

A Statutory Report

Biennial Report Of The State Auditor To The 74th Legislature



Office of the State Auditor
Lawrence F. Alwin, CPA

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Key Points Of Report

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Overall Conclusion

The agencies and universities of Texas state government are generally effective at accounting for resources and establishing controls to protect resources from loss, misuse, and abuse. However, our audits continue to identify concerns about whether state agencies and universities have controls to help ensure that they obtain desired results at the lowest possible cost.

Key Findings

- The State continues to enhance the systems which promote accountability for state resources. In fiscal year 1993, state resources included \$100.5 billion in assets, \$40.7 billion in expenditures from all fund types, and approximately 246,000 full-time equivalent employees.
- Both internal audit functions as well as tax and revenue audit functions in executive branch agencies are generally effective. However, our auditors noted problems in monitoring the performance of local service delivery providers.
- Our auditors identified cost savings and revenue enhancement opportunities, ranging from one-time to annual. The recommendations, which are detailed in Appendix 4 of this report, included:
 - cost savings or cost reduction opportunities potentially totaling \$613.7 million
 - revenue enhancement opportunities or lost revenue totaling as much as \$173.0 million
 - amounts due to or overcharged to the General Fund totaling \$5.0 million

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Executive Summary

The agencies and universities of Texas state government are generally effective at accounting for resources and establishing controls to protect resources from loss, misuse, and abuse. However, audits performed by the State Auditor's Office continue to identify concerns about whether state agencies and universities have controls to help ensure that they obtain desired results at the lowest possible cost.

Section 1:

State Resources Are Accurately Accounted For And Protected From Loss Or Abuse

Government leaders have accurate information on the State's financial position. The Comprehensive Annual Financial Report for the State contains information that is fair and accurate in all material respects. The report includes information on all governmental fund groups, proprietary and trust funds, college and university funds, bonds, and federal assistance.

Controls are generally in place to protect state resources from loss or abuse. Agencies, for example, typically establish

effective control systems to help safeguard against the loss or abuse of public funds. Controls and policies also promote effective management of state government's bonded debt, which totaled \$9.1 billion as of August 31, 1993.

To promote greater fiscal accountability, the State continued to implement and enhance new accounting and budgeting systems:

- Our auditors certified 55 percent of examined performance measures reported under the State's new performance-based budgeting system as reliable for use by decisionmakers.
- Implementation of important statewide accounting systems, such as the Uniform Statewide Accounting System (USAS) and Uniform State Payroll System (USPS), continued.
- The State initiated funds consolidation to simplify the accounting structure.

Section 2:

Effectiveness Of Executive Branch Audit Functions Varies

Section 2-A:

Internal Audit Functions As Well As Tax And Revenue Audit Functions Are Generally Effective

The state's tax and revenue audit functions are generally effective. Auditors reviewed the tax and revenue audit functions at the Comptroller's Office, State Treasury, Texas Employment Commission, and General Land Office.

About The State Auditor's Office

The State Auditor's Office, part of the legislative branch of state government, provides government leaders and citizens with independent, objective assessments and analyses concerning the accountability of state agencies and universities. The Office works under the general guidance of, and is responsible to, the Legislative Audit Committee, a permanent joint committee of the State Legislature. (See Appendix 2 for more information about the Office.)

Executive Summary

Internal auditing among state agencies also appears to be generally effective. More than 90 percent of agency heads agreed that they would have an internal audit function even if it were not required by law.

Section 2-B:

Monitoring Of Local Service Delivery Providers Should Be Improved

Our auditors noted problems with the monitoring of performance among local service delivery providers (subrecipients and subcontractors):

- Most contractors at five health and human service agencies (which contracted for \$2.5 billion in services) were held accountable by judging whether their activities followed the procedures laid out in regulations, rather than by the outcomes or results they produced. None of the 225 contracts our auditors reviewed contained specific outcome measures requiring the contractor to perform at a certain level of success.
- Nine of 13 agencies were not in full compliance with federal requirements for monitoring local service delivery providers during fiscal year 1993. (The subrecipient monitoring at these agencies are confined to one specific area or requirement and did not necessarily affect the overall administration of the federal program.)

Section 3:

Summary Of Work For Previous Two Years Indicates Two Broad Areas Of Concern

During fiscal years 1993 and 1994, the Office released more than 280 reports containing information on more than 150 state agencies. Trends in the audit work suggest two broad areas of concern. The reports raise issues about whether the agencies and universities of state government:

- Have effective systems of policies and processes to help ensure that their operations maximize outcomes at the lowest possible cost. Specifically, our auditors continue to identify issues related to:
 - adequacy of agency oversight functions
 - insufficient monitoring of performance, both agency services and performance monitoring of local service delivery providers
- Have and report sufficient, accurate information to make reliable decisions. Specifically, our auditors continue to identify issues related to:
 - sufficiency and accuracy of information about operations and performance
 - economical development of automated information systems

Executive Summary

Although the fiscal impact of many audit recommendations is difficult to assess, the reports also identified opportunities for various agencies and other governmental entities to reduce costs and enhance revenue. These opportunities varied from one-time to annual. The total fiscal impact of these recommendations included:

- Cost savings or cost reduction opportunities potentially totaling \$613.7 million
- Revenue enhancement opportunities or lost revenue totaling as much as \$173.0 million.
- Amounts due to or overcharged to the General Fund totaling \$5.0 million

Appendix 4 contains detailed information on individual issues and their fiscal impact. It is possible that the affected entities have already realized the benefits associated with these recommendations.

Section 4:

Agency Management Implements Most Recommendations Of The State Auditor's Office

Our follow-up examination of ten audit reports issued during fiscal years 1991 and 1992 indicates that state agencies generally agree with and implement the recommendations made by the State Auditor's Office. Of 84 recommendations made in the ten reports:

- 58 (69 percent) were fully implemented

- 16 (19 percent) were in process of implementation
- 10 (12 percent) were not implemented

Section 5:

Summary Of Objective And Scope

The objectives of the Biennial Report, as specified in Government Code, section 321.015, are to:

- Evaluate the effectiveness of audits performed by the executive branch, including:
 - revenue audits
 - audits of subcontractors and subgrantees
 - internal audits of departments
- Report on fiscal accountability in the State, including:
 - each department's responsibility for establishing and maintaining adequate internal controls
 - status of accounting systems in the State
- Summarize the audit work of the State Auditor for the two previous years

We considered each of the 280 reports released by the Office during fiscal years 1993 and 1994. We also selected relevant reports released during the first four months of fiscal year 1995. Our work focused on identifying trends in reports with information on significant agencies, issues, or controls.

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Fiscal Accountability In Texas State Government

The State continues to enhance the systems which promote accountability for state resources:

- Government leaders have accurate information on the State's financial position.
- Controls are generally in place to protect state resources from loss and abuse.
- The State effectively administered most federal programs.
- State government continued to implement and enhance new accounting and budgeting systems.

Section 1:

Government Leaders Have Accurate Information On State's Financial Position

The comprehensive annual financial reports for Texas contained information on the State's financial position that was presented fairly in all material respects. For each of the last four years, Texas' financial reports received the Government Finance Officer's Association award for excellence in financial reporting. The financial reports contain information on:

- financial position and results of operation for all fund groups, including the General Revenue Fund, Special Revenue Funds, Proprietary and Trust Funds, and College and University Funds
- bonded indebtedness, including total outstanding debt, bond issues by agency, and changes in bonded indebtedness
- federal financial assistance by (1) state agency which receives the assistance and (2) federal agency which provides the assistance

Our auditors recommended 30 adjustments to information proposed for the fiscal year 1993 report to ensure that the information was accurate.

Section 2:

Controls Are Generally In Place To Protect State Resources From Loss And Abuse

Section 2-A:

State Agencies Typically Have Control Structures To Protect State Resources From Loss And Abuse

Overall, state agencies have control structures which provide reasonable assurance that state resources will be protected from loss, misuse, or abuse. The State Auditor's Office

Fiscal Accountability In Texas State Government

released reports with information affecting 150 state entities during the two previous fiscal years, noting significant control weaknesses at 13 agencies.

The problems noted at the 13 agencies fell into 3 categories:

- **Ineffective management controls:** Ineffective systems of policies and procedures needed to help agencies achieve their missions at the lowest possible cost existed at:
 - Texas Southern University (for the Registrar's Office, athletic operations, and Student Financial Aid Office), reported in August 1994
 - Department of Protective and Regulatory Services (key management controls and processes did not exist), reported in September 1994
 - Texas Commission on Law Enforcement Office Standards and Education (lacked effective management controls, impeding the agency from accomplishing key functions effectively), reported in September 1994
- **Material Or Significant Weakness:** Auditors concluded that there was a significant risk that errors or irregularities could occur and not be detected in a timely manner for:
 - overall control environment of Lamar University
 - overall control environment of the Texas Surplus Property Agency (which administered the Donation of Federal Surplus Property Program) in fiscal year 1992
 - one federal program at the Governor's Office in fiscal year 1992
 - accounting and information systems at Stephen F. Austin State University in June 1993
 - a significant weakness in internal controls at Texas State Technical College in November 1993
 - overall internal control structure of Texas A&M University Department of Food Services in June 1994
- **Inadequate oversight:** Boards had not provided adequate oversight to ensure that effective control systems were established for all aspects of operation at four entities:
 - Cosmetology Commission, January 1994
 - Commission for the Deaf and Hearing Impaired, January 1993
 - Board of Examiners of Psychologists, January 1994
 - Texas Woman's University (Houston Housing Office), July 1993

It is possible that the agencies and universities have already acted to resolve the weaknesses our auditors identified. Subsequent audit work at three of the six agencies where our auditors reported material or significant weaknesses suggested that management had made progress in resolving issues or that the problems were no longer an issue. These three agencies included:

- Governor's Office (No weaknesses were reported during the subsequent year audit.)

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- Lamar University - Beaumont (A follow-up audit reported that the Board had made substantial progress in fulfilling its fiduciary and oversight roles.)
- Donation Of Federal Surplus Property Program (Our auditors reported that material weakness in the overall control environment was no longer an issue after transfer of the program to the General Services Commission. However, a material weakness continued to exist for inventory controls).

Section 2-B:

Within State Government, Controls And Policies Promote Effective Debt Management

Overall, controls are in place to help ensure compliance with bond requirements of the State's 282 bond issues, which totaled \$9.1 billion at of August 31, 1993. However, auditors did report concerns about bonds administered by the Department of Housing and Community Affairs and Lamar University-Beaumont:

- Circumstances surrounding five revenue bond issues totaling \$67.4 million at the Texas Department of Housing and Community Affairs could result in the bonds being called by bond holders before their scheduled maturity due date.
- The ability of Lamar University-Beaumont to meet future principal and interest payments could be threatened if the Housing System deficit continues to grow. Lamar University - Beaumont's Housing System revenues were not sufficient to pay both the Housing System operating expenses and the principal and interest payments on the Housing Bonds. Lamar University - Beaumont management has developed a plan to reduce the auxiliary deficit.

As of December 1992, state leaders had made substantial progress in developing state debt management policies. This progress was evidenced by steps taken to establish guidelines and standards for issuing bonds, to accumulate statistics on both state and local debt, and to relate debt financing to capital acquisition planning.

However, addressing debt management solely at the state level does not provide planning, control, and monitoring for 85 percent of the total public debt outstanding in Texas. Texas public debt must be planned, monitored, and controlled to avoid overburdening taxpayers and ratepayers, who must pay for both state and local debt. Factors which limited the coordination of public debt in Texas included:

- Texas had no mechanism to ensure that debt financing decisions coordinated the needs and optimized the costs of financing for state and local governments. The taxpayers' burden increased because of Texas' decentralized debt issuance process, which allows over 2,500 entities to issue debt.
- The Bond Review Board's enabling legislation and other debt statutes limited its ability to be effective in its debt management oversight role.

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- The dollar amount and relative size of Texas municipalities' outstanding debt increasingly posed a problem for the State as a whole. There were several methods the State could use to help localities meet their financing needs, including direct grants, state revolving loan funds, and bond banks.

Section 3:

State Effectively Administered Most Federal Programs

During fiscal year 1993, Texas was effectively administering 610 federal programs, totaling \$14.2 billion in federal assistance. Effective administration of federal programs helps to ensure that the State continues to receive federal funds.

Material noncompliance with federal requirements was noted in 12 of the 610 federal programs. "Material noncompliance" is the term used to describe situations where errors indicate that: (1) a significant portion -- 5 percent is a general guideline -- of the expenditures for a federal program were not spent in accordance with federal requirements or (2) a significant portion of assets were not reported or administered in compliance with federal requirements. While Texas has never had federal funding cut off as a result of compliance problems, material noncompliance could result in Texas losing federal assistance. The 12 programs had \$359 million in annual expenditures, or 2.5 percent of total federal expenditures.

Section 4:

State Government Continued To Implement And Enhance New Accounting And Budgeting Systems

Section 4-A:

Auditors Certified Approximately 55 Percent Of Performance Measures Examined As Reliable

State government continued to enhance performance-based budgeting systems. A November 1991 Budget Reform Proposal adopted by the Legislative Budget Board advocated a performance- and achievement-based budgeting system using performance measures. The State Auditor's Office was assigned the responsibility of certifying the accuracy of performance measures reported by agencies.

