

December 31, 1997

Mr. Robert Kennedy
Executive Director
Texas Agricultural Finance Authority
Stephen F. Austin Building
1700 North Congress Avenue
Austin, Texas 78701

Dear Mr. Kennedy:

The Texas Agricultural Finance Authority (Authority), a component unit of the Texas Department of Agriculture, is in material compliance with the significant requirements contained in the resolution that provides for the issuance of taxable commercial paper. The Authority is authorized to issue \$150 million in commercial paper. As of August 31, 1997, the Authority had \$21.9 million in commercial paper outstanding.

The audit, which is required by Section 58.016(c) of the Agriculture Code, was conducted at the request of the Authority. To determine the Authority's compliance with the resolution, we examined significant requirements of the resolution, including reporting requirements and required balances in the interest and sinking funds, the reserve funds, and the Guaranty Subaccount. Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

During our examination of the loan accounts of the Authority, we noted (1) loan write-offs increased from \$224,168 to \$2.4 million and (2) the Allowance For Doubtful Accounts increased from \$2.9 million to \$3.3 million over the prior fiscal year. In addition, the negative balance in Fund Equity increased in fiscal year 1997 from \$2.3 million to \$5.7 million, mostly due to a \$2.8 million charge in Bad Debt Expense. The feasibility of the programs should be reassessed if the Authority's fund equity position continues to deteriorate.

We recommend that the Authority's governing board (Board) continue to implement the corrective actions it adopted to improve the position of the Authority. *A Management Control Audit of the Texas Department of Agriculture* (SAO Report No. 97-032, January 1997) cited that the prior Board had approved loans that did not meet its loan guidelines. The report also indicated that the new Board had implemented policy changes to strengthen the position of the Authority. The State Auditor's Office will continue to periodically monitor the Authority's progress in improving its fund equity position.

SAO Report No. 98-016

Mr. Robert Kennedy, Executive Director
Texas Agricultural Finance Authority
December 31, 1997
Page 2

A copy of this letter has been sent to each board member. If you have any questions, please call me at 479-4700.

Sincerely,

A handwritten signature in black ink, appearing to read "Lawrence F. Alwin". The signature is fluid and cursive, with a large initial "L" and "A".

Lawrence F. Alwin, CPA
State Auditor

khn

cc: Office of the Governor
Legislative Audit Committee
Senate Subcommittee on Agriculture
House Agriculture and Livestock Committee
Board, Texas Agricultural Finance Authority