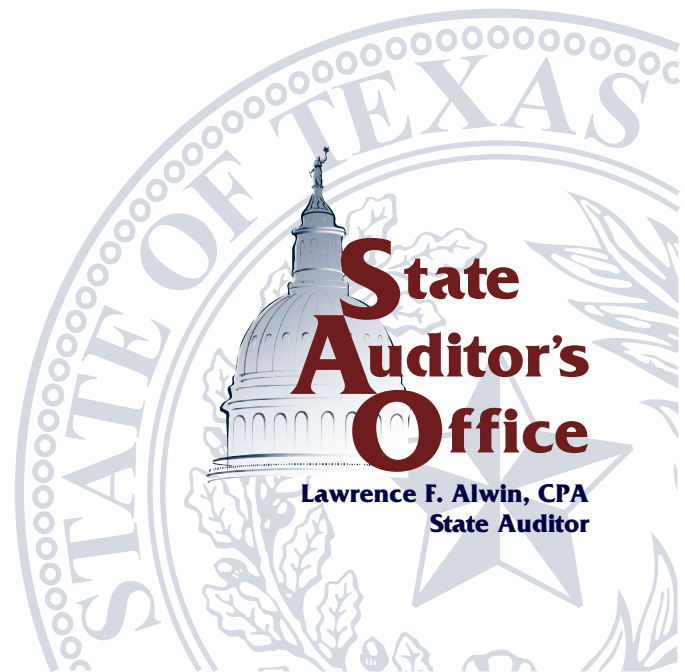


An Audit Report on

# State Entity Compliance with Benefits Proportional by Fund Requirements in Fiscal Years 2002 and 2003

June 2004

Report No. 04-039



# State Entity Compliance with Benefits Proportional by Fund Requirements in Fiscal Years 2002 and 2003

## Overall Conclusion

Inconsistencies and conflicts related to proportionality requirements make it unclear whether state entities should repay General Revenue in order to achieve proportionality under the General Appropriations Act. To comply with these requirements, entities need to pay benefits proportionately to funding sources. Specifically, in fiscal years 2002 and 2003, entities indicated they owed a balance of \$7.5 million to General Revenue. However, whether entities should actually pay this amount to General Revenue is unclear.

The requirement that benefits (as well as salaries and wages) be paid proportionately to funding sources is intended to ensure that General Revenue is used appropriately. To meet this requirement, entities prepare reports calculating the amount of benefits that should be paid from their appropriated funding sources. However, these reports are not always useful. The reports may not fully incorporate other restrictions on the use of funding sources, which can cause them to incorrectly indicate that entities owe funds to (or should receive funds from) General Revenue. This occurs because the proportionality requirements (1) are internally inconsistent and (2) can conflict with other laws, rules, and federal grant restrictions. Therefore, complying with proportionality requirements can lead entities to:

- Violate a section of the proportionality requirements that restricts the use of General Revenue in paying benefits.
- Violate restrictions on the use of federal, General Revenue Dedicated, or other non-General Revenue funds.

Complying with proportionality requirements can also cause entities to use dedicated General Revenue funds to pay benefits. This reduces the available amount of appropriated funds earmarked for specific purposes.

In addition, higher education institutions have unique barriers to achieving proportionality that are related to group insurance and retirement benefits. Furthermore, it is difficult to determine whether entities that combine multiple funding sources into a single operating fund have complied with proportionality requirements.

### General Appropriations Act Article IX, Section 6.11 Salaries to Be Proportional By Fund

This requirement applies to agencies and institutions of higher education and to all appropriated funds. Specifically, these entities are required to:

- Pay salaries, wages, and benefits proportionately to the source of funds, unless otherwise provided.
- Refrain from using General Revenue to pay for benefits associated with salaries and wages paid from any source other than General Revenue.
- Submit proportionality reports demonstrating that they achieved proportionality. These reports identify when entities must make adjustments to reimburse General Revenue to achieve proportionality.



We are coordinating with the Legislative Budget Board and the Office of the Comptroller of Public Accounts to facilitate the development of solutions to the conflicts noted above.

Also, state entities did not always comply with the Comptroller of Public Accounts' instructions for completing required, timely proportionality reports and making timely adjustments.

