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An Audit Report on

**Flight Services Provided by the
Department of Transportation's
Aviation Division Flight Services
Section**

September 2006
Report No. 07-001



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Overall Conclusion

The Department of Transportation (Department) is not operating the state fleet of aircraft in a cost-effective manner. Current hourly rates charged for interagency flight services and other revenue earned by flight services are not sufficient to cover costs incurred by the Department's Aviation Division Flight Services Section. The State Auditor's Office estimated that the total loss incurred from providing state-operated flights in fiscal year 2006 was \$972,441 (see table below for details).

Background Information

The Legislature created the former State Aircraft Pooling Board (Board) in 1979. House Bill 2702 (79th Legislature, Regular Session) abolished the Board in June 2005 and transferred the Board's responsibilities to the Department of Transportation's Aviation Division Flight Services Section.

| State-Operated Flight Services Comparison of Hourly Rates with Cost Estimates Fiscal Year 2006 | | | |
|--|------------------|------------|------------------------------|
| Rates and Cost Estimates | Aircraft Type | | |
| | King Air B200 | Cessna 425 | Single Engine Aircraft |
| Current flight service hourly rates | \$850 | \$625 | \$225 |
| Department's estimate of costs | \$2,005 | \$1,086 | \$383 |
| State Auditor's Office's estimate of costs | \$2,217 | \$1,397 | \$466 |
| State Auditor's Office's estimate of annual loss | \$693,631 | \$196,015 | \$82,795 |
| State Auditor's Office's estimate of total annual loss | \$972,441 | | |

In addition, auditors could not determine whether the Flight Services Section always complies with applicable statutes, state rules and regulations, and policies and procedures. We could not make this determination because the Flight Services Section does not always receive or require adequate information from the state agencies and higher education institutions that use its services.

Key Points

The Department's flight services are not cost-effective because the revenue generated does not cover expenses.

During fiscal year 2006, the Department analyzed flight costs to evaluate the adequacy of the hourly rates it charges. It determined that the hourly rates currently charged do not cover the Flight Services Section's direct and indirect costs. Flight rates have not been raised since fiscal year 2002. Since fiscal year 2002, expenses such as fuel costs have increased. The Department's annual financial reports for fiscal years 2003 through 2005 show that revenues did not cover expenditures in any of those years.

Additionally, state agencies and higher education institutions regularly use state-operated aircraft when lower-cost travel alternatives are available. Auditors compared 14 state-operated flights to commercial and private charter flights and determined the following:

- On average, state-operated flights cost \$1,937.31 more per flight than commercial flights and \$562.12 more per flight than private charter flights.
- Six (43 percent) of the 14 flights analyzed did not meet the Department's criteria for the minimum number of passengers needed to break even on cost.
- Approximately 51 percent of flights taken by the Department for purposes other than maintenance or inspection carried zero or one passenger (excluding pilot and co-pilot, see Figure 10 on page 25 of this report for additional details).
- The cost of commercial air travel for all 14 flights was less than the Department's estimate of direct and indirect costs for comparable flights.

Private charter flights can be a more cost-effective alternative to state-operated flights.

Agencies are required to obtain waivers from the Flight Services Section in accordance with Texas Government Code, Section 2205.035 (f), when the Flight Services Section cannot provide flights at a lower cost than flights private charter companies provide. From August 1, 2004, through June 30, 2006, the Flight Services Section granted 29 waivers for 37 flights to state agencies, higher education institutions, and State Officials. The estimated total cost of the private charter flights for which these waivers were granted was \$108,442.67 (on average, \$2,930.88 per flight).

Auditors compared the cost of state-operated flights with the estimated cost of private charter flights and determined that:

- Price quotes obtained from three private charter companies are slightly less than the cost of state-operated flights calculated by the State Auditor's Office. It can be assumed that private charter company rates cover both the private charter companies' costs and a profit margin. The State does not currently reimburse individuals for the cost of taking private charter flights without a waiver from the Flight Services Section.
- The State incurs the lowest cost when a passenger uses personally owned or leased aircraft and is reimbursed for the flight in accordance with reimbursement rates in the General Appropriations Act. The reimbursement rates the State currently pays individuals for use of personally owned or leased aircraft are significantly lower than the cost of private charter flights.

Selected Recommendations

The Department should consider implementing one or more of the following options:

- Increase the rates it charges for providing flight services.
- Seek appropriations from the Legislature to cover the indirect costs of providing flight services (for fiscal year 2006, we estimate that amount would be \$972,441).
- Discontinue providing state aircraft flight services.

The Legislature should consider:

- Enacting legislation to discontinue state aircraft flight services and require the sale of all related state aircraft.
- Enacting legislation to authorize elected officials in the executive, legislative, and judicial branches to receive reimbursement for the actual cost of private charter flights they take for official state business within Texas without a waiver from the Flight Services Section. Appendix 2 contains suggested statutory language for the Legislature's consideration.

Background Information from Auditors' Analysis of Flight Activity

Auditors analyzed aircraft use, the number of flights for which the Flight Services Section billed, and other statewide activity associated with flight services and determined the following:

- **Number and types of aircraft in the fleet.** In fiscal year 2006, the Flight Services Section reduced the size of the state aircraft fleet from 11 aircraft to 10. The current fleet consists of three Cessna passenger aircraft, two Cessna single engine aircraft, and five King Air B200 passenger aircraft.
- **Total flights and flight hours.** Between September 2004 and June 2006, the Flight Services Section provided flight services to 22 state agencies and higher education institutions. These entities flew a total of 747 flights (or 1,572.3 hours) during this time period.
- **Agencies' and higher education institutions' use of flight services.** For the time period between September 1, 2001, and June 12, 2006, the use of the state aircraft fleet peaked at 1,966 hours flown in fiscal year 2002 and decreased to a low of 269 hours flown in fiscal year 2004. Use of single engine aircraft increased over the period, while use of King Air B200 and Cessna 425 aircraft decreased. The Department of Transportation, the University of Texas System, and the Texas Education Agency were the primary users of flight services. Each of these entities took more than 10 percent of all flights during this time period. These three entities took a total of 322 flights. They listed either "General Meetings" or "Speech" as the purpose for the largest percentage of their flights.

Approximately 50 percent of the flights taken by the Texas Education Agency carried only two passengers (excluding pilot and co-pilot). None of the flights the Texas Education Agency took had fewer than two passengers.

- **Availability of commercial flights.** The Flight Services Section flew passengers to destinations served by commercial carriers 129 times from September 1, 2004, through May 31, 2006. This represented 27 percent of all state-operated passenger flights during this time period. The remaining 73 percent of passenger flights flew to destinations that were not served by commercial airlines.
- **Source of funds for state-operated flights.** General Revenue funds represented 41 percent of the total sources of funds that state agencies and higher education institutions used to pay for services provided by the Flight Services Section during the time period from September 2003 through June 2006.
- **Other services the Flights Services Section provides.** In addition to providing passenger flight services, the Flight Services Section also provides aircraft maintenance and fuel services to other state agencies such as the Department of Public Safety and the Parks and Wildlife Department.

Summary of Management's Response

The Department's responses indicate that it agrees with and will consider our recommendations to make flight services more cost-effective. The Department also agrees with our recommendations to strengthen its compliance with applicable statutes, state rules and regulations, and policies and procedures.

For the Department's response to the recommendation to consider discontinuing providing state aircraft flight services, please see page 5.

Summary of Objectives, Scope, and Methodology

The objectives of this audit were to determine whether:

- State aircraft operations comply with applicable agency and state rules, regulations, and statutes.
- State maintenance of a fleet of aircraft with support staff and infrastructure is useful and economically feasible.

The audit scope covered:

- Flight Log forms prepared between September 1, 2004, and May 31, 2006.
- Passenger affidavits prepared between November 1, 2005, and June 6, 2006.
- Cost reports, billing information, and flight rate information for the Flight Services Section from September 1, 2003, through June 30, 2006.
- Information for flight activity from September 1, 2000, through June 12, 2006.

The audit methodology included reviewing Flight Log forms, passenger affidavits, cost data, billing information, waivers issued, and flight rates for the Flight Services Section and analyzing data in the Department's flight information database.

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Detailed Results

Chapter 1

The Department's Flight Services Are Not Cost-Effective

As it is currently operated, state maintenance of a fleet of aircraft with support staff and infrastructure is not cost-effective. Current hourly rates charged for flight services are not sufficient to cover costs incurred by the Department of Transportation's (Department) Aviation Division Flight Services Section.

In addition, state agencies and higher education institutions regularly use state-operated aircraft when lower-cost travel alternatives are available.

Current rates charged for state-operated flights do not cover direct and indirect costs.

Hourly rates for state-operated flights have not been adjusted since fiscal year 2002. During fiscal year 2006, the Department analyzed flight costs to evaluate the adequacy of the hourly rates it charges. It determined that the hourly rates currently charged do not cover the Flight Services Section's direct and indirect costs. The State Auditor's Office's independent estimate of direct and indirect costs also was higher than the current hourly rates.

A comparison of current hourly rates and cost estimates is provided in Table 1 on the following page. As Table 1 shows, the State Auditor's Office estimated that the total loss incurred from providing state-operated flights in fiscal year 2006 was \$972,441.

Table 1

| State-Operated Flight Services Comparison of Hourly Rates with Cost Estimates Fiscal Year 2006 | | | |
|--|------------------|------------|------------------------|
| Rates and Cost Estimates | Aircraft Type | | |
| | King Air B200 | Cessna 425 | Single Engine Aircraft |
| Current flight service hourly rates | \$850 | \$625 | \$225 |
| Department's estimate of direct and indirect costs ^a | \$2,005 | \$1,086 | \$383 |
| State Auditor's Office's estimate of direct and indirect costs ^b | \$2,217 | \$1,397 | \$466 |
| State Auditor's Office's estimate of annual loss ^c | \$693,631 | \$196,015 | \$82,795 |
| State Auditor's Office's estimate of total annual loss | \$972,441 | | |
| <p>^a The Department's estimate of direct costs includes costs such as fuel, parts, third-party repairs, maintenance, and insurance. Its estimate of indirect costs includes certain overhead costs such as the salaries of employees in the Flight Services Section.</p> <p>^b The State Auditor's Office's estimate of direct and indirect costs included the factors the Department used, but auditors made adjustments to salary and facilities expenses that were not included in the Department's estimate.</p> <p>^c The State Auditor's Office's estimate of annual loss was calculated using the State Auditor's Office's estimate of direct and indirect costs, current flight service hourly rates, and the Department's estimated annual revenue flight hours.</p> | | | |

State agencies and higher education institutions regularly use state-operated aircraft when lower-cost travel alternatives are available.

Seventy-three percent of the flights (taken between September 1, 2004, and May 31, 2006) that we reviewed were to destinations not served by commercial carriers. However, auditors determined that state agencies and higher education institutions regularly use state-operated aircraft when lower-cost travel alternatives are available.

**Texas Government Code,
Section 2205.036 (c)**

The board may not provide aircraft transportation to a destination unless:

- (1) the destination is not served by a commercial carrier;
- (2) the time required to use a commercial carrier interferes with passenger obligations; or
- (3) the number of passengers traveling makes the use of state aircraft cost-effective.

Note: The "board" referenced in this statute is the former Aircraft Pooling Board. The Aircraft Pooling Board was abolished in 2005 and the Department's Aviation Division Flight Services Section assumed its responsibilities.

Auditors compared 14 state-operated Flight Service Section flights that the Department provided to state agencies and higher education institutions with (1) commercial flights available through the Texas Building and Procurement Commission's contracted airline rates and (2) private charter flights. The 14 state-operated flights were taken from September 2004 through May 2006.

This analysis determined that the State would have saved money if state agencies and higher education institutions had used commercial airlines or a private charter instead of state-operated flights. For these 14 flights, the State paid at least \$27,122.39

more (or an average \$1,937.31 more per flight) than it would have paid to fly passengers on commercial air carriers. Potential savings on private charter flights were also calculated for 5 of the 14 flights. The State paid at least \$2,810.59 more (or an average \$562.12 more per flight) than it would have paid to fly on a private charter. This analysis did not consider cost savings realized from the convenience associated with same-day or last-minute travel, and auditors could not determine the effect on passengers' individual schedules and obligations.

