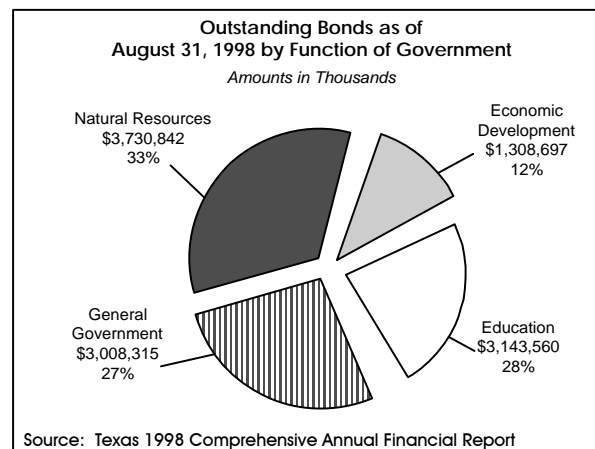
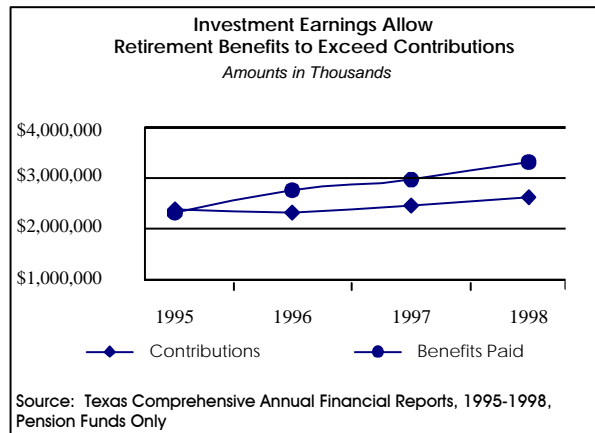
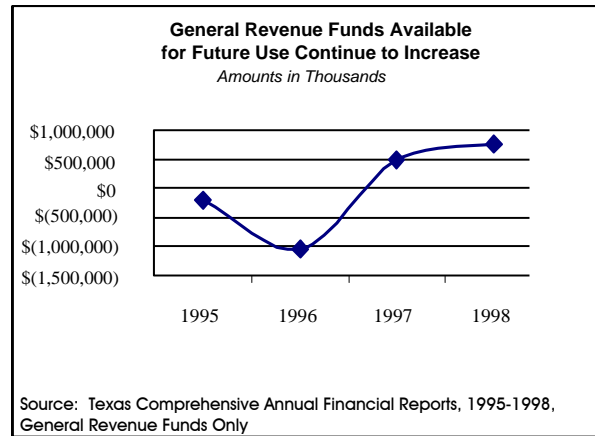


Selected Financial Indicators



Contract Administration: A Statewide Problem

Overall, state agencies and universities complied with requirements for \$17 billion in federal funds . . . with a notable exception.

We noted widespread problems in the administration of contracts by agencies and universities. State entities must ensure that contracts are written and contractors are monitored so that the State gets the quality and amount of service paid for.

In fiscal year 1998, the State paid as much as \$10 billion in federal funds to contractors for services. Twelve of the 36 entities we audited had weaknesses in managing contracts. Three of the entities had very serious problems. Examples of weaknesses included:

- Insufficient monitoring
- Inability to document monitoring efforts
- Failure to assess risks associated with specific contracts or contractors and to adjust the level of monitoring accordingly

In these cases, state agencies or universities were not diligent in ensuring that contract dollars were well spent. We also noted:

- Unresolved billing errors, late contract closeouts, and inadequate financial tracking. These conditions may have led to incorrect evaluations of a contractor's performance and financial condition.
- Award notifications, board acceptance minutes, and contracts signed after the effective date of the contract. Thus, some services might have been provided without a valid contract.

About the Statewide Audit

The statewide audit is important for the State Auditor's Office because it focuses on the State as a whole rather than individual agencies, programs, or functions. We have compiled all of the audit results in *A Report on the 1998 Financial and Compliance Audit Result* (SAO Report No. 99-555, June 1999), which is available online at www.sao.state.tx.us. This report provides specific information on the performance of Texas state entities in implementing key federal programs.

For the fiscal year 1998 statewide audit, we visited 36 state entities in order to:

- Determine whether the financial statements of the State fairly present the financial position, results of operations, and cash flows in accordance with generally accepted accounting principles.
- Fulfill audit requirements of the federal Single Audit Act Amendments of 1996. This work covered 32 federal programs and 58 percent of total federal assistance.
- Determine compliance with significant bond covenants. (We contracted with an external audit firm to determine whether state agencies and universities complied with bond requirements. We monitored and reviewed the firm's work.)



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The Statewide Audit: A Summary For The Texas Legislature



Lawrence F. Alwin, CPA

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**A Message from
the State Auditor**

Members of the Texas Legislature:

Each year the State Auditor's Office conducts a statewide financial and compliance audit. The audit has two main parts. The financial part helps ensure that the State's financial statements are accurate. The compliance part helps ensure that state entities comply with rules and regulations for the funds they receive.

