments once the billing period begins.
- For all 40 defaulted loans tested, the University did not send the final demand letter within 15 days of the second overdue notice. The University currently sends final demand letters after a loan is five months overdue because it did not know the required time frame. Delays in sending the final demand letter could lead to increases in the amount of time required to collect overdue loans because borrowers may be unaware of the implications of a missed payment.

Loan Deferments and Cancellations

Title 34, Code of Federal Regulations, Section 674.34, outlines the requirements for deferments of repayments of federal loans. Deferments must be classified in a certain category and contain sufficient supporting documentation.

For 1 (2.5 percent) of 40 deferments and cancelations tested, the University incorrectly listed the borrower as receiving an economic hardship deferment in its accounting system. However, the supporting documentation showed that the deferment was expired. The University subsequently provided documentation showing that the student should have had an in-school deferment because the student re-enrolled in school. The miscoding was caused by a programming error that did not properly update the student's status. Errors in status coding increase the risk that the University could experience a delay in contacting borrowers and collecting on loans.

Corrective Action:

This finding was reissued as current year reference number: 11-167.

Reference No. 10-117

Cash Management
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
Period of Availability of Federal Funds
Procurement and Suspension and Debarment

Research and Development Cluster
Award years – June 15, 2007 to August 31, 2009, December 1, 2008 to November 30, 2009, September 18, 2008 to November 30, 2008, November 15, 2008 to November 14, 2009, September 15, 2008 to September 14, 2009, May 15, 2005 to October 14, 2009, June 1, 2007 to February 28, 2010, and June 1, 2007 to November 30, 2009.
Award numbers - CFDA 12.800 FA9550-07-1-0502, CFDA 12.800 FA9550-08-1-0453, CFDA 12.800 FA9550-08-1-0471, CFDA 12.800 FA9550-08-1-0394, CFDA 12.800 FA9550-08-1-0463, CFDA 12.800 FA9550-05-1-0341, CFDA 12.431 W911NF-07-1-0330, and CFDA 12.800, FA9550-07-1-0480
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
Status: Implemented

U.S. Department of Defense

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 Austin (University) does not have sufficient change management controls for the information systems its Office of Accounting uses. Specifically, the Office of Accounting has not segregated duties for personnel making programming changes and migrating those changes to the production environment. This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer federal research and development grants.

Cash Management

Recipients shall maintain advances of federal funds in interest bearing accounts. For those entities where the Cash Management Improvement Act (CMIA) and its implementing regulations do not apply, interest earned on federal advances deposited in interest bearing accounts shall be remitted annually to U.S. Department of Health and Human Services. Interest amounts up to $250 per year may be retained by the recipient for administrative expense. State universities and hospitals shall comply with CMIA, as it pertains to interest (Title 2, Code of Federal Regulations (CFR), Section 215.22(K)). In addition, Title 31, CFR, Section 205, which implements the CMIA, requires state interest liability to accrue if federal funds are received by a state prior to the day the state pays out the funds for federal assistance program purposes. State interest liability accrues from the day federal funds are credited to a state account to the day the state pays out the federal funds for federal assistance program purposes (Title 31, CFR, Section 205.15).

The University of Texas at Austin (University) receives scheduled payments on grants funded by the U.S. Department of Defense. These funds may be considered advanced funds if expenditures are not paid prior to receiving the funds.

Auditors reviewed 13 awards for which the University did not draw down funds on a reimbursement basis because of the funding technique required by the federal agency. For eight of these awards, the contracts or grants did not exempt the University from calculating and remitting interest to the federal government. All eight of these awards were funded by scheduled quarterly payments. However, the University did not calculate or remit interest on funds received in advance of expenditures for these eight awards. University management asserted that the University maintains an overall negative cash position for federally funded sponsored projects; therefore, the University does not calculate and remit interest. However, the University did not provide evidence to enable auditors to verify University management's assertion or to calculate questioned cost.

Allowable Costs/Cost Principles, Period of Availability of Federal Funds, and Procurement and Suspension and Debarment

Although the general control weaknesses described above apply to activities allowed or unallowed, allowable costs/cost principles, period of availability of federal funds, and procurement and suspension and debarment, auditors identified no compliance issues regarding these compliance requirements.

Corrective Action:

Corrective action was taken.

Reference No. 10-118

Equipment and Real Property Management

(Prior Audit Issues - 09-94 and 08-79)

Research and Development Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2007
Status: Implemented

U.S. Department of Defense
U.S. Health and Human Services
U.S. Department of Energy
National Science Foundation

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 of Texas at Austin (University) does not have sufficient change management controls for the information systems its Office of Accounting uses. Specifically, the Office of Accounting has not segregated duties for personnel making programming changes and migrating those changes to the production environment. This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer federal research and development grants.

Equipment and Real Property Management

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 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 or self-tagging 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). Auditors compared the University's inventory records with physical equipment and noted discrepancies for 13 (33 percent) of 40 items tested. Specifically:

- For 12 items, the University tagged the equipment with a different inventory number than was shown in its inventory records. As a result, the inventory records did not match the physical assets inventory number the University assigned to these items. The University assigned temporary inventory numbers to these 12 equipment items during its year-end inventory process. The University subsequently assigned new inventory numbers to the equipment, but it had not yet updated its inventory records to reflect the new numbers. According to the University, as a result of year-end processing there is a period when there will always be potential for a discrepancy between its inventory records and physical tags because during fiscal year closeout (September and October) the system that maintains the inventory records is not available to update the tag numbers in the inventory record. The University has updated the inventory records for 11 of the items discussed above.
- For one item, the University had not assigned a permanent inventory number because its Asset Management unit was not notified that existing equipment had been replaced by the vendor. As a result, the inventory records did not match the physical asset serial number or the inventory number the University assigned to this item.

Discrepancies between inventory records and the physical equipment items increase the risk that equipment accountability may be compromised.

The following awards were affected by the conditions stated above:

CFDA	Award Number	Award Years
12.000	UTA09-000263	January 16, 2009 to December 9, 2009
12.630	HDTRA1-07-1-0032	July 10, 2007 to August 31, 2009
47.000	UNC-CH #5-37497	November 11, 1999 to October, 31, 2009
47.041	CBET-0708779,AMD 002	September 1, 2007 to August 31 2011
47.074	DEB-0618347, AMD 001	September 15, 2006 to August 31, 2009
93.286	5 R01 EB008821-01,02	June 1, 2008 to March 31, 2012
81.000	DE-AP26-06NT05742	September 30, 2006 to December 31, 2008
81.049	DE-FG02-02ER15362, AMD A005	September 1, 2002 to November 30, 2011
47.049	CHE-0718320	September 1, 2007 to August 31, 2010
47.071	OMSA-2007-SSL-UTA AMD 11	October 1, 2007 to September 30, 2008
12.000	W15QKN-08-D-0426, DO 0002	July 1, 2008 to August 31,2009
12.300	N00014-08-1-0452	June 19 2008 to December 31, 2009
93.242	5 R01 MH041770-19A1,20,22,23	December 1, 2005 to November 30, 2010

Corrective Action:

Corrective action was taken.

Reference No. 10-119

Matching, Level of Effort, Earmarking

(Prior Audit Issues - 09-95, 08-80, 07-69, and 06-63)

Research and Development Cluster
Award years - Multiple
Award numbers - All Grants with Matching Requirements
Type of finding - Significant Deficiency

Initial Year Written: 2005
Status: 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. The University's information on matching also does not identify which grants were federal research and development grants. The lack of centralized controls over matching requirements increases the risk that the University will not consistently meet matching requirements.

Despite this control deficiency, the University was able to provide sufficient evidence showing that it complied with applicable matching requirements and award terms for all grants tested.

Corrective Action:

Corrective action was taken.

Reference No. 10-120
Reporting

Research and Development Cluster
Award years - June 1, 2007 to July 31, 2009, August 1, 2007 to July 31, 2008, and multiple
Award numbers - 12.000 NSEP-U631006-UT-ARA, 15.504 07HQGR0147, and multiple
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
Status: Implemented

U.S. Department of the Interior
U.S. Department of Defense

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 Austin (University) does not have sufficient change management controls for the information systems its Office of Accounting uses. Specifically, the Office of Accounting has not segregated duties for personnel making programming changes and migrating those changes to the production environment. This increases the risk of unintended programming changes being made to critical information systems that the University uses to administer federal research and development grants.

Reporting

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the *Financial Status Report* (FSR) SF-269 (Office of Management and Budget (OMB) No. 0348-0039) or SF-269A (OMB No. 0348-0038) 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 (Title 45, Code of Federal Regulations, Section 74.52). FSRs are required to be submitted to National Institutes of Health within 90 calendar days after the last day of each budget period unless the award is issued under the Streamlined Non-Competing Award Process (SNAP). For recipients under SNAP, FSRs are no longer required annually; instead, FSRs are required 90 days after the end of the competitive segment.

The University did not consistently file the required financial reports with granting agencies in a timely manner. Specifically, it submitted 3 (6.5 percent) of 46 reports tested to the grantor late. The number of days that the University submitted reports late ranged from 4 to 33 days. Failure to submit required reports within the required time frame may result in suspension or termination of an active grant; withholding of a non-competing continuation award; or other enforcement actions, including withholding of payments or conversion to the reimbursement method of payment.

Corrective Action:

Corrective action was taken.

University of Texas at Dallas

Reference No. 09-96
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2007 to June 30, 2008
Award numbers - CFDA 84.032 P063P073234, P375A073234, P376S073234, P033A074174, and P007A074174
Type of finding - Significant Deficiency and Non-Compliance

Access to the Student Information System

Initial Year Written: 2008
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)).

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.

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.

Management Response and Corrective Action Plan 2008:

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.

Management Response and Corrective Action Plan 2009:

1) *The Student Information System (SIS) access for the Financial Aid staff was limited to Financial Aid access an view access to other areas if needed for job duties (e.g. view admissions status, registration status, or Bursar account status.) The access approved was monitored for current employees and new hires to make sure this standard was maintained. The PeopleSoft (PS) access for Financial Aid staff will be limited to only the access required to their job functions. This will be closely evaluated (as part of the initial conversion to PeopleSoft set-up) and monitored.*

2) *The training regarding assigning the proper Cost of Attendance (COA) to each student was conducted and will continue. The Financial Aid staff had a process defined to enter and monitor each student's COA for accuracy in SIS. In SIS, the initial COA is based on a combination of an automatic pull from the information submitted on the FAFSA and a manual adjustment based on the student's tuition level and intent for enrollment. Adjustments are then made at a later point if the student's enrollment should change.*

   In PS, the initial COA is based on a combination of an automatic pull from the information submitted on FAFSA, the student's tuition level (which will be automatic pulled from PS but also manually audited for accuracy), and intent for enrollment. Adjustments are then made at a alter point if the student's enrollment should change. We will develop queries to ensure this accuracy is maintained in the COA and run on a weekly schedule.

Management Response and Corrective Action Plan 2010:

Access to the Student Information System (SIS)

1) *The last Financial Aid awarding done in our legacy system (SIS) was the summer 2009 term. We began awarding and disbursing Financial Aid in PeopleSoft for the first time for the fall 2009 semester. The Student Information System (SIS) access for Financial Aid staff was limited to Financial Aid access and view access to other areas if needed for job duties. The Financial Aid access which currently remains is for employees with need for archival information. We are no longer granting Financial Aid access to the legacy system for new users. A quarterly audit of all existing Financial Aid SIS roles is reviewed quarterly. This audit will continue as long as access to the legacy system exists.*

   In PeopleSoft, user-defined roles by job function have been created for the Financial Aid Officers to ensure the separation of duties. PeopleSoft also delivers an audit trail of awarding and disbursing transactions as a delivered product. During the initial conversion to PeopleSoft, Financial Aid security was reviewed on an on-going basis. We will now review the Financial Aid security access in PeopleSoft on a quarterly basis.

Cost of Attendance:

2) *We are no longer operating in our legacy system for COA. In PeopleSoft, the COA is assigned based on information as reported on the FASFA, tuition level, and enrollment. We created an automatic software process that runs every morning to ensure that the COA for the current term matches enrollment before any disbursements can be made. We have also created additional queries to run weekly during periods or awarding and add/drop activity to ensure that the proper COA has been assigned and that any adjustments can be made if needed.*

Implementation Date: *July 30, 2011*

Responsible Party: *M. Beth Tolan*

University of Texas at El Paso

Reference No. 09-100

Allowable Costs/Cost Principles

Research and Development Cluster
Award years - Multiple
Award numbers - 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).

Initial Year Written: 2008
Status: Implemented

U.S. Department of Defense
National Aeronautics and Space Administration
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 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) http://www.utsystem.edu/policy/policies/uts163.html).

Corrective Action:

Corrective action was taken.

University of Texas Health Science Center at Houston

Reference No. 10-121
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.038 Award Number Not Applicable, CFDA 93.364 Award Number Not Applicable, CFDA 93.342 Award Number Not Applicable, CFDA 84.032 Award Number Not Applicable, CFDA 84.007 P007A085159, and CFDA 84.063 P063P082584
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Education
U.S. Department of Health and Human Services

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 Health Science Center at Houston (Health Science Center) did not maintain appropriate access to SAMS, its financial aid software. Specifically:

- Four users had access to disburse funds manually.
- One developer had full access to modify and delete data elements.

Allowing users and developers inappropriate or excessive access to areas in SAMS that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties.

Additionally, the Health Science Center has not reviewed user access to the server on which SAMS resides or to the SAMS database. Not performing a review of user access could result in inappropriate access still being active. Three developers have access to the administrator user ID and password for the SAMS database. Only the database administrator should have access to that administrator user ID and password. Excessive access could lead to unauthorized modifications to the database.

Corrective Action:

Corrective action was taken.

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 (COA) minus the expected family contribution (EFC). 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 (Title 34, Code of Federal Regulations, Sections 673.5, 673.6 and 682.603).

The Health Science Center did not use the correct EFC when calculating financial need for students who were enrolled for more than nine months during the award year. SAMS used the nine-month EFC for students enrolled for more than nine months during the award year, instead of the correct EFC. As a result, for 2 (5 percent) of 40 students tested, the Health Science Center used an incorrect EFC amount when calculating the students' financial need. However, the Health Science Center did not overaward funds as a result of this error.

Recommendations:

- The Health Science Center should ensure that the EFC it uses to calculate financial need matches the information from the electronic Institutional Student Information Record (ISIR) and is based on the number of months students are enrolled.

Management Response and Corrective Action Plan 2009:

Student Aid Management System has been corrected to ensure the correct EFC is used for dependent students who were enrolled more than nine months during the award year.

Management Response and Corrective Action Plan 2010:

Student Aid Management System has been corrected to ensure the correct EFC is used for dependent students who were enrolled more than nine months during the award year.

Implementation Date: *January 31, 2010*

Responsible Person: *Wanda Williams*

Reference No. 10-122

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.038 Award Number Not Applicable, CFDA 93.364 Award Number Not Applicable, CFDA 93.342 Award Number Not Applicable, CFDA 84.032 Award Number Not Applicable, CFDA 84.007 P007A085159, and CFDA 84.063 P063P082584
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Education
U.S. Department of Health and Human Services

The University of Texas Health Science Center at Houston (Health Science Center) did not maintain appropriate access to SAMS, its financial aid software. Specifically:

- Four users had access to disburse funds manually.
- One developer had full access to modify and delete data elements.

Allowing users and developers inappropriate or excessive access to areas in SAMS that are outside of their job functions increases the risk of inappropriate changes and does not allow for segregation of duties.

Additionally, the Health Science Center has not reviewed user access to the server on which SAMS resides or to the SAMS database. Not performing a review of user access could result in inappropriate access still being active. Three developers have access to the administrator user ID and password for the SAMS database. Only the database administrator should have access to that administrator user ID and password. Excessive access could lead to unauthorized modifications to the database.

Corrective Action:

Corrective action was taken.

Early Disbursement of 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)).

The Health Science Center manually tracks disbursement dates and then runs an automated disbursement job in its student information system. That job uses the system date to date the transactions. However, Health Science Center personnel submitted that job early, causing disbursement to occur two days early. The Health Science Center does not have a compensating control in place, such as a review of disbursement reports, to ensure that it does not disburse funds earlier than 10 days before the start of each semester.

The Health Science Center disbursed funds more than 10 days in advance of the first day of classes for 2 (1 percent) of 152 disbursements tested (representing 2 of 40 students) for the 2009 Spring semester. Due to the holidays involved at the end of December and beginning of January, the Health Science Center disbursed Perkins loan funds and Nursing Student loan funds at the same time as other institutional funds, which resulted in these funds being disbursed 12 days in advance of the first day of classes. This issue also affected an additional 38 students who received Perkins loans and an additional 5 students who received Nursing Student Loans in the Spring semester.

Recommendations:

The Health Science Center should ensure that it does not disburse funds more than 10 days in advance of the first day of classes.

Management Response and Corrective Action Plan 2009:

The Health Science Center miscalculated the number of calendar days before running the auto disbursement job. Procedures have been implemented to ensure funds are not disbursed earlier than 10 days before the first day of classes.

Management Response and Corrective Action Plan 2010:

The Health Science Center miscalculated the number of calendar days before running the auto disbursement job. Procedures have been implemented to ensure funds are not disbursed earlier than 10 days before the first day of classes.

Implementation Date: *January 31, 2010*

Responsible Person: *Wanda Williams*

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

Initial Year Written: 2008
Status: Partially 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 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 EPLS Web site indicated that the vendor was not suspended or debarred.

Corrective Action:

This finding was reissued as current year reference number: 11-175.

University of Texas Health Science Center at San Antonio

Reference No. 10-123

Reporting

Research and Development Cluster

Award years - June 1, 2007 to June 30, 2008; April 1, 2008 to March 31, 2009; February 1, 2007 to July 31, 2008; February 1, 2008 to March 31, 2009; June 6, 2008 to February 28, 2009; July 1, 2007 to June 30, 2008; August 1, 2007 to July 31, 2008; July 1, 2007 to June 30, 2008; May 15, 2008 to January 1, 2009; August 1, 2008 to September 30, 2008; July 1, 2006 to August 30, 2008; June 1, 2008 to May 31, 2009; July 1, 2007 to June 30, 2008; March 1, 2008 to February 28, 2009; September 30, 2007 to March 30, 2009; and September 30, 2007 to March 30, 2009

Award numbers - CFDA 93.121 5 K23 DE014864, 5 R01 DE015857, 2 T32 DE014318, 5 R03 DE016949; CFDA 93.853 5 R01 N05027, 2 U01 NS038529; CFDA 93.847 5 U01 DK048514, 5 U01 DK057171; CFDA 93.395 6 U01 CA069853; CFDA 93.866 5 P30 AG013319; CFDA 93.242 5 R01 MH078143; CFDA 93.110 U32MC00148; CDFA 93.849 5 U01 DK05823; CFDA 93.399 5 U01 CA086402; and CFDA 93.243 5 H79 T107434 5 H79 T1016949

Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

National Institutes of Health

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. Recipients use the Financial Status Report (FSR) SF-269 (Office of Management and Budget (OMB) No. 0348-0039) or SF-269A (OMB No. 0348-0038) 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 (Title 45, Code of Federal Regulations, Section 74.52). FSRs are required to be submitted to National Institutes of Health within 90 calendar days after the last day of each budget period unless the award is issued under the Streamlined Non-Competing Award Process (SNAP). For recipients under SNAP, FSRs are no longer required annually; instead, FSRs are required 90 days after the end of the competitive segment.

The U.S. Department of Health and Human Services' Grants Policy Statement Part II states that the FSR generally is required annually, unless otherwise indicated in the notice of award. If an FSR is required annually and the award is operating under an authorized no-cost extension, an FSR must be submitted for each 12 months of activity, regardless of the overall length of the extended budget period. When required annually, the FSR must be submitted for each budget period no later than 90 days after the close of the budget period or applicable 12-month period.

The University of Texas Health Science Center at San Antonio (Health Science Center) did not consistently submit FSRs within the required time frames. Specifically, it submitted 16 (40 percent) of 40 FSRs tested late. It submitted those 16 FSRs between 3 and 162 days late, and it submitted 4 of those 16 FSRs more than 60 days late.

Failure to submit required reports within the required time frame may result in suspension or termination of an active grant; withholding of a non-competing continuation award; or other enforcement actions, including withholding of payments or conversion to the reimbursement method of payment.

Corrective Action:

Corrective action was taken.

Reference No. 10-124

Subrecipient Monitoring

Special Tests and Provisions - R3, Subrecipient Monitoring-Applicable to all Major Programs with Expenditures of ARRA Awards

Research and Development Cluster
Research and Development Cluster - ARRA
Award years - June 10, 2009 to May 31, 2010 (ARRA) and September 15, 2007 to June 30, 2008
Award numbers - CFDA 93.701 1R01DK080148-01A2 (ARRA) and CFDA 93.866 125431/125429
Type of finding - Significant Deficiency and Non-Compliance

American Recovery and Reinvestment Act Requirements

Initial Year Written: 2009
Status: Implemented

National Institutes of Health

The American Recovery and Reinvestment Act (ARRA) of 2009 required recipients to separately identify to each subrecipient--and document at the time of sub-award and at the time of disbursement of funds--the federal award number, Catalog of Federal Domestic Assistance (CFDA) number, and amount of ARRA funds. In addition, recipients must require their subrecipients to include on their Schedule of Expenditures of Federal Awards (SEFA) information to specifically identify ARRA funding similar to the requirements for the recipient's SEFA. This information is needed to allow the recipient to properly monitor subrecipient expenditures of ARRA funds and for oversight by the federal awarding agencies, offices of inspector general, and the Government Accountability Office.

According to its policies and procedures, the University of Texas Health Science Center at San Antonio (Health Science Center) will provide the federal award number, CFDA number, and amount of ARRA funds when disbursing ARRA funds to subrecipients. In addition, the policies indicate that language will be included in ARRA subawards to require subrecipients to separately account for and identify ARRA funding on their SEFA.

The Health Science Center had one subrecipient agreement that included ARRA funds during fiscal year 2009. During fiscal year 2009, the Health Science Center made only one payment to this subrecipient in the amount of $1,660.59. The Health Science Center included a stipulation in the subaward that indicated the subrecipient should adhere to ARRA reporting requirements; however, the subaward did not specifically indicate that the subrecipient was required to identify ARRA funding on its SEFA and Form SF-SAC. In addition, at the time of the disbursement of funds, the Health Science Center did not provide appropriate documentation such as the federal award number, CFDA number, and the amount of ARRA funds.

Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all non-procurement transactions (i.e., subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.220 and 180.970).

Additionally, the Health Science Center's subrecipient monitoring policy requires all federal flow-through subawards to include appropriate debarment language requiring the subrecipient to assure that the principal investigator, principals on the project, and institution are not debarred from receiving federal funds.

For 1 (3 percent) of 39 subawards tested, the Health Science Center did not include a clause in the contract with the subrecipient that signified that the subrecipient was not suspended or debarred.

Auditors conducted an EPLS search for the entity for which the Health Science Center did not have a suspension and debarment certification and determined that the entity was not suspended or debarred.

Corrective Action:

Corrective action was taken.

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

Initial Year Written:	2008
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 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.

Corrective Action:

Corrective action was taken.

University of Texas M. D. Anderson Cancer Center

Reference No. 10-125
Activities Allowed or Unallowed
Allowable Costs/Cost Principles
(Prior Audit Issue - 08-82)

Research and Development Cluster
Award years - Multiple
Award numbers - All Research and Development Grants
Type of finding - Significant Deficiency and Non-Compliance

Direct Costs - Time and Effort Reporting

Initial Year Written: 2007
Status: 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 costs 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 (Title 2, Code of Federal Regulations, Section 220(J)(10)).

The University of Texas M.D. Anderson Cancer Center's (Cancer Center) policy requires the completion of effort certification on a quarterly basis. Certifications must be completed within 30 days of notification that the effort reports are ready for review. For 4 (11 percent) of 36 payroll items tested at the Cancer Center, the employees' effort certification reports for the applicable period were not completed within the time frames required by the Cancer Center's policy. These 4 effort certification reports were completed 3 to 84 days late (or 70 to 166 days after the end date of the effort reporting period). One of these 4 effort certification reports was for funds from the American Recovery and Reinvestment Act (ARRA).

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.

Disclosure Statement

Educational institutions that receive aggregate sponsored agreements totaling $25 million or more and that are 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 federal 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 (Title 2, Code of Federal Regulations, Appendix A to Part 220.C.14). Furthermore, financial management systems of recipients of federal awards should provide for written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable federal cost principles and the terms and conditions of the award (Office of Management and Budget Circular A-110, Section C.21(b).

The Cancer Center submitted its DS-2 on February 28, 2008, effective September 1, 2007. Auditors attempted to conduct tests to determine whether the DS-2 agreed with the policies in the Cancer Center's current cost accounting policies and procedures. However, the Cancer Center does not have written cost accounting policies.

An absence of written cost accounting policies can decrease the likelihood of achieving uniformity and consistency in the measurement, assignment, and allocation of costs to federal grants and contracts.

Corrective Action:

Corrective action was taken.

