



John Keel, CPA
State Auditor

The State Auditor's Office

Annual Report for Fiscal Year 2011

The State Auditor's Office Annual Report
For Fiscal Year 2011

Audits and Reviews Team

The Audits and Reviews Team completed 50 audits and reviews of state agencies, higher education institutions, and other entities in fiscal year 2011. The types of audits performed included:

- Financial opinion audits.
- Financial-related and compliance audits.
- Performance measure certification audits.

Those reports are listed below by General Appropriations Act article.

Article I: General Government		
Report Name	Report Number	Date Released
An Audit Report on Workers' Compensation at the State Office of Risk Management	11-013	12/3/10
A Report on the Audit of the Employees Retirement System's Fiscal Year 2010 Financial Statements	11-015	1/10/11
A Report on the Audit of the Office of the Fire Fighters' Pension Commissioner's Fiscal Year 2010 Financial Statements	11-016	1/18/11
An Audit Report on the Emerging Technology Fund	11-029	4/28/11
An Audit Report on the Development of the Texas Child Support Enforcement System 2.0 at the Office of the Attorney General	11-035	7/11/11
Article II: Health and Human Services		
Report Name	Report Number	Date Released
An Audit Report on the Department of State Health Services' Public Health Laboratories	11-001	9/9/10
An Audit Report on Substance Abuse Program Contract Monitoring at the Department of State Health Services	11-030	5/4/11
An Audit Report on Selected Information Technology Controls at the Winters Data Centers	11-033	7/6/11
An Audit Report on the Department of State Health Services' Human Resources Management at State Mental Health Hospitals	11-044	7/26/11
An Audit Report on Nursing Facility Complaint Processing at the Department of Aging and Disability Services	11-047	8/22/11
A Report on On-site Audits of Residential Child Care Providers	11-049	8/26/11
Article III: Education		
Report Name	Report Number	Date Released
An Audit Report on Veterans' Services at Selected Institutions of Higher Education and Survey Results Related to Veterans' Services at All Texas Public Higher Education Institutions	11-004	9/20/10
An Audit Report on Dual Credit Programs at Selected Public School Districts and Higher Education Institutions	11-006	9/29/10
An Audit Report on the Texas Records Exchange System at the Texas Education Agency	11-010	10/29/10
A Report on the Audit of the Teacher Retirement System's Fiscal Year 2010 Financial Statements	11-014	12/22/10
A Report on State of Texas Compliance with Federal Requirements for the Student Financial Assistance Cluster of Federal Programs for the Fiscal Year Ended August 31, 2010	11-022	2/23/11
A Report on State of Texas Compliance with Federal Requirements for the Research and Development Cluster of Federal Programs for the Fiscal Year Ended August 31, 2010	11-023	2/23/11

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Article III: Education (continued)		
Report Name	Report Number	Date Released
Accreditation Review Fiscal Year 2010	11-319	3/11/11
A Report on the Audit of Texas A&M University - San Antonio's Fiscal Year 2010 Financial Statements	11-032	7/5/11
An Audit Report on Performance Measures at the Teacher Retirement System	11-036	7/12/11
Article V: Public Safety and Criminal Justice		
Report Name	Report Number	Date Released
An Audit Report on Parole Division Operations at the Department of Criminal Justice	11-008	10/15/10
A Report on State of Texas Compliance with Federal Requirements for the Homeland Security Cluster of Federal Programs and the Public Assistance Cluster of Federal Programs for the Fiscal Year Ended August 31, 2010	11-026	2/23/11
A Report on Agreed-upon Procedures Conducted at the Department of Public Safety	11-034	7/5/11
An Audit Report on Performance Measures at the Commission on Jail Standards	11-048	8/25/11
Article VI: Natural Resources		
Report Name	Report Number	Date Released
An Audit Report on the Texas Emissions Reduction Plan Program at the Commission on Environmental Quality	11-012	12/1/10
A Report on State of Texas Compliance with Federal Requirements for the Capitalization Grants for Drinking Water State Revolving Funds Program for the Fiscal Year Ended August 31, 2010	11-024	2/23/11
Article VII: Business and Economic Development		
Report Name	Report Number	Date Released
An Audit Report on the Charitable Bingo Operations Division at the Texas Lottery Commission	11-002	9/13/10
An Audit Report on the Department of Motor Vehicles	11-007	10/11/10
A Report on the Audit of the Department of Transportation's Texas Mobility Fund Financial Statements for the Fiscal Year Ended August 31, 2010	11-018	2/4/11
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	11-020	2/11/11
A Report on State of Texas Compliance with Federal Requirements for the Highway Planning and Construction Cluster of Federal Programs and the Airport Improvement Program for the Fiscal Year Ended August 31, 2010	11-025	2/23/11
An Audit Report on Unemployment Insurance Tax at the Texas Workforce Commission	11-042	7/21/11
Article VIII: Regulatory		
Report Name	Report Number	Date Released
An Audit Report on Medical Quality Reviews at the Division of Workers' Compensation within the Texas Department of Insurance	11-011	11/22/10
An Audit Report on Performance Measures at the Board of Veterinary Medical Examiners	11-037	7/12/11
An Audit Report on Performance Measures at the Department of Licensing and Regulation	11-041	7/20/11
An Audit Report on the System Benefit Fund and the Low-Income Electric Discount Program at the Public Utility Commission	11-043	7/25/11

