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**State Auditor**

An Audit Report on

**Benefits Proportionality at the  
Office of the Comptroller of  
Public Accounts, the Teacher  
Retirement System, and the  
Employees Retirement System**

September 2015

Report No. 16-003



John Keel, CPA  
State Auditor

An Audit Report on

# Benefits Proportionality at the Office of the Comptroller of Public Accounts, the Teacher Retirement System, and the Employees Retirement System

SAO Report No. 16-003  
September 2015

## Overall Conclusion

Inconsistencies in the benefits proportionality requirements in the General Appropriations Act make it unclear whether state entities should pay benefits (1) proportionately to their appropriated method of finance or (2) from the same source of funds used to pay the respective salaries.

In addition, under either of those interpretations of the benefits proportionality requirements, sufficient controls are still necessary at the state level to ensure that state entities pay benefits proportionately. However, it is important to note the following:

- State entities can request an unlimited amount of General Revenue funds to pay benefits.<sup>1</sup>
- There is inadequate data available at the state level to monitor whether state entities adhere to benefits proportionality requirements.

The Office of the Comptroller of Public Accounts (Comptroller's Office) developed accounting policy statement 011 (APS 011) and a related reporting form to administer benefits proportionality requirements. APS 011 and the related reporting form are designed to ensure that benefits are paid proportionately to a state entity's appropriated method of finance.

Under either interpretation of the benefits proportionality requirements, the Comptroller's Office should make certain improvements to

### Excerpts from Proportionality Requirements for the 2014-2015 Biennium

- a) Unless otherwise provided, in order to maximize balances in the General Revenue Fund, payment for benefits paid from appropriated funds, including "local funds" and "education and general funds" as defined in §51.009 (a) and (c), Education Code, shall be proportional to the source of funds except for public and community junior colleges.
- b) Unless otherwise specifically authorized by this Act, the funds appropriated by this Act out of the General Revenue Fund may not be expended for employee benefit costs, or other indirect costs, associated with the payment of salaries or wages, if the salaries or wages are paid from a source other than the General Revenue Fund except for public community or junior colleges...Payments for employee benefit costs for salaries and wages paid from sources, including payments received pursuant to interagency agreements or as contract receipts, other than the General Revenue Fund shall be made in proportion to the source of funds from which the respective salary or wage is paid or, if the Comptroller determines that achieving proportionality at the time the payment is made would be impractical or inefficient, then the General Revenue Fund shall be reimbursed for any such payment made out of the General Revenue Fund.  
Source: Sections 6.08(a) and 6.08(b), page IX-27, General Appropriations Act (83rd Legislature).

### Method of Finance

"Method of finance" refers to the sources and amounts authorized to finance certain expenditures or appropriations made in the General Appropriations Act. For example, sources could include General Revenue, General Revenue dedicated, federal funds, and other funds.

Sources: *Budget 101, A Guide to the Budget Process in Texas*, Texas Senate Research Center, January 2015 and Office of the Comptroller of Public Accounts accounting policy statement 011.

<sup>1</sup> There are certain exceptions. One example of an exception is the amount of appropriations for higher education group insurance (HEGI), which is based on a sum-certain appropriation. The Legislature specifies the maximum HEGI for each higher education institution in line-item appropriations; higher education institutions must pay any additional benefit costs out of other appropriated or local funds.

APS 011 and the related reporting form. For example, APS 011 and the related reporting form do not capture information on non-appropriated funds.

The Teacher Retirement System (TRS) and the Employees Retirement System (ERS) are not required to monitor benefit contributions they receive to ensure that state entities pay benefits from the appropriate funding source. However, they have certain processes to verify that pension and insurance funds receive the statutorily required contributions.

Auditors communicated other, less significant issues to the Comptroller's Office separately in writing.

#### **Appropriations for Benefits**

For fiscal year 2015, appropriations for the benefits of employees at state agencies and higher education institutions totaled \$4.12 billion.

Source: The General Appropriations Act (83rd Legislature).

#### **Benefits**

The benefits to which this report refers include the following:

- The state employer match for Social Security.
- Group health insurance.
- Retirement.
- Optional retirement program.
- Benefit replacement pay.