Reference No. 10-126

Cash Management

Research and Development Cluster
Award year - August 1, 2007 to August 31, 2009
Award number - CFDA 12.420 W81XWH-07-1-0552
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Defense

Recipients shall maintain advances of federal funds in interest bearing accounts. For those entities where the Cash Management Improvement Act (CMIA) and its implementing regulations do not apply, interest earned on federal advances deposited in interest bearing accounts shall be remitted annually to U.S. Department of Health and Human Services. Interest amounts up to $250 per year may be retained by the recipient for administrative expense. State universities and hospitals shall comply with CMIA, as it pertains to interest (Title 2, Code of Federal Regulations (CFR), Section 215.22(K)). In addition, Title 31, CFR, Section 205, which implements the CMIA, requires state interest liability to accrue if federal funds are received by a state prior to the day the state pays out the funds for federal assistance program purposes. State interest liability accrues from the day federal funds are credited to a state account to the day the state pays out the federal funds for federal assistance program purposes (Title 31, CFR, Section 205.15).

The University of Texas M.D. Anderson Cancer Center (Cancer Center) earned interest on advance payments for grants awarded by the U.S. Department of Defense. The Cancer Center uses a standardized worksheet to calculate the interest earned. However, this worksheet included a formula error that resulted in a miscalculation and underpayment of interest. For one grant, the Cancer Center underpaid interest earned by $1,816.

Corrective Action:

Corrective action was taken.

Reference No. 10-127

Procurement and Suspension and Debarment

Research and Development Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Health and Human Services
U.S. Department of Defense

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code Federal Regulations, Section 180.300). Covered transactions include procurement contracts for goods and services that are expected to equal or exceed $25,000 and all non-procurement transactions (i.e., subawards to subrecipients) irrespective of award amount (Title 2, Code of Federal Regulations, Sections 180.210 and 180.220

To ensure compliance with federal suspension and debarment requirements, the University of Texas M.D. Anderson Cancer Center (Cancer Center) uses a daily program that searches information at several Web sites, including EPLS, and reports any suspension and debarment changes in the status of its vendors. However, the program generates a report only when there are vendor status changes to report. As a result, if there are no changes, no report is generated that demonstrates that the Cancer Center verified suspension and debarment status. The program the Cancer Center uses has a feature that documents when the EPLS was checked; however, the Cancer Center does not use that feature because management asserts that the report is generated daily. In addition, the program runs only when staff initiate it. Therefore, auditors could not rely on automated operations scheduling as evidence that the program runs on a daily basis.

The Cancer Center did not maintain documentation that it verified the suspension and debarment status of its vendors for 8 (40 percent) of 20 procurements tested. Auditors reviewed the EPLS Web site for the vendors related to the above procurements and determined that the vendors were not suspended or debarred.

The procurements above were related to the following awards:

Award Numbers (CFDA)	Award Years
5U19 CA100265 05 (93.395)	September 30, 2003 to November 30, 2009
5R01 DK070770 05 (93.847)	June 1, 2005 to May 31, 2010
5P50 CA116199 04 (93.398)	September 23, 2005 to August 31, 2010
5R01 CA122568 03 (93.395)	June 18, 2007 to April 30, 2010
5R01 CA123252 03 (93.394)	September 27, 2006 to July 31, 2010
5R01 HG003844 03(93.172)	September 15, 2006 to August 31, 2010
5U19 CA100265 05 (93.395)	September 30, 2003 to November 30, 2009
W81XWH-05-2-0027 04 (12.420)	February 1, 2005 to January 31, 2010

Corrective Action:

Corrective action was taken.

Reference No. 10-128

Special Tests and Provisions - Key Personnel

Research and Development Cluster
Award year - September 4, 2008 to August 31, 2009
Award number - CFDA 93.397 5 P50 CA083639-09
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

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 (e.g., 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.

Based on completed effort certifications, key personnel did not meet the minimum level of commitment for 1 (8 percent) of 12 grants tested at the University of Texas M.D. Anderson Cancer Center (Cancer Center). For this grant, the progress report indicated that the principal investigator was involved with the grant as required. However, the principal investigator certified zero effort for fiscal year 2009, when his minimum committed effort established in the NOGA was 15 percent for that time period. This is an indication of a lack of effective monitoring over effort commitment and certification.

Corrective Action:

Corrective action was taken.

University of Texas Medical Branch at Galveston

Reference No. 10-129
Cash Management

Research and Development Cluster
Award year - August 1, 2008 to July 31, 2009
Award numbers - CFDA 12.420 W81XWH-08-2-0139 and CFDA 12.420 W81XWH-08-2-0137
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Defense

Recipients shall maintain advances of federal funds in interest bearing accounts. For those entities where the Cash Management Improvement Act (CMIA) and its implementing regulations do not apply, interest earned on federal advances deposited in interest bearing accounts shall be remitted annually to U.S. Department of Health and Human Services. Interest amounts up to $250 per year may be retained by the recipient for administrative expense. State universities and hospitals shall comply with CMIA, as it pertains to interest (Title 2, Code of Federal Regulations (CFR), Section 215.22(K)). In addition, Title 31, CFR, Section 205, which implements the CMIA, requires state interest liability to accrue if federal funds are received by a state prior to the day the state pays out the funds for federal assistance program purposes. State interest liability accrues from the day federal funds are credited to a state account to the day the state pays out the federal funds for federal assistance program purposes (Title 31, CFR, Section 205.15).

The University of Texas Medical Branch at Galveston (Medical Branch) earned interest on advance payments for two grants awarded by the U.S. Department of Defense. For two awards with interest requirements, the Medical Branch did not activate the interest-bearing flag in its accounting system, PeopleSoft, to indicate that interest should be tracked and returned. As a result, when the Medical Branch ran a query in April 2009 to calculate the interest earned in 2008, the query did not include these two awards, and the Medical Branch did not return any interest for these awards. Total interest earned in 2008 for these awards was $1,709.

Corrective Action:

Corrective action was taken.

Reference No. 10-130
Equipment and Real Property Management

Research and Development Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Department of Health and Human Services
U.S. Department of Defense
U.S. Department of Agriculture

A recipient's equipment records for equipment acquired with federal funds and federally-owned equipment should be maintained accurately and include all of the following: a description of the equipment, manufacturer's serial number or other identification number, the source of the equipment including the award number, whether title vests in the recipient or the federal government, acquisition date and cost, the percentage of federal participation in the cost of the equipment, location and condition of the equipment, unit acquisition cost, and ultimate disposition data for the equipment (Title 2, Code of Federal Regulations, Section 215.34 (f)).

For 9 (23 percent) of 40 equipment items tested, the University of Texas Medical Branch at Galveston (Medical Branch) did not include all required information about the equipment in its property records. Specifically, nine property records did not contain the manufacturer's serial number or other identification number. According to the Medical Branch, these items were too heavy to move or were surrounded by equipment that prevented it from obtaining the serial numbers.

Discrepancies between property records and the physical equipment items increase the risk that equipment accountability may be compromised.

Equipment acquired with federal funds pertained to the following award numbers and award years:

CFDA	Award Number	Award Years
93.000	N01-AI-40097/HHSN266	September 20, 2004 to September 29, 2009
93.855	5UC7AI07008304	May 3, 2006 to April 30, 2011
12.300	N000140610300	December 19, 2005 to September 29, 2010
93.855	5R01AI07114504	May 1, 2009 to April 30, 2010
93.866	5 R01 AG021539-05	June 1, 2007 to May 31, 2010
10.206	20083520404625	September 1, 2008 to August 31, 2011
93.837	5R01HL07092506	April 1, 2009 to March 31, 2010

Corrective Action:

Corrective action was taken.

Reference No. 10-131

Reporting

Research and Development Cluster
Award years - see below
Award numbers - see below
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Health and Human Services

National Institutes of Health

National Aeronautics and Space Administration

Recipients are responsible for managing, monitoring, and reporting performance for each project, program, subaward, function, or activity supported by the award. Recipients use the *Financial Status Report* (FSR) SF-269 (Office of Management and Budget (OMB) No. 0348-0039) or SF-269A (OMB No. 0348-0038) 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 (Title 45, Code of Federal Regulations, Section 74.52).

FSRs are required to be submitted to National Institutes of Health within 90 calendar days after the last day of each budget period unless the award is issued under the Streamlined Non-Competing Award Process (SNAP). For recipients under SNAP, FSRs are no longer required annually; instead, FSRs are required 90 days after the end of the competitive segment.

The U.S. Department of Health and Human Services' Grants Policy Statement Part II states that the FSR generally is required annually, unless otherwise indicated in the notice of award. If an FSR is required annually and the award is operating under an authorized no-cost extension, an FSR must be submitted for each 12 months of activity, regardless of the overall length of the extended budget period. When required annually, the FSR must be submitted for each budget period no later than 90 days after the close of the budget period or applicable 12-month period.

The National Aeronautics and Space Administration (NASA) requires that grant and cooperative agreement recipients submit all final reports listed in the "Required Publications and Reports" section of the grant award document be submitted to NASA within 90 days after the expiration date of the grant or cooperative agreement.

The Office of Management and Budget (OMB) granted an extension to institutions affected by Hurricanes Katrina and Rita. The extension stated "Agencies may allow the grantee to delay submission of any pending financial, performance and other reports required by the terms of the award for the closeout of expired projects, providing that proper notice about the reporting delay is given by the grantee to the agency. This delay in submitting closeout reports may not exceed one year after the award expires." The National Institutes of Health (NIH) sent an email to the University of Texas Medical Branch at Galveston (Medical Branch) in September 2008 stating that the OMB granted the same extension to institutions affected by Hurricane Ike.

The Medical Branch did not submit required financial reports in a timely manner. Specifically, the Medical Branch submitted 25 (63 percent) of 40 reports tested between 1 and 375 days after their due date. Of those 25 reports, 16 were filed more than 90 days late. The Medical Branch asserts that for 21 (53 percent) of the 25 late reports, the Medical Branch was operating under an extension from the OMB for institutions affected by Hurricane Ike to file the reports up to a year late. However, the Medical Branch did not provide evidence that it notified the awarding agencies of the reporting delay as the OMB extension required.

This issue affected the following awards:

CFDA	Award Number	Award Years
93.865	5K12HD05592902	September 25, 2007 to August 31, 2008
93.856	5 R21 AI063235-02	March 1, 2006 to January 31, 2009
93.855	1 R21 AI066999-01A2	September 30, 2006 to August 31, 2008
93.113	5T32ES00725417	September 1, 2007 to June 30, 2008
93.855	5 K08 AI055792-04	February 1, 2007 to July 31, 2008
93.279	5T32DA00728712	July 1, 2007 to June 30, 2008
93.855	1R01AI07330101A1	April 1, 2008, January 5, 2009
93.859	5T32GM008256-17	July 1, 2007 to June 30, 2008
93.859	2R01GM062882-06A2	May 15, 2008 to September 30, 2008
93.853	5 P01 NS011255-31	April 1, 2007 to March 31, 2008
93.838	5 U10 HL074206-05	April 15, 2007 to July 31, 2008
93.866	5 T32 AG000270-09	May 1, 2007 to April 30, 2008
43.001	NNA05CV50G	October 1, 2005 to September 30, 2008
93.273	5 R01 AA013171-05	August 1, 2006 to July 31, 2008
93.821	5 R01 GM064855-04	August 1, 2005 to July 31, 2008
93.837	5R01HL05563011	January 1, 2007 to December 31, 2008
93.847	5T35DK07851902	July 1, 2007 to June 30, 2008
93.398	5T32CA11783403	July 1, 2007 to June 30, 2008
93.856	3 U01 AI032782-13S3	January 1, 2004 to March 31, 2008
93.855	5T32AI06539604	August 1, 2007 to July 31, 2008
93.848	5 T32 DK007639-15	July 1, 2007 to June 30, 2008
93.865	5T32HD00753907	May 1, 2007 to April 30, 2008
93.855	5U19AI04003513	July 1, 2007 to June 30, 2008
93.242	5U01MH064850-06	January 1, 2008 to December 31, 2008
93.856	5T32AI060549-05	July 1, 2007 to June 30, 2008

Recommendations:

The Medical Branch should:

- Establish procedures to ensure it submits reports to awarding agencies by the reporting deadlines.
- Ensure that it fully adheres to any conditional extensions for financial reporting granted by the OMB.

Management Response and Corrective Action Plan 2009:

UTMB Management agrees with the auditor's recommendation and is already working to increase the Financial Reporting group staffing level to have adequate resources dedicated to ensuring compliance with Federal reporting requirements.

To provide additional background, the Financial Reporting group (the functional area responsible for preparing and submitting all sponsored program financial reports), had identified an optimal staffing level of 7 accountants, but had 3 vacant positions at the time Hurricane Ike made landfall in September, 2008. Due to the unprecedented destruction caused by Hurricane Ike and the subsequent interruption of some services provided by the University, UTMB declared a state of financial exigency that resulted in a reduction-in-force of approximately 2,500 FTEs in November 2008. This reduction-in-force negatively impacted the Financial Reporting group: the three vacant positions were eliminated, along with some departmental administrative staff supporting the preparation of financial status reports. Additionally, staff turnover subsequent to Hurricane Ike resulted in the Financial Reporting group operating with only two accountants (5 below the optimal level) during most of fiscal year 2009. In our FY 2010 budget, the Financial Reporting group was authorized to fill the five accountant positions, those eliminated after Hurricane Ike, along with the two vacancies. Additionally, another accountant position and a senior financial analyst position were added to the group to handle the additional reporting requirements and volume associated with awards issued under the American Recovery and Reinvestment Act (ARRA) of 2009.

As of the end of January 2010, we have filled four of the seven open positions noted above, and are diligently working to fill the remaining three open positions. We expect to be current with all of our financial reports by the end of calendar year 2010.

Management Response and Corrective Action Plan 2010:

Implementation of this recommendation is in process. As of May 31, 2010 all vacant positions in the Financial Status Reporting Section have been filled and training is underway. An action plan was developed to take into account all past due Financial Reports, anticipated reports that will be during calendar 2010, and an estimate of the number of reports that can be completed each month. As of May 31, 2010, we are ahead of our target and expect that we will reach a state of currency on or before the implementation date of December 31, 2010.

Implementation Date: *December 31, 2010*

Responsible Person: *John B. States*

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

Common Origination and Disbursement System Reporting

Initial Year Written: 2008
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 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:

- 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 2008:

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.

Management Response and Corrective Action Plan 2009:

Due to the impact of Hurricane Ike, the process for maintaining notification documentation electronically was not placed into production until 2/17/2009, with additional testing and automation occurring prior to the FY09/10 award year.

We provided additional training to staff about the importance of reporting accurately the dates and amounts in COD, and random checks of the reported disbursements since February 2009 have been accurate. For the 2009-2010 academic year, disbursements and reporting to COD are being handled through a single system, the Regent Financial Aid system. Since this disbursement period will be the first using the new reporting process to COD, we established an additional review process to ensure accurate reporting.

Management Response and Corrective Action Plan 2010:

We maintain electronic copies of the disbursement notification send to students each time a disbursement is processed and perform random checks of these notifications to ensure that they are produced correctly and accurately. Additionally, we perform random checks in COD to ensure that the disbursement dates are reported accurately. Although, the auditors identified an error related to reported date during their follow-up testing of our corrective actions taken, we've noted significant improvement in this area since the prior audit testing and enhancement of our controls. We will continue our current process to ensure that disbursements are reported correctly and that disbursement notifications are sent to students timely. Additionally, we are implementing a new student system in the Fall 2011 (Oracle Campus Solutions) which should greatly enhance our reporting capabilities.

Implementation Date: *September 1, 2010*

Responsible Person: *Carol Cromie*

University of Texas - Pan American

Reference No. 10-132
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084091, 84.268 P268K092296, 84.033 P033A84091, 84.038 Award Number Not Applicable, 84.063 P063P082296, 84.375 P375A082296, and 84.376 P376S082296
Type of finding - Material Weakness and Non-Compliance

General Controls

Initial Year Written: 2009
Status: 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)).

The University of Texas - Pan American (University) does not have controls to ensure that high profile system access is limited to appropriate personnel at the application, database, and server levels. Segregation of duties conflicts exist for users at the application level. The University's financial aid technical team and financial aid business users share the same super user role. Application permissions are not properly defined for the super user, director, and assistant director roles. All three roles can (1) create, set up, and modify disbursement dates and minimum and maximum amounts for federal awards; (2) enter start and end dates for each term; and (3) set up packaging rules for federal funds. There are no major differences in the permissions for these three roles. In addition, one user is no longer employed by the University but still has access to the financial aid application.

At the database level, all five database administrators, including the database manager, share the database super user ID to conduct database maintenance and perform job duties. The production control team, which includes four users who are responsible for promoting code changes from the development environment to the production environment, also uses that same user ID. In addition, all database administrators, including the manager and the members of the production control team, use six other generic user IDs (instead of their own unique user IDs) to access the database and perform their job duties.

At the server level, segregation of duties conflicts exists because high profile user IDs, such as the root user ID, are shared by the system administrators and the director of the computer center.

The University also does not have controls to ensure that it periodically reviews active users and user access rights to identify and remove inappropriate system access and to help ensure that segregation of duties conflicts do not exist.

Allowing employees inappropriate or excessive system access that is outside of their job functions increases the risk of inappropriate changes and does not allow for proper segregation of duties. Additionally, when users share user IDs and passwords, this reduces personal accountability and corrupts the audit trail for transactions.

Auditors also reviewed the University's program implementation process for its new student financial assistance system and determined that the University:

- Formally documented its procedures for testing and application deployment. However, the test plan within those procedures did not contain several key items such as a formal test methodology, elements of testing, types of tests, and performance testing. The test plan also did not outline the final results of user testing. Therefore, auditors could not determine whether the new student financial assistance system was fully tested prior to its implementation. For example, auditors could not select a test case to determine the test criteria that outlined the details for the end-user testing, and auditors could not determine the result of each test action.

- Could not provide evidence of formal signature approval by the financial aid team lead or by the project manager to authorize the final implementation of the new student financial assistance system after all end-user testing was performed.
- Could not provide evidence that it had written procedures regarding data migration and conversion. Additionally, the University could not provide total record count information to ensure that the data that was completely extracted, converted, and migrated from the previous system to the new student financial assistance system. As a result, auditors were unable to determine whether data was completely and accurately migrated into the new system. Although, the University retained copies of record counts in e-mails for the data that was migrated into the pre-production environment of the new system, auditors could not verify whether all data was converted and then migrated into the production version of the new system.

Academic Competitiveness Grant (ACG) Awarded to Ineligible Students

The 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-year 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).

The University awarded a total of $8,450 in ACG grants to eight students who were not enrolled in their first or second academic years. These awards were the result of a programming error that allowed third-year and fourth-year students to receive ACG awards. The University identified and corrected the programming error before this audit began. However, it had not determined that these eight students erroneously received ACG grants. After auditors identified these errors, the University corrected the errors and returned the funds to the ACG account.

Corrective Action:

Corrective action was taken.

Reference No. 10-133

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.007 P007A084091, 84.268 P268K092296, 84.033 P033A84091, 84.038 Award Number Not Applicable, 84.063 P063P082296, 84.375 P375A082296, and 84.376 P376S082296
Type of finding - Material Weakness and Non-Compliance

General Controls

Initial Year Written: 2009
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)).

The University of Texas - Pan American (University) does not have controls to ensure that high profile system access is limited to appropriate personnel at the application, database, and server levels. Segregation of duties conflicts exist for users at the application level. The University's financial aid technical team and financial aid business users share the same super user role. Application permissions are not properly defined for the super user, director, and assistant director roles. All three roles can (1) create, set up, and modify disbursement dates and minimum and maximum amounts for federal awards; (2) enter start and end dates for each term; and (3) set up packaging rules for federal funds. There are no major differences in the permissions for these three roles. In addition, one user is no longer employed by the University but still has access to the financial aid application.

At the database level, all five database administrators, including the database manager, share the database super user ID to conduct database maintenance and perform job duties. The production control team, which includes four users who are responsible for promoting code changes from the development environment to the production environment, also uses that same user ID. In addition, all database administrators, including the manager and the members of the production control team, use six other generic user IDs (instead of their own unique user IDs) to access the database and perform their job duties.

At the server level, segregation of duties conflicts exists because high profile user IDs, such as the root user ID, are shared by the system administrators and the director of the computer center.

The University also does not have controls to ensure that it periodically reviews active users and user access rights to identify and remove inappropriate system access and to help ensure that segregation of duties conflicts do not exist.

Allowing employees inappropriate or excessive system access that is outside of their job functions increases the risk of inappropriate changes and does not allow for proper segregation of duties. Additionally, when users share user IDs and passwords, this reduces personal accountability and corrupts the audit trail for transactions.

Auditors also reviewed the University's program implementation process for its new student financial assistance system and determined that the University:

- Formally documented its procedures for testing and application deployment. However, the test plan within those procedures did not contain several key items such as a formal test methodology, elements of testing, types of tests, and performance testing. The test plan also did not outline the final results of user testing. Therefore, auditors could not determine whether the new student financial assistance system was fully tested prior to its implementation. For example, auditors could not select a test case to determine the test criteria that outlined the details for the end user testing, and auditors could not determine the result of each test action.
- Could not provide evidence of formal signature approval by the financial aid team lead or by the project manager to authorize the final implementation of the new student financial assistance system after all end user testing was performed.
- Could not provide evidence that it had written procedures regarding data migration and conversion. Additionally, the University could not provide total record count information to ensure that the data that was completely extracted, converted, and migrated from the previous system to the new student financial assistance system. As a result, auditors were unable to determine whether data was completely and accurately migrated into the new system. Although, the University retained copies of record counts in e-mails for the data that was migrated into the pre-production environment of the new system, auditors could not verify whether all data was converted and then migrated into the production version of the new system.

Corrective Action:

Corrective action was taken.

Disbursement Notification Letters

If an institution credits a student's account at the institution with Direct 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. The notification can be sent in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

For 1 (5 percent) of 21 students tested who received Direct Loans, the University sent disbursement notifications 33 days after the disbursement date, instead of within the required 30 days, for one semester disbursement. The University sent the disbursement notifications late because a verbal request for a computer report that identifies students' loan disbursements was not made in time to generate the notifications within the required 30 days. Not receiving these notifications promptly could impair the students' or parents' ability to cancel their loans.

In addition, manual overrides to the process that records the date that the University sent disbursement notification letters in the student financial aid system allow staff to manipulate the recorded date to reflect a date other than the actual date that the University sent the notification letters. Manually changing the date could result in the system reflecting a date that is within the 30-day requirement, even though the notification may have been sent outside of the 30-day requirement.

Recommendations:

The University should:

- Maintain controls to ensure that it sends disbursement notification letters within 30 days before or after crediting a student's account with a Direct Loan.
- Develop and implement controls to ensure that the disbursement notification letter sent date recorded in the student financial aid system reflects the actual date on which the University sent the letter.

Management Response and Corrective Action Plan 2009:

Recommendation:

Maintain controls to ensure that it sends disbursement notification letters within 30 days before or after crediting a student's account with a Direct Loan.

Management Response and Corrective Action Plan:

FY 2009 was the first year in the Banner student information system. The aggressive implementation deadline did not allow time to fully automate all processes. We are now in the process of converting those processes that were semi-automated into fully automated processes. In June 2009, the disbursement notification process started running bi-weekly instead of once per month. Beginning March 1, 2010, the disbursement letter process will be an automated process. It will become part of the weekly packaging process to ensure compliance with the federal 30-day timeline requirement.

Recommendation:

Develop and implement controls to ensure that the disbursement notification letter sent date recorded in the student financial aid system reflects the actual date on which the University sent the letter.

Management Response and Corrective Action Plan:

Beginning April 1, 2010, instead of utilizing a mail merge process to print disbursement letters, we will utilize the letter generation process delivered by Banner. This allows us to automatically post to our student system/RUAMAIL, the actual date the letter was processed.

Management Response and Corrective Action Plan 2010:

As of March 1, 2010, the disbursement letter process became a fully automated process that is part of the weekly packaging process thus ensuring compliance with the federal 30 day rule.

As of April 1, 2010, a letter generation process was implemented allowing automatic posting to the student system, thus recording the actual date the letter was sent. The process automatically sets the date the letter was sent. In October 2010 it was discovered that a student had not received a disbursement letter due to a programming date timing issue. The program was updated to make sure this isolated case does not happen in the future. The programmers identified the programming logic that was allowing a student to be skipped and re-wrote the logic so regardless of when a student is updated in Banner or when we the disbursement letters are printed, a student would never be skipped. The automated process continues to run eliminating the need for manual intervention for disbursement notification letters.

Implementation Date: *April 2010. Programming error corrected October 2010*

Responsible Person: *Elaine L. Rivera*

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

Initial Year Written: 2006
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 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.

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.

Management Response and Corrective Action Plan 2008:

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.

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.

Management Response and Corrective Action Plan 2009:

Since implementation, the processing and review have improved the determination of the federal student assistance award amount based on financial need. To continue improvement, the Assistant Director began reviewing all student files in January 2010, which should address the failures in awarding appropriately.

Management Response and Corrective Action Plan 2010:

A new automated procedure will be implemented which will identify students who have added or dropped classes to an extent that requires their COA Budget to be changed. This procedure will be done after the census date and again at the end of the semester. This will be combined with the continuation of the current staff auditing of FA files should address the failures in awarding appropriately.

