



Lisa R. Collier,
CPA, CFE, CIDA,
State Auditor

April 5, 2023

Dr. Alisa White, President
Sam Houston State University
Box 2026
Huntsville, TX 77341-2026

Subject: Engagement Letter for the Statewide Single Audit for Fiscal Year 2023

Dear Dr. White:

The State of Texas is required to obtain an annual Single Audit in accordance with the Single Audit Act Amendments of 1996; Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); the U.S. Office of Management and Budget (OMB) Compliance Supplement; and *Government Auditing Standards*. The required audit is referred to as a "Single Audit" because one audit is conducted for the State as a whole, rather than multiple audits of individual federal programs. Single Audits have the following components:

- A **federal compliance component** that focuses on an entity's compliance with the provisions of laws, regulations, and contracts or grants pertaining to federal awards.
- A **financial component** that focuses on an entity's financial information as part of the Annual Comprehensive Financial Report for the State of Texas and its Schedule of Expenditures of Federal Awards.

To enable the State of Texas to comply with the requirement to obtain a Single Audit, the State Auditor's Office conducts statewide audit work at various state agencies and higher education institutions each year. Sam Houston State University (University) has been selected for audit work related to the federal compliance and the financial components of the State of Texas Statewide Single Audit for fiscal year 2023. For the federal compliance component, we will audit Student Financial Assistance Cluster expenditures. For the financial component, we will audit the Schedule of Expenditures of Federal Awards.

This letter outlines the understanding of the State Auditor's Office with respect to the audit at the University for the year ended August 31, 2023.



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



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



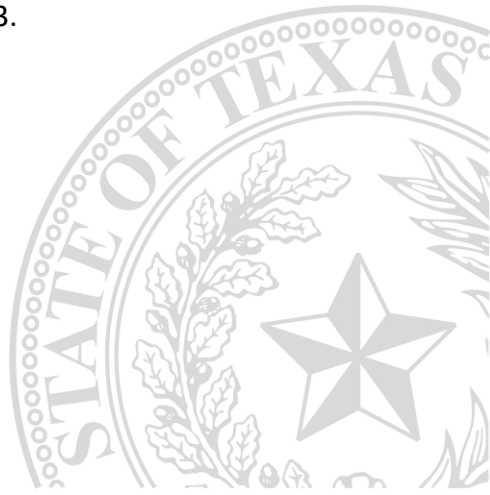
Phone:
(512) 936-9500



Fax:
(512) 936-9400



Internet:
www.sao.texas.gov



The objectives of the Single Audit are as follows:

- To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, it is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.
- Obtain an understanding of the internal controls over compliance for each major federal program, assess the control risk of noncompliance, and perform tests of those controls unless the controls are deemed to be ineffective.
- Express an opinion on whether the State has complied with federal statutes, regulations, and the terms and conditions of federal awards that may have a direct and material effect on each of its major federal programs in accordance with the Single Audit Act Amendments of 1996 and the Uniform Guidance.
- Express an opinion on whether the State's Schedule of Expenditures of Federal Awards for the year ended August 31, 2023, is presented fairly in all material respects in relation to the State's financial statements taken as a whole.
- Report on any significant deficiencies and material weaknesses in internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements based on an audit of financial statements performed in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*.

The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and will be subjected to the auditing procedures applied in the audit of the basic financial statements and additional procedures in accordance with auditing standards generally accepted in the United States of America. We will provide an opinion as to whether that information is fairly stated in all material respects in relation to the State's basic financial statements taken as a whole.

MANAGEMENT'S RESPONSIBILITIES

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility for:

