PROJECT SUMMARY

Overview

The financial management services’ processes at Texas A&M University – Texarkana do not provide reasonable assurance that financial resources will be used in an efficient and effective manner, and in compliance with applicable laws, policies, regulations, and rules. Significant weaknesses and noncompliance were identified in the areas of cash handling, accounts receivables, and reconciliations. Significant improvements are needed in these areas to ensure that the University’s financial resources are adequately safeguarded and appropriately accounted for in compliance with state and A&M System requirements.

The University has experienced turnover in key financial management positions which were held by the same individuals for many years. This loss of experienced staff, along with the University’s downward expansion and new campus, has challenged the University in meeting its new and expanded financial management services’ responsibilities.

Summary of Significant Results

Monitoring and Oversight

Insufficient monitoring and oversight of certain University financial management services’ processes increases the University’s risk of noncompliance and loss due to errors, mismanagement, and/or misappropriations. The lack of staff knowledge and training, particularly with the University’s student information system, has resulted in weak core internal control processes related to cash handling, accounts receivable and reconciliations.
**Cash Handling**

Controls over cash handling need to be strengthened to provide adequate protection and reduce the risk of the loss of funds. Significant weaknesses were identified in the Business Office’s controls over cashier activities and daily deposits, the segregation of incompatible duties, and the physical security over funds. The Business Office handles all student tuition and fee receipts as well as departmental deposits. Weaknesses also exist in controls over the working funds at the Library.

**Accounts Receivable**

Accounts receivable management processes do not ensure compliance with state and A&M System requirements. Receivables are not actively monitored to ensure payments on student and third-party accounts are received timely, nor are monthly aged receivable reports produced for monitoring of outstanding receivables. Additionally, collection efforts on outstanding receivable balances are minimal. Without effective and timely collection and monitoring efforts, the University's risk of loss due to uncollectible accounts or misuse of funds is increased.

**Financial Reconciliations**

Processes and procedures are not in place to ensure that clearing account and student information system reconciliations are performed and reconciling items are cleared in a timely manner. Additionally, the financial staff's lack of knowledge and training on the student and financial information systems impact their ability to prepare accurate and complete reconciliations between these two information systems. 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 increased.

**Summary of Management’s Response**

*Texas A&M University – Texarkana’s administration is in agreement with the recommendations as set forth from the Internal Audit Department’s review of the fiscal management services’ processes. A new CFO/Vice President for Finance and Administration was hired October 2009. At that time, because of a retirement of the only Vice President/CFO in its history and the appointment of a new Vice President/CFO, the University requested that the Texas A&M University System Internal Audit department provide an evaluation*
and audit of the processes and procedures of our entire Finance and Administration function. The audit covered the period January 1 to December 31, 2010.

Administration is taking necessary actions to improve processes and strengthen procedures related to monitoring and oversight of required processes, cash handling, accounts receivable and financial reconciliations.

Scope

The review of Texas A&M University - Texarkana's financial management services' processes focused on reconciliations, accounts payable, accounts receivable, purchasing, revenue management, records retention, information technology, working funds and property management. The audit covered the period January 1, 2010 to December 31, 2010 and fieldwork was conducted from February to April 2011.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Monitoring and Oversight

Observation

Insufficient monitoring and oversight increases the University's risk of noncompliance and loss of financial resources.

Insufficient monitoring and oversight of certain University financial management services' processes increases the University’s risk of noncompliance with applicable laws, policies and regulations and the loss of funds due to errors, mismanagement, and/or misappropriations. The University's current financial staff's lack of knowledge and training, particularly with the University’s student information system, and to some degree the financial system, has resulted in ineffective oversight and nonperformance of core internal control processes related to cash handling, accounts receivable and reconciliations (see remaining audit observations for additional information on these areas).

In the last two years, the University has experienced high turnover in key financial management positions which were previously held by the same individuals for many years. This loss of experienced staff, along with the additional duties associated with the recent downward expansion and new campus, has challenged the University in meeting its new and expanded financial management services' responsibilities.