Implementation Date: *May 2011*

Responsible Person: *Joe Sanders*

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

Initial Year Written: 2006
Status: Partially Implemented

U.S. Department of Education

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.

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.

Recommendations:

The University should:

- 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 funds for more than the maximum allowed number of days before returning them to the lender.

Management Response and Corrective Action Plan 2008:

The OSFA implemented notification letters through a merge file, which is maintained on the Department's assigned drive.

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.

The OSFA has received a POISE module that should ensure that loan funds be returned as required. Testing is beginning spring 2009.

Management Response and Corrective Action Plan 2009:

Because the implemented functional changes did not fully address the verification of all required information from NSLDS and the OSFA again did not meet requirements, another change in functional duties was implemented in January 2010. To address this finding, one staff has been assigned all aspects for loan processing. The staff person is responsible for ensuring all Notification letters are sent within the required time periods and documentation is retained. The Assistant Director has been assigned to perform an audit on all files to ensure processing is meeting requirements.

Reporting to COD as required was implemented, but again the auditors found errors. Because of the repeat finding, the Assistant Director began COD reporting in Fall 2009. A review of COD reporting in December 2009 revealed that the reporting was not satisfactory. Beginning with the January 2010 Pell disbursement, a staff member has been assigned disbursement processing. The Assistant Director will perform a review of the processes to ensure reporting is correct before sending to COD.

The POISE module was tested in spring 2009 and implemented August 2009. The test in spring appeared to work, but during processing in August 2009 it failed. Beginning January 2010, the disbursement officer and the loan officer will manually process disbursements within the required time frames.

Management Response and Corrective Action Plan 2010:

An automated procedure will be implemented that will allow for the printing of disbursement letters when the loan is disbursed, as well as fill a tracking date into the student system for better monitoring of letters. Copies of all letters will be scanned into the student file so that a permanent record of the letter will be kept.

Implementation date: *May 2011*

Responsible Person: *Joe Sanders*

A Pell Grant reporting module was obtained so that Pell awards could be accurately reported within the required time frame. There was an error in the program itself so that it only reported the date that the program was run, rather than the date the funds were disbursed. The vendor was contacted and the error was corrected.

Implementation date: *February 2011*

Responsible Person: *Joe Sanders*

Now that the university receives all funds from the Department of Education based on a reimbursement system, the issue of disbursing the funds to the students within 3 days should be resolved. With this change, a new software module is scheduled to be implemented. The new module is designed to make the processing between POISE and EDE more efficient so that funds that need to be returned can be identified.

Implementation date: *May 2011*

Responsible Person: *Joe Sanders*

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

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)).

Initial Year Written: 2008
Status: Implemented

U.S. Department of Education

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.

Corrective Action:

Corrective action was taken.

University of Texas at Tyler

Reference No. 10-134
Eligibility

Student Financial Assistance Cluster
Award year - July 1, 2008 to June 30, 2009
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

General Controls

Initial Year Written: 2009
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)).

The University of Texas at Tyler (University) did not have controls to ensure adequate segregation of duties within its financial aid system. The University should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, two University programmers had access to move code into the production environment. In addition, the information technology users and the financial aid staff had similar access profiles to the financial aid system. A lack of segregation of duties may result in inappropriate changes to production code or inappropriate or excessive access to University systems.

The student financial aid system in use during the award year did not provide staff with the capability of operating in a test environment. The limited capabilities of that system, combined with the small information technology staff at the University, resulted in these segregation of duties issues. The University has since implemented a new student financial aid system. The new system has increased capabilities and will allow the University to improve controls over segregation of duties.

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 (COA) minus the expected family contribution (EFC). 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 Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and 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 (Title 34, Code of Federal Regulations, Sections 673.5, 673.6, and 682.603).

The University of Texas at Tyler (University) incorrectly calculated the COA for 1 (2.5 percent) of 40 students tested. This occurred because the University calculated the COA based on undergraduate student status; however, the student was a graduate student. As a result of this error, the amount of financial assistance the student was offered was less than the amount of financial assistance for which the student was eligible. The difference between the University's COA budget for a graduate student and undergraduate student of the same status (half-time, residing off-campus, and a Texas resident) is $396.

Recommendations:

The University should:

- Restrict access to the financial aid system based on job duties and responsibilities.
- Restrict access to migrate code into production to the appropriate personnel.
- Improve its review of information in student records, such as undergraduate or graduate status, that affects COA calculations.

Management Response and Corrective Action Plan 2009:

The student information system referenced in the above recommendation (POISE) is no longer in use by The University. The new system (PeopleSoft) appropriately restricts access based on job responsibilities. Appropriate segregation of duties for migrating production code changes has been implemented in the PeopleSoft system.

In our student information system for 2008-2009 (POISE), determination of graduate or undergraduate COA budgets was done by the counselor setting a flag. If no flag was set, the process budgeted for undergrad and if a flag was set it budgeted for graduate.

With our new system (PeopleSoft), determination of graduate or undergraduate COA is made by the student's active career in the system. Two careers exist in our system, undergrad and grad, and Student Records activates the appropriate career. This keeps our counselors from having the opportunity for oversight (human error) in setting up COA budgets.

Management Response and Corrective Action Plan 2010:

Corrective Action Plan as originally described was implemented during the Spring semester of 2010. Fall 2010 semester will be first full semester after corrective action was taken.

Above recommendation will be fully implemented as of the original implementation date of September 1, 2010.

Implementation Date: *September 2010*

Responsible Person: *Candice Lindsey*

Reference No. 10-135

Special Tests and Provisions - Disbursements To or On Behalf of Students

Student Financial Assistance Cluster
Award Year - July 1, 2008 to June 30, 2009
Award numbers - CFDA 84.032 Award Number Not Applicable and CFDA 84.063 P063P083426
Type of finding - Significant Deficiency and Non-Compliance

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)).

Initial Year Written: 2009
Status: Partially Implemented

U.S. Department of Education

The University of Texas at Tyler (University) did not have controls to ensure adequate segregation of duties within its financial aid system. The University should appropriately restrict access to migrate code changes to the production environment based on an individual's job function to help ensure adequate internal controls are in place and that appropriate segregation of duties exists. In general, programmers should not have access to migrate code changes to the production environment. However, two University programmers had access to move code into the production environment. In addition, the information technology users and the financial aid staff had similar access profiles to the financial aid system. A lack of segregation of duties may result in inappropriate changes to production code or inappropriate or excessive access to University systems.

The student financial aid system in use during the award year did not provide staff with the capability of operating in a test environment. The limited capabilities of that system, combined with the small information technology staff at the University, resulted in these segregation of duties issues. The University has since implemented a new student financial aid system. The new system has increased capabilities and will allow the University to improve controls over segregation of duties.

Disbursement Notices

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. The notification can be sent in writing or electronically (Title 34, Code of Federal Regulations, Section 668.165).

To help ensure compliance with federal disbursement notification requirements, when the University of Texas at Tyler (University) runs its loan disbursement program, it sends an email informing students or parents of the details of the disbursement and their right to cancel the loan. The email includes the student's or parent's right to cancel all or a portion of a loan or loan disbursement and have the loan proceeds returned to the holder of the loan, the procedure and time by which the student or parent must notify the institution that he or she wishes to cancel the loan or loan disbursement, and the amount of the loan or loan disbursement. However, the e-mails for all 50 FFELP loans tested did not include or reference the date of the loan or loan disbursement as required. University personnel stated that the omission of this required information was an oversight.

Common Origination and Disbursement System Reporting

Institutions submit Pell origination records and disbursement records to the U.S. Department of Education's 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 2009, 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 5-3-29)).

For 18 (94.7 percent) of 19 Pell Grant disbursements tested at the University, the actual date of the disbursement did not match the disbursement date the University reported to the COD System. The University explained that, on a monthly basis, a file is generated from POISE, the University's Financial Aid Application, for submission to the COD System through the Department of Education's (DOE) EDExpress and EDConnect software programs. Although the POISE process generating the file picks up the actual dollar amount disbursed for each student, it does not have the capability to pick up the corresponding disbursement date. This requires that the University enter a generic date that is used on all disbursement records in the file. The University stated that it generally uses a disbursement date that is in the range of the month prior to the submission.

The University's total Pell Grant expenditures for the 2008-2009 school year were $5,136,617.79.

Recommendations:

The University should:

- Restrict access to the financial aid system based on job duties and responsibilities.
- Restrict access to migrate code into production to the appropriate personnel.
- Ensure that it includes all required loan disbursement information in all disbursement notifications sent to students and parents.
- Improve controls to ensure that it reports actual disbursement dates to the COD System in accordance with federal requirements.

Management Response and Corrective Action Plan 2009:

The student information system referenced in the above recommendation (POISE) is no longer in use by the University. The new system (PeopleSoft) appropriately restricts access based on job responsibilities. Appropriate segregation of duties for migrating production code changes has been implemented in the PeopleSoft system.

With the implementation of the PeopleSoft student information system and the William D. Ford Federal Direct Loan Program, the above recommendations will be completed.

Our loan disbursement information is sent by email and includes a date, student's name, how the disbursement is credited and refunded, instructions for viewing the disbursement information from the student access screen in PeopleSoft, and instructions for cancellation.

The Pell Grant expenditure records are generated from PeopleSoft and include the date of disbursement from the system. No generic or default dates are required, as they were previously required in our old student information system.

Management Response and Corrective Action Plan 2010:

Corrective Action Plan as originally described was implemented during the Spring semester of 2010. Fall 2010 semester will be first full semester after corrective action was taken.

Above recommendation will be fully implemented as of the original implementation date of September 1, 2010.

Implementation Date: *September 2010*

Responsible Person: *Candice Lindsey*

Water Development Board

Reference No. 10-136
Reporting

CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Funds
Award years - October 1, 2007 to September 30, 2009 and October 1, 2008 to September 30, 2010
Award numbers - CS-48000208 and CS-48000209
Type of finding - Significant Deficiency and Non-Compliance

The State must provide an annual report to the U.S. Environmental Protection Agency (EPA) beginning the first fiscal year after it receives payments under Title VI of the Clean Water Act. The State should submit this report to the EPA according to the schedule established in the grant agreement (Title 40, Code of Federal Regulations, Section 35.3165).

Initial Year Written: 2009
Status: Implemented

U.S. Environmental Protection Agency

The grant agreements for the Capitalization Grants for Clean Water State Revolving Funds require that an annual report must be provided within 90 days after the end of the state fiscal year. The annual report must describe how the state has met the goals and objectives as identified in its Intended Use Plan. The information in the report must include the following items: (1) identification of the assistance recipients; (2) the assistance amounts by category; (3) the terms for financial assistance; (4) the communities served; (5) verification of Title II requirements of the capitalization grant funds; (6) verification that first use of the funds was to meet the enforceable requirements of the Clean Water Act; and (7) any other information the regional administrator or designated representative reasonably requires to review and determine compliance with the Clean Water Act.

The clean water annual report the Water Development Board (Board) submitted for fiscal year 2009 included information on binding commitments for Tier II loans (state funded loans) and Tier III loans (federally funded loans). However, in that report the binding commitments for federally funded loans were understated by $2,960,000. The Board inadvertently identified the City of Seminole's loan as a state-funded loan commitment; however, supporting documentation showed that this was a federally funded loan commitment. Although the Board reviewed the report internally prior to submitting it, that review did not detect the error. As a result, the $46,345,000 amount reported as committed for federally funded loans in 2009 was understated by 6 percent.

In addition, the Board drew down federal funds based on expenditures related to seven Tier II loans. As a result, those seven Tier II subrecipients must comply with federal requirements. However, the Board did not include those seven Tier II subrecipients in the "Cross Cutters" section of its clean water annual report. As a result, the report understated Cross Cutters by $142,310,000 associated with Tier II subrecipients. The Board omitted the Tier II subrecipients from the Cross Cutter section of the Clean Water Annual Report as a result of the Board's interpretation of prior guidance it received from the EPA. Specifically, the Board's interpretation was that the group of subrecipients designated as Tier II did not have to comply with federal requirements, even when the Board drew down federal funds based on expenditures at those subrecipients.

Corrective Action:

Corrective action was taken.

Reference No. 10-137

Subrecipient Monitoring

CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Funds
Award years - Multiple
Award numbers - Multiple
Type of finding - Non-Compliance

Initial Year Written: 2009
Status: Implemented

U.S. Environmental Protection Agency

As a pass-through entity, the Water Development Board (Board) is required by Office of Management and Budget (OMB) Circular A-133, March 2009 Compliance Supplement Part 3, Section M Subrecipient Monitoring, to monitor subrecipients' use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that subrecipients administer federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

The Board used its Intended Use Plan (IUP) to show commitments for the Capitalization Grants for Clean Water State Revolving Funds Program. These commitments consist of loans funded with state funds (Tier II) and loans funded with federal funds (Tier III). The Board requires loans that it designates as state-funded to comply with only state requirements, and it requires loans that it designates as federally funded to comply with federal requirements. The U.S. Environmental Protection Agency (EPA) allows the Board to draw down funds based on expenditures incurred at either Tier II subrecipients or Tier III subrecipients. However, it requires the Board to ensure that, if the Board draws down federal funds for expenditures for the Tier II group, the Board must ensure that those subrecipients comply with federal requirements, without regard to the fact that Tier II subrecipients were designated as state-funded. Auditors tested the applicable Tier II and Tier III subrecipients separately and noted no reportable errors related to the Tier III group. However, the Board did not comply with some subrecipient monitoring compliance requirements for Tier II subrecipients when the Board drew down federal funds based on expenditures incurred at those subrecipients. During fiscal year 2009, all of the Board's program drawdowns were based on expenditures in the Tier II group. These draws totaled $13,600,214 and were based on expenditures at five subrecipients.

Pre-award and During-the-Award Monitoring

The Board did not verify suspension and debarment for state subrecipients (Tier II) for which it drew down federal funds in fiscal year 2009. Specifically, for 3 (60 percent) of 5 subrecipients files tested, the Board did not verify that the subrecipients were not suspended or debarred. The Board did not comply with this requirement because of its interpretation of EPA guidance. In addition, the Board did not conduct during-the-award monitoring of processes that verified suspension and debarment status for these subrecipients during the award period. Not verifying the suspension and debarment status of its subrecipients increases the risk that the Board will enter into agreements with entities that are suspended or debarred from entering into contractual agreements involving federal funds. However, auditors verified that none of the subrecipients were suspended or debarred.

In addition, the Board was unable to provide evidence that it communicated the Catalog of Federal Domestic Assistance (CFDA) number to 4 (80 percent) of 5 subrecipients tested. This could result in subrecipients not being informed of compliance requirements that are specific to the program, which increases the risk of non-compliance.

A-133 Single Audit Compliance Monitoring

The Board must ensure that subrecipients that spend $500,000 or more in federal funds obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Board. The Board is required to review the audit report and to issue a management decision, if applicable. OMB Circular A-133, March 2009 Compliance Supplement Part 3, Section M, requires the Board to issue a management decision on audit findings within six months after receipt of a subrecipient's audit report. In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Department must take appropriate action using sanctions.

For 3 (60 percent) of 5 subrecipients tested, the Board did not verify that the subrecipients obtained either a Single Audit or a certification from the subrecipient that it was exempt from Single Audit requirements. This diminishes oversight and increases the potential of program funds not being spent as intended.

All of the issues discussed above are related to the group of subrecipients the Department has designated as Tier II subrecipients and resulted from the Board's interpretation of prior guidance it received from the EPA. Specifically, the Board's interpretation was that the group of subrecipients designated at Tier II did not have to comply with federal requirements, even when the Board drew down federal funds based on expenditures at those subrecipients.

Corrective Action:

Corrective action was taken.

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 years - July 1, 2007 to June 30, 2008
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency and Non-Compliance

Initial Year Written: 2008
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 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.

Corrective Action:

Corrective action was taken.

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, 2010

February 2011

Report No. 11-555

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, 2010

SAO Report No. 11-555
February 2011

Overall Conclusion

The basic financial statements presented in the Comprehensive Annual Financial Report (CAFR) for the State of Texas present fairly, in all material respects, the financial position and activities of the State for the fiscal year ended August 31, 2010. These financial statements provide a comprehensive disclosure of the State's financial activities during the fiscal year and an overall picture of the financial position of the State at the end of the fiscal year.

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 12 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 more than $120.1 billion during the fiscal year.[1]

Auditing financial statements is not limited to reviewing the numbers in those statements. Conducting this audit also requires the State Auditor's Office to obtain a sufficient understanding of the agencies and higher education institutions and their operating environments, including obtaining an understanding of the internal controls over systems and processes that the agencies and higher education institutions use to record their financial activities, in order to assess the risk of material misstatement of the financial statements. Through that effort, auditors identified specific weaknesses that four agencies and three higher education institutions should correct to improve the reliability of their financial information.

[1] The $120.1 billion in annual expenditures exceeded the $96.1 billion appropriated for fiscal year 2010 primarily because:

- Certain expenditures (such as higher education institutions' expenditures of funds held outside of the State Treasury) 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 amounts for federal funds.
- The Comprehensive Annual Financial Report is presented on an accrual basis, while the General Appropriations Act is presented primarily 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 Angelica Ramirez, Audit Manager, or John Keel at (512) 936-9500.

The State Auditor's Office also audited the State's Schedule of Expenditures of Federal Awards (SEFA) for fiscal year 2010, which is prepared by the Office of the 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 KPMG LLP audited the processes for preparing SEFA information at 15 agencies and 9 higher education institutions. Additionally, auditors followed up on prior year SEFA findings at 2 agencies and 15 higher education institutions. Auditors identified errors caused by inadequate review of SEFA information at 8 agencies and 18 higher education institutions. These errors are discussed in Chapter 2-I of this report.

The State Auditor's Office conducts this audit so that the State can comply with federal legislation (the Single Audit Act Amendments of 1996) and grant requirements to obtain an opinion regarding the fair presentation of its basic financial statements and a report on internal controls related to those statements. The results of this audit 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.

Overall, financial systems and controls were adequate at the 12 agencies and higher education institutions audited and at the agency and higher education institution at which auditors followed up on findings from prior fiscal years (see Appendix 2 for a list of all agencies and higher education institutions audited). However, auditors identified control weaknesses at four agencies and three higher education institutions. For example:

- The Health and Human Services Commission (Commission) should strengthen information technology controls over payment processing. To avoid disclosure of potential security weaknesses, auditors communicated the details of this issue in writing to management for corrective action. This issue represented a material weakness in the Commission's internal control structure and is repeated from an audit conducted in a prior year.

Summary of Issues

Auditors identified system access or password management issues at:

- Health and Human Services Commission
- Department of Transportation
- Office of the Comptroller of Public Accounts
- Texas Workforce Commission
- The University of Texas at Austin
- The University of Texas Medical Branch at Galveston
- The University of Texas Southwestern Medical Center at Dallas

Auditors identified significant deficiencies in reporting and documenting assets and expenditures at:

- Health and Human Services Commission
- Department of Transportation
- The University of Texas Medical Branch at Galveston
- The University of Texas Health Science Center at Houston

- The Department of Transportation (Department) should improve financial reporting of new construction financing agreements. The Department should implement controls to ensure accurate reporting of pass-though toll roads and be proactive in identifying reporting methodologies for advanced financing arrangements.

Additionally, auditors identified:

- System access or password management deficiencies at 7 (58.3 percent) of the 12 agencies and higher education institutions audited. Examples include the use of generic user accounts, not updating business rules or access criteria for systems, and not adequately performing annual reviews of system access. Additionally, certain agencies and higher education institutions had password authentication controls that did not comply with Title 1, Texas Administrative Code, Chapter 202.

- Weaknesses in accounting for capital assets, revenues, and expenditures at 4 of the 12 agencies and higher education institutions audited.

Agencies and higher education institutions also should strengthen their reviews of their SEFAs. Auditors identified a lack of adequate review of SEFA information at 26 (63.4 percent) of the 41 agencies and higher education institutions at which SEFA information was audited.

Auditors communicated less significant issues, when identified, to management of each affected agency or higher education institution in writing.

Summary of Management's Responses

The agencies and higher education institutions generally agreed with the recommendations in this report.

Summary of Information Technology Review

Auditors reviewed the 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 the Comprehensive Annual Financial Report and then reviewed basic data protection such as security, access, application development and control, and data recovery. As discussed in the detailed findings, auditors identified certain user access control and password weaknesses at the Health and Human Services Commission, the Department of Transportation, the Comptroller's Office, the Texas Workforce Commission, the University of Texas at Austin, the University of Texas Medical Branch at Galveston, and the University of Texas Southwestern Medical Center at Dallas. Correcting these weaknesses will help to ensure the reliability of those entities' financial information.

Auditors also reviewed the internal controls over the Uniform Statewide Accounting System (USAS), the Uniform Statewide Payroll/Personnel System (USPS), and the State Property Accounting (SPA) system. The Comptroller's Office provides the primary controls over access for those systems; however, agencies and higher education institutions are primarily responsible for adequately assigning access. Agencies and higher education institutions should ensure that they grant access only as needed and that access rights provide adequate segregation of duties for day-to-day activities.

Summary of Objective, Scope, and Methodology

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the balances and activities for the State of Texas for the fiscal year ended August 31, 2010.

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, 2010,* was dated February 18, 2011.

The scope of the federal portion of the Statewide Single Audit included an audit of the State's SEFA, a review of compliance for each major program, and a review of significant controls over federal compliance. The State Auditor's Office contracted with 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 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, 2010*.

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

Contents

Independent Auditor's Report 1

Chapter 1
Summary of Auditor's Results 2

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.....3

Schedule of Findings and Responses 7

Chapter 2
Financial Statement Findings 8

Chapter 2-A
The Health and Human Services Commission Should Strengthen Controls Over Payments and Receivables for Public Assistance Programs 8

Chapter 2-B
The Department of Transportation Should Strengthen Certain Aspects of Its Financial and Information Technology Operations 15

Chapter 2-C
The Office of the Comptroller of Public Accounts Should Strengthen Information Security Controls 25

Chapter 2-D
The Texas Workforce Commission Should Strengthen Access Controls 28

Chapter 2-E
The University of Texas at Austin Should Strengthen Certain Aspects of Its Information Technology Operations..... 30

Chapter 2-F
The University of Texas Medical Branch at Galveston Should Strengthen Certain Aspects of Its Financial and Information Technology Operations 34

Chapter 2-G
The University of Texas Southwestern Medical Center at Dallas Should Strengthen Certain Aspects of Its Information Technology Operations 38

Chapter 2-H
The University of Texas Health Science Center at Houston Should Strengthen Controls Over Capital Assets..... 40

Chapter 2-I
Agencies and Higher Education Institutions Should Strengthen Their Review of Their Schedules of Expenditures of Federal Awards 42

Chapter 3
Federal Award Findings and Questioned Costs..... 46

Summary Schedule of Prior Audit Findings 47

Chapter 4
Summary Schedule of Prior Audit Findings 48

Chapter 4-A
The Health and Human Services Commission Should Strengthen the Design and Operations of its Internal Control Structure over Validating Payments for Public Assistance Programs 49

Chapter 4-B
The Department of Transportation Should Strengthen Certain Aspects of Its Financial and Information Technology Operations 57

Chapter 4-C
The Office of the Comptroller of Public Accounts Should Strengthen Certain Aspects of Its Financial and Information Technology Operations 63

Chapter 4-D
The Texas Workforce Commission Should Strengthen Controls Over Tax Payments and Returns and Document Policies and Procedures for Certain Unemployment Insurance Program Processes 68

Chapter 4-E
The Water Development Board Should Strengthen Its Review of Adjustments to Its Annual Financial Report and Its Password Requirements 70

Chapter 4-F
The University of Texas at Austin Should Strengthen Certain Aspects of Its Financial Operations 72

Chapter 4-G
The University of Texas at San Antonio Should Strengthen Its Capital Asset Records 73

Chapter 4-H
The University of Texas Health Science Center at Houston Should Strengthen Access Controls and Capital Asset Documentation 74

Chapter 4-I
The University of Texas Southwestern Medical Center at Dallas Should Strengthen Certain Aspects of Its Financial Operations..... 76

Chapter 4-J
Agencies and Higher Education Institutions Should Strengthen Their Reviews of Their Schedules of Expenditures of Federal Awards 78

Appendices

Appendix 1
Objective, Scope, and Methodology 82

Appendix 2
Agencies and Higher Education Institutions Audited 87

Appendix 3
Agencies and Higher Education Institution Responses to Schedule of Expenditures of Federal Awards Finding 90

Independent Auditor's Report

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010

Summary of Auditor's Results

Financial Statements

1.	Type of auditor's report issued:	Unqualified
2.	Internal control over financial reporting:	
	a. Material weakness identified?	Yes
	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 2010 was included in Chapter 2-I of this report. All other fiscal year 2010 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, 2010*, by KPMG LLP).