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Cross-cutting		
Report Name	Report Number	Date Released
An Audit Report on Selected Investment Practices at the Texas Treasury Safekeeping Trust Company, the Employees Retirement System, and the Texas A&M University System	11-003	9/16/10
An Audit Report on Compliance with Benefits Proportional by Fund Requirements at Selected State Entities	11-005	9/23/10
An Audit Report on Correctional Managed Health Care at the University of Texas Medical Branch at Galveston	11-017	2/1/11
An Audit Report on Correctional Managed Health Care at the Texas Tech University Health Sciences Center	11-019	2/10/11
A Report on the Audit of the Permanent School Fund's Fiscal Year 2010 Financial Statements	11-021	2/17/11
State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2010	11-555	2/28/11
State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2010	11-318	2/28/11
An Audit Report on Selected State Entities' Compliance with Requirements Related to the Historically Underutilized Business Program and the State Use Program	11-027	3/3/11
A Report on a Review of State and Federal Oversight of American Recovery and Reinvestment Act Funds in Texas	11-028	4/12/11
An Audit Report on Certification of the Permanent School Fund's Bond Guarantee Program for Fiscal Year 2010	11-031	5/27/11
An Audit Report on Data Security Related to the Disposal of Surplus and Salvage State Data Processing Equipment at the Texas Department of Criminal Justice and Selected State Agencies	11-040	7/13/11
An Audit Report on Accounts Payable and Encumbrances at Selected State Agencies	11-045	8/9/11
A Survey of Fingerprint Collection Among State Agencies	11-046	8/19/11
Non-state Entities		
Report Name	Report Number	Date Released
A Review of Reports Submitted by Regional Planning Commissions	11-009	10/26/10

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Special Investigations Unit

The Special Investigations Unit (SIU) investigates reports of alleged illegal activity and presents the results to prosecuting authorities. SIU publicly reported the results of two investigations in fiscal year 2011. In addition, SIU provided fraud training to other organizations. A description and outcome of each investigation and this training are listed below.

SIU Reports Released			
Report Name	Report No.	Date Released	Outcome
A Special Investigations Unit Report on the Office of Public Insurance Counsel	11-038	7/12/11	A former employee of the Office of Public Insurance Counsel (OPIC) was indicted on two counts of theft by a public servant and one count of tampering with governmental record. The Special Investigations Unit received the allegations from the Office of Public Insurance Counsel stating the former employee, acting in his capacity as a public servant, had tampered with governmental records and misappropriated state funds he was not entitled to receive.
A Special Investigations Unit Report on the Teacher Retirement System and Its Pension Fund	11-039	7/13/11	<p>The Travis County Attorney's Office filed criminal charges against a former employee of the Mansfield Independent School District (MISD) subsequent to a State Auditor's Office's Special Investigation Unit (SIU) investigation. The former employee was arrested for theft.</p> <p>The SIU received an allegation of fraud involving a state warrant issued by the Office of the Comptroller of Public Accounts. The former employee reported not receiving a warrant from the Teacher Retirement System for her retirement pension. After a second warrant was issued, the former employee cashed both the original warrant and the second warrant. The former employee had requested the original warrant after ending her employment with MISD.</p>