Fiscal Accountability In Texas State Government

Agencies are continuing to work with the Legislative Budget Office and the Governor's Office to improve the performance measurement process. Discussions with analysts, internal audit reviews, and documentation of controls will ensure improvements in the accuracy of information reported.

Approximately 55 percent of the performance measures examined are reliable to use for making budget decisions:

- Auditors examined 231 performance measures at 13 agencies for fiscal year 1993. Auditors certified 55.4 percent of the performance measure as reliable. Ten percent of the measures were inaccurate.
- Auditors examined 292 measures at 25 state agencies for fiscal years 1993 and 1994. Auditors certified 54.8 percent of the reports as reliable. Nearly one-fourth (22.2 percent) of the measures were inaccurate.

Auditors also concluded that, for the 292 measures examined for fiscal years 1993 and 1994, it did not appear that the agencies were intentionally misrepresenting their performance. There was not a consistent pattern of over- or under-reporting.

Section 4-B:

Implementation Of Automated Statewide Accounting Systems Continues

On September 1, 1993, the **Uniform Statewide Accounting System (USAS)** replaced the **Financial Accounting and Control for Texas System (FACTS)**. FACTS was the State's reporting system in fiscal year 1993, and it did not have the capacity of producing the complete financial condition of the State's General Fund. Thus, the State could only ascertain the financial condition and results of the General Fund by an extensive, once-a-year consolidation process.

USAS contains accounting capabilities which, according to publications of the Comptroller's Office, include:

- **Budget Accounting** (This component monitors the status of each appropriation established in the General Appropriations Act and ensures that spending authority and amounts are not exceeded.)
- **Revenue Cycle** (This component provides processing and control capabilities for revenue in USAS while tracking cash receipts, wire transfers, and also reporting accounts receivable information.)
- **Expenditure Cycle** (This component controls the State's encumbrance, expenditure, and disbursement activities and provides on-line access to voucher records, consolidates payments to payees, standardizes payment reporting, and delays payments until the due date.)

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- **General Ledger** (This component maintains a self-balancing set of accounts for each fund in USAS and records journal entries from activities of other USAS functions.)

USAS should also provide current, comprehensive General Fund financial information. However, the accuracy and completeness of USAS data is not sufficient to allow the system to serve as the basis for consolidating the State's 1994 annual financial report. Our auditors are initiating a review of USAS's data integrity.

USAS will contain more extensive information about university financial operations than FACTS. University financial information that is needed for financial reporting purposes, including local funds, will be included in USAS.

In some ways, USAS provided an example of the concerns our auditors continue to identify with the development and administration of automated systems in state government. For example, the actual implementation was two years behind the September 1, 1991, date set in fall 1988. At the time of implementation, the system was not complete. Features that were not scheduled to be implemented until after September 1993 included: procedures and processes required to close the accounting records at fiscal year-end, cost allocation that provides the ability to distribute indirect costs, bond tracking system, budget preparation tool, grant billing, project billing, and automated recurring transactions.

The **Uniform State Payroll System (USPS)** is currently on-line, handling payroll transactions for 86 state agencies. Auditors are reviewing the system. They raised concerns about the system's performance and processing and are reviewing the system's impact on agencies' ability to process payroll accurately and efficiently. USPS is designed to provide a standard payroll calculation for the State of Texas, as well as accurate and timely data concerning the work force. A report on USPS is scheduled for release in February 1995.

The State currently maintains a **Human Resources Information System (HRIS)** to report on the information about the profile of state workers, e.g. ethnicity and gender. Our auditors are completing a review of the accuracy of the data in the system and the extent to which the system meets user needs. The report on HRIS is scheduled for release in February 1995.

Section 4-C:

Funds Consolidation Simplified Accounting Structure Of State Government

Funds consolidation was enacted by the Legislature to simplify the financing of state government. Although the consolidation of funds did not result in any actual change in the State's cash revenues, it enabled the Comptroller to certify additional cash revenues as available for appropriation for the 1994-1995 biennium. Each fund consolidated into the

Fiscal Accountability In Texas State Government

General Fund retains its unique identity as an account. However, statutory dedications of revenue sources in these accounts will expire on August 31, 1995, unless recreated by the Legislature. In fiscal year 1993, \$837 million of net resources was consolidated into the General Fund.

Effectiveness Of Executive Branch Audit Functions

The effectiveness of executive branch audit functions varies. Internal audit functions as well as tax and revenue audit functions are generally effective. However, monitoring of local service delivery providers (subcontractors and subrecipients) should be improved.

Section 1:

Tax And Revenue Audit Functions Are Generally Effective

The tax and revenue audit functions at some of the State's largest collection agencies contribute to the efficiency and effectiveness of the revenue management systems:

- The **Comptroller's Office** collected and processed over \$17 billion in fiscal year 1994. The Comptroller has an effective and efficient tax revenue management function.
- The **Texas Employment Commission** collected nearly \$890 million in tax revenue during fiscal year 1993. Management has taken steps to ensure that its tax audit function operates efficiently. The tax audit function assessed over \$3.0 million in new taxes, which represents 0.3 percent of total revenue.
- The **Cigarette and Tobacco Tax Function** (which was contracted out to the Comptroller by the Treasury in the second quarter of fiscal year 1994) collected over \$572 million in fiscal year 1994. Controls over 98 percent of the cigarette tax stamp revenues (approximately \$500 million annually) are adequate since they are collected through electronic funds transfers. In fiscal year 1994, the Treasury performed 64 audits. For every dollar of audit cost, \$2.96 in additional revenues were identified.
- The **General Land Office** collected slightly over \$128.7 million of royalty revenue during fiscal year 1993. Management has taken steps to ensure that the royalty revenue audit functions operate efficiently and effectively. During fiscal year 1993, desk audit and on-site audit functions reviewed 280 out of almost 3,100 leases and assessed slightly over \$2.5 million of additional revenue.

Our auditors did identify opportunities for revenue audit functions to increase the amount of taxes assessed at the Comptroller's Office and the Texas Employment Commission:

- Additional revenue auditors at the Comptroller's Office would bring in over three times the related additional costs, or approximately \$13 million, if the total number of auditors were raised from the 485 employed at the end of July 1994 to 550. (Funds were appropriated for this purpose in 1992.)
- At the Texas Employment Commission, federal standards issued by the United States Department of Labor limited the effectiveness of the tax audit function.

Effectiveness Of Executive Branch Audit Functions

Our auditors estimated that the Commission could potentially have assessed an additional \$1.4 million in taxes if it could have doubled large employer audits during fiscal year 1993. The Department of Labor has subsequently approved a proposal from the Commission to raise the number of large employer audits.

Section 2:

Monitoring Of Local Service Delivery Providers Should Be Improved

Section 2-A:

Factors Limit Ability Of Monitoring Efforts To Ensure That The State Contracts With Most Effective Local Service Delivery Providers

Factors limit the ability of contract monitoring functions to ensure that the State uses the most effective contractors. Auditors reviewed contract monitoring processes at five health and human service agencies which spent over \$2.5 billion in fiscal year 1993 on contracts for services to protect and enhance the health, well-being, and productivity of Texans.

While all of the programs had a process in place to monitor contractor performance, there were factors which limited the ability of the contract monitoring efforts to ensure that the State used the most effective contractors to provide services:

- The focus of the programs was on determining compliance with state and federal regulations, not on evaluating the success or results of the services provided. None of the 225 contracts which our auditors reviewed contained specific outcome measures requiring the contractor to perform at a certain level of success.
- Some programs only performed limited reviews of contractors' accounting controls.
- A lack of standardized monitoring procedures prevents most agencies from obtaining sufficient information to assess overall performance of the contractor.

The five agencies reviewed were:

- Alcohol and Drug Abuse, Commission on
- Health, Department of
- Human Services, Department of
- Mental Health and Mental Retardation, Department of
- Protective and Regulatory Services, Department of

Effectiveness Of Executive Branch Audit Functions

Section 2-B:

Nine Of 13 Agencies Reviewed Were Not In Full Compliance With Federal Requirements For Monitoring Local Service Delivery Providers

Compliance with federal requirements for monitoring local service delivery providers (subrecipients) can be improved. Our auditors tested compliance with subrecipient monitoring requirements at 13 agencies. Nine of the agencies were not in full compliance with federal requirements that state pass-through agencies obtain audit reports on local subrecipients, review the findings within six months, and ensure corrective action. The affected programs expended more than \$1.6 billion in fiscal year 1993.

In fiscal year 1993, compliance with the requirements for subrecipient audit monitoring was not met or documented at:

- Aging, Department on (Nutrition Services Program)
- Alcohol and Drug Abuse, Commission on (Alcohol and Drug Abuse and Mental Health Services Program)
- Attorney General, Office of (Child Support Enforcement Program)
- Commerce, Department of (Job Training Partnership Act Programs)
- Education Agency, Texas (Eight programs were affected)
- General Services Commission (Donation of Federal Surplus Property Program)
- Health, Department of (Three programs were affected)
- Housing and Community Affairs, Department (Community Services Block Grant)
- Human Services, Department of (Eight programs were affected)

Subrecipient audit monitoring can help pinpoint significant issues that limit a program's ability to achieve results. For example, our auditors reviewed subrecipient audit reports covering fiscal years 1988-1991 for the Job Training Partnership Act Program. The review revealed significant issues, including:

- five subrecipient audit reports noting serious conditions that could have a material effect on the subrecipients' financial statements
- six subrecipient audit reports citing unacceptable levels of risk of noncompliance with laws and regulations
- more than \$30 million (or 3 percent of the \$937 million spent) in unallowable, undocumented, or unreasonable costs

Section 3:

Internal Auditing Among State Agencies Appears To Be Generally Effective

Internal auditing among state agencies appears to be generally effective:

Effectiveness Of Executive Branch Audit Functions

- Agency management values the work of internal auditors. Agency heads responding to a survey expressed satisfaction with the accuracy and value of internal audit findings. Most also indicated that they would elect to have an internal audit department even if not required by statute.
- Internal auditors report that the State's investment in internal audit functions is paying off. The State spent approximately \$23 million for the budgets of 79 internal audit departments in state agencies and universities during fiscal year 1994. In fiscal year 1993, internal auditors reported recommendations with a five-year fiscal impact of \$100 million. Some audit recommendations, such as those addressing internal controls, are difficult to quantify.

There are areas where internal audit can improve, including:

- Some internal audit departments should improve communication with their governing boards to enhance audit services. According to a survey, agency heads considered internal audits effective in communicating with them. However, board members were more likely to disagree or have no opinion. Some board members indicated that internal auditors could do a better job of alerting them to potential problems before they occur and conduct more audits of high-risk areas.
- Agencies should reassess allocation of resources to internal audit to ensure sufficient and cost-effective audit coverage. A wide disparity exists in allocating resources to internal audit.
- Some internal audit departments need to improve compliance with professional standards and the Texas Internal Auditing Act.

Summary Of Work At Health And Human Service Agencies

Delivering effective health and human services at the lowest possible cost continued to be a challenge for state government. Our auditors identified opportunities for the State's health and human service agencies to deliver services more efficiently and effectively. For example, three health and human service agencies reviewed during fiscal years 1993 and 1994 had limited success in establishing or using management controls to ensure effective and efficient service delivery. In addition, four health and human service programs reviewed had not fully achieved desired results at the lowest possible cost.

During fiscal year 1993, health and human service agencies were responsible for \$12.8 billion in expenditures, \$9.9 billion in federal assistance, and more than 65,000 full-time equivalent employees. That equated to roughly 31.5 percent of total state expenditures, 69.6 percent of federal assistance, and 26.6 percent of the State's full-time equivalent employees.

Section 1:

Management Controls Were Not Adequate To Ensure Efficient And Effective Service Delivery At Three Agencies

Auditors concluded that management controls were not adequate to ensure efficient and effective service delivery at three health and human service agencies:

Protective and Regulatory Services , Department of -- Although the Department had been in existence for almost two years, it did not have agency-wide management systems and controls in place to facilitate achievement of its goals and objectives:

- Oversight functions, such as the Board of Directors, the Ombudsman Office, and internal audit, had not been developed sufficiently to provide direction and feedback to Department operations.
- Child Protective Services, the Department's largest program, lacked a defined contract administration process. The program spent over \$190 million for agreements for foster care and purchased services.

In fiscal year 1993, the Department of Protective and Regulatory Services expended \$399 million and employed an average of 5,900 full-time equivalent employees.

Human Services, Department of -- The overall management control system at the Texas Department of Human Services had strengths which were designed to ensure fulfillment of its mission. However, those strengths had not reached the service delivery level in all cases. Ineffective procedures and controls for caseworker service delivery and information systems used to monitor performance needed management's attention.

The Department of Human Services had fiscal year 1993 expenditures totaling \$8.0 billion and employed an average of 16,400 full-time equivalent employees.