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, 2010 which collectively comprise the State's basic financial statements, and have issued our report thereon dated February 18, 2011. Our report includes 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 in the section titled "Work Performed by Other Auditors." This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the University of Texas 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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

Summary of Findings	
Agency	**Finding Numbers**
Health and Human Services Commission	11-555-01

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

Summary of Findings	
Agency or Higher Education Institution	**Finding Numbers**
Health and Human Services Commission	11-555-02 11-555-03 11-555-04
Department of Transportation	11-555-05 11-555-06 11-555-07
Office of the Comptroller of Public Accounts	11-555-08 11-555-09
Texas Workforce Commission	11-555-10
The University of Texas at Austin	11-555-11 11-555-12
The University of Texas Medical Branch at Galveston	11-555-13 11-555-14
The University of Texas Southwestern Medical Center at Dallas	11-555-15
The University of Texas Health Science Center at Houston	11-555-16
Multiple agencies and higher education institutions	11-555-17

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 grant 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
Texas Lottery Commission	An audit of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Lottery Commission was conducted as of and for the year ended August 31, 2010.
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 as of August 31, 2010 and August 31, 2009, and the related consolidated statements of revenues, expenses and changes in net assets and statements of cash flows 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, 2010 and August 31, 2009.
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, 2010 and August 31, 2009.
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, 2010 and August 31, 2009.
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 University of Texas System Permanent Health Fund was conducted as of and for the years ended August 31, 2010 and August 31, 2009.
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, 2010 and August 31, 2009.
Texas Treasury Safekeeping Trust Company	An audit of the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Texas Treasury Safekeeping Trust Company was conducted as of and for the year ended August 31, 2010.
Texas Local Government Investment Pool (TexPool)	An audit of the statements of pool net assets and the related statements of changes in pool net assets of TexPool was conducted as of and for the years ended August 31, 2010 and 2009.

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 2010 Financial Statements* (State Auditor's Office Report No. 11-014, December 2010).
- *A Report on the Audit of the Department of Transportation's Central Texas Turnpike System's Financial Statements for the Fiscal Year Ended August 31, 2010* (State Auditor's Office Report No. 11-020, February 2011).
- *A Report on the Audit of the Department of Transportation's Texas Mobility Fund Financial Statements for the Fiscal Year Ended August 31, 2010* (State Auditor's Office Report No. 11-018, February 2011).
- *A Report on the Audit of the Employees Retirement System's Fiscal Year 2010 Financial Statements* (State Auditor's Office Report No. 11-015, January 2011).
- *A Report on the Audit of the Office of the Fire Fighters' Pension Commissioner's Fiscal Year 2010 Financial Statements* (State Auditor's Office Report No. 11-016, January 2011).
- *A Report on the Audit of the Permanent School Fund's Fiscal Year 2010 Financial Statements* (State Auditor's Office Report No. 11-021, February 2011).

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the State's responses and, accordingly, we express no opinion on it.

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

Sincerely,

John Keel, CPA
State Auditor

February 18, 2011

Schedule of Findings and Responses

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010

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

Chapter 2-A

The Health and Human Services Commission Should Strengthen Controls Over Payments and Receivables for Public Assistance Programs

Issue 1
The Health and Human Services Commission Should Strengthen Controls Over Payment Processing

Reference No. 11-555-01
(Prior Audit Issue 10-555-01)

Type of finding: Material Weakness

> **Material Weakness in Internal Control**
>
> A material weakness is a deficiency in internal control of such magnitude that a material misstatement of the entity's financial statements will not to be prevented, or detected and corrected, on a timely basis.
>
> Source: Codification of Statements on Auditing Standards AU 325.06.

The Health and Human Services Commission (Commission) continues to have inadequate controls to address risks related to system and server access, security over sensitive documentation, and physical security over computing resources.

Additionally, the Commission does not review interfaced payment transactions prior to releasing those transactions for payment into the Uniform Statewide Accounting System (USAS). The interfaced payment transaction batch sizes during fiscal year 2010 ranged from approximately 1,800 transactions to more than 24,000 transactions. The large volume of payment transactions and the lack of review and approval increase the risk that a payment error could go undetected.

As the State Auditor's Office reported in March 2010[2], the issues in the payment process represent a material weakness. In June 2010, the Commission began an audit to address this material weakness. The Commission received the report from that audit in February 2011, and the Commission has asserted that it will develop action plans to address the recommendations from that audit. The results of the Commission's audit confirmed the existence of the issues the State Auditor's Office reported in March 2010. To minimize the risks associated with disclosure, auditors communicated details regarding these issues directly to the Commission.

[2] See *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009*, State Auditor's Office Report No. 10-555, March 2010.

Recommendations

The Commission should:

- Strengthen information technology controls over payment processing.
- Develop, document, and implement an approval process for all payment transactions.
- Establish a list of individuals who are authorized to submit transactions for client service payments for both interfaced and manual transactions and limit payment submission to the individuals on that list. The Commission also should develop policies with specific criteria and documentation requirements for making modifications to the list of authorized submitters.
- Consider establishing and implementing procedures to verify and reconcile USAS payment batch files by payee and amount to source documentation from interface partners prior to releasing payment transactions into USAS.

Management's Response

A final report detailing the results of the "Audit of Proxy Server and Batch File Processing Security and Compliance," performed on behalf of HHSC Internal Audit to more fully examine processes related to the control issues raised by the State Auditor's Office, is scheduled to be issued in February 2011.

Included in the final report will be HHSC's management responses that will include actions planned to address the issues and recommendations reported in the audit. HHSC management will monitor the implementation of these actions until the risks identified in the report are addressed.

Implementation Date: Dates to be developed as part of management responses to the recommendations reported in the "Audit of Proxy Server and Batch File Processing Security and Compliance."

Responsible Persons: Deputy Executive Commissioner for Information Technology and Deputy Executive Commissioner for Financial Services

Issue 2
The Health and Human Services Commission Should Strengthen Controls Over Service Providers

Reference No. 11-555-02

Type of finding: Significant Deficiency

The Commission did not ensure that the claims processing system at its Vendor Drug program service provider was operating as intended during fiscal year 2010. As a result, the Commission did not have adequate controls to ensure that claims were processed appropriately. Commission staff reviewed a sample of claims the service provider processed, but that sample included only claims processed during August 2010. The Commission made $2.5 billion in Vendor Drug program expenditures during fiscal year 2010.

Recommendation

The Commission should ensure that its contracted service providers report accurate financial information by either contracting for an independent review of the service providers' automated systems or requiring Commission employees to perform sufficient testing of service providers' automated systems.

Management's Response

The pharmacy claims processing services were scheduled for transition to a new vendor by September 2010, therefore HHSC elected not to perform a SAS-70 Type II review, as has been done in past years. HHSC staff did not perform the routine sampling and testing of pharmacy claims during 2010 that they have done in prior fiscal years. In January 2011 staff completed the reviews of the monthly, randomized claim samples for fiscal year 2010 and found the claims were paid correctly by the incumbent vendor.

For fiscal year 2011, HHSC has resumed the monthly review of randomized claim samples. Additionally, HHSC will complete an SSAE-16 review of the new pharmacy claims vendor for claims processed in fiscal year 2011.

Implementation Date: Fully Implemented

Responsible Person: Deputy Director for Vendor Drug

Issue 3
The Health and Human Services Commission Should Track and Accurately Report Accounts Receivable

Reference No. 11-555-03
(Prior Audit Issue 10-555-05)

Type of finding: Significant Deficiency

The Commission did not adequately track accounts receivable. A Commission internal audit report noted issues related to collection efforts for delinquent accounts receivable and noncompliance with requirements of the Office of the Attorney General and the Office of the Comptroller of Public Accounts (Comptroller's Office).

Accounts Receivable Tracking

The Commission did not ensure that it recorded overpayments to hospital districts participating in the Upper Payment Limit (UPL) program as accounts receivable during fiscal year 2010. The Commission makes UPL payments to hospitals on a quarterly basis, and those payments are based, in part, on UPL payments made in the previous year. Due to the amount of time allowed to finalize Medicaid claims, the Commission is not able to determine whether it overpaid or underpaid a hospital until up to a year after it has made a payment. The Commission relies on program staff to track the overpayments, but the Commission's fiscal management unit is unaware of the amount of accounts receivable that the Commission needs to collect.

> **Comptroller's Office *Accounting Policy Statement 028***
>
> State agencies and institutions of higher education must report to the Texas Comptroller of Public Accounts the names of persons with a debt to the state. This includes an indebtedness to the state, a tax delinquency, a child support delinquency, or a student loan default. Agencies must use the Comptroller's warrant hold procedures to ensure payments are not issued to a person with a debt to the state.

The Commission changed its methodology for calculating UPL payments in October 2010. The new methodology allows the Commission to make UPL payments on an adjudicated claims basis, instead of on a date-of-service basis. While this may eliminate overpayments to hospitals, the Commission still needs to identify overpayments it made to hospitals prior to October 2010.

While the Commission has improved the communication between program staff and fiscal management, program staff still do not consistently report overpayments to fiscal management. As of August 31, 2010, fiscal management was not tracking at least $997,112 in overpayments that program staff had identified. In addition, program staff notified fiscal management of overpayment in only 8 (53.3 percent) of 15 instances.

Internal Audit Report Findings

The Commission's internal audit division reviewed the Commission's accounts receivable processes for the Medicaid, Children with Special Health Care Needs (CSHCN), and Family Planning programs and issued a report on September 26, 2008. During fiscal year 2010, the Commission began to take

steps to address the issues identified in that report; however, the issues have not been fully addressed.

Recommendations

The Commission should:

- Improve communication between the program areas and fiscal management staff to ensure that all overpayments to providers or clients and any additional receivables due to the Commission are tracked for collection purposes and reported appropriately on Commission financial statements and in USAS.
- Ensure that fiscal management has sufficient time to properly record receivable amounts prior to receiving funds from overpaid parties.
- Continue to address recommendations regarding accounts receivable that its internal audit division made in September 2008.
- Comply with all Comptroller's Office accounting policies.

Management's Response

Fiscal Management will continue to improve its communication with program areas, including Rate Analysis, in an effort to obtain all accounts receivable information, and to ensure the timely processing and reporting of receivables in compliance with Comptroller's Office accounting policies.

Implementation Date: May 2011

Responsible Person: Deputy Executive Commissioner for Financial Services

HHSC continues to actively address Internal Audit's recommendations related to accounts receivable, and estimates that actions planned to address these recommendations are 80 percent complete. HHSC management will continue to monitor the implementation status until actions are fully implemented.

Implementation Date: August 2012

Responsible Persons: Deputy Executive Commissioner for Financial Services and Deputy Executive Commissioner for Information Technology

Issue 4
The Health and Human Services Commission Should Review User Accounts and Business Rules in Its Premium Payables System

Reference No. 11-555-04
(Prior Audit Issues 10-555-09 and 09-555-13)

Type of finding: Significant Deficiency

Premium Payable System (PPS)

PPS is an internal system the Commission uses to determine risk group placement for clients who are eligible to receive managed care services. Business rules within PPS direct clients into the appropriate risk groups based on various eligibility attributes.

Auditors identified certain control weaknesses related to the use of generic user accounts for and business rules in the Commission's Premium Payable System (PPS).

Generic User Accounts

The Commission removed 6 (85.7 percent) of 7 generic user accounts for the PPS online application; however, 1 generic account still exists. 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."

PPS Business Rules

The Commission does not have a process for reviewing the business rules in PPS. As a result, one risk group contained business rules that incorrectly allowed the system to include clients who exceeded that risk group's age requirements to be enrolled in the group. More than 600 individuals whose age exceeded the requirements enrolled in that risk group during fiscal year 2010, and the Commission paid approximately $1.8 million in premiums for those individuals. Without reviewing the eligibility data for these individuals, the Commission is not able to identify whether it paid appropriate premiums related to those individuals or whether it should place those individuals into a different risk group or Medicaid service model.

Recommendations

The Commission should:

- Develop and implement a process for reviewing PPS user accounts to ensure that it complies with the Texas Administrative Code.
- Develop and implement a process for reviewing PPS business rules on a consistent basis to help ensure compliance with managed care eligibility requirements.

Management's Response

Commission IT will work with program staff to assist with the validation and verification of PPS user accounts used to access the production system and ensure compliance with the Texas Administrative Code. IT will review, internally, accounts that are used by IT staff to ensure access to test and development environments complies with the Texas Administrative Code. Commission IT will establish a process to periodically review PPS user accounts and access privileges to ensure user accounts are valid and access is based on business need.

Implementation Date: June 2011

Responsible Person: Director, Application Development and Support, Commission IT

HHSC will establish a process to periodically review PPS business rules to ensure clients are classified in the correct risk groups.

Implementation Date: April 2011

Responsible Person: Medicaid and CHIP Associate Commissioner

Chapter 2-B

The Department of Transportation Should Strengthen Certain Aspects of Its Financial and Information Technology Operations

Issue 1
The Department of Transportation Should Improve the Identification of Its Financial Reporting Needs and the Requirements Related to Complex Issues in Its Financial Records

Reference No. 11-555-05

Type of finding: Significant Deficiency

In fiscal year 2010, the Department of Transportation (Department) engaged in several complex financing tools to pay for the construction of roads and bridges throughout Texas. Two of those tools are described below:

- The Department uses a method of financing construction called "pass-through tolls," which was authorized in Texas Transportation Code, Section 222.104. Under this method, a local government or entity (developer) finances and constructs a road and then transfers that road to the Department for inclusion in the state highway system. Although there is no direct tolling of traffic, the financing is based on an estimated vehicle-mile basis, and the Department reimburses the developer over a period of time.

- The Texas Transportation Commission created the Texas Private Activity Bond Surface Transportation Corporation (TxPABST) to promote and develop public transportation facilities through the issuance of bonds for comprehensive development agreements.

While these tools aid in the construction of roads and bridges, the Department should proactively consider their effect on its financial statements. Auditors identified the following errors related to those tools:

- In fiscal year 2010, the Department did not include five completed pass-through toll roads totaling $189 million in its financial statements. In addition, the Department incorrectly identified one construction project as a non-state highway system road, which caused the Department to understate fiscal year 2010 capital assets non depreciable by $9 million.

  While the Department's finance division relies on the Department's district and area offices to notify it when a pass-through toll project is complete, the finance division does not have a process to determine whether the information it receives is complete or accurate.

- The Department excluded the costs and related liability of 14 pass-through toll projects that were under construction from its financial statements. Those projects had fiscal year 2010 costs totaling $365 million. Of that

amount, Department records did not accurately reflect the status of one project with $197 million in costs.

- In fiscal year 2010, TxPABST issued $1 billion in bonds. With the issuance of those bonds, TxPABST generated assets and liabilities requiring financial statement reporting. Although TxPABST is a separate legal entity and the bonds it issued are not legal obligations of the State, TxPABST meets governmental accounting and financial reporting conditions for being categorized as a blended component unit. The Department planned to disclose the TxPABST bond activity in a note to its financial statements. However, that plan was not in compliance with a GASB requirement to include TxPABST information in the Department's financial statements as part of the primary government. The Department correctly reported TxPABST as a component unit after auditors brought this matter to its attention.

  The Department did not perform adequate research to determine the correct manner in which to record TxPABST bond activity in its financial statements.

Without a process to ensure that it reports all financial information accurately, the Department increases the risk that it would be unable to prevent or detect a potentially material misstatement in its financial statements.

Recommendations

The Department should:

- Implement controls to ensure that it accurately discloses all pass-through toll roads in its financial statements.

- Be proactive in determining the financial effects of new financing and, at a minimum, do the following:

  - Research appropriate reporting requirements for new operations and activities prior to implementation of those operations.

  - Document its accounting methodology decisions.

- Require that its staff obtain a minimum level of annual continuing education that covers current accounting topics.

Management's Response

The Department agrees improvements need to be implemented for capturing and reporting of completed pass-through toll roads. In addition, the Department will continue to research and confer with the Comptroller's

Office and the Governmental Accounting Standards Board (GASB) on the proper accounting treatment of pass-through toll roads. As of the report date, the GASB has not provided specific guidance on the treatment of construction costs incurred under pass-through toll agreements prior to acceptance of the project by the Department. For consistency of reported financial information between the State's Consolidated Annual Financial Report and the Department's Annual Financial Report, the Department aligned its treatment of construction cost incurred with that of the Comptroller's Office.

The Department agrees with recommendations for determining the financial effects of new financing.

Implementation Date: August 2011

Responsible Person: Finance Division Director

Issue 2
The Department of Transportation Should Establish a Process to Accurately Account for Bridges

Reference No. 11-555-06
(Prior Audit Issue 10-555-10)

Type of finding: Significant Deficiency

The Department should improve its processes to ensure that it records accurate information for all completed bridges in its financial records in a timely manner.

Department records for fiscal year 2010 reflected 8,761 bridges with a value of $18.8 billion (including 266 bridge additions or improvements with a value of $713.1 million).

The Department requires its district offices to provide a certification to the Department's finance division for bridges that are placed in service in the district each fiscal year. The finance division relies on those certifications to identify and calculate the value of the bridges. However, the certification process does not always provide accurate and complete information, and the Department continually identifies bridges that were not accounted for in the fiscal year they came into service. For example, in fiscal year 2010, 14 district offices reported 89 bridges valued at $174.4 million that were in service prior to fiscal year 2010.

The Department relies on reconciling it Bridge Inventory, Inspection, and Appraisal Program database to its bridge database to ensure that it records information for all completed bridges in its financial records. The reconciliation identifies bridges for which information in the financial records

must be updated. However, at the end of fiscal year 2010, the reconciliation process did not cover all bridges placed in service during the fiscal year. For example, one bridge valued at $1.2 million was placed in service in fiscal year 2009, but information for that bridge was not recorded in the Department's financial records until fiscal year 2011.

In addition, auditors identified the following errors in the Department's bridge database:

- For 2 (6.1 percent) of 33 bridges tested, information in the bridge database was incorrect. These errors led the Department to overstate its fiscal year 2010 capital assets depreciable by $2.3 million.
- For 5 (15.2 percent) of 33 bridges tested, the amount of depreciation was incorrect in the bridge database. These errors led the Department to understate accumulated depreciation by $1.9 million.

The Department also does not formally document or track ownership for (1) bridges it builds and (2) bridges whose ownership is transferred to or maintained by the Department. Without documentation or a method to track ownership, the Department could account for bridges incorrectly in its financial statements.

Recommendations

The Department should:

- Ensure that it properly records and reports bridge values and associated depreciation.
- Record and report all completed bridges in the fiscal year in which they are open to service.
- Implement controls to ensure that district offices report all required bridge information to the finance division.
- Establish controls to ensure that it records accurate information concerning bridge ownership.

Management's Response

The Department agrees and continues to evaluate and modify controls for the accounting and reporting of bridges. The Department has seen noticeable improvement from prior years in this area. As noted in the Report, controls implemented in fiscal year 2010 allowed the Department to detect and correct $174 million in bridge errors prior to the submission of financials. As a result these bridges were properly and accurately reported as of August 31, 2010 to

the Comptroller's Office. The Department will continue to modify controls to ensure remaining errors noted are detected and corrected in a timely manner.

The Department will evaluate the use of available documentation in its processes to account for bridges. The Department acquires and maintains fee title deeds or right of way easements for all land (right-of-way) it owns. For any improvements made upon right-of-way owned by the Department, such as bridges, the land deed or easement rights will include and support ownership of all permanent improvements constructed or located thereon. All bridges built by the Department are upon right-of-way real property interests owned by the Department. The Department also maintains agreements with entities from which bridges have been transferred.

Implementation Date: August 2011

Person Responsible: Finance Division Director

Issue 3
The Department of Transportation Should Strengthen Its Management of System Access and Password Requirements

Reference No. 11-555-07
(Prior Audit Issue 10-555-11)

Type of finding: Significant Deficiency

To protect the integrity of its information resources, the Department should ensure that it properly manages access to certain automated systems and that user passwords settings are sufficient.

The Department should strengthen its management of system access.

In fiscal year 2010, the Department did not regularly update access rights to its automated systems and it did not properly restrict user access. Removing users' access to automated systems immediately upon termination of employment or change in job function helps to ensure information resources are protected against unauthorized access, disclosure, modification, or destruction. It also helps to ensure the availability, integrity, authenticity, and confidentiality of information. Auditors identified the following:

- 7 (23.3 percent) of 30 users tested had inappropriate update access rights to the Construction and Maintenance Contracting System (CMCS) based on their job duties. CMCS is the Department's system of record for routine maintenance contracts.

- 215 (29.8 percent) of 722 active user accounts for the Department's Web-based Revenue Logging System (also referred to as the DLOG) were not removed upon termination of the users' employment. When auditors brought this to the Department's attention, it removed these users' access.

The DLOG is used to log cash collection activity at the Department's various locations statewide.

- 3 (9.1 percent) of 33 users with access to the Department's client server-based Revenue Logging System were not current employees or other authorized personnel of the Department; the Department did not remove these users' access when they transferred to another state agency. When auditors brought this to the Department's attention, it removed these users' access. The Revenue Logging System is the internal system the Department's finance division's uses to record cash collection activity in the Uniform Statewide Accounting System (USAS) and its Financial Information Management System (FIMS).

- 5 (3.5 percent) of 144 users of the Uniform Statewide Payroll/Personnel System (USPS) had inappropriate access rights to the system based on their job functions. Additionally, 2 (1.4 percent) of 144 users were inappropriately given access to multiple USPS profiles, which is prohibited by the USPS access criteria. When auditors brought this to the Department's attention it removed these users' access. USPS is the system of record for the Department's salary and labor distributions.

- 3 (37.5 percent) of 8 users with access to the test environment for the Department's Materials and Supplies Management System (MSMS) had inappropriate access based on their job functions. Auditors also identified one user for whom the Department did not remove access when that user transferred to another state agency. When auditors brought these issues to the Department's attention, it removed the inappropriate access. MSMS is the Department's system of record for materials and supplies purchases.

According to the Department's *Information Security Manual* dated March 2010, "when a user's employment status or job functions change, a user's access authorization must be removed or modified appropriately and immediately." The manual also states that "system and administrative rights must be restricted to persons responsible for system administrative management or security" and that "there should be separation between the production, development, and test environments when resources permit."

The Texas Administrative Code also requires agencies to take measures to protect data from authorized access, disclosure, modification, or destruction, whether accidental or deliberate (see text box for additional details).

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, utility authenticity, and confidentiality of information. Access to state information resources shall 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 develop or update user access criteria for certain systems and regularly review that criteria.

The Department's user access criteria for CMCS and USPS were not current or did not accurately reflect the actual criteria the Department uses. Additionally, the Department does not have user access criteria for its Revenue Logging System.

Developing and regularly reviewing access criteria helps reduce the risk of unauthorized access, disclosure, modification, or destruction of its information resources.

According to the Department's *Information Security Manual* dated March 2010, access criteria must be developed for any system or application. Access criteria define:

- Levels of access to the system and/or application.
- Who can have each level of access to the system and/or application.
- The capabilities of each level of access.
- The resources needed for each level of access.

Furthermore, the *Information Security Manual* states that "access will be reviewed on an annual basis by the Technology Services Division (TSD) Information Security Services (ISS) containing the office of primary responsibility and making any pertinent changes and/or modifications." Additionally, the Texas Administrative Code states that "state agencies shall ensure adequate controls and separation of duties for tasks that are susceptible to fraudulent or other unauthorized activity."

The Department should strengthen SiteManager and ROWIS password settings.

As of August 31, 2010, the Department had not implemented a policy to ensure that its SiteManager and ROWIS automated systems were adequately protected. Specifically:

- Password settings at the application level for ROWIS do not meet the Department's *Information Security Manual* requirements because passwords are assigned and cannot be changed.
- Password settings at the database and application levels for SiteManager do not conform to *Information Security Manual* password expiration and complexity requirements.

To access the Department's SiteManager and ROWIS systems, users must enter a password. According to the Texas Administrative Code and the Department's *Information Security Manual*, state agencies should use unique passwords that contain both alphanumeric characters and special characters. In addition, the *Information Security Manual* states that passwords used to gain access to network entry points must be changed every 90 days. The Texas Administrative Code also specifies requirements related to passwords (see text box for additional details).

Title1, Texas Administrative Code, Section 202.25(3)(D)

Information resources systems which use passwords shall be based on industry best practices on password usage and documented state agency risk management decisions.

Requiring the use of passwords that include both alphanumeric and special characters; have a minimum password age, history, and length; and have a maximum number of failed password attempts helps to ensure that information resources are protected against unauthorized access, disclosure, modification, or destruction. This also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

Recommendations

The Department should:

- Ensure that it manages access to state information resources in compliance with its policy and the Texas Administrative Code.
- Enforce its policy and ensure that it disables user accounts immediately upon termination or change in a user's job functions.
- Strengthen its process for review of user accounts to ensure that it manages employee and contractor access appropriately.
- Enforce its policy and ensure that it (1) develops access criteria for all systems and applications and (2) annually reviews and updates those criteria as necessary.
- Continue to implement a policy to ensure that its automated systems are adequately protected with appropriate password settings.

Management's Response

TxDOT agrees with the State Auditor's recommendations to strengthen its management of system access and password requirements.

