

An Audit Report on

Compliance with Benefits Proportional by Fund Requirements at 20 State Entities

March 2003

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Compliance with Benefits Proportional by Fund Requirements at 20 State Entities

Overall Conclusion

As a result of our audit, 3 of the 20 entities we audited reimbursed an additional \$2,174,427 to General Revenue to comply with a General Appropriations Act (76th Legislature) requirement to pay benefits proportionately to funding sources for fiscal year 2001. As of March 18, 2003, Texas Tech University still needed to reimburse \$92,865 to General Revenue. As of March 5, 2003, the Public Utility Commission of Texas still needed to reimburse \$28,000 to General Revenue. Prior to our audit, nine of the 20 entities had reimbursed a net \$2,622,758 to General Revenue to comply with this requirement. After those reimbursements are processed, all 20 entities' total reimbursements to General Revenue for fiscal year 2001 will be \$4,918,050.

During our audit, we also identified certain aspects of the proportionality requirements that could be clarified to better ensure compliance. For example, the absence of an established deadline by which entities must make reimbursements to General Revenue allowed two entities we audited to wait until 12 and 9 months after the reporting deadline to make necessary reimbursements to General Revenue. We also noted that the proportionality requirements in the General Appropriations Act do not specify what entities are required to do when they have used less than a proportionate share of General Revenue to pay employee benefits. In some cases, entities must comply with other proportionality requirements that differ from the Salaries to be Proportional by Fund requirements in the General Appropriations Act. This has caused a lack of clarity at the entity level about how to handle this circumstance.

As we reported in August 2002, it is also possible for entities to refrain from submitting *Benefits Proportional by Fund Reports* to the Comptroller of Public Accounts (Comptroller) by combining multiple sources of funding into a single operating fund. The General Appropriations Act does not prohibit entities from doing this. Clarification of this area could help to ensure that entities comply with proportionality requirements.

Excerpts from Salaries to be Proportional by Fund Requirements in the General Appropriations Act

- Section 9-6.11 (a), page IX-39, of the General Appropriations Act (76th Legislature) requires that "Unless otherwise provided, payment for salaries, wages and benefits paid from appropriated funds...shall be proportional to the source of funds."
- Section 9-6.11 (d), page IX-39, of the General Appropriations Act (76th Legislature) requires that "Each agency or institution of higher education having General Revenue Fund appropriations and other sources of financing shall file with the Comptroller and the State Auditor a schedule demonstrating proportionality."



Key Points

Three entities' *Benefits Proportional by Fund Reports* contained errors that required \$125,074 in additional reimbursements to General Revenue.

We identified errors in the *Benefits Proportional by Fund Reports* that Texas Tech University, Texas A&M University, and the University of Houston submitted for fiscal year 2001. These errors required an additional \$125,074 in reimbursements to General Revenue. Specifically:

- After the conclusion of our audit, Texas Tech University provided us with its revised *Benefits Proportional by Fund Report*; however, as of March 18, 2003, it had not yet made the necessary \$92,865 reimbursement to General Revenue.
- Texas A&M University corrected the errors and reimbursed \$32,839 to General Revenue.

Prior to our audit, the Comptroller identified errors in the University of Houston's fiscal year 2001 *Benefits Proportional by Fund Report*. The University of Houston corrected the errors and reimbursed \$789,855 to General Revenue. We identified additional errors in the University of Houston's report, but these errors did not result in changes to the University of Houston's proportionality calculation.

Two of eight entities that complied with proportionality requirements took several months to make necessary reimbursements to General Revenue.

Although the Department of Public Safety complied with proportionality requirements, it took 12 months to make a necessary \$2,111,588 reimbursement to General Revenue. The Department of Housing and Community Affairs also complied with proportionality requirements, but it took nine months to reimburse \$30,000 (approximately 45 percent of its required reimbursement) to General Revenue.

The following entities complied with proportionality requirements and made adjustments to General Revenue (if necessary) in a timely fashion:

- Department of Criminal Justice
- Department on Aging
- Texas Commission on Environmental Quality
- Texas Education Agency
- Texas Lottery Commission
- The University of Texas at Austin

Three entities used less than a proportionate share of General Revenue to pay employee benefits.

The *Benefits Proportional by Fund Reports* that the Texas Building and Procurement Commission and the Texas Workforce Commission submitted indicated that these entities could have received refunds of \$50,123 and \$104,522, respectively, from General Revenue. However, these entities did not pursue these refunds because their benefit expenditures are governed by other requirements under which these entities must operate. For example, the General Appropriations Act specifies that the Surplus Property Service Charge Fund should cover the total costs of the Texas Building and Procurement Commission's Surplus Property Program.

The Department of Transportation's *Benefits Proportional by Fund Report* indicated that it could have received a \$249,791 refund from General Revenue; however, it also did not pursue that refund. There is a lack of clarity regarding whether obtaining this refund is permissible.

Six entities paid employee benefits from a single appropriated fund and, therefore, did not submit *Benefits Proportional by Fund Reports* for fiscal year 2001.