- Preparing and fairly presenting the University's financial statements in accordance with accounting principles generally accepted in the United States of America.
- Designing, implementing, and maintaining internal control over compliance and internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
- Providing us with (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters, and to the compliance with provisions of laws, regulations, contracts, and grant agreements; (2) additional information that we may request from management for the purpose of the audit; and (3) unrestricted access to persons within the University from whom we determine it is necessary to obtain audit evidence.
- Identifying and ensuring that the University complies with laws, regulations, and the provisions of contracts and grants applicable to its activities.
- Informing auditors of all significant deficiencies and material weaknesses in the design or operation of controls of which it has knowledge.
- Adjusting the financial statements and the Schedule of Expenditures of Federal Awards to correct material misstatements and for affirming to the auditor in the management representation letter that the effects of any uncorrected misstatements aggregated by the auditor during the current engagement and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the financial statements and the Schedule of Expenditures of Federal Awards taken as a whole.
- Designing and implementing programs and controls to prevent and detect fraud; and taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements or abuse that the auditor reports.
- Informing the auditor of events occurring or facts discovered subsequent to the date of the financial statements and the Schedule of Expenditures of Federal Awards, of which management may become aware, that may affect the financial statements.

- Identifying all federal awards received and preparing the Schedule of Expenditures of Federal Awards in accordance with the Office of the Comptroller of Public Accounts' reporting requirements and the Uniform Guidance.
- Following up and taking corrective action on audit findings and preparing a corrective action plan.
- Notifying auditors of any significant vendor relationships for which the vendor is responsible for program compliance.

The audit does not relieve management or those charged with governance of their responsibilities.

In accordance with *Government Auditing Standards*, as part of our audit planning, we will evaluate whether management has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on compliance with federal requirements, on the financial statements, or on the Schedule of Expenditures of Federal Awards. To assist us, management agrees to identify previous audits, attestation engagements, or other studies that relate to the objectives of the audit, including whether related recommendations have been implemented, prior to first day of audit fieldwork.

At the conclusion of the engagement, management will provide the State Auditor's Office with a letter that confirms certain representations made during the audit. We will provide a draft representation letter for management to review at a later date.

AUDITOR'S RESPONSIBILITIES AND SCOPE OF WORK

We will perform tests of the University's compliance with laws, regulations, and provisions of contracts and grants for the Student Financial Assistance Cluster that we determine to be necessary based on Appendix XI - Compliance Supplement (Compliance Supplement) of the Uniform Guidance. The procedures outlined in the Compliance Supplement are those suggested by the federal agencies; they are general in nature and, therefore, do not cover all areas of regulation governing each program. Auditors may perform alternative audit procedures to achieve audit objectives stated in the Compliance Supplement.

We will also perform tests to evaluate the effectiveness of the design and operation of internal controls considered relevant to preventing or detecting material noncompliance with laws, regulations, contracts, and grants for the Student Financial Assistance Cluster. Those tests of internal control performed in accordance with the Uniform Guidance are less in scope than would be necessary to render an opinion on internal control.

In addition, we will complete selected procedures regarding the Schedule of Expenditures of Federal Awards.

We are responsible for conducting the audit in accordance with generally accepted government auditing standards. Those standards require that we exercise professional judgment and maintain professional skepticism throughout the audit. We will also:

- Identify and assess the risks of material misstatement of the financial statements and the Schedule of Expenditures of Federal Awards, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude, based on the audit evidence obtained, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with generally accepted auditing standards.

Auditing standards require our auditors to exercise professional skepticism and increased awareness to detect potential fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. As a result, interviews with employees at all levels as appropriate will include specific questions to help us assess fraud risk at the University.

In accordance with *Government Auditing Standards*, in certain circumstances we are also required to report fraud or noncompliance directly to parties outside of the University. However, because the determination of waste and abuse is subjective, *Government Auditing Standards* do not require auditors to detect waste and abuse.

STATE AUDITOR'S OFFICE CONTACTS

James Timberlake is the audit manager overseeing the federal compliance component of the audit and can be reached at (512) 936-9672 or James.Timberlake@sao.texas.gov. Valerie Bogan is the overall project manager for the federal compliance component of the audit and can be reached at (512) 936-9492 or Valerie.Bogan@sao.texas.gov.

Becky Beachy is the audit manager overseeing the Schedule of Expenditures of Federal Awards component of the audit and can be reached at (512) 936-9484 or Becky.Beachy@sao.texas.gov. Jennifer Grant is the overall project manager for the Schedule of Expenditures of Federal Awards component of the audit and can be reached at (512) 936-9814 or Jennifer.Grant@sao.texas.gov.

Your contact manager, who serves as your resource for information and assistance throughout the year, is James Timberlake. He is kept informed of all audit projects related to the University. Please feel free to contact him regarding any questions, suggestions, concerns, or comments about this project or any other issue.