The Department should strengthen its management of system access.
In fiscal year 2010 the department moved the responsibility for many TxDOT business functions from personnel in the districts to regional personnel as a component of the regionalization effort. These changes to the business model required code level modifications to several existing TxDOT applications. A large percentage of the discrepancies identified by the State Auditor's Office

were a result of the reassignment of both business functions and employees from districts to regions. The change to business functions experienced during the regionalization effort has identified opportunities for the department to improve policy enforcement and reporting.

TxDOT has policies in place that require the following:

1. The Office of Primary Responsibility (OPR) for an application should periodically monitor compliance with application access criteria.

2. District /Division / Office /Region (DDOR) Security Administrators (SAs) should annually, in conjunction with the applicable supervisor(s), review and update users' access capabilities in local and wide area network (LAN/WAN), web, mainframe, and client-server environments, based on current job duties or management requirements and provide a summary of the annual access review to the TSD ISS branch supervisor.

3. Supervisors should participate in periodic security reviews when requested.

4. Supervisors should submit user requests to terminate access, including Internet access due to termination or transfer, to the SA immediately for processing.

5. Supervisors should annually review and update, in conjunction with the SA, each user's access capabilities in local and wide area network, web, mainframe, and client-server environments based on current job duties or management requirements.

6. Supervisors should provide SA with annual access review summaries of information security User ID reports.

The Technology Services Division (TSD) Information Security Services Branch (ISS) will put into practice the following changes to address the audit finding.

1. Modify the policy requiring OPRs to periodically monitor compliance with an application's access criteria to state that OPRs shall annually validate compliance with an application's access criteria and provide the validation to TSD's ISS branch. This modification to the policy will be included in the June 2011 update of the TxDOT Information Security Manual.

2. Implement a tracking database to identify when the following items have been reported toTSD's ISS Branch.

- *OPR application access criteria review*
- *D/D/O/R SA user access review*

3. Develop and provide an annual report to the TxDOT Information Security Officer (ISO) documenting any missing SA or OPR reviews. The ISO will communicate any deficiencies to the appropriate D/D/O/R director for immediate resolution.

The Department should develop or update user access criteria for certain systems and regularly review that criteria.
TxDOT has policies in place that require an access criteria be developed for any new system and/or application prior to production implementation. TxDOT policy also states that an OPR must review and verify access controls at least annually and recommend revisions where appropriate.

TSD will implement the following process improvements to ensure access criteria are properly developed and maintained:

- *The TSD Data and Quality Management / Configuration Management (DAQ/CM) branch will not perform a new application move to production until an access criteria has been developed and published on the TSD Crossroads site.*

- *Prior to performing an existing application enhancement move to production, the TSD DAQ/CM branch will verify) that the application access criteria on Crossroads has been reviewed or updated within the last year.*

The Department should strengthen SiteManager and ROWIS password settings.
The Construction Division (CST) requested an enhancement to the SiteManager application to support compliance with the department's password policies. TSD has completed the application modifications. The updated SiteManager application is scheduled for production release in March 2011.

TSD has discussed the criticality of the need to address ROWIS password settings with Right of Way Division (ROW) personnel. Following these discussions, ROW has committed to immediately submit an Information Resource Request (IRR) to TSD to request the identification and implementation of a technical solution to ensure the ROWIS application complies with the department's password policies. TSD staff will analyze the system and recommend one or more technical solutions to ROW staff to determine which technical solution best meets ROWIS business requirements.

Implementation Dates: The initial analysis by TSD staff to determine solution alternatives will be completed by the end of February 2011. Programming and implementation of the selected solution will begin in early March 2011.

Responsible Person: Technology and Services Division Director

Chapter 2-C

The Office of the Comptroller of Public Accounts Should Strengthen Information Security Controls

Issue 1

The Office of the Comptroller of Public Accounts Should Strengthen Access Controls for Treasury Division Automated Systems

Reference No. 11-555-08
(Prior Audit Issues 10-555-15, 09-555-02, and 08-555-01)

Type of finding: Significant Deficiency

Since April 2008, the State Auditor's Office has reported that the Office of the Comptroller of Public Accounts (Comptroller's Office) has allowed internal system program developers to have access to production data for its Treasury Division's automated systems.[3]

The Comptroller's Office allows two internal system program developers to have access to production data for the Treasury Division'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 audit of fiscal year 2007, the Treasury Division reduced the number of program developers who had this access from 15 to 2. The Treasury Division is in the process of replacing its automated systems with another application that can be implemented with more advanced security features. It also has strengthened controls over access to its automated systems.

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 shall 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 shall 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.

[3] See *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2009,* State Auditor's Office Report No. 10-555, March 2010; *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2008,* State Auditor's Office Report No. 09-555, April 2009; and *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.

Recommendations

The Comptroller's Office should:

- Continue to monitor end user and developer access to Treasury Division automated systems to ensure that short-term compensating controls effectively promote proper segregation of duties.
- Ensure that the security features of the planned new application enable the Treasury Division to properly manage end user and developer access.

Management's Response

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 Division's designated security coordinator before staff or developer access is granted. The process is monitored and approved at several checkpoints throughout the process.

As noted in the finding the Treasury Operations Division is in the process of replacing our legacy systems with a new software solution. 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.

Implementation Date: August 31, 2011

Responsible Person: Director, Treasury Operations

Issue 2
The Office of the Comptroller of Public Accounts Should Strengthen Password Requirements

Reference No. 11-555-09

Type of finding: Significant Deficiency

Title 1, Texas Administrative Code, Section 202.25(3)(D)

Information resources systems which use passwords shall be based on industry best practices on password usage and documented state agency risk management decisions.

The Comptroller's Office did not program its access management system to comply with password requirements in the Texas Administrative Code (see text box). This access management system was implemented in fiscal year 2005. The Comptroller's Office adopted internal password management policies that are designed to comply with the Texas Administrative Code's requirements for password management; however, it had not implemented those policies at the time of this audit.

Password rules that meet industry best practices are important to prevent security breaches and unauthorized access to the information systems managed by the access management system. Unauthorized access to information systems causes the data in that information system to be at risk of inappropriate disclosure, corruption, and deletion. Auditors did not identify any instances of unauthorized access or loss of data integrity as a result of tests performed during the audit.

Due to the nature of this issue, auditors communicated other details regarding this issue in writing directly to the Comptroller's Office.

Recommendation

The Comptroller's Office should ensure that the password requirements over its access management information system comply with its policies and the Texas Administrative Code.

Management's Response

Testing is in progress on the newly modified password requirements for the Treasury Access Management System to ensure that they comply with policies and the Texas Administrative Code. The new password requirements will be in production this month.

Implementation Date: February 28, 2011

Responsible Person: Software Development Manager

Chapter 2-D

The Texas Workforce Commission Should Strengthen Access Controls

Issue 1
The Texas Workforce Commission Should Regularly Update and Restrict User Access Rights to Screens in the Tax System

Reference No. 11-555-10

Type of finding: Significant Deficiency

According to the Texas Workforce Commission's (Commission) *Information Security Standards and Guidelines Manual*, section SG2.9, "Custodians or other designated staff are responsible for modifying, disabling or deleting the accounts of individuals who change roles within [the Texas Workforce Commission] TWC or are separated from their relationship with TWC" and "must have a documented process for periodically reviewing existing accounts for approved access."

In fiscal year 2010, the Commission's Tax Department did not regularly update access rights to a screen in the Commission's Tax System. Specifically, 7 (20.0 percent) of 35 of users tested who had access to the adjustment entry screen in the Tax System did not require that access to perform their job functions. These users had the ability to enter and edit transactions. After auditors brought this issue to the Commission's attention, the Commission removed these users' access rights.

The Commission tracks and reviews user transactions to ensure that only appropriate financial transactions are entered. In addition, the Commission performs periodic reviews to identify inactive users, duplicated accounts, and access violations. However, its periodic reviews do not ensure that users have continued appropriate access to the Tax System according to users' job functions. Granting improper access rights increases the risk of fraud and inappropriate financial transactions not being detected.

Recommendations

The Commission should:

- Restrict users' access rights to only what is needed to perform their job functions.
- Remove or modify users' access appropriately and immediately upon a change in their job functions.
- Develop and document a process for performing periodic reviews of user access to the Tax System screens.

Management's Response

Management agrees with the recommendations. The Commission has taken the following actions:

- *Reviewed all Tax Department users with transaction entry and edit access authorizations for appropriate RACF authority and determined these users have access rights to only what is needed to perform their job functions;*
- *Implemented procedures to remove or modify users' access appropriately and immediately upon a change in their job function; and*
- *Developed and documented written procedures that will ensure the performance of periodic reviews of user access to the Tax system and identify inactive users, duplicated accounts, and access violations.*

In addition, the Commission will provide training for applicable employees on the procedures cited above.

Implementation Date: March 31, 2011

Responsible Person: Deputy Director, Unemployment Insurance Division

Chapter 2-E

The University of Texas at Austin Should Strengthen Certain Aspects of Its Information Technology Operations

Issue 1
The University of Texas at Austin Should Strengthen its Management of System Access

Reference No. 11-555-11

Type of finding: Significant Deficiency

The University of Texas at Austin (University) did not promptly remove access to its accounting system for employees and affiliates who separated from the University. A total of 163 employees and affiliates still had access to the accounting system after they separated from the University. Four (2.5 percent) of the 163 employees and affiliates logged into the accounting system after their separation dates. However, auditors did not identify any inappropriate activity by those users.

The University's policy, *Managing Information Resources at The University of Texas at Austin*, states that user accounts of individuals who have had their status, roles, or affiliations with the University changed must be updated to reflect their current status. Additionally, accounts must be reviewed at least annually to ensure their current status is correct.

Title 1, Texas Administrative Code, Section 202.70(2), requires higher education institutions to take measures to protect data from unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate. Title 1, Texas Administrative Code, Section 202.75(3)(B), requires a user's access to be removed when the user's employment status changes.

Monitoring and modifying system access as required reduces the risk of fraud, data corruption, and potential service disruption.

Recommendations

The University should:

- Manage access to state information resources in compliance with its policy and the Texas Administrative Code.
- Disable user accounts immediately upon termination of a user's employment.
- Strengthen its process for review of user accounts to ensure that it manages employee and affiliate access appropriately.

Management's Response

We agree with the principle that access to and updating of protected University information should be limited to those affiliated with the University as employees or those specifically designated as Affiliated via our central tracking system. We plan to strengthen our access controls in three phases, which are scheduled for completion by December, 2011. The three phases include:

1. Various reports will be developed and deployed that enable electronic office managers and delegates (who manage access for individuals) to review access to the financial systems. These reports will also be helpful to office managers and delegates during their required quarterly review of access. (Implemented).

2. A new nightly process will be implemented which will remove any individual who is not affiliated with the University from DEFINE, thus removing their access to financial applications. Those affiliated with the University include employees and those specifically designated as University Affiliates in Human Resource Management System (HRMS). This phase will allow user accounts to be disabled automatically immediately upon termination of employment or affiliation. (April 2011)

3. All core financial systems that do not currently have an active affiliation check in them (due to their previous reliance on these individuals being removed from having access) will have this check added before the end of 2011. (December 2011)

The changes described above, in conjunction with the quarterly review by all electronic office managers and delegates of their access settings for individuals, will address all three audit recommendations:-

- *Manage access to state information resources in compliance with its policy and the Texas Administrative Code*
- *Disable user accounts immediately upon termination of a user's employment*
- *Strengthen its process for review of user accounts to ensure that it manages employee and affiliate access appropriately*

Implementation Date: December 2011

Responsible Person: Associate Director, Office of the Controller

Issue 2
The University of Texas at Austin Should Comply with the Texas Administrative Code Password Standards

Reference No. 11-555-12

Type of finding: Significant Deficiency

The University did not consistently follow the requirements of Title 1, Texas Administrative Code, Section 202.75(3)(D), which requires information systems to use passwords based on industry best practices on password usage and to document risk management decisions.

Industry best practices, including those established by Microsoft Corporation, recommend that passwords be routinely changed or expire every 30 to 90 days. The University's policy does not require users to change passwords that often; instead, the policy recommends that users change passwords every six months. Texas higher education institutions can choose to establish different guidelines based on their needs, but they should document risk management decisions and detail the discussions and acceptance of the risk associated with departing from generally accepted best practices. The University was unable to provide such documentation.

Recommendation

The University should review its current password policies and align them with industry best practices and the Texas Administrative Code, or it should document its risk management decisions and its acceptance of the risk associated with departing from industry best practices and the Texas Administrative Code.

Management's Response

The University concurs that it should consistently follow the requirements of Title 1, Texas Administrative Code, Section 202.75(3)(D) password standards which requires that its practices with respect to password usage be based on industry best practices. Determining what is in fact "industry best practices" involves judgement and is ever changing. Management believes that our procedures follow best practices guidelines based on research from a variety of sources including the National Institute of Standards and Technology, SANS Institute, security guru Bruce Schneier, and peer institutions. University adherence to high standards related to password security is documented in a 2010 survey of the 10 largest universities by enrollement (Ohio State, Florida, Arizona State, Penn State, Minnesota, Michigan State, Texas A&M) and the ten universities with the highest rated computer science departments (UC Berkeley, Illinois Urbana-Champaign, MIT, CMU, Stanford,

Georgia Tech, Washington). This documentation will be provided to the State Auditor's Office.

Management has approved this strategy, as evident by this response and by the University's published password policy, which of itself is also documentation of risk management decisions.

In addition, we will provide a signed document to demonstrate documentation of management's risk management decisions.

Implementation Date: February 28, 2011

Responsible Person: Chief Financial Officer

Chapter 2-F

The University of Texas Medical Branch at Galveston Should Strengthen Certain Aspects of Its Financial and Information Technology Operations

Issue 1
The University of Texas Medical Branch at Galveston Should Strengthen Its Documentation for Capital Assets

Reference No. 11-555-13

Type of finding: Significant Deficiency

The University of Texas Medical Branch at Galveston (Medical Branch) was unable to provide documentation to support the acquisition cost for 19 (86.4 percent) of 22 equipment items that auditors tested. The Medical Branch disposed of the equipment items tested in fiscal year 2010. The Office of the Comptroller of Public Accounts' *State Property Accounting Process User's Guide* and the Library and Archives Commission's *Texas State Records Retention Schedule* require capital asset records to be maintained for three years after the disposal of assets. Not maintaining these records for required time periods could impair the Medical Branch's ability to substantiate the value of assets or to demonstrate that it owned an asset that was stolen or destroyed.

Recommendation

The Medical Branch should maintain capital asset records in accordance with the minimum required retention periods established in the *State Property Accounting Process User's Guide* and the *Texas State Records Retention Schedule*.

Management's Response

UTMB Asset Management will work with both the Purchasing and the Accounts Payable departments to ensure appropriate documentation is maintained for capital asset purchases on a go forward basis in accordance with the minimum required retention periods established in the State Property Accounting Process Users Guide the Texas State Records Retention Schedule.

Implementation Date: September 1, 2011

Responsible Persons: Finance Manager, General Accounting and Asset Management and Finance Manager, Accounts Payable.

Issue 2
The University of Texas Medical Branch at Galveston Should Strengthen Management of User Access to Internal and State Systems

Reference No. 11-555-14

Type of finding: Significant Deficiency

The Medical Branch did not appropriately manage user access to internal and state systems to ensure that access levels were appropriate for a user's job responsibilities, that it removed terminated employees' access, that there was proper segregation of duties, or that access was restricted to an appropriate number of users. Specifically:

- Although the Medical Branch reviews access to state systems semi-annually, auditors identified inappropriate access to the State Property Accounting System (SPA) and the Uniform Statewide Accounting System. Specifically, 3 (33.3 percent) of 9 SPA users and 3 (25.0 percent) of 12 USAS users had access that was not required for them to perform their job duties.

- 2 (5.9 percent) of 34 user accounts for Invision, the hospital revenue system, were for users whose employment had been terminated.

- 13 (59.1 percent) of 22 users of Invision had access to make code changes and move those changes to the production environment. For three code changes auditors tested, two had no evidence that the changes were authorized, two had no evidence that changes were tested prior to moving the changes to the production environment, and none had evidence of proper segregation of duties between the individual who made the changes and the individual who moved those changes to the production environment.

- 2 (50.0 percent) of 4 users of the Financial Management System and Payroll System had access to make code changes and move those changes to the production environment.

- 12 approved users had access to make data changes to certain blanket approved tables within the Financial Management System and Payroll System, and those systems do not have controls to prevent or identify inappropriate changes.

- An excessive number of users—51 employees—had read and write access to the Medical Branch's annual financial report file. That file is uploaded to the University of Texas System's Financial Consolidated Reporting System.

Title 1, Texas Administrative Code, Section 202.75(3)(B), requires user access to be appropriately reviewed, managed, modified, or removed when a user's employment or job responsibilities change. Additionally, Title 1, Texas Administrative Code, Section 202.70(8), requires higher education institutions to establish adequate controls and segregation of duties for tasks that are susceptible to fraudulent or other unauthorized activity.

Users with inappropriate access to key systems and information could disclose, modify, or destruct information resources and adversely affect the availability, integrity, utility, authenticity, and confidentiality of key information.

Recommendations

The Medical Branch should:

- Periodically review user access to ensure that (1) it has established adequate controls and segregation of duties and (2) access to key systems and state information is appropriate.
- Strengthen change management controls to ensure that it can prevent unauthorized changes and to provide accountability for updates to mission-critical information and software.

Management's Response

Effective November 2010, the three State Property Accounting System users access was removed and three Uniform Statewide Accounting System users access was restricted to access needed only to perform either current job duties. Additionally, in December 2010, for the two users with access to make code changes and move those changes to the production environment in the Financial Management System and Payroll System had their programming access removed.

To address the access issues identified related to Invision, effective March 2011, a process will be established for each Trusted Requestor to routinely review users access to identify and delete access for any users whose access is inappropriate. Information Services (IS) will incorporate proper segregation of duties for staff making code changes to Invision and moving those changes to the production environment. Additionally, current IS policy states that code changes should be authorized, tested and testing documented prior to moving those changes to production. This policy will be reinforced with IS staff immediately.

To address the issues identified related to twelve approved users having access to make data changes to certain blanket approved tables within FMS and the Payroll System, UTMB will review user access to ensure we have

established adequate controls and segregation of duties and that access is limited to the appropriate current personnel. Additionally, we will also review our change management controls to ensure prevention of unauthorized changes and provide accountability for updates to mission-critical information and software.

Finally, access to the annual financial report file that is uploaded to the University of Texas System's Financial Consolidated Reporting System will be limited.

Responsible Persons:

Invision: Associate Vice-President, Information Services and Director, Clinical Information Services

FMS and Payroll Systems: Director of Administrative Information, Information Services

UT System Financial Consolidated Reporting System: Director of Financial Reporting

Implementation Dates:

Invision: May 31, 2011

FMS and Payroll Systems: March 31, 2011

UT System Financial Consolidated Reporting System: October 2011

Chapter 2-G

The University of Texas Southwestern Medical Center at Dallas Should Strengthen Certain Aspects of Its Information Technology Operations

Issue 1
The University of Texas Southwestern Medical Center at Dallas Should Strengthen Management of User Access to Internal and State Systems

Reference No. 11-555-15
(Prior Audit Issue 10-555-24)

Type of finding: Significant Deficiency

The University of Texas Southwestern Medical Center at Dallas (Medical Center) did not appropriately manage user access to internal and state systems to ensure that it removed terminated employees' or contractors' access, that access levels were appropriate for each user's job responsibilities, or that there was proper segregation of duties. The Medical Center did not review user access to its information systems during fiscal year 2010. Auditors identified the following:

- 125 (8.4 percent) of 1,495 user accounts to the internal patient account system, Siemens, were for terminated employees, contractors, or users who could not be identified. A total of 13 (10.4 percent) of those 125 user accounts also had current access to the network.

- 41 (2.7 percent) of 1,495 Siemens user accounts had access to (1) override prices in the Charge Description Master within Siemens and (2) post adjustments. Access to both of these features represents a weakness in segregation of duties.

- 4 (0.3 percent) of 1,495 Siemens user accounts had inappropriate access to modify the Charge Description Master within Siemens; the job duties of the employees associated with these user accounts did not require that level of access.

- 3 (0.5 percent) of 577 current user accounts to PeopleSoft, the accounting system for the Medical Center's hospitals, were for terminated employees.

- 137 (23.7 percent) of 577 PeopleSoft user accounts had not been accessed for 6 months or more or had never been accessed. Those user accounts also were not locked. A total of 80 (58.4 percent) of those 137 accounts had not been accessed for 6 months or more. A total of 57 (41.6 percent) of those 137 user accounts had never been accessed.

- 3 (30.0 percent) of 10 employees had inappropriate access to screens within the Uniform Statewide Accounting System (USAS) based on their job duties.

- 8 (1.9 percent) of 427 current user accounts for the overall accounting system, the Online Administrative System (OAS), were for terminated employees or contractors.

- One programmer had inappropriate super-user access to OAS, which allowed the programmer to make code changes and then migrate those changes to the production environment.

- Two users had access to all functions in the inventory system, IVIN, including entering data and overriding audit reports. Having full access to that system represents a weakness in segregation of duties and increases the risk that an individual could modify or delete information without any record of the change being properly recorded.

Title 1, Texas Administrative Code, Section 202.75(3)(B), requires user access to be appropriately reviewed, managed, modified, or removed when a user's employment or job responsibilities change. Additionally, Title 1, Texas Administrative Code, Section 202.70(8), requires higher education institutions to establish adequate controls and segregation of duties for tasks that are susceptible to fraudulent or other unauthorized activity.

When users have inappropriate access to key systems and information, they could disclose, modify, or destruct information resources and adversely affect the availability, integrity, utility, authenticity, and confidentiality of key information.

Recommendation

The Medical Center should periodically review user access to ensure that (1) it has established adequate controls and segregation of duties and (2) access to key systems and state information is appropriate.

Management's Response

The Medical Center has reviewed all of the user access exceptions noted in this finding. Management has assessed the appropriateness of the access of the individual users within each of the internal or state systems identified based on the user's roles and responsibilities. Required access corrections have been identified and process or system changes are being implemented, as deemed appropriate, to strengthen the user access controls of the Medical Center.

Implementation Status: In process

Implementation Date: April 2011

Responsible Person: Vice President for Information Resources

Chapter 2-H

The University of Texas Health Science Center at Houston Should Strengthen Controls Over Capital Assets

Issue 1
The University of Texas Health Science Center at Houston Should Strengthen Its Documentation for Capital Assets

Reference No. 11-555-16
(Prior Audit Issue 10-555-23)

Type of finding: Significant Deficiency

The University of Texas Health Science Center at Houston (Health Science Center) continued to have insufficient support for its capitalized asset balance because it did not have documentation for assets it purchased prior to fiscal year 2004.

Definition

Capitalized Assets – Real or personal property that has an estimated life of greater than one year and has a value equal or greater than the capitalization threshold established for that type of asset. Capitalized assets are reported in an agency's annual financial report.

Source: *State Property Accounting Process User's Guide*, Office of the Comptroller of Public Accounts, February 2008.

The State Auditor's Office reported in March 2010[4] that the Health Science Center was not able to locate documentation to support the beginning valuations in its asset management system for 18 (24.7 percent) of the assets tested. As a result, auditors were unable to verify the beginning valuations for those 18 assets. According to the Health Science Center's records, the value of those 18 assets totaled $12.5 million, or 12.4 percent of the assets tested.

The Health Science Center implemented a new financial system in 2003. This made locating documentation for the 18 assets discussed above more difficult because the Health Science Center acquired each of those 18 assets prior to fiscal year 2004. Without documentation, it would be difficult for the Health Science Center to prove ownership of an asset or its valuation in the event of theft or destruction of the asset.

Recommendation

The Health Science Center should develop and implement a process to enable it to more easily locate documentation for capitalized assets it acquired prior to fiscal year 2004.

Management's Response

UTH-Houston has now isolated within the university content management repository (Documentum) a separate file folder for real properly asset information. A file folder for each fiscal year will contain the details for the real properly additions. The documents in the file folder will include

[4] See *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009*, State Auditor's Office Report No. 10-555, March 2010.

references to voucher number, purchase order number and componentization breakdowns. Information currently being entered into Documetum for personal property acquisitions include voucher number, purchase order number, and componentization breakdowns. To the fullest extent possible, available information supporting acquisitions prior to 2004 have been aggregated in this repository.

Implementation Date: September 2011

Responsible Person: Senior Vice President, Finance and Business Services

Chapter 2-I

Agencies and Higher Education Institutions Should Strengthen Their Review of Their Schedules of Expenditures of Federal Awards

Reference No. 11-555-17
(Prior Audit Issues 10-555-26 and 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 2010.

The agencies and higher education institutions listed in Table 1 did not perform an adequate review of their fiscal year 2010 Schedules of Expenditures of Federal Awards (SEFAs) (see text box 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 1 summarizes the errors that auditors identified in these agencies' and higher education institutions' fiscal year 2010 SEFAs.

The 8 agencies and 18 higher education institutions listed below reported $21.9 billion in federal expenditures, or 38.5 percent of the total federal expenditures the State of Texas reported for fiscal year 2010. The errors listed below were not material to the fiscal year 2010 SEFA for the State of Texas or to the fiscal year 2010 Comprehensive Annual Financial Report for the State of Texas.