Summary Of Work At Health And Human Service Agencies

Agency	During Fiscal Years 1993 And 1994, Our Auditors Examined...
Alcohol and Drug Abuse, Commission On	<ul style="list-style-type: none"> • Management controls • Federal compliance • Subcontractor monitoring
Deaf and Hearing Impaired, Commission for	<ul style="list-style-type: none"> • Management controls
Employment Commission, Texas	<ul style="list-style-type: none"> • Federal compliance • Accuracy of significant financial information • Efficiency and effectiveness of revenue audit function
Health, Department of	<ul style="list-style-type: none"> • Effectiveness of Disease Prevention Program • Federal compliance • Subcontractor monitoring
Human Services, Department of	<ul style="list-style-type: none"> • Management controls • Federal compliance • Accuracy of significant financial information • Effectiveness of nursing home regulation, Job Opportunities and Basic Skills (JOBS) program, and Medicaid Vendor Drug program • Subcontractor monitoring

Alcohol and Drug Abuse, Commission on -- The Texas Commission on Alcohol and Drug Abuse has provided services to many people. However, neither our auditors nor the Commission could determine whether Texas was maximizing the effects of each service dollar. The Commission lacked well-defined, achievable goals that could serve as indicators of the effectiveness of its services. The Commission had measured the number of service units that it provided, but did not determine the effects of these services on the important problems that the Commission addresses.

In fiscal year 1993, the Commission expended \$91.6 million and employed approximately 200 full-time equivalent employees.

Section 1-A:

Factors In Operating Environment May Complicate Task Of Establishing Management Controls

In recent years, the agencies that deliver health and human services have operated in an environment characterized by rapid expenditure growth, federal mandates, above average staffing growth, and organizational change. These realities underscore the importance of managing these agencies efficiently and effectively. At the same time, these realities complicate the task of establishing effective management control systems.

- **Rapid Expenditure Growth** -- Health and human services provided by state government have experienced dramatic growth over the last five years. In 1988, health and human service expenditures totaled \$5.4 billion. In fiscal year 1993, health and human service expenditures exceeded \$12.8 billion. That represents a 137 percent increase over a six-year period.
- **Federal Funds Drive Programs** -- Health and human service programs received \$9.9 billion of the State's \$14.2 billion of federal assistance during fiscal year 1993. That equals 69.6 percent of total federal funding.

Summary Of Work At Health And Human Service Agencies

- **Above Average Staffing Growth** -- The level of staffing at these agencies has grown faster than the average growth rate for the entire state workforce. In fiscal year 1989, the workforce at the State's health and human service agencies averaged 53,600 employees. In fiscal year 1993, the agencies' workforce averaged 65,200 employees. This amounts to a change of approximately 21.6 percent over a five-year period. Over the same period, staffing at all agencies increased by 16.9 percent.
- **Organizational Change** -- The agencies responsible for health and human service programs were the subjects of a major reorganization by the 72nd Legislature. The Legislature created a new oversight body (the Health and Human Services Commission), a new agency (Department of Protective and Regulatory Services), and transferred responsibility for billions of dollars worth of programs between the Department of Human Services and the Department of Health. Program transfers between the Department of Human Services and the Department of Health included:
 - Three major federal programs were transferred from the Department of Human Services to other state agencies as of September 1, 1992. During fiscal year 1992, \$127 million in federal funds were expended for these programs.
 - On September 1, 1993, the Department of Health became responsible for administering the Medical Assistance Program, as well as other programs that were previously administered by the Department of Human Services. As a result, the Department of Health's appropriations increased from \$477 million in fiscal year 1993 to over \$7.3 billion in fiscal year 1994.

Section 2:

Aspects Of The Reorganization Of Health And Human Services Agencies Were Well-Planned

Aspects of the reorganization of health and human services were well-planned. The Department of Health and Department of Human Services did a good job planning the transfer of the Bureau of Long-Term Care. However, full implementation of the bill that reorganized health and human service agencies was impeded for a variety of reasons. These reasons included:

- The Health and Human Services Commission had to rely on a time-consuming process of negotiation and consensus building with each agency. The bill did not grant the Commission any enforcement authority.
- Planning for the creation of the Department of Protective and Regulatory Services was inadequate and could have benefited from guidance by the Commission.

Summary Of Work At Health And Human Service Agencies

Section 3:

Auditors Concerned About Automated Resources Critical To Efficient Delivery Of Health And Human Services

Automation plays a pivotal role in the delivery of health and human services because of the large number of clients served and dollars handled. Our auditors have continued to identify concerns about the development and management of automated resources, including those used to deliver health and human service. Examples of issues raised by auditors include:

Department of Protective and Regulatory Services:

- The lack of an automated data base to receive and track complaints resulted in inefficiencies and duplication of effort.
- Information and automation needs were not being adequately met. The Department lacked basic office automation capabilities.

Department of Human Services:

- The Department had been aware of slow computer response time for several years. It had approved more than \$6 million to upgrade caseworker computers. Computer upgrades for the Department's 5,500 caseworkers could save almost \$25 million over the next five years.
- Information systems needed to be better coordinated to achieve a more effective and efficient operation. Information systems were fragmented and duplicative and did not fully meet the needs of executive management. The 506 project requests for fiscal year 1994 were estimated to take 482,000 hours; however, there were only 241,000 hours available.

Four Programs Did Not Fully Achieve Expected Results At The Lowest Cost

During the last two fiscal years, auditors concluded that certain health and human service programs had not fully achieved the expected results at the lowest possible cost. Auditors evaluated the effectiveness of four specific health and human service programs:

- Medicaid Vendor Drug Rebate Program administered by the Department of Health (August 1994)
- Job Opportunities and Basic Skills (JOBS) administered by the Department of Human Services (March 1994)
- Nursing Home Regulation administered by the Department of Human Services (December 1993)
- Preventable Disease Program administered by the Department of Health (October 1992)

Section 4:

Systems To Monitor Performance Of Local Service Delivery Providers Were Not Complete And Did Not Provide Information To Ensure Best Results

After reviewing contract monitoring functions at five health and human

Summary Of Work At Health And Human Service Agencies

service agencies, auditors concluded that factors limited the effectiveness of agency efforts to monitor contractor performance. (See "Effectiveness Of Executive Branch Audit Functions," Section 2-A, page 13.)

In addition, four health and human service agencies were not in compliance with federal requirements for monitoring local service delivery providers. (See "Effectiveness Of Executive Branch Audit Functions," Section 2-B, page 14.)

Summary Of Work On Public Education

There are opportunities to maximize the flow of public education funding into the classroom. To help ensure that school districts spend the funds available to them efficiently, the State Auditor's Office published a series of reports focusing primarily on school district expenditures.

State government contributed more than \$9.1 billion in fiscal year 1993 to help finance the education of Texas' 3.5 million public school children. That amounted to almost 22.3 percent of the State's total expenditures.

Section 1:

Auditors Evaluated How School Districts Spent Funds Outside The Classroom

Auditors developed information on costs associated with state public education financing policies. One report estimated that changes to the financing system could save over \$640 million annually by 1997 without sacrificing the quality of education. A subsequent report identified an additional \$45 million in potential cost savings from revised funding policies.

The policies which auditors brought to the attention of state leaders, and the costs associated with them, included:

- Districts purchase their own property insurance, and some are paying too much. Auditors estimated a \$25 million annual savings to some districts.
- Districts have no incentive to consider price when selecting textbooks and other instructional materials. Auditors estimated a \$10 million annual savings.
- Districts could eliminate their tax collection offices and contract with county governments to collect taxes. Auditors estimated a \$10 million annual savings.

Agency	During Fiscal Year 1993 And 1994, Our Auditors Examined . . .
Education Agency, Texas	<ul style="list-style-type: none"> • School district expenditures (especially potential cost savings and accuracy of financial reporting) • Federal compliance • Accuracy of significant financial information

Section 2:

Districts Spend Less On Non-Instructional Costs And Can Reduce These Costs Even More

In recent years, school districts have made progress in reducing non-instructional costs, particularly administrative costs. The percentage of total operating expenditures directed

Summary Of Work On Public Education

toward non-instructional activities has decreased from 42.2 percent to nearly 41.7 percent. This 0.5 percent decrease translates into \$66 million.

School districts still had the opportunity to reduce non-instructional costs by as much as \$360 million. To help maximize the flow of funding into the classroom, auditors compared school district expenditures -- among small groups of 25 districts that were comparable on several factors, including total enrollment -- on items of non-instructional expense that are not correlated with academic performance. Potential cost savings in non-instructional costs are what a district would save if it reduced its cost per student to the average of 25 similar school districts.

Section 3:

System To Ensure Oversight Of Public Education Dollars Was Weak

The system of oversight for public education did not ensure that all public education dollars were spent wisely. The educational system contained some elements of an accountability system, but it was largely compliance-based. That is, the focus was on whether districts have followed certain rules, not on whether resources were used efficiently.

Additional Audit Issues Related To The Texas Education Agency

"Management has accurately reported the Agency's accounts that are significant to the State's financial statements. For example, the Agency has consistently accounted for and properly recorded its investment transactions. The market value of investments as of August 31, 1993, was \$11.5 billion." (March 1994)

"The Texas Education Agency did not ensure that the State met federal cost-sharing requirements for the Vocational Education Basic Grant. The state portion of administrative costs should have been \$108,725 more than was actually expended." (March 1994)

"The Texas Education Agency did not use all the federal funds that were received in fiscal year 1990 and which expired in 1992. As a result, at least \$3 million in federal funds will be lapsed. In addition, at least \$4.1 million and \$3.6 million of federal funds were lapsed for grants that expired in 1988 and 1989, respectively." (March 1993)

Our audits of school districts revealed that the current accountability system for public education did not ensure that all funds were spent efficiently and effectively. Concerns about whether districts use resources efficiently and effectively were reported in November 1992, May 1993, and June 1994.

Some of the 15 districts where our auditors performed work for a May 1993 report did not use sound business practices to manage costs outside the classroom. In some cases, staff sizes were excessive and fringe benefits were generous. Certain districts had serious weaknesses in purchasing of goods and services. In addition, some employee and board member travel expenses were extravagant.

Summary Of Work On Public Education

Section 4:

Auditors Continue To Report Concerns About PEIMS Data

There are problems with the accuracy of the Public Education Information Management System (PEIMS) administered by the Texas Education Agency. The system was not performing up to expectations when auditors reported on it in November 1992. At the district level, inaccurate reporting, coding, and classification contributed to the problems. At the state level, obvious errors were not being detected by the Texas Education Agency's system of edit checks.

The magnitude and number of errors has been decreasing. This was a result not only of new procedures adopted by the Texas Education Agency, but also because of significant efforts by school districts.

Auditors have reported on problems with the accuracy of the data as recently as June 1994. In November 1992, the system was reasonably accurate at a summary level, but at the detailed level it could not be relied upon without additional analysis.

Summary Of Work At Institutions Of Higher Education

During fiscal years 1993 and 1994, auditors evaluated overall control systems or controls over specific aspects of operation at 16 institutions of higher education. They concluded that:

- Nine institutions had generally effective high-level, management control systems.
- Two universities had opportunities to improve high-level management controls.
- Five universities had significant problems.

During fiscal year 1993, state institutions of higher education spent \$6.54 billion, enrolled more than 430,000 students, and employed approximately 100,000 employees (full-time equivalent employees for the quarter ending August 31, 1993). Higher education spending accounted for 16 percent of the State's total expenditures. Higher education staffing accounted for 41.3 percent of the State's total workforce.

Section 1:

No Indications Of Problems With Overall Management Controls At Nine Institutions

Auditors found no indications of significant problems with the overall management controls or concluded that management controls were generally effective at nine institutions of higher education. During fiscal years 1993 and 1994, auditors reached this conclusion for:

- Higher Education Coordinating Board
- Texas A&M University -- Kingsville
- University of Houston System
- University of Texas at Austin
- University of Texas Health Science Center at Houston
- University of Texas M.D. Anderson Cancer Center
- University of Texas Medical Branch at Galveston
- University of Texas Southwestern Medical Center at Dallas
- University of Texas System Administration

Section 2:

Two Universities Have Opportunities To Improve

The **University of Texas Health Science Center at San Antonio** needed to expand its management controls to meet the needs of a developing institution and its increasingly complex operations. The initiative shown by the Center's leadership in guiding the institution to its current status should be extended to enhance management controls over internal operations.

Summary Of Work At Institutions Of Higher Education

The financial posture of **Midwestern State University** at March 1994 (as exemplified by campus and plant maintenance, debt levels, fund balances, and investments) was adequate to meet current needs. However, controls over budgeting, property management, and purchasing needed to be improved to ensure that the University remained financially sound.

Section 3:

Auditors Identified Significant Problems At Five Universities

Auditors identified significant problems at five institutions of higher education in audit reports published during fiscal years 1993 and 1994. The five universities included:

Texas Southern University: Over the last several years, the Board has worked to strengthen the University's management controls. However, a lack of sufficient oversight by executive management at Texas Southern University resulted in ineffective management controls in the Registrar's Office, athletic operations, and the Student Financial Aid Office. Our auditors reported specific problems, including some cases in which transcripts had been improperly altered, ineligible students were allowed to register for classes, and the University provided financial aid which exceeded students' need and disbursed aid to persons who were not students.

In fiscal year 1993, the University expended \$73.9 million and employed 1,200 full-time equivalent employees. The Federal Family Loan Program and the Pell Grant Program financial aid programs had combined expenditures of \$34.1 million.

Texas State Technical College: The role of the Texas State Technical College (TSTC) in the State's delivery system for technical education and strategies for economic development were unresolved issues for state administrators. Lack of clarity and agreement affected the College's financial condition, impeded the College's strategic planning, and absorbed an inordinate amount of officials' time.

