TABLE OF CONTENTS

REPORT Prairie View A&M University
   Review of Environmental Health, Safety, and Security Operations

REPORT West Texas A&M University
   Review of Environmental Health, Safety, and Security Operations

REPORT Texas A&M University
   Review of Athletic Department Administration

REPORT Texas A&M University
   Review of Residence Life

REPORT Tarleton State University
   Review of Student Financial Aid

REPORT Texas A&M University – Corpus Christi
   Review of Financial Management Services

REPORT Texas A&M University – Corpus Christi
   Review of Development Office Operations

REPORT Texas A&M University
   Review of Student Recruitment and Admissions

REPORT Texas A&M University
   Review of University Rules and Procedures
PROJECT SUMMARY

Overview

Overall, significant improvements are needed in the management of environmental health and safety operations at Prairie View A&M University to provide reasonable assurance that a safe environment exists for students, faculty, staff and visitors. There is an overall lack of enforcement of safety standards in the following key areas of risk: administration of camps, laboratory safety, chemical inventory and storage, and safety training. Opportunities for improvement also exist in safety inspections, safety communications and incinerator access controls.

During the audit, management expressed their commitment to create and maintain a safety conscious culture within the University. This was evident in several safety areas reviewed. The University has developed an effective fire and life safety program and outsourced high-risk areas that require special technical knowledge such as wastewater treatment and air quality management. While these initiatives are notable, gaps exist in the University’s management of environmental health and safety as noted in this report.

Summary of Significant Results

Enforcement of Safety Standards

Overall, enforcement of university-wide oversight and monitoring of safety standards for decentralized processes needs improvement to ensure that a safe campus environment exists. The University is in the process of developing university-wide safety guidelines; however, these procedures have not yet been implemented. The University needs to determine the appropriate level of staffing and resources needed to maintain an effective environmental health and safety program that reduces the risks of injury to individuals and facilities, and possible penalties resulting from noncompliance with federal and state laws.
Camp Administration

Camp administration lacks university-wide procedures and oversight. Management could not provide a comprehensive list of current camps. We identified at least 17 camps that were held on the campus in fiscal year 2009. Camps held on the University’s campus host kindergarten through college-age participants. Without procedures and oversight for camps, the risk of injuries and potential liabilities is increased.

Laboratory Safety

The University has not established a coordinated process to document, monitor, and enforce teaching and research laboratory safety practices. The University relies primarily on faculty members, instructors, or teaching assistants to ensure that safety practices are followed. Only a limited number of lab safety inspections are performed by the Environmental Health and Safety Department (EHSD). Follow-up reviews are not conducted to ensure that corrective actions have been taken. In addition, management has not established university-wide guidance for teaching laboratory safety or for the monitoring of compliance and related documentation requirements.

Safety Training

Safety training for students and employees needs improvement. Documentation that students in labs received the required safety training was not available. Additionally, safety training, specifically hazardous communication and bloodborne pathogens training, was not provided to all new employees whose position duties required this training. Adequate training is an important preventive safety control, and is required by System Regulation 24.01.01.

Chemical Inventory and Storage

Chemical inventories are not effectively reported or monitored to provide assurance that chemicals are stored and handled appropriately. Although chemical inventories are required annually, they are not reported timely. Chemical inventory and storage processes within the University are primarily decentralized at the department level with little monitoring to ensure that hazardous chemicals are properly controlled and adequate safeguards are taken. As a result, laboratories and preparation rooms observed often contained excess or old chemicals as well as chemicals that were not properly labeled or stored. Inadequate procedures and the absence of monitoring heighten the risk for
employee/student injury, facility damage, and noncompliance with federal and state requirements.

Summary of Management’s Response

Management appreciates the System Internal Audit Department’s efforts to identify issues needing improvement and steps necessary to ensure that improvement is achieved. We are committed to satisfactorily addressing these issues; and have developed and enhanced procedures to address these issues.

Scope

The review of environmental health, safety and security operations focused on the areas of staffing, fire and life safety, chemical inventory and storage, safety communications and training, laboratory safety, emergency management plans, camps, student travel, and crime reporting for the period September 2008 through August 2009. Fieldwork was conducted in July and August 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Enforcement of Safety Standards

Observation

Overall, enforcement of university-wide oversight and monitoring of decentralized safety processes such as administration of camps, laboratory safety, safety training, and chemical inventory and storage needs improvement to ensure that these areas are properly controlled. The State Fire Marshall’s report in 2008 noted that EHSD lacked visibility and needs a more proactive role for building inspections. A&M System Policy 24.01 states that the System and its members will develop and maintain a comprehensive health and safety program and an environmental management system to identify and manage risks.

A general disregard, or carelessness, for safety practices by University employees was noted during the audit. Employees’ lack of safety consciousness increases the risk of injury to themselves and others. Auditors observed the following: an employee was not wearing personal protective equipment while mixing herbicide and operating a tractor; several employees were operating commercial lawn mowers without wearing required hearing or eye protection; and an employee attempted to reach for chemicals from a high shelf using a stool with wheels rather than a ladder. A&M System Policy 24.01 states that strong risk management programs and safety programs, coupled with consciousness and awareness on the part of all System personnel, are of vital importance to the accomplishment of safety objectives.

EHSD, with two full-time employees, is responsible for oversight and monitoring responsibilities throughout the campus. The two employees dedicate a significant portion of their time reacting and responding to environmental issues rather than developing programs to prevent problems. A benchmarking analysis performed by the A&M System Office of Risk Management indicates that EHSD is understaffed and needs four full-time equivalent positions to maintain environmental health and safety programs. The University will need to determine staffing and resources necessary to reduce the risks of injury to individuals and facilities, and possible penalties resulting from noncompliance with federal and state requirements. This determination should include consideration of the emphasis on formalized health, safety, and environmental
1. Enforcement of Safety Standards (cont.)

management systems as required by System Policy 24.01. Proactive and routine monitoring processes are necessary controls for managing the risks associated with environmental health and safety management and to provide timely and useful information for management decision-making.

The University is in the process of developing university-wide safety program standard operating procedures as required by A&M System Regulation 24.01.01. A significant portion of the standard operating procedures have been drafted and are in process of approval and dissemination.

**Recommendation**

Determine necessary staff and resources for effective university-wide oversight and monitoring of environmental health and safety to sufficiently address the A&M System's objectives for comprehensive health and safety programs and an environmental management system.

Increase the visibility of environmental health and safety programs, and enhance management oversight across all levels of the campus to ensure safety is a priority.

Complete development and implementation of university-wide safety procedures in compliance with A&M System policy.

Consider including safety compliance as part of employee annual performance evaluations.

**Management’s Response**

*While we feel the Environmental Health and Safety Department is visible, we agree that enhanced visibility will improve safety compliance. Therefore, we agree with your recommendations and are instituting a formal process to ensure these requirements are implemented.*

The Environmental Health and Safety Department has and/or will conduct the following:

- Environmental Health and Safety (EH&S) manning levels have been evaluated, and we are currently in the process of hiring an additional staff member.

- Increasing visibility and enhanced management of University EH&S programs has been a continuous improvement process since the arrival of the Director of Environmental Health and
1. Enforcement of Safety Standards (cont.)

Safety. Current and ongoing improvements include establishing and communicating EH&S-related University Administrative Procedures to the campus community; the development of site-specific inspection checklists; the issuance of incidence reports to affected units and monthly reports to upper management; the creation of a Safety Manual and a Laboratory Safety Manual; briefing and training presentations to campus units; and improvements to the laboratory safety and monitoring program.

- The University will complete the development and implementation of university-wide safety procedures and ensure these procedures are in compliance with A&M System policy. The EH&S Advisory Committee will peer review these procedures for accuracy.

- The University has incorporated safety compliance into all annual staff evaluations.

These activities are being implemented and will be completed by May 1, 2010.

2. Camp Administration

Observation

The University does not provide adequate oversight and procedures for camp administration and could not provide a comprehensive list of current camps. We identified at least 17 camps that were held on the campus in fiscal year 2009. The camps host kindergarten through college-age participants on the campus and provide attendees with education and recreational activities that support the University’s academic and athletic programs. Our review of four university-sponsored camps and two third-party sponsored camps indicated processes are inadequate to ensure the safety of camp participants and protection of the University from potential liabilities.

We noted the following:

- Of the four university-sponsored camps reviewed, two lacked documented approvals on file; one did not have a signed agreement or contract; one did not have waiver of liability forms and emergency medical release forms for participants; and one could not verify that background checks for camp personnel or volunteers occurred.

- Not all university-sponsored camps have an application on file with the Office of Business Affairs. The Business Office uses
2. Camp Administration
(cont.)

these applications to complete the information submitted to the System Office of Risk Management to provide insurance coverage for the camps. Approximately nine university-sponsored camps were hosted, but were not reported for insurance purposes.

- Camps were not monitored to ensure that the third-party sponsor had adequate insurance coverage for the camp, that background checks were completed on camp personnel, and that emergency medical information was obtained.

Without procedures and oversight for camps hosted at the University, the risk of injuries and potential liabilities is increased.

Recommendation

Develop and implement a University rule with standardized procedures and forms that include all safety requirements (especially background checks and medical emergency information) for establishing and administering camps.

Maintain a comprehensive list of all camps that are conducted on the University’s campus or properties and ensure that all university-sponsored camps have adequate insurance coverage.

Establish a process to monitor all camps to ensure that the administration of these camps abides by University rules and procedures. Designate an official or department to monitor the process.

Management’s Response

We agree with your recommendations, and we are implementing a centralized point-of-contact and formal process to ensure all hosted and sponsored camps are properly and safely administered.

The University has and/or will conduct the following:

- The University appointed a camp administrator on August 26, 2009, to ensure proper oversight of camps at the University.

- A University rule and administrative procedure will be developed which will include necessary forms that capture safety requirements for establishing and administering camps. Particular attention will be paid to attaining background checks and medical emergency information.
2. Camp Administration (cont.)

- The camp administrator will maintain a comprehensive list of all camps. No camp will be authorized unless they possess adequate insurance.

- All camps will be visited during their stay by the camp administrator to ensure policies and procedures are being followed.

  This process will be implemented by September 1, 2010.

3. Laboratory Safety

Observation

Noncompliance with laboratory safety practices as noted below were identified during a review of eight teaching and seven research laboratories:

- Eight of 38 (21%) students observed were wearing inappropriate attire such as short pants and open toed shoes, lacked eye protection (personal protective equipment) or did not restrain long hair.

- Twelve of 15 (80%) laboratories did not have clear access to necessary safety equipment. For example, fume hoods were used as storage areas or were not operable, emergency contact information or evacuation maps were not posted, emergency phones were not in working order, and exit signage was broken, missing, or damaged. Several eyewash stations and emergency showers did not have recent inspections.

- Twelve of 15 (80%) laboratories had unsafe environments created by clutter from excess inventory, supplies and waste in the facilities. One shop had old boards with rusty nails and paint amid other supplies. A refrigerator contained old food and other items that were growing mold.

- Two of 15 (13%) laboratories were improperly storing or disposing of biohazardous materials. In one laboratory, used gloves were hanging halfway out of a biohazard sharps (needles) disposal box. In another, used needles were collected in a large glass jar.

- Eleven of 15 (73%) laboratories did not have chemicals stored properly. For example, chemicals were stored above eye level, cluttered on countertops, under counters and tables, in unmarked containers, and not grouped together appropriately.
3. Laboratory Safety (cont.)

within hazard class. The chemical storage room in one department was unlocked and unmanned.

The University has not established a coordinated process to document, monitor, and enforce laboratory safety practices. The University relies primarily on faculty members, instructors, or teaching assistants to ensure that safety practices are followed. Only a limited number of lab safety inspections are performed by EHSD. Follow-up reviews are not performed to ensure that corrective actions have been taken. In addition, the University has not established university-wide guidance for teaching laboratory safety or for monitoring compliance and related documentation requirements.

**Recommendation**

Establish university-wide guidelines and protocols for laboratory safety practices. Develop controls and processes to monitor and enforce the conduct of students, faculty, and staff in laboratories and related University facilities, especially in the use of personal protective equipment and appropriate attire.

Conduct periodic, unannounced inspections of all teaching and research laboratories to ensure that students, faculty, and staff adhere to safety guidelines and protocols. Report inspection results to the appropriate level of management and conduct follow-up inspections to ensure that corrective actions are taken in a timely manner.

Ensure that all laboratories contain the proper safety equipment and that the equipment is properly maintained and inspected, that all chemical inventories are properly labeled, stored, and secured, and that appropriate housekeeping measures are taken to reduce clutter and maintain a safe environment.

**Management’s Response**

*We agree with your recommendations, and we are implementing a formal process to ensure these requirements are implemented.*

The Environmental Health and Safety Department has and/or will conduct the following:

- **EH&S has been working with all the lab managers to ensure the establishment and implementation of University Administrative Procedures for lab safety, a laboratory safety manual, lab safety training for professors and students, documentation and retention of the training records, and availability and consistent**
3. Laboratory Safety (cont.)

- *EH&S* is instituting a procedure of routine and unscheduled audits of each lab to ensure continued compliance. Results are presented to the lab managers, department heads, dean of the college, the provost, and the Vice President of Business Affairs, and other relevant personnel. *EH&S* will conduct follow-up reviews on inspection reports with outstanding findings until all required remedies are implemented.

- *EH&S* will conduct routine and unscheduled inspections of chemical storage and waste collection sites to ensure laboratories contain proper safety equipment and are in compliance with labeling, storing, and securing chemicals to maintain a safe and clutter-free environment. *EH&S* will provide reports of these reviews to the lab managers, department heads, dean of the college, the provost, and the Vice President of Business Affairs, and other relevant personnel.

This process will be implemented and verified by March 1, 2010.

4. Safety Training

Observation

While safety training for students using laboratories and employees exists, the University could not provide documentation for which individuals received training or the topics discussed in the training program. The University has not monitored employee and student training programs for adequacy and completeness.

Safety training documentation for 33 of 50 (66%) students from the spring 2009 teaching laboratories was not available. Documentation was not retained after the end of the semester. Individual academic departments are responsible for retaining training records and guidance for documentation varies widely.

Employee safety training, specifically hazardous communication and bloodborne pathogens training, is not provided to all new employees whose position duties require it. Twenty-three of 30 (77%) employees reviewed did not receive hazardous communication training, and 19 of 21 (90%) employees reviewed did not receive bloodborne pathogens training.

Decentralized training programs require strong monitoring controls to ensure that student laboratory safety training and employee
4. Safety Training (cont.)

Safety training is received in a timely manner. Retaining training records documents that the University has taken appropriate steps to mitigate risks in student teaching laboratories and employee workplaces and that the University is in compliance with A&M System regulations. Safety training is an important preventative control to reduce the risk of injuries to students and employees.

Recommendation

Establish training and monitoring programs for student laboratory safety and employee safety to ensure that all students and employees receive essential training in a timely manner.

Management’s Response

We agree with your recommendations, and we are implementing a formal process to ensure these requirements are implemented.

The Environmental Health and Safety Department has and/or will conduct the following:

- Hazard communication initial and recurring training is being issued, tracked and completed through the TrainTraq program for faculty, staff and student workers.

- Student lab safety is provided by lab professors and lab managers prior to students using the labs. This is certified by the department’s dean and verified by EH&S during its inspections.

- The EH&S Department has also developed a full Introductory Laboratory Safety Manual and training presentation for faculty, staff, and student workers.

These procedures are being implemented and will be completed by March 1, 2010.

5. Chemical Inventory and Storage

Observation

Chemical inventory and storage controls are weak.

Chemical inventories are not effectively reported or monitored to provide assurance that chemicals are handled appropriately. Although chemical inventories are required annually, departments did not report inventory timely. A university-wide chemical inventory has not been completed within the past year. Chemical inventories are not monitored for security and proper disposal. While EHSD has
developed a standard chemical inventory form, chemical inventory listings varied from department to department and none of the five departments tested used the EHSD form. One department stated they did not have chemicals yet auditors identified paints, solvents, and floor cleaners.

Our review of chemical inventory and supplies consisted of tracing items from inventory records to the chemicals (33 items), and tracing chemicals from location to the inventory records (29 items). Inventory records were provided by laboratory supervisors at the time of inspection. We noted the following:

- Seven of 29 (24%) chemicals located in departments were not on the inventory lists.
- Three of 33 (9%) chemicals from chemical inventory lists could not be found and two (6%) were not secured from unauthorized access. For example, chlorine tablets were stored in the pool area, accessible by anyone using the pool.
- Old, unused chemicals were identified at two departments. Some chemicals were in containers that were corroded and no longer had readable labels.

Comprehensive procedures have not been established for chemical inventory and storage. Without adequate procedures and the absence of monitoring, the risk of unsafe or unauthorized chemical use is increased. Chapter 25 of the Texas Administrative Code requires employers maintain chemical inventory lists to comply with the Hazardous Communication Act.

**Recommendation**

Establish comprehensive procedures for chemical inventory and storage. Additionally, implement a monitoring process to ensure that chemicals are acquired, stored, and disposed in compliance with federal and state requirements.

**Management’s Response**

*We agree with your recommendations, and we are implementing a formal process to ensure these requirements are implemented.*

The Environmental Health and Safety Department has and/or will conduct the following:

- Completion of chemical inventories is required on an annual basis per Texas Hazard Communication Act Section 502.005.
5. Chemical Inventory and Storage (cont.)

Therefore, the EH&S Department will ensure that all units complete the inventory in a timely and accurate manner.

- EH&S established a Lab Safety Manual and lab chemical storage inspection checklist. The checklist will be used in the periodic and unscheduled lab inspections and audits.

   This process will be implemented by May 1, 2010.

6. Safety Communication

   Observation

   An Environmental Advisory Council consisting of members representing a cross-section of the University community has been established to support the A&M System objective (as stated in A&M System Policy 24.01) for an aggressive approach to being exemplary environmental stewards. However, a review of attendance rosters for three council meetings in the past six months indicated that each meeting had less than half of the council members in attendance. Council meeting attendance is not mandatory and alternate members have not been designated. Without mandatory attendance or representation the effectiveness of communications between EHSD and the campus community is significantly reduced. Low attendance by members communicates a lack of commitment to the System’s objectives and awareness of the importance of safety communications.

   Recommendation

   Establish advisory council attendance requirements to ensure that the council is effective in addressing environmental safety objectives in compliance with A&M System policy.

   Management’s Response

   We agree with your recommendations and we are implementing a formal process to ensure these requirements are implemented.

   The University has and/or will conduct the following:

   - The University has established advisory council attendance requirements to ensure the council is effective in addressing environmental safety objectives and is in compliance with A&M System policy.

   We will verify these procedures are working no later March 1, 2010.
7. Incinerator

Observation

The University obtained a new incinerator in June 2009 to properly dispose of dead animals and some types of bacteria cultures from research laboratories. Improvement is needed to appropriately restrict access to the incinerator and to ensure employees are trained to use the incinerator.

Four people are authorized to use or oversee use of the incinerator; however, the logbook indicates at least seven individuals have accessed it. The only key to the incinerator is kept in a binder with the access logs which is stored in an open access area. The access logs indicated three non-authorized people have used the incinerator.

Training documentation for the incinerator could not be located to verify how many employees have been trained in the appropriate use of the incinerator. EHSD provided copies of training certificates for three people; however, one was not an authorized user. Limiting access to the incinerator to only trained, authorized users reduces the risk of injuries as well as noncompliance with air safety standards.

Recommendation

Establish a process to limit access to the incinerator to only authorized employees. Maintain training records to ensure that all users receive training prior to having access to the incinerator.

Management’s Response

We agree with your recommendations and we are implementing a formal process to ensure these requirements are implemented.

The University has and/or will conduct the following:

- EH&S is developing a University Administrative Procedure to ensure incinerator access is limited and training is provided prior to having access and training records are maintained.

This process has been implemented and will be verified no later than January 1, 2010.
BASIS OF REVIEW

Objective

The objective of the audit was to review and assess the University’s controls and processes over environmental health, safety and security operations to ensure they provide reasonable assurance that a safe environment exists for students, faculty, and staff. Also, to determine that the University is in compliance with laws, policies, regulations, and University rules relevant to campus safety and security.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Prairie View A&M University is committed to a campus environment that protects the safety and environment of the students, employees, vendors and the public.

The Environmental Health and Safety Department (EHSD) is responsible for bio-safety, hazardous materials, waste management, and environmental programs for the University campus to help faculty, staff, and students perform their work and studies safely and in an environmentally sound manner.

EHSD has an operating budget of $183,600 that includes two full-time equivalent positions. The University has outsourced many major functions, including wastewater treatment, hazardous material disposal, Environmental Protection Agency containment zone compliance monitoring, and security for the nursing school.
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PROJECT SUMMARY

Overview

Overall, management of environmental health and safety processes at West Texas A&M University requires significant improvement in certain key areas to better ensure that a safe environment exists for students, faculty, staff and visitors. Although safety controls and processes were implemented within many of the University areas reviewed, additional safety procedures and monitoring are needed in certain high-risk safety areas including laboratory safety practices, inventory and storage of hazardous chemicals, and safety training. It is important for the University to develop a network of safety liaisons throughout the campus to work closely with the Environmental Safety Office (Safety Office) to better leverage current safety resources and expertise for improved monitoring and oversight of the environmental health and safety program. Other opportunities for improvement were noted in the areas of the University’s Institutional Biosafety Committee, fire and life safety inspections, and student travel.

During the audit, management expressed their commitment to creating a safe and secure campus environment which was evident in several of the safety areas reviewed. For instance, extensive procedures and processes have been developed for ensuring safety within various student and youth activities including camps, student travel, and other student activities on campus. In addition, the University recently hired an Assistant Vice President for Risk Management and Compliance and also began performing significant renovations of existing research laboratory facilities.

Summary of Significant Results

Environmental Health and Safety Program

Limited safety procedures and monitoring processes have been established to provide oversight of certain key areas of safety risk within the University’s environmental health and safety program. These areas of risk include teaching and research laboratory
safety practices, inventory and storage of hazardous chemicals, and safety training for students and employees. The University has a Safety Office which provides the majority of safety oversight for the University. However, due to the wide array and often technical nature of safety areas impacting the University, the Safety Office may not have sufficient resources, or in some instances the necessary expertise, to effectively oversee certain portions of the safety program such as laboratory and chemical safety. The University should reassess the resources available to the Safety Office and any additional training or expertise needed given the size and nature of the University’s operations.

Laboratory Safety Practices

The University’s laboratory safety practices do not adequately ensure that all laboratories remain safe and that laboratory safety issues are identified and addressed in a timely manner. Teaching and research laboratory inspections are not scheduled based upon the relative safety risk of the respective laboratory or facility and strict adherence to inspection schedules is not always achieved. In addition, there is no formal process for performing unannounced spot checks of teaching laboratories in session to ensure laboratory safety protocols are being enforced, and no formal follow up of prior laboratory safety inspections is conducted to ensure that safety deficiencies identified are addressed in a timely manner. Various safety issues were noted during physical observation of selected teaching and research laboratories and prior safety deficiencies noted were not fully resolved for eight of ten safety inspections reviewed.

Chemical Inventory and Storage

Chemical inventory and storage processes within the University are mostly decentralized with little monitoring to ensure that hazardous chemicals are properly controlled and adequate safeguards are being taken. For instance, campus departments do not consistently conduct, document, or submit chemical inventories to the Safety Office which restricts its ability to properly oversee chemical safety. Also detailed procedures have not been developed for the appropriate handling and storage of chemicals. As a result, laboratories and preparation rooms observed often contained excess or old chemicals as well as chemicals that were not properly labeled or stored. Inadequate procedures, and the absence of monitoring, heighten the risk that necessary chemical safeguards may not be taken which could result in employee/student injury, facility damage, and noncompliance with federal, state, and System policies and regulations.
**Safety Training**

Current processes do not ensure that all students and employees receive the necessary safety training in a timely manner. Although there is evidence that students are receiving some level of laboratory safety training, documentation of this training is limited and not being retained in most cases. In addition, hazard communication training is not required for certain employees who are potentially exposed to hazardous chemicals such as graduate students and part-time instructors. For those employees who are required to complete this training, most had not completed it within two weeks of their hire date. The University should increase monitoring of safety training processes to better ensure that all required safety training is being performed as required.

