



OFFICE OF THE STATE AUDITOR

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LAWRENCE F. ALWIN, CPA
State Auditor

August 24, 1998

Re: A Review of the Benefits
Proportional by Fund Reports

Members of the Legislative Audit Committee:

Our review of the Benefits Proportional by Fund Reports of eight agencies and universities found that salaries were not paid proportionally to funding sources as required in the General Appropriations Act, thus requiring the transfer of \$4.6 million to the General Revenue Fund.

The Benefits Proportional by Fund Reports (Fund Reports) help determine if the percentage of expenditures that a state entity spends on employee benefits matches the percentage of total funding that the entity receives from the General Revenue Fund. The amount (\$4.6 million) is based on the original reports filed by the entities and it takes into account the adjustments these entities made as of April 1, 1998. See the attachment for details concerning the estimated adjustments.

There were errors in calculations and interpreting or not following state reporting guidelines. State entities do not appear to fully understand the Comptroller of Public Accounts' (Comptroller) guidelines for preparing Fund Reports. One agency did not use the correct process to compute the method of funding. Two entities believed that retirement benefits were exempt from the calculations. One did not include benefit replacement pay in the calculations. Some of the entities did not believe transfers should be made when the calculations indicated that benefits were not paid proportionally. Other entities believed that a transfer should be executed only when funds were due the General Revenue Fund.

The majority of The University of Texas System and the Texas A&M University System institutions erroneously computed the method of funding net for unemployment compensation insurance.

Some of the errors may have occurred because the Comptroller's reporting guidelines—which were last revised on March 1, 1998, and became effective September 1, 1997—do not adequately address the changes in the way entities are funded. The Fund Accounting Division (Division) personnel believe, and we concur, that the guidelines should be reviewed and updated. Agency personnel who prepare the Fund Reports should receive more training. In addition, the Comptroller should search for other procedures that will help ensure that agencies make adjustments necessary to achieve proportionality.

We reviewed the errors with personnel from the Fund Accounting Division at the Comptroller's Office. We advised the entities to contact and work directly with the Division to make the necessary corrections and adjustments. We plan to review the corrected reports and documentation that support the adjustments made.

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We noted other issues that need to be addressed in the Comptroller's guidelines. The issues that need attention include: earned federal funds, federal pass-through funds, health benefits paid for retirees, institutional funds for higher education institutions, and an adequate review of Fund Reports before they are submitted. In addition, the guidelines should place more emphasis on the requirement to make adjustments to achieve proportionality for employee benefits paid.

The purpose of the review was to verify the accuracy of the information in the reports and compliance with proportionality requirements. The process for selecting the eight reports reviewed was designed to target reports most likely to have errors that could lead to significant adjustments. All state entities that have multiple sources of funding are required to submit the Fund Report in accordance with the guidelines in the Comptroller's Accounting Policy Statement 011. The legal basis for the requirement is the General Appropriations Act, 74th Legislature, Article IX, Section 30.

The exceptions related to each report have been communicated individually to each entity. We have advised these entities to cooperate with the Comptroller's Office and to make necessary adjustments. We have also communicated the exceptions and issues of concern to the Comptroller's Office.

Sincerely,

Lawrence F Alwin, CPA
State Auditor

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attachment

**Salaries To Be Proportional By Fund
Summary of Benefits Paid Out of the General Revenue Fund
Over (Under) the Proportional Amount**

Agency Name	Social Security	Group Insurance	Retirement Contribution	Optional Retirement	Benefit Replacement Pay	(A) Net Amount
Texas Education Agency	1,217,890	1,095,150	980,511	N/A	13,428	3,306,979
Texas Agricultural Experiment Station	213,325	529,486	(B)	(B)	(B)	742,811
Texas A&M University, Main Campus	(256,983)	(C)	68,714	301,061	273,716	386,508
University of Texas M. D. Anderson Cancer Center	70,961	82,769	197,901	(197,857)	20,414	174,188
University Of Texas Medical Branch	\$ 1,333	\$ 1,621	\$ 815	\$ 315	\$ 421	\$ 4,505
Subtotal	<u>\$ 1,246,526</u>	<u>\$ 1,709,026</u>	<u>\$ 1,247,941</u>	<u>\$ 103,519</u>	<u>\$ 307,979</u>	<u>\$ 4,614,991</u>
Texas Department of Health	(335,838)	(563,613)	(246,465)	N/A	(181,225)	(1,327,141)
Texas A&M Commerce	(129,960)	(C)	(51,625)	43,923	14,561	(123,101)
Texas Engineering Extension Service	<u>(21,393)</u>	<u>(14,066)</u>	<u>(B)</u>	<u>(B)</u>	<u>3,421</u>	<u>(32,038)</u>
Subtotal	<u>\$ (487,191)</u>	<u>\$ (577,679)</u>	<u>\$ (298,090)</u>	<u>\$ 43,923</u>	<u>\$ (163,243)</u>	<u>\$ (1,482,280)</u>
Totals	<u>\$ 759,335</u>	<u>\$ 1,131,347</u>	<u>\$ 949,851</u>	<u>\$ 147,442</u>	<u>\$ 144,736</u>	<u>\$ 3,132,711</u>

Note A: Amounts do not reflect adjustments made by agencies after April 1, 1998.

Note B: Agency Should Have But Did Not Perform The Proportionality Calculation For These Benefits

Note C: No funds available in the General Revenue Fund to make a transfer.

Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the Fund Reports. Accordingly, we do not express such an opinion. Based on our review, except for the errors mentioned in the letter, nothing came to our attention that caused us to believe that the Fund Reports are not accurate and presented in conformity with the proportionality requirements.