

Key Findings From the Financial Statement Audit

State agencies and universities generally do a good job of controlling financial resources. However, we found two serious exceptions:

- The Texas Education Agency (Agency) continues to have a material weakness in its accounting and reporting controls. The Agency spent approximately \$13.9 billion in fiscal year 2000.
- The Department of Health (Department) has persistent weaknesses in its financial management practices and financial systems. The Department spent approximately \$8.7 billion in fiscal year 2000.

The Teacher Retirement System (System) had no findings. The System's pension plan remains fully funded for the third consecutive year. However, system management estimates that the insurance plan for public school and most state college employees has sufficient funding to continue operating only through fiscal year 2001. Continuation of the insurance plan beyond fiscal year 2001 will require legislative action.

Key Findings From the Federal Compliance Audit

Overall, state agencies and universities complied with federal laws and regulations in the administration of \$19.6 billion in federal funds. The 39 federal programs we audited represent 81 percent of fiscal year 2000 federal funding.

- Contract administration continues to be a serious problem at the Department of Housing and Community Affairs and the Texas Education Agency. Despite improvements, monitoring of contracts is still not adequate to ensure that the State receives agreed-upon services. In fiscal year 2000, these two agencies paid contractors more than \$2 billion in federal funds to provide services to citizens.

- A material weakness continues to exist in the payroll system at Texas Southern University. As a result, there is no assurance that payroll charges to research and development federal programs are allowable.
- The Commission on Alcohol and Drug Abuse and the Department of Protective and Regulatory Services made significant improvements to address prior year weaknesses in contract administration.
- The Department of Transportation had no findings related to compliance with federal requirements.

Key Findings From the Bond Compliance Audit

Overall, agencies and universities complied with bond covenant requirements. We had no findings for 19 of 20 agencies and universities we audited. One agency had a finding regarding the accuracy of

the Supplementary Bond Schedules in its Annual Financial Report. As of August 31, 2000, the total amount of bond issues outstanding was \$12.3 billion.

This information provided by the
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The results of the Statewide Single Audit, including findings, recommendations, and management responses, can be found in *The 2000 Statewide Single Audit Report – Financial and Federal Compliance Audit Results* (SAO Report No. 01-555, April 2001).

State Auditor's Observations – A Glimpse Into the Future

The State administered \$19.6 billion in federal funds during fiscal year 2000. Because interaction and communication with the federal government remains important, the following initiatives will have an impact on the State's administration of federal programs.

- The Federal Financial Assistance Management Improvement Act was enacted in November 1999 to streamline and simplify the federal grant process. Federal agencies must submit their plans to implement provisions of the law by May 2001.
- The federal government recently developed an Internet grants portal for grantee organizations, including state and local governments, for the purpose of grants administration.
- The Office of the Governor is sponsoring a workgroup for which the goal is to facilitate the development of a simplified, integrated, and efficient state-level, web-based common face for grant assistance programs.

Advances in technology will continue to have a significant impact on the management and audit of financial resources. For example, many agencies, including all health and human service agencies, are converting to a modified Integrated Statewide Administrative System (ISAS)/ PeopleSoft software. The growth of e-government, large databases, and technology-driven processes will require a workforce that is highly skilled in the use of technology.

New financial reporting requirements for the State go into effect on September 1, 2001. These requirements will provide a more comprehensive picture of the State's financial condition.

What is the Statewide Single Audit?
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 Amendments of 1996 and *Office of Management and Budget (OMB) Circular A-133*. The audit covers the State's financial statements, the Schedule of Expenditures of Federal Awards, Supplementary Bond Schedules, controls, and compliance.

Financial Information

Overall

Texas' 2000 *Comprehensive Annual Financial Report* (CAFR), prepared by the Comptroller of Public Accounts, is accurate and based on generally accepted accounting principles. The CAFR provides the most complete financial information available on Texas state government as a whole.

- Actual tobacco settlement revenues received in fiscal year 2000 were \$295.2 million, down from \$1.1 billion in fiscal year 1999. The revenue in fiscal year 1999 included initial lump sum settlements.

Observations Related to Expenditures

The State spent \$46.6 billion in state and federal funds during fiscal year 2000, an increase of \$3.8 billion from fiscal year 1999. Functional areas experiencing the largest increases in spending included transportation and education.

- Transportation spending increased 17.6 percent to \$4.6 billion.
- Education spending increased 16.6 percent to \$14.7 billion.
- Health and human services continues to be the highest expenditure for the State at \$19.0 billion.

Additional Observations

The State's financial position continued to improve. Assets increased 5.3 percent to \$240.5 billion. Cash and investments accounted for 80 percent of total assets.

The State's \$192.3 billion of fund equity represents the excess of total assets over total liabilities. The majority of fund equity is legally restricted for specific uses. As a result, only \$767.8 million was available for future operations in the State's General Fund. The State added \$4.7 million to its "Rainy Day Fund," which had a balance of \$84.7 million on August 31, 2000.

Observations Related to Revenues

The State collected revenues of \$49.6 billion during fiscal year 2000. This represented an increase of \$2.0 billion (4.1 percent) from the amount collected in fiscal year 1999.

