PROJECT SUMMARY

Overview

The financial management processes at Texas A&M University – Commerce 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, except in the area of revenue management. The University’s current accounts receivable collection processes do not ensure compliance with state law and A&M System regulations. In addition, the University’s decentralized departmental receipting processes do not provide reasonable assurance that receipts are deposited timely as required by state law. Opportunities for improvement were also noted in the areas of procurement card purchases, bank reconciliations, inventory management and written procedures.

Summary of Significant Results

Revenue Management

Accounts receivable and receipting processes do not ensure compliance with state law, A&M System regulations and University procedures. The review found compliance exceptions in state warrant holds, demand letters to debtors, and the timeliness with which departmental receipts were being deposited. Management has not provided adequate guidance and oversight in these areas.

Summary of Management’s Response

University management agrees with the findings of the System Internal Audit Department related to their review of the University’s financial management services’ processes. Implementation of the recommendations will ensure compliance with state law, A&M System regulations, and University procedures as well as enhance the integrity and effectiveness of our financial operations. Detailed plans for implementing the review recommendations are identified following the discussion of each notable area.
Scope

The review of financial management services focused on accounts payable, accounts receivable, banking, inventory, payroll, purchasing, and revenue management. Transactions and activities were reviewed primarily for the period from September 2008 through May 2010. Fieldwork was conducted from July to August, 2010.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Revenue Management

Observation

1.1 Accounts Receivable

Accounts receivable management processes do not ensure compliance with state, A&M System, and University requirements. The review found compliance exceptions with the state warrant hold list requirements and the University's procedures on issuing demand letters to delinquent debtors, as discussed below.

State Warrant Hold

For 87% (20 out of 23) of the past due accounts reviewed, management had not placed the account on the state’s warrant hold list, as required by A&M System regulations. A&M System Regulation 21.01.04 requires System members to utilize the state comptroller’s warrant hold process for all delinquent accounts to ensure payments are not issued to the individual or entity that is indebted to the state. Until recently, University accounts receivable management did not pursue the state warrant hold requirement. Management indicated it now places state warrant holds on accounts receivables at the 90-day past due point.

Demand Letters

The University’s procedures for demand letters do not ensure compliance with A&M System regulations. For all (17 out of 17) relevant past due accounts reviewed, management sent more than two demand letters to the debtor. The University sends up to four demand letters to students with outstanding balances while A&M System Regulation 21.01.04 limits the number of demand letters to debtors to two. This elevates the risk of noncompliance with A&M System regulations. Management was not aware of the two-letter limit.

For all the relevant past due accounts reviewed (27 out of 27) management did not send the first demand letter timely, in accordance with University procedures. The untimeliness ranged from 75 to 990 days. University procedures require the first demand letter to be sent 30 days after the obligation becomes delinquent.
1.1 Accounts Receivable (cont.)

For 12% (2 out of 17) of the relevant past due accounts reviewed, management did not send the second demand letter in accordance with A&M System Regulation 21.01.04 and University procedures. A&M System Regulation 21.01.04 requires the second demand letter to be sent 30 to 60 days after the first demand letter. The letters were either sent less than 30 days or more than 60 days after the first demand letter. This was due to the lack of a strong compliance monitoring process to ensure the demand letters are sent in a timely manner.

**Recommendation**

- Improve compliance with A&M System regulations by ensuring that delinquent debtors are placed on the state’s warrant hold list.
- Improve compliance with A&M System regulations by aligning current University procedures with System regulations. In addition, develop and implement a compliance monitoring process to ensure accounts receivable demand letters are sent in a timely manner, in accordance with A&M System Regulation 21.01.04.

**Management’s Response**

**State Warrant Holds**

The University is in agreement that ensuring compliance with A&M System regulations regarding state warrant hold is required and the University will be in complete compliance with A&M System regulations for placing delinquent debtors on the state’s warrant hold list by June 30, 2011. Compliance will be ensured through a systematic process to include identification of all accounts 90 days past due (December 31, 2010); development of written procedures for placing accounts on the state’s warrant hold list and including steps for monitoring compliance (December 31, 2010); completion of the placement of debtors with accounts past due that originated in fiscal year 2005 to date on the warrant hold list (March 31, 2011); the implementation of steps necessary to ensure ongoing compliance with the A&M System regulations through the implementation of quarterly compliance auditing (May 2011); and the placement of delinquent debtors on the state’s warrant hold list by June 30, 2011.