**Summary of Management’s Response**

The University has appointed the Dean of the Graduate School and Research as the office to provide oversight for the monitoring of safeguards and implementing protocols for the teaching and research laboratories, inventory and storage of hazardous chemicals in the labs, and safety training for students and employees. A plan was developed but not implemented a number of years ago using recognized expertise in these areas. We have established a process to revisit that plan for revision and updating (target of December 15, 2009); review, revise and approve the updated plan (target of January 11, 2010); assess adequacy of resources allocated to the University’s Environmental Health and Safety Program (target of February 15, 2010; and establish an administrative structure and put into place resources sufficient for implementation of the plan (target April 1, 2010). The Environmental Safety Office will be working with the Dean of the Graduate School and Research to update and implement the procedures for the Environmental Health and Safety program.

**Scope**

The review of environmental health, safety and security operations focused on the areas of safety training; laboratory safety (inspections, protocols and enforcement); chemical inventory and storage; fire and life safety; student activities (camps, travel, and other activities); faculty international travel; Clery Act reporting; emergency operations planning; safety communication; recombinant DNA research compliance; child care center safety; and safety considerations in external vendor agreements for the period September 2007 through May 2009. Fieldwork was conducted in June through August 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Environmental Health and Safety Program

Observation

The University has limited safety procedures and monitoring processes in certain key areas of its environmental health and safety program.

Detailed safety and security procedures have not been developed and distributed for all safety areas including high-risk areas such as laboratory safety inspections, hazardous chemical inventory and storage, and safety training. Lack of adequate communication of safety requirements increases the risks that safety processes may not be properly controlled and documented. In addition, monitoring of these key safety areas is limited.

The University has an Environmental Safety Office (Safety Office) which provides the majority of safety oversight and monitoring for the University. However, due to the wide array and often technical nature of safety areas impacting the University, the Safety Office may not have sufficient resources, or in some instances the necessary expertise, to effectively oversee certain portions of the safety program such as laboratory and chemical safety. The University should reassess the resources available to the Safety Office and any additional training or expertise needed given the size and nature of the University’s operations. In addition, development of a network of safety liaisons throughout the campus is critical to assist the Safety Office in effectively overseeing the University’s health and safety program. In order for this network to be effective there must be good communication between the Safety Office and these decentralized safety liaisons. The University is currently working to formally identify and assign departmental safety liaisons.

Without detailed procedures and more proactive monitoring and oversight of critical safety areas, the University’s environmental health and safety program may not be effectively implemented which could lead to increased risk of student/employee injury, facility damage, and penalties associated with noncompliance of federal and state regulations.

Texas A&M System Policy 24.01, Risk Management, requires that System members develop and maintain a comprehensive health and safety program. In addition, it indicates that environmental management systems must be established which include monitoring or measurement of environmental performance, assessment of the adequacy of controls, and opportunities for improvement and
performance of corrective actions as needed. The Texas A&M System Supplemental Risk Management Standards involving health and safety also require that standard operating procedures be developed and published on identified health and safety hazards to reduce risks to faculty, staff, students, and visitors.

**Recommendation**

Develop and implement a comprehensive (university-wide) set of written policies and procedures for the environmental health and safety function at the University including the areas of laboratory safety inspections, hazardous chemical inventory and storage, and safety training. Ensure these policies and procedures are easily accessible and/or properly distributed to all relevant safety personnel.

Continue working to formally identify and assign a network of departmental safety liaisons and develop effective ongoing communication mechanisms between these personnel and the Safety Office such as through the establishment of a separate safety committee, periodic meetings, memos, or other means of communication.

**Management’s Response**

A set of written policies and procedures for environmental health and safety have been developed, but not implemented. West Texas A&M University will employ appropriate experts to update and revise the manual. A network of liaisons must be in place to implement the policies and procedures and to provide a communication link between the Safety Office and the lab managers/faculty/PIs. The Chief Research Officer (Dean of the Graduate School and Research) is charged with oversight of these liaisons, implementation of the policies and procedures once approved, and communication with the Safety Office. Implementation date: January 2010, prior to commencement of the spring 2010 semester.

**2. Laboratory Safety Practices**

**Observation**

The University’s laboratory safety processes require improvement in several areas to better ensure that teaching and research laboratories remain safe and that all laboratory safety issues are identified and addressed in a timely manner. The following laboratory safety issues were noted:
2. Laboratory Safety Practices (cont.)

- The frequency and scheduling of safety inspections performed on teaching and research laboratories is not based upon the relative safety risk of the respective laboratory or related facility. As of June 2009, the most recent laboratory inspections were conducted in March 2008.

- Previous University management instituted a process in which laboratory safety inspection reports were submitted to upper administrative personnel who could in turn provide them to the responsible laboratory personnel, faculty, or researcher. However, laboratory personnel contacted during the audit generally indicated that they had not been receiving these inspection reports.

- Physical observation of two teaching and three research laboratories, as well as other laboratory facilities randomly observed during the audit, indicated varying degrees of non-compliance with safety requirements. Safety issues noted within the five laboratory facilities reviewed included three (60%) with improper storage of chemicals, five (100%) with missing or obstructed safety equipment, and three (60%) with general housekeeping issues. This included laboratories in the Art, Agriculture, Biology, and Chemistry facilities.

- No formal process is in place to perform unannounced spot checks of teaching laboratories while the laboratory is in session to ensure laboratory safety protocols are being enforced by the laboratory instructors. Instances of noncompliance noted in the one teaching laboratory in session at the time of the audit included students without safety goggles and proper protective attire; and cluttered work areas with student personal items not appropriately stowed.

- Tracking and follow-up of safety deficiencies identified during laboratory inspections is not adequate to ensure that safety issues are addressed in a timely manner. Safety deficiencies identified in eight of ten (80%) laboratory safety inspections reviewed which were performed in March 2008 had not been fully resolved as of June 2009. Five of these had not addressed any of the reported deficiencies. These prior deficiencies included issues such as missing or obstructed safety equipment, housekeeping issues, improper chemical storage and labeling, unsecured gas cylinders, and a lack of available personal protective equipment.

Texas A&M System Supplemental Risk Management Standards involving health and safety require implementation of a laboratory safety program in accordance with prudent practices in the
2. Laboratory Safety Practices (cont.)

laboratory to reduce occupational exposure to health and safety hazards. This includes the use of personal protective equipment such as proper clothing, safety glasses, gloves, and laboratory coats wherever hazards of processes or the environment may result in injury or impairment. These standards also require that buildings and grounds occupied by faculty, students, employees or visitors be kept clean to the extent that the nature of the work or research allows, such as eliminating excess clutter.

Recommendation

Prepare a risk-based safety inspection schedule for the various laboratories, shops, and related facilities to determine the inspection frequency necessary to ensure a safe working environment. Establish and adhere to strict timelines for the performance of these inspections.

Provide laboratory safety inspection reports to the responsible laboratory personnel, faculty, and/or researcher as well as the respective department head to ensure that all responsible parties are aware of the safety issues identified and held accountable for resolving these deficiencies.

Ensure that all teaching laboratories contain the proper safety equipment and that this equipment is properly maintained and inspected. In addition, all laboratories and related facilities should follow general sanitation requirements (including housekeeping, etc.) prior to, during, and following the use of these facilities. Ensure that all chemical inventories are properly labeled and safely stored.

Implement a formal process for monitoring and enforcing the conduct of students and employees in laboratories and related University facilities including the use of personal protective equipment. For instance, conduct periodic unannounced inspections of teaching and research laboratories while in use to ensure that students, faculty, and staff adhere to laboratory safety guidelines/protocols.

Implement a follow-up inspection process that includes formal tracking and monitoring of the timely implementation of inspection report recommendations. This process should require the inspected department, laboratory, or facility to submit a formal implementation time line for correcting safety deficiencies. The Safety Office should then perform a follow-up visit that ensures the department, laboratory, facility, etc. has taken the appropriate steps to correct the identified deficiencies in a timely manner. This time period (e.g., within two weeks of the initial inspection,
2. Laboratory Safety Practices  
(cont.)  

etc.) should be determined by University management with strict adherence.  

Management’s Response  

The environmental health and safety plan will establish the appropriate inspection schedule (announced and unannounced), and identify and inventory the required safety equipment in teaching laboratories and remediate deficiencies. The Safety Officer, Chief Research Officer, and the liaisons will be charged with implementation. Implementation date: January 2010, prior to commencement of the spring 2010 semester. 

3. Chemical Inventory and Storage  

Observation  

Chemical inventory and storage processes within the University are mostly decentralized with little monitoring to ensure that hazardous chemicals are properly controlled and adequate safeguards are being taken. For instance, chemical inventories are not consistently prepared to identify hazardous chemicals being used and stored which is necessary in order to monitor these chemicals for proper safeguards. In addition, few university-wide procedures have been developed to provide guidance to faculty and departments for purchasing, receiving, inventorying, storing, or disposing of hazardous chemicals. As a result, testing of selected facilities within the Art, Agriculture, Biology, Chemistry, and Theatre departments indicated various instances of improper labeling and storage of chemicals. 

In addition, a large amount of excess chemicals are currently being stored in a controlled access area in the basement of the Agriculture and Natural Sciences Building. All chemicals in this area have been inventoried and the Safety Office is working with the A&M System Office of Risk Management and Safety for disposal of this excess inventory. 

Texas A&M System Supplemental Risk Management Standards involving health and safety require implementation of a chemical safety program as necessary to protect students, employees, and the environment. This includes developing and publishing standard operating procedures to reduce risk to employees, students, and visitors for identified hazards. Also the program should address the issues of safe and proper storage, handling, and transportation of chemical materials as well as include provisions to monitor the acquisition of identified chemicals.
3. Chemical Inventory and Storage (cont.)

Recommendation

Develop university-wide procedures for the purchase, receipt, inventory, safeguarding, storage, and disposal of chemicals.

Prepare chemical inventory listings on a perpetual basis and periodically (e.g. annually) submit these listings to the Safety Office. Implement tracking mechanisms such as check out processes as needed in order to better account for chemicals and determine their specific location.

Monitor departmental handling and storage of chemicals to ensure established procedures are being followed to prevent possible injury to faculty, staff, students, and visitors, as well as property damage.

Complete the current efforts to identify and dispose of old and excess chemicals.

Management’s Response

Excess inventory has been eliminated and a process is being established to assure the Safety Office has accurate records of all chemicals. Procedures will be revised with regard to the purchase, receipt, inventory, safeguarding, storage, and disposal of chemicals. Target date of January 2010, prior to commencement of the spring 2010 semester. Implementation will include training and monitoring to ensure the proper handling, labeling, storage and disposal of said chemicals. The Environmental Safety Office coordinated the removal of old and excess chemicals from the Agriculture and Natural Sciences Building by SET Environmental on October 2, 2009. This will be an ongoing annual event to manage chemical inventories on campus. Implementation date: February 2010.

4. Safety Training

Observation

Safety training is an important preventative control to ensure the safety of all affected students and employees. Student and employee safety training processes do not have adequate controls in place to ensure that all necessary safety training is completed and documented in a timely manner. The following was noted:

- Safety training for students in the laboratories is decentralized with limited monitoring to ensure training is being performed as required.
4. Safety Training (cont.)

- Limited procedures or guidelines for laboratory safety training have been provided to departments including procedures for documentation and retention of student training records.

- Although there is evidence that the instructors are providing safety training to the students, 10 of 13 (77%) high risk laboratory classes (total of 130 students) reviewed had no documentation of safety training attendees.

- Fifteen of 30 (50%) personnel files tested for new employees at risk of being exposed to hazardous chemicals had no hazard communication training form on file. Thirteen of 15 (87%) of the employees without hazard communication training had not been instructed to take it because they were graduate students or part-time instructors.

- Ten of 15 (67%) employees reviewed that took the hazard communication training did not take it within two weeks of their hire date. These instances ranged from 8 - 63 business days late and averaged 31 business days late.

Texas A&M System Supplemental Risk Management Standards involving health and safety require that standard operating procedures be developed and published and corresponding training be provided and documented on identified health and safety hazards to affected faculty, staff, students, and visitors. In addition, Texas Administrative Code, Title 25 Health Services, Rule 295.7 requires that employers develop a hazard communication program to provide training for new or newly assigned employees which must be completed prior to assigning any duties that may result in exposure to hazardous chemicals.

**Recommendation**

Develop minimum procedures and guidelines for student safety training including documentation and records retention requirements.

Monitor to ensure that laboratory safety training is performed for all relevant students in a timely manner and properly documented. Also ensure that the corresponding teaching assistants receive laboratory safety training.

Ensure that all employees with the potential exposure to chemicals receive the required hazardous communication training in a timely manner including graduate students and part-time instructors.
4. Safety Training (cont.)

Explore the possibility of using the Texas A&M System's TrainTraq system for employee hazardous communication training. Employees requiring this training can be identified by the employee's title code which can be programmed into TrainTraq. In addition, the TrainTraq system will allow monitoring of this training by the Human Resources department with automated reminders and reporting capabilities.

Management's Response

In most cases, proper safety training is occurring in the laboratories. Our challenge is in documenting and reporting the training. A centralized reporting system managed by the Safety Office, with implementation and enforcement assured through the office of the Chief Research Officer will facilitate this training. The Dean of the Graduate School and Research will provide the Personnel Department names of graduate students and part-time instructors who are required to have hazard communication training. Individuals will use the TrainTraq program to meet this requirement. Documentation of completed training will be electronically sent to the Environmental Safety Office for records retention. Implementation date: February 2010.

5. Institutional Biosafety Committee

Observation

Written procedures have not been developed for the University's Institutional Biosafety Committee (IBC) to provide guidance regarding the initial and continuing review and approval of research applications, proposals, and activities. In addition, supporting documentation of the IBC's discussions, activities, and actions are not adequately maintained to support decisions made by the IBC involving research protocols and proposals especially those involving recombinant DNA. IBC members indicated that there are efforts underway to begin preparing procedures for the IBC.

Without adequate documentation of IBC actions and decision-making, the University may not be able to demonstrate compliance with certain federal regulations such as National Institute of Health (NIH) regulations for research involving recombinant DNA molecules. This could reduce the ability of the University to secure future research funding.

NIH Guidelines for Research Involving Recombinant DNA Molecules state that the institution may establish procedures that the Institutional Biosafety Committee shall follow in its initial and
5. Institutional Biosafety Committee (cont.)

continuing review and approval of applications, proposals, and activities. Upon request, the institution shall make available to the public all Institutional Biosafety Committee meeting minutes and any documents submitted to or received from funding agencies which the latter are required to make available to the public.

Recommendation

Continue with current plans to develop and document written procedures to support the IBC’s initial and continuing review, as well as, approval of research applications, protocols/proposals, and activities.

Ensure discussions, activities, and actions of the IBC are adequately documented and maintained to support decisions made regarding the status or research protocols/proposals especially those involving recombinant DNA.

Management’s Response

The University will continue with current plans to develop and document written procedures. The Chief Research Officer will lead this effort. Implementation date: February 2010.

6. Fire and Life Safety Inspection Follow-ups

Observation

Limited documentation was available to demonstrate the resolution of deficiencies noted during fire and life safety inspections performed by the Safety Office.

The University’s Safety Office and the Physical Plant have worked together to address and fully implement all prior State Fire Marshall recommendations. The Safety Office also performs fire and life safety inspections and contacts the Physical Plant to address any safety deficiencies identified that require Physical Plant action. However, there is no formal tracking of fire and life safety deficiencies identified to ensure that all are addressed in a timely manner. In addition, fire and life safety inspection reports are sent to University management who oversee the resolution of any safety issues identified. However, there is limited documentation of these follow-up efforts to demonstrate that deficiencies identified are resolved in a timely manner.

Lack of formal tracking mechanisms and documentation of the fire and life safety follow-up processes make it difficult to monitor to ensure that fire and life safety deficiencies noted are being resolved in a timely manner. As a result, there may not be adequate assurance that the Physical Plant has resolved all noted fire and life
6. Fire and Life Safety Inspection Follow-ups (cont.)

Safety deficiencies in a timely manner resulting in an increased risk of fire and life safety hazards to students and employees.

**Recommendation**

Implement a formal tracking and monitoring process for fire and life safety deficiencies identified during Safety Office inspections and document the resolution of these safety deficiencies to ensure they are resolved in a timely manner.

The Safety Office should consider using the online Physical Plant work order system to submit work requests needed to address fire and life safety inspection deficiencies. This would better ensure that the work request is submitted timely and is given the appropriate priority, depending on the severity of the deficiency. In addition, the Safety Office could more easily monitor the work order status.

**Management’s Response**

The Environmental Safety Office began using the Physical Plant work order system on September 24, 2009 coupled with follow-up spot checks. A hard copy of the request is printed and notations of follow-ups are recorded and retained. Implementation date: February 2010.

7. Student Travel

**Observation**

Student travel rules and procedures have been established by the University and are in compliance with Texas A&M System regulations. However, instances of noncompliance with these procedures were noted during a review of student travel documentation at various departments. This included instances in which all required student travel forms were not completed or were not completed accurately. In addition, some departments were using their own customized forms which did not include all required student travel information. One department was not fully aware of the current student travel procedures.

Noncompliance with established student travel requirements could result in an increased risk of injury to students while travelling which could also expose the University to both reputational and legal risks. University student travel procedures state the procedures apply to all who travel to an activity or event that is organized and sponsored by the University.
Recommendation

7. Student Travel (cont.)

Provide additional training and monitoring of student travel forms and requirements as needed to better ensure that student travel procedures are properly followed and corresponding student travel documentation is retained as needed.

Management's Response

The Student Travel Task Force met August 26, 2009 to review and revise all appropriate forms. Departments who had created their own forms were included in the discussion and instructed to use established forms or have customized forms approved prior to use.

Revised forms as well as the travel guidelines were distributed on September 7, 2009 to every employee at the University and posted on the Business Affairs/Travel and Student Organizations websites.

A Risk Management workshop to cover several issues including student travel was conducted on September 24, 2009 for all student organizations. Additional workshops to explain the procedures and forms are being planned along with increased monitoring to better ensure compliance with these procedures. Implementation date: January 2010, prior to commencement of the spring 2010 semester.
BASIS OF REVIEW

Objective

The overall objective was to review and assess the University's controls and processes over environmental health, safety and security operations to ensure that they provide reasonable assurance that a safe environment exists for students, faculty, and staff. Also, to determine that the University is in compliance with laws, policies, regulations, and University rules relevant to campus safety and security.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System; the Treadway Commission's Committee of Sponsoring Organization’s Internal Control - Integrated Framework (COSO); West Texas A&M University Rules and Procedures; federal and state laws; and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

West Texas A&M University is committed to a campus environment that protects the safety and the environment of the students, employees, and visitors. The Environmental Safety Office and the University Police Department (UPD) comprise the two most significant elements of the safety and security functions at the University. The mission of the Safety Office is to provide advisory and technical support to the University by managing risk, assessing and evaluating the environment, promoting safe work practices, providing educational training programs and ensuring compliance with applicable federal, state and University regulations, policies and standards. The Safety Office is staffed by three full-time employees.
with a fiscal year 2009 operating budget of almost $100,000. The mission of the UPD is to support the University's core mission of higher education by establishing and maintaining a campus environment that is safe, and conducive to learning. To this end, UPD will strive to create a tangible perception of safety throughout the campus community through visibility, vigilance, and service. UPD is committed to the suppression of crime and preservation of order, and will endeavor to achieve these conditions through fair, courteous, and impartial enforcement of the law. UPD is staffed by approximately fourteen full-time employees with a fiscal year 2009 operating budget of over $900,000.

During the fall of 2008 the University had 7,550 students enrolled (almost 1,200 living on campus) and almost 800 full-time employees. In addition, the University currently houses approximately 20 teaching labs and 30 research labs.
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PROJECT SUMMARY

Overview

The Texas A&M University Athletic Department requires significant improvement in its financial controls and processes to ensure resources are used in an effective and efficient manner and in compliance with policies, regulations, and rules. Significant control weaknesses noted include limited monitoring and accountability of daily business operations; non-comprehensive financial reporting; expenditures not made in accordance with policies, regulations, and rules; and the lack of a formal plan for handling athletic facilities’ deferred maintenance. These weaknesses have hindered the Athletic Department’s ability to achieve and maintain financial stability. Additionally, departmental controls can be improved in the areas of purchasing, working funds, contract administration, employee vehicle benefits, inventory of non-capitalized goods, accounts receivables, and information technology.

Financial difficulties were recognized by the department in 2006 and discussions were held with the University’s executive management to determine how to address the financial issues. As a result, a $16 million loan was provided from the University to the Athletic Department from fiscal year 2006 through 2009.

In February 2009, the University charged the Division of Finance to lead an in-depth budget review of the department and develop a multi-year business plan to ensure the future financial viability of the Athletic Department. The Division of Finance’s report was released in June 2009 and the Athletic Department is currently addressing the recommendations in the report.

Summary of Significant Results

Financial Control Systems

The extent of financial reporting and control weaknesses noted throughout this audit indicate that the Athletic Department lacks effective control systems over its business operations. Limited monitoring of financial controls and processes and limited
accountability for daily financial operations has contributed to the department's financial position. The lack of effective control systems has increased the department's risk for the inefficient and ineffective use of resources.

Financial Reporting

Financial reporting activities performed by the Athletic Department do not provide a complete representation of the department's financial position. A balance sheet is not prepared and in fiscal year 2008, over $2.5 million in revenues and expenses were not included in the department's financial statements. The exclusions included $1.1 million in revenues and expenses routed through the 12th Man Foundation and $1.4 million of product revenues and expenses provided from athletic apparel contracts. The inclusion of all financial activities identified would provide better financial information for University and Athletic Department management.

Expenses Processed Through the 12th Man Foundation

The Athletic Department was not required to comply with controls and processes outlined in A&M System policies, regulations and University rules by processing expenses directly through the 12th Man Foundation instead of the University's business functions. One example noted was the construction of an equestrian facility valued at approximately $1 million. The Athletic Department managed this construction project instead of using the University’s or System's facility and construction divisions. According to Athletic Department management, processing of certain payments through the 12th Man Foundation is a more expedient and, at times, a less costly process than that in place at the University.

Facilities Maintenance

Results from facility assessments of Kyle Field performed in 2002 and 2004 have not been substantially implemented. Of the one hundred thirty-eight recommendations resulting from the 2002 and 2004 assessments, twenty-one are complete while seventy-three are in progress. Some of the outstanding items have been included in future Kyle Field expansion or renovation plans. Total estimated costs for implementation of all recommendations range from approximately $128 million to $140 million. The University does not have a formal, comprehensive plan with timelines for addressing the outstanding facility assessment items.
Summary of Management's Response

The Texas A&M University Athletic Department appreciates the thorough review of its financial and business administration processes and controls performed by the System Internal Audit Department. In October 2008, the Director of Athletics identified weaknesses in certain business operations of the Athletic Department and, thereby, formed an advisory committee, consisting primarily of non-Athletic Department personnel, to determine the extent of such weaknesses and recommend appropriate actions for improvement. As a result, in 2009, the Athletic Department experienced significant improvements in its processes, the details of which are provided within our responses to each of the observations noted in the report. We agree with the System Internal Audit Department’s recommendations and believe that with their implementation, in conjunction with the implementation of recommendations made by the advisory committee, will enable the Athletic Department to maintain financial stability through efficient and effective operations.

Scope

The review of Athletic Department administration focused on the following areas: financial condition and monitoring, expenditures paid by the 12th Man Foundation, facilities, general expenditures, travel advances and team travel cards, athletic camps, booster clubs, contract administration, non-capitalized inventory, vehicle benefits, rate-setting, accounts receivables, information technology, utilities, procurement card and charge card accounts, working funds and safes, and e-communications. The audit period for the review was from September 1, 2007 through December 31, 2008, although some activities outside of this time period were examined as necessary. The review was performed from April 2009 through September 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Financial Control Systems

Observation

Financial control systems need to be improved.

The extent of financial reporting and control weaknesses noted throughout this audit indicate that the Athletic Department lacks effective control systems over its business operations. Limited monitoring of financial controls and processes and limited accountability for daily financial operations has contributed to the department’s financial position.

In addition to the audit observations outlined in the remainder of this report, the following financial control weaknesses were noted:

- A lack of monitoring of the overall financial condition of the Athletic Department including department and individual sports budgets for adherence to budget limits. High level monitoring, such as financial ratio analysis, assists management in making critical and day-to-day operational decisions as well as staying apprised of matters such as solvency or the ability to repay debt. Monitoring of budgets throughout the year serves as a preventive measure to ensure departments operate within their financial means and, if needed, budget adjustments are addressed in a timely manner.

- The department’s internal procedures manual has not been updated since 2005 and lists certain guidelines as ‘pending’. Without a current procedures manual, new and existing employees may not have the information needed to perform their responsibilities in adherence to requirements established by the System, University, and department management.