Financial Statements

The State's 1998 Comprehensive Annual Financial Report (CAFR), compiled by the Texas Comptroller of Public Accounts, is accurate and based on generally accepted accounting principles. The CAFR provides the most complete financial information available on Texas state government. Of particular interest is the budget statement because it shows actual revenues and expenditures compared to the amounts budgeted through the revenue estimate and appropriations process.

Compliance Information

Overall, state agencies and universities are doing a good job complying with federal requirements. (For information on a notable exception, see p.7.) The assurance we provide to the federal government helps to ensure the continued flow of federal funds. We also provide assurance to bond rating companies that debt-issuing entities comply with various legal requirements. This is important since the State's bond rating determines how much interest the State has to pay when borrowing money.

This pamphlet summarizes the financial statements and compliance information from the statewide audit. The full CAFR may be obtained by contacting the Comptroller of Public Accounts. The compliance results may be obtained by requesting SAO Report No. 99-555, June 1999, from the State Auditor's Office. We hope you find this pamphlet useful.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

**Summarized Financial Statements
State of Texas
For The Fiscal Year Ending August 31, 1998**

General Revenue Taxes Exceeded the Revenue Estimate by \$1.5 Billion

Taxes were the main source of revenue for the State of Texas in fiscal year 1998. They accounted for 40 percent of total agencies' revenue. Sales taxes were approximately 53 percent of total tax collections.

State Transferred \$3 Billion from the General Revenue Fund to Universities

Almost one-third of universities' Current Fund Revenues came from General Revenue Appropriations. The remainder came from various grants and contracts, sales and services, and local sources such as tuition and fees.

Pension Trust Funds Increased by \$5.6 Billion

A required change in how the value of investments were reported accounted for \$3.1 billion of the increase. Investments represented 57 percent of state assets.

Accounts Payable Increased by \$5.7 Billion

This 115 percent increase occurred primarily because the retirement systems had purchased, but not paid for, various investments as of August 31, 1998.

Revenues, Expenditures, and Transfers (Amounts in Thousands)		
	Colleges & Universities	Agencies
Revenues		
Taxes	\$ 0	\$ 23,705,742
Federal Revenues	1,122,479	14,283,324
Interest & Other Investment Income	8,590	8,684,118
Pension Contributions	0	2,672,513
Other Revenues	7,544,768	9,402,232
Total Revenues	\$ 8,675,837	\$ 58,747,929
Expenditures		
Education	\$ 10,790,609	\$ 12,725,746
Health & Human Services	0	16,974,427
Pension Benefits	0	3,378,901
Other Expenditures	0	14,653,994
Total Expenditures	\$ 10,790,609	\$ 47,733,068
Excess Revenues over Expenditures	\$ (2,114,772)	\$ 11,014,861
Transfers & Other Sources (Net)	3,155,699	(3,289,044)
Difference	\$ 1,040,927	\$ 7,725,817

Texas Received Over \$15 Billion in Federal Revenue

This amount included food stamps valued at \$1.6 billion. It did not include \$98 million in other non-cash items or \$934 million in outstanding student loans. When these and other items are considered, the amount of federal assistance received was over \$17 billion. Federal revenues increased by 1.2 percent compared to fiscal year 1997.

Many Expenditures Were Pass-Throughs to Locally Governed Entities

The State of Texas spent over \$12 billion for public schooling, an increase of 2.4 percent compared to fiscal year 1997. It also sent over \$1 billion to cities, counties, councils of government, and other local entities in the form of payments or grants.

Assets, Liabilities, and Equity (Amounts in Thousands)		
	Colleges & Universities	Agencies
Assets		
Cash & Temporary Investments	\$ 3,439,802	\$ 30,549,364
Investments	12,616,217	105,570,603
Receivables	1,478,602	20,614,112
Plant, Property, & Equipment	12,988,359	7,570,547
Other Assets	589,129	11,576,480
Total Assets	\$ 31,112,109	\$ 175,881,106
Liabilities and Fund Equity		
Deferred Revenues	\$ 495,612	\$ 15,772,870
Other Liabilities	5,537,818	36,534,053
Total Liabilities	\$ 6,033,430	\$ 52,306,923
Fund Equity	25,078,679	123,574,183
Liabilities and Fund Equity	\$ 31,112,109	\$ 175,881,106

Tobacco Settlement Resulted in \$15 Billion in Accounts Receivable

The \$15 billion receivable was offset by the deferred revenue liability. The State will receive \$1.1 billion of the settlement in fiscal year 1999. Under the settlement, manufacturers will make annual deposits into the State's General Revenue Fund.

The Bottom Line: The State's Financial Position Continued to Improve

Compared to fiscal year 1997, state assets increased by \$45 billion, or 28.4 percent. More importantly, funds available for future operations in the State's General Revenue Fund increased by almost \$263 million. The State's positive financial position allowed it to add \$50 million to its "Rainy Day Fund" in fiscal year 1998.

Source: The information above is a condensed summary of the financial statements presented in the Texas 1998 Comprehensive Annual Financial Report for the Year Ended August 31, 1998 (CAFR). This summary provides an overall picture of the State's finances and is not intended to replace the CAFR.