In addition, the College's system of internal controls had significant weaknesses which needed to be addressed by the Board of Regents and executive management. Significant breaches of accountability and fiscal abuse in two instructional programs at

Operating Losses For Athletic Programs Noted At Four Universities

Auditors found the athletics programs at four universities were not consistently generating enough revenues to cover expenditures. The universities had transferred auxiliary funds to cover the losses. In some cases, the athletics programs had experienced operating losses for several consecutive years.

The four universities where our auditors reported on this condition were:

- Lamar University - Beaumont
- Stephen F. Austin State University
- Texas A&M University - Kingsville
- Texas Southern University

Summary Of Work At Institutions Of Higher Education

Agency	In Fiscal Years 1993 And 1994, Our Auditors Examined...
Higher Education Coordinating Board	<ul style="list-style-type: none"> Management Controls
Lamar University System	<ul style="list-style-type: none"> Beaumont: Management controls and follow-up information Bond compliance
Midwestern State University	<ul style="list-style-type: none"> Management controls
Public Community/ Junior Colleges	<ul style="list-style-type: none"> Accuracy of enrollment reports Accountability for use of state funds in specific areas
Stephen F. Austin State University	<ul style="list-style-type: none"> Management controls, focusing on athletic expenditures
Texas A&M University System	<ul style="list-style-type: none"> A&M Main: Department of Food Service management controls and financial reporting Kingsville: Management controls, focusing on athletic expenditures
Texas Southern University	<ul style="list-style-type: none"> Management controls Accuracy of significant financial information Federal compliance Bond compliance
Texas State Technical College	<ul style="list-style-type: none"> Management controls
Texas Woman's University	<ul style="list-style-type: none"> Controls over Houston Housing Office
University of Houston System	<ul style="list-style-type: none"> Management controls
University of Texas System	<ul style="list-style-type: none"> Accuracy of significant financial information System Administration: Management controls UT - Austin: Management controls MD Anderson Cancer Center: Management controls Southwestern Medical Center: Management controls Health Science Center Houston: Management controls Medical Branch at Galveston: Management controls

TSTC-Amarillo reflected inadequate awareness and inappropriate attitudes toward internal control and accountability.

In fiscal year 1993, the College expended \$90.1 million and employed 1,500 full-time equivalent employees.

Texas A&M University Department of Food Services: The Texas A&M University Department of Food Services provided quality food and services to its customers. However, the Department lacked key controls to ensure its continuing ability to provide for the needs of the University community. A material weakness existed in the Department's overall internal control structure. In addition, the Department did not have comprehensive organizational goals or a process for establishing such goals, nor were there established benchmarks to indicate when the Department was functioning successfully.

During the 1993 fiscal year, the Department generated revenues in excess of \$20 million.

Stephen F. Austin State University: Previous administrations, including the Boards of Regents, of Stephen F. Austin State University had placed emphasis on athletics to the detriment of academic programs. Surplus discretionary funds were also used to fund athletic programs while significant academic needs had not been addressed. (For example, the University prepared a document which reported that laboratories and audio visual equipment suffered from inadequate systems of repair and maintenance, during the same period that the University paid for

Summary Of Work At Institutions Of Higher Education

administrators' basketball championship rings.) In addition, our auditors found material weaknesses in the management information system controls and the accounting system.

In fiscal year 1993, the University expended \$85.1 million and employed 1,600 full-time equivalent employees.

Lamar University: Follow-up work indicated that the Lamar University System Board of Regents had made progress in fulfilling its fiduciary and oversight roles. As a result of these improved management controls, there was greater assurance that the Lamar University System was more effectively using funds to provide educational opportunities for the citizens of southeast Texas.

An earlier audit report had concluded that the Board of Regents had not provided adequate direction and oversight to ensure that management had established an effective management control system.

In fiscal year 1993, Lamar-Beaumont employed an average of 1,300 full-time equivalent employees. Expenditures for the Lamar University System totaled \$92.1 million in fiscal year 1993.

Section 4:

Four Large Research Universities Have Faculty Workload Policies

Texas A&M University, Texas Tech University, University of Texas at Austin, and University of Houston had established workload policies, providing an accountability system for holding faculty responsible for meeting workload requirements. State resources committed to the salaries of university faculty amounted to over \$1.5 billion for the 1994-1995 biennium.

Our auditors found that faculty were required to meet minimum workload requirements established in policies submitted to the Texas Higher Education Coordinating Board. Tenure-track faculty classroom teaching load -- an average of two courses per semester -- was consistent with that of public research universities in other states. (While the portion of teaching load comprised of individual instruction could not be compared to other states, it is an important part of faculty teaching responsibility.)

Faculty workload encompasses activities beyond classroom and individual instruction. There is not a standard method in use for recording these activities or the time involved. While annual activity reports prepared by faculty list teaching, research, and service activities, the level of both faculty activities listed and reporting detail varied considerably.

Summary Of Work On Employee Benefits, Retirement Systems, And Workforce Issues

State government makes a substantial investment in human resources. The actual expenditures associated with the salaries and benefits of state employees amounted to more than \$9.1 billion in fiscal year 1993. (This amount represents 22.3 percent of state government's total expenditures.) In addition, the assets of the Teacher Retirement System (\$29.3 billion) and Employees Retirement System (\$9.4 billion) at August 31, 1993, accounted for 38.5 percent of state government's total assets.

At August 31, 1993, state government employed 245,800 full-time equivalent employees. At August 31, 1994, state government employed 254,100 full-time equivalent employees.

Section 1:

State's Compensation Package Remains Competitive Overall

The State's compensation package remains competitive overall. Total compensation includes salaries and benefits:

- Job salaries for benchmark classified positions lag behind competitive labor market salaries by 6.0 percent. In fiscal year 1993, the salaries and wages of state employees totaled \$6.96 billion.
- Texas provides a competitive benefits package which leads the national market average. In fiscal year 1993, actual state expenditures on employee benefits like retirement contributions, social security, and group insurance totaled \$2.14 billion. (This figure does not include the value of benefits, such as leave time, which do not result in the actual expenditure of monies.)

Additional Audit Issues Related To Employee Benefits

"There are no controls in place to ensure that the State's General Fund is being properly reimbursed for retirement contributions related to salaries paid with federal and private sources. The absence of a mechanism to verify the accuracy of dollars reimbursed provides opportunities for underpayments to occur." (February 1993)

"We found no instances of significant overpayments to retirees who resumed work with the State. However, the concern remains that due to the absence of procedures to monitor the accuracy of employment information, significant overpayments could occur without detection." (February 1993)

"The State's General Fund is not being fully reimbursed for unemployment and workers' compensation benefits. Reimbursements should occur when the recipient's salary was funded from a non-General Revenue source. For fiscal year 1991 and 1992, approximately \$500,000 was due for reimbursement from the agencies examined. Nine of the 14 agencies examined (64 percent) were not in full compliance with unemployment reimbursement provisions." (July 1993)

The State has not experienced significant recruitment or retention difficulties. However, increases in the cost of living, as measured by the Consumer Price Index, have exceeded increases to the classified salary schedule for the past five years, resulting in classified employees experiencing a loss of earnings.

In order for the State of Texas to maintain its relative position in competitive salary markets, and for classified employees to avoid a loss of real earnings, the State Classification Office

Summary Of Work On Employee Benefits, Retirement Systems, And Workforce Issues

has recommended that the classified salary schedule should be adjusted upward by two percent each year for fiscal years 1996 and 1997.

Agency	During Fiscal Year 1993 And 1994, Our Auditors Examined . . .
Employees Retirement System	<ul style="list-style-type: none"> Fairness of financial Statements
Teacher Retirement System	<ul style="list-style-type: none"> Management controls Fairness of financial statements

Section 2:

State Has A Framework For Employee Classification And Pay

The Position Classification Act (Texas Government Code, Chapter 654), enacted in 1961, is state government's framework for employee classification

and pay. The Act created the State Classification Plan, administered by the State Classification Office within the State Auditor's Office. Today, the Plan consists of 1,152 job classifications. Each classification is associated with a pay group. Currently, the Plan covers approximately 125,000 full-time employees in 160 state agencies. State institutions of higher education are exempt from the Plan.

The State Classification Office has recommended that the number of job classifications be reduced from 1,152 to 761. The recommended changes are intended to improve effectiveness and usability of the Plan, address internal and external pay equity dissatisfaction, create more flexibility for Plan users, and reconcile some of the differing needs of large and small agencies.

Additional Audit Issues Related To Public Retirement Systems

"The Pension Review Board does not have an effective process for identifying all public retirement systems which are required to register with it. The Board currently tracks 292 active systems, but it is probable that there are additional public retirement systems in Texas that are not registered. For example, in 1993, as a result of an inquiry from a plan administrator, the Board discovered and registered 62 appraisal district retirement systems. All but six of these systems were created before 1990 (21 were created in 1981)." (October 1994)

"The Pension Review Board is four years behind in performing comprehensive reviews of public retirement systems. As of the beginning of the year, out of 166 advance-funded retirement systems, 134 have not received comprehensive reviews since 1989." (October 1994)

A 1993 survey indicated that Classification Plan users were unsure about the effectiveness or usability of the Plan. A May 1993 report based on the survey indicated that users of the Plan do not know whether jobs are classified consistently across organizations or whether actual job duties, assignments, and responsibilities truly matched their classification.

During fiscal years 1993 and 1994, classification analysts also conducted audits at 32 state agencies which employed 40,000 full-time equivalent employees. These audits helped to ensure that the agencies classify their employees in accordance with the State Classification Plan.

Summary Of Work On Employee Benefits, Retirement Systems, And Workforce Issues

Additional Audit Issues Related To The Teacher Retirement System

"The System has provided excellent services to members on an individual basis and has consistently met and usually exceeded the performance standards set by its peers in investments. However, with ample resources to draw upon, the System has not been pressed to manage its operations for maximum efficiency and has not fully developed the managerial tools necessary to do so." (December 1992)

"The component unit financial statements of the Teacher Retirement System of Texas are materially correct and comply with generally accepted accounting principles. The System's total assets of \$29.3 billion at August 31, 1993, rank first among component units of the State of Texas." (March 1994)

"\$57.6 million in loans made to the System's real estate subsidiary corporations are not recorded in the System's financial records. When loan transactions are not recorded, the System cannot accurately anticipate interest and principal payments. As of August 31, 1993, unpaid interest totaled \$5,310,000." The combined book value of real estate assets -- existing mortgage loans plus real estate held in subsidiary corporations -- was \$1,747,170,175. The market value of these assets is \$1,787,726,909. (March 1994)

Section 3:

Funding Status And Financial Reporting Of State Retirement Systems Receive Outside Evaluations

The financial reports of the Teacher Retirement System and Employees Retirement System are audited by our auditors. For fiscal year 1993, our auditors concluded that the financial statements presented the financial position of the systems fairly, in all material respects.

The funding status of the Teacher Retirement System and the Employees Retirement System were also evaluated by independent actuaries retained by the Systems. Actuaries use historical information about pension assets, revenues, and expenditures together with certain assumptions about long-term trends (including payroll growth, mortality, and rates of return on investments) to project long-term cash payouts related to pension benefit

obligations. They also assess the extent to which pension system assets, expected investment earnings, and employer and employee contributions are sufficient to fund the projected obligations.

In their August 31, 1993, valuations, the actuaries for both Systems concluded that if contributions continued at a normal rate they would be sufficient to cover normal costs and to amortize unfunded actuarial accrued liabilities, if any, within guidelines set by state law. (State law sets 31 years as the time frame for amortization.)

The actuarial valuation of the Teacher Retirement System projected assets of \$55.7 billion, covering 715,000 active members and retirees or beneficiaries, and liabilities of \$59.2 billion. The actuaries concluded that the \$3.4 billion difference (an "unfunded accrued actuarial liability") would be amortized over a period of 25.1 years. In other words, if member and state contributions continued at a rate of 13.71 percent, the System's assets and future revenues would be sufficient to fund the \$3.4 billion over a period of 25.1 years.

Summary Of Work On Employee Benefits, Retirement Systems, And Workforce Issues

Additional Audit Issues Related To Employees Retirement System

"We found that incorrect member information was sent to the actuary, resulting in a \$123 million overstatement of combined pension liability for all plans. Correction of this error required revisions to the original actuarial report." (April 1994)

"The System has not earned an estimated \$453,000 in interest on uncollected revenues since September 1, 1993, because of its inability to properly determine and collect all fiscal year 1993 insurance contributions." (April 1994)

The System's Board of Trustees adopted actuarial assumption changes in June 1994. As a result, the 1993 unfunded actuarial accrued liability decreased to \$1.75 billion and the funding period decreased to 5.2 years.

The actuarial valuation of the Employees Retirement System projected assets of \$13.5 billion, covering 187,000 active members and retirees or beneficiaries, and liabilities of \$13.2 billion. The \$302 million difference ("overfunded") will be used to cover the difference between normal cost and contributions in the future.