- Documentation to support the Athletic Department’s fiscal year 2008 required annual self-assessment of financial and operating systems could not be located. The investment in documenting the analysis of the department’s financial and operating systems provides management information regarding its areas of strengths and potential control weaknesses.

Ineffective financial control systems, along with limited monitoring processes, do not allow for the timely prevention or detection of
1. Financial Control Systems (cont.)

- declines in departmental performance which could result in financial losses, reputational risks, or operational failures.

**Recommendation**

- Develop, implement, and sustain the administrative business controls and processes necessary to effectively manage the Athletic Department’s financial and operational risks. Clearly define areas of responsibility and accountability and develop communication channels that function both vertically and horizontally. Take appropriate measures to address any identified financial performance issues in a timely manner.

- Develop monitoring controls and processes that encompass both high level and detail level financial and operational aspects of the department. Update the athletic internal procedures manual to align with current practices and the System, University, and departmental requirements; review the manual on a regular basis; and train employees as necessary for changes in procedures.

- Retain documentation of internal efforts performed to support assurances made in the annual self-assessment of financial and operating systems.

**Management’s Response**

*We agree that robust and effective administrative business controls and processes are necessary to effectively manage the Athletic Department’s financial and operational risks.*

*In accordance with a recommendation made by the Athletic advisory committee, as discussed in the Summary of Management’s Response, the Director of Athletics requested the 12th Man Foundation to engage an external consultant to perform a detailed review of Athletic business operations, focusing specifically on leadership, staffing levels, system adequacy, fiscal year 2009 projected results, and the fiscal year 2010 budget process. Based on the consultant’s review, the Athletic Department (1) hired a new CFO, effective July 2009; (2) created a new position of Athletic Assistant Financial Manager and filled the position, effective August 2009; (3) accurately projected and minimized the fiscal year 2009 operating deficit through expense reductions and controls; and (4) established a fiscal year 2010 balanced budget. Currently, revenue and expense balances are reconciled to the University’s accounting system and financial statements are generated for each athletic account within two weeks of month-end. Account activity is reviewed by Athletic management, in conjunction with budget, distributed to and discussed with respective sport/administrative*
1. Financial Control Systems (cont.)

Financial information prepared and utilized by the Athletic Department is not complete.

Financial reporting activities performed by the Athletic Department do not provide a complete representation of the department’s financial position. A balance sheet is not prepared and not all departmental revenues and expenses are included in the financial statements.

The following specific financial reporting items were noted:

- In fiscal year 2008, expenses of approximately $1.1 million routed through the 12th Man Foundation for payment on behalf of the Athletic Department were not accounted for in the University’s Financial Accounting Management Information System (FAMIS) and, therefore, were excluded from the University’s and department’s financial statements. The revenues associated with these transactions were also excluded.

- Revenues and expenses for the product portion of the Athletic Department’s apparel contracts were not recorded in FAMIS and were also excluded from the University’s and department’s financial statements. Product revenues and expenses from Adidas and NIKE for fiscal year 2008 were $1.2 million and $218,000, respectively.

units, and communicated to and discussed with the Director of Athletics. As a result, issues are identified and addressed in a timely manner. This recommendation is complete.

The Department of Athletics procedures manual will be revised, as applicable, and placed on the department’s Intranet; available to all Athletic staff. Athletic management will (1) communicate changes to staff, (2) instruct staff to review the updated manual, and (3) train staff, as necessary, on changes made. Beginning in fiscal year 2011, the manual will be reviewed and updated, as necessary, on an annual basis. Estimated Completion Date: August 31, 2010.

Documentation of internal efforts performed to support assurances made in the annual self-assessment of financial and operating systems of the Athletic Department will be properly retained for review. This recommendation will be complete upon completion of the annual self-assessment for fiscal year 2009.

2. Financial Reporting

Observation

Financial reporting activities performed by the Athletic Department do not provide a complete representation of the department’s financial position. A balance sheet is not prepared and not all departmental revenues and expenses are included in the financial statements.
2. Financial Reporting (cont.)

- No depreciation or other form of non-cash expenses were included in the department’s income statement to ensure adequate reserves will be generated for deferred maintenance and renewal and replacement of equipment or facilities. Estimated depreciation expense for fiscal year 2008 was $3.3 million.

In addition, Reed Arena’s financial operations are accounted for separately and not included in the department’s financial statements even though the department became responsible for the management of the Arena in 2007. The Arena is used almost exclusively by the department for at least 67% of the year. The Arena’s gross profit and expenses were $3 million and $3.2 million, respectively, in fiscal year 2008.

System Regulation 21.01.01, Financial Accounting and Reporting, supports the full accounting of revenues and expenses as it requires that financial accounts of the System and its members be maintained and presented in formal financial reports in accordance with generally accepted accounting principles. In addition, the regulation indicates that academic institutions are encouraged to maintain a comprehensive balance sheet of auxiliary enterprises and service departments. The preparation of comprehensive financial statements which include all Athletic Department operations and transactions would provide management with complete and accurate financial information for more informed decision-making.

Additionally, reconciliations between the department’s internal financial accounting system (CYMA) and FAMIS were not reviewed or approved nor was an appropriate separation of duties in place between data entry and the reconciliation process. Reconciliations are performed to identify discrepancies between two sets of records or systems so that appropriate actions can be taken to resolve any outstanding items. Review processes are established to ensure that the reconciliations are prepared adequately and that management is aware of outstanding items that need attention. Without adequate review and monitoring processes, the risks are increased that errors or misappropriations could remain undetected month-to-month.

**Recommendation**

- Develop comprehensive financial statements for athletic operations to include the following:
  - All athletic related revenues and expenses. Ensure these revenues and expenses are recorded in FAMIS as well.
2. Financial Reporting (cont.)

- Depreciation or some other form of non-cash expense to account for future deferred maintenance and renewal, and replacement of equipment and facilities.

- A comprehensive balance sheet to show the financial position of the department.

Determine the best method for inclusion of Reed Arena operations in the financial statements for the Athletic Department so that all athletic facility operations are included. This could also eliminate resources expended in developing, identifying, and ultimately eliminating what constitute inter-departmental transactions between Reed Arena and the Athletic Department.

Additionally, in the reconciliation process separate the duties of data entry, reconciliation, and approval of reconciliations.

Management’s Response

We agree that financial activities, as previously reported by the Athletic Department, do not provide a complete representation of the department’s financial position. The following items, which have not resulted in a cash misstatement, will be corrected:

- The Athletic Business Office will limit the number of expenses routed through the 12th Man Foundation for payment to only those deemed necessary, as discussed in further detail within management’s response to observation three, Expenses Processed Through the 12th Man Foundation. Such transactions, if any, will be continuously monitored, recorded in the department’s internal accounting system as revenue from the 12th Man Foundation, expense to the department, and reported to the University’s Division of Finance at the end of each fiscal year. Additionally, the Athletic Business Office will monitor the receipt of in-kind items, such as apparel and other products from sponsors such as Adidas, Nike, and Gatorade. Such transactions will be recorded in the department’s internal accounting system as revenue from the sponsor, expense to the department, and reported to the University’s Division of Finance at the end of each fiscal year. Estimated Completion Date: August 31, 2010.

- The Athletic Business Office will request that the Division of Finance annually calculate depreciation expense for Athletic Department facilities and assets. The resulting non-cash expense will be recorded in the department’s internal accounting system to account for maintenance, renewal and replacement of
2. Financial Reporting (cont.)

- The Athletic Business Office will prepare an annual comprehensive balance sheet to demonstrate the financial position of the Athletic Department, including items recorded by the Division of Finance, accumulated depreciation, debt principal, accounts receivable, and accounts payable. Estimated Completion Date: August 31, 2010.

Reed Arena’s financial operations are currently reported apart from the Athletic Department’s financial statements. Athletic management will, with input from the University’s Division of Finance, conduct an in-depth study to determine whether the inclusion of Reed Arena operations as a component of the athletic enterprise is appropriate and, if so, the method by which they should be included. Estimated Completion Date: November 30, 2010.

Athletic operational activity is recorded to the department’s internal accounting system by Athletic management and staff. The Athletic Department has established separation of duties to the extent that delegation of responsibility is feasible and operational efficiency may be maintained. Account reconciliations for all Athletic accounts are performed monthly by either the Assistant Financial Manager or Business Associate III and reviewed and approved by the Financial Manager. These reconciliations to FAMIS mitigate the risk that errors or misappropriations are undetected month-to-month. This recommendation is complete.

3. Expenses Processed Through the 12th Man Foundation

Observation

The Athletic Department was not required to comply with controls and processes outlined in A&M System policies, regulations and University rules by processing expenses directly through the 12th Man Foundation. According to Athletic Department management, processing of certain payments through the 12th Man Foundation is a more expedient and, at times, a less costly process than that in place at the University.

One example of this situation involved the construction of an equestrian facility for the women’s equestrian team. Expenses totaling approximately $1 million for an equestrian facility were paid directly by the 12th Man Foundation. The facility was constructed on land leased by the University from Brazos County. An inter-local agreement for a term of five years was signed on January 15, 2008.
between Brazos County and the University's Senior Vice President and Chief Financial Officer on behalf of the Board of Regents for use of land at the Brazos County Expo Complex. The construction project was managed by the Athletic Department with no involvement from the University's or System's facility and construction divisions. Uncertainty exists as to whether the facility was built to meet all internally required structural, health, fire and life safety standards.

Insurance coverage for the facility has not been obtained by the System, the University, or the 12th Man Foundation nor is the facility included in the University's inventory listing. University employees and students began using the facility in December 2008. Buildings under control of a System member must be accounted for in the perpetual inventory of the member according to System Regulation 41.05.02.

In another example, the 12th Man Foundation paid for a departmental purchase of a computer operating system in December 2008 for $226,000. The operating system is located in the Cox-McFerrin Center and was needed to run a software program that analyzes player performance for the basketball program. Management indicated that expediency was the reason why they went to the 12th Man Foundation for this purchase because they needed the operating system functioning for basketball season. The department could have used the University's internal sole source purchasing procedures.

Invoices routed through the 12th Man Foundation for payment held approval signatures from the Athletic Department's Chief Financial Officer, a voucher clerk from the Division of Finance's Financial Management Operations for review of voucher support only, and the Director for Presidential Events in the President's Office. According to the Director for Presidential Events, no formal review process was in place nor was a reporting structure established to inform executive management of invoices routed from the Athletic Department to the 12th Man Foundation for payment.

Financial transactions processed outside of the University's standard business operations do not go through the established financial control and oversight processes that have been established to ensure that resources are used appropriately and in compliance with internal and external requirements. Thus, the University's risk for the inefficient and ineffective use of resources is increased when departmental expenses are processed through the 12th Man Foundation.
### Recommendation

The Athletic Department should limit its use of processing financial transactions directly through the 12th Man Foundation, particularly capital type expenditures. For those rare situations where this may need to occur, the University should establish and implement a formal reporting structure to ensure appropriate levels of University executive management are apprised that these transactions are being paid directly by the 12th Man Foundation.

With the aid of System and University facility and construction experts, assess whether the newly built equestrian facility meets all of the System and University building requirements. Obtain appropriate insurance coverage for the facility and include the facility in the University’s perpetual inventory listing.

### Management’s Response

We agree that use of the 12th Man Foundation to process financial transactions should be limited, particularly as they relate to capital expenditures. On an infrequent basis, when use of the 12th Man Foundation to process a financial transaction is deemed necessary, Athletic management and staff operate in accordance with the following process, effective September 1, 2009. An expenditure to be paid by the 12th Man Foundation on behalf of the Athletic Department is first approved by the Athletic CFO and then by the Division of Finance Vice President and CFO or designee. If the expenditure represents a capital expenditure or facility, details are provided to the Financial Management Operations (FMO) Property Manager to ensure the item is properly recorded in the University’s accounting system and perpetual inventory listing. Upon approval by the Vice President of Finance and CFO or designee and FMO Property Manager, if applicable, the expenditure is provided to the President of the 12th Man Foundation for final approval and payment. The aforementioned process ensures that appropriate levels of University executive management are kept apprised of all athletic transactions, although rare, paid by the 12th Man Foundation. This recommendation is complete.

Appropriate insurance coverage for the athletic equestrian facility has been obtained, as of October 12, 2009, and the facility is recorded in the University’s perpetual inventory listing. Additionally, Athletic management has requested that the System Facilities Planning and Construction Office perform an assessment of the equestrian facility to determine whether it meets all System and University building requirements. Corrections or enhancements, if required, will be made as expeditiously as available funding allows. Estimated Completion Date: May 31, 2010.
4. Facilities Maintenance

Observation

The Athletic Department has not developed a plan to address athletic facilities deferred maintenance needs.

A deferred maintenance plan has not been developed by the Athletic Department to address assessment recommendations relating to Kyle Field and Olsen Field or maintenance necessary for other athletic venues.

Results from facility assessments of Kyle Field performed in 2002 and 2004 have not been substantially implemented. Of the one hundred thirty-eight recommendations resulting from the assessments, twenty-one are complete while seventy-three are in progress. Total estimated costs determined at the time of the assessments for implementation of all recommendations ranged from approximately $128 million to $140 million. Recommendations are specific to the north, west, and east sides of Kyle Field.

A life safety assessment of Olsen Field in 2005 resulted in forty-six recommendations of which thirty-six have been addressed.

According to the Assistant Director for Facilities, the Athletic Department primarily depends on external funding, such as gifts, for construction and maintenance projects and these projects are typically addressed during renovations or new construction. Without a comprehensive deferred maintenance plan, facility repair costs may become unmanageable and put students, employees, and guests at risk.

According to Texas Administrative Code, Title 19, Chapter 17, Rule 17.30, new construction and/or additions may be denied by the Texas Higher Education Coordinating Board if critical deferred maintenance exists. Approval of new construction and/or new additions can also be denied if deferred maintenance ratios are not at acceptable levels.

Recommendation

The University should develop a deferred maintenance plan inclusive of all athletic facilities. The plan should include consideration of financial reserves needed to address the costs of deferred maintenance, replacement, and renewal of facilities. Defined timelines tied to milestones and assigned responsibilities for task implementation of facility maintenance recommendations should be put in place to address facility assessments, promote accountability, and expedite implementation.
Management’s Response

4. Facilities Maintenance (cont.)

We agree that an all-inclusive athletic facility deferred maintenance plan is a necessary and valuable tool to outline current and future needs for deferred maintenance, replacement and renewal of athletic facilities. Although a deferred maintenance plan will provide a roadmap for work to be performed, Athletic management recognizes that funding is currently not available to subsidize the plan. We believe that our reliance on external sources, such as donor gifts, will continue as our primary source of funding; however, we will strive to build financial reserves in the normal course of operations for normal recurring maintenance and repair. To ensure a plan is in place when necessary funds become available, Athletic management will develop an all-inclusive athletic facility deferred maintenance plan, including an optimal timeline for implementation and assignment of responsibility for completion. Estimated Completion Date: August 31, 2010.

5. General Expenses

Observation

An analysis of Athletic Department expenses (7,023 vouchers) identified opportunities for the department to improve efficiencies by establishing additional vendor contracts, paying invoices timely and eliminating in-store charge accounts.

Our vendor analysis testing identified 174 vendors to whom approximately $3.3 million in purchases were made throughout the audit period that accumulated to more than the bid threshold of $5,000 per vendor. For eighteen of twenty-seven (67%) vendors reviewed, contracts were not in place between the vendor and the University or Athletic Department. A total of approximately $753,000 was spent with these eighteen vendors.

University Rule 25.99.02.M1, Purchasing Procedures, requires purchases greater than $5,000, unless specifically exempted, to be competitively bid to ensure the best use of resources. Purchases may not be separated into smaller dollar purchases to avoid the bid threshold.

The Athletic Department Business Office does not actively monitor vendor payments to determine whether contracts should be established. Vouchers are also not monitored to ensure groups of purchases greater than $5,000 are competitively bid. Unnecessary expenses may result as efficiencies can be gained through the bidding process and establishing contracts with vendors.
5. General Expenses (cont.)

Prompt payment interest of approximately $7,450 was incurred by the Athletic Department during the audit period. The trend of late payments ranged from a low of 0.25% in September 2007 to a high of 52% in October 2008. For fiscal year 2009, interest penalties incurred by the Athletic Department were approximately $9,000 as of May 31, 2009. System Regulation 21.01.03, Disbursement of Funds, and Texas Government Code 2251.021, Time for Payment by Governmental Entity, both require payment of invoices within thirty days of either receipt of goods or an invoice or performance of service. Employees/units are not being held accountable for processing invoices in a timely manner.

A listing of active in-store charge accounts at vendors in the Bryan/College Station area could not be provided. Management indicated use of the procurement card has reduced in-store account activity; however, actions have not been taken to formally close the in-store accounts. Limited controls over active in-store charge accounts increase the risk of fraud and unauthorized charges to the department.

**Recommendation**

The Athletic Department should:

- Establish contracts with vendors to whom payments of more than $5,000 are made on an annual basis. Utilize contracts developed to enhance the efficient use of resources. Comply with purchasing requirements as stated in University Rule 25.99.02.M1.

- Process purchase vouchers in a timely manner to comply with the State of Texas Prompt Payment Act, Texas Government Code, and System regulations.

- Identify in-store charge accounts with vendors in the Bryan/College Station area. Eliminate or significantly reduce the number of in-store charge accounts and encourage use of the procurement card.

**Management’s Response**

*We agree that opportunities exist to improve certain processes related to Athletic Department expenses and that implementation of the aforementioned recommendations not currently in place is necessary to comply with certain University requirements.*
5. General Expenses (cont.)

- Athletic management will generate a list of fiscal year 2009 transactions by vendor and identify vendors from whom purchases exceeded $5,000. For each vendor identified, management will work with University Procurement Services to establish a contract, if required. On a monthly basis, Athletic management will review year-to-date expenses by vendor to identify vendors from whom purchases are approaching $3,000. For each vendor identified, Athletic management will communicate with representatives from the respective sport/administrative units to determine whether expenses are expected to exceed $5,000 and subsequently work with University Procurement Services to establish a contract, if required. Estimated Completion Date: May 31, 2010.

- Athletic management and staff have worked diligently to resolve purchase voucher process inefficiencies and, as a result, have observed a positive trend in the number and dollar value of late payment charges incurred. For the quarter ending August 31, 2009, the Athletic Department incurred late payment charges of $272.77; an approximate 80% decrease from average late payment charges incurred per quarter during the audit period. For fiscal year 2010, as of October 31, 2009, the Athletic Department incurred one late payment charge of $8.35. Athletic management and staff have resolved purchase voucher process inefficiencies and will continue to process purchase vouchers in a timely manner. This recommendation is complete.

Athletic management strongly encourages the use of procurement cards by all sport/administrative units within the Athletic Department. To limit the risk associated with in-store charge accounts, Athletic management will communicate with representatives from each sport/administrative unit to identify active accounts, close all accounts with vendors who accept procurement cards, and maintain a list of vendors with whom in-store charge accounts are necessary. Athletic Department controls require that invoices are approved before they are paid; therefore, an in-store charge account bill will not be paid until Athletic management or staff authorize the charge(s). Estimated Completion Date: February 28, 2010.

6. Working Funds

Observation

Cash handling controls have not been adequately implemented to ensure accurate accounting for and safeguarding of funds for booster clubs managed by the Athletic Department and athletic camp merchandise sales. Team travel financial procedures also
require improvement to reduce risks associated with cash management prior to and during travel and reconciliation processes after travel has occurred.

For booster clubs and camp merchandise sales, the control weaknesses noted include receipts not being provided to donors/customers, cash on hand not being adequately secured, checks not being immediately restrictively endorsed upon receipt or deposited timely, and transfer of custody of funds not documented consistently as required by System Regulation 21.01.02, Receipt, Custody, and Deposit of Revenues. In addition, camp merchandise sales are not reconciled with monies received at the end of the day and camp staff for two of six (33%) camps tested have used funds from personal bank accounts as working funds for camp stores. The seven booster clubs identified received revenues of approximately $135,000 during the audit period while camp merchandise sales for six camp stores totaled approximately $175,000. Employees performing cash handling for booster clubs and athletic camp merchandise sales have not received adequate training and are not aware of System regulations and University rules governing cash handling. These control weaknesses increase the risks for the misappropriation of funds and merchandise and inaccurate accounting for checks and monies.

Athletic management has not transitioned to a more secure payment method for team travel, such as travel cards. Cash advances are currently provided for team travel in the form of a check, at times up to $30,000, and are issued in the name of the head coach or designee, usually the Director of Operations for the sport. Typically, the employee cashes the check, carries an amount equal to the expected cost of incidentals and individual athlete meal money, and deposits the remainder of the advance in a personal bank account. Costs incurred during travel, such as hotel and restaurants, are most often charged to a personal credit card. Upon returning from travel all receipts and remaining cash are submitted to the Athletic Business Office for reconciliation and submittal to the University’s Division of Finance so the department’s permanent working fund can be reimbursed. The current travel advance process is inefficient as extensive resources are necessary to reconcile cash advances after travel. Additionally, risk of fraud and misappropriation of funds is high due to the handling of large sums of cash and the complexity of the reimbursement process.

**Recommendation**

Provide cash handling training on all applicable regulations and guidelines to any Athletic Department employees involved with working funds and cash receipting processes. Consider transferring
management for all Athletic booster clubs to the 12th Man Foundation.

Implement a more secure method for payment of team travel, such as the use of team travel cards, to reduce the amount of cash advances needed and time and effort expended in reconciling travel information and processing reimbursements. Limit cash advances to that necessary for incidental items and individual athlete meal money.

Management's Response

We agree that controls over working funds and related cash handling procedures may be improved. In conjunction with the resolution to update the Athletic Department procedures manual, Athletic management will document required cash handling procedures, including, but not limited to: (1) providing receipts to donors/customers immediately upon receiving cash; (2) restrictively endorsing checks immediately upon receipt; (3) adequately securing cash and checks on-hand; (4) adequately documenting custody of fund transfers; (5) properly reconciling cash-on-hand with daily merchandise and refreshment sales; and (6) obtaining cash advances from the Athletic Department for use as the camp store working fund. Working fund and cash handling procedures will be included in the revised Athletic Department procedures manual and Athletic staff will be informed of established procedures and trained accordingly, as discussed within management’s response to observation one, Financial Control Systems. Additionally, Athletic management will work with management at the 12th Man Foundation to determine whether the transfer of responsibility for all Athletic booster clubs to the 12th Man Foundation is appropriate. Estimated Completion Date: August 31, 2010.

We agree that cash advances historically provided to team representatives have been excessive and do not represent the most secure means of funding team travel. Although travel cards are used primarily for airfare and vehicle rentals, we encourage the use of travel cards for all travel expenses that may be paid by credit card. The Athletic CFO currently does not authorize travel advances in excess of reasonable incidental expenses and per diem meal allowances for student-athletes, coaches and Athletic staff who accompany student-athletes during team travel. Such procedures have reduced the dollar value of cash advances issued and the extent to which travel costs must be reconciled. This recommendation is complete.
7. Contract Administration

Observation

The Athletic Department does not have a comprehensive contract tracking system in place. A comprehensive contract tracking system is not in place to monitor Athletic Department contracts nor revenues and expenses associated with these contracts. Although all contracts are electronically scanned by the department, a complete listing of contracts is not kept and instead had to be obtained from multiple employees. The University Contract Administration database is relied upon for a complete contract listing; however, due to delegations of authority which do not require involvement of Contract Administration, that listing may not be complete. Without a comprehensive contract tracking system, contracts may not be renewed timely, terms may not be adhered to, and revenues and expenses associated with contracts may not be received or disbursed in a timely fashion. The total value of identified Athletic Department contracts, excluding employment contracts, is approximately $50.6 million over the entire contract period. Employment contracts, including supplemental pay, are approximately $10.5 million on an annual basis.

Weak contract administration controls were included in the prior audit of the Athletic Department issued in the third quarter of fiscal year 2004. While steps have been taken to strengthen the process, further improvements are necessary to ensure adequate controls are in place.

Recommendation

Develop a comprehensive contract tracking system to track all Athletic Department contracts including all associated revenues and expenses. Assign overall contract monitoring responsibilities to a specific employee.