As permitted by Comptroller Accounting Policy Statement 011, the following entities did not submit completed *Benefits Proportional by Fund Reports* for fiscal year 2001:

- Department of Human Services
- Department of Mental Health and Mental Retardation
- Department of Protective and Regulatory Services
- Health and Human Services Commission
- Public Utility Commission of Texas
- Structural Pest Control Board

In documents that each of these entities submitted to the Comptroller and the State Auditor's Office, each entity stated that it paid employee benefits expenses that were subject to proportionality requirements from a single appropriated fund. Two other agencies—the Department of Criminal Justice and the Texas Lottery Commission—paid benefit expenses subject to proportionality requirements from a single appropriated fund, yet they also submitted *Benefits Proportional by Fund Reports*.

Summary of Management's Response

The entities we audited generally agreed with our recommendations; however, some of them expressed the need to clarify certain proportionality requirements. Management's responses from each entity are included in the Detailed Results section of this report.

Summary of Objective, Scope, and Methodology

The objective of this audit was to determine state entities' compliance with Salaries to Be Proportional by Fund requirements in the General Appropriations Act.

The scope of the audit included testing the fiscal year 2001 *Benefits Proportional by Fund Reports* that 20 entities submitted to the Comptroller.

Our methodology consisted of determining whether the audited entities' *Benefits Proportional by Fund Reports* were accurate and whether the entities made necessary adjustments to General Revenue to achieve proportional funding.

This audit did not include a review of information technology systems.

Table of Results and Recommendations
Texas Tech University's <i>Benefits Proportional by Fund Report</i> contained errors. (Page 3)
The University should:
<ul style="list-style-type: none"> ▪ Exclude pass-through amounts from its calculations to determine the method of finance totals on its <i>Benefits Proportional by Fund Report</i>. ▪ Ensure that personnel responsible for developing the <i>Benefits Proportional by Fund Report</i> are knowledgeable about the Comptroller's guidelines relating to this reporting requirement.
Texas A&M University's <i>Benefits Proportional by Fund Report</i> contained errors. (Page 4)
Texas A&M should:
<ul style="list-style-type: none"> ▪ Use correct benefit expenditure amounts when it calculates its <i>Benefits Proportional by Fund Report</i>. ▪ Improve its monitoring to minimize the size of the year-end adjustment it must make to achieve proportionality.
The University of Houston's <i>Benefits Proportional by Fund Report</i> contained errors. (Page 5)
U of H should:
<ul style="list-style-type: none"> ▪ Exclude tuition revenue bond appropriations and interagency contracts in its calculations to determine the method of finance for its <i>Benefits Proportional by Fund Report</i>. ▪ Ensure that personnel responsible for developing the <i>Benefits Proportional by Fund Report</i> are knowledgeable about the Comptroller's guidelines relating to this reporting requirement. ▪ Update its internal records to account for adjustments it processes as a result of the <i>Benefits Proportional by Fund Report</i>.
The Department of Public Safety did not comply with proportionality requirements in a timely manner. (Page 7)
The Department should:
<ul style="list-style-type: none"> ▪ Develop a procedure to process adjustments identified on its <i>Benefits Proportional by Fund Reports</i> in a timely manner. ▪ Improve its monitoring of proportionality requirements to minimize the size of year-end adjustment it must make to achieve proportionality.
The Department of Housing and Community Affairs did not comply with proportionality requirements in a timely manner. (Page 8)
The Department should develop a procedure to process adjustments identified in its <i>Benefits Proportional by Fund Reports</i> in a timely manner.
The Department of Criminal Justice complied with proportionality requirements. (Page 9)
The Department should ensure that it accurately identifies benefit expenditure amounts in its <i>Benefits Proportional by Fund Report</i> .
The Department on Aging complied with proportionality requirements. (Page 10)
(No recommendations)
The Texas Commission on Environmental Quality complied with proportionality requirements. (Page 10)
(No recommendations)
The Texas Education Agency complied with proportionality requirements. (Page 11)
(No recommendations)
The Texas Lottery Commission complied with proportionality requirements. (Page 11)
The Commission should:
<ul style="list-style-type: none"> ▪ Correctly represent its General Revenue dedicated funds in its method of financing. ▪ Include only complete and appropriate benefit expenditure amounts on its expenditure worksheets.

Table of Results and Recommendations
The University of Texas at Austin complied with proportionality requirements. (Page 12)
UT-Austin should improve its monitoring to minimize the size of the year-end adjustment it must make to achieve proportionality.
The Department of Transportation used less than a proportionate share of general revenue to pay employee benefits. (Page 14)
The Department should work with the Comptroller to determine whether it can pursue a refund from General Revenue.
Conflicting proportionality requirements led the Texas Workforce Commission to use less than a proportionate share of general revenue to pay employee benefits. (Page 14)
The Commission should work with the Comptroller to determine whether it can pursue a refund from General Revenue.
The Texas Building and Procurement Commission used less than a proportionate share of general revenue to pay employee benefits. (Page 15)
The Commission should include interagency receipts in the appropriate funding classifications on its <i>Benefits Proportional by Fund Report</i> .
Six entities audited did not submit <i>Benefits Proportional by Fund Reports</i> . (Page 17)
(No recommendations)

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Detailed Results

Overall Conclusion

As a result of our audit, 3 of the 20 entities we audited reimbursed an additional \$2,174,427 to General Revenue to comply with a General Appropriations Act (76th Legislature) requirement to pay benefits proportionately to funding sources for fiscal year 2001. As of March 18, 2003, Texas Tech University still needed to reimburse \$92,865 to General Revenue. As of March 5, 2003, the Public Utility Commission of Texas still needed to reimburse \$28,000 to General Revenue. Prior to our audit, nine of the 20 entities had reimbursed a net \$2,622,758 to General Revenue to comply with this requirement. After those reimbursements are processed, all 20 entities' total reimbursements to General Revenue for fiscal year 2001 will be \$4,918,050.