Section 4:

Some Agencies And Universities Have Opportunities To Improve Human Resource Policies, Procedures, and Processes

Auditors identified opportunities for several agencies and universities to improve human resource management by constructing more effective systems of policies, procedures, and processes. While our auditors did not identify significant control weaknesses for human resources at any individual agency, recommendations to improve human resource management were among the key issues raised at:

- Commerce, Department of
- Law Enforcement Office Standards and Education, Texas Commission On
- Protective and Regulatory Service, Department of
- Teacher Retirement System
- Texas State Technical College
- University of Texas System Administration
- University of Texas at Austin

Summary Of Work On Public Safety And Corrections

The rising pricetag of criminal justice programs makes controlling costs and ensuring that public safety and corrections agencies can carry out their missions increasingly important. The State spent more than \$2 billion on criminal justice functions in fiscal year 1993. General Fund expenditures for public safety and corrections rose by nearly 129 percent (from \$680 million to \$1.5 billion) during the six-year period from fiscal year 1988 to 1993.

There are indications that public safety and corrections programs will continue to make substantial claims on future state budgets:

- In May 1993, our auditors estimated that adding the operation of 42 new prisons to the State's budget would require an additional \$712 million each year to provide for prison operations plus health and education programs. That will amount to an additional 34.6 percent increase over current public safety spending, based on fiscal year 1993 expenditures.
- The services provided to criminals may not help to control the rate of growth of the system. Performance information suggests that parole, probation, and juvenile justice programs do not prevent offenders from recommitting crimes.

Section 1:

Management Controls Are Evolving At The Texas Department of Criminal Justice

The Department's management has shown progress in consolidating three criminal justice agencies into one large agency, consolidating some support activities, resolving the *Ruiz v. Collins* (formerly *Ruiz v. Estelle*) lawsuit, and developing critical information systems.

Agency	During Fiscal Years 1993 And 1994, Our Auditors Examined...
Criminal Justice, Texas Department of	<ul style="list-style-type: none"> • Control of construction cost and completion • Effectiveness of community corrections programs as administered by Community Justice Assistance Division • Management controls • Cost savings and other improvements in Health Services Division delivery of medical services • Accuracy of significant financial and bond information
Safety, Department of Public	<ul style="list-style-type: none"> • Federal compliance
Youth Commission, Texas	<ul style="list-style-type: none"> • Current issues facing juvenile justice system

More needs to be done to consolidate support activities within the Institutional Division, improve information management, expand employee training, improve the system for support services to the prison units, and improve the measurement of program success. The actions will provide cost savings and increase the effectiveness of operations.

In fiscal year 1993, the Texas Department of Criminal Justice's \$1.7 billion in expenditures accounted for just over three-quarters of state government's total criminal justice expenditures. The Department's

Summary Of Work On Public Safety And Corrections

26,800 full-time equivalent employees accounted for just over three-quarters of state government's criminal justice workforce and almost 11 percent of all state employees.

Section 2:

Management At The Department of Criminal Justice Made Progress On Cost Savings Opportunities Identified By Auditors

Auditors identified several opportunities for the Department to reduce some of the costs associated with health services provided to inmates, including delays in releasing parolees with special needs under the regular parole program which may have cost the State over \$1 million a year in medical costs alone since departmental consolidation in 1990. When auditors brought the inefficiencies to management's attention, corrective actions were initiated or planned.

Additional Audit Issues Related To The Texas Department of Criminal Justice

"The construction schedules of ten prison projects we reviewed, totaling 19,750 beds, all exceeded the planned completion dates by 12 to 47 percent of the original schedules. These projects were regular prisons and transfer facilities, started in 1990 through 1993, and did not include any of the emergency bed additions to existing prison facilities approved in January 1994." (August 1994)

"The Department generally used preset schedule durations for each type of prison facility. This method of schedule preparation does not factor in geographic conditions specific to each project, such as soil conditions and rain frequency. Only one of the projects added time to the preset schedule durations for special site conditions." (April 1994)

"Even under ideal conditions, the schedules are of short duration for the amount of work necessary to complete a project. When schedules do not allow for contingencies, project costs may increase because contractors tend to add to their bids to cover liquidated damages when they think schedules are unattainable." (April 1994)

Auditors did not find any significant amounts that could be cut from construction costs, although they did find areas where the State can continue to squeeze the cost of building prisons. Research indicated that the average cost of prison construction in Texas was significantly less than the national average for prisons opened in 1990. The opportunities to reduce the cost of building prisons included discontinuing bonding requirements for subcontractors. This could save a potential \$3 million.

A follow-up audit indicated that, although progress had been made on previous recommendations, there were still weaknesses in the negotiated and competitive bid contract procedures. The Department had implemented Alternative Disputes Resolution measures in all of its contracts for construction. Management also indicated that they had implemented or concurred with most of the outstanding recommendations.

Summary Of Work On Public Safety And Corrections

Auditors Evaluated Construction Management Of Golden Triangle State School Construction

Staff from the State Auditor's Office worked for the Joint Interim Committee On The Family Code to evaluate whether the Texas Youth Commission had effectively managed construction of the Golden Triangle State School.

The report for the Committee concluded that:

"Commission staff did not adequately or accurately consider alternatives to awarding the Golden Triangle State School construction contract and did not fully and publicly inform the Board of the project's status. As a result, the 144 bed institution that the Legislature approved and funded cannot be completed without an additional appropriation of approximately \$10 million. Moreover, the 48 bed facility under construction does not currently include a vocational education center or any athletic fields for youth." (August 1994)

Section 3:

Probation, Parole, And Juvenile Justice Services May Not Minimize The Growth Rate Of The Criminal Population

The Office released three reports that evaluated the effectiveness of criminal justice programs. Generally, the reports indicate that the programs did not prevent offenders from recommitting crimes:

- **Probation --** The State Auditor's Office capitalized on available data to evaluate special probation programs that oversee approximately 28,000 felony probationers. The auditors found that 70 percent of the criminals put in special probation programs in 1985 were rearrested by 1991.
- **Parole --** Out of 100 offenders placed on parole, almost half of them will be back in prison after three years.
- **Juvenile Justice --** Often, the juvenile justice system was not succeeding in rehabilitating young offenders or protecting communities from juvenile crime and violence. Despite efforts to coordinate services, the juvenile justice system operated as a collection of independent entities, each with its own governing body, strategic plan, operating objectives, funding priorities, and performance measures. Many juvenile offenders were not receiving the services they needed:
 - 48 percent of Texas counties with increasing gang activity had no programs for gang members.
 - 35 percent of counties with increasing numbers of juvenile sex offenders did not have services available to rehabilitate these youth.
 - 48 percent of counties did not have programs for serious repeat offenders.

Summary Of Work At Natural Resource And Related Agencies

Our audit work at the State's natural resource and related agencies suggests that these agencies may not be fully equipped to maximize the use of resources because they sometimes lack important information needed about the scope of problems they face. And, the State faces serious and expensive environmental challenges. The substantial costs associated with environmental problems can be seen in the following examples:

- Water Commission staff estimated that remedial action to clean up an estimated 50,000 tanks may eventually cost the Petroleum Storage Tank Program as much as \$2.5 billion.
- The Railroad Commission has estimated that the State will have to plug over 35,000 oil wells over the next 20 to 30 years, at a cost of over \$150 million.
- The Texas Municipal League estimated that infrastructure repair and maintenance as well as compliance with new and existing water quality, public health, and environmental regulations could amount to a cumulative \$30 billion by the end of the decade.

Section 1:

Potential Lack Of Information About Scope Of Environmental Problems Is A Concern

The State's environmental agencies may not be fully equipped to maximize the use of resources because they sometimes lack important information about the scope of environmental problems they face. The lack of information to fully assess the extent of problems or the cost associated with the problems can be seen in the following examples:

Agency	During Fiscal Years 1993 And 1994, Our Auditors Examined . . .
Land Office and Veterans Land Board, General	<ul style="list-style-type: none"> • Bond compliance • Accuracy of significant financial information • Employee classification
Natural Resource Conservation Commission	<ul style="list-style-type: none"> • Issue concerning the Petroleum Storage Tank program • Federal compliance
Railroad Commission	<ul style="list-style-type: none"> • Effectiveness of Oil Field Cleanup Program • Federal compliance
Parks and Wildlife, Department of	<ul style="list-style-type: none"> • Bond-related disclosures
Water Development Board	<ul style="list-style-type: none"> • Bond compliance • Accuracy of significant financial information • Federal compliance • Effectiveness of Colonias water and wastewater programs

- **Petroleum Storage Tank Program at the Texas Natural Resource Conservation Commission**

The Petroleum Storage Tank Program faced \$134 million in unpaid claims. This total was likely to increase significantly, since it did not include unestimated millions for claims received on approved and completed clean up actions.

- **Economically Distressed Areas (Colonias) Program at the Water Development Board**

Summary Of Work At Natural Resource And Related Agencies

The Water Development Board's Economically Distressed Areas Program projects, which were either approved or in the planning stage, will serve more than 113,000 colonias residents at a cost of \$169 million. At the time, the Board was unable to estimate how many of the 167,000 remaining residents would be left without adequate services.

- **Oil Field Cleanup Program at the Railroad Commission**

The Commission estimated that the State would have to plug 35,000 wells over the next 20 to 30 years, at a cost of over \$150 million, although about half of these wells had not been specifically identified. Our auditors were unable to audit the estimate because of lack of supporting documentation.

Objective And Scope

Objective

The objectives of the Biennial Report, as specified in Government Code, section 321.015, are to:

- Evaluate the effectiveness of audits performed by the executive branch, including:
 - revenue audits
 - audits of subcontractors and subgrantees
 - internal audits of departments
- Report on fiscal accountability in the State, including:
 - each department's responsibility for establishing and maintaining internal controls
 - status of accounting systems in the State
- Summarize the audit work of the State Auditor for the two previous years

Scope

We considered each of the 280 reports released by the Office during fiscal years 1993 and 1994. We also selected relevant reports released during the first four months of fiscal year 1995. Our work focused on identifying trends in reports with information on significant agencies, issues, or controls.

Because audited financial information is not yet available for fiscal year 1994, this report relies primarily on fiscal year 1993 data for most calculations.

For the purposes of this report, we calculated total state spending using information in the State's comprehensive annual financial reports. We included all governmental fund groups, proprietary and trust funds, and college and university funds. Thus, for fiscal year 1993, total state spending amounted to \$40.73 billion.

Other Information

The work on this report was conducted between June and December 1994. The work was performed by the following members of the State Auditor's staff:

- Brad Puett (Project Manager)
- Shannon Bieberdorf, Ph.D. (Manager)
- Deborah Kerr, Ph.D. (Director)

Profile Of State Auditor's Office

The Texas State Auditor's Office (SAO), part of the legislative branch of state government, provides government leaders and citizens with independent, objective assessments and analyses concerning the accountability of state agencies and universities.

The State Auditor's Office works under the general guidance of, and is responsible to, the Legislative Audit Committee, a permanent joint committee of the State Legislature. Members of the Committee serve by virtue of their elective or appointive positions and include:

- Lieutenant Governor
- Speaker of the House
- Chair, Senate Finance Committee
- Chair, Senate State Affairs Committee
- Chair, House Appropriations Committee
- Chair, House Ways and Means Committee

Section 1:

Credentials Of SAO Staff

To fulfill its responsibilities, the State Auditor's Office employs professionals from the fields of accounting, computer science, human resources, banking, business administration, economics, law, public administration, and the social sciences. Budgeted for 280 people, the Office has audit responsibility for more than 250 state agencies and universities.

The State Auditor's Office auditors have an average of over six years' experience with the Office. This experience is accompanied by academic and professional credentials (86 graduate degrees in 27 areas of specialization and 157 professional certifications in 8 areas) and a high level of dedication to public service.

High quality in-house training helps keep the staff current with the latest developments in auditing. For example, in 1993 staff had several opportunities to interact with nationally recognized leaders in performance measurement. Members of the State Auditor's Office are further developing their expertise by working with federal officials and other states to help determine how performance measures can be used more broadly and routinely in government.

Profile Of State Auditor's Office

Section 2:

Strengths The SAO Brings To The Work

The State Auditor's Office has developed approaches and systems that provide the focus, direction, and flexibility to meet demands that are continually increasing and becoming more complex. Because of these approaches and systems, the Office has been able to reduce staff while taking on additional work. These approaches include:

- **SAO Accountability Enhancement Model** -- The Office has developed a large body of audit methodology based on this model, which has generated much interest from the audit community within Texas and outside the State. These tools help auditors adopt a more comprehensive, efficient approach to audit work.
- **Solution-focused auditing** -- This approach concentrates audit work on identifying the root causes of a problem rather than listing symptoms of the problem in findings. The State Auditor's Office audit work is complete when auditors have worked with clients to help them determine approaches to solve problems.
- **Continuous planning** -- This process focuses on assessment of risk rather than cyclical coverage and allows the Office to direct its resources on the highest-priority state needs.
- **Performance Development Review** -- This system evaluates the work of auditors according to specific performance standards for their jobs.
- **Team-based project management** -- This approach to work provides the flexibility to meet customer needs as they increase or change.
- **Wealth of in-house information about accountability systems** -- The Office uses this information to build data bases to identify early warning indicators of potential crises in agency management. For example, auditors developed a Higher Education Data Base which uses agency financial data and numerous ratios to assess the degree of risks associated with various aspects of university operations and management.