Table 1

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 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 Inclusion of Expenditures [e]	Incorrect Exclusion of Expendi-tures [f]	Errors in Notes to the SEFA [g]	Incorrect Reporting of ARRA Expendi-tures [h]
Department of Aging and Disability Services						X		
Department of Agriculture		X			X	X		
Department of Public Safety					X		X	

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 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 Inclusion of Expenditures [e]	Incorrect Exclusion of Expendi-tures [f]	Errors in Notes to the SEFA [g]	Incorrect Reporting of ARRA Expendi-tures [h]
Department of State Health Services		X						X
Department of Transporta-tion		X						
Higher Education Coordinating Board						X		
Parks and Wildlife Department			X					
Sam Houston State University	X			X	X	X	X	
Texas A&M University System Health Science Center					X			
Texas A&M International University			X					
Texas Education Agency	X	X						
Texas Southern University					X			
Texas State University – San Marcos							X	
The University of Texas at Arlington					X		X	
The University of Texas at Austin	X				X	X	X	
The University of Texas at Brownsville		X						

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 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 Inclusion of Expenditures [e]	Incorrect Exclusion of Expendi-tures [f]	Errors in Notes to the SEFA [g]	Incorrect Reporting of ARRA Expendi-tures [h]
The University of Texas at El Paso				X			X	
The University of Texas – Pan American							X	
The University of Texas Health Science Center at Houston							X	X
The University of Texas Health Science Center at San Antonio	X							
The University of Texas M. D. Anderson Cancer Center				X				X
The University of Texas Medical Branch at Galveston	X						X	
The University of Texas South-western Medical Center at Dallas	X						X	
University of Houston				X				
University of Houston - Downtown				X				
University of North Texas Health Science Center at Fort Worth	X							

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2010 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 Inclusion of Expenditures [e]	Incorrect Exclusion of Expendi-tures [f]	Errors in Notes to the SEFA [g]	Incorrect Reporting of ARRA Expendi-tures [h]

[a] Reported federal programs in an incorrect cluster.

[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] Overreported federal expenditures on its SEFA. Expenditures were reported based on the federal award year rather than the state fiscal year.

[f] Underreported federal expenditures on its SEFA.

[g] Errors were noted in the notes to the SEFAs.

[h] Incorrectly reported expenditures of funds received from the American Recovery and Reinvestment Act.

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.

Management's Response

See Appendix 3 for management's response from each agency and higher education institution.

Federal Award Findings and Questioned Costs

A finding regarding the Schedule of Expenditures of Federal Awards for fiscal year 2010 was included in Chapter 2-I of this report. All other fiscal year 2010 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, 2010*, by KPMG LLP.

Summary Schedule of Prior Audit Findings

State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010

Summary Schedule of Prior Audit Findings

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:

- *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).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2008* (State Auditor's Office Report No. 09-555, April 2009).
- *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2009* (State Auditor's Office Report No. 10-555, March 2010).

The Summary Schedule of Prior Audit Findings (for the year ended August 31, 2010) has been prepared to address these responsibilities.

Chapter 4-A

The Health and Human Services Commission Should Strengthen the Design and Operations of its Internal Control Structure over Validating Payments for Public Assistance Programs

Issue 1
The Health and Human Services Commission Should Strengthen Controls over Payment Processing

Reference No. 10-555-01

Type of finding: Material Weakness

> **Material Weakness in Internal Control**
>
> A material weakness is an internal control weakness of such magnitude that it could potentially result in a material misstatement of the financial statements.
>
> Source: *Governmental Accounting, Auditing, and Financial Reporting*, Stephen J. Gauthier, Government Finance Officers Association, 2005.

The Health and Human Services Commission (Commission) had inadequate controls to address risks related to system and server access, security over sensitive documentation, and physical security over computing resources. Additionally, the Commission does not review interfaced or manual payment transactions prior to releasing those transactions for payment into the Uniform Statewide Accounting System (USAS).

The payment transaction batch size for the first two weeks of August 2009 ranged from 600 to more than 22,000 transactions, with an average of more than 7,000 transactions per batch. Due to this large volume of payment transactions, there is a possibility that an error in payment could go undetected.

Auditors identified multiple issues in the payment process which, when combined, represent a material weakness. To minimize the risks associated with disclosure, auditors communicated details regarding these issues directly to the Commission.

Nothing came to the auditors' attention to indicate that the Commission had processed and made erroneous or excessive payments.

Correction Action and Management's Responses

See current year finding 11-555-01.

Issue 2
The Health and Human Services Commission Should Enhance Its Monitoring of the Vendor Drug Program

Reference No. 10-555-02
(Prior Audit Issues 09-555-08, 08-555-05, and 07-555-01)

Type of finding: Significant Deficiency

The Commission has improved its oversight of Vendor Drug Program monitoring by hiring additional staff in its monitoring unit and requiring the submission of monthly tracking reports from the field administration regional pharmacist to track monitoring activities (see text box for additional details). However, the monthly tracking reports for at least 4 months (which included 56 reports in fiscal year 2009) were inaccurate. Specifically:

- Thirty-four (60.7 percent) of the 56 reports reviewed did not include the correct number of claims.
- Two (25.0 percent) of the 8 reports reviewed for recoupment were not reported accurately.

During fiscal year 2009, the Commission began developing policies and procedures to ensure that regional pharmacist activities and reporting are done in a consistent manner.

Field Administration Regional Pharmacist

The Vendor Drug Program uses regional and sub-regional pharmacists to review expenditure claims submitted by the approximately 4,244 pharmacies participating in the Vendor Drug Program. The regional pharmacists submit monthly tracking reports to the field administration manager to document their monitoring activities. These reports include information such as the number of site visits completed, the number of claims reviewed, and the type of claims reviewed. Each of the 14 regions submits a monthly tracking report to the field administration regional pharmacist.

Correction Action and Management's Responses

Corrective action was taken.

Issue 3
The Health and Human Services Commission Should Review User Access to Two Information Systems and Ensure That Related Duties Are Properly Segregated

Reference No. 10-555-03
(Prior Audit Issues 09-555-10, 08-555-10, and 07-555-05)

Type of finding: Significant Deficiency

The Commission does not adequately manage user access to the State's accounting system (the Uniform Statewide Accounting System, or USAS) and its internal accounting system (the Health and Human Service Administrative System, or HHSAS). Specifically:

- Five users have access to sensitive financial data; can enter, edit, and delete accounting transactions; and can release any accounting transactions into USAS.

- Nine users have USAS class codes that conflict with their job duties. All nine 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 nine users can release revenue transactions into USAS. This represents a weakness in segregation of duties, which increases the risk that inappropriate financial transactions could be made without detection.

- Three users have HHSAS roles and responsibilities that conflict with their job duties. Two have security coordinator responsibilities and can also final approve payments. One has administrative privileges for the accounts payable module and can also final approve payments.

After auditors brought this matter to its attention, the Commission asserted that it had removed the ability of the eight individuals discussed above who could enter or edit and then release accounting transactions into USAS.

In fiscal year 2009, the same Commission employee both entered and released 323 documents totaling $21,398,732 in USAS. Without mitigating controls, this increases the risk that intentional or unintentional errors could go undetected.

Correction Action and Management's Responses

Corrective action was taken.

Issue 4
The Health and Human Services Commission Should Adequately Review Its Annual Financial Report

Reference No. 10-555-04

Type of finding: Significant Deficiency

The Commission does not have an adequate review process to ensure that its annual financial report is complete and is for the current reporting period before it submits that report to various oversight agencies. The required fiscal year 2009 annual financial statements submitted by the Commission to agencies (see text box) were incomplete. The financial statements did not include all annual financial report transactions. It also incorrectly included financial statements that were from fiscal year 2008 instead of fiscal year 2009.

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

Annual financial reports should be submitted to the State Auditor's Office, Governor's Office, Legislative Budget Board, Legislative Reference Library, and Texas State Library.

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2009.

After auditors brought these matters to the Commission's attention, the Commission resubmitted its annual financial

report with complete financial statements and for the correct reporting period.

Correction Action and Management's Responses

Corrective action was taken.

Issue 5
The Health and Human Services Commission Should Track All Accounts Receivable, Improve Collection Efforts, and Report Accounts Receivables on the Financial Statements and in the Uniform Statewide Accounting System

Reference No. 10-555-05

Type of finding: Significant Deficiency

The Commission understated non-current accounts receivable in its fiscal year 2009 financial statements and did not adequately track all accounts receivable during 2009. A Commission internal audit report noted issues related to collection efforts for delinquent accounts receivable and non-compliance with requirements of the Office of the Attorney General and the Office of the Comptroller of Public Accounts (Comptroller's Office).

Texas Medicaid and Healthcare Partnership (TMHP)

The Texas Medicaid and Healthcare Partnership (TMHP) is a coalition of contractors that provides services to the Commission in several areas. TMHP's primary contractor is Affiliated Computer Services (ACS), which subcontracts with Health Management Systems, Inc. (HMS), Accenture, and other smaller contractors. ACS is ultimately responsible for the payments and its subcontractors' performance. TMHP's services and processing activities include:

- Provider enrollment.
- Processing claims for service.
- Services for children with special needs.
- Long-term care program.
- STAR (State of Texas Access Reform Dental and Medical, an insurance program) services.
- Prior authorization services for certain procedures.
- Primary care case management (PCCM).
- Policy development.

Accounts Receivable Understated

The Commission is not reporting the full amount of the non-current accounts receivable arising from overpayments to Medicaid providers on its financial statements and in the Uniform Statewide Accounting System (USAS, the State's accounting system). The Commission reported $27,658,852 in non-current accounts receivable. However, based on reports received from the Texas Medicaid and Healthcare Partnership (TMHP, see text box) and provided by Commission staff, auditors determined the total balance of non-current accounts receivable due from overpayments to Medicaid providers was $84,666,450, resulting in an understatement on the financial statements and in USAS of $57,007,598.

Internal Audit Report Findings

Additionally, the Commission's Internal Audit Division conducted a review of the accounts receivable processes for the Medicaid, Children with Special Health Care Needs (CSHCN), and Family Planning programs and issued a report on September 26, 2008. The report noted the following:

- The claims processing system at TMHP cannot recoup provider accounts receivable balances across programs using the unique identifiers specified in the contract.

- Providers may have multiple Texas Provider Identifier (TPI) numbers. This allows providers to receive payments under one identifying number while maintaining an accounts receivable balance under a different identifying number.

- TMHP makes no further collection efforts on receivables after 90 days.

- The Commission has not established a policy providing guidance to address delinquent debts and comply with related requirements of the Office of the Attorney General and the Comptroller's Office.

- The Commission does not report delinquent providers to the Office of the Attorney General for further collection efforts or to the Comptroller's Office for placement on vendor hold.

- Neither the Commission nor TMHP compares vendors to the vendor hold lists available from the Comptroller's Office before payments are made. Reviewing the vendor hold lists can identify vendors with outstanding liabilities to the State. These liabilities can be recovered through withholding future claims payments.

Accounts Receivable Tracking

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).

The Commission also does not ensure that it records overpayments to hospital districts participating in the Urban Hospital Upper Payment Limit (UPL) program as accounts receivable. The Commission makes UPL payments to urban hospitals on a quarterly basis, and these payments are based in part on previous year UPL payments. Due to the amount of time allowed to finalize Medicaid claims, the Commission is not able to determine whether an urban hospital is overpaid or underpaid for a year after the payments have been made. Without setting up the overpayments to urban hospitals, the Commission has to rely on program staff to track the amount of the overpayments, and the Commission's Fiscal Management unit is unaware of the amount of accounts receivable that the Commission needs to collect.

Correction Action and Management's Responses

See current year finding 11-555-03.

Issue 6
The Health and Human Services Commission Should Disclose the Contingent Financial Liability Associated with the Open Investigations of its Office of Inspector General

Reference No. 10-555-06
(Prior Audit Issues 09-555-11 and 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 paid to providers and recipients for these cases.

As of August 31, 2009, the Commission's list of active open investigation cases included 5,301 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 2009. After auditors brought this to the Commission's attention, the Commission provided a contingent liability note to the Comptroller's Office for inclusion in the State's Comprehensive Annual Financial Report for fiscal year 2009.

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).

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 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 2009.

Correction Action and Management's Responses

Corrective action was taken.

Issue 7
The Health and Human Services Commission Should Evaluate the Need to Accrue Expenditures

Reference No. 10-555-07
(Prior Audit Issue 09-555-12)

Type of finding: Significant Deficiency

The Commission did not evaluate the need for a potential accrual of $13.2 million in expenditures with a fiscal year 2009 service date related to the Supplemental Nutrition Assistance Program (SNAP, formerly known as the

Food Stamp Program), which it oversees. Delays in eligibility processing for SNAP were well publicized, and Commission accounting staff did not work with program staff to quantify any potential financial statement impact. Once approved, benefits for SNAP begin from the date the applicant submitted his or her application.

In fiscal year 2009, the Commission partially implemented a prior State Auditor's Office recommendation to accrue necessary expenditures by recording an accrual related to the Medicaid Upper Payment Limit Program.

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.

Correction Action and Management's Responses

Corrective action was taken.

Issue 8
The Health and Human Services Commission Should Fully Document Policies and Procedures for Two Key Accounting Functions

Reference No. 10-555-08
(Prior Audit Issues 09-555-09, 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 finalized, approved policies and procedures. These key accounting functions are related to the recording of public assistance payments. Specifically, the Commission did not have finalized and approved 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 were not finalized and approved until fiscal year 2010. The Commission has documented many of its other key accounting functions and has trained backup personnel to perform those functions.

Having finalized and approved 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.

Correction Action and Management's Responses

Corrective action was taken.

Issue 9
The Health and Human Services Commission Should Strengthen Password Requirements for its Premium Payable System

Reference No. 10-555-09
(Prior Audit Issue 09-555-13)

Type of finding: Significant Deficiency

Auditors reviewed the Commission's Premium Payable System (PPS) during the audit of fiscal year 2008 and identified certain control weaknesses. The version of the system in use at that time and until July 2009 has been retired. Auditors were unable to confirm the condition of the prior system; therefore, the issues from fiscal year 2008 are repeated below, with the current condition as asserted by the Commission.

Title 1, Texas Administrative Code, Section 202.25(3)(A)

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)

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 should ensure that password requirements for its PPS comply with the Texas Administrative Code (see text box). Passwords for this system are not required to have a minimum length, and there is no system-enforced requirement to change passwords at regular intervals. The PPS also did not maintain a history of passwords to prevent reuse of recent passwords.

In the audit of fiscal year 2008, 7 (63.6 percent) of the 11 user accounts on the PPS online application were generic accounts. Use of generic user accounts, particularly in light of the password issues discussed above, prevents accountability for user actions and places the Commission's data at risk of unauthorized changes.

To mitigate the risks associated with weaknesses in passwords, the Commission asserted that it removed the user access accounts from PPS and that certain tasks previously performed through the PPS were accomplished by pulling the requested information directly from the data tables. However, the Commission did not do this until July 2009. The Commission also asserted that it has updated the PPS with a new system that has up-to-date security. However, the update occurred in August 2009 and, therefore, was not in place for the calculation of premium payments for fiscal year 2009.

Correction Action and Management's Responses

See current year finding 11-555-04.

Chapter 4-B

The Department of Transportation Should Strengthen Certain Aspects of Its Financial and Information Technology Operations

Issue 1
The Department Of Transportation Should Establish a Process to Accurately Account for Bridges

Reference No. 10-555-10

Material Weakness in Internal Control

A material weakness is an internal control weakness of such magnitude that it could potentially result in a material misstatement of the financial statements.

Source: *Governmental Accounting, Auditing, and Financial Reporting*, Stephen J. Gauthier, Government Finance Officers Association, 2005.

Type of finding: Material Weakness

The Department of Transportation (Department) did not have a process to capture all completed bridges in its financial records. In addition, when reporting bridge costs, the Department used multiple cost estimation methodologies, rather than using actual historical costs as required by generally accepted accounting principles and the Office of the Comptroller of Public Accounts (Comptroller's Office). These issues represent a material weakness in the Department's internal controls (see text box for more information).

Lack of a Process to Capture All Bridges in the Financial Records

The Department did not have a formal process to capture information regarding all completed bridges. As a result, the Department understated Capital Assets Depreciable by approximately $669.7 million[5] in its fiscal year 2009 financial statements. Specifically:

- The Department incorrectly omitted at least 378 bridges from Capital Assets Depreciable. The bridges were completed between 1970 and 2009 and had a total estimated value of approximately $670.9 million. Individually, the bridges ranged in value from approximately $0.5 million to approximately $20.0 million.

- The Department incorrectly included two bridges in Capital Assets Depreciable. The two bridges, valued at approximately $1.2 million, are owned by the Central Texas Turnpike System and not by the Department.

[5] Dollar amounts in Issue 1 are based on the Department's estimated amounts because the Department did not maintain information on actual amounts for individual bridges. The Department used multiple methodologies to estimate bridge costs.

The errors noted above resulted in the following inaccuracies in the Department's fiscal year 2009 financial statements:

- Capital Assets Depreciable was understated by approximately $669.7 million and Capital Assets Nondepreciable was overstated by the same amount.

- Accumulated Depreciation was understated by approximately $193.3 million.

- Depreciation Expense was understated by approximately $25.0 million.

While the Department's Finance Division relies on the district and area offices to notify it when a bridge is complete, there is no formal process or documented procedure to ensure that this notification occurs. Additionally, the Finance Division does not have a process to determine whether the information it receives is complete. In fiscal year 2009, there were 25 district offices and 106 area offices across the state.

Use of Estimated Costs, Rather Than Historical Costs, for Bridges

- In its fiscal year 2009 financial statements, the Department reported estimated costs for its bridges, rather than actual historical costs as required by generally accepted accounting principles and the Comptroller's Office's *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*. Additionally, the Department used multiple methodologies to estimate bridge costs, and it had not used those methodologies consistently.

The Department's Bridge Cost Estimation Methodologies

Square Footage Methodology: Under this methodology, the Department estimates a bridge's costs by multiplying the average price per structure type by the square footage of the bridge.

Adjustment to Original Estimate Methodology: Under this methodology, the Department estimates a bridge's costs by using the estimated structure cost along with percentages from formulas for construction costs, preliminary engineering costs, and construction engineering costs.

- For bridges completed in or prior to fiscal year 2001, the Department based the estimated cost on the square footage of the bridge. For bridges completed after fiscal year 2001, the Department estimated the value by adjusting the original estimated cost. (See text box for details on the Department's cost estimation methodologies.) If the historical cost is not used to value the individual bridge, the value of the bridge could be misstated.

- The Department's current policy requires district offices to report bridge values when a bridge is open for traffic using the formulas and percentages in effect for the current year, regardless of when the bridges were completed. However, the district offices do not always report a bridge's value in the same year in which a bridge was open for traffic. As a result, if a bridge was completed in fiscal year 2002 and not reported until fiscal year 2009 for example, the district office would use the formulas and percentages in effect for fiscal year 2009 to value the bridge.

After auditors brought this matter to the Department's attention, the Department provided necessary adjustments to the Comptroller's Office to ensure that, in the State's Comprehensive Annual Financial Report, (1) the estimated value of the bridges initially recorded as non-depreciable was reported correctly as Capital Assets Depreciable and (2) the estimated adjusted depreciation expense and accumulated depreciation were reported correctly.

Correction Action and Management's Responses

See current year finding 11-555-06.

Issue 2
The Department of Transportation Should Strengthen System Access Controls and Password Requirements

Reference No. 10-555-11
(Prior Audit Issue 09-555-06)

Type of finding: Significant Deficiency

To protect the integrity of its information resources, the Department should ensure that it properly restricts access to certain automated systems and that user passwords are sufficiently complex.

The Department should regularly update and restrict user access rights for its automated systems.

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 shall 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 shall 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.

According to the Department's *Information Security Manual* dated October 2008, "when a user's employment status or job functions change, a user's access authorization must be removed or modified appropriately and immediately." The manual also states that "system and administrative rights must be restricted to persons responsible for system administration management or security." The Texas Administrative Code also specifies requirements related to user access (see text box for additional details). In fiscal year 2009, the Department did not regularly update access rights to its automated systems, nor did it properly restrict user access. Specifically:

- Five (17.2 percent) of 29 users tested had inappropriate access rights to the Equipment Operating System (EOS) based on their job duties. EOS is the Department's system of record for all information on major equipment. The Department subsequently removed these users' access rights.

- Four (13.3 percent) of 30 users tested had inappropriate access rights to the Automated Purchasing System (APS) based on their

job responsibilities. APS is the Department's internal real-time purchasing system through which it requests and purchases all of its goods and services. Auditors identified 25 additional employees who had inappropriate access rights to APS based on their job titles and Department, district, or division criteria. In addition, 2 (2.9 percent) of 70 users had both purchaser and receiver access roles within APS. A lack of segregation of duties such as this increases the risk that inappropriate purchases could be made without detection. The Department subsequently removed inappropriate access rights for most of these users.

- Four (13.3 percent) of 30 users tested had inappropriate access rights to the Minor Equipment System (MES) based on their job functions. MES is the Department's system of record for all information on minor equipment. The Department subsequently removed these users' access rights.

- For one user whose employment was terminated, the Department did not deactivate access rights to the Right of Way Information System (ROWIS) until 26 months after the user's employment had been terminated. ROWIS is the Department's proprietary right of way acquisition, data storage, tracking, and retrieval application.

- For one user whose employment was terminated, the Department did not deactivate access rights to the Uniform Statewide Accounting System (USAS) until four months after the user's employment termination date. USAS is the State's accounting system. The Office of the Comptroller of Public Accounts uses the information in USAS to create the State's comprehensive annual financial report.

- One user had inappropriate access rights to the Design and Construction Information System (DCIS) based on the employee's job functions and the Department's access criteria. Auditors also identified three external users for whom the Department could not provide documentation explaining why access was needed from the time access rights were initially granted. The Department uses DCIS to plan, program, and develop projects. After auditors brought this to the Department's attention, the Department obtained justification for each of these users having access and reapproved their access rights.

- The Department did not remove one user's administrative rights to SiteManager after the employee was promoted and a change in job functions eliminated the need for those rights. Additionally, seven contractor users had unnecessary access to SiteManager. The Department uses SiteManager to monitor construction projects, generate daily work reports, and process contractor payment estimates for projects funded through the Highway Planning and Construction Cluster of federal

programs. After auditors brought this issue to the Department's attention, the Department deactivated these access rights.

- Three users had inappropriate access rights to the Financial Information Management System (FIMS). One user was an auditor but had the capability to modify the information in FIMS. The Department did not immediately remove two other users' access rights to FIMS after these users' job responsibilities changed. FIMS is the Department's internal accounting system. After auditors brought this issue to the Department's attention, the Department removed these users' access rights.

Removing users' access to automated systems immediately upon termination of employment or a change in job functions helps to ensure that information resources 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 strengthen network, SiteManager, and ROWIS password settings.

Employees and users of the Department's automated systems must have access to the Department's network to access those systems. To access the network, SiteManager, and ROWIS, users must enter a password. According to the Department of Information Resources and the Department's *Information Security Manual*, state agencies should use unique passwords that contain both alphanumeric characters and special characters. In addition, the *Information Security Manual* states that passwords used to gain access to network entry points must be changed every 60 days. The Texas Administrative Code also specifies requirements related to passwords (see text box for additional details). Auditors noted the following:

Title 1, Texas Administrative Code, Section 202.25(3)(D)

Information resources systems which use passwords shall be based on industry best practices on password usage and documented state agency risk management decisions.

- Network password settings do not conform to *Information Security Manual* requirements concerning maximum password age.

- Network password settings do not conform to *Information Security Manual* requirements concerning the use of alphanumeric and special characters.

- SiteManager password settings do not conform to *Information Security Manual* requirements at the database and application levels.

- Access to ROWIS at the server and database levels is dependent on network authentication.

- Passwords at the application level for ROWIS do not meet *Information Security Manual* requirements because passwords are assigned and cannot be changed.

Requiring the use of passwords that include both alphanumeric and special characters; have a minimum password age, history, and length; and have a maximum number of failed password attempts helps to ensure that information resources are protected against unauthorized access, disclosure, modification, or destruction. It also helps to ensure the availability, integrity, authenticity, and confidentiality of information.

Correction Action and Management's Responses

See current year finding 11-555-07.

Issue 3
The Department of Transportation Should Implement Additional Controls to Ensure That Its Annual Financial Report Complies with Financial Reporting Requirements

Reference No. 10-555-12

Type of finding: Significant Deficiency

During preparation of the Department's annual financial report (AFR), the Department performs several levels of review, including reviews by various individuals in upper management, prior to submitting the AFR to the Comptroller's Office. The purpose of these reviews is to ensure that the AFR is accurate and that it complies with the Comptroller's Office's *Reporting Requirements for Annual Financial Reports of State Agencies and Universities* (reporting requirements). However, auditors identified instances of noncompliance with the reporting requirements that the Department's reviews did not identify.

The reporting requirements specify that the balance of each column within the capital asset note to the AFR (Note 2) must tie to the operating statement, which is in Exhibit II of the Department's AFR (see text box for specific items that should match). However, the Department did not comply with requirements that certain items should match.