A copy of the most recent external quality control review report on the State Auditor's Office is available at <http://www.sao.texas.gov/About/PeerReviews/>. *Government Auditing Standards* include a requirement for audit organizations to have an external review every three years. The most recent review found that the State Auditor's Office conducts audits in accordance with auditing standards.

AUDIT FINDINGS AND RESULTS

Findings or exceptions noted will be provided to management for written responses. A written management response to the findings is expected within 10 working days of receipt. However, the response time may be fewer than 10 working days, based on the significance of any issues identified during the engagement. A draft of our findings and recommendations will be delivered to management prior to the exit conference.

Management's final responses, including corrective action plans for current year findings, should be typed on the University's letterhead and accompanied by your signature. In certain circumstances, auditor follow-up comments may be included in the findings.

The results of the financial component of the Statewide Single Audit will be issued in a written report (opinion). Our report will be addressed to the University's Board of Regents. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinion, add an emphasis-of-matter paragraph or other-matter paragraph to our auditor's report, or if necessary, withdraw from the engagement. We also will issue a written report on the University's internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements upon completion of our audit. We will also summarize the results of our audit in a report to the Legislative Audit Committee and communicate certain matters required by auditing standards to those charged with governance.

REPORTING REQUIREMENTS

The Uniform Guidance requires the auditee to submit a data collection form and a reporting package to the Federal Audit Clearinghouse. A comprehensive data collection form and a reporting package will be submitted at the statewide level; therefore, it will not be necessary for the University to submit those items to the federal government.

ESTIMATED CHARGES

Reimbursement to the State Auditor's Office is authorized by Article IX, Section 6.20(b)(1), of the State's General Appropriations Act and the Interagency Cooperation Act (Texas Government Code, Chapter 771). The State Auditor's Office will invoice the University for services provided. The University shall reimburse the State Auditor's Office within thirty (30) days after the receipt of invoices from the State Auditor's Office from appropriation items or accounts from which like expenditures normally would be paid for similar resources, based upon vouchers drawn by the University payable to the State Auditor's Office. The State Auditor's Office will credit University payments to current appropriation item(s) or account(s) from which the expenditures of that character originally were made. Payment shall be made in accordance with Texas Government Code, Section 771.008.

Based on our preliminary estimates of the work to be done and an hourly rate of \$95, we estimate the billing for each audit area as follows:

Federal Compliance – Student Financial Assistance Cluster	\$85,500
Schedule of Expenditures of Federal Awards	<u>\$22,000</u>
Total estimated billing	\$107,500

That estimate may change as the audit progresses. Any significant changes in the estimated billing will be discussed with management at the time the changes are identified.

CONCLUDING REMARKS

We are currently gathering information to assist with the planning phase of the audit. To avoid duplicating audit efforts, we will coordinate our work with your internal auditor. We have also prepared an engagement expectations memo to document what the University can expect from the State Auditor's Office and what the State Auditor's Office can expect from the University (see attachment).

We anticipate completing our audit work by February 22, 2024.

Our office looks forward to working with the University's personnel over the course of the audit.

If the terms of this engagement as outlined above are acceptable, please indicate by signing below. Please return this letter to the State Auditor's Office. The undersigned parties do hereby certify that (1) the services specified above are necessary and essential for activities that are properly within the statutory functions and programs of the affected agencies of State Government; (2) the proposed arrangement serves the interest of the economical administration of the State Government; and (3) the services, supplies, or material that are the subject of this agreement are not required by Section 21 of Article 16 of the Constitution of Texas to be supplied under contract given to the lowest responsible bidder. The University further certifies that it has the authority to contract for the above services.

The undersigned parties bind themselves to the faithful performance of this agreement.

Sincerely,

A handwritten signature in black ink that reads "Lisa R. Collier". The signature is written in a cursive, flowing style.

