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June 25, 2009

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Mr. J. Kevin Ward, Executive Administrator  
Water Development Board  
Stephen F. Austin Building  
1700 North Congress Avenue, 5th Floor  
Austin, TX 78701

Dear Mr. Ward:

The State Auditor's Office is authorized to investigate allegations of impropriety and illegal acts affecting state resources. It is particularly important, given the influx of federal hurricane relief funds and federal stimulus funds, that agency and higher education institution management and staff have a heightened awareness of the potential misuse or misappropriation of state resources.

Texas Government Code, Section 321.022, requires that the administrative head of a department or entity that is subject to audit by the State Auditor report to the State Auditor if there is "reasonable cause to believe that money received from the state by the department or entity...may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred."

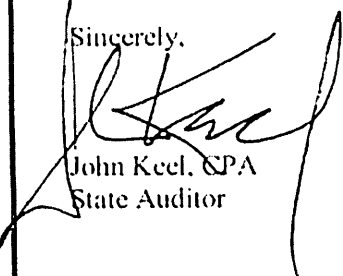
Additionally, the General Appropriations Act (81st Legislature, Regular Session), contains two new reporting requirements related to fraud, waste, and abuse:

- **Fraud Reporting.** Per Article IX, Section 17.05, agencies and higher education institutions that receive appropriated funds are required to:
  - Provide information on their Web sites regarding how to report suspected fraud, waste, and abuse to the State Auditor's Office. This information should include the State Auditor's Office's fraud hotline information and a link to the State Auditor's Web site for fraud reporting.
  - Include in their policies information on how to report suspected fraud involving state funds to the State Auditor's Office.
- **Reporting Requirements.** Per Article XII, Section 5(e), agencies and higher education institutions that receive federal American Recovery and Reinvestment Act funds are required to post on their Web sites a link to the State Auditor's Office's fraud hotline.

Please include information about the State Auditor's Office's telephone hotline (1-800-TX-AUDIT) and Web site on any posters or fliers that you already have or are developing and include a link from your Web site to our Web site for fraud reporting (<http://sao.fraud.state.tx.us>). At this site, you will also find ready-to-use fliers, a Special Investigations Unit brochure, and an online fraud reporting form.

If you wish to discuss this topic further, you may contact our office through your designated contact manager at the State Auditor's Office, John C. Young, at (512) 936-9500.

Sincerely,

  
John Keel, CPA  
State Auditor

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cc: Ms. Shari Daffern, CPA, CIA, Director of Internal Audit