A cost analysis of two actual flights taken on the Flight Services Section's Cessna 425 and King Air B200 is presented in Table 2.

Table 2

| Sample Cost Analysis For Two Flights the Department's Flight Services Section Provided | | | | |
|---|---|-----------------|--|-----------------|
| | Round-Trip Flight to Houston from Austin 2 Passengers Cessna 425 | | Round Trip Flight to San Angelo from Austin 8 Passengers King Air B200 ^a | |
| | Cost per passenger | Cost per flight | Cost per passenger | Cost per flight |
| Commercial flight: Estimated costs | \$214.00 | \$428.00 | \$380.00 | \$3,040.00 |
| Department's Flight Services Section: Current hourly rates charged | \$468.75 | \$937.50 | \$197.50 | \$1,580.00 |
| Department: Estimated actual costs | \$814.54 | \$1,629.07 | \$451.19 | \$3,609.51 |
| State Auditor's Office: Estimated costs | \$1,047.99 | \$2,095.98 | \$498.83 | \$3,990.65 |
| Personally Owned or Leased Aircraft: Reimbursement amounts per the General Appropriations Act ^b | \$176.99 | \$176.99 | \$221.43 | \$221.43 |
| <p>^a Commercial flights from Austin to San Angelo are not direct flights and require passengers to change aircraft. This affects the comparability of commercial flights with state-operated flights and private charter flights.</p> <p>^b Section 5.05, page IX-26, of the General Appropriations Act (79th Legislature) specifies reimbursement rates for use of personally owned or leased aircraft.</p> <p>For a "key official, member of a board, commission, or a member of the Legislature for travel in the person's personally owned or leased aircraft, either within or without the boundaries of this state," the reimbursement rates are:</p> <ul style="list-style-type: none"> ▪ 40 cents per highway mile when traveling in single-engine aircraft; ▪ 55 cents per highway mile when traveling in twin-engine aircraft; and ▪ One dollar per highway mile when traveling in turbine-powered or other aircraft. <p>For a "state employee when the employee travels in the employee's personally owned or leased aircraft, either within or without the boundaries of this state," the reimbursement rates are:</p> <ul style="list-style-type: none"> ▪ 40 cents per highway mile when traveling in single-engine aircraft; or ▪ 55 cents per highway mile when traveling in twin-engine, turbine-powered, or other aircraft. | | | | |

The Department includes break-even points for state-operated flights on its Web site. These break-even points specify the minimum number of passengers needed for state-operated flights to be cost-effective in comparison to commercial air travel. Six (43 percent) of 14 flights auditors sampled and analyzed did not meet the Department's criteria for the minimum number of passengers required to break even on cost. The Department did not include break-even points on its Web site for 3 of the 14 flights auditors analyzed.

Auditors also noted the following:

- The cost of commercial air travel for all 14 flights auditors tested was less than the Department's estimate of direct and indirect costs for comparable flights.
- For 10 (71 percent) of 14 flights auditors tested, the cost of commercial air travel was less than the Department's current hourly rates for flights.

Recommendations

The Department should consider implementing one or more of the following options:

- Increase the rates it charges for providing flight services.
- Increase the volume of high-occupancy flights.
- Seek appropriations from the Legislature to cover the indirect costs of providing flight services.
- Discontinue state-operated flights for certain purposes (such as aerial photography) and outsourcing flights for those purposes to the private sector.
- Discontinue providing state aircraft flight services.

Management's Response

Recommendation: Increase the rates it charges for providing services. The TxDOT Flight Services Section flight cost structure is a function of economies of scale. TxDOT acknowledges that flight activity with the current rate structure has not been sufficient to cover cost of operations during the audit period. A significant increase in flight activity has already occurred during Fiscal Year 2006. Also, TxDOT is beginning a private sector independent review of flight services operations. Rates for aircraft charges are a part of that study. Predicated upon and commensurate with the findings of this study, rate charges will be adjusted as necessary to achieve break-even operation. The review results will be available in December 2006.

Recommendation: Increase the volume of high-occupancy flights. TxDOT charges user agencies for flights on a “per flight hour” basis, not on a “per passenger carried” basis. As such, the number of flights hours charged, not the volume of high-occupancy flights, is the determinant of revenue received. Based on historical demand, the number of flights will increase to a level which will provide sufficient revenue for a cost- neutral operation. A significant increase in flight activity has already occurred during Fiscal Year 2006.

Recommendation: Seek appropriations from the Legislature to cover the indirect costs of providing flight services. The department believes that break-even cost of operation can be achieved. Therefore, it will be unnecessary to seek any additional funding for operation of the state’s aircraft. With an independent review of overall flight operations, soon to be underway, appropriate rate charges will be established which will result in break-even operation.

Recommendation: Discontinue state-operated flights for certain purposes (such as aerial photography) and outsourcing flights for those purposes to the private sector. TxDOT outsourced its aerial photography function in 1998. The flight log coding of “P” or “Aerial Photography” was actually laser mapping and research flights in support of the University of Texas and the General Land Office to monitor coastal erosion and land surveying. All flights conducted are flown in a single engine utility aircraft and are provided on a cost-neutral basis. TxDOT will revise flight log mission codes to ensure clarity of purpose of flights within 30 days.

Recommendation: Discontinue providing state aircraft flight services. The private sector independent review commissioned by TxDOT may well recommend discontinuing aircraft flight services. In a state the size of Texas, frequent travel by state officials to points throughout the state to conduct business is a necessity. The majority of these destinations are not served by commercial airlines. Of the 300 airports in the Texas airport system, only 25 have scheduled commercial service available from Austin. Using private sector charter companies to travel to locations not served by the airlines would result in a substantial increase in the cost of state travel. In a post 9-11 environment, TxDOT’s Flight Services may well provide a level of security and access to the national airspace system not available from commercial airlines or through the private sector charter service.

Private Charter Flights Can Be a More Cost-Effective Alternative to State-Operated Flights

Agencies are required to obtain waivers from the Flight Services Section in accordance with Texas Government Code, Section 2205.035 (f), when the Flight Services Section cannot provide flights at a lower cost than flights private charter companies provide. Waivers for private charter flights are

**Texas Government Code,
Section 2205.035 (f)**

If the board determines that no state-owned aircraft is available to meet a transportation need that has arisen or that a rental or lease of aircraft would reduce the state's transportation costs, the board shall authorize a state agency to expend funds for the rental or lease of aircraft, which may include a helicopter.

typically granted when flights need to originate from a city other than Austin, where the Flight Services Section's aircraft are located. However, our analysis indicates that private charter flights can provide lower cost services in many other circumstances. For example we found that:

- The cost of a private charter flight for five people from Austin to El Paso was \$7,065.11, but the Department's estimated cost of a comparable state-operated flight would be \$8,422.18.
- The cost of a private charter flight for five people from Austin to Texarkana was \$4,989.83, but the Department's estimated cost of a comparable state-operated flight was \$5,815.32.

From August 1, 2004, through June 30, 2006, the Flight Services Section granted 29 waivers for 37 flights to state agencies, higher education institutions, and State Officials. The estimated total cost of the private charter flights for which these waivers were granted was \$108,442.67 (on average, \$2,930.88 per flight).¹ The average distance of these flights was 533.7 highway miles. Waiver requests do not consistently provide information such as flight purposes and individual passenger names.

The Texas State University System was the primary recipient of waivers; it received 12 waivers (41 percent of all waivers) for private charter flights with an estimated total cost of \$77,869.08 (or 72 percent of the total estimated cost for all private charter flights). State Officials and the University of Texas System received waivers for private charter flights whose estimated cost represented over 10 percent of the total cost of private charter flights.

Table 3 presents information on waivers the Flight Services Sections granted to state agencies, higher education institutions, and State Officials from August 1, 2004, through June 30, 2006.

¹ This information is from the Department of Transportation's waiver data. Auditors did not determine whether the entities that requested waivers actually took the private charter flights.

Table 3

| Waivers for Use of Private Charter Flights Granted by the Department of Transportation August 1, 2004 through June 30, 2006 | | | | | | |
|--|--------------------------|-------------------------|------------------------|----------------------------------|--------------------------------------|---|
| Entities or State Officials Granted Waiver | Date of Waiver | Date of Flight | Departure City | Destination(s) | Round-trip Distance (in miles) | Estimated Cost of Private Charter |
| Texas State University System | 8/10/2004 | 8/12/2004 | Georgetown | Beaumont Port Arthur | 524.5 | \$ 882.50 |
| | 9/7/2004 | 9/8/2004 | Georgetown | Huntsville | 293.6 | 1,127.50 |
| | 10/11/2004 | 10/12/2004 | Georgetown | Huntsville Beaumont | 506.2 | 1,450.00 |
| | 10/15/2004 | 10/18/2004 | Georgetown | Huntsville | 293.6 | 770.00 |
| | 10/15/2004 | 10/20/2004 | Georgetown | Alpine | 778 | 1,540.00 |
| | 1/3/2005 | 1/6/2005 | Abilene | San Angelo Comanche Austin | 691.4 | 2,752.00 |
| | 1/14/2005 | 1/18/2005 | Austin | San Angelo | 402.6 | 1,673.34 |
| | 2/4/2005 | 2/17/2005- 2/18/2005 | Midland | Huntsville | 872.6 | 6,588.55 |
| | | | Abilene | Huntsville | 612.4 | 5,659.83 |
| | 2/11/2005 | 2/17/2005- 2/18/2005 | Unknown | Huntsville | Unknown | Unknown |
| | 5/10/2005 | 5/26/2005 | Georgetown | Beaumont | 494.2 | 19,205.37 |
| | | | Abilene | Beaumont | 827.8 | |
| | | | Midland | Beaumont | 1088.2 | |
| | 8/24/05 | 8/25/2005- 8/26/2005 | Georgetown Giddings | Alpine | 1033 | 5,959.31 |
| | | | Georgetown Denton | Alpine | 1351.8 | 12,192.94 |
| | 8/24/05 | 8/25/2005- 8/26/2005 | Georgetown | Alpine | 778 | 8,515.29 |
| Georgetown | | | Alpine | 778 | 9,552.45 | |
| University of Texas System | 8/19/2004 ^{a b} | 8/17/2004 | McAllen | Austin | 298.6 | 2,760.10 |
| | 9/17/2004 ^b | 8/3/2004 | Austin | Port Aransas | 388.6 | 2,678.00 |
| University of Texas Law School | 3/4/2005 ^b | 12/1/2004 | Austin | Brownsville McAllen | 678.8 | 4,048.07 |
| | 5/6/2005 ^b | 4/11/2005 | Austin | Laredo Kingsville | 556 | 3,952.88 |
| University of Texas School of Architecture | 6/6/2005 ^{b c} | 5/5/2005 | Austin | Austin | Not Applicable | 450.00 |
| General Land Office | 3/17/2005 | 3/22/2005 | Austin | Galveston | 410.8 | 892.00 |
| | 3/7/2006 | 3/24/2006 | Fredericksburg | Austin Big Spring | 729.8 | 980.00 |

Waivers for Use of Private Charter Flights Granted by the Department of Transportation
August 1, 2004 through June 30, 2006

| Entities or State Officials Granted Waiver | Date of Waiver | Date of Flight | Departure City | Destination(s) | Round-trip Distance (in miles) | Estimated Cost of Private Charter |
|--|----------------------------|----------------------------|----------------------------|------------------------------|--------------------------------|-----------------------------------|
| State Officials received 10 waivers for 13 flights | From 8/5/2004 to 2/27/2006 | From 7/29/2004 to 3/2/2006 | (Various departure cities) | (Various destination cities) | Total: 4,292.2 | Total: \$14,812.54 |
| Total | | | | | | \$108,442.67 |
| <p>^a This flight was an emergency flight due to mechanical failure on another aircraft. The flight was one-way only.</p> <p>^b These waivers were granted after the date of the flight.</p> <p>^c This flight was for aerial photography of Austin.</p> | | | | | | |

Source: Unaudited information from the Department of Transportation.