Table 1 - Results of audits of proportionality at 20 entities.

Summary of Audits of Proportionality at 20 Entities			
Entity	Reimbursement Made to/ (Refund Received from) General Revenue Prior to This Audit	Reimbursement Made to/ (Refund Received from) General Revenue During This Audit	Total Reimbursement Made to/ (Refund Received from) General Revenue
Department of Criminal Justice	\$ 0	\$ 0	\$ 0
Department of Housing and Community Affairs	36,000	30,000	66,000
Department of Human Services ^a	0	0	0
Department of Mental Health and Mental Retardation ^a	0	0	0
Department of Protective and Regulatory Services ^a	0	0	0
Department of Public Safety	(160,423)	2,111,588	1,951,165
Department of Transportation	0	0	0
Department on Aging	(1,708)	0	(1,708)
Health and Human Services Commission ^a	0	0	0
Public Utility Commission of Texas ^a	0	\$28,000 ^b	0
Structural Pest Control Board ^a	0	0	0
Texas A&M University	1,261,657	32,839	1,294,496
Building and Procurement Commission	0	0	0
Texas Commission on Environmental Quality	(331,088)	0	(331,088)
Texas Education Agency	424,874	0	424,874
Texas Lottery Commission	0	0	0
Texas Tech University	(681,252)	92,865 ^c	(681,252)

Summary of Audits of Proportionality at 20 Entities

Entity	Reimbursement Made to/ (Refund Received from) General Revenue Prior to This Audit	Reimbursement Made to/ (Refund Received from) General Revenue During This Audit	Total Reimbursement Made to/ (Refund Received from) General Revenue
Texas Workforce Commission	0	0	0
The University of Texas at Austin	1,284,843	0	1,284,843
University of Houston	789,855	0	789,855
Totals	\$ 2,622,758	\$ 2,174,427	\$ 4,797,185^d

^a This entity stated that it paid employee benefits expenses that were subject to proportionality requirements from a single appropriated fund and therefore, as permitted by the Comptroller of Public Accounts' Accounting Policy Statement 011, did not submit a *Benefits Proportional by Fund Report* for fiscal year 2001. Chapter 4 of this report provides additional details on this issue.

^b The \$28,000 adjustment is not included in the \$2,174,427 total. As of March 5, 2003, the Public Utility Commission of Texas had not yet made this reimbursement to General Revenue.

^c The \$92,865 adjustment is not included in the \$2,174,427 total. As of March 18, 2003, Texas Tech University had not yet made this reimbursement to General Revenue.

^d After Texas Tech University and the Public Utility Commission of Texas make their reimbursements to General Revenue, all 20 entities' total reimbursements to General Revenue for fiscal year 2001 will be \$4,918,050.

Source: State Auditor's Office analysis

Three Entities' Benefits Proportional by Fund Reports Contained Errors

We identified errors in the *Benefits Proportional by Fund Reports* that Texas Tech University, Texas A&M University, and the University of Houston submitted for fiscal year 2001. These errors required an additional \$125,074 in reimbursements to General Revenue. Specifically:

- After the conclusion of our audit, Texas Tech University provided us with its revised *Benefits Proportional by Fund Report*; however, as of March 18, 2003, it had not yet made the necessary \$92,865 reimbursement to General Revenue.
- Texas A&M University corrected the errors and reimbursed \$32,839 to General Revenue.

Prior to our audit, the Comptroller identified errors in the University of Houston's fiscal year 2001 Benefits Proportional by Fund Report. The University of Houston corrected the errors and reimbursed \$789,855 to General Revenue. We identified additional errors in the University of Houston's report, but these errors did not result in changes to the University of Houston's proportionality calculation..

Chapter 1-A

Texas Tech University's Benefits Proportional by Fund Report Contained Errors

Texas Tech University (University) submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date. However, we determined that the University erroneously included pass-through revenue in the method of finance totals on its report.

The Comptroller provided guidance to University staff to enhance their understanding of the development of the *Benefits Proportional by Fund Report*.

We received the University's revised *Benefits Proportional by Fund Report* on November 15, 2002, after the completion of our audit fieldwork. That report indicated that the University must reimburse approximately \$92,865 to General Revenue. As of March 18, 2003, the University had not made that reimbursement.

Recommendations

The University should:

- Exclude pass-through amounts from its calculations to determine the method of finance totals on its *Benefits Proportional by Fund Report*.
- Ensure that personnel responsible for developing the *Benefits Proportional by Fund Report* are knowledgeable about the Comptroller's guidelines relating to this reporting requirement.

Management's Response

Texas Tech University concurs with the statements regarding the errors made in the method of finance calculation and the assistance of the Office of the Comptroller of Public Accounts to correct these errors. We will continue to seek the guidance and training from TTU's Appropriations Control Officer to ensure that the university stays in compliance.