**Demand Letters**

The University agrees that its demand letter process must be realigned to comply with A&M System regulations. Effective immediately following the conclusion of the fieldwork conducted for this review, the University ceased mailing out a third demand letter in accordance with A&M System Regulation 21.01.04.
1.1 Accounts Receivable (cont.)

The University also recognizes the need to implement procedures to ensure that demand letters are transmitted to debtors in a consistent and timely manner. A complete review of this process is underway in order to determine the feasibility of relying on the Banner student accounting system to schedule and automate the process. Regardless of the application utilized to generate and log the letters, the University expects to be in full compliance with transmitting letters to delinquent debtors on a timely basis as well as implementation of monitoring procedures to ensure compliance by April 30, 2011.

1.2. Timeliness of Deposits

Observation

Departmental receipting processes do not ensure timeliness of deposits in compliance with state and A&M System requirements.

The University's departmental receipting processes do not provide reasonable assurance that receipts are deposited timely in accordance with A&M System Regulation 21.01.02. Fifty-three percent (16 out of 30) of departmental receipts tested were not submitted to the Business Office in a timely manner. A&M System Regulation 21.01.02 requires departmental receipts to be submitted to the Business Office either daily (for $200 and over) or at least once every three business days. The untimeliness ranged from 1 to 31 days. Forty percent (12 out of 30) of departmental receipts tested were not deposited with the bank within seven days as required by state law, Section 51.003 of the Texas Education Code. The untimeliness ranged from 1 to 43 days. Not depositing funds in a timely manner increases the risk for funds to be lost or misappropriated as well as the risk of noncompliance with state and A&M System requirements.

Receipting is one of the University's most decentralized financial processes with receipting of funds occurring in approximately 60 departments. 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. The high exception rates suggest that management has not provided departments with adequate guidance or monitoring over the decentralized financial procedures. Additionally, current processes do not ensure departmental cashiers are held accountable for complying with A&M System requirements.

Recommendation

Improve compliance with state and A&M System requirements. Consider streamlining the departmental receipting function by reducing the locations on campus where funds are collected. Also
1.2 Timeliness of Deposits (cont.)

provide the departments with additional guidance and monitoring in the area of departmental receipting.

Management’s Response

The University agrees that its departmental receipting function needs to be reviewed in order to reduce the number of departments making deposits as well as increase the level of training and guidance provided to department personnel on the procedures necessary to ensure compliance with A&M System requirements. A review of deposit activity by department is underway so that a determination of risk versus need may be made. Where available, the number of departments making deposits will be reduced by providing the departments with payment acceptance alternatives.

The review is expected to be completed by December 31, 2010 and a report of departments ranked by volume and frequency provided to upper management along with recommendations on which department receipting locations can be consolidated. Where feasible, consolidations will be implemented by March 31, 2011. Additional guidance in the form of documented procedures and a training program will also be implemented by March 31, 2011.

A program for consistently monitoring compliance with A&M System requirements, including provisions for periodic audit of departmental receipts, will be implemented by May 31, 2011.

2. Procurement Card Purchases

Observation

Opportunities for improvement exist in compliance with the University’s procurement card purchase procedures.

Current processes do not ensure that procurement cardholders submit supporting documentation for procurement card purchases in a timely manner. For 38% (11 of 29) of the procurement card purchase transactions reviewed, the cardholder had not submitted supporting documentation by the University deadline. The University requires cardholders to submit supporting documentation for procurement card purchases by the 23rd day of the following month. In addition, for 40% (12 out of 30) of transactions reviewed, the Accounts Payable Department did not post expenditures to the respective Financial Accounting Management Information System (FAMIS) accounts within 30 days of the statement date, as required by University procedures. This elevates the risk of procurement cards being used inappropriately and not being detected in a timely manner as well as the risk of noncompliance with University procedures. These issues are partly due to the process being manual and time-
2. Procurement Card Purchases (cont.)

Consuming. Management indicated it is aware of these issues and is planning on implementing CitiManager, a procurement card management system that gives card users access to view, code, and approve expenditure transactions online in fiscal year 2011.

Recommendation

Improve compliance with University procurement card procedures by implementing CitiManager.

Management’s Response

The University concurs that the time-consuming and manual process of reconciliation for procurement cards creates an elevated risk. We are in the process of transitioning from JP Morgan Chase to Citibank as our procurement card company. During this transition, Texas A&M University-Commerce will implement CitiManager, an online procurement card management system. This system should satisfy the issues discovered in this audit. Our plan is to have CitiManager implemented by August 31, 2011.