Management’s Response

We agree that a contract tracking system will better enable Athletic management and staff to monitor contract status and associated revenues and expenses. In August 2009, Athletic management initiated a process to track contract terms, compensation earned, and compensation received for seven primary athletic sponsorship contracts. In fiscal year 2010, Athletic management will (1) expand the scope of its contract tracking system to include, at a minimum, contracts related to athletic sponsorships, game guarantees, facilities, and employment; (2) review all contracts not included in the aforementioned categories and include in the contract tracking
7. Contract Administration (cont.)

system all those identified with a financial impact on the department; (3) implement a process to ensure that new contracts are reflected in the contract tracking system in a timely manner; and (4) ensure that copies of contracts included in the contract tracking system are available from a single source. The Athletic Assistant Financial Manager is responsible for overall contract monitoring. Estimated Completion Date: May 31, 2010.

8. Monitoring of Aggie Wheels Program/Vehicle Allowances

Observation

The Aggie Wheels and vehicle allowance programs are not adequately monitored to ensure adherence to departmental procedures and proper use of resources. Management does not maintain a current listing of employees receiving vehicle benefits and an analysis is not conducted routinely to ensure resources are used appropriately. Nine employees receiving vehicle allowances are also receiving insurance coverage. Athletic Policy 410, Department Provided Vehicles, indicates employees receiving vehicle allowances will not be provided automotive insurance coverage. Two terminated and two retired employees were also listed as insured. Those employees not requiring coverage should be removed from the policy. Two other employees currently using a dealer vehicle and receiving coverage through the A&M System vehicle insurance policy were not listed as receiving a vehicle through the Aggie Wheels program.

No written, signed agreements are in place for ten of ten (100%) salaried employees tested who use vehicles through the Aggie Wheels program. In addition, evidence that employees were informed of and agreed with rules associated with the use of a dealer vehicle was not noted. Forty-two Athletic Department employees are currently listed as receiving a vehicle through the Aggie Wheels program.

Improper monitoring of employee vehicle benefits may lead to employees receiving monetary allowances, dealer vehicles, or insurance coverage unnecessarily. Absence of proper documentation between employees and the department for vehicle benefits received could result in lack of accountability for monetary liabilities due to noncompliance with rules established for dealer vehicle use.
Recommendation

8. Monitoring of Aggie Wheels Program/Vehicle Allowances (cont.)

Maintain a current, complete listing of employees who participate in the Aggie Wheels program and/or receive a vehicle allowance and ensure departmental procedures are adhered to. Regularly perform an assessment of employees who receive a vehicle benefit to determine appropriateness. Ensure written, signed agreements are in place for all employees who drive dealer vehicles including an understanding of rules for use of dealer vehicles.

Management’s Response

We agree that controls over the Aggie Wheels and vehicle allowance programs may be improved. To ensure that the vehicle programs are properly managed and monitored, Athletic management will perform the following: (1) document and maintain a listing of employees who receive dealer vehicles or vehicle allowances; (2) draft a standard agreement between the Athletic Department and Athletic staff who receive dealer vehicles, outlining restrictions associated with the use of dealer vehicles, such as responsibility in the event of an accident and required communication in the event of an accident or vehicle trade-in; (3) require each employee who receives a dealer vehicle to sign the standard agreement; and (4) compare the Athletic Department’s listing of employees who receive dealer vehicles or vehicle allowances to the University’s listing of employees who receive insurance coverage to determine whether each employee who receives a dealer vehicle is properly included and each employee who receives a vehicle allowance is properly not included. Athletic management will update the listing of employees who receive vehicle benefits upon notification of a vehicle or allowance change and periodically review the listing to ensure it is current and complete. Estimated Completion Date: February 28, 2010.

9. Inventory of Non-Capitalized Goods

Observation

Inventory processes for goods not meeting the $5,000 capitalization threshold have not been developed and implemented for Athletic Department programs. A software program, Assistant Coach System (ACS), was purchased by the Athletic Department in fiscal year 2004 to aid in managing multiple operations including inventory. Currently, two of twenty (10%) sports are utilizing the inventory feature of the software. The Athletic Equipment Manager’s position description includes a responsibility to implement and supervise equipment inventory software for all sports. Sports
9. Inventory of Non-Capitalized Goods (cont.)

Accounts receivable processes for Zone facilities need to be strengthened.

have varying understandings of what inventory processes should be performed, if any, and proper methods of handling surplus items. Inadequate inventory controls can result in the mismanagement and loss of resources.

Recommendation

For all intercollegiate sports, develop and implement standard procedures for inventory of goods not meeting the $5,000 capitalization threshold and formal methods for handling of surplus items. Train all sports on the established procedures and monitor to ensure procedures are adhered to. Determine if implementation of the ACS inventory module is a feasible solution for all sports.

Management’s Response

We agree that the risk of inventory mismanagement and loss may be mitigated by the implementation of standard inventory procedures. In conjunction with the resolution to update the Athletic Department procedures manual, Athletic management will observe current inventory procedures followed by each sport/administrative unit, if any, and identify relevant inventory levels on-hand to determine the most efficient and effective means (e.g., Assistant Coach Software) of controlling inventory that does not meet the $5,000 capitalization threshold. Inventory control and surplus inventory procedures, including the use of forms and procedures established by the University Departmental Property Management Procedures Manual, will be included in the revised Athletic Department procedures manual. Athletic staff will be informed of established procedures and trained accordingly, as discussed within management’s response to observation one, Financial Control Systems. Estimated Completion Date: August 31, 2010.

10. Accounts Receivable for the Zone Facilities

Accounts receivable processes in place for rental of the Zone facilities are not performed with an adequate separation of duties or adherence to System Regulation 21.01.04, Extension of Credit. The Zone Facility Manager is responsible for setting rental rates for the Zone facilities, invoicing customers, monitoring outstanding receivables, and at times receiving payments. Receivables are not actively monitored to ensure payments are received timely as required by System Regulation 21.01.04 nor are monthly reports of receivable billings and collections, receivable aging reports, and reconciliations of account balances to the controlling general ledger.
performed. In addition, System regulation procedures for delinquent accounts, including internal procedures for late fee assessments and write-offs of uncollectable accounts, are not adhered to.

Nine of nineteen (47%) Zone facility rental invoices sampled were paid more than thirty days after the invoice date, ranging from two to two hundred thirty days late. Of the nineteen sampled, four (21%) of the invoices were sent to the client more than twenty working days after the event. Penalties were not applied to any of the nine late payments. No cross-training has been performed to provide for a back-up should the Zone Facility Manager have a temporary or permanent absence. Revenues from the rental of the Zone facilities during the audit period totaled approximately $183,000.

Under the current process, there is a higher risk that receivables will not be collected in a timely manner and delinquent and uncollectable accounts will not be properly managed.

Recommendation

For the Zone facilities, establish adequate separation of duties for the accounts receivable process. Implement and adhere to all applicable criteria established for receivables in System Regulation 21.01.04. Cross-train employees to allow for the efficient and effective continuation of operations should an employee have a temporary or permanent absence.

Management’s Response

We agree that financial controls related to accounts receivable for the Zone facilities may be improved. In fiscal year 2010, the responsibility to set rental rates for the use of Zone facilities will remain with the Zone Facility Manager; however, all established rates will be approved by the Athletic CFO. The Athletic Business Office will assume all other responsibilities related to the accounts receivable process including, but not limited to, invoicing customers, monitoring outstanding receivables, and receiving payments. Athletic management will also generate monthly reports of receivable activity, assess late fees, and manage delinquent accounts, in accordance with System Regulation 21.01.04, Extension of Credit. The Athletic Financial Manager and Assistant Financial Manager will work jointly to ensure the efficiency and effectiveness of operations related to accounts receivable for the Zone facilities. Estimated Completion Date: February 28, 2010.
11. Information Technology

Observation

Documentation of disaster recovery plan testing was not retained.

Evidence of testing of the Athletic Department’s disaster recovery plan could not be provided by management. Generally, testing of the disaster recovery plan does not contribute to day-to-day operations and, therefore, often receives a low priority. A specific, scheduled review of the disaster recovery plan has not been established. Texas Administrative Code (TAC) 202.24 addresses requirements for business continuity planning including specific elements of a disaster recovery plan and how often it should be tested. Failure to properly prepare for a loss of service can result in excessive down time that will negatively affect a department’s ability to fulfill its responsibilities. In some situations, data can be permanently lost.

Recommendation

Review and test the Athletic Department disaster recovery plan at least annually as required by TAC 202.24. Retain documentation to support that appropriate testing has occurred.

Management’s Response

We agree that periodically testing the disaster recovery plan is necessary to ensure the recovery plan will operate as designed in the event of a disaster. Athletic management and staff are currently revising the Athletic Department’s Business Continuity/Disaster Recovery Plan (BC/DRP) to address all Texas Administrative Code (TAC) 202.24 requirements. Beginning in fiscal year 2010, Athletic management and staff will test the disaster recovery plan at least annually and retain documentation in support of the tests performed. Estimated Completion Date: August 31, 2010.
BASIS OF REVIEW

Objective

The purpose of the audit was to review the financial and management controls of the Athletic Department to determine if resources were used efficiently and effectively and in compliance with laws, policies, regulations and University rules.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Athletic Department manages an intercollegiate athletic program that supports approximately six hundred thirty student-athletes participating in twenty varsity sports programs (nine men’s, eleven women’s). The department’s annual operating budget was $67.5 million in fiscal year 2008. The Athletic Department is comprised of athletic administrators and coaches committed to the department’s mission of “building champions through academic achievement, athletic excellence, and national recognition of student-athletes, team and programs.” The Athletic Department also manages athletic facilities including Kyle Field, Olsen Field, and Reed Arena. The University Athletic Department is funded in part by the 12th Man Foundation, a 501(3)c corporation, whose mission is “funding scholarships, programs, and facilities in support of championship athletics.”
AUDIT TEAM INFORMATION

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- Mr. Charley Clark, Associate Vice President for University Risk and Compliance
- Mr. Bill Byrne, Director of Athletics
- Ms. Penny King, Deputy Athletic Director
- Mr. Jeffrey Toole, Chief Financial Officer
PROJECT SUMMARY

Overview

Information technology (IT) controls at the Texas A&M University System Health Science Center (HSC) require significant improvement in order to provide assurance that resources are used efficiently and effectively and in compliance with applicable laws, policies, and regulations. IT controls have struggled to keep pace with the growth in operations at the HSC. Significant weaknesses were identified in the areas of information security, policies and procedures, logical access to automated systems, and information technology risk assessment.

The HSC has made improvements since our last review of information technology in 2003. These include appointing a full-time Chief Information Officer and an Information Security Officer, centralizing certain IT services, consolidating physical servers, and adopting a risk assessment tool. However, improvements are still needed in several areas to ensure that a comprehensive information security program is in place to address the various requirements of the Texas Administrative Code Chapter 202 (TAC 202), the Health Insurance Portability and Accountability Act (HIPAA), and other laws and regulations governing information technology.

The focus of the HSC Office of Information Technology over the last few years has been to centralize information technology operations and implement new systems and networks to support the growth of the HSC.

Summary of Significant Results

Health Insurance Portability and Accountability Act (HIPAA)

As required by federal law, a HIPAA Final Security Rule compliance framework has not been implemented by the HSC and a HIPAA risk assessment has not been conducted. No one at the HSC has been assigned agency-wide responsibility for HIPAA compliance. Historically, HIPAA data was only at the Baylor College of Dentistry; however, the growth of the HSC has
increased and will continue to increase the amount of patient-related health information that must be protected in compliance with HIPAA requirements. Failure to address HIPAA compliance requirements could result in the loss of patient’s electronic protected health information, fines, and litigation.

**HSC’s IT Policies and Procedures**

The HSC’s IT policies and procedures have not been formally adopted in accordance with the HSC’s current methodology for reviewing and approving internal rules and procedures. Also, a comprehensive review has not been performed to ensure that the HSC’s information security policies and procedures address all governing authority standards, such as TAC 202 and HIPAA. This has resulted in at least three TAC 202.75 policies not being addressed. Failure to adopt policies and procedures that cover all aspects of IT security and meet TAC 202 and HIPAA guidelines can negatively affect the HSC’s ability to maintain confidentiality, integrity, and availability of its information resources.

**Logical Access**

Administration of logical access security and other general controls over information systems needs to be improved. Overall, password practices are weak in several areas and are not enforced evenly among all user accounts. Default and weak passwords are still in place for many Oracle-based accounts. Also, anti-virus software was not installed on eleven database servers reviewed. Failure to utilize strong password security can result in the loss of confidential or mission-critical data. Not deploying anti-virus software can lead to files or systems being compromised and possible disruption of services.

**Comprehensive Information Technology Risk Assessment**

The HSC has not completed a comprehensive agency-wide risk assessment as required by TAC 202. The HSC is using the Information Security Awareness, Assessment and Compliance (ISAAC) risk assessment tool to assess risks across the HSC including the academic units. The HSC reported that 22 of the 35 total risk assessments had been completed as of June 4, 2009. The combined results of these individual assessments have not been presented to the CEO or her designated representative as required by TAC 202 and a final security risk management plan has not been adopted.
Summary of Management's Response

Management has indicated concurrence with the audit recommendations and has initiated action and/or plans to have processes in place by September 1, 2010 which will satisfactorily address the audit recommendations.

Scope

The review of information technology at the Texas A&M University System Health Science Center focused on IT governance, compliance with laws and regulations, and general IT controls over systems considered to be mission-critical, or containing confidential data or considered high risk for other reasons. This included systems located and administered in College Station and at the Baylor College of Dentistry in Dallas. The IT controls were reviewed from June through August 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Health Insurance Portability and Accountability Act (HIPAA)

Observation

As required by federal law, a HIPAA Final Security Rule compliance framework has not been implemented by the HSC and a HIPAA risk assessment has not been conducted. The Department of Health and Human Services' Final Security Rule adopting HIPAA security standards was published in the Federal Register on February 20, 2003 and was effective no later than April 20, 2006. The Final Security Rule specifies a series of administrative, technical, and physical security procedures for covered entities to use to assure the confidentiality, integrity, and availability of electronic protected health information. It requires that each covered entity assess the potential risks and vulnerabilities to an individual’s electronic protected health information in its possession, and develop, implement, and maintain appropriate security measures to protect that information. These measures are required to be documented and kept current. Failure to implement these procedures and security measures could result in the loss of patient’s electronic protected health information, fines, litigation, and places the HSC as a whole in noncompliance with the HIPAA Privacy and Final Security Rules.

No one at the HSC has been assigned agency-wide responsibility for HIPAA compliance. Historically, HIPAA data was only contained at the Baylor College of Dentistry which had taken steps to comply with prior HIPAA privacy requirements. However, electronic protected health information has expanded beyond the Baylor College of Dentistry and is now at the Coastal Bend Health Education Center and will soon be at future clinics that will be operated under the College of Medicine. The Coastal Bend Health Education Center reported that it was not in compliance with all HIPAA data security rules. By not having responsibility for HIPAA compliance addressed at the broader HSC oversight level, previous HIPAA controls established at the Baylor College of Dentistry have not been updated and expanded throughout the HSC.
Recommendation

1. Health Insurance Portability and Accountability Act (HIPAA) (cont.)

Establish agency-wide HIPAA coverage including a formal risk assessment and IT security framework. Ensure that the HSC is in compliance with the HIPAA Final Security Rule in addition to the Privacy Rule. Procedures to ensure compliance should be documented. Assign someone agency-wide responsibility for HIPAA compliance.

Management’s Response

We concur. The HSC is in the process of establishing agency-wide HIPAA coverage including formal risk assessments and an IT security framework. Through this process, the HSC will identify a HIPAA compliance officer and ensure that HSC is in compliance with the HIPAA Final Security Rule as well as the Privacy Rule.

The HSC will implement this recommendation by September 1, 2010. The timeline is elongated due to emerging programs in the HSC and will be essentially an ongoing process with growth.

2. HSC's IT Policies and Procedures

Observation

The HSC’s IT policies and procedures have not been formally adopted in accordance with the HSC’s current methodology for reviewing and approving internal rules and procedures. Also, a comprehensive review has not been performed to ensure that the HSC’s information security policies and procedures address all governing authority standards, such as Texas Administrative Code (TAC) §202.75 and HIPAA. This has resulted in at least three TAC 202.75 policies not being addressed. Failure to adopt policies/procedures that cover all aspects of IT security and meet TAC 202 and HIPAA guidelines can negatively affect the HSC’s ability to maintain confidentiality, integrity, and availability of its information resources.

Recommendation

Compare existing HSC IT policies and procedures with TAC 202 standards, the HIPAA Final Security Rule and any other applicable laws, policies, and regulations and add or revise its policies and procedures, as necessary.

Review and approve IT policies and procedures in accordance with HSC Standard Administrative Procedure 01.01.01.Z1.01,
2. HSC’s IT Policies and Procedures (cont.)

Development and Approval of Health Science Center Internal Policies.

Management’s Response

*We concur. All of the HSC Office of Information Technology policies and procedures are currently under review to ensure compliance with federal, state, and System guidelines. Once the review process is complete and appropriate changes are made, the policies will be formally submitted and approved in accordance with HSC procedures. This is in process with an estimated completion date by April 1, 2010.*

3. Logical Access

Observation

Administration of logical access security over information systems needs to be improved. Overall, password practices are weak in several areas and existing Office of Information Technology guidelines are not enforced evenly among all user accounts. For many Oracle-based accounts, default vendor passwords are still in place as well as weak, easy to guess passwords by other users. For those same Oracle systems, Office of Information Technology guidelines are enforced for general HSC employees but a more lax “default” profile is in effect for other employees with administrative roles.

Weak passwords were found for numerous database user accounts (e.g. passwords found in readily available password dictionaries, all numbers, three characters, etc.). Some were the result of Office of Information Technology guidelines not being applied consistently or observed and users not creating better passwords. Office of Information Technology guidelines include suggestions for minimum password length, types of characters to be used, history, and password age. Failure to utilize strong password security can result in the loss of confidential or mission-critical data.

Additionally, anti-virus software was not running on 11 of the 12 Windows-based systems that were reviewed at the HSC. Office of Information Technology personnel made the decision not to run anti-virus software on the servers due to anticipated performance issues on the servers and a reliance on the anti-virus software running on all of the workstations. The main servers affected were those running database systems.
3. Logical Access (cont.)

The Office of Information Technology also has security procedures related to server hardening that requires disabling or changing the password of default accounts. The security procedures also require that each file server and email gateway must utilize Office of Information Technology-approved virus protection software set up to detect and clean viruses that may infect file shares. This is not currently required for systems dedicated to running databases.

Industry guidelines and vendor hardening guides indicate that running anti-virus software on all servers, including virtualized systems, is recommended. In some cases, such as with database servers, the real-time scanning of certain files should be omitted (e.g. the database files themselves may be omitted from the real-time scanning). In cases where performance is impacted by the use of anti-virus software on multiple virtualized systems on a host, real-time scanning may be disabled on those effecting performance with only daily scans performed at non-peak times. Not deploying anti-virus software can lead to files or systems being compromised and possible disruption of services. In some cases, tools used by malicious persons to exploit certain vulnerabilities may be detected if anti-virus software is in place at the server level, as it could be a last line of defense in certain scenarios.

Recommendation

Enforce standard password practices across all systems and monitor on a periodic basis for compliance. These standards should be a part of the HSC Standard Administrative Procedures.

Develop and implement a policy stating that anti-virus software should be used on all servers unless a strong business case can be made against its use. Such a case should be based on performance data from a test system utilizing the anti-virus software. Consider testing the systems with and without real-time scanning, daily scans, and excluding actual database files themselves. Anti-virus software with real-time scanning should then be installed on all unaffected servers, and scheduled scans on performance-impacted servers.

Management’s Response

We concur. The passwords on the two systems were changed and mechanisms were enabled to ensure users create strong passwords. This level of enforcement is already in place on the systems connected to the enterprise HSC domain. User account access procedures are being reviewed and updated to include all systems. The password policy will also be reviewed and updated. Periodic review of these systems will ensure administrators are in compliance.
3. Logical Access (cont.)

Antivirus software was intentionally omitted from servers running applications requiring low latency and high frequency of disk read/writes. A document will be created to address the known risks and provide a business case as recommended. Antivirus software will be loaded on these servers and periodic scans will be performed and documented as recommended.

Efforts to address both recommendations have either been completed or will be by April 1, 2010.

4. Comprehensive Information Technology Risk Assessment

Observation

The HSC has not completed a comprehensive agency-wide risk assessment as required by TAC 202. The HSC is using the Information Security Awareness, Assessment and Compliance (ISAAC) risk assessment tool to assess risks across the HSC including the academic units. The HSC reported that 22 of the 35 total risk assessments had been completed as of June 4, 2009. The combined results of these individual assessments have not been presented to the CEO or her designated representative and a final security risk management plan has not been adopted. The Information Security Officer is currently working to ensure that the remaining risk assessments are completed.

TAC 202.72, Managing Security Risks, requires that IT risk assessments be performed on an annual or biennial basis depending on the type of data contained on the systems and whether or not they are mission-critical. TAC also requires that the results of the risk assessments be summarized and reported to the CEO. Without a formal mechanism being in place, senior management may not be aware of the risks associated with IT and therefore not able to adequately assign resources to address the risks.

Recommendation

Perform and document a comprehensive security risk analysis and risk assessment of information resources, and develop a corresponding information resources security risk management plan. Present this analysis and plan to the CEO, or her designee, for approval.
Management’s Response

4. Comprehensive Information Technology Risk Assessment (cont.)

We concur. Risk assessments will be completed and a summary report will be developed and presented to the HSC CEO. This is in process with an estimated completion date of April 1, 2010. This process will be performed on an annual basis.

5. Major System Implementation - Banner

Observation

The implementation of the new student information system was not communicated to the state.

The HSC has implemented a new student information system (Banner) that was used to register students for the fall 2009 semester and process financial aid. The degree audit module is scheduled to be in place by the end of December 2009. The implementation of Banner does not appear in the HSC’s Biennial Operating Plan for either the 2008-2009 or 2010-2011 biennium. There is no indication that the Legislative Budget Board or the Department of Information Resources was consulted prior to the implementation. Failure to notify the Legislative Budget Board and Department of Information Resources prior to implementation prevented the state’s quality assurance team from monitoring the implementation to ensure that a project management plan was in place and that the project had the best chance of success.

Section 2054.118 of the Information Resources Management Act states that a state agency may not spend appropriated funds for a major information resources project unless the project has been approved by the Legislative Budget Board in the agency’s biennial operating plan and the quality assurance team. A system implementation qualifies as a major information resources project if its development costs exceed $1 million and requires one year or longer to reach operations status. The Banner implementation will take approximately two years and will cost approximately $2.2 million.

Recommendation

Ensure that all state authorities including the Legislative Budget Board, Department of Information Resources, and the State Auditor’s Office is notified of the implementation of all major system implementations using appropriated funds.

Management’s Response

We concur. The HSC Office of Information Technology has submitted the required information from the Banner project to the...
5. Major System Implementation - Banner (cont.)

Legislative Budget Board. This was completed on August 14, 2009. The information is being review by the quality assurance team comprised of the Legislative Budget Board, Department of Information Resources, and State Auditor's Office. We are currently awaiting the results from the quality assurance team. Future projects that fall within this category will be submitted to the Legislative Budget Board.

6. De-Commissioning of Former Student Information Systems

Observation

A plan is not in place for the de-commissioning of the two legacy student information systems.

The HSC has two existing legacy student information systems that are being replaced by the new student information system (Banner). Both legacy systems contain confidential student records and will need to stay in operation until all pertinent student records have been converted and imported into Banner. Currently, the HSC does not have a timetable for de-commissioning these legacy systems. Neither of these legacy systems have been kept current on operating system patches. The Baylor College of Dentistry’s UNIX-based system has not been patched in approximately 10 years. Plain-text communication is still used to access the UNIX-based machine. Poor password controls and passwords were also noted. Without current operating system patches being applied, coupled with poor password controls, these systems are susceptible to being breached and confidential information being compromised.

As long as these systems remain running, contain confidential data, and are connected to the network, they should be secured like all other existing HSC systems. To reduce the risk associated with confidential data, these systems should be taken offline as soon as practical or at a minimum disconnected from the network. The longer the historical data remains accessible through the network, the longer the risk exists that the data could be compromised.

Recommendation

Develop and implement a timeline to remove the legacy student information systems from operation. Until they are removed from service, they should either be removed or segregated from the network and/or should be brought up to current standards in regard to operating system upgrades, patches, password practices, and encrypted communications.
6. De-Commissioning of Former Student Information Systems (cont.)

We concur. Both the OASIS server and the Baylor College of Dentistry student information server are scheduled to be removed early next year. Access to both servers has been restricted. Estimated completion date is January 31, 2010.