SIU Training / Presentations Provided		
Agency / Program	Description	Outcome
Basic Audit Training Course Detecting Fraud Training Course Austin Chapter of the Association of Certified Fraud Examiners' Annual Conference U.S. Department of Housing and Urban Development Office of Inspector General's Regional Conference Financial Investigations Practical Skills Training Course	Training / Presentations	Topics: <ul style="list-style-type: none"> • Fraud awareness. • Components of fraud. • Identification of indicators of fraud in audits. • Proactive and reactive responses to fraud. • Internal controls to detect and prevent fraud. • Characteristics of people who commit fraud. • Detecting fraud in language. • Reporting fraud and losses as mandated under Chapter 321, Texas Government Code, and the General Appropriations Act (81st Legislature).

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State Classification Team

The State Classification Team manages the State's Position Classification Plan in the General Appropriations Act and provides support to state agency and higher education institution human resources offices. In fiscal year 2011, six reports were released. These reports and other projects completed by the State Classification Team are listed below.

Classification Reports Released		
Report Name	Report Number	Date Released
A Summary Report on Full-time Equivalent State Employees for Fiscal Year 2010	11-701	11/23/10
An Annual Report on Classified Employee Turnover for Fiscal Year 2010	11-702	12/9/10
A Classification Compliance Review Report on the Department of Licensing and Regulation	11-703	12/23/10
A Report on State Employee Benefits as a Percentage of Total Compensation	11-704	2/8/11
Texas State Agencies and Higher Education Institutions Workforce Summaries	11-705	1/28/11
A Classification Compliance Review Report on the State's Program Specialist Positions at Selected Natural Resources Agencies and Selected Business and Economic Development Agencies	11-706	5/2/11
Other State Classification Team Activities		
Position Classification Plan Conversion Manual		
Job Description Revisions (for all positions in the State's Position Classification Plan)		

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Professional Development Team

The Professional Development Team coordinates and provides continuing educational opportunities for auditors, accountants, managers, investigators, and other professional staff. During fiscal year 2011:

- 99 courses were held (see the list below for the types of courses offered).
- 835 public and private sector employees attended the training courses.
- Employees of 141 federal, state, and local government entities and private organizations received training.

In addition, the Professional Development Team coordinated the Office's 2011 Annual Audit Conference.

Courses Offered by Professional Development	
Internal/External Courses	
Access for Auditors	Fraud Issues and Answers for Government Auditors and Managers
Advanced Analytics	Fraud Risk Management
Advanced Software Manager (ASM) Review Course	Governance, Risk and Compliance
Assessing Risk in Compensation Systems	How to Perform an IT General Controls Review
Assessing the Reliability of Computer-processed Data	Information Systems Auditing Principles for Project Managers
Audit Evidence and Documentation: Using Critical Thinking	Interviewing Techniques for Auditors: Eliciting Information
Audit Planning	Introduction to Auditing Bonds
Auditing Business Application Systems	Introduction to Yellow Book
Auditing for Fraud	IT Risks Associated with Financial and IT Systems
Auditing Performance Management Systems	IT Risks for the Non-IT Auditor (Offered Twice)
Auditing the Performance of Government Programs	Personnel Law for Supervisors and Managers
Basic Audit Training Course (Offered Twice)	Practical Sampling for Auditors
Certified Government Auditing Professional (CGAP) Review Course	Project Management: An Approach That Really Works
Certified Information Systems Auditor (CISA) Review Course	Securing and Auditing PeopleSoft Applications
Certified Software Manager (CSM) Review Course	Texas State Auditor's Office 2011 Audit Conference
CIA Review Course Part I	The Art of Storytelling
CIA Review Course Part II	Understanding and Auditing Derivatives
CIA Review Course Part III	Understanding What People Say - Detecting Fraud in Language
Control and Security of Windows	
Creative Problem Solving for Auditors	
Current Issues in Information Technology Auditing	
Financial Statement Fraud	
Fraud Awareness for Government Finance Professionals	

