PROJECT SUMMARY

Overview

The controls established over the financial management services’ operations at West Texas A&M University provide reasonable assurance that assets are safeguarded and resources are used in compliance with applicable laws, policies, regulations and rules except in the area of account reconciliations. Significant weaknesses were identified in the periodic reconciliation processes. In addition, significant opportunities exist to improve operational efficiencies in the University’s business operations by automating existing manual processes. Opportunities for improvements were also noted in the areas of cash handling, procurement cards, and receivables.

Summary of Significant Results

Reconciliations

Processes and procedures are not in place to ensure that reconciliations are completed and outstanding items are identified and cleared in a timely manner. Unexplained differences ranging between $200,000 and $300,000 each month for four months in 2011 were noted on the student receivable reconciliations. Periodic reconciliations ensure that all related transactions between two sets of records are appropriate. Without adequate review and monitoring of the reconciliation process, the risk of errors, discrepancies or misappropriations occurring and not being detected is significantly increased.

Processing Efficiencies

Modifications to current business processes should be made to gain significant increases in efficiency. Purchasing and travel advance processes are manual and redundant, creating inefficiencies. The University maintains large working fund balances to facilitate cash based transactions that could be more efficiently processed using electronic accounting transactions. Review of business and accounting processes to use more
electronic and modern banking options would provide for more efficient use of University resources.

**Summary of Management’s Response**

*The University will implement processes and procedures to ensure that reconciliations are completed timely including identifying and clearing outstanding items. Additionally, the University will review potential solutions to improve business process efficiencies and the impact on working fund balances.*

**Scope**

The review of financial management services’ processes focused on reconciliations, accounts payable, accounts receivable, purchasing, revenue management, records retention, working funds, and property management. The audit covered the period January 1, 2010 through May 31, 2011. Fieldwork was conducted from June to August 2011.
1. Reconciliations

Observation

Processes and procedures are not in place to ensure that reconciliations are completed and outstanding items are identified and cleared in a timely manner. Unexplained differences ranging between $200,000 and $300,000 each month were found on the monthly February through May 2011 student receivable reconciliations. The differences were later determined to be the result of accounting system processing errors. Outstanding checks from 1995 were still carried on the April 2011 bank reconciliation as well as additional outstanding items dating from July 2010. Periodic reconciliations are necessary to identify differences between two or more sets of records or systems so that appropriate actions can be taken to resolve any discrepancies or outstanding items. Monitoring needs to include procedures to ensure reconciliations are completed, all differences are explained and reconciling items are cleared in an appropriate timeframe. Without adequate review and monitoring procedures, the risks are increased that errors or discrepancies would remain undetected.

The University has not completed and submitted an unclaimed property report to the State Comptroller since 2007. The unclaimed property report is required to be completed annually to send information on unclaimed items, such as old outstanding checks on bank reconciliations, to the State Comptroller for resolution.

Recommendation

Establish monitoring procedures to ensure that reconciliations are prepared timely and completely, adequately explaining all identified differences, and ensuring that all outstanding items are cleared in a timely manner.

Complete unclaimed property reports annually, remitting old outstanding checks to the state as permitted.
Management’s Response

1. Reconciliations (cont.)

Reconciliation monitoring procedures will be updated by January 1, 2012 to include timely reconciliations and the monitoring of outstanding items. Unclaimed property procedures will be reviewed and updated by April 2012 to include an annual report to be submitted to the State Comptroller.

2. Processing Efficiencies

Observation

Opportunities to gain efficiency exist in the University’s business processes.

Modifications to current business processes should be made to gain significant increases in efficiency. Purchasing and travel advance processes are manual and redundant which creates inefficiencies. In addition, the University maintains large working funds to facilitate cash based transactions that could be more efficiently processed using electronic accounting transactions.

All University expenditure requests, including travel, that are not paid for with a procurement card must be manually submitted to Purchasing Services to be processed and approved by the Director of Purchasing regardless of amount. Purchasing Services enters an encumbrance into the accounting system, DataTel, for each purchase. The current process to purchase an item under $5,000 without using the procurement card is as follows:

- The department inputs information into the financial accounting system, Datatel, and prints a paper requisition which is approved by the department head.