For the University to establish and maintain a strong control environment over its financial resources, employees must have the knowledge and training to appropriately perform their duties and monitor operations.

Recommendation

Provide the financial management services' staff with sufficient training on the University's student and financial information systems, and A&M System requirements, in order to ensure they have the necessary knowledge to effectively perform their job duties. Implement a monitoring and oversight process that identifies noncompliance and promotes accountability in the University's financial management services' processes.
Management’s Response

1. Monitoring and Oversight (cont.)

Texas A&M University – Texarkana’s administration concurs with the recommendations of the A&M System audit team and has taken the following actions:

Management has provided training in both the Banner student information system and the FAMIS financial system since the audit concluded. Each training was attended by key personnel in these areas which will enable our staff to gain the understanding and specific knowledge to monitor and oversee the processes that will identify noncompliance and promote accountability. Training will continue to be emphasized from an internal and external standpoint as we continually seek vendor and system training as well as expand internal trainings for identified staff. Initial training is completed with continued ongoing internal and external trainings.

Oversight and monitoring of key processes and critical operational areas has been changed since the audit. Job descriptions are currently being modified and awaiting approval. The staff accountants have been assigned specialized areas to monitor and review on an ongoing monthly basis. These areas include but are not limited to Cash & Accounts Receivable, Accounts Payable & Disbursements, General Ledger oversight and Budgets, and Grants & Research. All oversight and monitoring changes have been implemented and will be evaluated for effectiveness by December 31, 2011.

2. Cash Handling

Observation

Cash handling controls need significant improvements.

The University’s cash handling processes need significant improvements in order to adequately safeguard and account for its cash resources and to comply with A&M System requirements. Control weaknesses were identified in the University’s Business Office operations and the Library’s working funds as noted below:

**Business Office Operations**

Business Office cashier and deposit processes do not provide reasonable assurance that funds collected are properly accounted for and deposited timely. The Business Office handles all student tuition and fee payments as well as departmental deposits. For the fall 2010 semester, over $4 million in student tuition and fees were collected by the Business Office. A review of daily cashier deposit worksheets revealed errors in manual calculations and
2. Cash Handling (cont.)

inconsistencies between the amounts on the worksheets and the supporting daily transaction reports. These errors and inconsistencies were not detected and corrected during the worksheet review and daily bank deposit reconciliation processes. The worksheet was not designed and used appropriately to ensure that errors were identified and corrected and accountability over funds was maintained. The cashier and reviewer signatures were not consistently recorded on the worksheet. Additionally, documentation of the transfer of funds between the cashiers, the business office manager who reviews worksheets and prepares bank deposits, and the security officer taking the deposit to the bank was not maintained.

Deposits were not made timely. Four of five daily cashier deposits reviewed were not deposited within one day of receipt as required by the University’s internal procedures. In addition, during an inventory of the Business Office’s safe contents, three daily deposits totaling over $40,000 had not been taken to the bank. One deposit of $38,160 had been in the safe for nine days. State law and A&M System regulation require bank deposits to be made within seven days of the date of receipt.

Checks were not recorded, receipted, restrictively endorsed and secured immediately upon collection. During a review of the Business Office cash funds, auditors noted four checks that were being held outside the cash register. The cashier indicated that she was not sure how to process the transactions and was waiting for guidance from the supervisor. The cashier took the checks from the customers, but had not recorded the transactions or issued a receipt to the customers.

There has been significant turnover of staff in the Business Office which has resulted in a lack of knowledge of the necessary controls and processes to properly account for daily cashier activity and deposits. Without appropriate controls to provide accountability for funds there is an increased risk that errors and/or the misappropriation of funds may occur and not be detected in the normal course of business operations resulting in the loss of funds. A&M System regulations require that accountability for funds be maintained from the origin of collection until the final deposit into an approved depository bank.