Table 4 compares the cost of state-operated flights with the estimated cost of private charter flights. This table shows that:

- Price quotes obtained from three private charter companies are slightly less than the cost of state-operated flights calculated by the State Auditor's Office. It can be assumed that private charter company rates cover both the private charter companies' costs and a profit margin.
- The State incurs the lowest cost when a passenger uses personally owned or leased aircraft and is reimbursed for the flight in accordance with reimbursement rates in the General Appropriations Act.

Table 4

| Comparison of the Cost of State-Operated Flights with the Estimated Cost of Private Charter Flights | | |
|--|---|---|
| Rate and Cost Description | Round Trip Flight to El Paso from Austin 5 Passengers Cost Per Flight | Round Trip Flight to Texarkana From Austin 5 Passengers Cost Per Flight |
| Department's Flight Services Section: Current hourly rates charged | \$3,570.00 | \$2,465.00 |
| Department: Estimated actual costs | \$8,422.18 | \$5,815.32 |
| State Auditor's Office: Estimated costs | \$9,311.53 | \$6,429.39 |
| Personally Owned or Leased Aircraft; Reimbursement amounts per the General Appropriations Act ^a | \$626.34 | \$371.36 |
| Private Charter Company 1: Estimated cost for a King Air B200 | \$7,065.11 | \$4,989.83 |
| Private Charter Company 2: Estimated cost for a Lear 35 Jet | \$8,349.23 | \$ 5,927.35 |
| Private Charter Company 3: Estimated cost for a Citation Jet | \$8,039.60 | \$6,054.72 |
| <p>^a Section 5.05, page IX-26, of the General Appropriations Act (79th Legislature) specifies reimbursement rates for use of personally owned or leased aircraft.</p> <p>For a "key official, member of a board, commission, or a member of the Legislature for travel in the person's personally owned or leased aircraft, either within or without the boundaries of this state," the reimbursement rates are:</p> <ul style="list-style-type: none"> ▪ 40 cents per highway mile when traveling in single-engine aircraft; ▪ 55 cents per highway mile when traveling in twin-engine aircraft; and ▪ One dollar per highway mile when traveling in turbine-powered or other aircraft. <p>For a "state employee when the employee travels in the employee's personally owned or leased aircraft, either within or without the boundaries of this state," the reimbursement rates are:</p> <ul style="list-style-type: none"> ▪ 40 cents per highway mile when traveling in single-engine aircraft; or ▪ 55 cents per highway mile when traveling in twin-engine, turbine-powered, or other aircraft. | | |

It is important to note three matters that are related to the waivers that the Flights Services Section grants:

- State employees cannot be reimbursed for the cost of taking private charter flights without a waiver from the Flight Services Section.
- The reimbursement rates the State currently pays individuals for use of personally owned or leased aircraft are significantly lower than the cost of private charter flights.
- The Flights Services Section is within an agency in the executive branch, yet it has the authority to grant waivers to officials in the legislative and judicial branches.

Recommendations

The Legislature should consider:

- Enacting legislation to discontinue state aircraft flight services and require the sale of all related state aircraft. (The State Auditor's Office also made a similar recommendation to the Department, see page 5 of this report for the Department's response to that recommendation.)
- Enacting legislation to authorize elected officials in the executive, legislative, and judicial branches to receive reimbursement for the actual cost of private charter flights they take for official state business within Texas without a waiver from the Flight Services Section. Appendix 2 contains suggested statutory language for the Legislature's consideration.
- Revising the rider in the General Appropriations Act to reflect a more accurate reimbursement rate for the use of personally owned or leased aircraft. Appendix 2 contains suggested language for the rider.
- Including a requirement that passengers file a flight log with the Department when they receive a waiver to take a private charter flight.

Management's Response

Recommendation: Enacting legislation to discontinue state aircraft flight services and require the sale of all related state aircraft. This will be evaluated in the private sector independent review TxDOT commissioned on flight services (see page 5 for the response to a similar recommendation made to TxDOT).

Recommendation: Enacting legislation to authorize elected officials in the executive, legislative, and judicial branches to receive reimbursement for the actual cost of private charter flights they take for official state business within

Texas without a waiver from the Flight Services Section. TxDOT recommends that the current procedure of waiver approval not be changed. In recent years, there have been several instances of fatal accidents involving state and nationally elected officials traveling on private or charter aircraft. TxDOT's Flight Services Section provides safety assurance that all charter operators hired by state officials are duly licensed and approved by the Federal Aviation Administration.

Recommendation: Revising the rider in the General Appropriations Act to reflect a more accurate reimbursement rate for the use of personally owned or leased aircraft. TxDOT agrees with and supports this recommendation.

Recommendation: Including a requirement that passengers file a flight log with the Department when they receive a waiver to take a private charter flight. TxDOT agrees with and supports this recommendation.

The State Auditor's Office Could Not Determine Whether the Flight Services Section Complies with Applicable Statutes, State Rules and Regulations, and Policies and Procedures

The Department's Flight Services Section does not always obtain adequate information from the state agencies and higher education institutions that use its services. As a result, auditors could not determine whether the Flight Services Section always complies with applicable statutes, state rules and regulations, and policies and procedures.

**Texas Government Code,
Section 2205.036 (b)**

The board may not provide aircraft transportation to a passenger if the passenger is to be transported to or from a place where the passenger:

- (1) will make or has made a speech not related to official state business;
- (2) will attend or has attended an event sponsored by a political party;
- (3) will perform a service or has performed a service for which the passenger is to receive an honorarium, unless the passenger reimburses the board for the cost of transportation;
- (4) will attend or has attended an event at which money is raised for private or political purposes; or
- (5) will attend or has attended an event at which an audience was charged an admission fee to see or hear the passenger.

Note: The "board" referenced in this statute is the former Aircraft Pooling Board. The Aircraft Pooling Board was abolished in 2005 and the Department's Aviation Division Flight Services Section assumed its responsibilities.

The Flight Services Section asks all passengers to complete a "Flight Log" form that asks for information such as passenger names, dates of travel, destinations, specific purposes of travel, and mission codes. The "mission code" on the log form is a general category of travel defined by the Flight Services Section. The Flight Services Section also tracks flight information by using a database that includes information from the Flight Log forms passengers complete.

Auditors reviewed Flight Log forms and the Flight Services Section's database to attempt to determine whether flights' purposes were in compliance with Texas Government Code, Section 2205.036 (b). That statute (1) specifies acceptable use of state operated aircraft and (2) prohibits the Flight Services Section from providing aircraft transportation for specific reasons, such as attending an event sponsored by a political party (see text box for additional details).

Auditors determined that passengers do not always complete the purpose section of the Flight Log form. Additionally, the Flight Log form does not request specific information that would enable the Flight Services Section to determine whether passengers comply with statute when they request flights. Thirty-three (57 percent) of the 58 Flight Log forms auditors reviewed did not contain sufficient information to determine whether the Flight Services Section complied with statute.

Auditors identified instances in which the Flight Services Section did not comply with other requirements:

- In July 2006 the Department provided its strategic plan to the Legislative Budget Board. The strategic plan did not include a long-range plan for state aircraft as part of its overall agency strategic plan. The Department has not submitted a long-range plan for state aircraft to the Legislative Budget Board since calendar year 2003. At the time of our audit, the Department was negotiating a consulting contract for various services that included (1) comparing flight services currently being provided by the Flight Services Section with private sector sources, (2) reviewing overall efficiency of current operations including a review of operational and safety procedures, and (3) reviewing aircraft rates and charges. According to the Department, the consultant also will assist it with preparing the long-range plan for state aircraft.
- Auditors determined that 16 (17 percent) of the 94 passengers on 29 flights did not complete passenger affidavits required by Section 8.02 (b) of House Bill 2702 (79th Legislature, Regular Session). That bill, which became effective June 14, 2005, required individuals who use state-operated aircraft to sign an affidavit stating that they are traveling on official state business (see text box for additional details).

Excerpt from House Bill 2702
(79th Legislature, Regular Session)

Section 8.02 (b) Before the executive director of the Texas Department of Transportation or the director's designee may authorize a person to use a state-operated aircraft, the person must sign an affidavit stating that the person is traveling on official state business. On filing of the affidavit, the person may be authorized to use state-operated aircraft for official state business for a period of one year. A member of the legislature is not required to receive any other additional authorization to use a state-operated aircraft.

The Department's internal audit office released a report on its audit of the Flight Services Section on August 2, 2006. Department auditors noted that vague statutory guidance poses problems for the Department in administering the Flight Service Section's responsibilities. Department auditors recommended that the Aviation Division enlist the services of the Department's Government and Business Enterprises Division and Office of General Counsel to suggest a course of action to properly address the Department's role in complying with the intent of Texas Government Code, Chapter 2205, Sections 31 and 32, as well as House Bill 2702, Section 8. The Aviation Division agreed with the recommendation and stated that a memorandum of understanding is one option that will be considered, along with rule changes and changes to enabling legislation.

Recommendations

The Department should:

- Require passengers to complete its Flight Log form and passenger affidavit.
- Modify its Flight Log form to require passengers to specify whether they are flying for reasons that comply with statutory requirements, and state the specific purpose for travel. Appendix 3 presents a recommended revision for this form.
- Develop a long-range flight plan with the required elements, and make that plan part of the Department's overall strategic plan.
- Continue to consider the options offered by the Department's internal audit office.

Management's Response

Recommendation: Require passengers to complete its Flight Log form and passenger affidavit. Concur. Immediately all personnel responsible for collecting this information will be instructed as to the importance of this requirement.

Recommendation: Modify its Flight Log form to require passengers to specify whether they are flying for reasons that comply with statutory requirements, and state the specific purpose of travel. Agree. Needed modifications will be implemented immediately. Additionally, a Memorandum of Understanding will be executed with user agencies to ensure compliance with statutory directives. We plan to complete this within 180 days.

Recommendation: Develop a long-range flight plan with the required elements, and make that plan part of the Department's overall strategic plan. We agree.

Recommendation: Continue to consider the options offered by the Department's internal audit office. We agree.

Flight Services Section Activity

History of the Flight Services Section's Activity

The 66th Legislature created the State Aircraft Pooling Board (Board) in 1979. The Board operated as an independent agency until September 2003.

From September 2003 through June 2005, the Department of Transportation provided flight services to state agencies and higher education institutions on the Board's behalf through an interagency contract.

House Bill 2702 (79th Legislature, Regular Session) abolished the Board effective in June 2005 and transferred the Board's responsibilities to the Department of Transportation's Aviation Division Flight Services Section.

In addition to providing passenger flight services to state agencies and higher education institutions, the Flight Services Section provides maintenance services to other state agencies, such as the Department of Public Safety and the Parks and Wildlife Department.

Fleet of Aircraft

The Board operated 11 aircraft at the time its services were transferred to the Department's Flight Services Section (see Table 5).