7. Patch Management

Observation

Patches to existing operating systems and databases are not being made in a timely or consistent manner.

The HSC is not ensuring that operating systems and databases are being patched in a timely and consistent manner. A patch is a piece of software designed to fix problems including security vulnerabilities and other bugs, and improve the usability or performance of computer programs. Ten of the eighteen (56%) Windows-based systems reviewed had patching 'inconsistencies' to varying degrees. Two of the 13 (15%) databases selected for review, for which patches were available, were found to have never been patched, three (23%) are behind on service pack levels and/or patches, and one (8%) was unsupported by the vendor. Of the six UNIX-based systems reviewed, one (16%) was behind on security patches and four (67%) systems were running versions that were unsupported by the vendor.

Patch histories are not being monitored and some patch processes reviewed were still being performed manually on an ad-hoc basis as opposed to a regularly scheduled one. Patches should be kept up-to-date to decrease the risk of systems being compromised and data being lost. Automated update monitoring and reporting processes should be used where practical to increase the efficiency and effectiveness of operations.

Recommendation

Establish processes to ensure that operating systems, databases, applications, etc. are kept current with upgrades and patches. Utilize automated monitoring and reporting processes where practical. Monitor effectiveness of processes on a periodic basis.

Management’s Response

We concur. Regular maintenance windows have been scheduled for each system to allow administrators to maintain consistent patches. The HSC will establish processes to ensure that patches are applied on a regular schedule with an estimated completion date of January 1, 2010.
8. Business Continuity and Disaster Recovery Plan

Observation

<table>
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<th>Business continuity and disaster recovery plans are not in place for the HSC.</th>
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Business continuity and disaster recovery plans are in the process of being prepared or updated for the HSC. At Baylor College of Dentistry, there is one paper copy of a disaster recovery plan which was prepared in 2007. The plan was limited to detailed instruction for restoring various servers, some of which have since been moved to College Station. There is no indication that the Baylor College of Dentistry plan has been tested. The Information Security Officer confirmed that disaster recovery planning has historically been handled by each of the academic units and that no formal testing has been done. The Information Security Officer position was vacant for approximately one year which also hindered this process.

TAC 202.74, Business Continuity Planning, requires institutions of higher education to maintain a written business continuity plan, including a disaster recovery plan that addresses information resources so that the effects of a disaster will be minimized, and the institution of higher education will be able to either maintain or quickly resume mission-critical functions. The plan should be distributed to key personnel and a copy stored offsite. Failure to develop, document and formally test a disaster recovery plan increases the risk that mission-critical information will not be available in a timely manner in the case of a disaster or other loss of service.

Recommendation

Establish an agency-wide business continuity and disaster recovery plan. Separate sections could be used to address circumstances specific to individual academic units. These plans should be documented, tested and updated on a periodic basis, and approved by the CEO or her designated representative.

Management's Response

We concur. The Office of Information Technology disaster recovery plan is being updated and a formal test will be conducted when completed. Estimated date of completion is July 1, 2010. The information in this document will be included in the HSC Business Continuity Plan which is also being developed. It will be reviewed on an annual basis and tested accordingly.
BASIS OF REVIEW

Objective

Review controls over information technology to determine if resources are used efficiently and effectively and in compliance with laws, policies, regulations, and Health Science Center rules.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System, Texas Administrative Code, Texas Information Resources Management Act, the Health Insurance Portability and Accountability Act, and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Health Science Center is an assembly of colleges devoted to educating health professionals and researchers. The mission of the HSC is to “dedicate the full measure of our resources and abilities to advancing the knowledge and technologies of our professions, and to bringing Texans the finest in health education, promotion and care.” The HSC consists of a headquarters office and seven components. Each of the components has IT personnel to directly administer their component’s information systems. In 2004, the Office of Information Technology was created to develop and expand HSC information technologies to support the education, administrative, research, clinical and outreach missions of the HSC’s widely distributed campuses.
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PROJECT SUMMARY

Overview

Texas A&M University has made little progress in implementing its Vision 2020 goal for improving and expanding residential facilities on campus. The Vision 2020 plan contains a goal to maintain and enhance the quality of the University’s residential campus by improving and expanding resident facilities. This includes new residence halls equipped for the technological climate of the 21st century and on-campus housing for all freshmen who request it. Residence Life began performing various studies and analyses for updating existing on-campus student housing in 2002. However, no major renovation or construction of new residence halls has occurred at the University since 1989.

Residence Life has various financial and management controls in place to provide assurance that resources are used efficiently and effectively. However, significant improvements in the financial accounting and reporting of Residence Life operations are needed to provide additional financial information for more informed decision-making.

Additional opportunities for improvement were also noted in the areas of cash receipting, safety inspection follow-ups, conference housing contracts, and facilities maintenance.

Summary of Significant Results

Renovation/Construction of Student Housing

No new construction or major renovation of on-campus student housing has been performed since 1989. The Department of Residence Life and various other University stakeholders initiated efforts to prepare long-term construction and renovation plans in August of 2002 with the beginnings of a campus-wide student housing master plan that considered the University’s residential needs for the next several decades. The master plan was completed in August of 2007. In addition, a site feasibility study was performed in 2008-2009 to address any problems or issues related to the planned construction prior to hiring an
The studies indicate that current on-campus student housing is becoming increasingly outdated and does not include most of the modern amenities available to students in the external housing market. In addition, although the exteriors still appear to be in good condition, the interiors of most of the older dorms and the University Apartments need substantial renovations and replacements. These construction and renovation planning efforts have spanned six years and incurred significant costs and time to complete. However, other than the recently approved construction of a new University Apartment complex, no construction or renovation projects for student housing are slated to begin until at least 2011 according to the University’s most recent capital plan.

Financial Accounting and Reporting

Although several financial management reports are available for Residence Life operations, only limited financial statements are currently prepared. For example, existing financial statements do not provide revenue and expense data at a residence hall or program level and do not include depreciation. Providing a sufficient level of detail could assist management in reaching their ultimate goal of overall capital maintenance and the renewal and replacement of equipment and facilities. Detailed financial accounting and reporting of Residence Life operations can also provide management sufficient information for decision-making purposes; such as determining whether the amount of revenue generated from operations is appropriate to cover all costs, including estimated deferred maintenance and the renewal and replacement of equipment and facilities. Without this detailed financial information it is difficult to determine the extent to which individual residence halls or University apartment complexes are self-supporting and cost-efficient.

Summary of Management’s Response

Residence Life is dedicated to providing cost-effective and quality campus housing that enhances the educational experience. Implementation of the recommendations contained within the audit report will strengthen Residence Life operations.

The Vice President for Student Affairs in conjunction with Residence Life will work with University management to obtain approval of the housing master plan and work with the Council on the Built Environment and other facilities planning bodies so that the design and construction of new campus housing can proceed on the earliest possible timetable.
 Residence Life will develop additional financial reports, such as facility level statements, to enhance information available for monitoring, analysis, and decision-making.

**Scope**

The review of Residence Life operations focused on the areas of financial accounting and reporting, facility renovation and construction, facilities maintenance, cash receipts and billings, safety and security, and use of procurement cards. The review period was September 1, 2007 to February 28, 2009 although some activities outside this time period were examined as necessary. Fieldwork was conducted April through July 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Renovation/Construction of Student Housing

Observation

No new construction or major renovation of on-campus student housing has been performed since 1989. The Department of Residence Life and various other University stakeholders initiated efforts to prepare long-term construction and renovation plans in August of 2002 with the beginnings of a campus-wide student housing master plan that considered the University’s residential needs for the next several decades. This included a market analysis in 2003-2004 and a financial analysis in 2006–2007. The master plan was completed in August of 2007. In addition, a site feasibility study was performed in 2008-2009 to address any problems or issues related to the planned construction prior to hiring an architect/engineer to design and build the new residence halls. Studies performed during these planning processes indicate that current student housing at the University is becoming increasingly outdated and does not include most of the modern amenities available to students in the external housing market. These studies indicate that although the exteriors still appear to be in good condition, the interiors of most of the older dorms and the University Apartments need substantial renovations and replacements. These construction and renovation planning efforts have spanned six years and incurred significant costs and time to complete. However, other than the recently approved construction of a new University Apartment complex, no construction or renovation projects for student housing are slated to begin until at least 2011 according to the University's most recent capital plan.

Initial delays in updating the existing student housing were primarily due to extensive debt incurred from past student housing construction and safety renovation projects. However, the University currently has no outstanding debt related to student housing. In addition, the long-term construction and renovation plans for on-campus student housing, which were completed in 2007, were determined to be financially feasible using a comprehensive financial proforma developed for the student housing master plan. This proforma indicates that planned construction and renovation of future on-campus student housing would be feasible to the extent that debt service does not exceed debt service capacity. However, it was noted that the cost and other financial assumptions
used in this proforma have not been updated as external market conditions have changed. Also the assumption used to estimate the amount of reserves needed for deferred maintenance is not based upon a recent facilities assessment.

More recent barriers encountered since the construction and renovation plans were developed include unresolved disagreements with other University areas affected by the proposed new construction. Turnover in University management and recent economic uncertainty have also impacted the implementation of these plans. In addition, there does not appear to be an adequate process in place for overseeing the implementation of the student housing master plan. The plan has not been formally adopted and no reporting mechanism is in place to communicate the progress made in implementing the plan. As a result, the on-campus student housing projects included on the University's most recent capital plan are now two to five years behind the construction and renovation timeline developed in the student housing master plan.

Lack of implementing these construction and renovation plans in a timely manner could affect the University's ability to provide sufficient housing to meet increased University enrollment projections and desired academic enhancement and collaborative initiatives. Current residence hall capacity is 7,660 for non-Corp residents with a 96% occupancy rate and 2,120 for the Corps of Cadets with an occupancy rate of 78% which is lower due to Corp attrition each semester. Each year the University turns away four to five hundred students that have applied for on-campus housing along with an unknown number who cannot apply due to the closing of the application process when capacity is filled.

The University's Vision 2020 plan developed in the late 1990's includes maintaining and enhancing the campus environment by valuing the residential experience with new residence halls equipped for the technological climate of the 21st century and providing on-campus housing for all freshmen who request it. The plan also includes creating living-learning communities to increase opportunities for all students to develop academic and social connections that facilitate academic success and involvement in the life of the institution. One additional University goal in the Vision 2020 plan is to implement the comprehensive and on-going/long-term replacement and renovation cycle for all on-campus student housing within three to five years. Without the ability to provide contemporary, high quality, living environments for undergraduate students, University goals for maintaining and enhancing the residential on-campus living experience will not be achieved. Also, the University may not remain competitive in the local student housing market.
Recommendation

1. Renovation/Construction of Student Housing (cont.)

The University should continue working to implement plans for replacement and renovation of existing on-campus student housing in accordance with University goals by implementing the following:

- Formalize the adoption of the student housing master plan and develop a mechanism for periodically reporting its implementation progress to the appropriate levels of executive management.

- Include scalable options with differing levels of amenities and costs in proposals for new construction and renovation to increase the chances that the proposals are accepted and approved by executive management and the Board of Regents.

- Elevate the level at which new construction and renovation planning occurs within the University to better ensure that adequate priority is given to implementing these plans and that any issues arising which cross multiple University areas are resolved in a timely manner.

Periodically update the current financial proforma especially as new construction and renovation proposals are submitted as follows:

- Update assumptions based on changing market conditions in order to better determine the financial feasibility of future construction and renovation of on-campus student housing.

- Revise the assumption for deferred maintenance reserves based upon a recent facilities assessment completed by the University.

- Use the actual revenues and expenses included on the financial statements referred to in observation #2 below to update the estimated revenues and expenses used in the proforma.

- Perform a formal market analysis of planned rental rates for new or renovated on-campus student housing to determine their comparability to local external housing rates.

Attempt to better utilize existing on-campus housing capacity by performing an analysis of additional students that could be accommodated and the corresponding revenues achieved by using residence hall rooms allocated to the Corp of Cadets that become available after the beginning of each semester.
Management’s Response

1. Renovation/Construction of Student Housing (cont.)

Residence Life will continue its efforts to improve student housing and meet University goals in this area. The Vice President for Student Affairs in conjunction with Residence Life will formalize the housing master plan by seeking approval of the plan by executive management. The formalization process will assist in addressing items that cross multiple University areas. Proposals with scalable options will be developed to provide various alternatives to be considered during the decision-making process.

The Vice President for Student Affairs and Residence Life will work with the executive management, Council on the Built Environment, and other facilities planning bodies to ensure that the housing master plan and related construction and renovation proposals are given full consideration as part of the University decision-making and capital planning processes.

Status reports of the housing master plan will be provided to executive management on an annual basis.

It is expected to have the housing master plan presented by January 2010 and begin periodic status reports to management by February 2011.

Periodically, the financial proforma will be revised as needed to reflect updated assumptions regarding market conditions and deferred maintenance reserves. Additionally, the format will be modified to be consistent with actual financial statements. Residence Life will seek the assistance of the Division of Finance as part of the overall implementation process. An updated proforma will be complete by February 2011.

For new construction or major renovations, a formal market analysis will be completed by the architect/engineer firm employed to design and construct new facilities. This requirement will be included as part of the Request for Qualifications.

Residence Life will work with the Corps Housing Office, the Commandant of Cadets, and the Vice President for Student Affairs Office to analyze and develop a plan regarding utilization of Corps of Cadets’ rooms that become available after the beginning of the semester. An analysis, plan, and timeline for any action items will be complete by August 2010.
2. Financial Accounting and Reporting

Observation

Although Residence Life generates several different budgeting and other financial reports, only limited financial statement reporting is performed. In addition, costs are not allocated at a detailed level. The following conditions were noted in regard to financial statement reporting and cost allocations for Residence Life operations:

- The current Statement of Revenues and Expenditures does not include all Residence Life accounts such as temporary accounts or those not considered to be revenue generating.

- No depreciation or other form of non-cash expense is included to address or account for deferred maintenance and renewal and replacement of equipment and facilities.

- The current level of cost accounting does not provide sufficient detail to determine the financial performance and self-sufficiency of each individual residence hall or University Apartment complex.

- No balance sheet is prepared to report on the current financial condition of Residence Life operations.

- Revenues and expenses incurred for Residence Life operations are manually entered into a separate fund accounting system in order to generate budget and financial reports due to past limitations in Financial Accounting Management Information System (FAMIS) reporting.

Management relies primarily on budgeting and other financial reports related to overall Residence Life operations for decision-making purposes rather than detailed financial statements. Detailed financial accounting and reporting at a residence hall and apartment complex level as well as preparation of comprehensive financial statements would provide management with additional information for more informed decision-making. In addition, it would better ensure that current housing rates are set to generate the appropriate amount of reserves needed.

The National Association of College and University Business Officer's (NACUBO) College and University Business Administration guidelines state that each auxiliary enterprise has the same need for accounting records as have comparable enterprises operated by the private sector. It is important to use cost accounting methods suitable for evaluating, analyzing, and
controlling income and expense items, so that appropriate fees and prices may be established. In addition, accounting records are essential to ascertain the degree of self-support of an auxiliary and to provide the basis for control.

Recommendation

Work with the University's financial management office to develop comprehensive financial statements for Residence Life operations which include a detailed allocation of costs as follows:

- Prepare an individual statement of revenues and expenses for each residence hall and University Apartment complex.
- Include depreciation or some other form of non-cash expense on the statement to account for future deferred maintenance and renewal and replacement of equipment and facilities.
- Calculate existing deferred maintenance costs using the University’s recently completed facilities assessment and allocate these costs to each corresponding residence hall and apartment complex.
- To the extent that current expenses are not directly associated with a specific residence hall or apartment complex (i.e. repairs, utilities, etc.), include these expenses as overhead expenses. Allocate these overhead expenses to each housing facility based upon a reasonable method such as the number of beds or square footage of each facility.
- Continue working to revise current financial and accounting processes as needed to more directly associate these overhead expenses with individual residence halls and apartment complexes to better account for financial activity at this level.
- Prepare a comprehensive balance sheet to show the financial condition of Residence Life.

Reexamine housing rates periodically using the above financial information to ensure that appropriate reserves are generated for future deferred maintenance and renewal and replacement of equipment and facilities.

Explore recent or planned modifications to FAMIS which may better allow the preparation of financial statements and consider the use of these new reporting tools for greater efficiency given
2. Financial Accounting and Reporting (cont.)

the amount of time and effort required to maintain a separate fund accounting system.

Management’s Response

Analytical Services, within the Division of Finance, will provide a balance sheet and a statement of revenues and expenditures for Residence Life by March 2010.

Residence Life will work with Analytical Services to develop revenue and expense statements for each residence hall and apartment complex beginning with the month ending August 2010. Direct revenues and expenses will be identified to the extent feasible. Non-direct revenues and expenses will be allocated to each facility based upon a reasonable method. Depreciation of equipment and facilities will also be included. Estimated deferred maintenance costs for each facility, based on the results of the University’s recent facilities assessment, will be footnoted in each individual financial statement as appropriate.

The financial information by facility and deferred maintenance costs will be included in housing rate reviews. Reviews are conducted annually as budgets are established. Available information will be utilized in rate reviews to be completed by February 2011.

During the above processes, opportunities to increase efficiency in the financial statement process will be explored.

3. University Apartment Cash Receipts

Observation

Current processes do not adequately ensure that all University Apartment payments are properly received and accounted for.

The University Apartments generate approximately $3 million in rent annually. Several conditions were noted regarding the processes for receiving and accounting for rental payments as follows:

- Rental payments are received by University Apartment cashiers located in the Apartment’s Community Center due to the fact that most apartment leases are on a monthly basis and electricity and repair charges are paid separately from rent. This inhibits the ability to move these cashiering activities to the University cashiers or to process them through the University’s student information system.

- In addition to receiving payments, the cashiers also have the ability to make entries and adjustments in the University
3. University Apartment Cash Receipts (cont.)

Apartment database resulting in an inadequate segregation of incompatible duties.

- The current University Apartment database does not provide sufficient revenue reports or rental billings to facilitate a reconciliation of rental revenue received with expected rent payments. A new database is currently being developed with plans to include additional revenue reports and the ability to prepare rental billings.

Although our testing indicated no anomalies with regard to actual University Apartment rental revenue received and deposited during the audit period, inadequately segregated duties for receiving and recording payments along with the lack of a corresponding reconciliation of rental revenue received could result in lost or missing University Apartment rent payments without detection.

TAMU Financial Management Operations’ Guidelines for Cash Handling Procedures states that segregation of duties is essential to prevent one individual from having responsibility for more than one component of the cash receipts process including the collecting, depositing, and reconciling of cash receipts. In addition, the original source of the cash receipt funds should be reconciled to FAMIS daily, weekly, and/or monthly.

Recommendation

Continue working to move University Apartment cash receipt operations to the University cashiers or ultimately incorporating them into the University's registration process similar to the current residence hall payment process. Make any necessary adjustments to current cash receipt processes to facilitate this move.

During the interim, complete implementation of the new apartment database. Ensure that this database addresses the issues noted above including an adequate segregation of duties such as reducing the ability of the cashiers to make adjustments to database information used for reconciling revenue received. Also include sufficient revenue reporting capabilities to facilitate a monthly reconciliation between rent revenue received and tenant occupancy information to ensure rental payments have been properly received and deposited from all current tenants.

Management’s Response

In order to reduce payments received by University Apartment cashiers, Residence Life will work with Student Business Services regarding the ability to convert University Apartment student billings...
to COMPASS. As an alternative, an online payment method would be utilized. The method to address payments and a plan for implementation will be determined by February 2010.

In the interim, Residence Life will complete the implementation of the new database for the University Apartments operations. The database will provide additional revenue reports and billing capabilities. Access rights granted to the database will take into account appropriate segregation of duties. The new database is expected to be operational in February 2010.

4. Follow-up Safety Inspection Documentation

Observation

Follow-up inspection forms tested were not accurate or fully completed.

Inspections are performed annually for all residence hall rooms and semi-annually for all University Apartments to ensure residents adhere to fire and life safety guidelines. These inspections are performed by an environmental safety specialist along with resident advisors. Follow-up inspections are then performed by resident advisors to ensure all inspection issues are resolved in a timely manner. However, monitoring of this process has not been consistently performed. As a result, inspection follow-ups for eight of ten (80%) on-campus student-housing facilities tested had follow-up inspection forms that were not accurate or fully completed as follows:

- One of ten (10%) had inspection follow-up forms that could not be located.
- Four of nine (45%) had inspection follow-up forms that were not completed timely or had no indication of when they were completed.
- Four of nine (45%) had inspection follow-up forms that did not indicate whether all safety deficiencies had been resolved or that additional follow-up steps were taken.
- Four of nine (45%) had inspection follow-up forms that were not fully completed including missing resident signatures, follow-up dates, and dates of check.

Without adequate documentation of follow-up safety inspections performed it cannot be sufficiently determined whether fire and life safety deficiencies identified are being resolved in a timely manner.
Residence Life’s Fire Safety Protocol for Fall 2008 states that all initial and follow-up contacts for resolving safety inspection violations need to be completed no later than two weeks from the time the hall director received the violation spreadsheet. In addition, if the violation has been corrected it should be noted on the form otherwise the resident advisor should write an incident report and include the incident report number on the spreadsheet.

**Recommendation**

Increase monitoring of fire and life safety inspection follow-ups to better ensure that these inspections are occurring as intended and all inspection issues are being resolved in a timely manner including accurate and complete documentation of these follow-up inspections. Provide additional training to and oversight of resident advisors as needed to ensure follow-up inspection procedures are being followed.

Consider performing fire and life safety inspections of residence halls on a semester basis to better reinforce safety practices with the students and also help identify any unresolved follow-up safety inspection deficiencies.

**Management’s Response**

*For immediate effect, new training tools and accountability checks were provided to resident advisors and hall directors during fall semester 2009 staff training.*

*The inspection process of residence halls and apartments will be reviewed. Written procedures will be distributed to establish standards and provide for consistency in the inspection process, timeliness of follow-ups, process for unresolved issues and documentation requirements. The procedures will incorporate a monitoring aspect for follow-up inspections. Residence Life is also exploring obtaining software to assist with the safety inspection process.*

*Target Date: November 2010.*

*Residence Life will review the inspection method and frequency with the Environmental Health and Safety Office. This review/evaluation will be completed by February 2010.*
5. Conference Housing

Observation

Signed contracts or Letters of Agreement are not consistently obtained for housing services provided prior to various conferences and other events held at the University. In some cases, Residence Life relies upon the sponsor of the event to handle these contractual duties.

Without formal agreements each party may not be aware of their responsibilities resulting in potential disagreements in situations such as cancellation of the conference or bringing excess attendees. In addition, the University may be at greater risk of exposure to the extent that safety responsibilities and corresponding liability are not properly defined.

TAMU Rule 25.07.99.M1, Contract Administration, states that written contracts shall be executed whenever the University enters into a binding agreement with another party that involves any stated or implied consideration.

Recommendation

Continue the process of developing a standard contract or agreement to use when providing housing services for conferences and other events held at the University. Ensure these contracts/agreements are signed by both parties before services are provided and contain all necessary language including adequate liability provisions.

Management’s Response

Residence Life will review and update all current existing conference agreements with appropriate personnel by November 2009. Residence Life will continue to have conference sponsors sign off on the appropriate contract/agreement forms. A standard conference housing contract will be developed by February 2010 and will be used for conferences utilizing Residence Life facilities beginning in the summer of 2010.
6. Facilities Maintenance

Observation

<table>
<thead>
<tr>
<th>Potential inefficiencies exist due to having separate maintenance processes with different work order systems for the residence halls and University Apartments.</th>
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</table>

Residence Life has two separate maintenance processes which use different work order systems for the residence halls and University Apartments. In addition, the University Apartment maintenance staff contains skilled workers who perform more significant repairs and maintenance than the residence hall staff who utilize the University’s physical plant in these situations.

Residence Life management indicated that in the past the University has required all residence hall maintenance other than minor issues to be performed using the University’s physical plant. However, this requirement was not originally applied to the University Apartments and has not been reviewed recently by the University.

Implementing and maintaining separate maintenance processes and multiple work order systems could lead to possible duplication of duties and costs resulting in an inefficient use of resources.

Recommendation

The University should review its current policy regarding use of the physical plant for residence hall and University Apartment maintenance for consistency and efficiency of operations. Subsequently, explore the possibility of combining the separate maintenance processes and work order systems currently in place including the possible use of the skilled University Apartment maintenance staff for residence hall maintenance projects.