In addition, the Department did not include an explanation of the $219,455,353 deficit in State Highway Fund 006 in Note 20 of the AFR as required by the reporting requirements. According to the Department, that deficit is primarily due to a timing difference between the recognition of the expenditure of funds and the recognition of revenues. After auditors brought this matter to the Department's attention, the Department provided an explanation to the Comptroller's Office for inclusion in the State's comprehensive annual financial report.

Annual Financial Report (AFR) Matching Requirements

For AFR purposes, the balance sheet and statement of net assets must match the capital asset note (Note 2) in the AFR. Specifically:

- The classifications increase in the interagency transfer column in AFR Note 2 should match the increase in interagency transfers on the operating statement.
- The reclassifications decrease in the interagency transfer column in AFR Note 2 should match the decrease in interagency transfers on the operating statement.
- The total asset addition should match total capital outlay plus any capital contributions.
- The deletions column should match the net proceeds from the sale of capital assets and any gain or loss on the sale of assets.

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities,* Office of the Comptroller of Public Accounts, July 2009.

Correction Action and Management's Responses

Corrective action was taken.

Chapter 4-C

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 Controls to Ensure That Taxes It Collects Are Accurate, Supported, and Verified

Reference No. 10-555-13

Type of finding: Significant Deficiency

The Office of the Comptroller of Public Accounts (Comptroller's Office) relies on certain controls to ensure that data it receives from taxpayers is accurate, complete, and verified. This is important to ensure that the Comptroller's Office assesses and collects the proper amount of taxes. Verifying taxpayer-submitted data also is important to ensure that taxes are applied consistently to all taxpayers. However, certain controls do not exist or are not working as intended.

Control weaknesses in information system. The Comptroller's Office has implemented automated controls within its tax-related information system to prevent data entry errors and to ensure that it assesses and collects taxes in accordance with statute. However, certain automated controls do not exist, and the Comptroller's Office has not corrected all errors created during information system conversions. As a result, the Comptroller's Office's tax-related information system contains incorrect taxpayer data. Auditors analyzed 50,156 records and identified the following errors:

- Instances in which taxpayers received tax liability reductions that exceeded statutorily allowable amounts. Auditors tested the largest 7 of these instances and determined that for 6 (85.7 percent) of these 7 instances, tax liability reductions exceeded statutorily allowable amounts by a total of $8,326,798. For an additional 348 instances, certain data in the information system indicates that taxpayers could have received tax liability reductions that exceeded statutorily allowable amounts. These errors occurred because the information system does not contain sufficient automated controls to prevent tax liability reductions from exceeding statutorily allowable amounts. Management asserts it was aware that automated controls were not sufficient and that there are manual checks of tax refunds and overpayments applied to different periods to identify this type of error. These manual checks do not always occur in a timely

manner. Prior to the audit, the Comptroller's Office indicated that it had not identified tax returns with tax liability reductions exceeding statutorily allowed amounts, and it had not updated written policies and procedures to include a manual check for this error.

- 7 instances in which tax discount eligibility periods were incorrect. As a result, 6 taxpayers could have received liability reductions from tax deductions for which they were not eligible, and 1 taxpayer might not have received liability reductions for which the taxpayer was eligible because the information system contained an incorrect eligibility period.

- Instances in which statutorily required dates that are used to determine tax exemption eligibility were unreliable (for example, dates were in the year 2200).

Control weaknesses in recording and retaining taxpayer data. Title 34, Texas Administrative Code, Section 3.21, requires taxpayers to submit supporting documentation to support taxes due. Controls over data entry are not sufficient to ensure that taxpayer data the Comptroller's Office enters manually is accurate.

For 4 (16.0 percent) of 25 amounts used to calculate taxes due that auditors tested, amounts in the Comptroller's Office's information system did not match supporting documentation submitted by the taxpayer. In addition, the Comptroller's Office could not provide supporting documentation for 1 (3.8 percent) of 26 amounts used to calculate taxes due in its information system. Prior to August 2009, the Comptroller's Office indicated that it performed only spot checks of manual data entry. Because the Comptroller's Office calculates tax credits, tax discounts, and tax due amounts from the data in its information system, it is important that this data is accurate and adequately supported.

After the conclusion of audit testing, the Comptroller's Office management asserted that it implemented a quality control review of data manually entered into its information system to address the types of errors auditors identified.

Control weaknesses in verifying taxpayer data. The Comptroller's Office relies on its Tax Audit Division to ensure that taxpayers self-report correct information. However, not all taxpayers are subject to audit by the Tax Audit Division, tax audits do not always occur in a timely manner, and the Tax Audit Division does not always audit all time periods.

According to the Tax Audit Division's schedules of completed audits, not all taxpayers, including taxpayers paying a large amount of taxes, are subject to audit. In addition, there is not appropriate audit coverage. Ensuring appropriate audit coverage helps to deter fraudulent reporting and ensure that taxpayers apply the tax code correctly.

For ongoing audits of taxpayers as of November 23, 2009, 62 (11.4 percent) of 544 audits tested had audit periods that exceeded four years. However, the statute of limitations for assessing a tax is four years after the tax is due, unless it is extended for two years with the taxpayer's consent. Additionally, 30 (5.5 percent) of 544 audits tested were not complete as of November 23, 2009, but the time periods these audits covered had ended more than four years earlier. Not conducting audits in a timely manner increases the risk that not all of the audit periods will be audited.

Because the Tax Audit Division relies on the taxpayer to cooperate with audits, it should be noted that the timeliness of audits is not entirely within the control of the Tax Audit Division.

Correction Action and Management's Responses

Corrective action was taken.

Issue 2
The Office of the Comptroller of Public Accounts Should Reconcile Tax Deposits and Tax Refunds in a Timely Manner

Reference No. 10-555-14
(Prior Audit Issue 09-555-04)

Type of finding: Significant Deficiency

In April 2009, the State Auditor's Office reported that the Comptroller's Office did not reconcile tax payments and tax refunds recorded in its Integrated Tax System (ITS) with information in the Uniform Statewide Accounting System (USAS) in a timely manner (see *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2008*, State Auditor's Office Report No. 09-555). Auditors identified this same issue during the audit of fiscal year 2009. ITS processed approximately $37.6 billion in tax payments and $2.4 billion in tax refunds in fiscal year 2009.

The Comptroller's Office is responsible for reconciling tax deposits processed in ITS to the amounts of taxes collected and refunded in USAS. This reconciliation helps to ensure that the Comptroller's Office correctly applies credits and debits to taxpayer accounts. However, in fiscal year 2009, the Comptroller's Office did not conduct this reconciliation in a timely manner for 16 tax types that auditors tested.

Table 2 provides information on the Comptroller's Office reconciliations of tax payments and tax refunds.

Table 2

Summary of the Comptroller's Office's Reconciliations of Tax Payments and Refunds in ITS with Tax Payments and Refunds in USAS			
Tax Type	**Date Last Reconciled**	**USAS Unreconciled Balance**	**Difference Between ITS and USAS**
Tax Payment Reconciliations			
Prepaid Sales	October 2008	$ 6,605,646,188	$ 20,391
State Sales	September 2008	$ 13,159,950,020	$ 17,301,049
Franchise	January 2009	$ 587,261,426	$ (38,504,584)
Franchise Margin	May 2009	$ 280,160,266	$ 6,863,289
Motor Vehicle Sales	May 2009	$ 592,157,430	$ (1,011,032)
Motor Vehicle Rental	October 2008	$ 176,773,406	$ (609)
Motor Vehicle Sales Seller Finance	August 2008	$ 112,825,681	$ (205,474)
Motor Fuel	May 2009	$ 602,917,136	$ 707
Diesel Fuel	May 2009	$ 176,420,742	$ (69,414)
Liquefied Gas	September 2008	$ 1,098,513	$ 17,470
Crude Oil	May 2009	$ 213,653,701	$ (130)
Natural Gas	June 2009	$ 166,041,950	$ 165,626
Cigarette and Tobacco Products	May 2009	$ 32,376,660	$ (183,298)
Cigarette Stamp	November 2008	$ 1,075,236,561	$ 3,057,035
Manufactured Housing	November 2008	$ 7,382,943	$ (52,102)
Insurance Premium	October 2008	$ 1,186,833,592	$ 9,419,581
Tax Refund Reconciliations			
Prepaid Sales	Not reconciled in fiscal year 2009	$ (325,727,737)	$ (870,466)
State Sales	Not reconciled in fiscal year 2009	$ (319,811,403)	$ (7,091,850)
Franchise	Not reconciled in fiscal year 2009	$ (209,442,608)	$ 882,327
Franchise Margin	Not reconciled in fiscal year 2009	$ (806,099,327)	$ 15,565,536
Natural Gas	Not reconciled in fiscal year 2009	$ (513,901,264)	$ (432,454)

Source: Unaudited reports supplied from the Comptroller's Office.

For sales taxes, the Comptroller's Office did not perform any tax payment reconciliations for 11 months of fiscal year 2009. For franchise margin taxes,

natural gas taxes, and sales taxes, the Comptroller's Office did not perform any tax refund reconciliations in fiscal year 2009. A portion of the differences between these systems is attributable to the fact that these systems begin and close the fiscal year on a different date.

Comptroller's Office management asserted that it has not performed reconciliations in a timely manner due to the volume of reconciliations that it performs and unexpected employee turnover. Additionally, management asserted that it is taking steps to train remaining staff to perform reconciliations.

Correction Action and Management's Responses

Corrective action was taken.

Issue 3
The Office of the Comptroller of Public Accounts Should Continue to Strengthen Access Controls for the Treasury Division Technology Operations

Type of finding: Significant Deficiency

Reference No. 10-555-15
(Prior Audit Issues 09-555-02 and 08-555-01)

In April 2008 and April 2009, the State Auditor's Office reported that the Comptroller's Office allowed internal system program developers to have access to production data for the State Treasury's automated systems.[6] Auditors identified this same issue during the audit of fiscal year 2009.

The Comptroller's Office allows two internal system program 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 audit of fiscal year 2007, 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 implemented with more advanced security features. It also has strengthened controls over obtaining access to its automated systems.

[6] See *State of Texas Financial Portion of the Statewide Single Audit Report For the Year Ended August 31, 2008,* State Auditor's Office Report No. 09-555, and *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.

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 shall 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 shall 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.

Correction Action and Management's Responses

See current year finding 11-555-08.

Chapter 4-D

The Texas Workforce Commission Should Strengthen Controls Over Tax Payments and Returns and Document Policies and Procedures for Certain Unemployment Insurance Program Processes

Issue 1
The Texas Workforce Commission Should Implement Controls to Ensure That It Adequately Secures Tax Payments and Returns

Reference No. 10-555-16

Type of finding: Significant Deficiency

The Texas Workforce Commission (Commission) does not always secure the unemployment insurance tax payments and tax returns it receives in its mailroom. Employers paid more than $1 billion in unemployment taxes in fiscal year 2009. Of that amount, the Commission asserted that it received approximately 38 percent in payments and returns that arrived in its mailroom.

While the Commission does have certain security measures in its mailroom, such as cameras, some areas where staff temporarily store tax payments are not viewed by those cameras. In addition, during business hours the Commission does not lock the room where it receives and processes tax payments, which increases the risk of loss or theft.

Not adequately safeguarding tax payments and tax returns increases the risk that these documents might be misplaced or stolen, which would prevent the Commission from processing payments and/or return information and applying the correct information to taxpayers' accounts. Auditors did not identify any instances in which tax payments were misplaced or stolen during the time period under review.

Correction Action and Management's Responses

Corrective action was taken.

Issue 2
The Texas Workforce Commission Should Fully Document Policies and Procedures for Certain Unemployment Insurance Program Processes

Reference No. 10-555-17

Type of finding: Significant Deficiency

In two areas, the Commission does not have formal policies and procedures to guide staff. This could affect the reliability of financial information related to the Unemployment Insurance Program. Specifically:

- When a daily tax rate changes during the year, an account examiner reviews the new rate to ensure that the Commission's Unemployment Insurance Tax System accurately calculated the rate. The Commission's Tax Department has policies and procedures requiring account examiners to verify changes in daily tax rates; however, there are no formal policies and procedures requiring supervisors to review the work that the account examiners perform, specifying how often such reviews should be conducted, and outlining what should be reviewed.

- Personnel in the Commission's Unemployment Insurance Support Services Division perform an informal review of unemployment insurance benefit payments made by Chase Bank to data in the Commission's automated system to ensure that all payments made to recipients match amounts recorded in the Commission's automated system. However, the Commission does not have formal policies and procedures for this review.

Having documented policies and procedures is a key control to help ensure that management directives are carried out and that necessary actions are taken to address the risks to achievement of the Commission's objectives. Without formal policies and procedures, key processes may not be performed or performed completely and accurately. In addition, policies and procedures are beneficial for employees who may be new to their positions and for backup personnel.

Correction Action and Management's Responses

Corrective action was taken.

Chapter 4-E

The Water Development Board Should Strengthen Its Review of Adjustments to Its Annual Financial Report and Its Password Requirements

Issue 1
The Water Development Board Should Accurately Account for Adjustments It Makes to the Loans and Contracts Balances in its Annual Financial Report

Reference No. 10-555-18

Type of finding: Significant Deficiency

The Water Development Board (Board) entered a loan of $322,000 that it made into its accounting system early so that payment of the loan could be processed on time. The loan consisted of non-current funds receivable. When preparing its annual financial report for fiscal year 2009, the Board incorrectly removed the total loan amount from the current portion of the loans and contracts balance, instead of removing it from the non-current portion of the loans and contracts balance. The Board did not detect this error during its review of adjustments to its annual financial report.

The Board classifies all of its loan balances as current loans and contracts during the fiscal year. It then makes an adjusting entry at the end of the fiscal year to reclassify the balance between current and non-current. Part of the reclassification process involves removing from the correct loan balance any amounts for loans the Board entered into the accounting system early.

Components of Receivables

Governmental Accounting Standards Board (GASB) Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraph 13, requires that governments provide details regarding the components of receivables. It further requires that significant receivable balances not expected to be collected within one year of the date of the financial statements be disclosed.

Components of receivables must be separately recorded in the Uniform Statewide Accounting System using the appropriate general ledger accounts, as well as presented as separate line items on the fund financial statements. This includes components such as accounts receivable, federal receivable and notes, and loans and contracts receivable.

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2009.

Correction Action and Management's Responses

Corrective action was taken.

Issue 2
The Water Development Board Should Strengthen Password Requirements for Its Accounting and Financial Systems

Reference No. 10-555-19

Type of finding: Significant Deficiency

The Board uses two internal systems to compile financial data for its annual financial report: (1) Micro Information Products (MIP), which is the Board's internal accounting system, and (2) Financial Information System (FIS), which is a financial system that records loan and bond information. The passwords required to access these two systems contain weaknesses that could put the data in these systems at risk.

The Board's password policy states that:

- Passwords must have a minimum length of seven alphanumeric and special characters.
- Passwords must be changed at least once every six months.
- Password history must be kept to prevent the reuse of a password.
- Passwords must contain a mix of uppercase and lowercase characters and must have at least two numeric characters.

Industry Best Practices for Passwords

The Texas Administrative Code requires that passwords be based on industry best practices on password usage and documented state agency risk management decisions.

According to Microsoft, a strong password:

- Is at least seven characters long.
- Expires as often as necessary for the environment, typically, every 30 to 90 days.
- Is significantly different from previous passwords.
- Contains characters from each of the following four groups: uppercase letters, lowercase letters, numerals, and symbols found on the keyboard (all keyboard characters not defined as letters or numerals).

Sources: Title 1, Texas Administrative Code, Section 202.25(3)(D), and Microsoft best practices at http://technet.microsoft.com/en-us/library/cc784090(WS.10).aspx and http://technet.microsoft.com/en-us/library/cc756109(WS.10).aspx.

The Board purchased MIP from a vendor, and the Board has the option to (1) either require a password or not require a password and (2) determine the minimum length of passwords. The Board has set up MIP to require a password that is at least seven characters in length. However, there are no requirements for passwords to contain non-alphanumeric characters, for users to change passwords, or for the system to record password history.

A consultant developed FIS for the Board. FIS is programmed to require passwords that are at least six characters in length and contain at least one non-alphanumeric character. There are no requirements for users to change passwords or for the system to record password history.

All Board employees must log into the Board's network before they can access FIS or MIP, and password requirements for that network meet the Board's password policy and industry best practices (see text box for best practices). This helps to prevent unauthorized external access to FIS and MIP. However, because of the password weaknesses for FIS and MIP discussed above, current employees of the Board who have a valid network user ID and password could potentially alter data in FIS and MIP without detection.

Correction Action and Management's Responses

Corrective action was taken.

Chapter 4-F

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. 10-555-20
(Prior Audit Issues 09-555-14 and 08-555-15)

Type of finding: Significant Deficiency

The University of Texas at Austin (University) did not consistently follow state property accounting requirements in the Office of the Comptroller of Public Accounts' *SPA Process User's Guide* and the University's *Handbook of Business Procedures*. Specifically:

- As of August 31, 2009, the University had not entered 947 capital assets valued at $12.7 million into its fixed asset system as a permanent inventory record. The University purchased 723 of those capital assets, with a value of $10.6 million, between September 4, 2008, and July 31, 2009. However, these capital assets were reflected in the University's August 31, 2009, financial statements. The University should enter information into its fixed asset system in a timely manner to ensure that inventory records are accurate and current.

- The University did not correctly value 6 (20.0 percent) of 30 asset acquisitions tested. Specifically:

  - The University did not capitalize freight and shipping costs for 5 (16.7 percent) of 30 asset acquisitions that auditors tested. The University should have capitalized $1,011 in freight and shipping costs for these five assets, as required by the *SPA Process User's Guide* and the *Handbook of Business Procedures*.

  - The University did not account for $856 in discounts when valuing 1 (3.3 percent) of 30 assets that auditors tested. For that same asset, the University incorrectly expensed the cost of components purchased for $1,230 that were necessary for the operation of equipment. The University should have capitalized the cost of those components as required by the *SPA Process User's Guide* and the *Handbook of Business Procedures*.

- The University asserted that it reconciled 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 asset system to the SPA system on a quarterly basis, and it should clear the reconciling items it identifies (that is, corrections should be made) as soon as possible. The University should clear all reconciling items before it prepares the capital asset note to its financial statements.

Ensuring that the University enters accurate information into its fixed asset system and the SPA system helps to ensure that the University accurately reports capital asset balances, depreciation, and accumulated depreciation in its financial statements.

Correction Action and Management's Responses

Corrective action was taken.

Chapter 4-G

The University of Texas at San Antonio Should Strengthen Its Capital Asset Records

Issue 1

Reference No. 10-555-21
(Prior Audit Issue 09-555-15)

Type of finding: Significant Deficiency

The University of Texas at San Antonio (University) did not always follow state property accounting requirements for capital assets. During fiscal year 2008, the University did not maintain documentation supporting the acquisition cost of assets for the life of the assets plus three years, as required by the *SPA Process User's Guide* and the Library and Archive Commission's Texas State Records Retention Schedule. The University's record retention policy requires the University to maintain this documentation for the fiscal year in which assets are acquired plus three years. For fiscal year 2009, the University asserted that it had not implemented a policy to ensure that it maintains documentation for the life of the asset plus three years.

Correction Action and Management's Responses

Corrective action was taken.

Chapter 4-H

The University of Texas Health Science Center at Houston Should Strengthen Access Controls and Capital Asset Documentation

Issue 1
The University of Texas Health Science Center at Houston Should Ensure That Access to Its Financial Systems Is Appropriate

Reference No. 10-555-22

Type of finding: Significant Deficiency

Access to automated financial systems at the University of Texas Health Science Center at Houston (Health Science Center) did not consistently comply with state information resources policies and Health Science Center policies. This represents a weakness in the Health Science Center's internal controls. Auditors reviewed access rights to the Health Science Center's internal accounting system and the State's accounting system (the Uniform Statewide Accounting System, or USAS) and identified the following:

- Eleven individuals had access to both enter and approve transactions in the general ledger module of the Health Science Center's internal accounting system.
- Four individuals had access in USAS to enter, edit, and post transactions and to release batches of transactions into USAS.
- Five individuals had access to screens in USAS that were not necessary or appropriate based on their job duties.

Title 1, Texas Administrative Code, Section 202.70 (1)

Information resources residing in the various institutions of higher education of state government are strategic and vital assets belonging to the people of Texas. These assets shall 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 shall be appropriately managed.

After auditors brought these matters to the Health Science Center's attention, the Health Science Center removed the access of individuals who were former employees and began reviewing access rights for the other individuals to identify and remove inappropriate access levels.

The Texas Administrative Code requires higher education institutions to take measures to protect data from unauthorized access, disclosure, modification, or destruction, whether accidental or deliberate (see text box). Not removing access for former employees or not providing for proper segregation of duties increases the risk of fraud.

In addition, the Health Science Center's policy requires that different individuals enter and release journal vouchers. However, the Health Science Center does not have a review process to ensure that staff do not both enter and post their own financial transactions. The Health Science Center did have a compensating control requiring a separate individual to review vouchers that were entered and approved by the same individual in the general ledger module of its internal accounting system. Eight (28.6 percent) of 28 journal

vouchers that auditors tested were both entered and approved by the same individual during fiscal year 2009 and were not reviewed by a separate individual. These eight journal vouchers totaled $20,123,955.

The Health Science Center also does not have a compensating control for reviewing transactions that the same individual both enters and releases in USAS. However, no transactions were entered and released by the same individual in USAS in fiscal year 2009.

Correction Action and Management's Responses

Corrective action was taken.

Issue 2
The University of Texas Health Science Center at Houston Should Strengthen Its Documentation for Capital Assets

Reference No. 10-555-23

Type of finding: Significant Deficiency

To determine whether the Health Science Center presented beginning capital asset balances fairly, auditors tested the Health Science Center's documentation for a sample of 73 capitalized assets from the Health Science Center's asset management system. The sample tested $101,336,105 in assets from the total asset balance of $760,123,686. The Health Science Center:

- Was able to locate documentation for 55 (75.3 percent) of the assets tested, and that documentation supported each asset's beginning valuation.
- Was not able to locate documentation to support the beginning valuations in its asset management system for 18 (24.7 percent) of the assets tested. Those 18 assets included 3 personal property assets and 15 real property assets (see text box for definitions). As a result, auditors were unable to verify the beginning valuations for those 18 assets. According to the Health Science Center's records, the value of those 18 assets totaled $12,528,098, or 12.4 percent of the assets tested.

The Health Science Center implemented a new financial system in 2003. This made locating documentation for the 18 assets described above more difficult because the Health Science Center acquired each of those 18 assets prior to 2004. However, without documentation it would be difficult for the Health Science Center to prove ownership of an asset or its valuation in the event of theft or destruction of the asset.

Definitions

Capitalized Assets – Real or personal property that has an estimated life of greater than one year and has a value equal or greater than the capitalization threshold established for that type of asset. Capitalized assets are reported in an agency's annual financial report.

Real Property – Land, buildings, infrastructure, facilities and other improvements, and leasehold improvements.

Personal Property – Tangible and intangible movable items, such as furniture, equipment, vehicles, boats, aircraft, books, works of art, historical treasures and computer software.

Source: *State Property Accounting Process User's Guide*, Office of the Comptroller of Public Accounts, February 2008.

Correction Action and Management's Responses

See current year finding 11-555-16.

Chapter 4-I

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 Management of System Access

Reference No. 10-555-24

Type of finding: Significant Deficiency

Auditors reviewed access to the University of Texas Southwestern Medical Center at Dallas's (Medical Center) internal patient accounting system and identified 43 (11.4 percent) of 376 active user accounts that did not comply with the Medical Center's *System Access Management* policy and the Texas Administrative Code. These 43 user accounts did not comply because these accounts were associated with users whose employment or contracts had been terminated or could not be substantiated.

According to the Medical Center's *System Access Management* policy dated April 2005, "In the event a User terminates employment, contract expires or otherwise no longer requires access to information systems, the User's supervisor or sponsor will have the responsibility for submitting a request for termination of access to the Information Owner or centralized process (System Access Management group) to have the User's account disabled."

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 for additional details).

Monitoring and modifying access as required reduces the risk of fraud, data corruption, and potential service disruption.

Excerpts from
The Texas Administrative Code

According to Title 1, Texas Administrative Code, Section 202.70(1), "Information resources residing in various institutions of higher education are strategic and vital assets belonging to the people of Texas. These assets shall 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, utility, authenticity, and confidentiality of information. Access to state information resources shall be appropriately managed."

According to Title 1, Texas Administrative Code, Section 202.75(3)(B), "A user's access authorization shall be appropriately modified or removed when the user's employment or job responsibilities within the institution of higher education change."

Correction Action and Management's Responses

See current year finding 11-555-15.

Issue 2
The University of Texas Southwestern Medical Center at Dallas Should Strengthen Its Patient Billing Process

Reference No. 10-555-25
(Prior Audit Issue 09-555-18)

Type of finding: Significant Deficiency

As of August 31, 2009, the Medical Center had not implemented a policy to ensure that it reviews and addresses unbilled patient transactions in a timely manner and that it receives all information needed to process bills for medical services provided. Unbilled patient charges are identified on the Medical Center's *Discharged Not Final Billed Report.*

In October 2009 (fiscal year 2010), the Medical Center asserted that it implemented a policy to address the deficiencies related to patient billing that auditors identified during fiscal year 2008. Because the process was not implemented until fiscal year 2010, auditors did not test the process.