## ***Summary of Management's Response***

The Comptroller's Office agreed with the recommendations addressed to it in this report, and the full response from Comptroller's Office management is presented in Appendix 2 on page 15. ERS agreed with the recommendation addressed to it in this report, and the full response from ERS management is presented in Chapter 5 on page 10. This report did not address any recommendations to TRS.

## ***Summary of Objective, Scope, and Methodology***

The objective of this audit was to determine whether TRS, ERS, and the Comptroller's Office have developed and implemented controls, policies, and procedures for performing in a timely manner reconciliations and transfers of funds that are necessary to ensure that payments of benefit costs are proportional to a state agency's or a higher education institution's funding from appropriated funds and federal receipts.

The scope of this audit covered the work that TRS, ERS, and the Comptroller's Office performed during the 2014-2015 biennium.

The audit methodology included conducting interviews with management and staff at TRS, ERS, and the Comptroller's Office; reviewing applicable laws, regulations, and accounting policy statements; reviewing the results of applicable TRS internal audits; reviewing previous State Auditor's Office reports regarding benefits proportionality; and performing selected tests and other procedures. This audit did not include work on information technology.

Auditors relied on previous State Auditor's Office audit work to determine that data in the following systems was sufficiently reliable for the purposes of this audit: the TRS General Accounting System, the TRS Reporting and Query System, the Comptroller's Office's Uniform Statewide Accounting System, and the Comptroller's Office's Texas Network for Electronic Transfers. Auditors also assessed the reliability of data in a spreadsheet that the Comptroller's Office used to track state entities that are required to submit an APS 011 report for fiscal year 2014 and determined that the list of entities on the spreadsheet was sufficiently reliable for the purposes of this audit. In addition, auditors assessed the reliability of data in a spreadsheet that ERS used to calculate reallocation amounts for each higher education institution for fiscal year 2013 and determined that the data was sufficiently reliable for the purposes of this audit; however, one miscalculation was identified (see Chapter 5 for additional details).

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# Detailed Results

Chapter 1

## The Legislature Should Clarify Benefits Proportionality Requirements

Inconsistencies in the benefits proportionality requirements in Sections 6.08(a) and 6.08(b), page IX-27, the General Appropriations Act (83rd Legislature) make it unclear whether state entities should pay benefits (1) proportionately to their appropriated method of finance or (2) from the same source of funds used to pay the respective salaries.

- One section of the requirements states that, “in order to maximize the balances in the general revenue fund, payments for benefits paid from appropriated funds ... shall be proportional to the source of funds.” Some state entities have interpreted that to mean that they should pay benefits proportionately to their appropriated method of finance.
- Another section of the requirements states that benefit payments “shall be made in proportion to the source of funds from which the respective salary or wage was paid.”

The differing interpretations of the benefits proportionality requirements have a significant effect on how much General Revenue will be used to pay for benefits. Table 1 shows the specific differences in the proportionality calculations for a hypothetical state entity that (1) receives 85 percent of its funding from General Revenue and 15 percent from local funds and (2) pays 5 percent of its salaries from its General Revenue funds and pays 95 percent of its salaries from local funds.

Table 1

Effect of the Differing Interpretations of the Proportionality Requirements <sup>a</sup>	
Benefits Paid Proportionately to the Appropriated Method of Finance	Benefits Paid from the Same Source of Funds Used to Pay the Respective Salaries
General Revenue Fund pays for 85% of benefits	General Revenue Fund pays for 5% of benefits
Local funds pay for 15% of benefits	Local funds pay for 95% of benefits
<sup>a</sup> For an entity that: <ul style="list-style-type: none"> <li>▪ Receives 85 percent of its funding from General Revenue and 15 percent from local funds.</li> <li>▪ Pays 5 percent of its salaries from its General Revenue funds and pays 95 percent of its salaries from local funds.</li> </ul>	

The Legislative Budget Board's *Benefits for State Employees and Public and Higher Education Employees* (October 2014) specified that "Proportionality requires state General Revenue Funds benefits contributions be paid only on salaries also paid from state General Revenue Funds." In addition, a December 2008 Senate Finance Higher Education Subcommittee interim report specified that "the state's obligation to pay for benefits is limited to those employees whose salaries are paid with state general revenue." However, the Office of the Comptroller of Public Accounts' (Comptroller's Office) has made a different interpretation of the benefits proportionality requirements. Specifically, the Comptroller's Office's accounting policy statement 011 (APS 011) and related reporting form are designed to ensure that benefits are paid proportionately to a state entity's appropriated method of finance. Therefore, the Legislature should consider clarifying the benefits proportionality requirements to help ensure that state entities consistently apply the proportionality requirements correctly.