Table 5

| Aircraft Operated by the State Aircraft Pooling Board At the Time Its Services Were Transferred to the Department of Transportation in 2005 | | | | |
|--|------|------------|---------------|-------------|
| Type of Aircraft | Year | Make | Model | Tail Number |
| Single Engine Aircraft | 1979 | Cessna | TU206 | N4589U |
| Single Engine Aircraft | 1980 | Cessna | 182Q | N4979N |
| Passenger Aircraft | 1981 | Beechcraft | King Air B200 | N1TX |
| Passenger Aircraft | 1982 | Beechcraft | King Air B200 | N62569 |
| Passenger Aircraft | 1982 | Beechcraft | King Air B200 | N6308F |
| Passenger Aircraft | 1985 | Beechcraft | King Air B200 | N7256K |
| Passenger Aircraft | 2000 | Raytheon | King Air B200 | N808WD |
| Passenger Aircraft | 1983 | Cessna | 425 | N101CA |
| Passenger Aircraft | 1983 | Cessna | 425 | N6885S |
| Passenger Aircraft | 1983 | Cessna | 425 | N68865 |
| Passenger Aircraft | 1983 | Cessna | 425 | N425LD |

Source: Department of Transportation

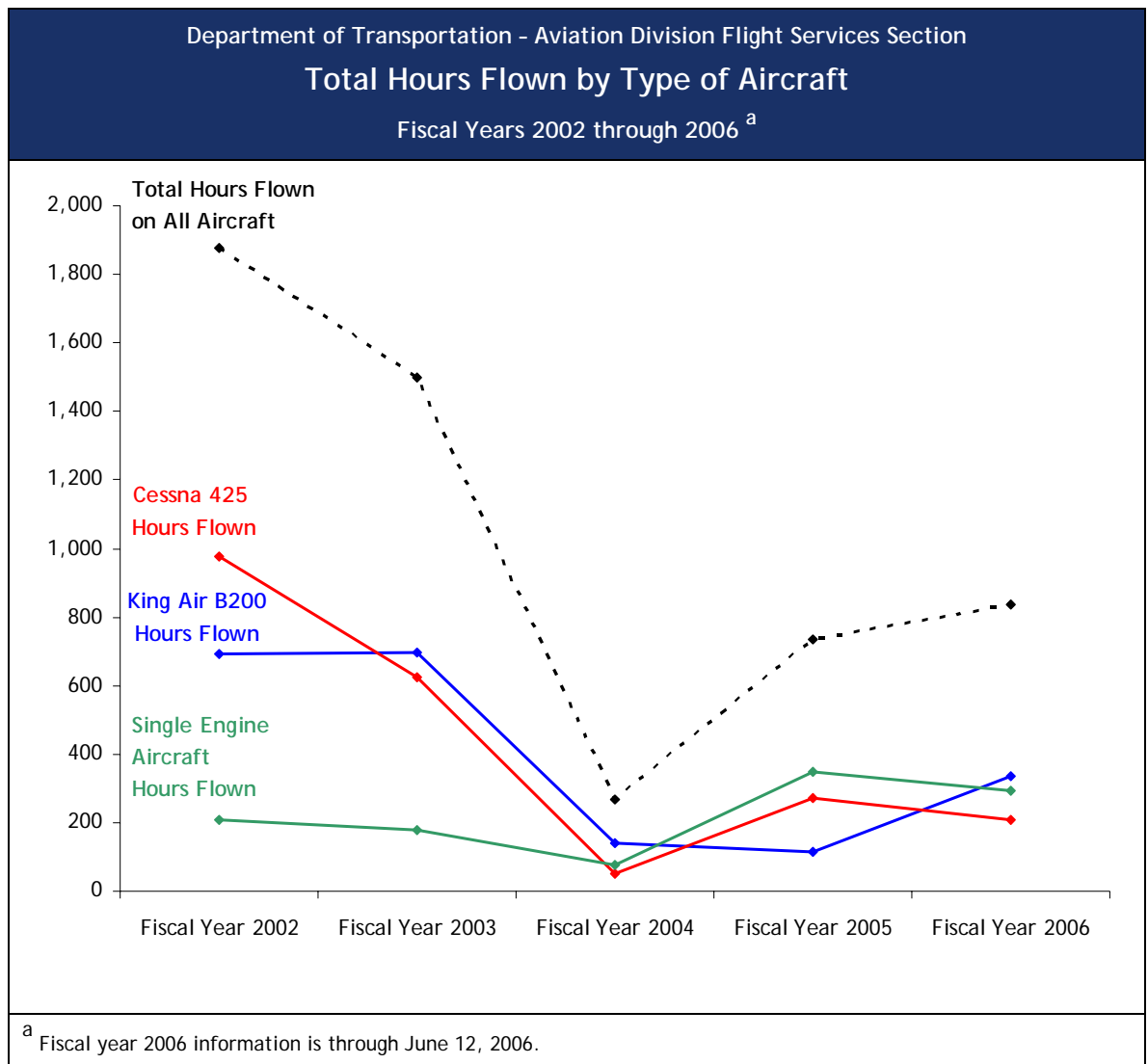
In fiscal year 2006, the Flight Services Section reduced the state aircraft fleet from 11 aircraft to 10 aircraft. Of the 10 remaining aircraft, two of the Cessna

425 aircraft are currently grounded for mechanical reasons. The Department intends to sell an additional aircraft in fiscal year 2007.

Analysis of Flight Services

Auditors analyzed aircraft use, the number of flights for which the Flight Services Section billed, and other statewide activity associated with flight services. As Figure 1 shows, between September 1, 2001, and June 12, 2006, the use of the state aircraft fleet peaked at 1,966 hours flown in fiscal year 2002 and decreased to a low of 269 hours flown in fiscal year 2004. Use of Single Engine Aircraft increased over the period, while use of King Air B200 and Cessna 425 aircraft declined.

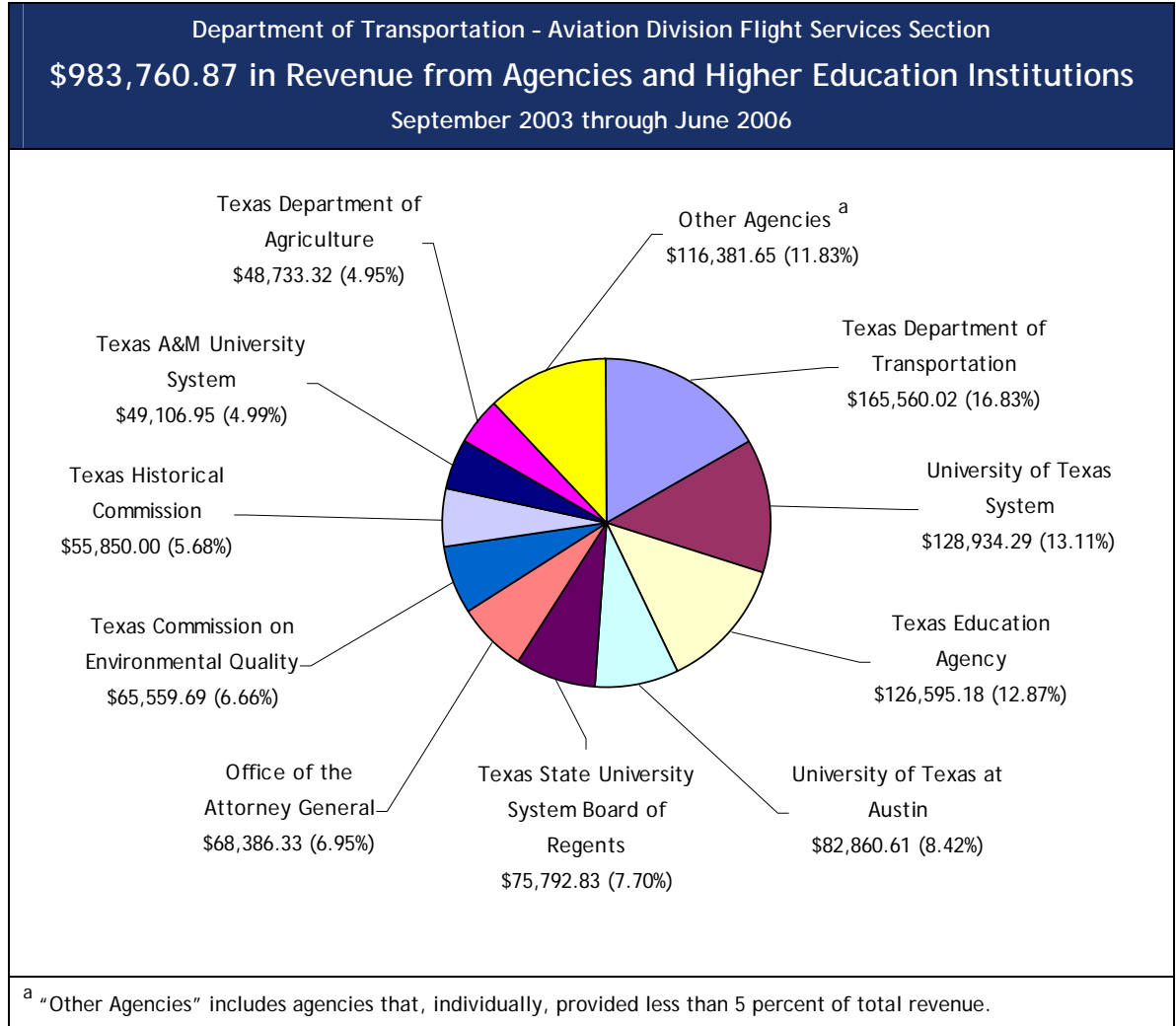
Figure 1



Source: Department of Transportation.

During the period from fiscal year 2004 through June 2006, state agencies and higher education institutions paid at least \$983,760.87 in state funds for flights that Flight Services Section provided (see Figure 2).

Figure 2

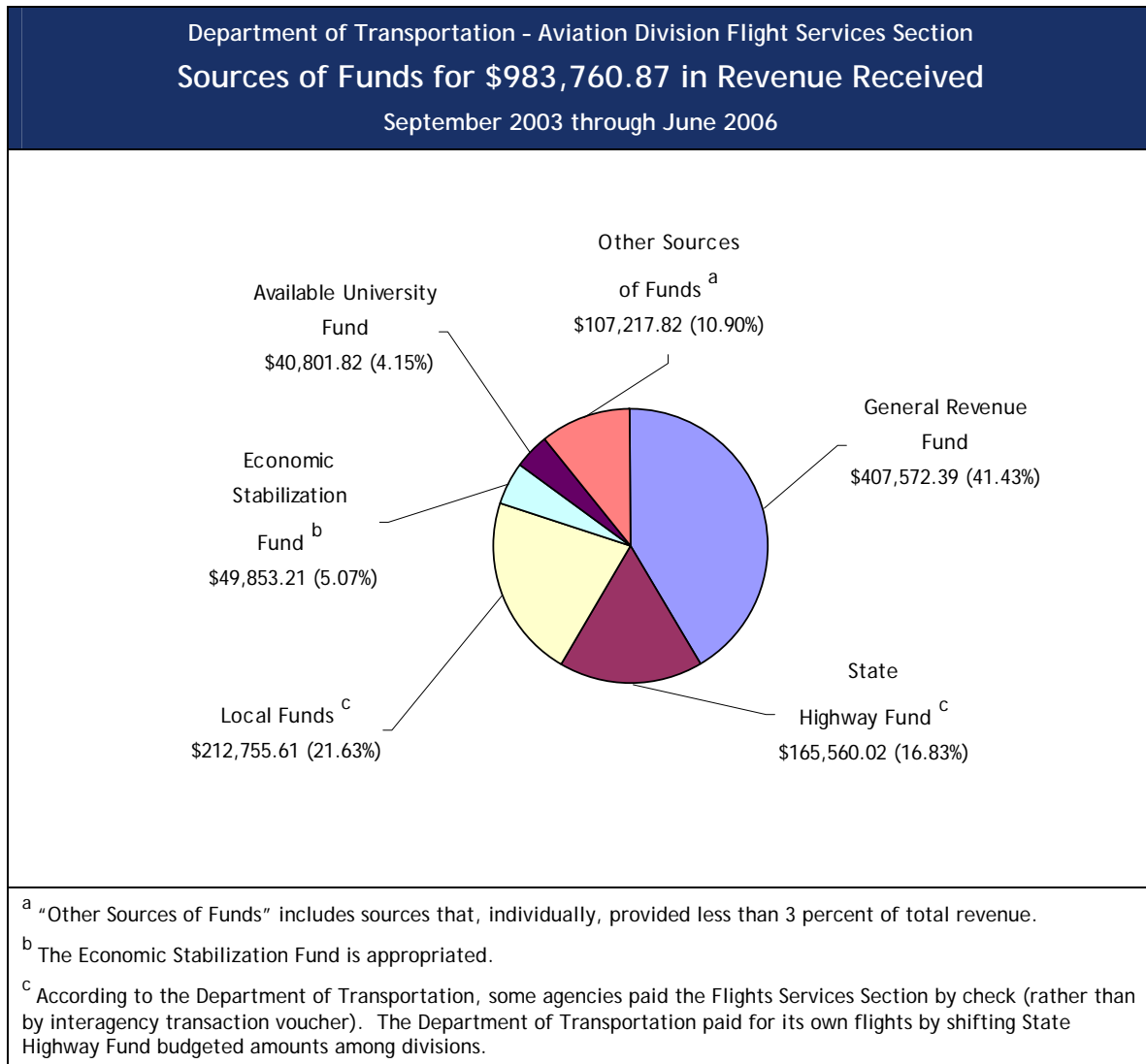


Source: Department of Transportation.