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

Our objective was to determine whether entities that are required to pay benefits proportionally by fund (1) complied with the Comptroller of Public Accounts' Accounting Policy Statement (APS) 011 requirements to complete Benefits to be Proportional by Fund reports and (2) processed adjustments to achieve proportionality. While the General Appropriations Act requires state entities to pay salaries, wages, and benefits proportionately by funding source, historically, the Office of the Comptroller of Public Accounts has focused its proportionality instructions and required reports on only the payment of benefits. This is because salaries are appropriated directly to entities, while benefits are estimated and not appropriated directly; thus, benefit payments need to be monitored. Therefore, our audit also focused on the payment of benefits.

Our scope covered state entity compliance with proportionality requirements in fiscal years 2002 and 2003. This audit did not include a review of information technology systems.

Our methodology consisted of analyzing entities' annual Benefits to be Proportional by Fund reports and comparing information on those reports with information in the Uniform Statewide Accounting System (USAS). We also reviewed information in USAS to verify whether entities made adjustments to General Revenue. We interviewed entities that did not make these adjustments to determine the reasons they did not make these adjustments.

# Contents

## *Detailed Results*

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Chapter 1	
Inconsistencies and Conflicts in Proportionality Requirements Can Cause State Entities' Proportionality Reports to Be Unreliable.....	1
Chapter 2	
State Entities Did Not Always Comply with Instructions for Completing Required Proportionality Reports and Making Adjustments .....	5

## *Appendix*

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Objective, Scope, and Methodology.....	7
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# Detailed Results

## Chapter 1

### *Inconsistencies and Conflicts in Proportionality Requirements Can Cause State Entities' Proportionality Reports to Be Unreliable*

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Inconsistencies and conflicts related to proportionality requirements make it unclear whether state entities should repay General Revenue in order to achieve proportionality under the General Appropriations Act. To comply with requirements, entities need to pay benefits proportionately to funding sources. Specifically, in fiscal years 2002 and 2003, entities indicated they owed a balance of \$7.5 million to General Revenue. However, whether entities should actually pay this amount to General Revenue is unclear.

#### Background Information Regarding Proportionality Requirements

The requirement to pay salaries and wages proportionately to funding sources originated in 1979, when the 66th Legislature inserted this requirement into the appropriations bill for the 1980-1981 biennium. The 69th Legislature added the requirement to pay benefits proportionately to funding sources in the appropriations bill for the 1986-1987 biennium.

The General Appropriations Act, 77th Legislature, page IX-41, required that:

- Section 6.11(a): Unless otherwise provided, payment for salaries, wages, and benefits paid from appropriated Funds... shall be proportional to the source of funds.
- Section 6.11(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.
- Section 6.11(c): The Comptroller shall develop rules to provide for the administration of this section.
- Section 6.11(d): Each agency or institution of higher education having General Revenue Fund appropriations and other sources of financing shall file with the Comptroller and the State Auditor a schedule demonstrating proportionality.... The State Auditor shall review ... compliance with this section. The Comptroller, on receipt of notification from the State Auditor of amounts disproportionately paid from General Revenue appropriations, shall reduce current year General Revenue Fund appropriations of the agency or institution until such time as such amounts are repaid from sources other than the General Revenue Fund.

The requirement that benefits (as well as salaries and wages) be paid proportionately to funding sources is intended to ensure that General Revenue is used appropriately. To meet this requirement, entities prepare reports calculating the amount of benefits that should be paid from their appropriated funding sources. However, these reports are not always useful. The reports may not fully incorporate other restrictions on the use of funding sources, which can cause them to incorrectly indicate that entities owe funds to (or should receive funds from) General Revenue. This occurs because the proportionality requirements (1) are internally inconsistent and (2) can conflict with other laws, rules, and federal grant restrictions. Therefore, complying with proportionality requirements can lead entities to:

- Violate a section of the proportionality requirements that restricts the use of General Revenue in paying benefits.
- Violate restrictions on the use of federal, General Revenue Dedicated, or other non-General Revenue funds.

Complying with proportionality requirements can also cause entities to use dedicated General Revenue funds to pay benefits. This reduces the available amount of appropriated funds earmarked for specific purposes.