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

Attachment

Dr. Alisa White, President
Sam Houston State University
April 5, 2023
Page 9

cc: Members of the Texas State University System Board of Regents
Mr. Earl C. "Duke" Austin, Jr., Chair
Mr. Garry Crain, First Vice Chair
Mr. Alan L. Tinsley, Second Vice Chair
Mr. Charlie Amato
Ms. Sheila Faske
Mr. Dionicio "Don" Flores
Mr. Stephen Lee
Mr. William F. "Bill" Scott
Mr. Gabriel Webb, Student Regent
Dr. Brian McCall, Chancellor, Texas State University System
Ms. Carole M. Fox, Chief Audit Executive, Texas State University System
Ms. Kelly R. Blissett, Director, Office of Internal Audit, Sam Houston State University
Ms. Amanda Withers, Chief Financial Officer and Senior Vice President of Finance and
Operations, Sam Houston State University
Ms. Amy Wilson, Director of Financial Aid and Scholarships, Sam Houston State
University

Acknowledged and agreed to on behalf of Sam Houston State University by:

Name

Title

Date

ENGAGEMENT EXPECTATIONS BETWEEN THE STATE AUDITOR'S OFFICE (SAO) AND SAM HOUSTON STATE UNIVERSITY

Introduction

The SAO and Sam Houston State University (University) shall develop an engagement expectations memo to establish what the University can expect from the SAO and what the SAO can expect from the University.

If the University has an internal audit function, the SAO will work with internal audit to coordinate the audit work unless University management specifically asks the SAO to do otherwise.

The SAO's Commitment to the University

To actively provide government leaders with useful information that improves accountability, the SAO is committed to the highest level of professional standards. The SAO will be professional, objective, fact-based, nonpartisan, nonideological, fair, and balanced in its approach.

The SAO performs its audits in accordance with generally accepted government auditing standards (GAGAS), which can be found at <https://www.gao.gov/assets/gao-21-368g.pdf>.

The University's Rights

The University has the right to:

- Share its concerns about the audited area(s) so the SAO may consider expanding the scope of work.
- Be briefed on the status of the audit.
- Receive notice of audit findings and recommendations prior to issuance of the audit report.
- Have management's views concerning findings, conclusions, and recommendations included in the audit report.

Types of Audits

The work that the SAO performs is described in Texas Government Code, Chapter 321, and includes:

- Financial audits.
- Compliance audits.
- Economy and efficiency audits.
- Effectiveness audits.
- Special audits, investigations, and other projects approved by the Legislative Audit Committee.

Access to the University's Information

The SAO must have unrestricted access to all personnel, records, files, internal audit working papers, and other confidential and nonconfidential information needed to conduct the audit. The SAO has the legal right to this access, as established in Texas Government Code, Sections 321.013(e) and 2262.154, and other law. Some of these records may include confidential and/or proprietary information.

With regard to these records:

- If records must be locked up while the SAO is on site, the University will provide a suitable, secure storage space for the records.
- The University will provide or facilitate access to the records the SAO requests in a timely manner. This may include notifying all University staff of the expectation that they be candid with auditors and offer full disclosure when responding to SAO information requests.

Any information obtained is part of the SAO working papers, which are considered confidential and not subject to disclosure under the Texas Public Information Act. The SAO has processes in place to safeguard the University's confidential information in accordance with both applicable auditing standards and state and federal law.

Communication Between the SAO and the University

The SAO is committed to maintaining constructive and continuing communication with audited entities. The University agrees to place no restrictions on the communication between its staff and SAO auditors. To ensure there are no limitations on the scope of the

engagement, the University agrees that its staff will not be required to provide detailed write-ups or accounts of their communications with SAO auditors to University management—as this could unintentionally result in restrictions on the communication. Routine communication between University management and staff regarding the audit is expected.

If the SAO auditors become aware that University staff are being required to provide detailed write-ups or reports back to management, we will evaluate whether this activity creates a scope limitation and, if so, the audit report will be modified to include that determination.