Funding sources that state agencies and higher education institutions used to pay for flight services included the General Revenue Fund, Local Funds, and the State Highway Fund (see Figure 3).

The chart in Figure 3 is a reasonable depiction of funding sources and includes information from (1) funding sources verified in the Uniform Statewide Accounting System and (2) flight billing information provided by the Department.

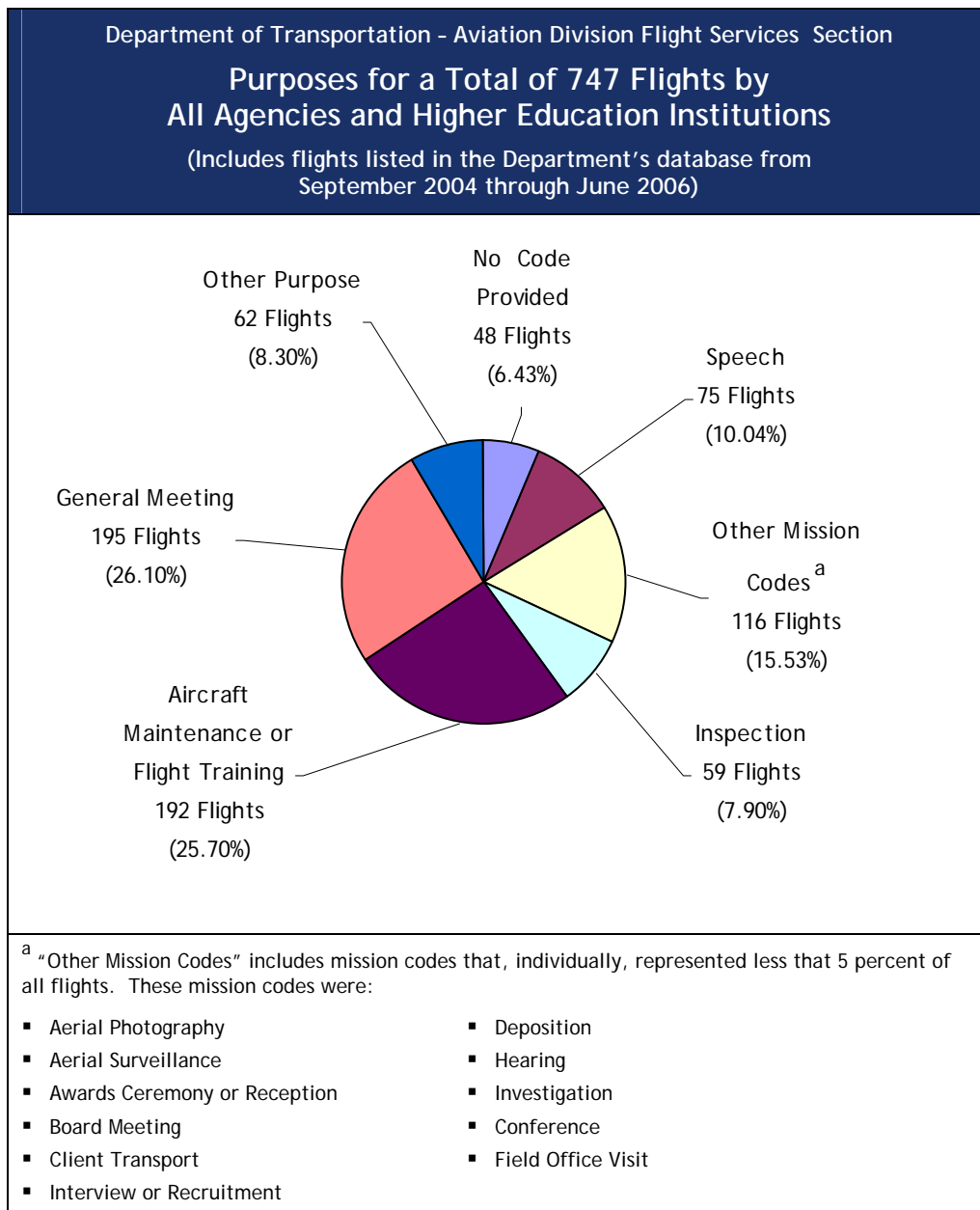
Figure 3



Source: Department of Transportation and the Uniform Statewide Accounting System.

As Figure 4 shows, the most common purposes (or “mission codes”) recorded for flights taken by state agencies and higher education institutions were “Aircraft Maintenance and Flight Training” (25.7 percent of total flights) and “General Meetings” (26.1 percent of total flights).

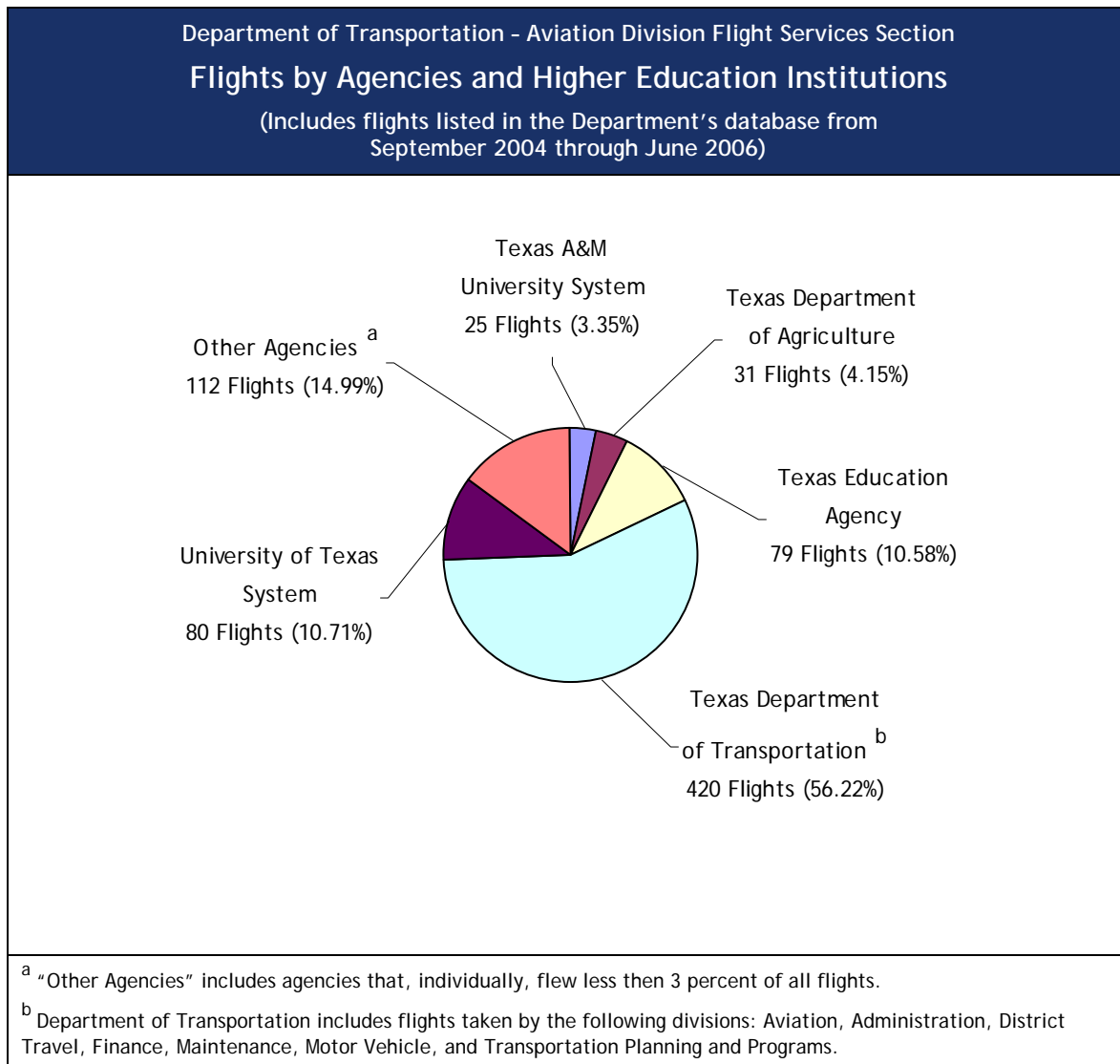
Figure 4



Source: Department of Transportation.

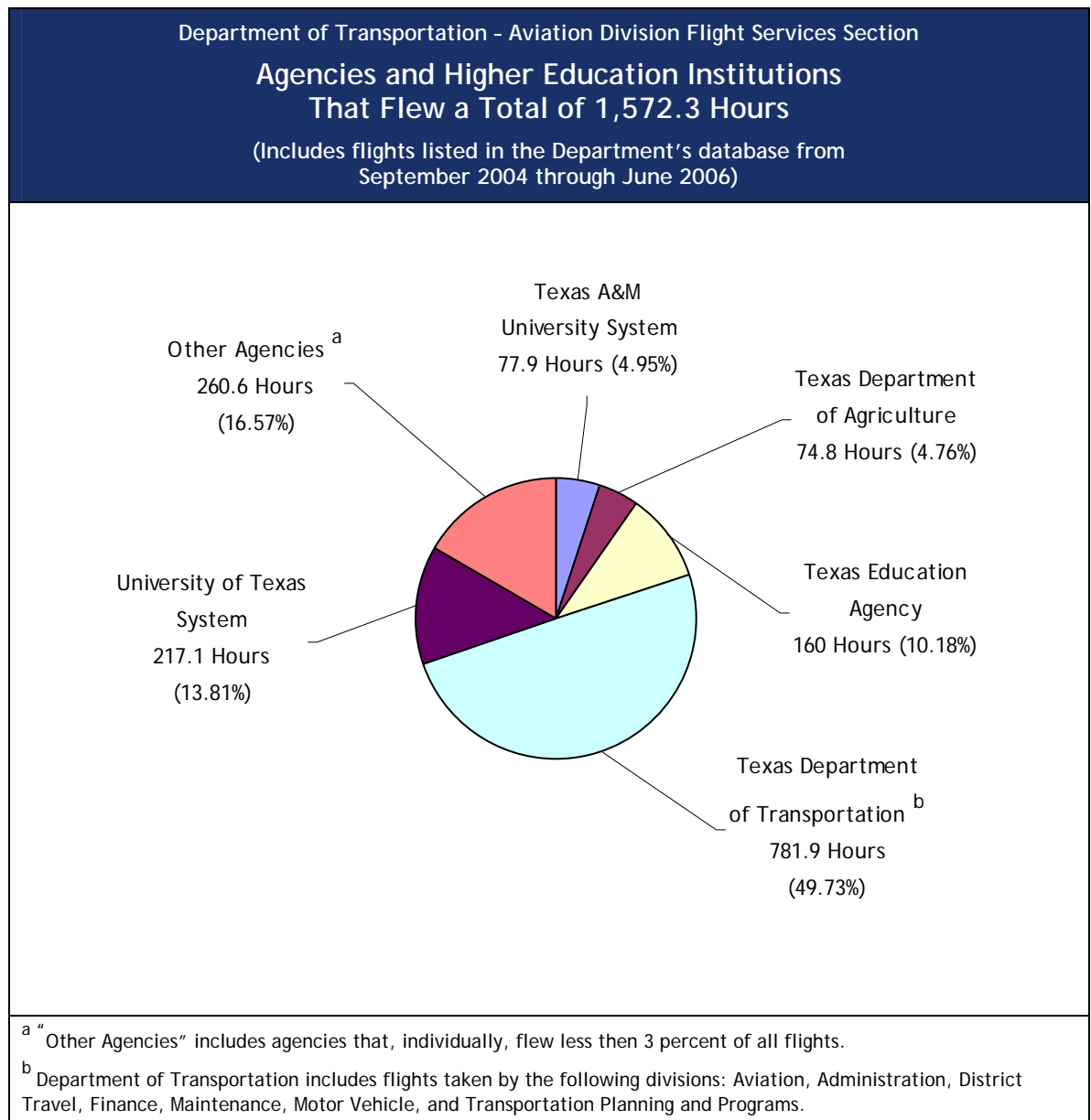
From September 2004 through June 2006, the Flight Services Section provided flight services to 22 state agencies and higher education institutions (see Figures 5 and 6). The Department of Transportation, the University of Texas System, and the Texas Education Agency were the primary users of flight services. The Texas Department of Transportation took more than 50 percent of all flights during this time period. The University of Texas System and the Texas Education Agency each took more than 10 percent of all flights during this time period.