Management’s Response

The policies and processes regarding residence hall and University Apartment maintenance will be reviewed to identify changes that will increase efficiency. The review will be complete by August 2010.
BASIS OF REVIEW

Objective

The objective was to review the financial and management controls of Residence Life to determine if resources are used efficiently and effectively and in compliance with laws, policies, regulations, and University rules.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System; Texas A&M University Rules and Procedures; the National Association of College and University Business Officer (NACUBO) College and University Business Administration guidelines; and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Department of Residence Life is responsible for managing and operating campus housing for undergraduate students, graduate students, and conference guests. The department currently operates 29 residence halls with the capacity for over 7,600 students along with 10 residence halls with the capacity for over 2,000 students for the Corps of Cadets. The department also houses over 900 students and family members in 615 University Apartments some of which are being currently replaced with the construction of a new apartment complex. In the summer of 2008, the Residence Life Conference Services program hosted over 12,000 guests for 68 events generating an income of over $600,000. The department has a total of 417 employees including 42 professional staff, 87 custodial staff, 18 graduate hall directors, 30 maintenance staff, 152 resident advisors, and 70 student assistants.
Total budgeted revenues for fiscal year 2010 are almost $40 million of which over 50% is used to fund salary and utility costs. The University currently has no outstanding debt related to existing student housing.
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PROJECT SUMMARY

Overview

Tarleton State University’s financial and management controls over financial aid processes generally ensure resources are used effectively and efficiently and in compliance with laws and regulations. Control weaknesses were noted in the University’s scholarship and short-term loan processes. Opportunities for improvement also exist in the areas of reconciliations between the University’s accounting system, student information system, and the Department of Education’s cash management system and student appeals process.

During fiscal year 2008, approximately 5,600 of the 11,539 (49%) undergraduate and graduate students enrolled at Tarleton State University received about $48 million in financial aid including grants, loans or scholarships of which approximately $5.5 million represented scholarships alone.

Summary of Significant Results

Scholarship Management

The Scholarship Office is in the process of developing a formal, written procedures manual to provide guidance in daily operations and enhance consistencies among selection committees and departments involved in the scholarship process. Sixty-nine scholarship selection committees are in use; committee member names are not retained to ensure scholarship requirements are adhered to or to review for obvious instances of conflicts of interest. Certain committee members have full access (read/write access) to scholarship databases where applications and scholarship requirements are maintained. Confidential student information is currently distributed to selection committees in an unsecure manner. In addition, official pre-numbered receipts are not used to record donations received through the Scholarship Office and reconciliations of scholarship financial data maintained by the department to the official University accounting system (FAMIS), student information system (Banner), and award...
documentation are not performed. Improved documentation, records retention, and security of student data would be a proactive step by the University to reduce risk and enhance accountability.

**Short-Term Loan Management**

Controls related to management of short-term loans require improvement. Interest charges for tuition and fee loans and late fee charges for short-term loans are not being applied as detailed in loan agreements. In addition, alternative payment arrangements established between the University and students who have delinquent loans are not formally documented.

**Summary of Management’s Response**

Management concurs with the observations and recommendations in this report. As noted in our responses, many of the items have been implemented with others in process.

**Scope**

Our review of financial and management controls over the student financial aid system focused on general eligibility for all major aid programs and scholarships. To test for compliance of selected controls, computer-based audit techniques were used to increase audit effectiveness and efficiency and test for specific attributes of one hundred percent of the general eligibility requirements. We also reviewed financial management controls associated with financial aid. Transactions and activities related to these areas were reviewed for the period of September 1, 2007 through October 31, 2008. Fieldwork was conducted from May 2009 through July 2009.

Our audit did not include a review of Pell grants or other federal financial programs as the Texas State Auditor's Office was covering these areas as part of its A-133 Federal Single Audit for the State of Texas.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Scholarship Management

Observation

Documentation of scholarship procedures and maintenance of scholarship data needs improvement to ensure processes are performed consistently, in compliance with donor requirements, and within budgeted limits. The following exceptions were noted during our review of scholarships awarded in fiscal year 2008:

- The Scholarship Office is in the process of developing current, comprehensive written procedures to provide guidance for scholarship award processes and standardized documentation for all parties involved in awarding scholarships. Without formally documented procedures the risk of inefficient and ineffective operations increases should either of the two full-time Scholarship Office employees have extended or permanent absences. Training of new staff members would also prove to be difficult without documented procedures.

- Approximately sixty-nine scholarship selection committees are involved in determining scholarship recipients. Listings of these committee members are not maintained to prove committees are comprised as stated in scholarship requirements and obvious instances of conflict of interest between committee members and recipients cannot be monitored. Additionally, certain committee members have full read/write access to scholarship databases where applications and scholarship requirement data is maintained, increasing risks associated with data integrity. Our sample of thirty scholarships tested did not reveal any instances of scholarships issued to students who did not meet required criteria. Retaining and monitoring committee member listings helps ensure scholarships are issued in accordance with donor criteria and that obvious conflict of interest concerns are not overlooked. Limiting scholarship database access to a read only format for those without authority to input data reduces the risk of lost data integrity.

- Confidential student information was distributed to scholarship selection committees in an unsecure manner. Student information, including student identification numbers, grade point averages and test scores, were emailed in spreadsheet format to...
1. Scholarship Management (cont.)

selection committee members. Email is not a secure method of transmitting confidential information. Without a secure method to transfer student information, the risk is increased that confidential student information will become exposed.

- Scholarship funds received by the Scholarship Office are not recorded on official pre-numbered receipts with sufficient copies to provide a copy to the payer, a copy to the fiscal office cashier, and a copy to be filed in numerical sequence as required according to System Regulation 21.01.02 Receipt, Custody, and Deposit of Revenues. The Scholarship Office received approximately $1.67 million in scholarship funds in fiscal year 2008.

- No formal reconciliation is performed between scholarship account data maintained internally by the Scholarship Office to the official University accounting system (FAMIS), student information system (Banner), and selection committee documentation to verify scholarship beginning and ending balances are accurate and awards were made to selected recipients in the appropriate amounts. In addition, no formal reconciliation is performed to verify deposits of scholarship funds agree between internal Scholarship Office records, Banner, and FAMIS. Without reconciliation, there is an increased risk that scholarship deposits, balances and awards are not correctly recorded in the University’s accounting and student systems which could lead to incorrect scholarship balances, deficits within scholarship accounts and over- or under-awarded aid.

The awarding of scholarships is a more subjective process than awarding of grants and loans, which are primarily based upon need. Improved documentation, records retention, and security of student data would be a proactive step by the University to reduce risk and enhance accountability, particularly if a scholarship award is challenged.

Recommendation

Strengthen scholarship management by performing the following:

- Complete and make available to all necessary individuals the written procedures manual to allow for consistency, effectiveness, and efficiency in operations within the Scholarship Office as well as among selection committees and departments involved in the scholarship process. The manual should include items such as location of scholarship guidelines, process for obtaining listings of eligible students, documentation required to be submitted to the Scholarship Office from selection
1. Scholarship Management (cont.)

- Consider reducing the number of selection committees to allow for greater management of committees. Retain documentation to verify that committees are comprised as required according to scholarship requirements and that potential conflicts of interests have been investigated. Limit access to the scholarship database for those without authority to read-only access.

- Provide access to confidential student information through a secure means such as encrypted files or shared directory access for committee members/coordinators responsible for obtaining this information.

- Record scholarship funds received by the Scholarship Office on official, pre-numbered receipts with sufficient copies for all parties as required by System Regulation 21.01.02.

- Perform periodic, formal reconciliations between scholarship balances and awards tracked in the Scholarship Office's internal documents to Banner, FAMIS, and selection committee documentation. Ensure an appropriate separation of duties is adhered to.

- Perform periodic formal reconciliations for deposits of scholarship funds received through the Scholarship Office between the Scholarship Office's internal documents, Banner, and FAMIS. Ensure an appropriate separation of duties is adhered to.

Management's Response

A Disaster Recovery manual was completed in June 2009 which documents all procedures and work processes within the Office of Scholarships. This manual will be updated with policy/procedure changes as they occur. The Director of Scholarships will create a manual for all personnel involved in the scholarship awarding process. The manual will be created by March 2010 for use during the 2010-2011 awarding period. Committee members will be informed of documentation requirements.

Based on the wording of existing scholarship and endowment agreements, the University is not in a position to reduce the number of selection committees. However, in working with donors on developing new agreements, it is suggested that the donors utilize...
1. Scholarship Management (cont.)

the existing University Scholarship Committee in lieu of naming other individuals to serve in that capacity.

The scholarship database was made read-only for personnel using it for scholarship selections.

A secure drive has been established for personnel (scholarship committees) to access information on students who are eligible to receive scholarships. Access is limited to the Scholarship Office and those personnel serving on the scholarship committees.

Immediately after the audit, the Office of Scholarships began receipting private scholarship checks, using a pre-numbered, multi-copy receipt book provided by Business Services.

The Administrative Assistant in the Office of Scholarships will begin performing account reconciliations from Scholarship Committee recommendations to Banner to FAMIS. This process will be complete by the spring 2010 term. The Administrative Assistant has received login information for FAMIS and is scheduled to attend FAMIS training during the last week of October 2009. Reconciliations will be performed on a sample of scholarship accounts each long semester, sometime after the 20th class day.

2. Short-Term Loan Management

Improvements are needed in controls over the management of short-term loans to ensure loan requirements are adhered to, alternative payment arrangements are formalized, and written-off loans are managed according to best business practices.

2a. Tuition and Fee Loan Interest

Observation

<table>
<thead>
<tr>
<th>Interest for tuition and fee loans is not applied in accordance with loan terms.</th>
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Short-term loan requirements state tuition and fee loans are issued at a 5% simple interest per annum. Six of seven (86%) tuition and fee loans tested only had interest applied in the first month the loan was active, not each month the loan was active. This results in noncompliance with short-term loan requirements and loss of loan revenues. Students are not being charged interest for use of tuition and fee loans. Thus, the incentive for students to pay off tuition and fee loans as quickly as possible is reduced. The Banner system will not allow an automated application of interest per month. A manual application would have to be performed to all active short-term tuition and fee loans to have the interest applied each month.
Recommendation

2a. Tuition and Fee Loan Interest (cont.)

Determine if an automated application could be developed within the Banner system to apply interest rates on a monthly basis or if a flat one-time fee should be assessed in place of the monthly interest charge. Until this determination is made, comply with short-term loan requirements by applying interest of 5% per annum to all active tuition and fee loans by performing a manual processing of interest applications each month.

Management's Response

Management evaluated both options recommended (developing an automated application within the Banner system to apply interest rates on an annual basis or the assessment of a flat one-time fee). The decision was made to change the business process, rather than make changes to Banner, and to begin charging an origination fee of 1.25% on all tuition and fee emergency loans as allowed by Section 56.053 of the Texas Education Code. This became effective with the fall 2009 semester.

2b. Short-Term Loan Late Fees

Observation

Late fees are not being appropriately applied to delinquent loans. Late fees are not being applied to short-term loans as detailed in the loan guidelines. The Short Term Loan Application indicates that loans five days past due are subject to a $10 late fee or 10% interest per annum until paid, whichever is greater. The late fee of $10 is being applied to book and room/board loans without consideration of which is greater, the $10 late fee or 10% per annum. In addition, no late fees are applied to tuition and fee loans. Delinquent tuition and fee loans comprise 74% ($400,730/$540,714) of the total balance of delinquent loans on the loan aging report as of August 31, 2008.

Incentive for students to pay off short-term loans, particularly tuition and fee loans, as quickly as possible is reduced since late fee charges are either not applied or potentially not applied appropriately. The Banner system will not allow an automated application of interest per month. A manual application would have to be performed to determine which fee should be applied and, if the interest is greater, the fee would have to be manually applied each month.
**Recommendation**

2b. Short-Term Loan Late Fees (cont.)

Determine if late fees should be applied to tuition and fee loans as they comprise the majority of the outstanding delinquent loan balance as of August 31, 2008. Determine how late fees should be applied, whether in a flat fee, interest charge, or consideration of both and apply the fees as determined appropriate.

**Management’s Response**

*Management discussed and evaluated the matter of applying late payment fees to tuition and fee loans, and the decision was made to begin assessing a $10.00 flat late payment fee on past due tuition and fee loans. This became effective with the start of the fall 2009 semester.*

**2c. Alternate Payment Arrangement Agreements**

**Observation**

Formal alternative payment arrangement agreements are not put in effect for students establishing alternative payment plans.

No formal agreement is signed between the student and the University to document alternative payment terms put into effect for delinquent loans. In addition, no written guidelines are in place for the transfer of delinquent accounts to a collection agency should the alternative payment arrangements not be met. The need for a more formalized process for alternative payment arrangements of delinquent loans had not been recognized. Three of the fifteen (20%) loans included in our sample were on an alternative payment arrangement. Disagreement may arise between the student and University on the established alternative payment terms as currently arrangements are verbally agreed to and then recorded in the student information system. Without a formal agreement, students may claim not to know their account could be transferred to a collection agency should they default on the payment plan.

Best practices indicate having formal, signed agreements between contracting parties with potential consequences outlined, such as transfers of delinquent accounts to collection agencies, reduces the risk of potential disagreements of terms and further litigation.

**Recommendation**

Develop and implement the use of a formal agreement to be signed by both the student and a University representative for alternative payment plans established for delinquent loans. Include information on the consequences of not meeting the arrangements, such as the transfer of the delinquent loan to a collection agency.
Management’s Response

2c. Alternate Payment Arrangement Agreements (cont.)

Using the agreements in place at two A&M System institutions as a guide, Tarleton developed a formal agreement to be used for alternative payment plans, which includes the consequences of not meeting the arrangements. This agreement went into effect fall 2009.

2d. Management of Written Off Short-Term Loans

Observation

Written off short-term loans are currently managed within the active accounting system.

Delinquent loans greater than four years old are written off from FAMIS at the end of each fiscal year by the Business Office to allow for an accurate reflection of active short-term loans in the Annual Financial Report (AFR). However, the written off loans are re-activated in FAMIS via a journal-entry at the beginning of the next fiscal year to maintain the accounts in the event a student begins making payments. Although the short-term loan balance in the AFR is correct, re-entry of the loans in the active accounting system causes them to appear to be active during all other points of the year.

Best practices indicate that written off loans should be managed outside the unit’s active accounting system to eliminate potential confusion in true account balances at any time period. Discussions with other Texas A&M University System members have indicated that written off loans can be maintained in the student information system (Banner) rather than the active accounting system.

Recommendation

Consider other methods of managing written off loan balances outside the active accounting system such as through the student information system or a separate loan management system. Contact other A&M System members to obtain information on these other methods for managing written off loans.

Management’s Response

Tarleton considers its current practice to be in compliance with A&M System financial reporting requirements. Tarleton will explore available options for managing written-off loan balances outside of the active accounting system. The benefits of changing the current practice will be weighed against computer programming time and effort necessary to accomplish the change in methodology.
3. Reconciliations

Observation

Periodic, formal reconciliations are not performed between the Department of Education, Banner and FAMIS to verify accuracy of draw downs and disbursement of funds. Formal reconciliations between the Department of Education’s (DOE) cash management system, FAMIS, and Banner are not performed to ensure the accuracy of draw downs and expenditures. Reviews of reports from each system are occurring, but there is no regular comprehensive reconciliation identifying all differences between the systems and their dispositions increasing the risk that differences would not be identified and resolved in a timely manner.

Reconciliations are performed to identify differences between two or more sets of records or systems so that appropriate actions can be taken to resolve outstanding items. Monitoring reconciliations needs to include procedures to ensure all reconciliations are completed and reconciling items are cleared in an appropriate timeframe. Without adequate review and monitoring procedures, the risks are increased that errors or discrepancies will remain undetected and therefore not addressed and corrected in a timely manner.

Recommendation

Establish formal periodic reconciliation procedures between the DOE cash management system, FAMIS, and Banner. Resolve reconciling items in a timely manner.

Management’s Response

Reconciliation procedures will be coordinated between the offices of Student Financial Aid and Business Services, with additional reconciliations to occur either once or twice during each long semester. This process will be defined by the end of December 2009. Tarleton has been performing formal reconciliations as required for FISOP reporting to the U.S. Department of Education.

4. Outdated Student Appeal Procedures

Observation

Student Academic Progress appeals procedures are outdated. Student Academic Progress (SAP) appeals requests tested did not include required information outlined in the University SAP policy and Student Financial Aid procedures manual resulting in noncompliance. Required information excluded from the appeals requests included data such as student ID, address, phone number, signature, and date of submission. According to
management, this information is available and kept current through the student information system and is no longer necessary for inclusion in student appeals. Also, two of sixteen (13%) appeals reviewed were submitted in email format rather than letter format as required by the procedures manual.

**Recommendation**

Update the University SAP and procedures manual to address current, acceptable requirements for appeals requests. Ensure information in the SAP correlates with information presented on the University Financial Aid webpage.

**Management’s Response**

The Office of Student Financial Aid has updated both the student appeal procedures and Financial Aid Office procedures manual as recommended.

The Student Financial Aid University web page has been updated with the current Satisfactory Academic Policy and the current acceptable requirements for student appeal requests. The appeal request policy now includes the acceptance of the appeal request in either paper form or by email. In addition, we are no longer requiring the student to provide student ID, address, phone number, signature, and date of submission on the appeal request since this information is readily available and current in the student information system.

Current verbiage for student appeals requirements can be viewed at the following web address: [http://www.tarleton.edu/finaid/policies/satisacademicprog.html](http://www.tarleton.edu/finaid/policies/satisacademicprog.html) (Policies & Procedures: Satisfactory Academic Progress: “Appeals” section).
BASIS OF REVIEW

Objective

The purpose of this audit was to evaluate the financial and management controls over the University’s student financial aid system to ensure resources are used efficiently and effectively and in compliance with laws, policies, and regulations.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System, the Federal Student Financial Aid Handbook; the Treadway Commission’s Committee of Sponsoring Organization’s Internal Control—Integrated Framework (COSO); Tarleton State University Rules and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Office of Student Financial Aid is responsible for awarding financial aid and ensuring compliance with regulations and requirements. The Business Office provides financial management services for financial aid funds including short-term loans and scholarships while the Scholarship Office oversees receipting of scholarship funds, acceptance of applications and processing of scholarship awards. In addition, several academic departments throughout the campus are involved in awarding scholarships.

The University provides a variety of grants, scholarship, loans and other means of financial assistance to aid students in meeting their higher education goals. During fiscal year 2008, 11,539 students were enrolled at the University. The total amount of financial aid awarded was over $48 million; students and their parents received
approximately $46 million from federal loan programs. The largest student financial aid programs in actual dollars are the Federal Family Education Loans, Pell Grants and Texas Grants, respectively.
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PROJECT SUMMARY

Overview

The centralized financial management processes at Texas A&M University – Corpus Christi provide reasonable assurance that resources will be used in an efficient and effective manner and in compliance with relevant laws, policies, regulations, and University rules. However, the University’s decentralized financial processes over procurement card purchasing, information security and departmental receipting require significant improvement in order to adequately provide for regulatory compliance. While the University’s Financial Services provides the campus with guidance through a set of detailed written procedures, employee training and periodic meetings with departmental financial staff, additional oversight and monitoring is needed to ensure compliance with regulatory requirements.

The University is actively leveraging technology to gain efficiencies in the areas of revenue, procurement card and document management through its implementation of TouchNet Commerce Management, Smart Data Online (SDOL), Para-Docs and Laserfiche, respectively. The University’s financial management has improved accountability controls by implementing quantitative performance measures to track performance against divisional and University key success factors.

University management has been responsive to the audit and has initiated actions in an effort to address the issues discussed in this report.

Summary of Management’s Response

Management is in agreement with the recommendations from this review. Management will implement processes to improve procurement card purchasing, information security, and departmental receipting.
**Scope**

The review of financial management services’ processes focused on accounts payable, accounts receivable, banking, payroll, performance measures, purchasing, revenue management, records retention, and staffing levels for the period September 1, 2007 to January 31, 2009. The fieldwork was conducted from April to June, 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Regulatory Compliance – Procurement Card Purchasing

Observation

The University’s procurement card purchasing processes do not adequately provide for compliance with University requirements. For a sample of business meal expenditures tested, we noted the following:

- Forty percent (12 out of 30) of the business meal vouchers reviewed did not provide a list of the attendees.
- Thirty-seven percent (11 out of 30) of the business meal vouchers reviewed did not have an itemized receipt showing what was purchased or notation that the respective vendor does not provide itemized receipts.
- Thirty percent (9 out of 30) of the business meals reviewed did not specify the reason for the meal.
- Thirty-seven percent (11 out of 30) of the business meals reviewed were not coded accurately.
- Thirty-three percent (10 out of 30) of the expense reports reviewed had not been submitted to Purchasing and the HUB Programs Office by the 15th day of the following month, as required by University rules.

For a sample of other types of procurement card transactions we found some of the same issues, as noted below:

- Thirty-eight percent (18 out of 47) of the expense reports reviewed had not been submitted to Purchasing and the HUB Programs Office by the deadline.
- Nineteen percent (9 out of 47) of the vouchers reviewed had not been coded accurately.
- Fifteen percent (7 out of 47) of the expenditures reviewed were not supported by a receipt.
1. Regulatory Compliance –  
Procurement Card  
Purchasing (cont.)

While procurement card purchases currently account for only 13% (approximately $2 million out of $15 million) of the University’s total purchases, the high incidence of noncompliance suggests the need for more oversight and guidance over procurement card transactions by the University’s Financial Services. Current processes do not require procurement cardholders to submit documentation to justify business meals to Financial Services but rather leaves the compliance monitoring to departmental management. Financial Services’ management indicated that it is in the process of enhancing the monitoring and oversight of procurement card transactions through data analysis (to identify red flags) and increased frequency of procurement card transaction reviews.

**Recommendation**

Improve compliance with University rules for procurement card purchases by enhancing the University’s review process to ensure errors are detected and corrected. This may include assigning more resources to the review process and/or performing more targeted reviews.

**Management’s Response**

*Beginning in May 2009, the Purchasing Department created a management report on p-card activity to assist in the review process each month of activity and cards selected for audit. This review and the results of cards selected for audit are reported to the Sr. Associate Vice President each month. Additional resources are being added to assist in the audit of p-cards by adding .50 FTE in September of 2009. Also, each time p-cards are renewed, a form that outlines the cardholder and supervisor’s responsibilities is signed by both employees as reminders of duties and responsibilities.*

2. Regulatory Compliance - Information Security

**Observation**

The University’s processes do not ensure terminated employees’ access to information systems is removed in a timely manner. Eighty percent (4 out of 5) of the terminated Financial Services’ employees with Banner access did not have their access removed within a reasonable time following their termination date. In these four cases, access removal was performed 14, 56, 103 and 305 days after the termination date. Thirty-three percent (2 out of 6) of the Financial Services’ terminated employees’ access to the Financial Accounting Management Information System was not
2. Regulatory Compliance – Information Security (cont.)

Departmental receipting processes require improvement.

removed timely (i.e. 17 and 25 days after termination). This violates the Texas Administrative Code, Chapter 202 (Information Security Standards), Subchapter B (Security Standards for State Agencies), Rule 202.25, which requires user access to be removed when the user’s employment or job responsibilities change. It also increases the University's risk that information could be accessed by unauthorized individuals. Management indicated that this was due to the respective information security personnel not receiving notification about users’ employment termination in a timely manner.

Recommendation

Ensure compliance with state law by improving oversight of the process for removing terminated employees’ access to information systems. Access should be removed at termination.

Management’s Response

Management has reviewed the process for removal of terminated employees from all information systems. The Human Resources Department is providing a list of terminated employees on a weekly basis to the administrators of University information systems to facilitate the removal of access rights to these terminated employees. Some departments experience delays in providing all documents on terminated employees in a timely manner to the Human Resources Department. Therefore, all Department heads will be informed in October 2009 to expeditiously complete termination documents and forward these documents immediately to the Human Resources Department who in turn will create a more accurate termination list for the removal of access rights for these terminated employees to the various University information systems.

3. Regulatory Compliance – Decentralized Departmental Receipting

Observation

The University’s decentralized departmental receipting processes do not provide reasonable assurance that receipts are processed in accordance with A&M System Regulation 21.01.02. Financial Services has not provided the decentralized departments with adequate guidance and oversight in this area. This is evidenced by a generally weak internal control environment over decentralized departmental receipting. Receipting is one of the University’s most decentralized financial processes (with approximately 80 individuals authorized to perform receipting duties on campus). The review
also found a lack of consistency, with procedures/practices varying from one department to another. Through decentralized departmental cashiers, the University collected approximately $380,000 or 1% of the total for the same period.