In addition, higher education institutions have unique barriers to achieving proportionality that are related to group insurance and retirement benefits. Furthermore, it is difficult to determine whether entities that combine multiple funding sources into a single operating fund have complied with proportionality requirements.

As Table 1 shows, in fiscal years 2002 and 2003, state entities reported they should have reimbursed General Revenue by \$30,115,966 to achieve proportionality; they made actual reimbursements totaling only \$22,565,494. However, because of the inconsistency and conflicts associated with the proportionality requirements, it is unclear how much of the remaining \$7,550,472 should be returned to General Revenue.

Table 1

Summary of Entities' Reimbursements to General Revenue			
	Fiscal Year 2002	Fiscal Year 2003	Totals
Number of entities that reported they should have reimbursed General Revenue	59	60	—
Amount of reimbursements to General Revenue entities reported they needed to make	\$12,123,194	\$17,992,772	\$30,115,966
Number of entities that reimbursed General Revenue <sup>a</sup>	47	53	—
Amount of reimbursements to General Revenue that entities made	\$9,081,863	\$13,483,631	\$22,565,494

<sup>a</sup> Includes entities that made partial reimbursement to General Revenue

Source: Benefits to be Proportional by Fund reports entities submitted for fiscal years 2002 and 2003

Agencies deal with the inconsistencies and conflicts in the requirements in a variety of ways. As Table 2 shows, it appears that the majority of agencies we tested were not able to maintain proportionality between (1) actual salary, wage, and benefit expenditures and (2) the calculated proportional amount by funding source specified on their Benefits to be Proportional by Fund reports. We were unable to conduct this analysis for higher education institutions because, unlike agencies, higher education institutions do not report detailed salary and benefit expenditure information for all funding sources in the Uniform Statewide Accounting System (USAS).

Table 2

How Agencies Actually Paid Benefits		
	Fiscal Year 2002	Fiscal Year 2003
Number of agencies that paid benefits based on actual salary expenditures but not proportionality report	8	6
Number of agencies that paid benefits based on proportionality report but not actual salary expenditures	9	11
Number of agencies that paid benefits based on proportionality report and actual salary expenditures	1	1
Number of agencies that paid benefits based on neither actual salary expenditures nor proportionality report	9	9

Source: Benefits to be Proportional by Fund reports agencies submitted for fiscal years 2002 and 2003 and the Uniform Statewide Accounting System

We are coordinating with the Legislative Budget Board and the Office of the Comptroller of Public Accounts to facilitate the development of solutions to the conflicts noted above.

## Complying with Proportionality Requirements May Cause Entities to Violate Other Restrictions on the Use of Funds

Restrictions on the use of General Revenue. Entities' proportionality reports sometimes specify that, to achieve proportionality, they need to receive additional General Revenue to pay benefits. However, if salaries were not paid with General Revenue, receiving those additional funds would result in entities' violating a specific subsection of the General Appropriations Act that prohibits them from using General Revenue to pay benefits associated with salaries paid from another funding source.

The specific sections of the proportionality requirements in the General Appropriations Act (77th Legislature) that can lead to this conflict are as follows:

- Section 6.11(a) specifies: "Unless otherwise provided, payment for salaries, wages, and benefits paid from appropriated Funds ... shall be proportional to the source of funds."
- Section 6.11(b) specifies: "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."

Receiving additional funds from General Revenue can allow entities to comply with Section 6.11(a), but in doing so, they violate Section 6.11(b). For example, in fiscal year 2003, the Texas Workforce Commission's (Commission) Benefits to be Proportional by Fund Report indicated that it used too little General Revenue to pay benefits. Achieving proportionality, and therefore complying with Section 6.11(a), would have required the Commission to obtain \$2,435,724 in additional funds from General Revenue. However, receiving these additional funds would cause the Commission to use General Revenue to pay benefits associated with salaries that were not originally paid with General Revenue, and this is a violation of Section 6.11(b). Therefore, the Commission did not request these additional funds. Although the Commission did not pay benefits proportionately to its method of finance, it did pay benefits proportionately to the salaries it paid from each of its funding sources.