Library Working Funds (Prior audit issue)

Internal controls over the Library’s working funds totaling $170 (two $30 cash drawers and a $110 change machine) are weak. All Library employees had access to the working funds; therefore, individual accountability was not maintained. The transfer of funds
between individuals was not documented, and processes were not in place to make routine deposits of copy machine receipts. Duties were not appropriately segregated. One individual had access to the funds, prepared the cash fund reconciliations and deposits, and reconciled the accounts. A&M System Regulation 21.01.02 recommends the segregation of incompatible duties: authorization, custody, record-keeping and reconciliation.

Additionally, the Library’s working funds were not documented in the University’s official financial accounting records, nor was a written request or an acknowledgment of responsibility form signed by the fund custodian on file. The Library retained customer and copy machine receipts to establish the working funds rather than establishing working funds through a request approved through the University’s fiscal office as required by A&M System Regulation 21.01.02. This same issue was also noted in a prior System Internal Audit Department audit issued in fiscal year 2006.

Library personnel were not familiar with appropriate procedures for establishing or maintaining working funds. Without adequate internal controls to prevent or detect errors or misappropriations, the risk of loss of funds is increased.

**Recommendation**

To improve cash handling processes and ensure compliance with applicable laws and requirements, the University should:

- Require training on appropriate cash handling controls and related A&M System regulations for all individuals involved in or supervising cash handling operations.

- Develop internal procedures for staff to follow to ensure effective and accurate cash handling and timely deposits in compliance with A&M System regulations and state requirements.

- Issue receipts for all funds received and restrictively endorse checks upon receipt.

- Maintain individual accountability for funds and document the transfer of funds between individuals.

- Ensure working funds are appropriately authorized and accurately recorded in University accounting records.

- Segregate incompatible duties in order to safeguard the funds.
Management’s Response

2. Cash Handling (cont.)

Texas A&M University – Texarkana’s administration concurs with the recommendations of the A&M System audit team and is taking the following actions:

The following issues have been communicated to staff whose jobs duties include these tasks: timely deposits; recording, receipting, restrictively endorsing and securing checks; and processing transactions timely. The University is in the process of strengthening the procedures for all cash handling duties. A cash handling policy and procedure has been developed and is going through final review. This policy/procedure will address all cash handling for all departments in the University that are either a cash collection point with a cash working fund (i.e. Business Office and Library) and those departments that only collect cash (i.e. Institutional Advancement) and remit funds to the Business Office for deposit. All account managers who are responsible for working funds are now required to recertify their cash funds by signing a new custodian form annually. Target date for completion is November 30, 2011.

The controller and University business manager attended a statewide cash handling seminar on July 21, 2011 hosted by the Government Treasurers’ Organization of Texas. All cashiering personnel will be required to attend internal and, if available, external cash handling trainings on an annual basis which will include segregation of duties, transfer of funds, proper receipting and endorsement of funds and timely deposit of funds. Target date for completion of these required trainings is November 30, 2011.

The cashier deposit worksheet has been redesigned in a password protected Excel spreadsheet. A provision for required signatures is provided on a spreadsheet for accountability and monitored for completeness by the accountant overseeing the cash functions. The Business Office implemented this new method and worksheet April 2011.

The Library working funds of $170 have been recorded and corrected in FAMIS as of March 3, 2011. Procedures for the Library working fund are in development and will be finalized, approved and operational by November 30, 2011.
3. Accounts Receivable

Observation

Monitoring and collection processes over accounts receivable need improvement.

Student accounts receivable management processes do not ensure outstanding accounts receivable are collected in compliance with state and A&M System requirements. Processes are not in place for effective monitoring of student and third-party receivables. A monthly aged accounts receivable report is not produced for monitoring of outstanding student receivables. Staff was not aware of how to produce the report from the University’s student information system. The monthly aged receivable report is an important internal control that facilitates monitoring and collection efforts and is required by A&M System Regulation 21.01.04, Extension of Credit.

There is also a lack of collection efforts for delinquent student and third-party accounts receivable. Timing of current collection efforts is ineffective. There is not a process in place to ensure holds are placed on student accounts if they are delinquent in paying their accounts. Past due accounts are not sent to collection agencies and the University has not established a policy to write-off uncollectible accounts. All of these processes assist the University in managing its outstanding accounts receivable and are required by state and/or A&M System requirements. The loss of University funds due to ineffective collection efforts over accounts receivable is increased without well trained staff to perform effective monitoring and collection processes.