It is important to note that the State could better control how much General Revenue is spent on benefits if state entities (1) received sum-certain appropriations to pay benefits and (2) were required to provide explanations for any requests for funds in excess of those sum-certain amounts.

### **Recommendations**

To help resolve the inconsistencies regarding benefits proportionality requirements, the Legislature should consider:

- Clarifying the benefits proportionality requirements.
- Appropriating all benefits through sum-certain appropriations to each state entity.

## ***The Comptroller's Office Should Strengthen Controls Over State Entities' Requests for Funds to Pay Benefits***

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State entities can request an unlimited amount of general revenue funds to pay benefits, and there is no sum-certain limitation on those requests. The majority of funds the Legislature appropriates to state entities to pay benefits are estimated amounts. With some exceptions, there is not a limit on the amount of General Revenue appropriations that state entities can request to pay employee benefits.<sup>2</sup>

State entities estimate and establish budgets for benefits in the Uniform Statewide Accounting System (USAS). The Comptroller's Office then approves those estimated benefit budgets. However, the Comptroller's Office's process to ensure that those estimated benefit budgets are reasonable is not a formal, documented process, and the Comptroller's Office has not performed that process consistently for all state entities.

To help ensure that state entities do not request more funds than necessary to pay benefits, the Comptroller's Office asserts the following:

- For appropriation year 2016 budget requests, the Comptroller's Office plans to analyze state entities' requests for funds to pay Social Security matching benefits and optional retirement program benefits by comparing those requests with the requests the state entities made in the prior year.
- For appropriation year 2016 budget requests, the Comptroller's Office plans to require state entities to provide detailed information and justifications when requesting additional funds to pay benefits in excess of the original budget request.

The processes the Comptroller's Office plans to implement do not limit the funds that state entities can request to pay benefits. To improve the integrity of the estimated appropriation process for the purposes of benefits proportionality, the Comptroller's Office should (1) establish a limit on each state entity's estimated budget for benefits and (2) require state entities to provide explanations and support for any amounts requested in excess of the estimated budgets for benefits.

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<sup>2</sup> An example of an exception is the amount of appropriations for higher education group insurance (HEGI), which is based on a sum-certain appropriation. The Legislature specifies the maximum HEGI for each higher education institution in line-item appropriations; higher education institutions must pay any additional benefit costs out of other appropriated or local funds.

## Recommendations

The Comptroller's Office should:

- Require state entities to provide explanations and support for any amounts requested in excess of a pre-established threshold on the estimated budgets for benefits.
- Strengthen its analyses and monitoring of all funds appropriated to pay benefits based on the limits established for state entities' estimated budgets for benefits.
- Develop and implement policies and procedures to ensure that it conducts and documents its analyses and monitoring of all funds appropriated to pay benefits consistently for all state entities.

## ***The Comptroller's Office Should Strengthen Monitoring of Benefit Payment Processes***

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Although each state entity is responsible for ensuring that it pays benefits proportionately, having associated controls at the state level to monitor compliance is important, regardless of how the benefits proportionality requirements are interpreted. However, for the following reasons, there is inadequate data available at the state level to monitor whether state entities adhere to benefits proportionality requirements:

**State agencies.** The majority of state employees' payroll and benefits are processed in payroll systems at the state agency level, and the detailed information necessary to track compliance with benefits proportionality requirements is not provided to the Comptroller's Office. Therefore, information is not currently available at the state level to monitor all state agencies' compliance with benefits proportionality requirements.

**Higher education institutions.** Higher education institutions process payroll and benefits through their own payroll systems and then submit summary payroll data to the Comptroller's Office's Human Resource Information System (HRIS). Typically, higher education institutions pay their salaries and benefits out of local funds (non-State Treasury funds) and subsequently request reimbursements from the General Revenue Fund (State Treasury funds) for eligible salaries, wages, and benefits (that is done through a series of transfers in USAS). Therefore, that process does not currently provide information at the state level to monitor higher education institutions' compliance with benefits proportionality requirements.

