

Key Points of Report

Texas Employment Commission
1994 Statewide Financial and Compliance Audit

March 1995

Overall Conclusion

The Commission complied with federal requirements related to the Employment Services Program and Unemployment Insurance Program with one exception. The Commission is not complying with federal cash management requirements for the Unemployment Insurance Program. Unemployment Insurance Program expenditures totaled \$1.4 billion during fiscal year 1994. Additionally, the Commission's significant statewide accounts totaling \$5.3 billion are accurately reported.

Key Facts And Findings

- The Commission is not complying with the federal cash management requirements for the Unemployment Insurance Program (CFDA 17.225). Commission procedures for requesting federal funds do not minimize the time elapsing between the transfer of funds from the U.S. Treasury to the State and the payment of those funds as prescribed by the State's agreement with the U.S. Treasury.

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Federal Compliance Issue

Ensure Compliance With Federal Cash Management Requirements

The Commission is not complying with the federal cash management requirements for the *Unemployment Insurance Program (CFDA 17.225)*. This program has two components which use different methods of requesting federal funds.

Administrative Funds. The Commission requested and received federal administrative funds earlier than allowed for the two months tested. This is a result of the Commission requesting and receiving funds 10 days before pay day to comply with state law for processing of payroll. The Commission's average day of clearance is the first state working day of the month, since over 85 percent of the Commission's employees are on direct deposit. The U.S. Treasury-State Agreement states that the "State shall time its request for funds such that a prorated amount of its administrative award shall be deposited in the State account on the average day of clearance for payroll during each pay period."

Noncompliance with the funds request requirements may result in a state interest liability. The regulations state that if this funding technique is properly applied, no interest liability will be incurred by the state or the Federal Government.

Payments to Beneficiaries. The payments to beneficiaries account, which is required to have an ending zero balance, had an excess or deficit cash balance for all 65 days tested. The U.S. Treasury-State Agreement states that for payments to beneficiaries, the Commission "shall request federal funds based on the actual amount of funds that cleared the Commission's account in the State Treasury that day."

Recommendation: We recommend the Commission comply with federal cash management requirements. The administrative funds (payroll) requests should be made on the first state working day of the month. General revenue funds may be temporarily used to cover federal payroll costs as provided by Government Code, Section 403.092 (c).

Additionally, if the Commission cannot comply with the funds request requirements for the payments to beneficiaries, an alternate request method should be selected and agreed upon with the U.S. Treasury.

Management's Response: *The Texas Employment Commission will contact Financial Management Services (FMS) for additional guidance on the cash management procedures currently in place. Based upon the guidance provided by FMS, we will adjust procedures as needed to be in compliance with the Cash Management Improvement Act*

Audit Scope

The primary focus of our audit was the Commission's financial and administrative controls over the two major federal programs, Employment Services and Unemployment Insurance. Employment Services expenditures totaled \$57 million, while spending for *Unemployment Insurance* was \$1.4 billion. Additionally, we tested the accuracy of significant statewide accounts totaling \$5.3 billion which were reported in the Commission's Fiscal Year 1994 Annual Financial Report.

We gained an understanding of significant aspects of the internal control structure, including the general control environment, as well as controls over cash disbursements, payroll / personnel, and federal programs. Specific procedures were used to test compliance with the major federal programs and to test significant accounts, including cash and operating transfers in the Expendable Trust Funds.