Texas Tech University has completed the revised report for FY01 removing the pass-through funds from the method of finance. We are working with the Appropriations Control Officer to correct USAS and reimburse the General Revenue. After administrative changes at the University in April, 2002, Becky Hyde, Director of Student and University Financial Services, is responsible for the completion of the Benefits Proportional by Fund Report with administrative review by Nancy Whittaker, Assistant Vice President for Business Affairs and Dr. Lynda Gilbert, Vice-President for Fiscal Affairs.

Chapter 1-B

Texas A&M University's Benefits Proportional by Fund Report Contained Errors

Texas A&M University (Texas A&M) submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date. However, we determined that Texas A&M erroneously excluded certain benefit expenditure amounts from the proportionality calculations in its report.

Texas A&M worked with the Comptroller to correct this error and submitted a revised report in August 2002. As a result, Texas A&M processed an adjustment to reimburse \$32,839 to General Revenue and, therefore, complied with the proportionality requirements.

Recommendations

Texas A&M should:

- Use correct benefit expenditure amounts when it calculates its *Benefits Proportional by Fund Report*.
- Improve its monitoring to minimize the size of the year-end adjustment it must make to achieve proportionality.

Management's Response

We agree.

For both recommendations, corrective action has been completed. Ms. Marilyn Maynard, Assistant Vice President and Director of Financial Management Services, will be responsible for compliance with the proportionality requirements of the General Appropriations Act.

The University of Houston's *Benefits Proportional by Fund Report* Contained Errors

The University of Houston (U of H) submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date. However, the Comptroller determined that U of H did not calculate the method of finance on its report accurately. Specifically, U of H erroneously included tuition revenue bond appropriations and interagency contracts when it developed its method of finance.

U of H and the Comptroller worked together to recalculate the method of finance. As a result, U of H processed an adjustment to reimburse \$789,855 to General Revenue and, therefore, complied with the proportionality requirements.

We also noted that U of H did not update its internal information on benefit expenditure totals to account for the adjustment it processed as a result of the *Benefits Proportional by Fund Report*.

Recommendations

U of H should:

- Exclude tuition revenue bond appropriations and interagency contracts in its calculations to determine the method of finance for its *Benefits Proportional by Fund Report*.
- Ensure that personnel responsible for developing the *Benefits Proportional by Fund Report* are knowledgeable about the Comptroller's guidelines relating to this reporting requirement.
- Update its internal records to account for adjustments it processes as a result of the *Benefits Proportional by Fund Report*.

Management's Response

As requested in your December 20, 2002 letter, please find below management's formal responses to your report on Compliance with Salaries Proportional by Fund Requirements for the University of Houston.

- *We have modified our procedures to exclude tuition revenue bond appropriations and interagency contracts from the method of finance calculation used to prepare the Benefits Proportional by Fund Report. Responsible Person: Kevin Draper, Manager, State Accounting Action completed*
- *Key personnel in the State Accounting Department have attended appropriations management training offered by the State Comptroller during fiscal year 2002. This training included a training block on the preparation of the Benefits Proportional by Fund Report. Responsible Person: Kevin Draper, Manager, State Accounting Action completed*

- *We have modified our procedures to include an adjustment to our internal records for each reported benefit category so that the full settlement resulting from the Benefits Proportional by Fund Report will be reflected for all funds.
Responsible Person: Kevin Draper, Manager, State Accounting Action completed*

Two of Eight Entities that Complied with Proportionality Requirements Waited Several Months to Make Necessary Reimbursements to General Revenue

Although the Department of Public Safety complied with proportionality requirements, it waited until 12 months after the reporting deadline to make a necessary \$2,111,588 reimbursement to General Revenue. The Department of Housing and Community Affairs also complied with proportionality requirements but waited until nine months after the reporting deadline to reimburse \$30,000 (roughly 45 percent of its required reimbursement) to General Revenue.

It is important to note that there is not an established deadline by which entities must make reimbursements to General Revenue. Establishing a deadline would help to ensure prompt compliance with proportionality requirements.

The following entities complied with proportionality requirements and made necessary adjustments to General Revenue (if necessary) in a timely fashion:

- Department of Criminal Justice
- Department on Aging
- Texas Commission on Environmental Quality
- Texas Education Agency
- Texas Lottery Commission
- The University of Texas at Austin

Chapter 2-A

The Department of Public Safety Did Not Comply with Proportionality Requirements in a Timely Manner

The Department of Public Safety (Department) complied with proportionality requirements. However, although the Department correctly identified required reimbursements, it did not completely process these adjustments in a timely manner. The Department reimbursed \$2,111,588 to General Revenue, but it did not do so until December 2002, more than a year after the due date for the fiscal year 2001 *Benefits Proportional by Fund Report*.

The Department submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date. Although the Department's report contained minor errors, these errors did not significantly affect its proportionality calculations.

Recommendations

The Department should:

- Develop a procedure to process adjustments identified in its *Benefits Proportional by Fund Reports* in a timely manner.
- Improve its monitoring of proportionality requirements to minimize the size of year-end adjustment it must make to achieve proportionality.

Management's Response

I have received your correspondence dated January 31, 2003 and the draft report on "Compliance with Salaries Proportional by Fund". The Department agrees with your findings and recommendations.

Our management response is outlined below.