**Comptroller's Office.** In the fall of 2014, the Comptroller's Office performed an analysis of higher education payroll and benefit transfers in USAS for appropriation years 2010 through 2014 that identified a variety of issues. The Comptroller's Office asserted that it will continue conducting a similar analysis periodically for each higher education institution. The Comptroller's Office also plans to design a report that will compare information from (1) the payroll information that higher education institutions submit to HRIS with (2) USAS data. That would allow the Comptroller's Office to follow up on salary expenditure transfers that did not have corresponding benefit expenditure transfers.

In 2015, the Comptroller's Office incorporated into its existing post-payment audits a questionnaire to obtain additional information from higher education institutions regarding their procedures for complying with benefits proportionality requirements.

Implementing a standard monitoring program for evaluating state entities' payments of benefits would enhance accountability and enable the

Comptroller's Office to regularly report the results of that monitoring to decision makers.

**State Auditor's Office.** The State Auditor's Office has conducted audits regarding benefits proportionality. The audit methodology for those audits involved verifying the accuracy of the information that entities submitted on the benefits proportional reporting forms that the Comptroller's Office requires.

## **Recommendations**

The Comptroller's Office should:

- Establish appropriations controls that require any salary expenditure transfer to have a corresponding transfer of the related benefits expenditure. Those controls should include minimum and maximum limits on the related benefits to be transferred.
- Periodically analyze the reasonableness of salary, wage, and benefit expenditure transfers in the General Revenue Fund for all state entities.
- Develop and implement policies and procedures to ensure that it conducts analyses of salary, wage, and benefit expenditure transfers consistently for all state entities.
- Perform specific procedures regarding benefits proportionality when conducting post-payment audits on payroll or benefit-related expenditures.
- Periodically evaluate all state entities' payments of benefits using a standard monitoring program, and report the results of that monitoring every six months to the Senate Finance Committee, the House Appropriations Committee, and the Governor.

The Legislature should consider requiring the internal auditors at each state entity to regularly audit the processes and controls over benefits proportionality to help ensure that state entities adhere to benefits proportionality requirements.

## ***The Comptroller's Office Should Improve Its Accounting Policy Statement, the Associated Reports for Benefits Proportionality, and Its Related Reviews***

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### **APS 011**

The Comptroller's Office developed APS 011 to provide guidance and a reporting mechanism for state entities to demonstrate benefits proportionality as required by Section 6.08(d), page X-27, the General Appropriations Act (83rd Legislature). Entities with multiple appropriated funds must complete a *Benefits Proportionality by Fund Report* (also known as the APS 011 report) and submit it annually to the Comptroller's Office by November 19.

The APS 011 report calculates the percentage of total funding for each appropriated fund and then uses those percentages to determine the amount of benefit charges that should be paid by each appropriated fund. State entities are required to make adjustments in USAS if the funding source used to pay benefits does not match the calculated proportional benefits.

The APS 011 report must be signed by the chief financial officer or a designee certifying that the report is in compliance with the General Appropriations Act requirements and was completed in accordance with APS 011 guidelines.

Source: The Comptroller's Office.

As discussed in Chapter 1, the APS 011 and related reporting form that the Comptroller's Office developed to administer benefits proportionality requirements are designed to ensure that benefits are paid proportionately to a state entity's appropriated method of finance. Regardless of how the benefits proportionality requirements are interpreted, the Comptroller's Office should make certain improvements to APS 011 and the related reporting form. Specifically:

- The APS 011 report does not incorporate a state entity's non-appropriated funds. Including that information would help to ensure that state entities consider all funding sources in their proportionality calculations.
- The APS 011 report includes a local funds adjustment for higher education institutions that increases benefit costs paid by the General Revenue Fund. The adjustment reduces the proportion of benefits to be paid from General Revenue dedicated and other funds and increases the proportion to be paid from the General Revenue Fund. That process does not maximize the balances in the General Revenue Fund, as the proportionality requirements in the General Appropriations Act require.
- The Comptroller's Office should strengthen the affidavit currently on the APS 011 report by specifically including the benefits proportionality requirements the state entity followed and additional information regarding payroll and related transfers.

In addition, the Comptroller's Office has a guide for its staff's reviews of APS 011 reports, but it does not require staff to maintain documentation of those reviews. For 9 of the 12 appropriation year 2014 APS 011 reports tested, the Comptroller's Office had some evidence of its review in the form of documentation and email correspondence. However, the documentation it maintained was inconsistent, and auditors could not determine whether the Comptroller's Office verified all the relevant information on the APS 011 reports. According to the Comptroller's Office, it was in the process of reviewing the remaining three APS 011 reports.

