



A Legislative Summary Document Regarding General Land Office

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The General Land Office (GLO) and the Texas Education Agency (TEA) administer different Permanent School Fund (Fund) assets. This results in accounting and reporting complexities for the Fund. Although each agency has sole control over the Fund assets it administers, current accounting procedures require TEA to report in its separate annual financial report the balances for the Fund's land and cash that GLO controls. The dollar amounts involved with this reporting structure have not previously been material. However, the 77th Legislature adopted changes that will result in substantial increases in these amounts. Starting in fiscal year 2002, GLO can retain and invest in real property assets some or all mineral income (which has averaged \$176 million per year) that it previously remitted to TEA.

Prepared for the 78th Legislature
by the State Auditor's Office

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SAO No. 03-359

This is not an audit report and, with the exception of any audit report summaries, the material in this document has not been subjected to all of the tests and confirmations performed in an audit.

General Land Office

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Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

An Audit Report on the Financial Statements of the Permanent School Fund for the Fiscal Year Ended August 31, 2001

(Report No. 02-046, May 2002)

In our audit report dated January 16, 2002, we concluded that the Permanent School Fund's (Fund) fiscal year 2001 financial statements are materially correct and presented in accordance with accounting principles generally accepted in the United States of America. We did not identify any instances of noncompliance with certain provisions of laws and regulations that would have a material effect on the Fund's financial statements or any material weaknesses in internal control over financial reporting.

The Fund's land endowment earned \$270 million in fiscal year 2001, primarily from oil and gas interests managed by the General Land Office (GLO), compared with \$186 million in fiscal year 2000, a 45.2 percent increase. During fiscal year 2001, the average price for natural gas increased substantially and average crude oil prices increased moderately. The 77th Legislature passed House Bill 3558, effective September 1, 2001, permitting GLO to retain most of this land endowment income and invest it in real property interests. Prior to September 1, 2001, GLO distributed this income to the State Board of Education for investment in stocks and bonds.

Management Letter Resulting From an Audit of the Permanent School Fund's Fiscal Year 2001 Financial Statements

(Report No. 02-348, May 2002)

Revising accounting and reporting procedures for certain Permanent School Fund (Fund) transactions and balances would enhance the preparation and understandability of Fund information in various annual financial statements. Accounting and reporting complexities arise from the fact that two agencies, the General Land Office (GLO) and the Texas Education Agency (TEA), administer different Fund assets. Although each agency has sole control over the Fund assets it administers, current accounting procedures require that TEA report in its separate annual financial report the balances for the Fund's land and cash that GLO controls.

Status of Audit Recommendations as of November 30, 2002 (unaudited)	
The GLO has reported the following:	
Implemented	1
Total recommendations	1

The dollar amounts involved with this reporting structure have not previously been material. However, the 77th Legislature adopted changes that will result in substantial increases in these amounts. Starting in fiscal year 2002, GLO can retain and invest in real property assets some or all mineral income that it previously remitted to TEA. The Fund's annual report shows that GLO's annual contributions to TEA during the past 10 fiscal years, consisting primarily of the type of income GLO can now retain, averaged \$176 million. Contributions ranged from a low of \$123 million in fiscal year 1995 to a high of \$292 million in fiscal year 2001.

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An Audit Report on State-Issued Bonds for Fiscal Year 2001

(Report No. 02-035, April 2002)

The bond-issuing state agencies and higher education institutions we audited complied with all significant bond covenants, laws, and regulations regarding bonded debt during the fiscal year ending August 31, 2001. In addition, these entities reported accurate information for the supplementary bond schedules included in the Texas 2001 Comprehensive Annual Financial Report (CAFR).

The total amount of outstanding bond issues of the General Land Office and Veterans' Land Board, as of August 31, 2001, was \$1,892,781,983.

An Audit Report on 19 Agencies' Compliance With Historically Underutilized Business Requirements

(Report No. 01-035, August 2001)

For fiscal year 2000, we determined that the General Land Office (GLO) did not fully comply with historically underutilized business (HUB) requirements in the Texas Administrative Code (TAC) and Chapters 111 and 2161 of the Texas Government Code. However, we determined that GLO made a "good-faith effort" to comply with HUB requirements.

Results of Entity Compliance With Historically Underutilized Business (HUB) Requirements - Fiscal Year 2000				
Compliance Requirement				Did the Entity Make a "Good-Faith Effort"?^b
Planning	Outreach^a	Reporting	Subcontracting	
No agency HUB rules formally adopted (Texas Government Code, Section 2161.003)	No material noncompliance	No material noncompliance	Did not obtain supporting documentation on subcontracting plan from a contractor (TAC, Section 111.14)	Yes

^a Most of the agencies had not developed and implemented a mentor protégé program during fiscal year 2000. Of the HUB requirements, the mentor protégé program requirement had the latest effective date (June 2000). The agencies indicated there was not enough time to design and implement the program in the last quarter of the fiscal year.