Communication may include the following (not necessarily in this order):

- Before beginning any new audit, the SAO seeks to obtain information and data from the University. To obtain this information, the SAO will contact internal audit regarding the audit's subject and objectives.
- The SAO will work with the University's management or its designee to make arrangements for work space, telephones, computer access, security badges, and parking (if necessary) prior to SAO auditors' moving on site.
- Audit work may be performed remotely to conduct meetings and observe audit documentation, obtaining information through a secure file sharing system, and conducting interviews. To ensure confidentiality of data and information during a meeting conducted remotely:
 - The SAO and the University agree to provide advanced notification of any recording of virtual meetings or taking of screenshots during virtual walk-throughs or interviews.
 - If a recording or screenshot is taken, the SAO and University will maintain the confidentiality of the information. The SAO and the University agree to ensure that only appropriate staff are provided copies of the recording or screenshot, including meeting agendas or other documentation.
- The SAO may conduct **preliminary interviews** and obtain documentation to gain an understanding of the University's processes before the entrance conference. In addition, the SAO will conduct interviews with various personnel at the University throughout the audit.
- Internal audit or management's designee will notify staff at the University about the potential for the SAO to contact them.

- If gaining **access to systems** at the University requires SAO auditors to follow special processes, internal audit or management's designee will notify the SAO within two weeks of the date that the University is notified concerning the audit.
 - The SAO will provide the University with an **engagement letter** informing the entity of the planned audit, its scope and objectives, how the audit will be conducted, and the report(s) to be produced. The SAO will address the engagement letter to the head of the University and provide copies to board members and the internal auditor. This memorandum will be attached to the **engagement letter**.
 - The SAO will hold an **entrance conference** or otherwise communicate with officials of the University at the start of an engagement to discuss (1) the reasons for the audit work; (2) information needs, including any special precautions necessary to protect data; (3) an estimate of how long the work will take, to the extent possible; and (4) the cost of the audit, if applicable.
 - To ensure auditing standards are met and the audit scope is not limited, only invited employees of the University will **attend interviews** or walk-throughs that the SAO conducts unless the SAO project team agrees to another arrangement prior to the interview or walk-through.
 - Audit issues are normally handled by **discussing potential issues** with the relevant staff and supervisors of the University. Issues that are not resolved are discussed at status update meetings.
 - The SAO will provide the University with **periodic updates** on the status of the audit and potential issues according to a schedule that is jointly determined by the SAO and the University.
 - SAO representatives attending these update meetings will include the audit manager, project manager, and team members as needed.
 - The University representative(s) attending these update meetings should include the head of the University (or designee), the internal auditor, and the head of the audited area. Other individuals may be designated as needed.
 - The SAO will offer to hold an exit conference with management to discuss the final audit results.
 - Six weeks after the report is released, the SAO will provide an automated survey to obtain feedback about the audit. Completing this survey is voluntary.
-

Significant Changes

The SAO's plan for conducting the audit may change because of information reviewed during the course of the audit, staff turnover, or other resource issues. The SAO will inform the University as soon as possible to communicate significant changes in:

- Project manager or other key team members.
- Audit scope or objectives.
- Project completion date.

Draft Reports and University Comments

The SAO will discuss the preliminary findings and recommendations with the University during the audit. At the conclusion of fieldwork, the SAO will send the University the report draft for management's responses to findings and recommendations.

The University will have the opportunity to provide responses within the required time frames. The typical allotted response time is two weeks. However, the response time may be less than two weeks, based on the significance of the issues identified. Those responses should address the audit results and include a corrective action plan, if necessary. However, if there are any concerns about possible factual errors or overall tone and wording, please bring these to our attention immediately so we can discuss possible revisions before management submits formal responses.

Report Distribution

Draft reports are considered audit working papers under the Public Information Act. As such, they are not intended for public distribution.

Contacts

Primary contacts for each entity are listed below.

SAO:

<u>Name</u>	<u>Title</u>
Contacts for Federal Compliance Work	
Mr. James Timberlake, CIA, CFE	Audit Manager
Ms. Valerie Bogan, CFE	Project Manager
Contacts for Schedule of Federal Expenditures Work	
Ms. Becky Beachy, CIA, CGAP	Audit Manager
Ms. Jennifer Grant, CFE	Project Manager

University:

<u>Name</u>	<u>Title</u>
Dr. Alisa White	President
Ms. Kelly R. Blissett	Director, Office of Internal Audit
Ms. Amanda Withers	Chief Financial Officer and Senior Vice President of Finance and Operations
Ms. Amy Wilson	Director of Financial Aid and Scholarships