Figure 5



Source: Department of Transportation.

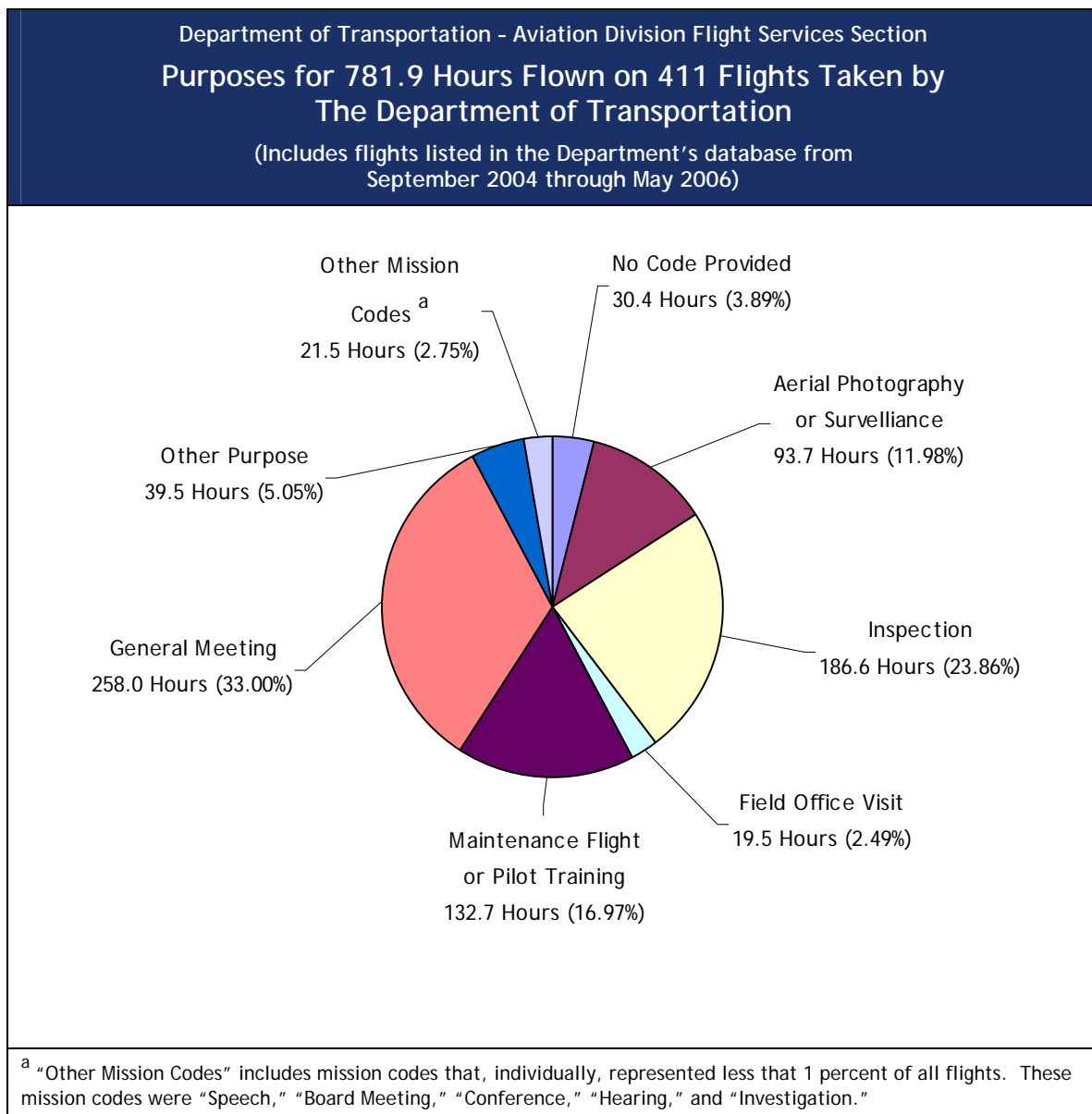
Figure 6



Source: Department of Transportation.

The Department of Transportation listed “General Meeting” as the purpose for 33 percent of its flight hours from September 2004 through May 2006 (see Figure 7). Other purposes included “Aerial Photography or Aerial Surveillance” (11.98 percent), “Inspection” (23.86 percent), and “Maintenance Flight or Pilot Training” (16.97 percent).

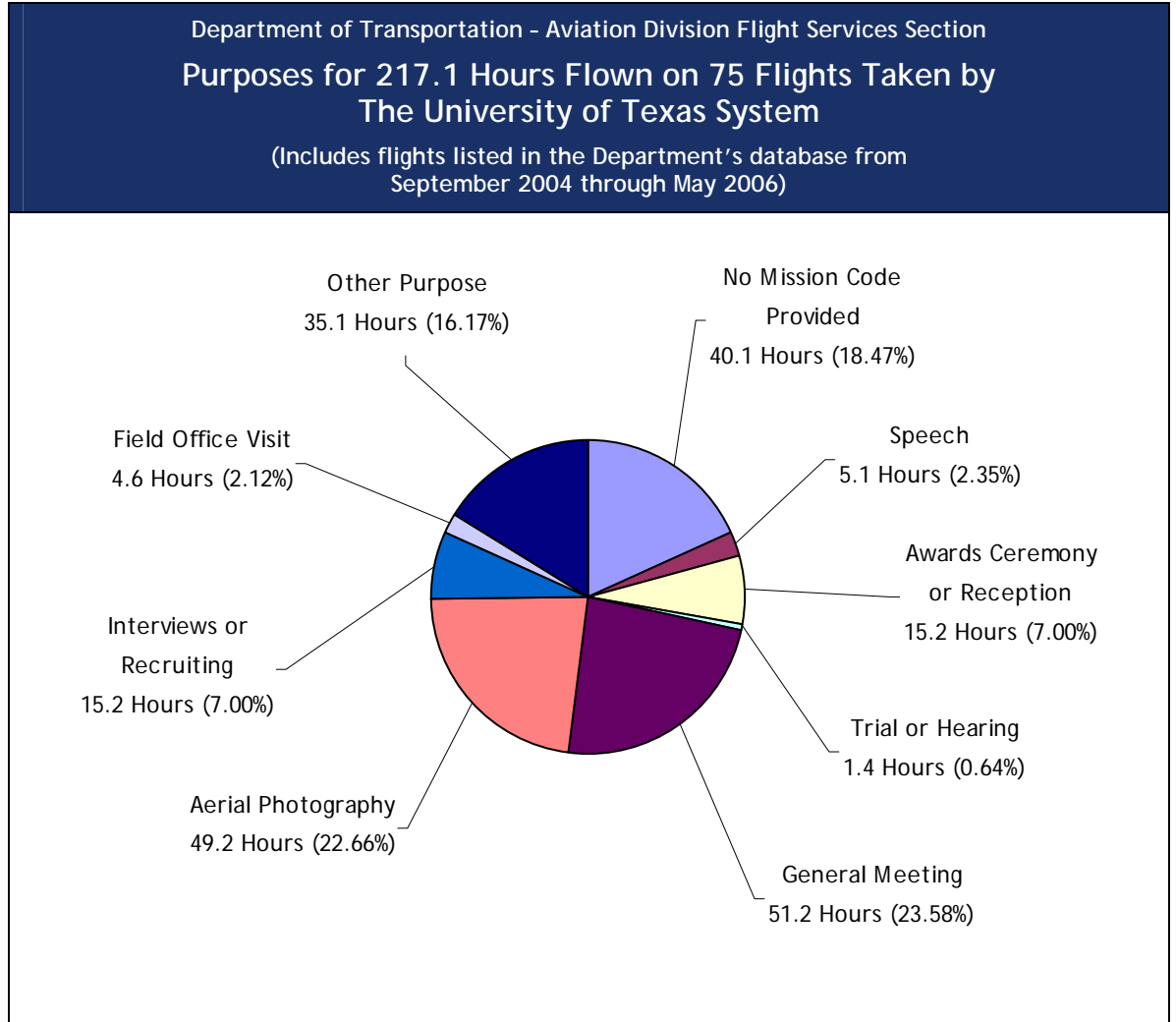
Figure 7



Source: Department of Transportation.

The University of Texas System listed “General Meeting” as the purpose for 23.58 percent of its flight hours from September 2004 through May 2006 (see Figure 8).

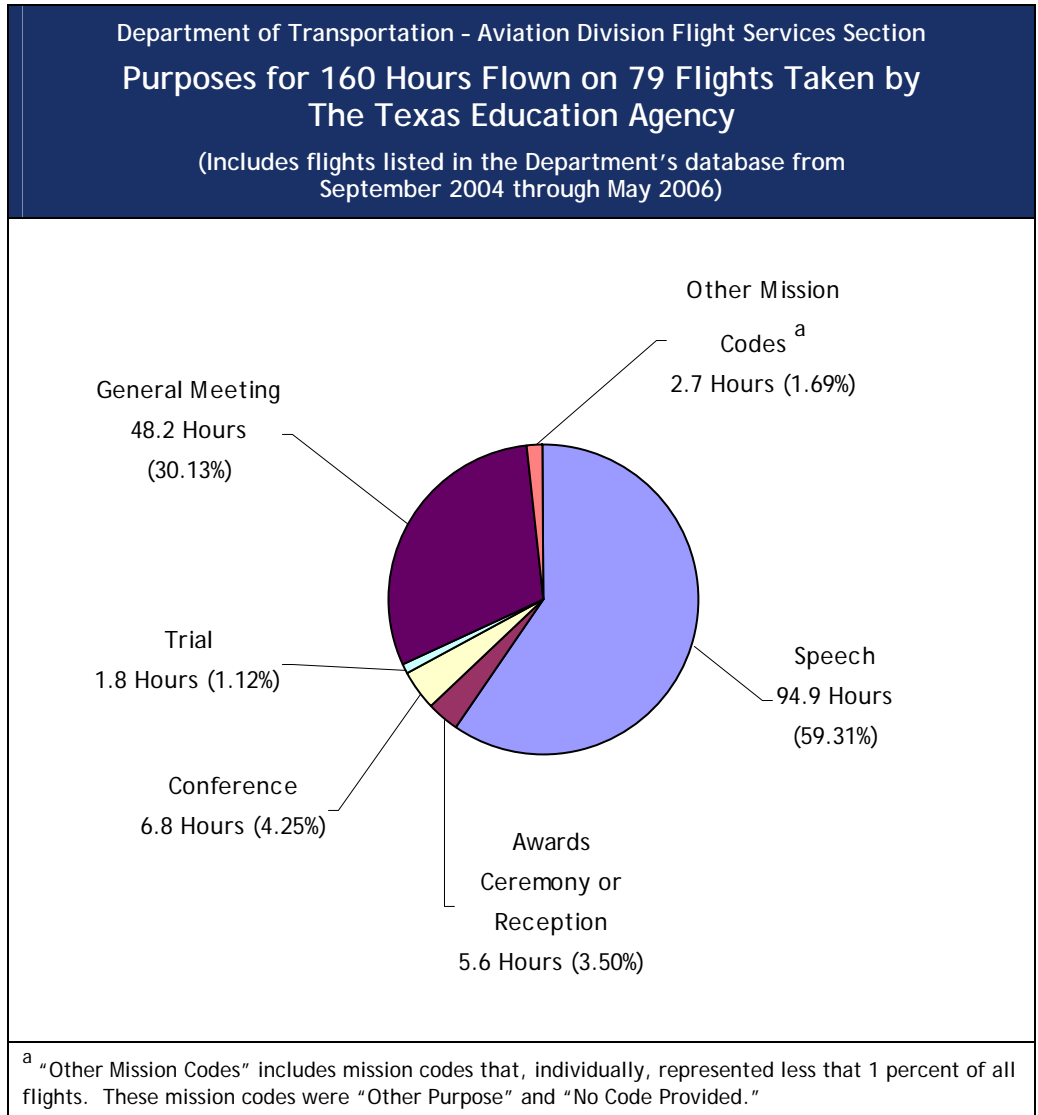
Figure 8



Source: Department of Transportation.