The University’s financial management does not currently monitor decentralized departmental receipting procedures for compliance with A&M System Regulation 21.01.02. Current procedures do not include monitoring receipting activities to ensure receipts are deposited timely, either daily (for $200 and over) or at least once every three business days. Current procedures do not ensure all the decentralized departmental receipts are accounted for. University financial management does not track receipt numbers used to ensure all receipts are accounted for. While some of the departments reviewed had pre-numbered receipt books, they did not always use them. A&M System Regulation 21.01.02 requires an official receipt to be written for each remittance received by a department. The University does not require a copy of the receipt to accompany funds remitted to the Bursar’s Office. In addition, the University’s receipting practices do not ensure checks are restrictively endorsed upon receipt. This increases the risk of financial impropriety.

Current processes do not ensure decentralized departmental cashiers are held accountable for complying with A&M System Regulation 21.01.02. The review found that personnel performing decentralized departmental receipting/cashiering generally do not have cashiering duties on their position descriptions. In addition, the University has not formally trained cashiers.

Financial processes do not ensure decentralized departmental cashiers are subjected to a criminal background check. The University had not performed criminal background checks on 65% (53 out of 81) of the individuals that were authorized as cashiers. A&M System Regulation 33.99.01 requires System members to obtain criminal history information for finalists of security-sensitive positions. Generally speaking, access to cash would make the classification of a position security-sensitive. University management indicated that it now performs criminal background checks on all new hires, beginning September 1, 2008. Management had not performed the necessary background checks at the time of the audit on departmental cashiers hired prior to September 1, 2008.
Recommendation

3. Regulatory Compliance – Departmental Receipting (cont.)

Improve compliance with A&M System and University cash receipting requirements by providing the campus community with more guidance and ongoing monitoring. The guidance and monitoring should include:

- Developing written procedures for decentralized departmental receipting and providing all the University departmental cashiers with formal training on these procedures. The ongoing monitoring should include ensuring that all departmental receipts are accounted for and that they are deposited with the Bursar’s Office in a timely manner. In addition, monitoring should ensure departments are complying with University rules by performing periodic reviews.

- Providing decentralized departments with, and monitoring the use of, a “for deposit only” check endorsement stamp.

- Ensuring decentralized departmental cashiers’ position descriptions include cashiering duties, where appropriate.

Additionally, perform criminal background checks on all University departmental cashiers.

Management’s Response

A formal cash handling training was developed and was available for use in August 2009. As of September 18, 2009, a total of 189 employees had taken the training course. When cashiering duties exceed 5% of total duties, the job description of that position will be updated to include cash handling. Several positions that met the criteria were modified in August 2009. Of the fifty-three cashiers identified as not having background checks, those who were still employed as of September 30, 2009, had background checks completed.

Monitoring began September 16, 2009 on departmental receipts to ensure accountability of funds. The cash counts for every department with a working fund occurred and were completed by August 31, 2009. The cash counts will occur each year.

All departments have been informed as of July 2009 that endorsement stamps are available in the Business Office and that checks must be endorsed upon receipt.
BASIS OF REVIEW

Objective

The overall objective was to evaluate the financial and management controls over the University’s financial management services' operations to determine if resources are used efficiently and effectively, assets are safeguarded, and compliance is achieved with applicable laws, policies, regulations, and University rules. The University’s financial management services include budgeting, receivables and disbursements, accounting and reporting, property management and payroll.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; the Texas Administrative Code (TAC) 202 and 216; the Family Educational Rights and Privacy Act (FERPA); the Treadway Commission’s Committee of Sponsoring Organization’s Internal Control - Integrated Framework (COSO); and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Texas A&M University – Corpus Christi’s financial management services function is decentralized between the University’s Financial Services (made up of Comptroller’s Office, Office of Contracts and Grants, Purchasing & HUB Programs, the Bursar’s Office and Payroll) and some departments (for departmental receipting). The level of decentralization of the financial management function varies with the area. For example, the University has approximately 80 departmental personnel that are authorized to perform some receipting as part of their job duties. The University has approximately 350 procurement cardholders that are authorized to
purchase goods and services at varying purchasing limits. Financial Services “strives to support University programs, services, and research with accurate and timely financial services in a courteous and efficient manner.” Financial Services has approximately 50 staff with an annual budget of approximately $2.1 million.
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Ms. Christina Holzheuser, Bursar
Ms. Melissa Wright, Payroll Manager
PROJECT SUMMARY

Overview

Overall, Texas A&M University – Corpus Christi has processes in place to protect credit card information collected by the University. Currently, the majority of the University's credit card transactions are processed using stand alone, dial-up terminals that are not connected to its network. This effectively reduces the inherent amount of compliance risk associated with the Payment Card Industry (PCI) Data Security Standard (DSS) since the University is not storing credit card data electronically. However, given the continuing increase in the use of credit cards, additional efforts are needed in several areas including university-wide procedures, training, monitoring, records storage, and contract clauses to ensure that the University is complying with all the requirements in the PCI DSS. The University had over 29,000 credit card transactions totaling more than $8.6 million during calendar year 2008.

Summary of Significant Results

University-wide Rules and Procedures

The University does not have a formal University rule or standard administrative procedure for the processing or handling of credit card transactions and the resulting data. There has also not been any single department or position formally assigned to monitor credit card transactions and PCI compliance. Without the formal adoption of credit card data security procedures including the assignment of responsibility for monitoring compliance, there is a greater risk that credit card data may not be adequately secured and compliance with the PCI Data Security Standard may not be achieved.

Training

Not all employees who processed credit card transactions were trained on the PCI DSS as required by the standards. As a result, employees involved in credit card processing may not fully understand the importance of credit card data security, or have
sufficient knowledge of procedures needed to protect this information.

Summary of Management’s Response

The University will make improvements in controls, monitoring and training related to processing and handling credit cards transactions and resulting data.

Scope

Our review of Texas A&M University – Corpus Christi credit card data security focused on general processes and controls in place for protecting credit card data and compliance with certain portions of the Payment Card Industry Data Security Standard. Current controls and processes in place were reviewed during the period of September 2007 to August 2008 although some activities outside this time period were examined as necessary. Fieldwork was conducted from March through May 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. University-wide Rules and Procedures

Observation

The University does not have a formal University rule or standard administrative procedure for the processing or handling of credit card transactions and the resulting data. There has also not been any single department or position formally assigned to monitor credit card transactions and PCI compliance. The Business Office aids departments in obtaining a merchant number from Global Payments to facilitate the processing of credit card payments and ensuring that the funds are deposited into the University’s bank account. Any documented procedures are developed and maintained within the nine departments who maintain merchant numbers. During our review of these departments, only five of nine (55%) had any type of documented processes or procedures. With the recent surge in students and other customers wanting to make payments via credit card, adopting formal procedures to address these processes have not kept pace. PCI Data Security Standard 12.1 requires that a security policy be established, published, maintained and disseminated. Also, since credit cards are merely another mechanism for receiving funds, it is a good management practice to have procedures in place to govern the receipt of funds through credit card transactions similar to the procedures in place for cash and checks.

Without the formal adoption of credit card data security procedures including the assignment of responsibility for monitoring compliance, there is a greater risk that credit card data may not be adequately secured and compliance with the PCI Data Security Standard may not be achieved. This could result in costly fines and penalties as well as potential liability and damage to the University’s reputation.

Recommendation

Develop and implement a University rule and corresponding standard administrative procedure to govern credit card data security and ensure they are consistent with the requirements in the PCI Data Security Standard.
1. University-wide Rules and Procedures (cont.)

Assign responsibility for the oversight of credit card processing university-wide, including monitoring for PCI compliance, to a position with sufficient authority within the University.

Management’s Response

As of July 2009, the University has directed the Financial Services Division, reporting to Senior Associate Vice President for Finance and Administration, to monitor credit card transactions and PCI compliance. Additionally, the Information Security Officer has been involved in monitoring and reviewing processes across campus. The division has created a draft for two administrative procedures related to processing and handling credit card transactions. It is anticipated these procedures will be finalized and approved by February 2010. Additionally, every department that currently has a merchant account has reviewed their operating procedures and will have these on file with the Financial Services Division as of October 30, 2009. The departments have been provided with best practices related to credit card transactions. Additionally, as of September 18, 2009, all departments have been given information about receipting, which covers cash, checks and credit card transactions.

2. Training

Observation

Eight of nine departments with merchant numbers are currently processing credit card transactions. Of the eight departments, not all employees who process credit card transactions were trained on the PCI DSS as required by the standards. Employees in four of the eight departments had taken the Texas A&M University System’s newly created PCI Data Security Standard training available through the HR Connect system but did not repeat the training annually as is required by the PCI DSS. For the four remaining departments, employees had not taken the online PCI DSS training at all. Since monitoring of the training was conducted at the department level and no overall compliance monitoring exists, management was not aware of the lack of training.

As a result, employees involved in credit card processing may not fully understand the importance of credit card data security, or have sufficient knowledge of procedures needed to protect this information. PCI Data Security Standard 12.6.1 requires that a formal security awareness program be implemented to educate employees upon hire and at least annually of the importance of credit card data security. Management has indicated that they
2. Training (cont.)

have already contacted all affected employees and that all have completed the required training.

Recommendation

Ensure that all employees that process credit card transactions receive the PCI training offered through the University and are informed of any University rules or standard administrative procedures related to credit cards. This training must be repeated on an annual basis.

Management’s Response

Every department with a merchant account was reviewed in October 2009 to assure that all employees with duties related to credit card transactions were up to date with training on Payment Card Industry Data Security Standards. Copies of all transcripts from the HR Connect system are on file with the Financial Services Division as of October 30, 2009. Annually, the Financial Services Division will request copies of updated transcripts for departmental personnel involved in credit card transactions to ensure training is continued.

3. Monitoring of Self-Assessment Questionnaires

Observation

Inaccurate answers were contained in six of the eight departmental PCI self-assessment questionnaires completed by University departments contained at least one question that was not answered correctly. Two of eight (25%) departments incorrectly answered ‘yes’ to sections under 12.8 which require that certain verbiage be in the contract with service providers. Five of eight (63%) departments incorrectly answered “yes” or “N/A” to section 9.10 stating that cardholder data is only stored as long as required for business purposes. Failure to answer these questions accurately is related to a lack of training and overall monitoring of the process. Incorrectly answering the self assessment questionnaire could result in additional fines or penalties in case of a breach or loss of data.

Recommendation

Departments should carefully research and complete each section of the self assessment questionnaire. These should be reviewed by the person with overall responsibility for credit card compliance.
Management’s Response

3. Monitoring of Self-Assessment Questionnaires (cont.)

The annual PCI self-assessment questionnaires will be reviewed with the departmental personnel completing the forms. In this meeting, the Financial Services Division and the Information Security Officer will facilitate dialog and ask additional questions which will result in accurate responses on the forms. These meetings will take place beginning May 2010.

4. Physical Storage of Cardholder Data

Observation

Hard copies of credit card data are retained beyond a business or legal need.

Six of nine (66%) departments store hard-copy documents that contain cardholder data including the full credit card number. They were stored for varying lengths of time and at various levels of security. In these instances, departmental management acknowledged that there was not a good business or legal reason to maintain this information. Departments were not aware of the PCI DSS requirements under Section 9, Restrict Physical Access to Cardholder Data, which states that paper media must be destroyed when no longer needed for business or legal reasons. Retaining credit card data beyond the period in which it is needed for business reasons increases the risk that credit card data could be compromised.

Recommendation

Departments should determine if it is necessary to store cardholder data. If deemed necessary, they should render the card number unreadable and store the document in a physically secure area. Additionally, departments should limit the retention time to only what is necessary or what is allowed by all applicable retention policies.

Management’s Response

The new administrative procedures, that should be final by February 2010, will contain information regarding a consistent amount of time that records will be maintained by departments for credit card transactions and data. The maximum length of time will be 2 years to meet the credit card processor requirement of 18 months retention and to facilitate efficient record retention processes. Every department with a merchant number will also have in their operating procedures the appropriate storage method for credit card transactions. The Financial Services Division will review this procedure and any determined to not have adequate storage will be resolved.
5. Contracts

Observation

Two contracts with third-party service providers did not contain language required by PCI DSS.

During testing we noted that two electronic credit card processing systems that use third-party vendors did not have the required PCI provisions required in the vendor agreement. The University did verify that both vendor products were listed as validated payment applications by the Payment Card Industry prior to entering into contracts. PCI Data Security Standard 12.8 states that if cardholder data is shared with service providers (i.e. third-party vendors), then contractually:

- Service providers must adhere to the PCI Data Security Standard requirements.
- Service providers must acknowledge that they are responsible for the security of cardholder data they possess.

While the University did take steps to ensure that the vendor’s applications had been approved by the PCI, without a legally binding contractual agreement that includes this required language, the University is technically in noncompliance with the PCI DSS. If a breach or loss of data occurred on data hosted by a third-party vendor, the University may suffer monetary loss, incur liabilities attributable to third-party actions, and lose credibility with its customers.

Recommendation

The University should develop and implement the use of a contract clause that assigns responsibility to the service provider for the cardholder data they maintain and any security breach or data loss that may occur as a result of noncompliance with PCI Data Security Standard.

Management’s Response

As of October 2009, the Office of General Counsel has provided the Contract Coordinator of the University with the appropriate contract addendum needed for existing contracts. All vendors are being contacted to amend their agreements with this clause. Any future contracts will be reviewed to include this clause.
BASIS OF REVIEW

Objective
The objective of the audit was to review and assess the University’s controls and processes in place to protect credit card information collected by the University to ensure that such information is adequately secured.

Criteria
Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; the Texas Administrative Code (TAC) 202 and 216; the Family Educational Rights and Privacy Act (FERPA); the Treadway Commission’s Committee of Sponsoring Organization’s Internal Control - Integrated Framework (COSO); and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background
In 2004, the Payment Card Industry issued a Data Security Standard which mandated stricter requirements for all credit card processing and data maintenance due to the increases in security data breaches and identity theft. This standard has since been updated in September 2006 and most recently in October 2008. The standard contains twelve detailed security requirements with various sub-requirements in six general areas. Violations of the PCI Data Security Standard requirements can lead to significant penalties from the credit card companies and other additional costs as well as potential liability and bad publicity to the University.

Departments and other operational areas must go through Texas A&M University – Corpus Christi Financial Services to register for a
merchant number in order to process credit card payments with the University’s credit card processor Global Payments. There are currently 18 registered merchant numbers for the University of which 9 had credit card payment activity during calendar year 2008. For these 9 merchant numbers, there were over 29,000 credit card transactions totaling over $8.6 million during the calendar year. A large majority of these transactions were for student tuition and fee payments and for Sanddollar transactions. The primary method used to process credit card payments at the University consists of credit card terminals located in various decentralized areas throughout the University for processing credit card payments received from customers in-person, over the phone, and through the mail.
AUDIT TEAM INFORMATION

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Dick Dinan, CPA</td>
<td>Director</td>
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<tr>
<td>David Maggard, CPA</td>
<td>Project Manager</td>
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<td>Susan McGrail, CIA</td>
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<td>Joseph Mitchell</td>
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DISTRIBUTION LIST

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<thead>
<tr>
<th>Name</th>
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<tr>
<td>Dr. Flavius C. Killebrew, President</td>
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<td>Ms. Jody H. Nelsen, Executive Vice President for Finance and Administration</td>
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<td>Ms. Kathryn Funk-Baxter, Associate Vice President for Finance and Administration</td>
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PROJECT SUMMARY

Texas A&M University – Corpus Christi’s development operations in the Office of Institutional Advancement generally provide reasonable assurance that the University is operating in compliance with laws, policies, regulations, and University rules except for the University’s affiliation with the South Texas Institute for the Arts. The Art Museum is not operating as a University department as required by the affiliation agreement between the University and the Art Foundation Board. As a result, there is no assurance that internal controls are being adhered to in accordance with System policies, regulations, and University rules. A walkthrough of Art Museum operations indicated weak fiscal controls.

The University has partnerships with several affiliated foundations to carry out development activity in support of the University and its strategic initiatives. See chart to the right. These partnerships are defined and organized through affiliation agreements structured in accordance with System regulations.

<table>
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<tr>
<th>Foundation</th>
<th>Type of Affiliation</th>
<th>Purpose</th>
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<td>Corpus Christi and Warren Foundations*</td>
<td>Independent</td>
<td>Scholarship and endowment development</td>
</tr>
<tr>
<td>Art Foundation</td>
<td>Support</td>
<td>Fine arts development</td>
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<tr>
<td>Harte Foundation</td>
<td>Independent</td>
<td>Ocean research development</td>
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<tr>
<td>Island University Foundation</td>
<td>Shared Service</td>
<td>Alumni services</td>
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* These foundations report to the same board of trustees.

OBSERVATION, RECOMMENDATION, AND RESPONSE

Art Museum Affiliation Agreement Compliance

Observation

The Art Museum is not operating as a University department as required by the affiliation agreement between the University and the Art Foundation Board.

The South Texas Institute for the Arts is not operating as a University department as required by the signed affiliation agreement between the University and the Art Foundation Board. While the Art Museum staff is employed and paid through the University, the fiscal operations of the Art Museum are carried out separate and apart from University processes, controls, and other
means of oversight. As a result, there is no assurance that internal controls are functioning according to System policies and regulations and University rules. A walkthrough of the Art Museum’s fiscal operations indicated several internal control weaknesses including a lack of segregation of duties in the cash receipting process, check stock not being secured, and donor information not being adequately reconciled between donor gift records and accounting records.

In addition, the Art Foundation has not been filing its federal tax return with the University as required by the affiliation agreement.

Recommendation

Adhere to the terms of the affiliation agreement with respect to the Art Museum operating as a University department and in filing the Art Foundation’s tax returns with the University within 120 days after filing with the Internal Revenue Service.

Management’s Response

The University will take corrective action on the operations of the Art Museum fiscal controls and will enter into a new affiliation agreement with the South Texas Institute for the Arts Foundation (STIA).

The University will enter into a new affiliation agreement with the STIA by January 31, 2010. This new agreement will provide more clarity in the duties the Art Museum employees will perform on behalf of the STIA and formalize the compensation the STIA will provide to the University in exchange for these duties. The agreement will provide for the employees to perform fiscal management and accounting duties in accordance with the policies and procedures the STIA establishes. The employees of the Art Museum will still be expected to follow all Texas A&M University System policies and regulations including rules and administrative procedures of the campus for any transactions related to University funds or business.

The Art Museum has made several improvements to its internal controls and these are in place as of September 2009. They have implemented segregation of duties for bank deposits that are being made by someone other than the person reconciling the bank account. Additionally, the Assistant Director for the Art Museum will approve the reconciliation and periodically spot check deposit records to the bank statement. The check stock has been secured within a storage room with a locked door. The donor database will be reconciled to the accounting records no less than quarterly and
will be performed by someone that does not make deposits to the bank. They are in the process of locating or procuring a safe for security of cash receipts and have immediately improved the securing of cash by other means until a safe is in place.

The Art Museum has provided the University with the report of the annual audited financial statements for the year ended December 31, 2008. The annual tax return for December 31, 2008 has been completed and a copy will be delivered each year by November 30 because the return occasionally is not finalized until October each year.

BASIS OF REVIEW

Objective and Scope

The objective was to review and assess the University’s controls and processes over selected campus development office operations to determine if resources are used efficiently and effectively and in compliance with laws, policies, regulations, and University rules. Our review of the financial and management controls of the Office of Institutional Advancement focused on the adequacy of controls over disbursement transactions including access to electronic information for foundation operations and compliance with System policies and regulations. Activities and documentation related to these transactions were reviewed for the period from September 2007 through August 2008. Audit fieldwork was conducted in July 2009.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System; Texas A&M University-Corpus Christi Administrative Rules and Procedures; the Treadway Commission’s Committee of Sponsoring Organization’s Internal Control - Integrated Framework (COSO); and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We
believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

In partnership with the University’s foundations, the Office of Institutional Advancement seeks to identify, inform, interest and involve alumni, parents, and business professionals. To accomplish its duties, the Office is comprised of Alumni Relations, Student Foundation, Annual Giving, Planned Giving, Major Gifts, Foundation and Corporate Relations and Advancement Services areas.

For fiscal year 2009, $3.7 million in gifts were received from donors on behalf of the University as of May 2009.
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PROJECT SUMMARY

Overview

Overall, the recruiting, admissions and enrollment management processes established by Texas A&M University are effective in meeting the University’s enrollment goals and in providing reasonable assurance that students are admitted in compliance with applicable state laws and University requirements. Some opportunities for improvement exist in the regional prospective student centers’ administrative operations for increased efficiency and effectiveness.

Texas A&M University’s freshman enrollment for fall 2008 was over 8,000 students of which approximately 7,700 were Texas residents. Approximately one in four freshmen were first-generation college students. The University’s strategic plan addresses diversification and globalization of faculty, staff and student body; therefore, it is important to increase admission numbers with an emphasis on attracting and enrolling underrepresented groups. The University has established seven regional prospective student centers (PSC) jointly managed by the Office of Admissions and Records (OAR) and the office of Scholarships and Financial Aid (SFA) that promote attending college and how to pay for it. In the past six years, the overall freshman student enrollment has grown 25% from 2003 to 2008 with the African American growth at 100% and the Hispanic growth at 106%, both of which are proportionally higher than the overall growth. Management credits much of this enrollment growth to the efforts of the PSCs. Annual operating budgets for the PSCs were approximately $3.7 million for fiscal year 2009.

Summary of Management’s Response

Overall, Texas A&M University has demonstrated significant gains in recruiting of underrepresented students and increasing quality, particularly through the use of the regional prospective student centers (PSC). This success has been noted through this audit process while identifying areas of improvement. The University is committed to addressing all of the recommendations in this report and implementing changes over the course of the next year.
Scope

The review of student recruitment, admissions and enrollment management at Texas A&M University focused on recruiting, admissions, regional prospective student center operations, recruitment grant compliance, and goals, objectives and performance measure attainment for the period primarily from September 1, 2008 to May 31, 2009. Enrollment data was reviewed from fiscal years 1999 to 2008. Fieldwork was conducted during June and July, 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Administrative and Resource Improvements for Prospective Student Centers (PSC)

Observation

Administrative management of PSC resources needs improvement to ensure the most efficient and effective PSC operations. Programmatically, the PSCs have been successful in increasing enrollment and attracting targeted groups of students to Texas A&M University. However, there are opportunities for improvement of administrative processes that could, in turn, enhance customer service and provide for more efficient and effective achievement of programmatic goals. The following issues were noted:

- PSC websites have not been developed to market the PSC services, locations, personnel, etc. PSC information is not prominently displayed on OAR and SFA websites. In addition to recruiting, PSCs provide admissions and financial aid counseling services and help facilitate other University recruiting office efforts within their regions.

- Management has not taken a proactive role in the development of social networking pages for recruitment. Social networking pages were not yet developed and implemented for either office or the individual PSCs. In the absence of PSC pages, some of the staff had developed their own personal networking pages to use for recruitment efforts.

- Offsite internet connectivity is not available to all PSC staff for accessing the OAR and SFA networks while working outside of the PSC office. Access to the Internet is not always available at the schools that are visited. Access to OAR and SFA network systems would increase timely response to customers (students, parents, high school counselors).

- A common calendar system is not accessible by PSC staff members for better communication, organization, and scheduling. A basic goal of the PSCs is to provide admissions and financial aid information to potential students. Therefore, coordination and communication between the OAR and SFA staff members is essential.
1. Administrative and Resource Improvements for Prospective Student Centers (cont.)

- Comprehensive/combined accounting records and financial reports are not prepared for each PSC. Currently, PSC operational costs are combined in the Financial Accounting Management Information System accounts with other OAR and SFA departmental operating costs. OAR and SFA do not prepare combined monthly financial reports for the PSCs that include all costs for each individual PSC. Financial reporting is a tool for management to assess resource use, performance results, and other activities at the centers.

- The PSCs do not have comprehensive recruitment management software, nor is there a single system for use by recruiters throughout the University. OAR staff at the PSCs use six computer systems related to recruitment and admissions status. SFA staff use three systems. OAR and SFA staff members do not enter and track the same level of contact information in their respective recruitment tracking systems. Reducing the number of systems for more integrated and consistent information would improve efficiencies and increase effectiveness of recruitment efforts.

- Ready access to current procedure manuals, including procedures for PSC operations, is not easily available to all PSC staff. SFA provides a procedure manual in a central location on the department network for all employees to access and use. OAR has various manuals for each division within the department. These are not centrally maintained or updated for access by all employees.