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Courses Offered by Professional Development	
Internal Only Courses	
2011 Government Auditing Standards Webinar A133 - Auditing Student Financial Aid A133 - Introduction to the Single Audit A133 - Single Audit Refresher Course A133 - Student Financial Aid Application Controls Audit Evidence (PTP 11) (Offered Twice) Audit Standards (Offered Twice) Audit Tools on the SAO Intranet Basic First Aid, CPR, and AED Training (Offered Twice) Conducting Fieldwork Interviews Conducting Planning Interviews Documenting Audit Results (Offered Twice) Driving Safety (SORM) (Offered Three Times) Financial Risk Assessment Database Full Scope Gaining an Understanding GASB Review 2011 (Webinar) Governmental Accounting, Reporting and Auditing Update How to Perform an IT General Controls Review Intro Part 1: The Role of the SAO in State Government (Offered Twice) Intro Part 2: The SAO Audit Process (Offered Twice) Introduction to TeamMate/TeamMate On-Demand (Offered Twice) IT Audit Work at the SAO (Offered Twice)	Legislative Briefings and Testimony Legislative Resources Update Legislative Testimony Update for Project Managers Moving From Auditor To Senior Auditor Non-CPE Informational Session (CPA) Performance Feedback at the SAO Personnel Law for the SAO Planning, Conducting and Reporting (Audio) Pulling it All Together Reporting Findings Reviewing Audit Documentation Risk and Control Structures (Offered Twice) Risk Assessment for New Auditors Risk Assessment for Project Managers Roles and Responsibilities of the Assistant Project Manager Roles and Responsibilities of the Project Manager Schedule of Expenditures of Federal Awards Training Testing & Data Analysis Tips and Tricks for TeamMate R9 Understanding Program Processes Using Microsoft Styles What is Single Audit Wrapping Up Planning
Other Events Coordinated by Professional Development	
The Office hosted the 2011 Audit Conference at the AT&T Executive Center. The conference had 224 attendees from state and local government.	

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Other Activities

The State Auditor's Office is required by general law and by provisions of the General Appropriations Act to perform certain work, including participation in various workgroups and committees, performing research, and reviewing and monitoring agency activities, in addition to other activities of this Office. The following is a list of those activities.

Other Activities
<p>Audit Delegation and External Audit Contracting</p> <ul style="list-style-type: none">• Conducted activities related to state agencies' and higher education institutions' delegated audit authority.• Contracted for and monitored the external auditor's performance of the Permanent School Fund's financial audit.• Monitored an evaluation of the Teacher Retirement System's investment practices and performance.• Monitored the external auditor's performance of the federal compliance portion of the Statewide Single Audit.
<p>Internal Audit Activities</p> <ul style="list-style-type: none">• Notified all small agencies of their statutory responsibility, pursuant to the Internal Audit Act, to conduct a formal, annual risk assessment as part of their risk management process. Also developed the guidelines and format for the annual risk assessment and reviewed the agencies' submissions. (Texas Government Code, Sections 2102.013 and 2102.014)• Notified mid-sized and large state agencies and higher education institutions regarding guidelines for completing their 2011 annual internal audit report. Prescribed the form and content of the annual internal audit report, pursuant to the Internal Audit Act (Texas Government Code, Section 2102.009) and reviewed all reports submitted.• Reviewed all internal audit reports submitted by state agencies and higher education institutions. Provided a quarterly summary report of the internal audit reports to members of the Legislature in September and December 2010.
<p>Monitoring</p> <ul style="list-style-type: none">• Monitored Project One, statewide enterprise resource planning project at the Office of the Comptroller of Public Accounts.• Obtained the implementation status of outstanding recommendations contained in audit reports issued by the Office from higher education institutions, agencies, and other audited entities.• Monitored the State's implementation of the federal Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation.
<p>Participation on Committees, Work Groups, and Task Forces</p> <ul style="list-style-type: none">• Participated in Contract Advisory Team activities in a non-decision making role.• Participated in Quality Assurance Team activities in a non-decision making role.• Participated in Records Management Interagency Coordinating Council activities in a non-decision making role.• Participated on the Medicaid and Public Assistance Fraud Oversight Task Force in a non-decision making role.