Correction Action and Management's Responses

Corrective action was taken.

Chapter 4-J

Agencies and Higher Education Institutions Should Strengthen Their Reviews of Their Schedules of Expenditures of Federal Awards

Reference No. 10-555-26
(Prior Audit Issues 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 2009.

The agencies and higher education institutions listed in Table 3 did not perform an adequate review of their fiscal year 2009 Schedules of Expenditures of Federal Awards (SEFAs) (see text box 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 3 summarizes the errors that auditors identified in these agencies' and higher education institutions' fiscal year 2009 SEFAs.

The 9 agencies and 17 higher education institutions listed below reported $36.4 billion in federal expenditures, or 78.7 percent of the total federal expenditures reported by the State of Texas for fiscal year 2009. The errors listed below were not material to the fiscal year 2009 SEFA for the State of Texas or to the fiscal year 2009 Comprehensive Annual Financial Report for the State of Texas.

Table 3

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2009 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 Inclusion of Expenditures [e]	Incorrect Exclusion of Expendi-tures [f]	Incorrect Exclusion of Indirect Cost Recovery [g]	Errors in Notes to the SEFA [h]
Adjutant General's Department				X				X
Department of Aging and Disability Services				X	X	X		
Department of Agriculture		X					X	

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2009 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 Inclusion of Expenditures [e]	Incorrect Exclusion of Expendi-tures [f]	Incorrect Exclusion of Indirect Cost Recovery [g]	Errors in Notes to the SEFA [h]
Department of State Health Services								X
Department of Transporta-tion		X		X				
Health and Human Services Commission		X		X				
Office of the Attorney General		X			X			
Parks and Wildlife Department			X					
Sam Houston State University	X							X
Tarleton State University	X			X				
Texas A&M University					X			X
Texas A&M University – Commerce		X						
Texas A&M University – Kingsville	X							
Texas State University – San Marcos					X	X		X
Texas Workforce Commission		X						
The University of Texas at Arlington	X			X				X
The University of Texas at Austin	X			X				X
The University of Texas at El Paso				X				X

Summary of Errors Identified in Agency and Higher Education Institution Fiscal Year 2009 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 Inclusion of Expenditures [e]	Incorrect Exclusion of Expendi-tures [f]	Incorrect Exclusion of Indirect Cost Recovery [g]	Errors in Notes to the SEFA [h]
The University of Texas - Pan American				X				X
The University of Texas Health Science Center at Houston				X		X		X
The University of Texas Health Science Center at San Antonio	X							
The University of Texas Medical Branch at Galveston	X			X	X			X
University of Houston						X		X
University of Houston – Clear Lake					X	X		X
University of North Texas	X							
University of North Texas Health Science Center at Fort Worth	X			X	X			X

[a] Reported federal programs in an incorrect cluster.

[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] Over-reported federal expenditures on its SEFA. Expenditures were reported based on the federal award year rather than the state fiscal year.

[f] Under-reported federal expenditures on its SEFA.

[g] Did not include indirect cost recovery.

[h] Errors were noted in the notes to the SEFAs.

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.

Correction Action and Management's Responses

Summary of Corrective Action	
Agency or Higher Education Institution	**Corrective Action**
Adjutant General's Department	Corrective action taken.
Department of Aging and Disability Services	See current year finding 11-555-17.
Department of Agriculture	See current year finding 11-555-17.
Department of State Health Services	Corrective action was taken. However, see current year finding 11-555-17.
Department of Transportation	See current year finding 11-555-17.
Health and Human Services Commission	Corrective action taken.
Office of the Attorney General	Corrective action taken.
Parks and Wildlife Department	See current year finding 11-555-17.
Sam Houston State University	See current year finding 11-555-17.
Tarleton State University	Corrective action taken.
Texas A&M University	Corrective action taken.
Texas A&M University – Commerce	Corrective action taken.
Texas A&M University – Kingsville	Corrective action taken.
Texas State University – San Marcos	See current year finding 11-555-17.
Texas Workforce Commission	Corrective action taken.
The University of Texas at Arlington	See current year finding 11-555-17.
The University of Texas at Austin	See current year finding 11-555-17.
The University of Texas at El Paso	See current year finding 11-555-17.
The University of Texas - Pan American	See current year finding 11-555-17.
The University of Texas Health Science Center at Houston	See current year finding 11-555-17.
The University of Texas Health Science Center at San Antonio	See current year finding 11-555-17.
The University of Texas Medical Branch at Galveston	See current year finding 11-555-17.
University of Houston	Corrective action was taken. However, see current year finding 11-555-17.
University of Houston – Clear Lake	Corrective action taken.
University of North Texas	Corrective action taken.
University of North Texas Health Science Center at Fort Worth	See current year finding 11-555-17.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The audit objective was to determine whether the State's basic financial statements present fairly, in all material respects, the balances and activities for the State of Texas for the fiscal year ended August 31, 2010.

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, 2010*, was dated February 18, 2011.

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 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, 2010.*

Methodology

The audit methodology consisted of collecting information, identifying risk, 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 2010 annual financial reports.
- Agency and higher education institution fiscal year 2010 SEFA 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).
- Uniform Statewide Payroll/Personnel System (USPS).
- State Property Accounting (SPA) system.

Criteria and standards used included the following:

- Texas statutes.
- Texas Administrative Code.
- General Appropriations Act (81st 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*.
- Agency and higher education institution policies.
- Office of Management and Budget Circular A-133.
- Generally accepted accounting principles as established by existing authoritative literature including, but not limited to, that published by the Govenmental Accounting Standards Board and the Financial Accounting Standards Board.

Other Information

Fieldwork was conducted from August 2010 through January 2011. 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:

Jules Hunter, CPA, CIA (Project Manager)
Scott Ela, CPA, CIA (Assistant Project Manager)
Brianna C. Lehman, CPA (Assistant Project Manager)
William J. Morris, CPA (Assistant Project Manager)
Shahpar Ali, CPA, M/SBT
Kathy Aven, CIA, CFE
Robert H. (Rob) Bollinger, CPA, CFE
Robert Burg, CPA
Matt Byrnes, CIDA
Mark Cavazos
Joe Curtis, CPA
David Dowden
Melissa Dozier
Anton Dutchover
George Eure
W. Chris Ferguson
Joe Fralin
Nicolas Frey
Priscilla Garza, CGAP
Lauren Godfrey, CGAP
Rachel Goldman
Mary Goldwater
Arby Gonzales, CFE
Justin H. Griffin, CISA
Frances Anne Hoel, CIA, CGAP
Anna Howe
Joyce Inman, CGFM
Tracy Jarratt, CPA
Brian Jones, CGAP
Cain Kohutek
Katherine Koinis
Jennifer Logston
Thomas Andrew Mahoney
Kenneth Manke
Tessa Mlynar
Joseph Mungai, CIA, CISA
Jaime J. Navarro, CIDA
Chipo Nziramasanga
Jenay Oliphant
Robert Pagenkopf
Namita Pai, CPA
Jeannette Quiñonez, CPA
Anthony W. Rose, MPA, CPA, CGFM
Mike Sanford
Jeremy Schoech, CIA, CGAP
Steve Summers, CPA, CISA
Sonya Tao, CFE
Alyassia Taylor, MBA, CGAP

Tony White, CFE
Stacey Williams, CGAP
Brenda Zamarripa
Dennis Ray Bushnell, CPA (Quality Control Reviewer)
Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
Michelle Ann Feller, CIA (Quality Control Reviewer)
Angelica M. Ramirez, CPA (Audit Manager)

Agencies and Higher Education Institutions Audited

Financial accounts at the following agencies and higher education institutions were audited:

- Department of Transportation
- Health and Human Services Commission
- Office of the Comptroller of Public Accounts
- Texas A&M University System
- Texas A&M University
- Texas Education Agency
- Texas Workforce Commission
- The University of Texas at Austin
- The University of Texas at San Antonio
- The University of Texas Medical Branch at Galveston
- The University of Texas Southwestern Medical Center at Dallas
- The University of Texas System

Schedules 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:

- 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
- Office of the Attorney General
- Office of the Governor
- Texas Workforce Commission

- Texas Education Agency
- Higher Education Coordinating Board
- Department of Rural Affairs
- Texas A&M International University*
- Texas A&M University System Health Science Center *
- Texas Southern University*
- University of Houston – Downtown*
- The University of Texas at Austin
- The University of Texas at Brownsville*
- The University of Texas M.D. Anderson Cancer Center
- The University of Texas Health Science Center at Houston
- The University of Texas Southwestern Medical Center at Dallas

* Entity was not selected for audit, but auditors applied limited procedures at this entity.

Follow up on prior year comprehensive annual financial report and schedule of expenditures of federal awards findings was conducted at the following agencies and higher education institutions:

- Adjutant General's Department
- Parks and Wildlife Department
- Sam Houston State University
- Tarleton State University
- Texas A&M University
- Texas A&M University – Commerce
- Texas A&M University – Kingsville
- Texas State University – San Marcos
- The University of Texas at Arlington
- The University of Texas at El Paso
- 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 – Pan American
- University of Houston
- University of Houston – Clear Lake
- University of North Texas
- University of North Texas Health Science Center at Fort Worth
- Water Development Board

Agencies 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 2-I of this report.

Management's Response from the Department of Aging and Disability Services

In regards to the audit issue identified at the Department of Aging and Disability Services (DADS), management agrees with the finding. DADS will update the Schedules of Expenditures of Federal Awards (SEFA) business process to include steps to follow up with the Comptroller's Office. This will ensure DADS has properly and accurately reflected any and all prior year adjustments made at the State level on behalf of DADS that impact the current year's SEFA information.

Implementation Date: May 2011

Responsible Persons: Accounting Director and General Ledger Manager.

Management's Response from the Department of Agriculture

The Texas Department ofAgriculture's (TDA) Financial Services Division (Division) staff will enhance its procedures to ensure inclusion and accuracy of all SEFA expenditures. Incorrectly classified expenditures resulted from payments to daycares at several universities which should have been processed as pass throughs instead of direct expenditures. The expenditures were misclassified because some daycares did not use the state vendor number to reflect pass through of funds through the universities. Instead the daycares used a regular federal tax number. During the preparation of the SEFA, TDA along with the universities worked with the Comptroller's Office to define pass throughs with university associated daycares. The Comptroller's Office clarified and TDA worked to correct and report amounts. To prevent the reoccurrence of this type of error in the future, TDA has begun the process of reviewing all payments to daycares associated with universities on a quarterly basis.

The over reporting error occurred as a result of one remaining line of entry which should have been deleted during data entry for the SEFA.

The exclusion of expenditures was due to under reporting of earned federal funds (EFF) and additional accruals. In the future, TDA will review EFF and the additional accruals work papers and data entered on the SEFA prior to

submission. Staff will further enhance its procedures to ensure inclusion and accuracy of all SEFA expenditures and balances.

TDA will review corrections more thoroughly through the preparation process of the SEFA to prevent future errors.

Implementation Dates: February 28, 2011 (TDA will begin its quarterly review process of all payments to daycares and universities as stated in the 2nd paragraph of the management response)

November 20, 2011 (TDA will review EFF and additional accruals work papers and data entered on the SEFA prior to submission, enhance its procedures to ensure inclusion and accuracy of all SEFA expenditures and balances, and review corrections more thoroughly through the preparation of the SEFA to prevent future errors).

Responsible Persons: Assistant Commissioner for Financial Services and Accounting Coordinator

Management's Response from the Department of Public Safety

The Department of Public Safety (DPS) agrees with these findings. In the 2010 Schedule of Expenditures of Federal Awards (SEFA), DPS did not adequately disclose Non-Monetary Assistance for surplus property that was sold by the Texas Facilities Commission as required in Note 1 of the SEFA. Also, DPS did over report expenditures for two of the Interagency Contracts. To address these conditions, DPS will develop and follow a detailed project plan for the 2011 SEFA. This project plan will include the detailed steps necessary to maximize the use of automation, tying the SEFA data directly to our data system. As much as possible, it will rely less on the legacy method of using a network of spreadsheets that summarized complex MSA data in a way that lent itself to erroneous reporting. The detailed steps of the project plan will identify the party responsible for each step as well as project milestones.

Implementation Date: November 2011

Responsible Person: Deputy Assistant Director of Grants

Management's Response from the Department of State Health Services

The Department of State Health Services (DSHS) concurs with the State Auditor's findings concerning classification of specific accruals to pass-thru and reporting of non-monetary donation of ARRA vaccine in our notes. DSHS will continue to refine our review procedures to provide for more accurate reporting.

Implementation Date: November 20, 2011

Responsible Party: DSHS Accounting Director

Management's Response from the Department of Transportation

The Department agrees with recommendation.

Implementation Date: March 2011.

Responsible Person: Finance Division Director

Management's Response from Higher Education Coordinating Board

The Coordinating Board agrees with the recommendation and is committed to financial statement integrity and continuous improvement in the accuracy of the agency's financial data. Management will provide additional in-house training to financial reporting staff regarding expense recognition in compliance with Governmental Accounting Standards Board, Statement No. 34 and implement an additional review process as part of the year-end close procedures to review all accounting entries related to deferred revenues.

Implementation Date: Immediately

Responsible Person: Director Financial Reporting and Analysis

Management's Response from the Parks and Wildlife Department

TPWD agrees and has implemented a new accounting system on September 1, 2010 which integrates grant expenses, billing and revenue with the general ledger. The new accounting system and review process will support the correct preparation of SEFA for grants that are material starting with the 2011 AFR. Process changes necessary to ensure that data and all grants are identified properly in the system for inclusion in SEFA will take more time and is an ongoing monitoring effort.

Implementation Date: November 1, 2011

Responsible Person: Finance Director

Management's Response from Sam Houston State University

We concur with the findings and have strengthened our procedures internally regarding the proofreading of the Notes to the Annual Financial Report and the Notes to the Schedule of Expenditures of Federal Awards, as each of the findings were typographical errors that were limited to this particular note. The related information in the SEFA and the University's financial records was found to be correct. We have added an Associate Controller position to

the Controller's Office staff who will supervise the Financial Accounting and Reporting team in order to assure that these added controls are imnplemented fully for fiscal year 2011.

Implementation Date: August 31, 2011

Responsible Person: Controller

We concur with the findings and have strengthened our procedures internally regarding the classification of Federal pass thru funding. We frequently find our direct sponsor does not know the source of the funding. With Banner it is imperative that we correctly identify the sponsor and program prior to establishing the grant. Added verification is now incorporated in the proposal processing and approval steps. If an award is received without a formal proposal being submitted the Federal source will be verified prior to establishment of the grant. A FOAP (new grant account) will not be established in Banner until the CFDA has been identified and verified. The approval process includes verifying that the Federal Source has been correctly identified. These steps have been implemented concurrent with the conversion to Banner.

Implementation Date: Concurrent with Banner implementation

Responsible Person: Associate Vice President for Research Administration and Technology Commercialization.

Management's Response from the Texas A&M University System Health Science Center

The Texas A&M University System Health Science Center concurs with the recommendation. The Health Science Center has established SEFA preparation and review procedures. The Health Science Center has identified the cause of the reporting error and has implemented additional procedures to alleviate or further minimize reporting errors.

Implementation Date: December 1, 2010

Responsible Person: Director of Fiscal Services

Management's Response from Texas A&M International University

The auditor's findings reflect that we incorrectly prepared the SEFA using federal revenues rather than expenditures. Texas A&M lnternational University will review supporting ledgers and documentation to ensure future SEFA's correctly reflect expenditures.

Implementation Date: October, 2011 (date of next AFR)

Responsible Person: Comptroller

Management's Response from the Texas Education Agency

The Texas Education Agency (TEA) has an adequate review process to ensure that the Schedule of Expenditures of Federal Awards (SEFA) information submitted to the Comptroller's Office is materially accurate. The auditors identified two minor errors that required reclassification on the SEFA, a $2 million item and a $36 million item, out of a SEFA report with over $7.6 billion in federal grant funding. The TEA feels these two minor classification errors do not indicate that TEA "did not perform an adequate review of their fiscal year 2010 Schedule of Expenditures of Federal Awards (SEFAs)." We will continue with our existing process to ensure accuracy of our SEFA information.

Implementation Date: Immediate

Responsible Person: Accounting Director

Management's Response from Texas Southern University

Texas Southern University acknowledges that its method of selecting certain data for inclusion in the SEFA is incorrect. Furthermore, we acknowledge the Significant Deficiency finding that stated Texas Southern University's SEFA report for fiscal year 2010 contained inaccurate information. Per the recommendations of the State Auditor's Office, the University will monitor data included in future SEFA reports. TSU will verify that information is for the correct fiscal period only and ensure that management reviews the reports for accuracy prior to submission to the Comptroller. The action steps for corrective measures are as follows:

1) Modify the current query used to extract expenditures to no longer use term as the selection criteria. Data will be selected based upon the transaction dates falling within the fiscal year in question i.e. 09/O1/YYYY to 8/31/YYYY.

2) The Associate Director, Student Accounting and Director, Research Financial Services will review reported expenditures flowing into the SEFA to insure that they are based on the appropriate fiscal year.

Implementation Date: April 2011

Responsible Persons: Associate Director, Student Accounting and Director, Research Financial Services

Management's Response from Texas State University – San Marcos

Management concurs with the State Auditor's Office conclusion and recommendation. The University will strengthen the review process procedures to ensure accurate reporting of SEFA information.

Implementation Date: August 2011

Responsible Persons: Director, Accounting and Associate Director, Accounting

Management's Response from the University of Texas at Arlington

Incorrect Inclusion of Expenditures

On the error regarding incorrect inclusion of expenditures, we agree that expenditures were included that were considered vendor relationship as a result of an incomplete CFDA number in our system. The Office of Grant and Contracts (OGC) assigns the CFDA number for federal awards at the time the grant account is established. The account in question had an incomplete CFDA number, in that the suffix was .000, and when the OGC attempted to get a valid suffix they were told it was a vendor relationship. This was after the SEFA had been completed. We have a review process to ensure that CFDA information is accurate and complete. In FY 2010 a process was implemented to identify incomplete CFDA numbers. Financial Reporting created a report to identify incomplete CFDA numbers and informed OGC. OGC is responsible for assigning complete CFDA numbers or declaring the account a vendor relationship prior to the deadline for SEFA completion.

Errors in Notes to the SEFA

On the finding regarding errors in the Note 1, the amount in the note was correct. However, additional information was required for inclusion in the Note 1 field. A Financial Analyst and the Director of Financial Reporting will be responsible for ensuring that all the requested elements are entered in the website for Note 1. This will be implemented when the schedule is open for data entry for FY 2011. We have updated our current year internal note copies with the additional information, and this will be copied in the note for FY 2011.

Implementation Date: November 2011

Responsible Person: Director of Financial Reporting

Management's Response from the University of Texas at Austin

Management agrees with the findings. The University will continue to evaluate and strengthen internal procedures in order to minimize reporting errors. While the University's preparation of the SEFA was consistent with prior years, management will review reporting requirements and change current procedures accordingly.

Implementation Date: October 31, 2011

Responsible Person: Finance Manager, Office of Accounting

Management's Response from the University of Texas at Brownsville

The University of Texas at Brownsville will implement an adequate review process to ensure that the SEFA information we submit to the Comptroller's Office is accurate. We will implement an additional confirmation for non-state entities in the same manner currently utilized with state pass through entities.

Implementation Date: May 1, 2011

Responsible Person: Director of Accounting and Finance Office

Management's Response from 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. We were able to identify the recurring error in awards received from one agency, as these did not have the CFDA number published on the Notice of Awards. We will now give higher scrutiny to these types of awards. Additionally our cross check process will include verification of CFDA numbers to the most current tables issued by OMB.

Implementation Date: April 30, 2011

Responsible Person: Director, Accounting and Financial Reporting

Finding: The previous year's Perkins Loan balance was omitted from Note 3 of the SEFA.

The University concurs with the finding. Chapter 8 of Reporting Requirements for Annual Financial Reports of State Agencies and Universities will be reviewed in order to create a checklist of requirements for the SEFA. This checklist will be used to create and review the SEFA prior to submission.

Implementation Date: April 30, 2011

Responsible Person: Director, Accounting and Financial Reporting

Management's Response from the University of Texas – Pan American

The University of Texas - Pan American concurs with the findings. All the data, including the Notes, uploaded to the SEFA Web application will be verified to the SEFA excel spreadsheet to ensure that the data is accurate.

Implementation Date: October 10th and annually thereafter

Responsible Person: Grants and Contracts Supervisor

Management's Response from the University of Texas Health Science Center at Houston

UTHSC-Houston will revisit its quality control processes related to SEFA preparation. Since the review, we have added to our procedure a more descriptive outline of how these fields are to be completed and from where the data is to be retrieved. This data will be double checked at submission.

Implementation Date: January 2011

Responsible Person: Senior Vice President, Finance and Business Services

Management's Response from the University of Texas Health Science Center at San Antonio

The SAO's finding, related to The University of Texas Health Science Center at San Antonio's 2010 Statement of Expenditures of Federal Awards (SEFA) report, discovered 2 out of 958 grant awards that were improperly clustered. The two awards identified as incorrectly clustered represent an error rate of .017% of all awards reported and reviewed. Expenditures reported in the SEFA for these two awards totaled $35,132.36 out of $198,424,224.49. The error rate indicates that the HSC classification and review process is operating as intended in identifying any material differences in expenditure clustering. We will add a final review step in the SEFA preparation process to scrutinize the cluster assignment of small federal grants or contracts with unusual or infrequently used CFDA numbers to ensure that these are correctly classified in future reports.

Implementation Date: September 30, 2011

Responsible Person: Director of Accounting

Management's Response from the University of Texas M D. Anderson Cancer Center

The Cancer Center will implement an adequate review process to ensure that the SEFA information submitted to the Comptroller's Office is accurate. The Cancer Center will review the SEFA information periodically to ensure the accuracy of the information and process corrections as needed.

Implementation Date: March 2011

Responsible Person: Director of Grants and Contracts

Management's Response from the University of Texas Medical Branch at Galveston

UTMB will review its procedures for classifying federal awards by cluster.

Additionally, the Office of Sponsored Programs will work with both Finance and the Office of Student Financial Aid to review the accounting process for administrative cost recovery on Federal loans to ensure it is properly reflected in Note 3.

Implementation Date: August 31, 2011

Responsible Person: Director, Sponsored Programs Finance

Management's Response from the University of Texas Southwestern Medical Center at Dallas

The Medical Center agrees with the findings and the recommendation and has taken the following actions to address the issue.

- *With regard to the program classification issue, the Medical Center has revised the program used to produce the SEFA to include the functional code to insure proper classification of activities in federal program clusters.*

- *Regarding the error in the notes to the SEFA of not providing the prior year ending balance on two accounts, we have revised our year-end procedures to include a separate verification to ensure this information is included.*

Implementation Status: Implemented

Implementation Date: February 2011

Responsible Person: Assistant Vice President Office ofAccounting

Management's Response from the University of Houston

The University will implement additional reviews and procedures when creating the award information in our financial system to help ensure that the correct CFDA is associated with each Federal award. As we prepare the Annual Financial Report we will perform an additional review of the SEFA submission to help ensure that expenses are reported under the correct CFDA.

Implementation Date: April 30, 2011

Responsible Person: Executive Director, Financial Reporting

Management's Response from the University of Houston - Downtown

The University will implement additional reviews and procedures when creating the award information in our financial system to help ensure that the correct CFDA is associated with each Federal award. As we prepare the Annual Financial Report we will perform an additional review of the SEFA submission to help ensure that expenses are reported under the correct CFDA.

Implementation Date: April 30, 2011

Responsible Person: Assistant Vice President for Business Affairs

Management's Response from the University of North Texas Health Science Center at Fort Worth

Management agrees with the findings of the audit, that certain expenditures were improperly clustered as Research and Development.

Corrective actions will be implemented with the next SEFA filing for fiscal year 2011.

Implementation Date: November 2011

Responsible Persons: Director of Accounting and Director Grants and Contracts

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 Harvey Hilderbran, 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

Adjutant General's Department
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 Rural Affairs
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
Office of the Governor
Parks and Wildlife Department
Sam Houston State University
Tarleton State University
Texas A&M International University
Texas A&M University
Texas A&M University - Commerce
Texas A&M University - Kingsville
Texas A&M University System
Texas A&M University System Health Science Center
Texas Education Agency
Texas Southern University
Texas State University - San Marcos
Texas Workforce Commission
University of Houston
University of Houston - Clear Lake
University of Houston - Downtown
University of North Texas
University of North Texas Health Science Center at Fort Worth

The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Brownsville
The University of Texas at El Paso
The University of Texas - Pan American
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 M. D. Anderson Cancer Center
The University of Texas Medical Branch at Galveston
The University of Texas Southwestern Medical Center at Dallas
The University of Texas System
Water Development Board

This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: www.sao.state.tx.us.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9500 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.