

August 23, 2010

Higher Education Institution Presidents:

Each fiscal year, the State Auditor's Office (SAO) conducts a number of on-site audits of various agencies and higher education institutions as part of the audit of federal compliance required by U.S. Office of Management and Budget (OMB) Circular A-133. The objectives of that audit include expressing an opinion on the presentation of the State's Schedule of Expenditures of Federal Awards (SEFA); assessing internal controls over certain programs; and providing an opinion on the agencies' and higher education institutions' compliance with related laws, regulations, contracts, or grants.

We want to notify you of the issues our audit work has identified, which are summarized below:

***Information Technology General Controls***

- Weak user passwords and weak or undocumented password policies for essential information systems.
- Insufficient documentation of the development, testing, and approval of changes to information system functions and data.
- User access issues, such as:
  - Users with more access to systems than necessary to perform job functions. This includes excessive access to servers and unnecessary administrator user accounts.
  - Terminated or transferred employees who maintain access to key systems after leaving a department.
  - Generic accounts on the server and database levels, which allow multiple users to access and modify information. This prevents management from identifying the specific individuals who make changes and establishing accountability for those changes.
  - Insufficient or nonexistent reviews of the users who have access to systems and the appropriateness of that access.
- Insufficient segregation of duties, including:
  - Programmers who can move code into the production environment and access or modify production data.
  - Users who can process (initiate, submit, and approve) a critical transaction through a system without any other automated or manual controls.

***Student Financial Assistance***

- Failure to report to the Common Origination and Disbursement (COD) System the actual disbursement date for Pell and Direct Loan awards.
- Failure to send proper disbursement notifications to recipients of Perkins loans, Direct loans, and Teacher Education Assistance for College and Higher Education (TEACH) grants, including:
  - Sending notifications more than 30 days after the disbursement of an award.
  - Missing or incorrect wording of the disbursement notifications.
- Incorrect determination of student cost of attendance budgets, including:
  - Inconsistent calculation and adjustment of students' cost of attendance when packaging financial assistance awards.
  - Budgeting all students as full-time, regardless of their expected or actual enrollment.
- Improper reporting of student status changes to the National Student Loan Data System (NSLDS). Specifically:
  - Failure to report status changes in a timely manner.
  - Incorrectly reporting graduated students as withdrawn.
  - Neglecting to monitor NSLDS to ensure that it reflects accurate student status information after a reported change.
- Incorrect calculations of returns of Title IV funds, including the use of incorrect dates for Fall and Spring semester breaks exceeding five days.
- Disbursement of financial assistance to students more than ten days in advance of a semester's start date.
- Failure to send timely notifications to students when Perkins loans enter repayment status.

***Research and Development***

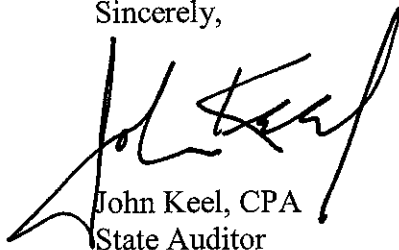
- Failure to maintain suspension and debarment certifications or proof of review of the federal excluded parties list for:
  - All procurement transactions that equal or exceed \$25,000.
  - All subrecipients.
- Not maintaining adequate written justification for sole-sourced procurements, and not differentiating between sole-brand requirements and sole-source requirements.

- Not calculating and returning interest earned on advanced payments of federal funds (interest is most commonly earned on awards with scheduled payment dates).
- Failure to submit annual and quarterly financial reports to federal agencies within the required time frames.
- Failure to notify American Recovery and Reinvestment Act (ARRA) subrecipients of ARRA-required information at the time of award and at each disbursement.
- Failure to verify that ARRA subrecipients were registered with the Central Contractor Registration prior to disbursing funds to subrecipients.
- Not maintaining updated information for equipment purchased with federal funds, such as serial number, asset tag number, or current location.
- Lack of controls to ensure that salaries paid do not exceed the National Institutes of Health salary cap.
- Failure to complete time and effort certifications timely (according to the higher education institution's policy).

We want you to be aware of the issues we have identified in the past and remind you of the resources that provide assistance or guidance. Those resources include:

- The OMB Circular A-133 Compliance Supplement 2010, available at [http://www.whitehouse.gov/omb/circulars/a133\\_compliance\\_supplement\\_2010](http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2010).
- The SAO contact manager assigned to your higher education institution. A list of SAO contact managers is available on our Web site at <http://www.sao.state.tx.us/Contact/mgmtart.html>.

Sincerely,



John Keel, CPA  
State Auditor

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cc: University System Chancellors  
Higher Education Institution Internal Auditors