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Other Activities (*continued*)

Participation on National Audit Organizations

- A representative from the Office serving on the Comptroller General's Advisory Council on Government Auditing Standards (Council) attended a Council meeting to provide feedback on proposed revisions to auditing standards. Revised government auditing standards will be formally issued later this year.
- Six representatives from the Office serve on committees of the National State Auditors Association (NSAA). These committees are:
 - The Audit Standards and Reporting Committee which monitors, responds to, or proposes changes to generally accepted accounting principles, auditing standards, and government auditing standards to foster improvements in state government.
 - The Peer Review Committee which exercises responsibility over the operations of the NSAA Peer Review Program. These responsibilities are to develop policies and procedures for performing and reporting on reviews, resolve potential disputes that may arise in the review process, ensure the consistency of reviews, and coordinate the adequacy of the NSAA Quality Control Review Committee Roster.
 - The Performance Audit Committee which enhances the quality and impact of performance audits by sharing information, coordinating state audit initiatives, educating government decision-makers, reviewing training opportunities, facilitating opportunities to benchmark performance, and recognizing outstanding performance audit practices.
 - The Single Audit Committee which represents NSAA on matters pertaining to single audit laws and regulations and provides a forum for NSAA members to exchange inquiries and best practices on single audits.
 - The Auditor Training Committee which identifies issues having an impact on current and future operations of state audit organizations. This committee also examines the types of educational programs or other resources that can help auditors address those issues, and plays an active role in developing and overseeing quality, timely programs for NSAA conferences to enhance the professional proficiency of auditors.

Presentations

- Met with a delegation of visitors from various African countries. The visitors were participants in the Accountability in Government Project, under the auspices of the U.S. Department of State's International Visitor Leadership Program.
- Made a presentation on "The Future of the Yellow Book: Anticipating Coming Changes" at the 2011 Audit Conference.
- Made a presentation on "Yellow Book IT Audit Requirements" to the Texas Society of Certified Public Accountants at that organization's Single Audits and Governmental Accounting Conference.
- Made a presentation on "e-Records from an Auditor's Perspective" at the Texas State Library and Archives e-Records Conference.
- Made a presentation on "Single Audit Requirements and the Office of Management and Budget Circular A-133 Compliance Supplement" at the 2011 Texas Department of Transportation Annual Audit Conference.
- Made a presentation on "Communicating with the Auditor" at the 42nd Annual Texas State Agency Business Administrators' Association Summer Conference.
- Made a presentation on "Strategic Planning and Performance-based Budgeting Systems" for the National State Auditors Association's Performance Audit Committee.
- Made a presentation to the new members of the House of Representatives, at the request of the Parliamentarian, to introduce the new members to our Office.

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Other Activities (*continued*)

Review and Comment

- Received two comprehensive development agreements and commented on the traffic and toll revenue reports contained in the agreements.
- Reviewed fiscal impact information and the justification related to rate increases provided by the Health and Human Services Commission.
- Reviewed reports from the Health and Human Services Commission's Office of Inspector General and its Office of Independent Ombudsman for state supported living centers.
- Reviewed tax settlement information provided by the Comptroller of Public Accounts.
- Began revising the methodology and reporting requirements for the annual report prepared by certain agencies and educational institutions in compliance with Rider 5(a), page III-237, the General Appropriations Act (81st Legislature).
- Began updating the Human Resources Management Statutes Inventory which outlines all of the State's employment practices.
- Began revising *the Guide to Performance Measure Management* which is designed to help agencies understand the State's performance measurement system.

Other

- Provided the members of the Legislature with the *Audit Highlights* document summarizing the results of work our Office performed at state agencies and higher education institutions between January 2009 and December 2010.
- Provided assistance to the Joint Committee to Canvass Votes Cast for Governor and Lieutenant Governor in the November 2010 general election.

Awards and Recognition

The Office received one service award, which is described below.

Awards and Recognitions

On August 11, 2011, the National Legislative Program Evaluation Society (NLPES) announced that our Office received an NLPES Impact Award for *An Audit Report on the Supplemental Nutrition Assistance Program at the Health and Human Services Commission* (State Auditor's Office Report No. 10-026, March 2010).

Copies of this report have been distributed to the following:

82nd Legislature

All Members of the 82nd Legislature



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