The Texas Education Agency listed “Speech” as the purpose for 59.31 percent of its flight hours from September 2004 through May 2006 (see Figure 9).

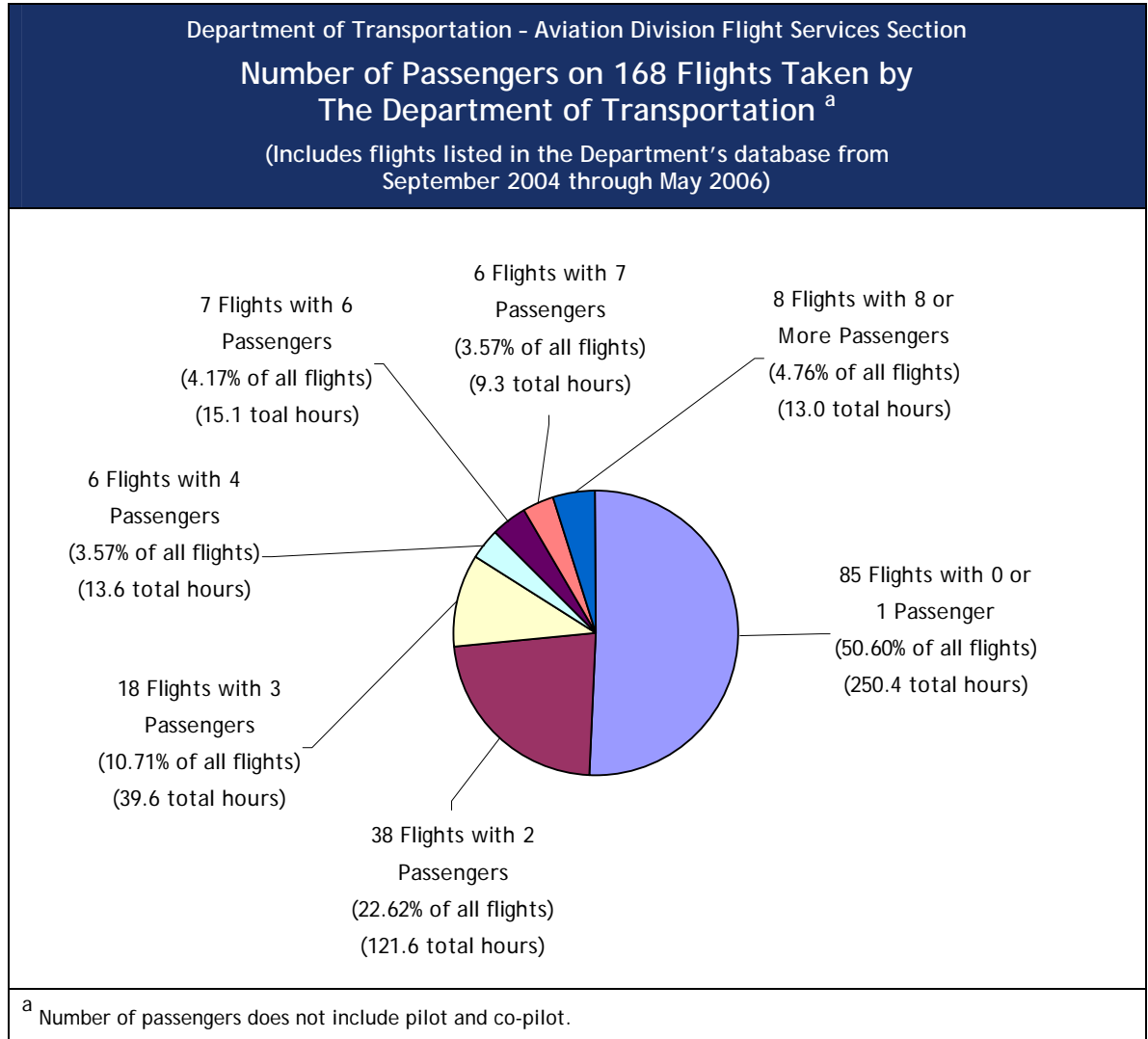
Figure 9



Source: Department of Transportation.

Certain agencies and higher education institutions take flights with relatively small numbers of passengers. From September 2004 through May 2006, 73.22 percent of flights taken by the Department of Transportation for purposes other than maintenance or inspection carried zero to two passengers (see Figure 10).

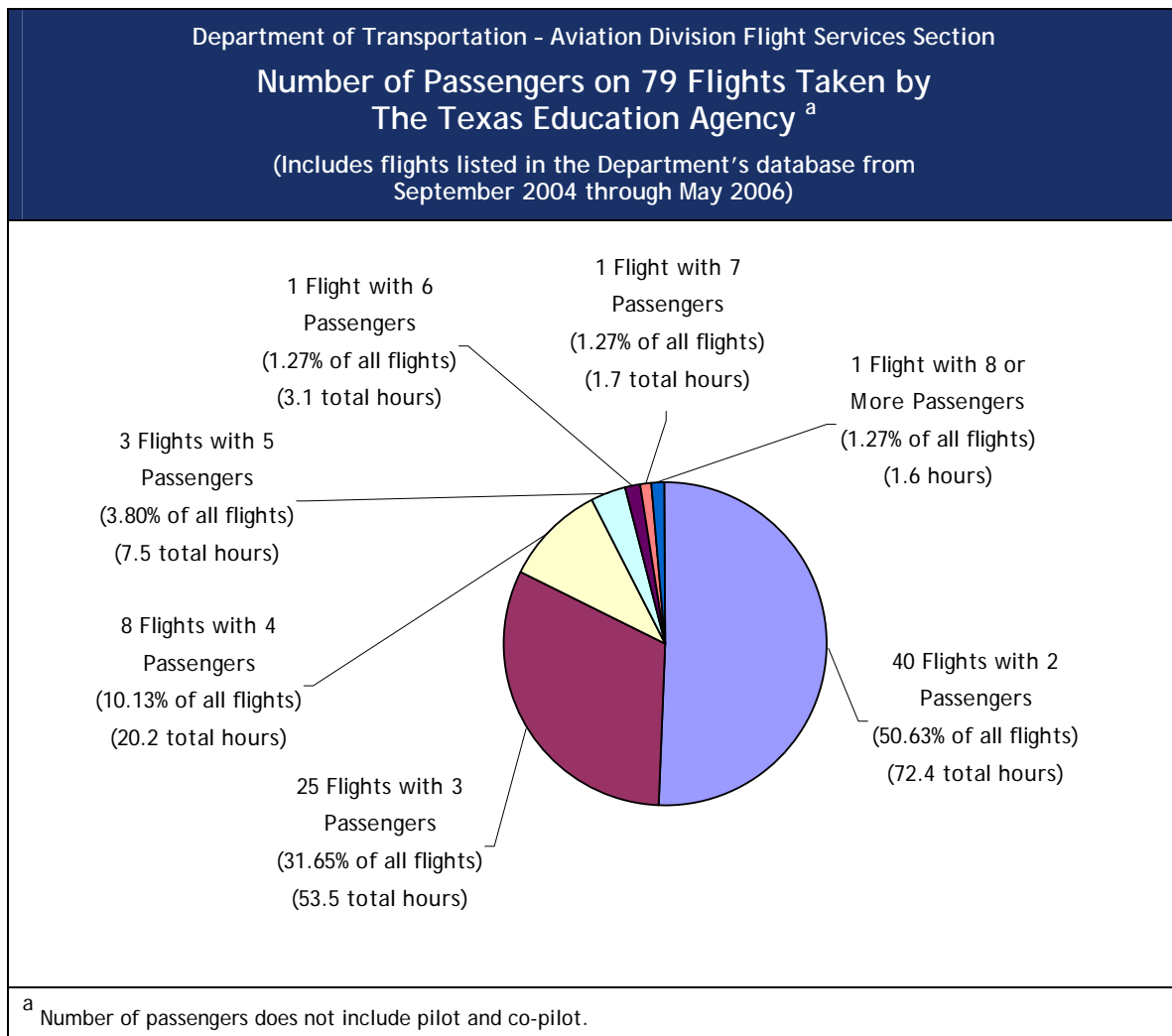
Figure 10



Source: Department of Transportation.

The Texas Education Agency flew two passengers on 50.63 percent of its flights from September 2004 through May 2006 (see Figure 11).

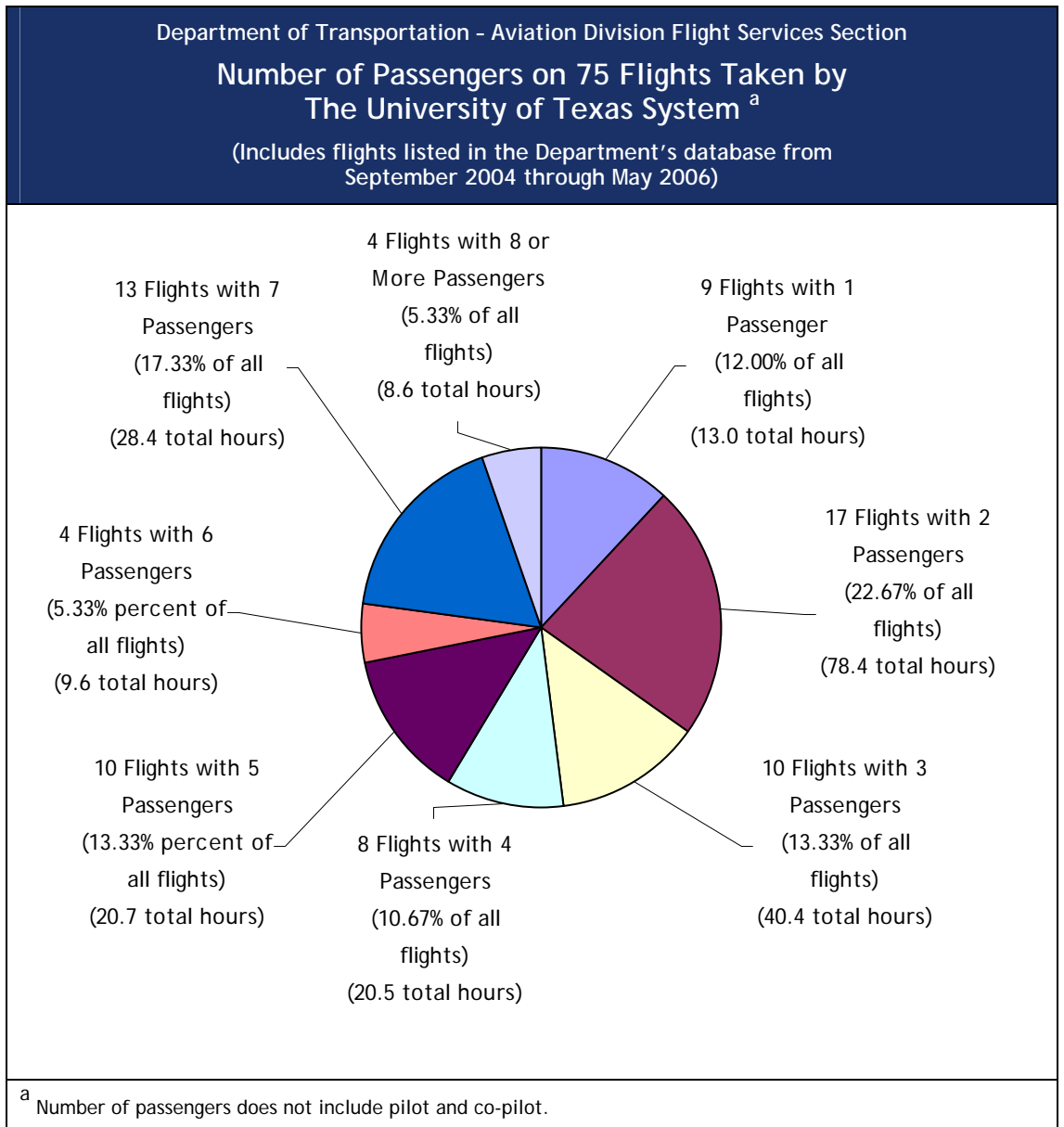
Figure 11



Source: Department of Transportation.