- The department sends the paper requisition to Purchasing Services specifying the items(s) and cost.

- One of the buyers reviews the requisition and prints the purchase order (PO).

- The Director of Purchasing reviews the PO, reviews the account for sufficient funds, and manually signs it. If funds are insufficient, he will contact the department head and request a new account number or a fund transfer.

- The Director of Purchasing forwards the signed paper PO to the department.
2. Processing Efficiencies (cont.)

- The department orders the item and returns a copy of the paper PO to Purchasing Services once the item is received.

All of the above steps are manual, but could be automated to expedite the purchasing process and eliminate redundancies. Purchase requisitions and vouchers are prepared in Datatel, printed, and manually routed, although the accounting system has the capability for electronic routing. The University also has an imaging system, but it is not currently used in the purchasing/vouchering process.

The travel advance and travel expense reimbursement processes also have opportunities to eliminate manual and redundant procedures to increase efficiencies. Current procedures include the following:

- The travel advance process uses several separate forms with redundant information. These forms are completed, approved and routed at separate times.

- Travel advances are provided to employees as cash transactions rather than issuing checks to employees. Employees must come to the Business Office to receive their cash advance. The Business Office maintains approximately $40,000 in the cash working fund for cash travel advance payments.

- A negative cash receipt is issued to the traveler when they receive the cash travel advance from the Business Office rather than recording the transaction as a disbursement transaction. The employee travel advance receivable is recorded in the accounting system, Datatel, when the negative cash receipt is issued.

- Although travel advance receivables are recorded in Datatel, manual spreadsheets are also maintained and reconciled to the accounting system.

- Travel expense reimbursement vouchers are not adjusted for travel advances. Travel expense reimbursement checks are issued to the traveler for the full amount of travel expenses. If there is an advance, the check is held in the Business Office. The traveler comes to the Business Office to receive their reimbursement check. The traveler endorses the check back to the University. If the expense is greater than the advance, the cashier gives the difference to the traveler in cash. If the advance is greater than the expense, the traveler must pay the cashier the difference.
2. Processing Efficiencies (cont.)

- The endorsed travel expense reimbursement checks are “cashed” at the bank to put the cash funds back in the Business Office working fund.

Consolidating advance forms, using direct deposit options rather than all cash based transactions, and consolidating financial transactions would increase the overall efficiency and effectiveness of the travel advance and reimbursement process for employees, employee department administrators and the Business Office.

The University also maintains large working funds at both the Business Office ($70,000) and the Bookstore ($40,000). These working funds are significantly more than other working funds maintained at other A&M System universities. Accounting procedures have manual, paper-based components such as writing checks and then depositing them into the University bank account rather than using journal entries or account transfer transactions. In addition, there are procedures to provide cash services which may no longer be necessary in today’s electronic banking environment.

Potential efficiencies may also be gained by the University by moving to a student debit card program administered by a third-party banking institution, as some System members have done, rather than maintaining an in-house debit card included with the Buffalo Gold Card system administered by the University. All student financial aid refunds and student payroll could potentially be processed on the third-party student debit cards. By moving to a third-party debit card, the University would no longer need to process weekly payments to local vendors (approximately 50) that accept the University’s Buffalo Gold Card as payment.

Reviewing business and accounting processes to use more electronic and modern banking options would provide the Business Office personnel more time for review and analysis of transactions as well as providing efficiencies and enhanced customer service for University students, faculty and staff.

Recommendation

The University should modify its current business processes to use more electronic and modern business and banking options. Specifically, to improve processing efficiencies, the University should:

- Fully implement electronic routing of purchasing and voucher processes to provide responsible departmental account holders the ability to more efficiently approve purchase and
2. Processing Efficiencies (cont.)

- Review travel and travel advance processes to eliminate duplicate and manual processing steps. Consolidate forms used for travel and travel advance approvals. Eliminate the use of cash for every travel advance transaction and reduce the Business Office working fund accordingly. Disburse travel advances to travelers via checks, direct deposit transactions or debit/credit cards. Offset travel expenses against outstanding advances and issue travel expense reimbursements to travelers via checks or direct deposit transactions.