- *The failure to make a timely adjustment is due to employee error. The employee responsible in making the adjustment attempted to do so in a timely manner. The employee could not make the required adjustment because the cash balance in a GR-Dedicated account was not sufficient. While awaiting the quarterly revenue to be credited to the account, the employee left the agency. Supervisors were not aware that the adjustment had not been made. The adjustment has been made for FY01 as well as the current adjustment for FY02.*
- *The Department will implement both recommendations. A checklist of all reports and accounting adjustments is being developed and implemented. Supervisors will be responsible to periodically monitor the proportionality requirements and make adjustments during the year. This should reduce the need for large adjustments at the end of the year.*

Chapter 2-B

The Department of Housing and Community Affairs Did Not Comply with Proportionality Requirements in a Timely Manner

The Department of Housing and Community Affairs (Department) complied with proportionality requirements. However, the Department did not complete its required reimbursement to General Revenue until approximately nine months after the due date for the fiscal year 2001 *Benefits Proportional by Fund Report*.

The Department submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date. It then submitted a revised report on March 28, 2002. The revised report contained no significant errors and reported that a total reimbursement to General Revenue of approximately \$66,000 was needed. The Department reimbursed approximately \$36,000 to General Revenue the following month. However, it did not reimburse the remaining \$30,000 of its required reimbursement to General Revenue until August 2002.

Recommendation

The Department should develop a procedure to process adjustments identified in its *Benefits Proportional by Fund Reports* in a timely manner.

Management's Response

Thank you for the recommendation that resulted from your review of the Department Benefits Proportional by fund Report for 2001 fiscal year. Below is the Department's response to your recommendations.

- *The Department paid benefits proportional to funding source throughout the fiscal year 2001 and complied with all direction, including final settlement directions, provided by the administering agency (Comptroller of Public Accounts).*
- *The Department submitted the Benefits Proportional by Fund Report (BPFR) on or prior to the date of November 20th. According to Accounting Policy Statement 11 (APS11) the Comptroller will verify the information on the BPFR. The Comptroller's Office notified the Department in March of necessary adjustments to the original report. While timeframes for settlement are not specified in APS 11, the BPFR was revised, resubmitted and accepted by the Comptroller and the adjustments posted by the Department, as described in your report.*
- *The Comptroller's Office has worked with the Department to facilitate the BPFR for future fiscal years that will accelerate submission and acceptance of the BPFR and the funding source adjustments. Subsequently, the 2002 BPFR was submitted on October 16, 2002, accepted by the Comptroller's Office and settled by the Department prior to November 20, 2002.*

Chapter 2-C

The Department of Criminal Justice Complied with Proportionality Requirements

The Department of Criminal Justice (Department) complied with proportionality requirements. The Department submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date. Although the Department incorrectly identified certain benefit expenditure amounts in its report, these errors did not affect its proportionality calculations. It was not necessary for the Department to reimburse any funds to General Revenue.

Recommendation

The Department should ensure that it accurately identifies benefit expenditure amounts in its *Benefits Proportional by Fund Report*.

Management's Response

We have reviewed the results of your report and are in agreement with your recommendation. Please note that we have taken the following steps to implement your recommendation to ensure accurate data entry.

- *Updated task procedures to include additional supervisory review of data entry, and*
- *Expanded planning timeframe to allow for cross functional review prior to submission*
- *Brad Livingston, our Chief Financial Officer, is responsible for implementing the steps outlined above. We implemented the revised procedures on December 18, 2002 and will utilize them when developing the next annual submission of the Benefits Proportional by Fund Report.*

Chapter 2-D

The Department on Aging Complied with Proportionality Requirements

The Department on Aging (Department) complied with proportionality requirements. The Department submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date. The Department's report contained no material errors. The Department received a refund of approximately \$1,708 from General Revenue because it had used less than a proportionate share of General Revenue to pay benefits.

Management's Response

The Department appreciates the support of the State Auditor's office. We especially wish to express our appreciation for the encouragement given Department staff by the auditors regarding the detailed and complete nature of the workpapers supporting the calculation. We thank the staff for the recommendations for improvements to those workpapers and look forward to working with the State Auditor again soon.

Chapter 2-E

The Texas Commission on Environmental Quality Complied with Proportionality Requirements

The Texas Commission on Environmental Quality (Commission) complied with proportionality requirements. The Commission submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date. The Commission and the Comptroller worked together to revise the report several times. The Commission's final report, dated April 24, 2002, contained no material errors.

The Commission's final *Benefits Proportional by Fund Report* identified a \$331,088 refund the Commission could receive from General Revenue because it had used less than a proportionate share of General Revenue to pay benefits. The Commission worked with its Appropriation Control Officer at the Comptroller to obtain this refund.

Management's Response

Thank you for the opportunity to review the Texas Commission on Environmental Quality (TCEQ) related segment of your draft audit report, Compliance with Salaries Proportional by Fund Requirements. TCEQ management agrees with the draft language.

Chapter 2-F

The Texas Education Agency Complied with Proportionality Requirements

The Texas Education Agency (Agency) complied with proportionality requirements. The Agency submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date. The report contained no material errors.

The Agency's report identified approximately \$424,874 in required reimbursements to General Revenue. The Agency processed adjustments to reimburse General Revenue by this amount.

Management's Response

The Texas Education Agency concurs with the State Auditor's Office finding of compliance with the Salaries Proportional by Fund requirements.