^b The State Auditor's Office, in consultation with the General Services Commission, determined that an entity did not make a "good-faith effort" if it had noncompliance in at least three of the four basic HUB areas: planning, outreach, reporting, and subcontracting. (The General Services Commission was abolished effective September 1, 2001, and the newly created Texas Building and Procurement Commission subsequently assumed most of its responsibilities.)

Status of Corrective Action: In December 2002, GLO reported that it had implemented two of the recommendations (HUB rules, mentor protégé program) and had other explanatory information for implementation of one recommendation (subcontracting). This information has not been audited.

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An Audit of the General Land Office Asset Management Division

(Report No. 01-016, January 2001)

Our audit of the General Land Office (GLO) Asset Management Division (Division) identified no issues that indicate the need for management attention. GLO has implemented previous State Auditor's Office audit recommendations regarding asset management. The Division has well-defined policies and procedures for identifying unused or underused agency land, for recommending highest and best use, and for implementing approved dispositions of such land.

Although GLO develops recommendations for alternative uses of underused agency land, it does not currently solicit proposals for the use of such land in any public forum. Management is discussing establishing a comprehensive, Web-based database to advertise available land to state agencies and the public. This approach would more fully meet the requirement in the Texas Natural Resources Code, Section 31.156, that the Division solicit proposals for underused land that would be of significant benefit to the State.

A Follow-up Report on Two Reviews of Controls Over Investment Practices at State Investing Entities

(Report No. 01-017, January 2001)

The General Land Office and the Veterans' Land Board substantially implemented our recommendation to further improve investment oversight controls. The Veterans' Land Board receives quarterly investment reports in a more timely manner, and its investment staff has improved the reports' contents to provide more information.

Most Recent Performance Measure Certification

Fiscal Year 1998–Fiscal Year 2003

The results of *An Audit Report on Performance Measures at 36 State Entities–Phase 12* (Report No. 98-040, May 1998) for this entity are summarized below.

Period	Goal/Strategy		Measure	Certification Results
1997	A.2.1	In-Kind Gas/Oil Programs	Average monthly volume of in-kind gas sold	Certified with Qualification
1997	A.3.1	Surface Acreage	Number of acres of PSF land inspected	Certified
1997	B	Veterans' Land Board	Percentage of veterans reached through public information efforts	Certified
1997	C	Protect the Environment	Percentage of Texans reached through recycled product information	Certified
1997	C.1.2	Oil Spill Management	Number of oil spill responses	Certified
Total Measures Certified Without Qualification^a				4/5 (80%)
Data Reliability Percentage (Certified and Certified with Qualification)				5/5 (100%)

^a The percentage of unqualified certifications is presented because it is used in determining an entity's eligibility for performance rewards as established in the General Appropriations Act [77th Legislature, Article IX, Sec. 6.31(d)(2)].

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Category	Definition
Certified	Reported performance is accurate within +/-5 percent, and controls appear adequate to ensure accurate collection and reporting of performance data.
Certified with Qualification	Reported performance is within +/-5 percent, but the controls over data collection and reporting are not adequate to ensure the continued accuracy of performance data.
Factors Prevented Certification	Actual performance cannot be determined because of inadequate controls and insufficient documentation.
Inaccurate	Reported performance is not within +/-5 percent of actual performance, or there is an error rate of at least 5 percent in the supporting documentation.
Not Applicable	A justifiable reason exists for not reporting performance.

Information System Vulnerability Assessments

The State Auditor's Office (SAO) and/or the Department of Information Resources performed one or more information system vulnerability assessments at the General Land Office between January 2000 and November 2002. Detailed results of this work are confidential under Texas Government Code, Section 2054.077(c). The SAO's Legislative Summary Document titled "Information System Vulnerability Assessments" provides general information about the results of information system vulnerability assessments.

Travel Expenditures

Travel Expenditures by Appropriation Year (unaudited)			
	2000	2001	2002
In-State Travel	\$ 593,772	\$ 647,605	\$ 790,587
Out-of-State Travel	84,534	132,990	71,791
Foreign Travel	0	0	353
Other Travel Costs	(1,995)	0	810
Total Travel Expenditures	\$ 676,311	\$ 780,595	\$ 863,542
Limit on Travel Expenditures (Cap)	1,231,734	1,231,734	84,534 ^a
Expenditures in Excess of Cap	\$ 0	\$ 0	\$ 0

^a Caps apply to total travel in appropriation years 2000 and 2001, but caps apply only to out-of-state travel and foreign travel in appropriation year 2002. Caps, calculated by the Comptroller of Public Accounts, have been adjusted for any increases requested by GLO and approved by the Legislative Budget Board in accordance with the General Appropriations Act.

Source: Uniform Statewide Accounting System (USAS) as of November 30, 2002. Amounts are subject to change as agencies continue to record additional expenditures or adjustments.