- Review cash handling processes to increase efficiency and reduce redundancy. Explore the use of electronic interdepartmental transfers and other methods to eliminate writing checks for redeposit.

- Explore options for student debit cards administered by third-party banking institutions to increase efficiencies and provide additional customer service opportunities for students.

Management’s Response

The University will review current business processes and available technology to identify potential efficiencies in our current work flow processes and improved customer service. The University updated its delegated purchasing authority effective October 2010.

We will review and implement potential electronic approval processes supported by Datatel, Image Now, and other technology available to the University, including studying options and developing work flow processes. Testing and implementation is expected to begin June 2012.

The University is currently implementing new travel processes. With implementation of the State of Texas Citibank Travel Program this fall we elected to make three changes: (1) For individuals who frequently travel during the year, we are requiring application for the use of “individually billed” cards - implemented fall 2011. (2) For employees that do not have access to the individual billed cards, we are providing a travel advance card. (3) We have expanded the use of CBA (centrally billed accounts) for selected travel, commencing fall 2011. These changes should reduce our working fund needs and adjustments will be made, as appropriate, as we implement these changes. Implementation is expected by April 1, 2012.
2. Processing Efficiencies (cont.)

Management has reviewed card services and believes the current “one card” for multiple purposes provides the best level of customer service for our students. Higher-One is being implemented by some System universities who currently do not have a comprehensive system. Once Higher-One is implemented by other institutions, the University will have an opportunity to compare the cost/benefits of the two systems.

3. Cash Handling

Observation

Weaknesses in cash handling procedures increase the University’s risk of noncompliance and loss of financial resources.

The University’s cash handling processes at the Business Office and the Bookstore need improvements to strengthen controls over cash resources and comply with A&M System requirements.

The University’s current check cashing practices are not in compliance with A&M System regulations which prohibit the cashing of personal checks. Business Office cashiers cash employee personal checks up to $50. The Bookstore customer service desk cashes student personal checks up to $25, student payroll checks up to $200, and student third-party checks up to $300. Check cashing practices were established years ago as a customer service to employees and students. However, there is now an ATM machine in the student center and the University’s depository bank is within several blocks of the campus.

The Business Office did not have documentation of the transfer of fund custodian responsibility for the vault working fund ($70,000) from the Controller to the Bursar who has daily custody and responsibility of the working fund. A&M System regulation requires that records be maintained indicating who has been assigned custody of working funds and changes in custody of working funds.

Temporary working fund increases by the University Bookstore for textbook buyback periods are not returned timely. At the time of our auditor cash count on June 15, 2011, the Bookstore safe included a University check for $13,135, dated May 26, 2011, written to the Bookstore to reimburse the temporary working fund for spring buyback purchases. However, additional cash funds were not needed and the check was not cashed. Rather than reduce the temporary working fund at that time, the check was retained at the Bookstore.

The Bookstore’s textbook buyback process does not include acknowledgement by the seller of the funds they receive for their textbooks. The buybacks are recorded through a cash register;
3. Cash Handling (cont.)

however, there is no record of the person selling the books back to the Bookstore and receiving the funds. Maintaining a record or log of individual textbook buyback purchases and sellers allows for reconciliation and verification of buybacks and reduces the risk of undetected discrepancies and misappropriations.

Recommendation

To improve cash handling processes and ensure compliance with applicable A&M System regulations, the University should:

- Discontinue the cashing of personal, payroll, and third-party checks.
- Maintain documentation for authorization of custody and assignment of responsibility when the primary custodian does not maintain physical custody of the fund.
- Ensure that temporary working fund increases are reduced as soon as possible.
- Obtain customer name, identification, and signature for all textbook buybacks.

Management’s Response

The University will discontinue cashing personal, payroll, and third-party checks effective January 2012.

Management believes that appropriate documentation for authorization of custody and assignment of responsibility based on physical custody of the funds are in place and updated as required. Management also believes that the physical custody of the vault working funds is that of the Controller based on the close location of the Controller to the vault and that the Controller is also responsible for these funds on a daily basis. Additional monitoring procedures will be implemented by December 2011 to provide documentation and assignment of responsibility.