Section 3:

Improvements Under Development

The Office is developing approaches to use statewide information systems and data analysis to do continuous process auditing. Other improvements under development include:

- **Development and use of systematic measures to determine ongoing status of key accountability systems**

Profile Of State Auditor's Office

- Development of a methodology to assess the efficiency and effectiveness of the systems being audited
- Integration of controls methodology with other audit methodologies to ensure that all audits are risk-driven rather than process-driven and to make information sharing among projects more efficient
- Development of the State Auditor's Office training on analysis of systems and processes, "best management" philosophies, and strategies
- Using the human resource specialists in our Classification Office in other types of audit projects to enhance understanding and assessment of human resource management issues and controls
- Turning results of performance measure certification work into trends and other kinds of reporting to better serve users
- Integrating performance measurement certification with other audit work to improve efficiency
- Re-engineering the management information system so that it is more performance and results-oriented

List Of State Auditor Reports Published During Fiscal Years 1993 And 1994

The following pages contain a list of reports released by the State Auditor's Office during fiscal years 1993 and 1994. It also includes certain reports released during the first four months of fiscal year 1995.

Reports are listed by agency or by issue area. The list is divided into two sections:

- Section 1: List of reports which contain information that affects a specific agency. Reports are listed under the agency name.
- Section 2: List of reports which affect multiple agencies or deal with statewide issues. Reports are listed by key word.

The references contain information about the report number, type of report, and release date. The Office releases several types of reports, including:

- Accreditation - Reports on reviews of university financial statements for accreditation by the Southern Association Of Colleges and Universities
- Briefing - General information reports on subjects of interest to the Legislature. Frequently done by request.
- Classification - Reports on the State's workforce and compliance with the Position Classification Act
- Correspondence letters - Reports on significant financial information, federal compliance, and bond compliance which result in no recommendations to management
- Management controls - Reports on reviews to determine if entities have policies and procedures to achieve desired results at the lowest possible cost
- Management letters - Reports on significant financial information, federal compliance, and bond compliance which result in recommendations to management
- Opinion - Reports on evaluations of entities' financial statements
- Performance - Reports on reviews of entities to determine if they are economical, efficient, or effective
- Special - Reports which do not fall into other categories
- Statutory - Reports specifically required by statute

Section 1:

Reports By Agency

The following list contains information on reports released by the State Auditor's Office during fiscal years 1993 and 1994 as well as certain reports from the first four months of

List Of State Auditor Reports Published During Fiscal Years 1993 And 1994

fiscal year 1995. The reports are indexed to agency names. In other words, agency names are listed and are followed by references to reports which contain substantial information on that agency.

Administrative Hearings, State Office of

95-020 Management Controls (October 1994)

Aging, Texas Department on

93-086 Management Letter (March 1993)

94-079 Management Letter (March 1994)

Agriculture, Department of

93-013 Special - Competitive Cost Review Program (October 1992)

93-028 Opinion Audit - Agricultural Finance Authority (December 1992)

93-029 Correspondence Letter - Agricultural Finance Authority (December 1992)

93-060 Correspondence Letter (February 1993)

93-096 Correspondence Letter - Agricultural Finance Authority (March 1993)

93-148 Classification (July 1993)

94-016 Statutory - Agricultural Finance Authority (January 1994)

Aircraft Pooling Board

95-020 Management controls (October 1994)

93-122 Classification (April 1993)

Alcohol and Drug Abuse, Commission on

93-067 Management Letter (March 1993)

93-154 Classification (August 1993)

94-001 Management controls (September 1993)

94-024 Management Letter (January 1994)

Alcoholic Beverage Commission

95-012 Statutory - Permitting process (October 1994)

Armory Board, National Guard

93-051 Correspondence letter (February 1993)

94-056 Management letter (February 1994)

Attorney General

93-007 Performance - centralizing legal services (October 1992)

93-008 Performance - Child Support Enforcement Program (October 1992)

93-090 Management letter (March 1993)

93-142 Statutory - Review of judgements (July 1993)

93-158 Classification (August 1993)

94-074 Management letter (March 1994)

Banking, State Department of

93-121 Classification (April 1993)

95-020 Management controls (October 1994)

Barber Examiners, Board of

94-017 Management controls (January 1994)

Blind and Visually Impaired, School for the

93-014 Follow-up (November 1992)

Blind, Commission for the

93-074 Management Letter (March 1993)

94-019 Management Letter (January 1994)

Bond Review Board

93-026 Briefing - Texas' debt management (December 1992)

Chiropractic Examiners, Board of

94-017 Management controls (January 1993)

Commerce, Department of

93-080 Management letter (March 1993)

93-109 Briefing - Summary of JTPA audits (April 1993)

93-157 Special - Rural Economic Development Loan program (August 1993)

94-080 Management letter (March 1994)

94-082 Performance - JOBS program (March 1994)

Appendix 3:

List Of State Auditor Reports Published During Fiscal Years 1993 And 1994

- 94-114 Performance - Texas' economic development programs (April 1994)
- 94-130 Statutory - Rural Economic Development Loan program (July 1994)
- 95-005 Performance - Enterprise Zone program (October 1994)
- 95-012 Statutory - Selected permitting processes (October 1994)
- 95-013 Management controls (October 1994)

Comptroller of Public Accounts

- 93-003 Follow-up (September 1992)
- 93-015 Statutory - Revenue management process (November 1992)
- 93-097 Management letter (March 1993)
- 94-088 Management letter (March 1994)

Consumer Credit Commission, Office of

- 93-120 Classification (April 1993)
- 94-025 Performance (January 1994)

Cosmetology Commission, Texas

- 94-017 Management controls (January 1994)

Credit Union Department

- 95-020 Management controls (October 1994)

Criminal Justice, Department Of

- 93-033 Performance - Prison construction (January 1993)
- 93-071 Correspondence letter (March 1993)
- 93-124 Management controls (May 1993)
- 93-142 Follow up - Prison construction (August 1994)
- 94-005 Performance - Health Services Division (September 1993)
- 94-089 Management letter (March 1994)

Deaf and Hearing Impaired, Commission for the

- 93-034 Investigation (January 1993)

Dental Examiners, Board of

- 94-017 Management controls (January 1994)

East Texas State University

- 93-046 Correspondence letter (February 1993)
- 93-110 Accreditation (April 1993)
- 94-030 Management letter (February 1994)

Education Agency, Texas

- 93-010 Management controls (November 1992)
- 93-011 Management controls (November 1992)
- 93-014 Audit follow-up (November 1992)
- 93-093 Management letter (March 1993)
- 93-117 Management controls (June 1993)
- 93-141 Classification (March 1993)
- 94-061 Management letter (March 1994)
- 94-082 Performance - JOBS program (March 1994)
- 94-120 Special - Savings Profile System (June 1994)

Employees Retirement System

- 93-042 Performance - Retirement benefit controls (February 1993)
- 93-105 Opinion (March 1993)
- 94-108 Management letter (April 1994)
- 94-110 Opinion (April 1994)

Employment Commission, Texas

- 93-070 Correspondence Letter (March 1993)
- 94-027 Management Letter (February 1994)
- 94-082 Performance Audit - JOBS Program (March 1994)
- 95-011 Statutory - Revenue Audit (September 1994)

Engineers, Board of Registration for Professional

- 93-130 Classification (June 1993)

Ethics Commission, Texas

- 94-121 Classification (June 1994)
- 95-020 Management controls (November 1994)

Finance Authority, Texas Public

- 93-026 Briefing - Statewide debt management (December 1992)
- 93-043 Management letter (February 1993)
- 94-059 Management letter (February 1994)

Fire Protection, Commission on

- 94-125 Classification (June 1994)

Fire Fighters' Pension Commission

- 93-069 Management letter (February 1993)
- 93-123 Opinion (April 1993)
- 94-052 Statutory (March 1994)
- 95-020 Management controls (October 1994)

List Of State Auditor Reports Published During Fiscal Years 1993 And 1994

General Services Commission

- 93-033 Performance - Prison construction (January 1993)
- 94-076 Management letter (March 1994)

Governor, Office of the

- 93-099 Management letter (March 1993)
- 94-023 Management letter (February 1994)

Health, Department of

- 93-005 Follow-up Letter (September 1992)
- 93-012 Performance Audit - Preventable Disease Program (October 1992)
- 93-022 Briefing Report - Drug-Exposed Infants (December 1992)
- 93-065 Correspondence Letter (March 1993)
- 94-020 Classification (January 1994)
- 94-081 Management Letter (March 1994)
- 94-143 Performance Audit -- Medicaid Vendor Drug Rebate Program (August 1994)
- 94-147 Classification (September 1994)

Health and Human Services Commission

- 93-112 Performance - Implementing House Bill 7 (April 1993)
- 94-009 Performance - Juvenile justice (November 1993)

Higher Education Coordinating Board

- 93-075 Management letter (March 1993)
- 94-050 Management letter (February 1994)
- 94-104 Statutory - Junior college enrollment (April 1994)
- 94-117 Performance - Faculty workload (May 1994)
- 94-138 Management controls (August 1994)

House of Representatives

- 93-137 Briefing - Business Office (July 1993)
- 94-004 Briefing - House Research Organization (September 1993)

Housing and Community Affairs, Department of

- 93-095 Management letter (March 1993)
- 94-092 Management letter (March 1994)

Human Services, Department of

- 93-002 Audit follow-up (September 1992)
- 93-038 Performance - Developing automated systems (February 1993)

- 93-078 Management letter (March 1993)
- 93-153 Classification (August 1993)
- 94-002 Classification (September 1993)
- 94-014 Management controls (December 1993)
- 94-015 Performance - Nursing home regulation (December 1993)
- 94-072 Management letter (March 1994)
- 94-082 Performance - JOBS program (March 1994)
- 94-149 Classification (August 1994)

Incentive and Productivity Commission

- 93-050 Classification (February 1993)
- 95-020 Management controls (October 1994)

Information Resources, Department of

- 93-038 Performance - Developing automated systems (February 1993)

Insurance, Department of

- 93-019 Statutory - Revenue audit (November 1992)
- 93-036 Performance - Management information system (January 1993)
- 93-091 Management letter (March 1993)
- 93-100 Correspondence letter (March 1993)
- 93-116 Performance - Solvency regulation (April 1993)
- 94-045 Management letter (February 1994)
- 94-097 Performance - Receivership process (March 1994)

Investigators and Private Security Agencies, Board of Private

- 93-045 Classification (February 1993)

Lamar University

- 93-073 Management controls (March 1993)
- 93-087 Management letter (March 1993)
- 94-071 Management letter (March 1994)
- 94-099 Follow-up (April 1994)

Land Office and Veterans' Land Board, General

- 93-061 Correspondence letter (February 1993)
- 93-081 Briefing - Water resource management (March 1993)
- 94-093 Management letter (March 1994)

List Of State Auditor Reports Published During Fiscal Years 1993 And 1994

94-129 Classification (August 1994)
95-014 Special - Royalty audit (October 1994)

Law Enforcement Officers Standards and Education, Commission on

93-136 Classification (July 1993)
95-002 Management controls (July 1994)

Licensing and Regulation, Department of

95-020 Management controls (October 1994)

Medical Examiners, Board of

94-017 Management controls (January 1994)

Mental Health and Mental Retardation, Department of

93-047 Correspondence letter (February 1993)
94-031 Management letter (February 1994)

Midwestern State University

93-059 Correspondence letter (February 1993)
94-029 Management letter (February 1994)
94-095 Management controls (March 1994)
94-096 Management controls (March 1994)

National Research Laboratory Commission

93-079 Management letter (March 1993)
94-068 Management letter (February 1994)

Natural Resource Conservation Commission

93-030 Follow-up (January 1993)
93-081 Briefing - Water resource management
(March 1993)
93-082 Management letter (March 1993)
93-152 Special - Petroleum Storage Tank letter
(August 1993)
94-028 Management letter (February 1994)
94-077 Management letter (March 1994)
95-012 Statutory - Permitting processes (October
1994)

Nurse Examiners, Board of Vocational

94-017 Management controls (January 1994)

Nurse Examiners, Board of

94-017 Management controls (January 1994)

Nursing Home Administrators, Board of Licensure for

93-031 Classification (January 1993)

Optometry Board, Texas

93-139 Classification (December 1992)
94-017 Management controls (January 1994)

Parks and Wildlife Department

93-057 Correspondence letter (February 1993)
93-081 Briefing - Water resource management
(March 1993)
94-066 Management letter (March 1994)
94-126 Classification (June 1994)

Pension Review Board, State

95-020 Management controls (October 1994)

Pest Control Board, Structural

93-151 Classification (August 1993)

Pharmacy, Board of

94-017 Management controls (January 1994)

Preservation Board

93-035 Classification (January 1993)
94-135 Management controls (June 1994)

Probation Commission, Juvenile

94-009 Performance - Juvenile justice system
(November 1993)

Protective and Regulatory Services, Department of

93-112 Performance - Implementing House Bill 7
(April 1993)
94-094 Management letter (March 1994)
94-148 Classification (September 1994)
95-003 Management controls (September 1994)

Psychologists, Board of Examiners of

94-007 Classification (October 1993)
94-017 Management controls (January 1994)

List Of State Auditor Reports Published During Fiscal Years 1993 And 1994

Public Community/Junior Colleges

94-104 Statutory - Enrollment audit (April 1994)

Radioactive Waste Disposal Authority, Low-Level

93-131 Classification (June 1993)

95-020 Management controls (October 1994)

Railroad Commission

93-113 Performance - Oil field cleanup program
(April 1993)

94-060 Management letter (February 1994)

95-012 Statutory - Permitting processes (October
1994)

