



A Legislative Summary Document Regarding Texas Department of Economic Development

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In September 2001, the State Auditor's Office estimated that the ending balance in the Smart Jobs Fund at the Texas Department of Economic Development (Department) would be \$101.6 million when the Smart Jobs program was concluded. Of this amount, \$83.4 million was not obligated and was available. We estimated an additional \$18.2 million would become available as existing contracts were closed.

In October 2001, at the request of the chairmen of the Senate Finance and House Appropriations Committees, the Comptroller of Public Accounts transferred \$83.4 million from the Smart Jobs Fund to the Unemployment Compensation Trust Fund.

Two of five fiscal year 2001 performance measures we tested were inaccurate: the Number of Actual Jobs Created by Businesses that Receive TDED Assistance and the Number of Businesses Developed as Expansion/Recruitment Prospects.

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

January 2003

SAO No. 03-365

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.

Texas Department of Economic Development

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Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

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.

The total amount of outstanding bond issues for the Texas Department of Economic Development, as of August 31, 2001, was \$99,335,000.

A Review of Projections for the Smart Jobs Fund, the Unemployment Compensation Trust Fund, and the Smart Jobs Holding Fund

(Report No. 02-001, September 2001)

The State Auditor's Office estimated that the ending balance in the Smart Jobs Fund at the Texas Department of Economic Development (Department) would be \$101.6 million when the Smart Jobs program was concluded. Of this amount, \$83.4 million was not obligated and was available. We estimated an additional \$18.2 million would become available as existing contracts were closed.

Our \$101.6 million estimate of the remaining balance in the Smart Jobs Fund was significantly higher than the Department's estimated fund balance of \$71.6 million primarily because:

- The Department's estimate was based on actual encumbrances of \$28.7 million for existing contracts. However, based on historical payout trends, we estimated that \$18.2 million would become available as these contracts were closed.
- The Department reserved \$7.6 million for grants that it had not yet awarded. However, the Department was not authorized to award any new contracts, and the Smart Jobs program expired on December 31, 2001.
- The Department's estimate reserved \$4 million to award contracts, based on House Bill 1333 (77th Legislature), related to the creation of qualified defense-related jobs. However, the Department did not execute any contracts for these funds.

In reviewing the costs necessary to conclude the Smart Jobs program, we determined that the Department's estimate of \$923,000 for fiscal year 2002 administrative expenditures for terminating the Smart Jobs program was reasonable. However, the information provided by the Department did not justify the need for its estimated fiscal year 2003 Smart Jobs program administrative expenditures of \$177,000. This amount was included in our estimate of the remaining balance in the Smart Job Fund.

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

(Report No. 01-035, August 2001)

For fiscal year 2000, the Texas Department of Economic Development (Department) did not fully comply with historically underutilized business (HUB) requirements in Texas Administrative Code (TAC) and Chapters 111 and 2161 of the Texas Government Code. However, we determined that the Department 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 material noncompliance	Attended but did not sponsor HUB forums (TAC, Section 111.27)	Over-reported the number of contracts awarded (TAC, Section 111.16)	No material noncompliance	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, the Department reported that it had implemented both recommendations made in the related management letter. This information has not been audited.

Most Recent Performance Measure Certification

Fiscal Year 1998–Fiscal Year 2003

The results included in *An Audit Report on Fiscal Year 2001 Performance Measures at 14 Entities* (Report No. 03-008, November 2002) for this entity are summarized below.

Period	Goal/Strategy		Measure	Certification Results
2001	A	Business Development	Number of Actual Jobs Created by Businesses that Receive TDED Assistance	Inaccurate
2001	A	Business Development	Percent of Rural Communities Assisted by TDED and/or TDA	Factors Prevent Certification
2001	A.1.3	Market Texas Businesses	Number of Businesses Developed as Expansion/Recruitment Prospects	Inaccurate
2001	A.2.1	Community Assistance	Number of Rural Communities Assisted by TDED and/or TDA	Factors Prevent Certification
2001	B	Tourism	Expenditures by Travelers in Texas Resulting from TDED Advertising (Billions)	Certified with Qualification
Total Measures Certified Without Qualification^a				0/5 (0%)
Data Reliability Percentage (Certified and Certified with Qualification)				1/5 (20%)

^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 Prevent 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.

Travel Expenditures

Travel Expenditures by Appropriation Year (unaudited)			
	2000	2001	2002
In-State Travel	\$ 159,865	\$ 129,776	\$ 126,512
Out-of-State Travel	98,715	132,448	86,829
Foreign Travel	28,412	21,930	18,165
Other Travel Costs	(676)	0	216
Total Travel Expenditures	\$ 286,316	\$ 284,154	\$ 231,722
Limit on Travel Expenditures (Cap)	436,567	436,567	127,127 ^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 the Department 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.