Working fund increases will be monitored. Changes were implemented July 2011 with the Bookstore returning working funds when they are not needed based on the business cycle.

The University Bookstore will obtain customer name, identification and signature for all University Bookstore textbook buybacks beginning January 1, 2012.
4. Procurement Card Management

Observation

Monitoring of overall procurement card usage and procurement card procedures need improvement.

The University does not have monitoring processes for overall procurement card usage analysis to determine if limits are appropriate. Analysis of monthly card limits and usage indicates that limits are significantly higher than actual usage for some cards. Nine of 30 monthly billing statements reviewed were not used during either of the two months reviewed. Nine of 15 cards reviewed used less than 50% of the cards’ monthly spending limit during the 17-month period reviewed. One card had a $20,000 monthly spending limit, but had $1,015 as the highest monthly statement amount during the 17-month period reviewed.

Although post payment reviews are performed on all cards each month, procurement card transaction data, available through the credit card reallocation system, is not analyzed for trends or identification of high risk cardholder activity. Proactive and routine monitoring processes are efficient and effective ways to manage the risks associated with the procurement card program, as well as providing timely and useful information for management decisions to achieve overall purchasing program goals and objectives.

The University’s procurement card procedures could be strengthened in the area of gift card purchases. The University procurement card manual does not require documentation and signature of individuals receiving gift cards that were purchased with the procurement card which is a high risk area for fraud. Enhancing procurement card procedures to address gift cards reduces the risk of misappropriation or loss of University assets without timely detection.

The University entered into a contract and implemented an American Express Corporate Charge Card program without obtaining approval from the State Comptroller. Texas Administrative Code requires that an institution of higher education may not enter into a contract for a corporate charge card without approval by the State Comptroller. The University was unaware of the contract restrictions on corporate charge card contracts for institutions of higher education.

Recommendation

Establish procedures for periodic analysis of procurement card usage to identify high risk areas and determine if limits are
4. Procurement Card Management (cont.)

| appropriate. Establish procurement card procedures for documentation of gift card recipients. |
| Discontinue use of the American Express Corporate Charge Card account unless authorization and approval is obtained from the State Comptroller. Management should consult with the A&M System Office of General Counsel regarding this approval process. |

Management’s Response

| With implementation of the State of Texas Citibank Pro Card Program in September 2011, the Purchasing department now has the ability to provide management reports accessed through Citibank reporting tools. Management will review and monitor card activity. Reports to analyze card activity by cardholder and vendor activity will be prepared for management's review beginning February 2012. |
| Procedures will be implemented for the purchase and distribution of all gift cards to be effective February 2012. |
| The use of the American Express Corporate Charge card payment process was discontinued July 2011. |

5. Accounts Receivable Collection Procedures

Observation

| Accounts receivable collection processes do not ensure outstanding accounts receivable are collected in compliance with A&M System Regulation 21.01.04, Extension of Credit. The University does not have procedures to provide guidance on a tolerance threshold to determine when delinquent accounts should be referred for collections and when to use the state warrant hold process. Collection efforts for past due student receivables were not timely. Spring 2009 past due receivables were not sent to collections until April 2011. A&M System regulations and the Texas Administrative Code require that the State Comptroller's warrant hold process be used when debts are determined to be delinquent. The loss of University funds due to ineffective collection efforts over accounts receivable is increased without timely collection processes. |

Recommendation

| Establish accounts receivable monitoring and collection procedures in compliance with A&M System Regulation 21.01.04. |
Management’s Response

5. Accounts Receivable Collection Procedures
(cont.)

The University will establish accounts receivable monitoring and collection procedures in compliance with A&M System regulation 21.01.04 by March 2012.
**BASIS OF REVIEW**

**Objective**

The objective of this audit was to review 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 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 conducted in conformance 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 celebrated its centennial year in 2010 with record enrollment. The University offers 61 undergraduate programs, 45 masters’ degree programs and one doctoral program through its five colleges. In academic year 2010, the University had annual expenditures of approximately $113 million.
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