- Tax collections of \$26.2 billion constituted more than one-half of the State's revenue.
- The State received \$19.6 billion in federal funds in fiscal year 2000. This is an increase of 4.7 percent from the \$18.7 billion it received in fiscal year 1999.

Texas' bonded debt position is healthy. The *Texas Bond Review Board 2000 Annual Report* states, "Comparisons with other states reveal that Texas' overall debt position is manageable." Credit rating agencies Moody's, Standard & Poor's, and Fitch IBCA currently assign ratings of Aa1, AA, and AA+, respectively, to Texas general obligation debt. As of August 31, 2000, the State had outstanding bonds of \$12.3 billion.



State of Texas Financial Profile

Summary of Budget¹ and Actual Activity by Fiscal Year for the State's General Fund²
(Amounts in Thousands)

	1998-99 Biennium								
	FY00			FY99			FY98		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
REVENUES									
Taxes	\$23,885,184	\$25,250,631	\$ 1,365,447	\$22,495,655	\$23,587,055	\$ 1,091,400	\$21,026,972	\$22,605,108	\$ 1,578,136
Federal	11,537,686	12,506,206	968,520	10,868,361	11,927,923	1,059,562	10,707,011	10,757,922	50,911
Licenses, Fees, and Permits	1,453,964	1,560,773	106,809	1,846,452	1,483,991	(362,461)	1,778,305	1,431,653	(346,652)
Other	2,182,110	2,305,479	123,369	2,202,556	3,191,997	989,441	1,054,248	1,695,726	641,478
Total Revenues	\$39,058,944	\$41,623,089	\$ 2,564,145	\$37,413,024	\$40,190,966	\$ 2,777,942	\$34,566,536	\$36,490,409	\$ 1,923,873
EXPENDITURES									
General Government	\$ 1,852,163	\$ 1,675,100	177,063	\$ 1,398,168	\$ 1,478,404	(80,236)	\$ 1,543,491	\$ 1,723,654	\$ (180,163)
Education	13,913,133	13,390,469	522,664	11,731,425	11,140,196	591,229	11,811,504	11,256,361	555,143
Health and Human Services	15,188,023	15,861,903	(673,880)	13,886,254	14,845,346	(959,092)	13,911,731	13,576,126	335,605
Public Safety and Corrections	3,175,902	3,199,569	(23,667)	2,744,965	2,920,004	(175,039)	2,870,056	2,739,663	130,393
Other	1,419,352	899,104	520,248	939,556	1,004,729	(65,173)	1,025,051	961,617	63,434
Total Expenditures	\$35,548,573	\$35,026,145	\$ 522,428	\$30,700,368	\$31,388,679	\$ (688,311)	\$31,161,833	\$30,257,421	\$ 904,412
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 3,510,371	\$ 6,596,944	\$ 3,086,573	\$ 6,712,656	\$ 8,802,287	\$ 2,089,631	\$ 3,404,703	\$ 6,232,988	\$ 2,828,285
OTHER FINANCING SOURCES (USES)									
Operating Transfers In	\$ 1,233,492	\$ 914,071	\$ (319,421)	\$ 1,571,310	\$ 1,211,237	(360,073)	\$ 1,511,253	\$ 1,136,915	\$ (374,338)
Operating Transfers Out	(8,180,149)	(7,990,701)	189,448	(8,266,048)	(9,044,855)	(778,807)	(6,863,407)	(7,166,280)	(302,873)
Sale of Fixed Assets	4,310	5,848	1,538	5,093	7,403	2,310	16,838	17,883	1,045
Available Beginning Balance	3,404,329	3,404,329	0	373,078	2,536,639	2,163,561	2,158,409	2,158,409	0
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ (27,647)	\$ 2,930,491	\$ 2,958,138	\$ 396,089	\$ 3,512,711	\$ 3,116,622	\$ 227,796	\$ 2,379,915	\$ 2,152,119

Increases in Health and Human Services expenditures since fiscal year 1998 have resulted in a budget deficit.

The significant Transfers Out include appropriations to universities, motor fuels tax transfers, and Teacher Retirement System retirement payments to universities.

Transfers In include the payment from the lottery to the Foundation School Fund and the state match to the Medicaid disproportionate share payments.

According to the Texas Constitution, appropriated expenditures cannot exceed estimated revenues for the biennium. The deficiency in fiscal year 2000 was created when \$176.3 million in appropriation authority for the Department of Health and the Department of Criminal Justice was moved from fiscal year 2001 to fiscal year 2000. Revenues to cover this authority were budgeted in fiscal year 2001.

There was a positive variance in each fiscal year primarily because actual revenue exceeded estimated revenue.

¹The basis for budgeted revenues is the Comptroller of Public Accounts' certified revenue estimate. The basis for budgeted expenditures is the General Appropriations Act. Numerous adjustments are made to the Uniform Statewide Accounting System (USAS) data in order to compare budget to actual.

²The General Fund is the principal operating fund used to account for most of the State's general activities. It includes the General Revenue Fund and General Revenue-Dedicated Accounts. Some federal funds are included in Dedicated Accounts. Other funds, such as federal food stamps and the disproportionate share portion of the Medicaid program, are not included.