The PSCs are jointly managed by OAR and SFA, each of which provides staff members to the PSCs. The individual PSC directors are OAR staff. There is also a SFA team lead in each PSC. The PSC staff members report administratively to their respective departments.

**Recommendation**

Consider improvements to PSC administrative operations to ensure PSCs have the resources needed to efficiently and effectively achieve University recruiting goals and objectives such as the following:

- Enhancing marketing of PSCs with websites and other means.
- Developing social networking pages for recruitment at the PSCs.
1. Administrative and Resource Improvements for Prospective Student Centers (cont.)

- Ensuring that PSC staff members have Internet access availability while working outside of the PSC office.

- Establishing a common calendar system for PSC staff members.

- Establishing monthly combined financial reports for the PSCs.

- Developing central recruiting software for use by all PSC members and other University recruiters.

- Ensuring that procedure manuals are maintained in a manner that allows all employees access to current procedures.

- Establishing a central administrative and reporting function for PSC administration.

Management’s Response

Each of the recommendations above is addressed separately as follows:

- Improvements to the PSC websites have been implemented, including information on location, staffing, regional scholarships, and services provided. A single set of PSC websites is now in use, eliminating duplication between offices. Implementation target is September 28, 2009.

- The use of social networking in recruitment is being pursued. A pilot Facebook page has already been launched for the Houston PSC. Additional sites for each PSC will be added after assessing the pilot site. Additionally, the University will develop guidelines in order to provide a framework for using this type of technology for recruiting purposes. Implementation target is February 28, 2010.

- Additional aircards will be purchased so that any PSC staff member who needs one can check it out on a first-come, first-serve basis. Implementation target is November 30, 2009.

- Solutions to shared calendars are being explored by Admissions and Financial Aid IT staff in conjunction with Computing Information Services staff. Implementation target is February 28, 2010.

- Since the budget year has already begun, current accounting processes and practices will be evaluated during the 2009-10 year by both accounting departments and will work on a
1. Administrative and Resource Improvements for Prospective Student Centers (cont.)

combined PSC financial report by region and implement any accounting changes for 2010-11. However, a combined summary financial report will be created for the 2009-2010 academic year. Implementation target is August 31, 2010.

- The University has just signed a contract for SunGard’s Enrollment Management suite which will be implemented as a university-wide solution for recruitment activities. The project is staffed and underway. This will allow the elimination of some of the other systems utilized on campus. Implementation target is August 31, 2010.

- Procedure manuals for the PSC staff are maintained by each respective office and will be updated annually and accessible on a shared secure network drive to all staff. Implementation target is November 30, 2009.

- The University recognizes the challenges created by having two separate offices operating side-by-side in each center and the inherent differences in administrative and reporting functions. However, the University also recognizes the value created by having these two separate offices represented in each center. That being said, we will establish a team to review differences in operating and reporting procedures in each center and further align functions that do not bring value to the operations of the PSCs. Implementation target is February 28, 2010.

2. Surveys

Observation

Independent surveys of all PSC customer and peer groups are not performed. Currently, PSC directors send surveys to high school counselors served by their region. These surveys are returned to the PSC directors. A more independent administration of surveys to high school counselors, students, parents and other recruiters at the University (Honors, Corps of Cadets, and University college recruiters) would provide a more objective assessment of customer satisfaction of PSC services provided. In addition, surveying a variety of customer and peer groups would alert management to new opportunities or potential problem areas.

Recommendation

Conduct independent surveys of all PSC customer and peer groups.
Management’s Response

2. Surveys (cont.)

Independent surveys will be developed by the University Measurement and Research Services office. Surveys will be given bi-annually to a variety of customers and peer groups including counselors, parents and prospective students and other University stakeholders. Surveys will be developed during the 2009-10 recruitment year so they can be administered in the summer of 2010. Implementation target is August 31, 2010.

3. Student Trip Approvals

Observation

No central oversight for student trips from PSCs.

Three of thirty-eight (8%) student trips reviewed did not go through Student Activities to seek approval for the camp and/or enrichment program. Responsibility and monitoring of student trips is decentralized between the program coordinators within OAR and SFA as well as the individual PSC directors. University rules require that all camps and enrichment programs, which include potential student trips to campus, be approved prior to the event. This approval process is designed to ensure that potential risks have been reviewed, liability insurance coverage is obtained, background screens are conducted on employees and volunteers, and information is obtained for emergency situations. A more central monitoring or oversight function for student trips from the PSCs would decrease the risks that trips and programs with prospective students, which include minors, occur without going through the proper risk management processes.

Recommendation

Establish central monitoring for student trips from PSCs to ensure that all applicable student trips are approved in compliance with University rules and procedures.

Management’s Response

The program coordinators on the main campus in the offices of Admissions and Scholarships and Financial Aid will be responsible for coordinating all campus trip-related programming and paperwork. We will establish a single process, irrespective of the office originating the trip, and a checklist to ensure that all campus trips comply with University rules, including collection and maintenance of all proper paperwork, coordination with other campus organizations, and communicating with the PSC staff who are part of the trip and/or program. Implementation November 30, 2009.
4. Approval to Work from Personal Residence

Observation

An appropriate level of approval was not obtained for employees working from home. The Central Texas PSC employees do not have a physical center location and, therefore, they work from their homes. Texas Government Code 658.010 states, “The employee's personal residence may not be considered the employee's regular or assigned temporary place of employment without prior written authorization from the administrative head of the employing state agency.” A&M System Regulation 33.06.01 states, “The component Chief Executive Officer (CEO) or designee must approve, in writing, each request for an employee to work from home or another location other than the place of business.” OAR and SFA management was not aware of the requirements of CEO approval for employees working from home.

Recommendation

Obtain CEO or CEO designee approval for employees working from their personal residence.

Management’s Response

The Admissions and Financial Aid staff operating in the Austin/Central Texas area work out of their residence since there is not an Austin PSC. Appropriate approvals for the employee to work from their residence have been received and a copy is in the personnel file of each employee. Completed on August 10, 2009.
BASIS OF REVIEW

Objective

The objective was to review the University’s recruitment, admissions and enrollment management processes to determine if resources are used efficiently and effectively and in compliance with laws, policies, regulations, rules and Higher Education Coordinating Board requirements.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System, Texas A&M University Rules, and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Texas A&M University, the state’s first public institution of higher learning, is one of the nation’s largest universities, with more than 48,000 students. Freshman enrollment in fall 2008 was over 8,000 of which approximately one in four were first-generation college students. To enhance this focus, the University has established seven regional prospective student centers in an effort to proactively recruit and produce a more broadly represented student body. The regional centers are jointly managed by the Office of Admissions and Records and Scholarships and Financial Aid to create a one-stop shopping effect promoting college and how to pay for it. In the past six years, the overall freshman student enrollment has increased 25%. Minority freshman student enrollment for African American and Hispanic students together has increased 100% and 106%, respectively, for this period. Management credits much of this enrollment growth to the efforts of the PSCs. Annual operating
budgets for the PSCs were approximately $3.7 million for fiscal year 2009.
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PROJECT SUMMARY

Overview

Overall, West Texas A&M University has taken several steps recently to address the ever increasing risk of securing highly confidential credit card data. These steps were mandated by the Payment Card Industry (PCI) Data Security Standards (DSS) and include implementing internal firewalls and data encryption to provide greater assurance that credit card data collected and processed is properly secured. Additional efforts are needed in some areas to better ensure that credit card data is protected especially given the growing number of locations throughout the University receiving credit card information and the evolving technologies used to receive and process this data. The University had over 66,000 credit card transactions totaling $15.8 million in revenues during fiscal year 2008.

Improvements needed include increasing monitoring efforts of the decentralized portions of credit card operations at the University. In addition, certain University administrative procedures need to be updated and enhanced to better address important aspects of credit card data security including data retention policies, contract administration practices, and incident response planning in the event of a system compromise.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Monitoring

Observation

While management has developed processes to enable individual departments to accept credit card payments for services and goods (tuition, fees, books, etc.), weaknesses were identified in monitoring compliance efforts with PCI requirements as follows:

- Few monitoring efforts are in place such as periodic spot checks to verify PCI compliance and overall security of credit card data in decentralized areas. Several instances were identified where
the department and the Business Office were not fully aware of where credit card data was being processed, stored, or transmitted.

- Three overall PCI Self-Assessment Questionnaires were prepared annually for all credit card operations at the University in 2008. Several areas of noncompliance were noted during the most recent self-assessment process.

- The University has contracted with a PCI-approved scanning vendor to perform vulnerability scans of their network as required by PCI Data Security Standards. However, not all required devices are being included in the scans.

There are thirteen departments, including the Business Office, which currently accept payments by credit card using a total of eighteen merchant numbers. Each merchant number reflects a single type of card processing system. Each system is administered at the department level with the Business Office receiving and accounting for all credit card payment proceeds.

The Director of Accounting and the IT Services Division Information Security Office, working in concert, are responsible for overseeing credit card data security. The Director of Accounting is responsible for establishing prerequisites and requirements for departments desiring to accept credit card payments, for approving all new credit card acceptance operations within the University, and for preparing PCI self-assessment questionnaires (SAQ) for each type of credit card system in place at the University. The IT Services Division provides technical support to ensure appropriate network and workstation controls and appropriate security scans are in place and are conducted in a timely manner. The IT Division provides technical assurance to the Director of Accounting to support the preparation of the PCI SAQs. This partnership appears to be effective, but could be enhanced with improved monitoring of the decentralized aspects of the University’s credit card operations. Without appropriate monitoring there is an increased risk that confidential credit card data may not be properly secured and compliance with the PCI Data Security Standard may not be achieved.

**Recommendation**

Improve controls over sensitive credit card data in decentralized areas by:

- Performing more detailed reviews and verifications of PCI self-assessment information provided by decentralized areas
including periodic spot checking of these areas for compliance with established University credit card data security procedures.

- Addressing all areas of noncompliance identified during the University’s PCI self-assessment process.
- Expanding the scope of the scans performed by third-party vendors to include all necessary devices in the quarterly vulnerability scans.

**Management’s Response**

- A Campus-PCI Credit Card Compliance Review document has been prepared by the Assistant Vice President for Risk Management and Compliance. The document will be used in periodic spot-checks and verifications of PCI compliance and overall security of credit card data with departments accepting credit card payments. Implementation date: November 2009.

- The Assistant Vice President for Risk Management and Compliance, in coordination with the Information Technology Office and the Accounting/Business Office will follow up on all areas of noncompliance identified during the self-assessment process. Implementation date: November 2009.

- The University has expanded the scope of the quarterly vulnerability assessments. All devices required to be tested are now included in the quarterly scans, currently being performed by Critical Watch. The most recent quarterly scan, completed as of July 2009 included the additional devices and all systems were found to be compliant. A copy of the compliance statement was included in the University’s annual PCI documentation which was submitted to the Texas A&M University System Offices. The Information Technology Office will continue to update and expand the scope of the PCI scans as required by data security standards. Implementation date: November 2009.

2. Updating University Administrative Processes

**Observation**

- University level credit card data security procedures have been developed and published on the University’s website. However, these procedures do not address several important aspects of the credit card data security program as follows:
• The University has not specifically addressed the retention of credit card data in its credit card data security policies to ensure that this data is only retained as long as needed for business purposes as compared to the risk related to storage of this data.

• None of the systems tested that use a third-party vendor had the required PCI language in the agreement with the vendor. As a result, credit card data held by vendors may not be adequately protected and the University may be liable in the event of a security breach of the vendor.

• The University has an incident response plan but it does not contain specific responses for loss of credit card data. PCI Data Security Standard 12.9 requires that an incident response plan be implemented in the event of a system compromise.

The conditions described above increase the risks of losing sensitive credit card information and noncompliance with PCI Data Security Standards.

There are several aspects of the current University procedures that are conducive to a strong control environment, and include:

• Required written acknowledgment of employees indicating they have read and understand these procedures.

• Each individual involved with credit card transactions is required to have a criminal background check conducted by the campus police department.

• An initial round of training was recently taken by University employees that receive credit card payments using the Texas A&M University System’s newly created Payment Card Industry Data Security Standard training through the HR Connect system.

• Each department processing credit card transactions has prepared a set of local procedures to address processing requirements specific to their operations.

**Recommendation**

Update University administrative processes to comply with PCI Data Security Standards. In particular address the following items:
• Add data retention requirements for electronic and manual credit card data to the University’s credit card data security procedures. These requirements should provide guidance on what is considered to be a valid business reason for retaining credit card data. Review all current credit card data being retained and take appropriate actions as needed to remove any data that is not needed for a valid business reason.

• Update the University’s contract administration processes to address credit card data security requirements in all third-party vendor agreements. Ensure that agreements are in place with all third-party vendors who have access to or host customer credit card data indicating that the vendor will adhere to the PCI data security standard requirements and be responsible for securing any cardholder data they possess.

• Complete the development and implementation of an incident response plan in the event of a system compromise. Ensure the plan addresses, at a minimum, specific incident response procedures, business recovery and continuity procedures, data backup procedures, roles and responsibilities, and communication and contact strategies (for example, informing the acquirers and credit card associations) as required by PCI data security standards. Test the plan at least annually.

Management’s Response

• West Texas A&M University’s procedure for processing credit card information now includes a data retention requirement. Information has been added to provide guidance on valid business reasons for retaining credit card data (i.e., for dispute resolution). Review of credit card data being retained and action to remove any data that is not needed for a business reason has been added to the Campus-PCI Credit Card Compliance Review. Implementation date: November 2009.

• Contract review for PCI data security standard requirements will be monitored by the Vice President for Business and Finance and all new contracts will require PCI agreements. Implementation date: November 2009.

The University’s current incident response plan has been modified to include specific PCI responses and procedures required for loss of credit card data. The plan has also been enhanced to reference and address business recovery and continuity factors, backup procedures, communication and contract strategies. Information technology will continue to refine/update the plan as security
standards change by working with the incident response team as well as the University’s Assistant Vice President for Risk Management and Compliance. Implementation Date: November, 2009.

BASIS OF REVIEW

Objective and Scope

Our review of West Texas A&M University’s credit card data security focused on general processes and controls in place for protecting credit card data and compliance with certain portions of the Payment Card Industry Data Security Standard. Current controls and processes in place were reviewed during the period of September 2008 to April 2009 although some activities outside this time period were examined as necessary.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; the Texas Administrative Code (TAC) 202 and 216; the Family Educational Rights and Privacy Act (FERPA); the Treadway Commission’s Committee of Sponsoring Organization’s Internal Control - Integrated Framework (COSO); and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

In 2004, the Payment Card Industry issued a Data Security Standard which mandated stricter requirements for all credit card processing and data maintenance due to the increases in security data breaches and identity theft. This standard has since been updated in September 2006 and most recently in October 2008. The standard contains twelve detailed security requirements with
various sub-requirements in six general areas. Violations of the PCI Data Security Standard requirements can lead to significant penalties from the credit card companies and other additional costs as well as potential liability and bad publicity to the University.

Departments and other operational areas must go through the University Business Office to register for a merchant number in order to process credit card payments with the University’s credit card processor, Global Payments. There are currently eighteen registered merchant numbers for the University of which sixteen had credit card payment activity during fiscal year 2008. For these sixteen merchant numbers, there were over 66,000 credit card transactions totaling over $15.8 million during the fiscal year. A large majority of these transactions were for student tuition and fee payments.
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PROJECT SUMMARY

Prairie View A&M University has controls and processes in place over the administration and use of procurement cards to ensure that resources are used efficiently and effectively and in compliance with laws, policies, regulations, and University rules. University management set the tone for the control environment by issuing several memos to the campus explaining the procedures in place and detailing corrective actions that would be taken if the procedures were not followed. The University has also encouraged the use of the cards in an attempt to streamline the payment process and thereby reduce costs. A few areas were noted for improvement including the documentation and monitoring of training and the proper coding of expenditures.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Monitoring of Training

Observation

The University has established a procurement card training program for cardholders and reviewer/approvers. Sign-in sheets for the initial training were not kept consistently until December 2006 and thereafter. Cardholders who were issued cards after this date were verified to have had the training; however, two of three associated approvers had not attended the training or there was no record of their attendance. The Financial Services Office was ensuring that card applicants had received training prior to issuing them a card, but were not verifying that the approver had also attended training. Procurement card training is required for all cardholders and approvers prior to card issuance as stated in the Procurement Card Guide. The University indicated that they are about to begin required refresher training on an annual basis; however, no classes had been held as of the end of our fieldwork.

Training is also provided for those in charge of preparing the reconciliations. However, no attendance documentation is being retained and it is not currently required in the Procurement Card Guide. All reconcilers should be required to attend applicable
training in order to ensure that reconciliations are performed in a consistent, efficient, and effective manner.

Without ensuring that all employees involved in the procurement card process have been adequately trained, the risk increases for potential errors or irregularities and could result in a loss of funds.

**Recommendation**

Document and monitor all procurement card training. This would include initial, reconciliation, and the recently required annual refresher training. Consider combining the sign-in sheets into an overall spreadsheet or database to make monitoring more efficient.

Update the Procurement Card Guide to include training for those responsible for performing the reconciliations.

**Management’s Response**

We agree with your recommendations and we are implementing a formal process to ensure we document and monitor all procurement card training.

The Procurement Card management will conduct the following:

- **The Procurement Card Office will maintain a sign-in record of all attendees of the procurement card training for new cardholder trainings, refresher trainings, and reconciliation training.** After each training session, beginning October 1, 2009, a record of training attendees will be maintained on the shared drive for Procurement Services. This spreadsheet will reflect a combined listing of the type of training received, name of attendee, department, and training date.

- A certification that all training records are accurate and up-to-date will be included in the monthly Financial Services report to the Vice President for Business Affairs.

- **Before a new cardholder is approved for a procurement card, both the proposed cardholder and his/her approver must have attended a new cardholder training.**

- **Procurement card reconcilers are required to attend the Procurement Card reconciliation training.**
• The Financial Services office has updated the Procurement Card Guide to reflect the required trainings for cardholders, reconcilers, and approvers.

This process will be implemented by October 1, 2009, with the first certification being due to the Vice President for Business Affairs by November 10, 2009.

2. Expenditure Coding

Observation

Approximately 8% of procurement card transactions reviewed did not have the correct FAMIS object code assigned.

Five of 60 (8%) procurement card transactions tested were given an inaccurate object code in the Financial Accounting Management Information System (FAMIS). One of the transactions, made on September 25, 2008, still had the default object code assigned by the procurement vendor, JP Morgan Chase. Cardholders of departments are required to replace the default object codes with the appropriate ones by utilizing the vendor’s Smart Data Online (SDOL) system. Financial Services reviews the coding when the monthly reports are turned in by the departments for payment. At fiscal year-end close, all expenditures with the default object code are identified by the Financial Services office and reallocated. Maintaining accurate accounting records throughout the fiscal year requires that all expenditures be coded with the most appropriate object code. Inaccurate financial data could lead to incorrect assumptions on the part of those relying on that data.

Recommendation

Increase the emphasis on entering and monitoring object codes to ensure that the information in FAMIS is accurate.

Management’s Response

We agree with your recommendations and we are implementing a formal process to ensure the accuracy of FAMIS information.

The Procurement Card management will conduct the following:

• The Procurement Card staff will monitor the expenditure codes on the procurement card reconciliations to ensure that the appropriate expenditure codes are used. Reports will be run bi-weekly on SDOL that will allow the Procurement Card Specialist to identify which codes are used incorrectly and adjustments will be made accordingly.
The procurement card training will include the importance of using correct expenditure codes. This process will be implemented by October 1, 2009.

BASIS OF REVIEW

Objective and Scope

The objective of the audit was to review the financial and management controls over procurement cards at Prairie View A&M University to ensure that resources are used efficiently and effectively and in compliance with laws, policies, regulations, and University rules. Our review included an assessment of program administration responsibilities assigned to the Financial Services office as well as gaining an understanding of procurement card processes assigned to departments and individual cardholders. Transactions and activities were reviewed for the period February 1, 2008 through January 31, 2009. Fieldwork was conducted from May through July 2009.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
Background

Procurement cards are designed to reduce data entry and voucher processing for small purchases resulting in more efficient, cost-effective purchasing practices. The State of Texas contracts with JP Morgan Chase to provide a procurement card program that is administered jointly by the University. The Financial Services office is directly responsible for the management and training of the procurement card. Procurement card activity is maintained on the bank’s web-interfaced database, Smart Data On-Line (SDOL). Departments are responsible for reallocating card expenditures in SDOL to the correct account and object code posted to FAMIS. The University has approximately 250 procurement cards issued to cardholders at the department and college levels. Approximately 11,700 procurement card transactions totaling approximately $5.7 million were processed for the calendar year ending January 31, 2009.
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PROJECT SUMMARY

Overall, Texas A&M University has controls in place to provide reasonable assurance that rules and procedures are clear, concise, communicated to constituents, and in compliance with state law. Opportunities for improvement include ensuring that rules and procedures are current and Internet hyperlinks are accurate within the rules and procedures.

The Texas A&M University rule structure consists of approximately 124 rules and 105 standard administrative procedures and is published online. The rules and procedures provide the University with current governance standards for the University community, clarify roles and responsibilities, mitigate compliance risks, and support University strategic objectives. The Office of University Risk and Compliance coordinates the overall process. The University Rules Team serves as a review board for all new and revised rules and procedures while various offices of responsibility draft and update the rules and procedures.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Timeliness of Rules and Procedures Review Process

   Observation

   The University’s rules and procedures are not on a formal schedule of review. The current informal review cycle does not ensure rules and procedures are current. Each year, University Risk and Compliance (URC) will contact each office of responsibility to initiate a review for rules and procedures that have not been reviewed in the last three years. The office of responsibility may or may not conduct a review and notify URC. If confirmation of the review is not received by URC, the review date is not changed and the review request is initiated again the next year. In addition, when revisions are necessary, the office of responsibility has no specific timeline to submit the revision.
Our testing determined that 11 of 30 (37%) University rules and procedures reviewed were not current or reviewed within the last three years. Additional analysis of the last review date for all 229 University rules and procedures further indicated that 118 (52%) had not been reviewed in over three years. The oldest review date went back to February 1996.

**Recommendation**

Establish a formal process to periodically review University rules and procedures. Determine if a formal process should include faculty rules. Consider incorporating such a process in University Rule 01.01.01.M1, Development and Approval of Texas A&M University Rules, to parallel the requirement in System Policy 01.01 to periodically review System policies.

**Management's Response**

Texas A&M University is committed to maintaining current governance. A formal review process will be established and a determination will be made if the formal process will include faculty rules. We plan to incorporate the process in the University’s formal governance documents. The target date is February 28, 2011.

**2. Hyperlinks in New and Revised Rules and Procedures**

**Observation**

The University has a process in place to reasonably ensure new or revised rules are clear, concise, and processed in accordance with System policy and University rules. The one exception area identified is that some Internet hyperlinks found in rules and procedures were not accurate as the link no longer connects to the intended information. Users may not be able to fully understand the related rule or procedure if they are unable to access information related to the rule or procedure due to broken links or links that no longer connect to the specific information. URC uses a Web Link Validator Report from Computer Information Services to identify broken links in the rule/procedure database; however, this report does not identify links that are not correct.

**Recommendation**

Develop procedures to improve the identification and correction of Internet links that no longer function or accurately connect to information referenced in the rules and procedures.
Management’s Response

University Risk and Compliance will develop procedures that collectively work to improve identification of hyperlink errors and facilitate corrections. The target date for these actions is August 31, 2010.

BASIS OF REVIEW

Objective and Scope

The objective was to review and assess the University's processes for the development and evaluation of University rules and standard administrative procedures. Also determine whether rules and procedures are clear, concise, communicated to constituents, regularly reviewed, and in compliance with state law. The review of rules and procedures focused on the rule and procedure development and maintenance processes as coordinated by the Office of University Risk and Compliance. Activities related to these areas were reviewed for the period of September 2008 to February 2009.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

As in accordance with A&M System Policy 01.01, the President of Texas A&M University has established University rules and procedures and delegated the responsibility to the Office of University Risk and Compliance to coordinate the development, review, routing for approval, and distribution of new and revised
University rules and procedures, including those of Texas A&M University at Galveston and Texas A&M University-Qatar.

Member rules are established to provide direction and guidance in conducting operational activities, clarify roles and responsibilities, mitigate compliance risks, and support strategic objectives. As the University processes evolve or change, it is necessary to provide consistent, approved written guidance to the University community.
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