Restrictions on the use of federal or other non-General Revenue funds. Entities' proportionality reports sometimes specify that, to achieve proportionality, they need to use federal or other non-General Revenue funds to reimburse General Revenue. However, this could conflict with restrictions on the use of those funds.

For example, in fiscal year 2002, the Department of Human Services' (Department) Benefits to be Proportional by Fund Report indicated that the Department had used too much General Revenue to pay benefits. Achieving proportionality would have required the Department to use federal funds to reimburse General Revenue by the \$299,770 specified in its proportionality report. However, making the reimbursement would have been analogous to the Department using federal funds to pay benefits associated with salaries that it did not originally pay with federal funds, and this is a violation of the restrictions on the Department's use of federal funds. Therefore, the Department did not make this reimbursement.

Complying with proportionality requirements can also cause entities to use dedicated General Revenue or other appropriated funds to pay benefits. This reduces the available amount of appropriated funds earmarked for specific purposes.

Entities' proportionality reports sometimes specify that, to achieve proportionality, they need to use additional General Revenue Dedicated funds or other appropriated funds to pay benefits associated with salaries that they paid with General Revenue. However, this reduces the amount of funds available for the purposes for which those funds were originally earmarked.

In fiscal year 2003, for example, the Department of Public Safety needed to use an additional \$2,299,073 in funds dedicated to the State Highway Fund to pay benefits associated with salaries paid with General Revenue so that it could achieve proportionality. These funds could have been used to police the state highway system.

The Department of Housing and Community Affairs (Department) achieved proportionality by funding source in fiscal year 2002. However, to do so, the Department had to make adjustments that caused it to pay an additional \$292,379 in benefits from a different appropriation source than it paid the associated salaries. These funds could have been used to fund the Department's operating costs.

Chapter 1-B

## **Other Barriers Exist in Achieving and Ensuring Proportionality**

**Higher education institutions have unique barriers to achieving proportionality in the payment of group insurance and retirement benefits.**

Higher education institutions' proportionality reports may not be useful because the reports do not accommodate the fact that these institutions are allocated in the General Appropriations Act a set amount for group insurance each year. If an institution's actual expenditures for insurance benefits exceed that amount, the institution cannot receive additional funds and, therefore, cannot achieve proportionality. Thirteen higher education institutions reported that they did not request additional funds totaling \$1,185,318 in fiscal year 2002 for this reason; 19 higher education institutions reported that they did not request additional funds totaling \$4,511,189 in fiscal year 2003 for this reason.

Unlike group insurance benefits, higher education institutions can receive additional funds for retirement benefits. However, receiving these additional funds can sometimes take up to two years. This impairs institutions' ability to achieve proportionality in a timely fashion. Six higher education institutions reported that they had still not received \$233,983 in additional funds for retirement benefits from fiscal year 2002; 19 higher education institutions reported that they had still not received \$1,028,215 in additional funds from fiscal year 2003.

**Entities sometimes combine multiple sources of funding into a single operating fund.**

State entities sometimes combine multiple sources of funding into a single operating fund. As a result, only entities' total benefits expenditures are reported in USAS, and the detailed expenditures by funding source are maintained only in the entities' internal accounting systems. While entities are permitted to do this, they still are required to achieve proportionality for their individual funding sources. However, in these cases, it is difficult to determine whether they achieved proportionality.



## ***State Entities Did Not Always Comply with Instructions for Completing Required Proportionality Reports and Making Adjustments***

In fiscal years 2002 and 2003, state entities did not always comply with the Comptroller of Public Accounts' instructions for completing required proportionality reports and making adjustments in a timely manner.

**Entities did not always make adjustments by the required deadline.**

In fiscal years 2002 and 2003, the majority of entities did not make adjustments by the required deadline (see Table 3). For example, as a result of our audit, one higher education institution reimbursed \$426,158 to General Revenue 17 months after the deadline for fiscal year 2002.

Table 3

<b>Timeliness of Entities' Adjustments to Achieve Proportionality</b>		
	<b>Fiscal Year 2002</b>	<b>Fiscal Year 2003</b>
Number of entities reporting that they should make adjustments	85	84
Number of entities that made adjustments by the deadline <sup>a</sup>	35	37
Number of entities that made adjustments after the deadline <sup>a</sup>	39	28
Number of entities that did not make adjustments <sup>a</sup>	32	32
Number of entities that made late or no adjustments <sup>a</sup>	50	47
<sup>a</sup> Entities may have reported that they need to make multiple adjustments; therefore, because an entity can fall in multiple categories, the numbers in these categories do not sum to the total number of entities reporting that they should make adjustments.		