Chapter 2-G

The Texas Lottery Commission Complied with Proportionality Requirements

The Texas Lottery Commission (Commission) complied with the proportionality requirements. The Commission submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date. On this report, the Commission incorrectly represented its General Revenue dedicated funds in its method of financing and made errors in benefit expenditure amounts. However, these errors did not affect its proportionality calculations, and it was not necessary for the Commission to reimburse any funds to General Revenue.

Recommendations

The Commission should:

- Correctly represent its General Revenue dedicated funds in its method of financing.
- Include only complete and appropriate benefit expenditure amounts on its expenditure worksheets.

Management's Response

Management agrees with the findings of the audit report. Upon discovery of the error in the November 20, 2001 Report, Financial Administration staff notified the Comptroller's Appropriation Control Officer of the problem and submitted an amended report on August 27, 2002. A copy of this revised report was provided to the State Auditor's Office staff at that time and a copy is attached for your review. Financial Administration staff also took corrective action by changing the compilation and review process to ensure that the Agency correctly represents its General Revenue dedicated funds in its method of funding and includes only complete and appropriate benefit expenditure amounts in future reports. This revised process was used in the FY 02 Report dated November 12, 2002.

Chapter 2-H

The University of Texas at Austin Complied with Proportionality Requirements

The University of Texas at Austin (UT-Austin) complied with proportionality requirements. UT-Austin accurately calculated its *Benefits Proportional by Fund Report* and reimbursed General Revenue to ensure that fiscal year 2001 benefit expenditures complied with proportionality requirements.

UT-Austin submitted its *Benefits Proportional by Fund Report* to the Comptroller and the State Auditor's Office by the November 20, 2001, due date. Its report showed that General Revenue excessively funded benefits in UT-Austin's Social Security and Optional Retirement Programs. As a result, UT-Austin processed adjustments to reimburse \$1,284,843 to General Revenue.

Recommendation

UT-Austin should improve its monitoring to minimize the size of the year-end adjustment it must make to achieve proportionality.

Management's Response

It should be noted that the above adjustment amounts to only 2% of the total fringe benefits subject to the proportionality calculation. However, we concur with the above recommendation and will do a better job in FY 2002-03 of monitoring the funding sources in order to minimize the year-end adjustment.

Three Entities Used Less than a Proportionate Share of General Revenue to Pay Employee Benefits

Proportionality requirements in the General Appropriations Act do not specify what entities are required to do when that have used less than a proportionate share of General Revenue to pay employee benefits. This has caused a lack of clarity at the entity level about how to handle this circumstance, as the examples detailed in Chapters 3-A, 3-B, and 3-C below demonstrate. Clarification of this issue would help ensure compliance with proportionality requirements.

Chapter 3-A

The Department of Transportation Used Less than a Proportionate Share of General Revenue to Pay Employee Benefits

The Department of Transportation (Department) used less than a proportionate share of General Revenue to pay employee benefits. The Department submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date. The Department's *Benefits Proportional by Fund Report* contained no material errors.

The Department's *Benefits Proportional by Fund Report* specified that the Department could receive a \$249,791 refund from General Revenue. However, the Department did not process adjustments to obtain this refund. The Department asserted that the Comptroller had previously provided it with guidance indicating that agencies cannot receive such refunds. However, the Comptroller informed our auditors that agencies can pursue such refunds. The Department could not provide evidence supporting its assertion, and the published guidance the Comptroller provides to agencies does not specifically address the processing of such refunds from General Revenue.

Recommendation

The Department should work with the Comptroller to determine whether it can pursue a refund from General Revenue

Management's Response

TxDOT will continue to follow the direction provided by the Comptroller.

Chapter 3-B

Conflicting Proportionality Requirements Led the Texas Workforce Commission to Use Less than a Proportionate Share of General Revenue to Pay Employee Benefits

Because federal requirements with which the Texas Workforce Commission (Agency) must comply differ from state proportionality requirements, the Agency

used less than a proportionate share of General Revenue to pay employee benefits. The Agency submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date. The Agency's *Benefits Proportional by Fund Report* contained no material errors.

The Agency's *Benefits Proportional by Fund Report* specified that the Agency could have received a \$104,522 refund from General Revenue. This occurred because the Agency allocated costs for benefits in compliance with federal requirements regarding the proportion of benefits it can pay with federal funds. The Agency did not process adjustments to obtain this refund because it wanted to remain in compliance with federal requirements. The published guidance the Comptroller provides to agencies does not specifically address what agencies should do when their federal proportionality requirements conflict with state proportionality requirements.

Recommendation

The Commission should work with the Comptroller to determine whether it can pursue a refund from General Revenue.

Management's Response

We believe that the Benefits Proportional by Fund Report was completed consistent with the requirements of Section 6.11 of the General Appropriations Act (Art.IX-41) and the Comptroller's Accounting Policy Statement (APS 011). We recorded salary and related benefit costs to the appropriate funding source based on monthly time sheets submitted by all Texas Workforce Commission (TWC) employees. TWC's timekeeping system is designed to ensure compliance with requirements of the Office of Management and Budget (OMB) Circular A-87 and our approved Cost Allocation Plan.