The University of Texas System flew two passengers or fewer on 34.67 percent of its flights from September 2004 through May 2006 (see Figure 12).

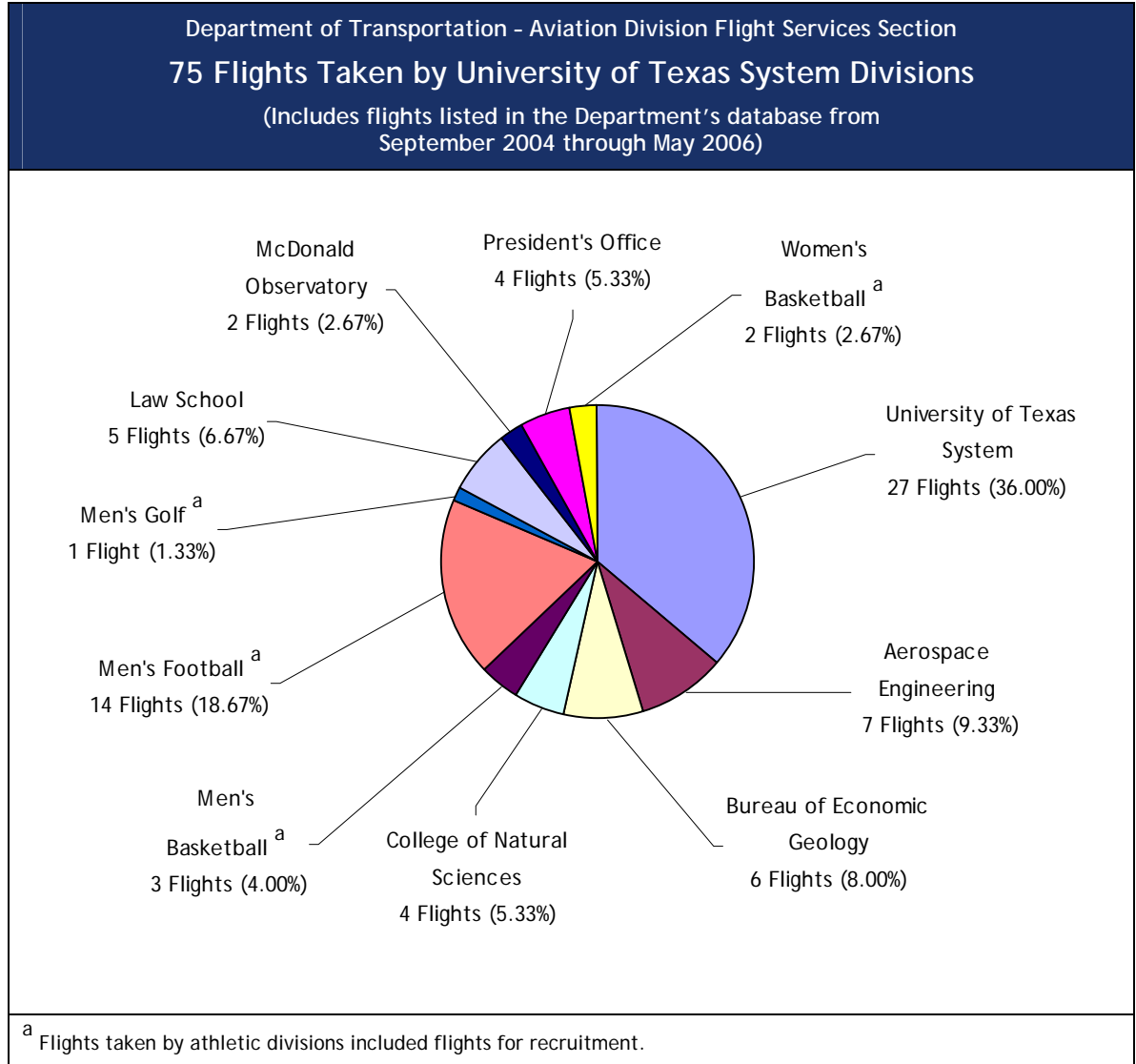
Figure 12



Source: Department of Transportation.

An analysis of flights by University of Texas System divisions from September 2004 through May 2006 showed that 36 percent of the flights were for the general University of Texas System (see Figure 13).

Figure 13



Source: Department of Transportation.

The Flight Services Section flew passengers to destinations served by commercial carriers 129 times from September 1, 2004, through May 31, 2006. This represented 27 percent of all passenger flights (excluding flights for maintenance and inspection) during this period. The remaining 73 percent of passenger flights flew to destinations that were not served by commercial airlines.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether:

- State aircraft operations comply with applicable agency and state rules, regulations, and statutes.
- State maintenance of a fleet of aircraft with support staff and infrastructure is useful and economically feasible.

Scope

The scope of this audit included:

- Flight Log forms prepared between September 1, 2004, and May 31, 2006.
- Passenger affidavits prepared between November 1, 2005, and June 6, 2006.
- Cost reports, billing information, and flight rate information for the Department of Transportation's (Department) Aviation Division Flight Services Section from September 1, 2003, through June 30, 2006.
- Flight information for flight activity from September 1, 2000, through June 12, 2006.

This audit did not include a review of information technology.

Methodology

The audit methodology included reviewing Flight Log forms, passenger affidavits, cost data, billing information, and flight rates for the Flight Services Section and analyzing data in the Department's flight information database.

Information collected and reviewed included the following:

- Flight Log forms.
- Passenger affidavits.
- Cost information prepared by the Department.

- Waivers issued by the Department.
- Facilities cost information provided by the Texas Building and Procurement Commission.
- State personnel salary information.
- Billing information for flight services provided.
- Private charter rate information from three Austin-area flight charter companies.
- Current rates for flight services posted on the Department's Web site.
- Payments made to the Department for interagency flight services.
- Amounts billed by the Department for interagency flight services.
- Surplus aircraft sale information from the Texas Building and Procurement Commission.

Procedures and tests conducted included the following:

- Interviewed Department division management and staff.
- Tested Flight Log forms and database information for compliance with statute, policy, and procedure.
- Analyzed the Department's flight information.
- Performed an analysis of payments to the Department for interagency flight services.

Criteria used included the following:

- Texas Government Code, Chapter 2205.
- Texas Government Code, Chapter 612.
- House Bill 2702, 79th Regular Session, Article 8, Section 8.02.
- Title 28, Texas Administrative Code, Section 252.307.
- General Appropriation Act (79th Legislature).
- The Department's aircraft use procedures.
- The Department's flight service rates.
- Texas Building and Procurement Commission's state of Texas contracted airfares.

- Comptroller of Public Accounts' Texas mileage guide.
- Comptroller of Public Accounts' State Property Accounting System personal property class codes.

Project Information

Audit fieldwork was conducted from June 2006 through July 2006. This audit was conducted in accordance with generally accepted government auditing standards.

The following members of the State Auditor's staff performed the audit:

- Karen S. Smith (Project Manager)
- Wesley Vaughn Hodgins, CPA
- Audrey A. O'Neill
- Worth Ferguson, CPA (Quality Control Reviewer)
- Lisa R. Collier, CPA (Audit Manager)
- Michael C. Apperley, CPA (Assistant State Auditor)

Suggested Statutory and Rider Language for the Legislature's Consideration

The following language is in draft form and is not intended to be final language. Conforming amendments also may be necessary.

General Appropriations Act

Sec. 5.05 Travel in Personally Owned or Leased Aircraft

- ~~(a)~~ The rate of reimbursement to be paid to a key official, a member of a board, commission, ~~or~~ a member of the Legislature, or a state employee for travel in the person's personally owned or leased aircraft, either within or without the boundaries of this state is \$1.07 per highway mile unless subsection (b) applies.
 - ~~a. 40 cents per highway mile when traveling in a single engine aircraft;~~
 - ~~b. 55 cents per highway mile when traveling in a twin engine aircraft; and~~
 - ~~c. One dollar per highway mile when traveling in a turbine powered or other aircraft]~~
- (b) The rate of reimbursement to be paid to a member of the legislature or an elected official in the executive or judicial branch of state government for travel in a rented or leased aircraft within the boundaries of this state is the actual cost of the rental or lease of the aircraft.

~~[The rate of reimbursement for a state employee when the employee travels in the employee's personally owned or leased aircraft, either within or without the boundaries of this state, is:~~

- ~~a. 40 cents per highway mile when traveling in a single engine aircraft;~~
- ~~b. 55 cents per highway mile when traveling in a twin engine, turbine-powered or other aircraft]~~

Texas Government Code

Section 2205.035(f)

(f) Except as authorized by Section 660.072(b), if the board determines that no state-owned aircraft is available to meet a transportation need that has arisen or that a rental or lease of aircraft would reduce the state's transportation costs, the board shall authorize a state agency to expend funds for the rental or lease of aircraft, which may include a helicopter.

Section 660.072. AMOUNT OF REIMBURSEMENT. (a) Except as authorized in subsection (b) a reimbursement under this subchapter may not exceed the product of:

- (1) the aircraft mileage reimbursement rate established in the travel provisions of the General Appropriations Act; and

(2) the highway mileage between the designated headquarters and duty point of the state employee, key official, or member of a board.

(b) A member of the legislature or an elected official in the executive or judicial branch of state government is authorized to receive reimbursement for the actual cost of rental or lease or operation of an aircraft. Sections 660.003(g) and 660.201 apply to this subsection.

State Auditor's Office Recommended Revision to the Flight Services Section's Flight Log Form

Below is a recommended revision to the Flight Log form. The Flight Services Section should consider this recommendation and revise the form in accordance with management's decisions.

| State Auditor's Office Recommended Flight Log Form | |
|---|-------------------|
| While using the flight services of the Texas Department of Transportation, Aviation Division, Flight Services Section, I will be traveling only on official state business in accordance with Texas Government Code, Section 2205.036 - Passenger Transportation. | |
| While using the flight services of the Department of Transportation: | Initial |
| I will not make a speech that is not related to official state business. | |
| I will not attend an event sponsored by a political party. | |
| I will not perform a service for which I am to receive an honorarium, unless I reimburse the Department of Transportation for the full cost of transportation. | |
| I will not attend an event at which money was raised for private or political purposes. | |
| I will not attend an event at which an audience was charged an admission fee to see or hear any passenger aboard this flight. | |
| I am using the flight services of the Department of Transportation rather than alternate means of travel because: | Select One |
| (1) The destination to which I am traveling is not served by a commercial carrier. | |
| (2) The time required to use a commercial carrier interferes with obligations related to my official state duties. | |
| (3) The number of passengers traveling makes the use of state aircraft cost-effective. | |
| _____ Signature of Affiant | |
| _____ Date | |
| The Department of Transportation certifies that this form has been completed in full by the above affiant. | |
| _____ Signature of Department of Transportation Representative | |
| _____ Date | |
| Page 1 of 2 | |

| Passenger Name | Passenger Signature | State Agency Represented | Mission Statement (MS) Code |
|----------------|---------------------|--------------------------|-----------------------------|
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|----------------------------------|--|
| Specific Purpose of State Travel | |
|----------------------------------|--|

| Mission Statement (MS) Codes | |
|-------------------------------------|--------------------------------------|
| A Address/Speech | L Task Force/Legislative Committee |
| B Board Meeting | M Meeting (other than Board Meeting) |
| C Conference/Convention | N Investigation |
| D Deposition/Trial | P Aerial Photography |
| E Awards Ceremony/Reception | R Interview/Recruitment |
| F Maintenance Flight/Training | S Aerial Surveillance |
| H Hearing | V Field/Regional Office Visit |
| I Audit/ Inspection | O Other (Please Specify) |
| K Client/Prisoner/Witness Transport | |

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Jim Keffer, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Department of Transportation

Members of the Texas Transportation Commission
Mr. Michael W. Behrens, P.E., Executive Director



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