Source: Benefits to be Proportional by Fund reports entities submitted for fiscal years 2002 and 2003

**Entities did not always submit Benefits to be Proportional by Fund reports by the required deadline.**

As Table 4 shows, although most entities submitted reports or explanatory letters by the deadline in fiscal years 2002 and 2003, some did not.

Table 4

<b>Timeliness of Entities' Submission of Required Benefits to be Proportional by Fund Reports or Explanatory Letters</b>		
	<b>Fiscal Year 2002</b>	<b>Fiscal Year 2003</b>
Number of entities that submitted reports or letters by the deadline	139	142
Number of entities that submitted reports or letters within 5 days after the deadline	200	191
Number of entities that submitted reports or letters more than 5 days after the deadline	17	15
Number of entities that did not submit reports or letters	15	10

Source: Benefits to be Proportional by Fund Reports and explanatory letters entities submitted for fiscal years 2002 and 2003

Entities did not always follow the Comptroller of Public Accounts' instructions and made errors on their Benefits to be Proportional by Fund reports.

We also identified several entities that did not adhere to the Comptroller of Public Accounts' instructions for preparing their Benefits to be Proportional by Fund reports for fiscal years 2002 and 2003. Specifically, entities did not always comply with instructions to:

- Use actual expenditure information in USAS to prepare their Benefits to be Proportional by Fund reports.
- Submit documentation and/or legal citations explaining why they excluded certain funds from their proportionality calculations.
- Use specified USAS transaction codes (known as t-codes) to make adjustments to General Revenue.
- Submit required Benefits to be Proportional by Fund reports. Some entities submitted letters asserting that they were funded with a single appropriated fund and, therefore, were not required to submit Benefits to be Proportional by Fund reports. However, these entities actually had multiple funding sources and should have submitted Benefits to be Proportional by Fund reports.

# Appendix

## Objective, Scope, and Methodology

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### Objective

Our objective was to determine whether entities that are required to pay benefits proportionally by fund complied with the Comptroller of Public Accounts' Accounting Policy Statement (APS) 011 requirements to complete Benefits to be Proportional by Fund reports and processed adjustments to achieve proportionality.

### Scope

Our scope covered state entity compliance with proportionality requirements in fiscal years 2002 and 2003. This audit did not include a review of information technology systems.

### Methodology

Our methodology consisted of analyzing entities' annual Benefits to be Proportional by Fund reports and comparing information on those reports with information in the Uniform Statewide Accounting System (USAS). We also reviewed information in USAS to verify whether entities made adjustments to General Revenue. We interviewed entities that did not make these adjustments to determine the reasons they did not make these adjustments.

Information collected and reviewed included the following:

- Benefits to be Proportional by Fund reports entities submitted in fiscal years 2002 and 2003
- Fiscal year 2002 and 2003 salary, wage, and benefit expenditure information in USAS
- Proportionality requirements established by the 66th through 77th Legislatures

Procedures and tests conducted included the following:

- Comparative analysis between entities' Benefits to be Proportional by Fund reports and salary, wage, and benefit expenditure information in USAS
- Interviews with various entities regarding their preparation and submission of Benefits to be Proportional by Fund reports

Criteria used included the following:

- Comptroller of Public Accounts' Accounting Policy Statement (APS) 011 and related instructions
- Section 6.11, page IX-41, the General Appropriations Act (77th Legislature)

## Other Information

We conducted fieldwork from March 2004 through May 2004. This audit was conducted in accordance with generally accepted government auditing standards.

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The Honorable Tom Craddick, Speaker of the House, Joint Chair  
The Honorable Steve Ogden, Senate Finance Committee  
The Honorable Thomas “Tommy” Williams, Member, Texas Senate  
The Honorable Talmadge Heflin, House Appropriations Committee  
The Honorable Brian McCall, House Ways and Means Committee

### **Office of the Governor**

The Honorable Rick Perry, Governor

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