Real Estate Commission, Texas

93-156 Classification (August 1993)

Rehabilitation Commission

93-058 Management letter (February 1993)

93-140 Classification (February 1993)

94-018 Management letter (January 1994)

Safety, Department of Public

93-072 Management letter (March 1993)

94-054 Management letter (February 1994)

95-017 Briefing - Information review (October
1994)

Savings and Loan Department

93-041 Classification (February 1993)

95-020 Management controls (October 1994)

Sex Offender Treatment, Interagency Council on

95-020 Management controls (October 1994)

Soil and Water Conservation Board

93-129 Classification (June 1993)

Stephen F. Austin State University

93-053 Correspondence letter (February 1993)

93-127 Management controls (June 1993)

94-043 Management letter (March 1994)

Supreme Court of Texas

94-109 Classification (April 1994)

Teacher Retirement System

93-025 Management controls (December 1992)

93-042 Performance - Retirement benefit controls
(February 1993)

93-106 Management letter (March 1993)

93-107 Opinion (March 1993)

94-091 Financial related audit (March 1994)

94-113 Opinion (March 1994)

Texas A&M University System

93-098 Management letter - Seven Parts (March
1993)

94-039 Management letter - Kingsville (March
1994)

94-040 Management letter - A&M Main (March
1994)

94-041 Management letter - System
Administration (March 1994)

94-044 Management letter - West Texas A&M
(March 1994)

94-051 Management letter - system (March 1994)

94-053 Special - Accreditation at A&M
International (March 1994)

94-098 Accreditation - A&M Kingsville (April
1994)

94-115 Management controls - A&M Kingsville
(May 1994)

94-117 Performance - Faculty workload policies
(A&M Main) (May 1994)

94-139 Management controls - A&M Main
Department of Food Services (August
1994)

94-140 Management controls - Financial
statements of A&M Main Department of
Food Services (August 1994)

Texas State Technical College

93-055 Correspondence letter (February 1993)

93-114 Accreditation - Waco (April 1993)

94-010 Management controls (November 1993)

94-065 Management letter (February 1994)

94-112 Accreditation - Sweetwater (April 1994)

Texas State University System

93-085 Management letter (March 1993)

94-058 Management letter - Angelo State (March
1994)

94-064 Management letter - Sul Ross State
(February 1994)

94-069 Management letter - system (February
1994)

List Of State Auditor Reports Published During Fiscal Years 1993 And 1994

- 94-073 Management letter (February 1994)
- 94-084 Management letter - Sam Houston State (March 1994)

Texas Southern University

- 93-092 Management letter (March 1993)
- 93-155 Investigation - Band (August 1993)
- 94-046 Management letter (March 1994)
- 94-145 Management controls (August 1994)

Texas Tech University and Texas Tech University Health Sciences Center

- 93-049 Correspondence letter (February 1993)
- 94-005 Performance - TDCJ Health services (September 1993)
- 94-026 Management letter (February 1994)
- 94-075 Management letter (March 1994)
- 94-086 Accreditation (March 1994)
- 94-087 Accreditation (March 1994)
- 94-117 Performance - Faculty workload policies (May 1994)

Texas Woman's University

- 93-016 Accreditation (November 1992)
- 93-089 Management letter (March 1993)
- 93-147 Investigation - Houston housing office (July 1993)
- 94-062 Management letter (March 1994)

Transportation, Department of

- 93-064 Management letter (March 1993)
- 94-078 Management letter (March 1994)
- 95-021 Management controls (November 1994)

Treasury Department

- 93-001 Statutory - Revenue audit function (September 1992)
- 93-068 Management letter (March 1993)
- 94-032 Management letter (February 1994)

University of Houston

- 93-094 Management letter (March 1993)
- 93-083 Accreditation - Victoria (March 1993)
- 93-094 Management letter - Clear Lake (March 1993)
- 94-057 Management letter (March 1994)
- 94-117 Performance - Faculty workload policies (May 1994)
- 95-015 Management controls (October 1994)

University of North Texas and University of North Texas Health Science Center

- 93-052 Correspondence letter (February 1993)
- 93-056 Correspondence letter - Health Science Center (February 1993)
- 94-067 Management letter - Health Science Center (February 1994)
- 94-070 Management letter (February 1994)
- 94-132 Accreditation (July 1994)

University of Texas System

- 93-027 Management controls - System Administration (February 1993)
- 93-040 Management controls - UT-Austin (February 1993)
- 93-063 Management controls - M.D. Anderson Cancer Center (February 1993)
- 93-076 Management controls - Health Science Center at San Antonio (March 1993)
- 93-084 Management controls - UT Medical Branch at Galveston (May 1993)
- 93-088 Management letter (March 1993)
- 93-143 Management controls - Southwestern Medical Center at Dallas (July 1993)
- 94-005 Performance - TDCJ Health Services, affecting UT Medical Branch at Galveston (September 1993)
- 94-022 Management controls - Health Science Center Houston (January 1994)
- 94-033 Management letter (February 1994)
- 94-034 Management letter - System Administration (February 1994)
- 94-035 Management letter - UT-Austin (February 1994)
- 94-036 Management letter - Health Science Center Houston (February 1994)
- 94-117 Performance - Faculty workload policies (UT-Austin) (May 1994)

Veterans Commission

- 93-135 Classification (July 1993)

Water Development Board

- 93-009 Follow-up (October 1992)
- 93-077 Management letter (March 1993)
- 93-081 Briefing (March 1993)
- 93-150 Performance - Colonias (November 1993)
- 94-028 Management letter (February 1994)
- 94-083 Management letter (March 1994)

Appendix 3:

List Of State Auditor Reports Published During Fiscal Years 1993 And 1994

Workers' Compensation Commission

93-062 Performance - New legislation (February 1993)

Workers' Compensation Research Center

94-127 Classification (July 1994)

Youth Commission

94-009 Performance - Juvenile justice system (November 1993)

Section 2:

Reports By Issue Area

The following list contains information on reports released by the State Auditor's Office during fiscal years 1993 and 1994 as well as certain reports from the first four months of fiscal year 1995. These reports contain information on multiple agencies or on statewide issues. The reports are indexed to key words. In other words, certain terms are listed and are followed by references to reports which contain information on that topic.

Accounting

- 93-102 Management letter - Statewide financial and compliance audit (April 1993)
- 93-103 Management letter - Statewide financial and compliance audit (April 1993)
- 94-105 Opinion - Statewide financial and compliance audit (April 1994)
- 94-106 Opinion - Statewide financial and compliance audit (April 1994)
- + See also related agencies listed in Section 1 of this appendix.

Automated Information Systems

- 93-038 Performance - Controls over system development (February 1993)
- + See also related agencies listed in Section 1 of this appendix.

Auditing

- 93-017 Statutory - Biennial report of State Auditor (January 1993)
- 93-024 Briefing - Internal auditing (December 1992)
- 94-013 Statutory - Internal auditing (February 1994)

- 95-016 Performance - Implementation of SAO recommendations (October 1994)
- + See also related agencies listed in Section 1 of this appendix.

Bonds

- 93-026 Briefing - Texas' debt management (December 1992)
- 93-102 Management letter - Statewide financial and compliance audit (April 1993)
- 93-103 Management letter - Statewide financial and compliance audit (April 1993)
- 94-105 Opinion - Statewide financial and compliance audit (April 1994)
- 94-106 Opinion - Statewide financial and compliance audit (April 1994)
- + See also related agencies listed in Section 1 of this appendix.

Competitive Cost Program

- 93-013 Special - Guide to implementing Competitive Cost Program (October 1992)

List Of State Auditor Reports Published During Fiscal Years 1993 And 1994

- 94-116 Special - forms and guidelines for Least Cost Review Program (May 1994)
+ See also related agencies listed in Section 1 of this appendix.

Corrections

See "Public Safety."

Criminal Justice

See "Public Safety."

Economic Development

- 94-114 Performance - Planning and coordination among economic development agencies (April 1994)
+ See also related agencies listed in Section 1 of this appendix.

Education, Higher

- 93-039 Statutory - Family Practice Clerkship (February 1993)
94-085 Statutory - Medical service practice plans (March 1994)
94-104 Statutory - Junior college enrollment audit (April 1994)
94-117 Performance - Faculty workload policies (May 1994)
+ See also related agencies listed in Section 1 of this appendix.

Education, Public

- 93-010 Management controls - public schools (November 1992)
93-011 Management controls - public schools (November 1992)
+ See also related agencies listed in Section 1 of this appendix.

Employees

- 93-006 Classification - Biennial report of classification officer (October 1992)
93-020 Classification - Quarterly count of FTEs (November 1992)
93-042 Performance - Retirement benefit controls (February 1993)
93-044 Classification - Quarterly count of FTEs (February 1993)
93-125 Classification - Survey on classification plan and pay administration (May 1993)
93-126 Statutory - Quarterly count of FTEs (May 1993)

- 93-144 Classification - Quarterly count of FTEs (July 1993)

- 93-145 Classification - Three-way tabulation of positions (July 1993)

- 94-008 Statutory - Quarterly count of FTEs (October 1993)

- 94-021 Statutory - Quarterly count of FTEs (January 1994)

- 94-111 Classification - Quarterly count of FTEs (May 1994)

- 94-134 Classification - Quarterly count of FTEs (August 1994)

- 95-010 Statutory - Adjustment to classified salary schedule (September 1994)

- + See also related agencies listed in Section 1 of this appendix.

Federal Funds (compliance)

- 93-102 Management letter - Statewide financial and compliance audit (April 1993)

- 93-103 Management letter - Statewide financial and compliance audit (April 1993)

- 94-105 Opinion - Statewide financial and compliance audit (April 1994)

- 94-106 Opinion - Statewide financial and compliance audit (April 1994)

- + See also related agencies listed in Section 1 of this appendix.

General Government

- 95-020 Management controls - selected small agencies (October 1994)

- + See also related agencies listed in Section 1 of this appendix.

General Fund

- 93-042 Performance - Retirement benefit controls (February 1993)

- 93-138 Briefing - Unemployment and workers' comp reimbursements (July 1993)

- + See also related agencies listed in Section 1 of this appendix.

Health and Human Services

- 93-022 Briefing - Drug-exposed infants (December 1992)

- 93-112 Performance - Implementing House Bill 7 (April 1993)

- 94-015 Performance - Nursing home regulation (December 1993)

Appendix 3:

List Of State Auditor Reports Published During Fiscal Years 1993 And 1994

- 94-082 Performance - JOBS program (March 1994)
+ See also related agencies listed in Section I of this appendix.

Human Resources
See "Employees."

Natural Resources and Recreation

- 93-081 Briefing - Texas' water resource management (March 1993)
+ See also related agencies listed in Section I of this appendix.

Performance Measures

- 94-047 Performance - Performance measure certification (March 1994)
94-048 Performance - Performance measure certification (March 1994)
94-136 Statutory - Performance measure certification (August 1994)
+ See also related agencies listed in Section I of this appendix.

Public Safety

- 94-009 Performance - juvenile justice system (November 1993)
93-037 Performance - Probation (February 1993)
94-118 Special - Methodology for evaluating probation programs (May 1994)
+ See also related agencies listed in Section I of this appendix.

Regulatory, General

- 95-020 Management controls (October 1994)
+ See also related agencies listed in Section I of this appendix.

Regulatory, Public Health Related

- 94-017 Management controls (January 1994)
+ See also related agencies listed in Section I of this appendix.

Transportation

- 93-004 Briefing - Transit authority audit reports (September 1992)
93-023 Special - Dallas Area Rapid Transit (December 1992)
+ See also related agencies listed in Section I of this appendix.

Cost Savings/Cost Reduction Opportunities: Profile Of Recommendations

Although the fiscal impact of many audit recommendations is difficult to assess, the reports reviewed as a part of this project include 31 recommendations which auditors estimate would result in cost savings or cost reduction opportunities. The cumulative value of these 31 recommendations is potentially as much as \$613.7 million. The table below details the recommendations.

The Office also released a report which estimated that the State could improve the efficiency of public education and save over \$640 million annually by 1997 without sacrificing the quality of education (SAO Report No. 93-010, November 1992). The recommendations from this report were summarized in the State Auditor's Biennial Report to the 73rd Legislature (SAO Report No. 93-017, January 1993). The recommendations included establishing funding policies that encourage efficiency, restructuring Texas school districts, improving the management of tax dollars, and implementing cost-savings measures in the districts.

It is possible that the affected entities have already realized the benefits associated with the 31 recommendations detailed below. A review of 10 audit reports issued during 1991 and 1992 found that management had fully implemented 69 percent of our recommendations and was in the process of implementing another 19 percent of our recommendations.