Recommendation

Provide in-depth training to Business Office employees on the University's financial and student information systems and on accounts receivable controls and related state and System regulations in order to enable them to efficiently and effectively perform their job responsibilities.

Establish accounts receivable monitoring and collection procedures in compliance with A&M System Regulation 21.01.04.

Management’s Response

Texas A&M University – Texarkana’s administration concurs with the recommendations of the A&M System audit team and has taken the following actions in response:
Personnel received training to run the Banner ARTB (aged trial balance.) It is being run on a monthly basis and sampled accounts are crosschecked and verified against Banner to assure accuracy is achieved and the report can be relied upon. The aged trial balance report will be reconciled back to the financial information system on a monthly basis to determine accuracy of reports. This report has been implemented since May 2011 and the reconciliation procedures will be completed by October 30, 2011.

Collection agencies that are currently used by Texas A&M University have been contacted and will be given consideration with selection no later than December 31, 2011. A delinquent account list has been created and backup/supporting documentation is being collected to be given to the selected collection agency. Procedures are being written for billing, collections, and third-party account receivables management. The procedures, in compliance with A&M System Regulation 21.01.04, will be submitted to the Administrative Council for approval due the sensitivity and impact upon University. Any account over 30 days old will be contacted through the official email system of the University. A second notice at 60 days past due will be sent to all accounts to their permanent mailing address alerting them they will have 30 days to take care of their accounts or be turned over to a collection agency. Any account older than 90 days will be submitted to the selected collection agency and placed with credit rating organizations. A third-party receivable policy and procedure will be modified so students will be held responsible for any balance unpaid by the third-party after 90 days. This action will be completed by February 28, 2012.

A written policy on write-offs of uncollectible accounts is currently being established and will be completed by December 31, 2011.

The Business Office Manager lacked access to the account hold job in Banner. This has been corrected. Written procedures addressing hold on student accounts has been developed and is awaiting approval. Target date for completion is October 30, 2011. The University has applied for and received the remaining warrant hold codes from the State Comptroller's Office. A procedure for the utilization of State Comptroller warrant holds will be included in the collection procedures.

The monitoring, in compliance with A&M System Regulation 21.01.04, of the overall accounts receivable balances will be assigned to Accounting Department staff. Target date for implementation is December 31, 2011.
4. Financial Reconciliations

**Observation**

The University does not have processes in place to ensure that all account reconciliations are routinely performed and reviewed, or that outstanding reconciling items are cleared in a timely manner. The clearing accounts are only reviewed annually as part of the annual financial reporting process, and no reconciliation was performed between the financial accounting system and the student information system. Clearing accounts should be reconciled more frequently in order to ensure issues are resolved in a timely manner. 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 of 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 would remain undetected.

In addition, the 2010 annual unclaimed property report due to the State Comptroller was not submitted until requested by the auditor. 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 for resolution.

There has been turnover in key financial management services' positions. Most of the current employees do have a reasonably good understanding of the University's financial information system (FAMIS). However, an adequate understanding and related training on the student information system (Banner), and its various reporting capabilities, is missing. A reconciliation was being performed to compare FAMIS and Banner balances; however, after further review it was determined that the comparison was actually between two reports from the same system (FAMIS). A lack of understanding of the information in the University's key information systems increases the University's risk of not identifying inaccurate or inappropriate transactions in a timely manner. Without timely reconciliations and clearing of outstanding items, the risk of undetected losses is significantly increased.
4. Financial Reconciliations (cont.)

Recommendation

Provide financial management services' staff with appropriate training on the University's student and financial information systems, account reconciliation controls, and related state and A&M System requirements to enable them to effectively and efficiently perform their job responsibilities.

Establish monitoring procedures to ensure reconciliations are performed, reviewed, and reconciling items are cleared in a timely manner.

Submit annual unclaimed property reports in a timely manner.