## Recommendations

The Comptroller's Office should:

- Improve APS 011 by:
  - Incorporating all funding sources available to a state entity, including non-appropriated funds.
  - Removing the local funds adjustment for higher education institutions.
  - Including in the affidavit signed by the chief financial officer a description clarifying the benefits proportionality requirements the state entity followed.
  - Including in the affidavit signed by the chief financial officer an additional attestation regarding the accuracy of any payroll and related benefit transfers in the General Revenue Fund.
- Establish standard procedures for reviewing state entities' APS 011 reports to ensure that it reviews all significant information for accuracy and reasonableness, performs reviews consistently across state entities, and consistently documents its reviews.

## ***TRS and ERS Are Not Required to Monitor Compliance with Benefits Proportionality Requirements***

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The Teacher Retirement System (TRS) and Employees Retirement System (ERS) are not required to monitor benefit contributions they receive to ensure that state entities adhere to proportionality requirements. However, they have certain processes to verify that pension and insurance funds receive the statutorily required contributions.

**TRS's Process for Verifying Whether the State's Retirement Contributions Are Accurate.** The Legislature appropriates to TRS an estimated amount of General Revenue for higher education pensions. TRS receives 1/12 of that amount each month from the General Revenue Fund; it also receives monthly employer contributions from higher education institutions to pay for the benefits of employees who are paid from funds outside of the State Treasury. At the end of the year, TRS determines, in the aggregate, how much the state portion of retirement contributions should have been for the year. If the estimated amount was less than the amount actually required, TRS requests additional funds from General Revenue; if the estimated amount was more than the amount actually required, TRS repays the difference to the State.

Auditors verified the accuracy of the calculations described above for fiscal year 2014 and did not identify any issues. For fiscal year 2014, that process resulted in TRS requesting and receiving an additional \$24 million in General Revenue for pension contributions associated with higher education institutions. However, the accuracy of the calculation depends on higher education institutions' self-reported contribution information. The internal audit department at TRS has recently started conducting audits at school districts to verify the accuracy of self-reported information, but it has not yet included higher education institutions in those audits.

**ERS's Process for Reallocating State Group Insurance Contributions Among Higher Education Institutions.** ERS receives the majority of contributions for pension and insurance through state entities' payroll processes. The exception to that is the sum-certain group insurance appropriations for higher education institutions. Each month, 1/12 of the sum-certain amount for each higher education institution is transferred from the General Revenue Fund to the insurance fund that ERS manages. ERS does not receive data on the salaries associated with the pension or insurance contributions that it collects.

Rider 6(a), page III-39, the General Appropriations Act (82nd Legislature), authorizes ERS to reallocate state group insurance contributions from higher education institutions for which the sum-certain amounts were too high (compared with the actual contributions required) to higher education institutions for which the sum-certain amounts were too low. For the 2012-2013 biennium, however, auditors determined that ERS did not accurately reallocate \$4.77 million to 17 higher education institutions because of a

miscalculation. The miscalculation resulted in an error of approximately \$70,000 (with one higher education institution receiving approximately \$35,000 more than it should have received and the remaining 16 higher education institutions collectively receiving approximately \$35,000 less than they should have received).

### **Recommendation**

ERS should ensure that it accurately reallocates state group insurance contributions to higher education institutions at the end of each biennium.

### **Management's Response**

*ERS agrees and has implemented additional internal controls to address cause of error including additional verification procedures. ERS is coordinating with the Comptroller of Public Accounts to correct reported errors.*

*Implementation Date: Completed*

*Responsible Position: General Accounting Manager*

# Appendices

Appendix 1

## **Objective, Scope, and Methodology**

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### **Objective**

The objective of this audit was to determine whether the Teacher Retirement System (TRS), the Employees Retirement System (ERS), and the Office of the Comptroller of Public Accounts (Comptroller's Office) have developed and implemented controls, policies, and procedures for performing in a timely manner reconciliations and transfers of funds that are necessary to ensure that payments of benefit costs are proportional to a state agency's or a higher education institution's funding from appropriated funds and federal receipts.