To compile this information on cost savings and cost reductions, we used the following definitions:

- Cost Savings: Expenditures associated with duplicative or inefficient practices
- Cost Reduction Opportunities: Expenditures which may not be fully justified or entirely necessary

No.	Cost Savings Or Cost Reduction Opportunities	SAO Report	Date Issued	Amount Reported	Other Information
1	Schools districts may be able to reduce non-instructional expenditures. Potential savings are based on what a school district would save if it reduced costs per student to the average of 25 similar districts. No correlation was found between non-instructional costs and student performance.	94-120 (page 1)	June 1994	\$360,000,000	One year (1993)

Cost Savings/Cost Reduction Opportunities: Profile Of Recommendations

No.	Cost Savings Or Cost Reduction Opportunities	SAO Report	Date Issued	Amount Reported	Other Information
2	State may incur avoidable interest costs over 30 years by using bonds as a financing source of the Economically Distressed Areas (Colonias) program. (Annualized, the amount computes to an average of \$5.44 million.)	93-150 (page 13)	October 1993	\$172,000,000	30 years (1993-2023, which was the estimated period of the bond issues)
3	School districts purchased their own property insurance, and some were paying too much.	93-117 (page 55)	May 1993	\$25,000,000	Annual
4	School districts had no incentive to consider price when selecting textbooks and other instructional materials.	93-117 (page 56)	May 1993	\$10,000,000	Annual
5	School districts could save \$10 million annually by eliminating their tax collection offices and contracting with county governments to collect taxes.	93-117 (page 58)	May 1993	\$10,000,000	Annual
6	Converting use of two older prisons could reduce costs to Texas Department of Criminal Justice.	93-124 (page 14)	May 1993	\$10,000,000	Per year cost at time of audit
7	Profit factor paid by the Department of Health for the Medicaid Vendor Drug Rebate Program may be too high.	94-143 (page 3)	August 1994	\$8,000,000	Per year cost at time of audit
8	Management controls over the Job Opportunities and Basic Skills (JOBS) program administered by the Department of Human Services were not effective, resulting in the inefficient expenditure of funds.	94-082 (page 3)	March 1994	\$6,600,000	March 1992 to January 1993

Cost Savings/Cost Reduction Opportunities: Profile Of Recommendations

No.	Cost Savings Or Cost Reduction Opportunities	SAO Report	Date Issued	Amount Reported	Other Information
9	Department of Human Services caseworkers lacked efficient technical support. (Costs are associated with lost work time due to slow computer response time.)	94-014 (page 5)	December 1993	\$6,400,000	Annual
10	Bonding requirements for prison construction subcontractors should be discontinued because it duplicates the bonding required by general contractors.	93-033 (page 12)	January 1993	\$3,000,000	Cost savings for projects approved by 72nd Legislature
11	Poor coordination between divisions of the Texas Department of Criminal Justice has delayed the release of inmates with special needs. (Savings from reduced medical costs.)	94-005 (page 7)	September 1993	\$1,000,000	Cost per year since 1990
12	State could be duplicating tuberculosis screenings for county jail inmates transferred to the State's prison system.	94-005 (page 14)	September 1993	\$500,000	Cost per year at time of audit
13	Legislation should be enacted which removes the General Services Commission from prison construction oversight, and the Board should contract with an independent consultant as needed to advise them on construction issues.	93-033 (page 15)	January 1993	\$260,000	Cost for 12 projects
15	Comptroller's field office deposit process could be cheaper and quicker.	93-015 (page 24)	November 1992	\$157,000	Annual
15	Registrar's Office at Texas Southern University used funds inefficiently to purchase computer equipment five years ago that was only used for a few months.	94-145 (page 7)	August 1994	\$115,000	One-time cost

Cost Savings/Cost Reduction Opportunities: Profile Of Recommendations

No.	Cost Savings Or Cost Reduction Opportunities	SAO Report	Date Issued	Amount Reported	Other Information
16	Prescription drugs are being wasted by Department of Criminal Justice's Health Services Division because state pharmacy laws prohibit recycling.	94-005 (page 14)	September 1993	\$100,000	Cost per year at time of audit
17	Purchasing and travel irregularities at the Commission for the Deaf resulted in waste and abuse.	93-034 (page 1)	January 1993	\$80,000	Fiscal years 1992 and 1993)
18	Services were duplicated in Mexico City contracts for the Department of Commerce's foreign office.	95-013 (page 8)	October 1994	\$75,000	Annual
19	Teacher Retirement System personnel did not follow significant procedures designed to reduce the risk of loss in event of bank closings.	93-106 (page 7)	March 1993	\$62,500	Cost at time of audit
20	Coordinating Board's automated student loan system requires staff to spend time manually reconstructing some information.	94-138 (page 9)	August 1994	\$55,000	Cost over previous five years
21	Coordinating Board could convert unused office space to general state use.	94-138 (page 16)	August 1994	\$55,000	Cost per year at time of audit
22	Teacher Retirement System incurred avoidable cost from penalties and interest on delinquent taxes upon foreclosure of real estate.	93-025 (page 7)	December 1992	\$41,000	Cost at time of audit
23	Raise the exemption from court approval on certain transactions of the Liquidation Division of the Texas Department of Insurance from \$1,000 to \$10,000.	94-097 (page 27)	March 1994	\$40,000	Annual

Cost Savings/Cost Reduction Opportunities: Profile Of Recommendations

No.	Cost Savings Or Cost Reduction Opportunities	SAO Report	Date Issued	Amount Reported	Other Information
24	Department of Commerce's information system development lacked sufficient planning and priority setting, contributing to planning systems that were never implemented or were underutilized.	95-013 (page 11)	October 1994	\$36,000	One-time
25	Coordinating Board could reduce data entry by using Treasury lock-box system.	94-138 (page 11)	August 1994	\$35,000	Annual
26	Subcontractor refund to Texas Department of Insurance involving business relationship between deputy receiver and subcontractor.	94-097 (page 14)	March 1994	\$30,000	One-time
27	Coordinating Board could reduce costs if 15 percent of student loan payments were converted to Electronic Benefits Transfer.	94-138 (page 10)	August 1994	\$25,000	Cost per year, based on expenditure at time of audit
28	Weaknesses in internal controls over cash contributed to a loss of housing funds at Texas Woman's University Houston Housing Office.	93-147 (page 2)	July 1993	\$22,000	Between 1990 and June 1992
29	Department of Criminal Justice's Health Services Division subcontractors would save money by using the laboratories with the most competitive prices.	94-005 (page 9)	September 1993	\$19,000	Annual
30	Department of Criminal Justice's Health Services Division could process certain HIV tests at Central Regional Medical Facility in Huntsville.	94-005 (page 6)	September 1993	\$10,000	Processing cost per year at time of audit

Appendix 4.1:

Cost Savings/Cost Reduction Opportunities: Profile Of Recommendations

No.	Cost Savings Or Cost Reduction Opportunities	SAO Report	Date Issued	Amount Reported	Other Information
31	University police at Stephen F. Austin State University use an elaborate phone system.	93-127 (page 4)	June 1993	\$10,000	Cost per year at time of audit
TOTAL				\$613,727,500	

Revenue Enhancements/Lost Revenue: Profile Of Recommendations

Although the fiscal impact of many audit recommendations is difficult to assess, the reports reviewed as a part of this project include 14 recommendations which auditors estimate would result in revenue enhancement or lost revenue opportunities. The cumulative value of these 14 recommendations is potentially as much as \$173.0 million. The table below details the recommendations.

It is possible that the affected entities have already realized the benefits associated with the 14 recommendations detailed below. A review of 10 audit reports issued during 1991 and 1992 found that management had fully implemented 69 percent of our recommendations and was in the process of implementing another 19 percent of our recommendations.

To compile this information on revenue enhancements and lost revenue, we used the following definitions:

- Revenue Enhancement Opportunities: Monies associated with more efficient, more effective, or more comprehensive revenue collection practices
- Lost Revenue Opportunities: Monies that were available for expenditure that were lapsed or monies that could have been collected but were not

No.	Revenue Enhancements/Lost Revenue Opportunities	SAO Report	Date Issued	Estimated Amount	Other Information
1	Indigent health care services provided by University of Texas Medical Branch at Galveston were not reimbursed by counties, leading to inequitable distribution of uncompensated care burden within the State.	93-084 (page 10)	March 1993	\$104,700,000	Fiscal year 1992
2	Available federal funding for the JOBS program at Department of Human Services were not fully utilized. Available federal funds have not been drawn down.	94-082 (page 21)	March 1994	\$40,657,887	Difference between amount available and actually drawn down (1992) or projected to be (1993 and 1994)
3	Raise number of revenue auditors at the Comptroller's Office from 485 to 550	95-030	November 1994	\$13,000,000	Annual

Revenue Enhancements/Lost Revenue: Profile Of Recommendations

No.	Revenue Enhancements/Lost Revenue Opportunities	SAO Report	Date Issued	Estimated Amount	Other Information
4	Department of Human Services transferred money from JOBS program to another federal program with a lower matching rate.	94-082 (page 22)	March 1994	\$7,400,000	Fiscal years 1992 and 1993
5	Texas Education Agency did not use all the federal funds that were received in fiscal year 1990 and which expired in 1992.	93-103 (page 78)	March 1993	\$3,000,000	One year (funds available 1990, lapsed 1992)
6	Federal standards issued by the U.S. Department of Labor limit the effectiveness of the Texas Employment Commission's revenue audit function by limiting number of large employer audits.	95-011	September 1994	\$1,400,000	Estimated assessments using fiscal year 1993 rate
7	Texas Department of Insurance can increase earnings from higher yields on cash investments.	94-097 (page 26)	March 1994	\$525,000	Annual
8	The Medicaid Vendor Drug Program lacked the resources it needed to effectively collect drug rebates. (Interest on disputed amounts.)	94-143 (page 9)	August 1994	\$500,000	Interest calculated using balance at time of audit
9	The Employees Retirement System did not collect \$21 million of insurance revenues due from the State Treasury and local funds, resulting in lost interest.	94-108 (page 4)	April 1994	\$453,000	September 1993 to January 1994
10	Current Medicaid Vendor Drug billings are consistently late. Delays in mailing invoices results in lost revenue.	94-143 (page 5)	August 1994	\$392,000	Annual
11	Consumer Credit Commissioner did not have a comprehensive approach to registering creditors.	94-025 (page 1)	January 1994	\$338,500	Annual

Revenue Enhancements/Lost Revenue: Profile Of Recommendations

No.	Revenue Enhancements/Lost Revenue Opportunities	SAO Report	Date Issued	Estimated Amount	Other Information
12	Board of Medical Examiners could charge a probation fee to doctors who are placed on probation for violating the Medical Practice Act.	94-017 (page 21)	January 1994	\$297,000	Estimated amount based on \$75 fee charged to number of doctors on probation in fiscal year 1993
13	Texas Department of Health lacked adequate internal controls for processing drug rebate checks, resulting in lost interest	94-143 (page 10)	August 1994	\$170,000	Annual
14	Texas Natural Resource Conservation Commission delayed requests for reimbursement of \$23 million out of \$24 million in federal expenditures tested, resulting in lost interest.	94-105 (page 115)	March 1994	\$130,000	---
TOTAL				\$172,963,387	

Amounts Due To/Overcharged To General Fund: Profile Of Recommendations

The reports reviewed as a part of this project include six recommendations which auditors estimated had resulted in amounts due to or overcharged to the General Fund. The cumulative value of these six recommendations is potentially as much as \$5.0 million. The table below details the recommendations.

It is possible that the affected entities have already acted on the six recommendations detailed below. A review of 10 audit reports issued during 1991 and 1992 found that management had fully implemented 69 percent of our recommendations and was in the process of implementing another 19 percent of our recommendations.

No.	Amounts Due To/Overcharged To General Fund	SAO Report	Date Issued	Estimated Amount	Other Information
1	Public community/junior colleges are in compliance with state law for 99.4 percent of their \$1.2 billion appropriations. Noncompliance for the 0.6 percent resulted in recommendation to return \$2.3 million to the State.	94-104 (page 1)	April 1994	\$2,300,000	1992-1993 biennium
2	Department of Human Services overcharged \$2.1 million that should have been charged to federal funds.	93-103 (page 99)	March 1993	\$2,100,000	Fiscal years 1991, 1992, and 1993
3	Audit report on compliance with unemployment and workers compensation reimbursement policies resulted in actual collections for the General Fund.	93-138	July 1993	\$325,677	Fiscal years 1991 and 1992
4	Audit report on compliance with unemployment and workers compensation reimbursement policies identified amounts due to General Fund which were not actually reimbursed as of report date.	93-138	July 1993	\$117,401	Fiscal years 1991 and 1992

Appendix 4.3:

Amounts Due To/Overcharged To General Fund: Profile Of Recommendations

No.	Amounts Due To/Overcharged To General Fund	SAO Report	Date Issued	Estimated Amount	Other Information
5	Texas Southern University incorrectly distributed utility costs among its various operations.	93-103 (page 150)	March 1993	\$67,158	Reported for fiscal year 1992
6	Reimbursements due to the General Fund for improper payment of Interim Athletic Director salary solely from Educational and General Funds at Texas Southern University.	94-145 (page 11)	August 1994	\$42,000	---
TOTAL				\$4,952,236	

Copies of this report have been distributed to:

Legislative Audit Committee

Honorable James E. "Pete" Laney, Speaker of the House, Chair
Honorable Bob Bullock, Lieutenant Governor, Vice Chair
Senator John Montford, Chair, Senate Finance Committee
Senator Kenneth Armbrister, Chair, Senate State Affairs Committee
Representative Robert Junnell, Chair, House Appropriations Committee
Representative Tom Craddick, Chair, House Ways and Means Committee

Members Of The 74th Legislature of the State of Texas

Governor of Texas

Honorable Ann W. Richards

Legislative Budget Board

Sunset Advisory Commission

**Chief Executive Officers, Board Chairs,
and Internal Auditors of the entities
included in this report**