The information reported by TWC on the Benefits Proportional by Fund Report shows that General Revenue (GR) Fund appropriations had not paid more than its proportionate share of benefits. As result, we determined an adjustment was not needed to achieve a proportional benefit distribution.

Prior to submission of the Benefits Proportional by Fund Report for FY 2003 (due by November 20, 2003), TWC will work with the Comptroller and our federal Cost Negotiator to determine the appropriateness for this type of adjustment in the future.

Chapter 3-C

The Texas Building and Procurement Commission Used Less than a Proportionate Share of General Revenue to Pay Employee Benefits

The Texas Building and Procurement Commission (Commission) did not use General Revenue in excess of proportional limits. The Commission submitted its *Benefits Proportional by Fund Report* to the Comptroller by the November 20, 2001, due date, but it did not calculate the method of finance on its report accurately.

Specifically, the Commission omitted interagency receipts from the correct appropriated fund when it developed the method of finance.

Under the guidance of the Comptroller, a revised *Benefits Proportional by Fund Report* was developed in December of 2002. It revealed that benefit expenditures were not proportional to funding sources.

However, according to the General Appropriations Act, the Surplus Property Service Charge Fund is required to cover all costs associated with the administration of the Surplus Property Program. Therefore, the Commission did not pursue a refund of \$50,123 from General Revenue to make benefit expenditures proportional to funding sources in fiscal year 2001.

Recommendation

The Agency should include interagency receipts in the appropriate funding classifications on its *Benefits Proportional by Fund Report*.

Management's Response

TBPC agrees with the SAO recommendations and corrective measures have already been taken for future years.

Six Entities Audited Did Not Submit Benefits Proportional by Fund Reports

As permitted by Comptroller Accounting Policy Statement 011, the following entities did not submit completed *Benefits Proportional by Fund Reports* for fiscal year 2001:

- Department of Human Services
- Department of Mental Health and Mental Retardation
- Department of Protective and Regulatory Services
- Health and Human Services Commission
- Public Utility Commission of Texas
- Structural Pest Control Board

In documents each of these entities submitted to the Comptroller and the State Auditor's Office, each entity stated that it paid employee benefits expenses that were subject to proportionality requirements from a single appropriated fund. In addition to their single funding source statements, both the Department of Human Services and the Department of Protective and Regulatory Services demonstrated proportional relationships between salary and benefit costs and state and federal funding sources.

Accounting Policy Statement 011, which governs the development of the *Benefits Proportional by Fund Report*, requires entities to determine proportionality at the appropriated fund level. Because these six entities did not pay employee benefits from multiple appropriated funds, they were not required to submit *Benefits Proportional by Fund Reports*.

However, it would be beneficial if these entities still developed *Benefits Proportional by Fund Reports* in the prescribed format to demonstrate that they pay for 100 percent of their employee benefit expenditures from a single appropriated fund. Two other agencies—the Department of Criminal Justice and the Texas Lottery Commission—paid benefit expenses subject to proportionality requirements from a single appropriated fund, yet they also submitted *Benefits Proportional by Fund Reports*.

We also noted that, during fiscal year 2001, the Public Utility Commission of Texas (Commission) stopped receiving reimbursements for employee benefits from the National Exchange Carrier Association, a private organization that administers the Texas Universal Service Fund. Because it stopped receiving those reimbursements, the Commission did not reimburse General Revenue by approximately \$28,000 in fiscal year 2001 (as of June 2001). The Commission is working with the Comptroller to develop a mechanism that will ensure that it makes such reimbursements in the future.

Management's Response from the Department of Human Services

Due to workload issues and resource limitations, preparing 'non-required' reports would be an ineffective allocation of TDHS resources.

Management's Response from the Department of Mental Health and Mental Retardation

(The Department of Mental Health and Mental Retardation chose not to respond.)

Management's Response from the Department of Protective and Regulatory Services

The Texas Department of Protective and Regulatory Services (PRS) agrees that it did not complete Section 2 of the Benefits Proportional by Fund Report for fiscal year 2001. PRS submitted an attachment to the Report that noted PRS was a single funded agency, and in a good faith effort to show Salary to Benefits proportionality we included a Salary to Benefits analysis. PRS will submit a complete Benefits Proportional by Fund Report that includes Section 2 – Benefits Worksheet in future reports.

Management's Response from the Health and Human Services Commission

We agree that we did not submit the Benefits Proportional by Fund Report required by Accounting Policy Statement 011 for fiscal year 2001. However, we did send a letter to the State Comptroller explaining that the Health and Human Services Commission was a single funded agency and we would not be filing a formal report. We did submit the required report for fiscal year 2002 and intend to submit the report in the future.

Management's Response from the Public Utility Commission of Texas

Chapter 56, of the Utilities Code, provides for the establishment of the Universal Service Fund, and further provides that the Public Utility Commission (PUC) act as necessary with respect to the administration of the fund. The fund is private fund, and as such is not a part of any funding sources for state appropriations. The costs that the PUC incurs in the administration of the fund are properly charged against that fund, and are reimbursed to the agency's general revenue fund. From inception, the PUC has been reimbursed all costs including benefits that the general revenue fund had incurred for employees time spent administering the fund including benefits and those benefits were reimbursed to the general fund in the form of biennial lapses of unspent appropriations back to general revenue. However, the practice of being reimbursed for benefits incurred on behalf of USF administration, changed in March 2002 as a result of PUC staff turnover.