### **Scope**

The scope of this audit covered the work that TRS, ERS, and the Comptroller's Office performed during the 2014-2015 biennium.

### **Methodology**

The audit methodology included conducting interviews with management and staff at TRS, ERS, and the Comptroller's Office; reviewing applicable laws, regulations, and accounting policy statements; reviewing the results of applicable TRS internal audits; reviewing previous State Auditor's Office reports regarding benefits proportionality; and performing selected tests and other procedures. This audit did not include work on information technology.

### **Data Reliability**

Auditors relied on previous State Auditor's Office audit work to determine that data in the following systems was sufficiently reliable for the purposes of this audit: the TRS General Accounting System, the TRS Reporting and Query System, the Comptroller's Office's Uniform Statewide Accounting System (USAS), and the Comptroller's Office's Texas Network for Electronic Transfers (TEXNET).

Auditors assessed the reliability of data in a spreadsheet that the Comptroller's Office used to track state entities that are required to submit an accounting policy statement 011 (APS 011) report for fiscal year 2014 by comparing the list of entities on that spreadsheet to the entities included in the General Appropriations Act for fiscal year 2014. Auditors determined that the list of entities on the spreadsheet was sufficiently reliable for the purposes of this audit.

Auditors assessed the reliability of data in a spreadsheet that ERS used to calculate reallocation amounts for each higher education institution for fiscal year 2013 by (1) tracing the amounts to the General Appropriations Act for fiscal year 2013 and the submitted APS 011 reports and (2) verifying the accuracy of the calculations in that spreadsheet. Auditors determined that the data was sufficiently reliable for the purposes of this audit; however, one miscalculation was identified (see Chapter 5 for additional details).

#### **Sampling Methodology**

To test a sample of the APS 011 reports for evidence of Comptroller's Office review, auditors used professional judgment to select a sample of 10 percent of those reports for testing. The sampled reports may not be representative of the population and, therefore, it would not be appropriate to extrapolate the test results to the population.

Information collected and reviewed included the following:

- The Comptroller's Office's APS 001, APS 005, and APS 011 and the associated reports.
- APS 011 reports that higher education institutions submitted for fiscal year 2013.
- Previous State Auditor's Office audit reports.
- Comptroller's Office, TRS, and ERS policies and procedures related to benefits processes.
- TRS's *Employer Review Program for Independent School Districts and Charter Schools* for October 2014 and a summary of the audit results.
- TRS's settle-up letter with the Comptroller's Office for fiscal year 2014 and associated supporting documentation.
- The Comptroller's Office's summary of higher education institutions' APS 011 reports for fiscal year 2013.
- ERS's spreadsheet for reallocation of group insurance for higher education institutions for fiscal year 2013 and associated supporting documentation.
- Selected USAS transactions.

Procedures and tests conducted included the following:

- Interviewed management and staff at the Comptroller's Office, TRS, and ERS.
- Reviewed the Comptroller's Office's APS 001, APS 005, and APS 011.

- Reviewed the results of TRS internal audits conducted on the accuracy of school district employer and employee pension contributions.
- Reviewed previous State Auditor's Office reports regarding benefit proportionality.
- Reviewed applicable benefits proportional controls in place at the Comptroller's Office.
- Tested a sample of the APS 011 reports that auditors selected using professional judgement for evidence of Comptroller's Office review.
- Verified the accuracy of TRS's General Revenue year-end settle-up for the pension contributions made to TRS.
- Verified the accuracy of ERS's General Revenue reallocation of group insurance contributions among higher education institutions.

Criteria used included the following:

- Section 6.08, page IX-27, the General Appropriations Act (83rd Legislature).
- Rider 6(a), page III-39, the General Appropriations Act (82rd Legislature).
- The Comptroller's Office's APS 001, APS 005, and APS 011.
- The Comptroller's Office's APS 011 *Analysis Guide*.
- *Budget 101, A Guide to the Budget Process in Texas*, Texas Senate Research Center, January 2015.
- Legislative Budget Board's *Benefits for State Employees and Public and Higher Education Employees* (October 2014).
- Senate Finance Higher Education Subcommittee interim report (December 2008).