3. Bank Reconciliations

Observation

For all (10 out of 10) bank reconciliations reviewed, reconciling items were not cleared within 90 days of the transaction date. Performing and reviewing bank reconciliations and clearing reconciling items in an untimely manner reduces the effectiveness of the reconciliation as an internal control and increases the risk of impropriety. Management was aware of this issue and indicated it was due to prior issues with timely preparation of bank reconciliations and resolving old outstanding reconciling items.

Recommendation

Improve the effectiveness of bank reconciliations by ensuring reconciling items are cleared timely.

Management’s Response

The University agrees that stale outstanding reconciling items on bank reconciliations may reduce the effectiveness of the reconciliation and increase the risk of impropriety. Reconciling items with dates of ninety days or earlier have been cleared as of August 31, 2010. Effective with the October 31, 2010 bank reconciliations,
3. Bank Reconciliations (cont.)

| all reconciling items will be resolved within 90 days of the transaction date. |

4. Property Inventory Management

Observation

Current property inventory management processes do not ensure compliance with University procedures.

Thirty-three percent (4 out of 12) of the annual property inventory certifications reviewed had not been submitted timely. In addition, inventory spot checks were not performed consistently in accordance with University procedures. This elevates the risk of property being misappropriated or lost and the risk of noncompliance with University procedures. The high exception rate suggests that additional guidance and oversight is needed in this area.

Recommendation

Improve compliance with University procedures by enhancing property inventory management written procedures and improving compliance monitoring.

Management’s Response

The University agrees that its current written procedures are not being consistently followed with regard to timely completion of the annual physical inventory as well as the completion of periodic spot checks. The University will change the wording of its existing inventory policy with regard to the required due date for submitting the annual inventory and require that departmental annual inventories be submitted by July 1 of each year. Additionally, the University will incorporate new language into its policy to allow requests for extension to be submitted to the Property Manager by July 1 on a university-approved form and in accordance with University procedures. These policy changes are expected to be implemented by December 31, 2010.

Compliance procedures will be implemented to review the timeliness of annual inventory submissions. An escalation notification system will be implemented so that the appropriate department head, dean, provost, and/or vice president is notified if an annual inventory or authorized request is not received in a timely manner. If the inventory is not received within two weeks of the original due date or approved extension date, the president will also be notified. Compliance procedures will be incorporated into the University’s written procedures by December 31, 2010, with procedure implementation by May 31, 2011.
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4. Property Inventory Management (cont.)

University procedures will also be implemented to include consistent inventory spot checks so that risk of misappropriation or loss is minimized. A minimum of three spot checks will be conducted annually. Additionally, spot checks may be conducted in the event of a change in departmental leadership, or a change in the physical location of the department. These procedures will take effect immediately and a minimum of three spot checks will be conducted by August 31, 2011.

5. Written Procedures

Observation

- Financial Services has not developed written procedures for the write-off of uncollectable accounts, as required by A&M System Regulation 21.01.04. As a result, the University has some accounts receivables dated as far back as 2001. In addition, the University has not developed written procedures for placing delinquent debtors on the state’s warrant hold list. This elevates the risk of noncompliance with A&M System and state requirements, as well as the risk of carrying an inflated accounts receivable balance that reflects these uncollectible accounts. Management indicated that it had focused its efforts on ensuring the accuracy of the accounts receivable balances after which it would develop and implement write-off procedures.

Recommendation

Improve compliance with System Regulation 21.01.04 by developing and implementing written procedures.

Management’s Response

- The University is aware of the importance of written procedures for the write-off of uncollectible accounts as well as for placing delinquent debtors on the state’s warrant hold list. Development of written procedures for the consistent write-off of uncollectible accounts in accordance with A&M System Regulation 21.01.04 is underway and will be fully implemented by March 31, 2011.

As discussed in management’s response to Section 1.1 Accounts Receivable State Warrant Hold of this review, written procedures for placing debtor accounts on the state’s warrant hold list will be developed and implemented by December 31, 2010.
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 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 financial management services' functions are mostly centralized, with the Office of Financial Services aiming to provide guidance and monitoring for the decentralized financial processes performed at departments. The main decentralized financial processes are purchasing (for transactions of less than $3,000) and departmental cash receipting. Financial Services has approximately 35 staff with an annual budget of approximately $1.9 million.
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