Newly assigned staff misunderstood this requirement because the fund was not a part of state appropriations. Fiscal Year 2002 was also the first year that the PUC was appropriated funds other than general revenue, by the addition of the System Benefit Fund Trust Fund, and the General Revenue Dedicated Energy Reduction Program. It was at the time of completion of the Benefits Proportional By Fund Report, required by APS011 for FY 2002, that PUC staff realized that benefit proportionality must be charged to the USF, which was coincidentally the same time that the state auditors were reviewing those procedures.

The PUC agrees with the state auditor that the Benefits Proportional By Fund Report must be completed by the PUC, and that general revenue must be reimbursed by the USF for proportional benefits. The PUC has set in place procedures for collection and report preparation. The PUC, in concert with the Comptroller, has determined procedures for reimbursing general revenue, and the PUC has prepared a billing to the USF fund administrator to be reimbursed for the period of March 2002 and the date of the audit.

Management's Response from the Structural Pest Control Board

This is in response to your letter dated February 18, 2003 regarding the draft report on Compliance with Salaries Proportional by Fund Requirements. In this letter the Auditor's office is recommending that this agency complete APS 011 – Benefits Proportional by Fund Report in the prescribed format to demonstrate that they pay for 100 percent of their employee benefit expenditures from a single appropriated fund. However, due to the budget constraints facing this agency and the limited staff available we do not agree with the recommendation. Furthermore, the Comptroller of Public Accounts permits us not to complete APS 011.

State Auditor's Follow-up Comment

Entities that have General Revenue Fund appropriations and other sources of funding are required by Section 9-6.11 (d), page IX-39, of the General Appropriations Act (76th Legislature) to file a schedule demonstrating proportionality with the Comptroller and the State Auditor's Office. Having entities that paid benefits from a single appropriated fund complete *Benefits Proportional by Fund Reports* would allow oversight agencies to (1) verify that the entities did, indeed, pay benefits from a single fund and (2) compare the amounts on those reports with expenditure data in the Uniform Statewide Accounting System and Employees Retirement System reports to verify the accuracy of those amounts.

Appendix

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine entities' compliance with benefits proportional by fund requirements of the General Appropriations Act (76th Legislature). The General Appropriations Act requires the State Auditor's Office to audit state entity compliance with this requirement.

Scope

The scope of this audit included testing fiscal year 2001 *Benefits Proportional by Fund Reports* that the following entities submitted:

- Department of Criminal Justice
- Department of Housing and Community Affairs
- Department of Human Services
- Department of Mental Health and Mental Retardation
- Department of Protective and Regulatory Services
- Department of Public Safety
- Department of Transportation
- Department on Aging
- Health and Human Services Commission
- Public Utility Commission of Texas
- Structural Pest Control Board
- Texas A&M University
- Texas Building and Procurement Commission
- Texas Commission on Environmental Quality
- Texas Education Agency
- Texas Lottery Commission
- Texas Tech University
- Texas Workforce Commission
- The University of Texas at Austin
- University of Houston

Methodology

Our methodology consisted of determining whether the 20 audited entities' *Benefits Proportional by Fund Reports* were accurate and whether these entities made necessary adjustments to General Revenue to achieve proportionality. This audit did not include a review of information technology systems.

Information collected to accomplish our objectives included:

- *Benefits Proportional by Fund Reports* submitted by selected state entities for fiscal year 2001.
- Documentation supporting entities' Benefits Proportional by Fund Reports.
- Documentation from the Comptroller of Public Accounts (Comptroller).

Procedures, tests, and analyses performed to accomplish our objectives included:

- Review of entities' identified methods of funding and benefit expenditure amounts.
- Recalculation of Benefits Proportional by Fund Reports.
- Comparison of *Benefits Proportional by Fund Reports* with State Auditor's Office and Comptroller reviews.
- Verification of adjustments to achieve proportionality.

Information resources reviewed included the Uniform Statewide Accounting System.

Criteria used to accomplish our objectives included:

- Article IX, Section 9-6.11, General Appropriations Act (76th Legislature).
- Comptroller's Accounting Policy Statement 011-Benefits to be Proportional by Fund.

Other Information

We conducted fieldwork from July 2002 through October 2002. We conducted this audit according to applicable professional standards including generally accepted government auditing standards. There were no significant instances of noncompliance with these standards.

The following members of the State Auditor's staff performed the audit work:

- Rene Valadez (Project Manager)
- Leslie Ashton, CPA (Quality Control Reviewer)
- Julie Ivie, CIA (Audit Manager)
- Frank Vito, CPA (Audit Director)

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Copies of this report have been distributed to the following:

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Office of the Governor

The Honorable Rick Perry, Governor

The Board Chair and Members, Executive Director, Chancellor and President, or Board of Regents of the following entities:

Department of Housing and Community Affairs
Department of Human Services
Department of Mental Health and Mental Retardation
Department of Protective and Regulatory Services
Department of Public Safety
Department of Transportation
Health and Human Services Commission
Public Utility Commission of Texas
Structural Pest Control Board
Texas A&M University – Main Campus
Texas A&M University System Administration
Texas Building and Procurement Commission
Texas Commission on Environmental Quality
Department of Criminal Justice
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