## **Project Information**

Audit fieldwork was conducted from June 2015 through July 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Hillary Eckford, CIA (Project Manager)
- William Morris, CPA (Assistant Project Manager)
- John Barnhart
- Alejandra Moreno
- Michelle Rodriguez
- Shelby Rounsaville
- Sherry Sewell, CGAP
- Mary Ann Wise, CFE, CPA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)

## Management's Response from the Comptroller's Office

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**Glenn Hegar**

Texas Comptroller of Public Accounts

September 1, 2015

John Keel, CPA  
State Auditor  
Texas State Auditor's Office  
1501 N. Congress Ave.  
Austin, Texas 78701

Dear Mr. Keel:

We are in receipt of the report, *An Audit Report on Benefits Proportionality at the Office of the Comptroller of Public Accounts*. We have reviewed the findings and recommendations and have enclosed our responses.

We appreciate your Office's evaluation of our processes and the related recommendations. We would like to thank your staff for their professionalism on this audit.

Please let me know if you have any questions or comments regarding our responses or planned actions.

Sincerely,



Mike Reissig  
Deputy Comptroller

Enclosure



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## Attachment

### OVERALL CONCLUSION

The Comptroller's office agrees with the recommendations in the audit report and will take steps to formalize and improve policies and procedures to ensure that payments of benefit costs comply with the requirements established in the General Appropriations Act (GAA).

We agree that there can be different interpretations of the proportionality requirements established in the GAA. We feel the interpretation currently followed by the Comptroller's office is responsive to the legislative direction contained in the rider. By requiring that state agencies and institutions of higher education pay for benefits in proportion to their methods of finance, the Comptroller's office ensures that the General Revenue Fund is not disproportionately used to fund employee benefits.

The table below shows the specific differences in the proportionality calculations for a hypothetical state agency that (1) receives 85 percent of its funding from General Revenue and 15 percent from local funds and (2) pays 95 percent of its salaries from its General Revenue funds and pays 5 percent from its local funds.

Table 1

Effect of the Differing Interpretations of the Proportionality Requirements <sup>a</sup>	
Benefits Paid Proportionately to the Appropriated Method of Finance	Benefits Paid from the Same Source of Funds Used to Pay the Respective Salary
General Revenue Fund pays for 85% of benefits	General Revenue Fund pays for 95% of benefits
Local Funds pay for 15% of benefits	Local Funds pay for 5% of benefits

<sup>a</sup> For an entity that:

- Receives 85 percent of its funding from General Revenue and 15 percent from local funds
- Pays 95 percent of its salaries from its General Revenue funds and pays 5 percent from local funds.

If the Legislature provides additional guidance on the requirements to pay benefits in proportion to the funds used to pay the associated salaries, the Comptroller's office will amend its policies and procedures accordingly.

### CHAPTER 1

These are Legislative recommendations and as such, we have no response.

## CHAPTER 2

We agree with the recommendations and will formalize and improve policies and procedures to ensure that analysis and monitoring of payments of employee benefits are effective, timely and consistent. Improvements to the process are underway and will be fully implemented by March 31, 2016, and will be the responsibility of the Fiscal Integrity Department Manager.

## CHAPTER 3

We agree with the recommendations and will formalize and improve policies and procedures to ensure that analysis and monitoring of payments of employee benefits are effective, timely and consistent. The Comptroller's office will continue to evaluate different ways to analyze available data. Improvements to the process are underway and will be fully implemented by March 31, 2016, and will be the responsibility of the Fiscal Integrity Department Manager.

## CHAPTER 4

The Comptroller's office will continue to evaluate necessary changes to the form used by state agencies and institutions of higher education to calculate the proportionality of their benefit payments, including the removal of the local funds adjustment for institutions of higher education. Additionally, the procedures for, and documentation of, the review process will be standardized and formalized. This process will be implemented by March 31, 2016, and will be the responsibility of the Fiscal Integrity Department Manager.

**Related State Auditor’s Office Work**

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Related State Auditor’s Office Work		
Number	Product Name	Release Date
15-002	An Investigative Report on the University of North Texas	September 2014
14-027	An Audit Report on Compliance with Benefits Proportional by Fund Requirements at Selected State Entities	March 2014
11-005	An Audit Report on Compliance with Benefits Proportional by Fund Requirements at Selected State Entities	September 2010
07-013	An Audit Report on Agencies' and Higher Education Institutions' Compliance with Benefits Proportional by Fund Requirements	February 2007

Copies of this report have been distributed to the following:

### **Legislative Audit Committee**

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