Management's Response

Texas A&M University – Texarkana’s administration concurs with the recommendations of the A&M System audit team and is taking the following actions:

Training on both the FAMIS financial system and the Banner student information system occurred this past June and July, respectively. While a good knowledge base is in place for the FAMIS system, continued training will occur in the Banner student information system. Management has made training one of their priorities (outlay of financial resources) to ensure the staff has the basic and advanced understanding and knowledge in the systems to do their jobs effectively and efficiently. Internal training will ensure personnel have the understanding for account reconciliations as well as any state or A&M System requirements. Trainings will be ongoing.

Clearing accounts will be reconciled on a monthly basis with all outstanding items cleared before they are two months old and all items cleared before year-end. The reconciliations are due to the controller within 20 days after the close of the prior month, signed off on and filed electronically. Any discrepancies will be documented and detailed as to their disposition. Target date for completion of clearing account reconciliations is January 2012.

Reconciliations between the student information system (Banner) and the financial system (FAMIS) are being handled by an accountant on a daily basis. Any discrepancy is followed up on within two business days and reconciliations are approved on a monthly basis by the controller and electronically filed. This has been implemented since April 1, 2011.

This annual procedure of filing the Unclaimed Property report was not in the senior accountant's desk manual and not discussed with
4. Financial Reconciliations (cont.)

Improvements in the University's purchasing and accounts payable processes should be made to improve controls and increase efficiencies. Accounts payable information and process controls built into the University's financial information system (FAMIS) are not being fully utilized.

An analysis of voucher data revealed that information is not always entered into FAMIS using the appropriate screens. Some purchase order numbers are manually entered rather than using the automatic numbering functions within FAMIS. Automatic, sequential purchase order numbering is an internal control that accounts for all purchase orders entered.

Five of 50 (10%) purchase vouchers reviewed were found to have invoice numbers that did not match supporting documentation. Each vendor invoice was not entered into FAMIS as a separate voucher. Without entering each vendor invoice number, FAMIS is not able to automatically check for duplicate invoice numbers during the payment process. When vendor payments are made (which may include multiple vouchers in one payment), FAMIS automatically provides invoice numbers on the pay statement to the vendor, eliminating the need to generate the list manually.

The University has a high percentage of low dollar vouchers. Approximately 51% of vouchers are less than $500. Eighty-nine percent of vouchers are less than $2,500. Implementing a purchasing card program would provide a more efficient and less expensive method of processing these high-volume, small-dollar payments to vendors. In addition, purchasing cards would provide better purchasing controls than the local store charge accounts currently used.

Understanding and utilization of the process controls and information within FAMIS along with the use of procurement cards would provide opportunities for improved efficiencies and internal controls over the University’s purchasing processes.

5. Purchasing Efficiencies

Observation

There are opportunities for more efficient purchasing processes.
5. Purchasing Efficiencies (cont.)

**Recommendation**

Provide FAMIS training to staff involved in purchasing and accounts payable processes. Consider implementing a purchasing card program to enhance efficiency and effectiveness of the accounts payable process.

**Management's Response**

*Texas A&M University – Texarkana’s administration concurs with the recommendations of the A&M System audit team and is taking the following actions:*

The University recently (spring 2011) was able to include all operating departments in the electronic processes of FAMIS. Several departments were using a paper system that did not utilize the efficiencies and controls of the FAMIS purchasing module. Both Purchasing and Accounts Payable staff have received additional FAMIS training in June. These staff will produce and offer classes twice a year to current University personnel and train new personnel as they are hired. These actions will enable the FAMIS system to be utilized to improve controls. University training will be ongoing; however, initial training of Accounts Payable and Purchasing staff was completed June 2011.

The University is also pursuing the procurement card program to be used on campus. This program will help the University with its efficiencies (51% of vouchers under $500 and 89% are under $2500). The University has contacted the procurement card vendor and is on the list to begin its universal implementation. The University will pilot the program to a few departments as quality and internal control processes are being implemented and designed. Once the procedures are finalized, the program will be available to the entire University community. Projected initial implementation - March 30, 2012. University wide implementation – December 31, 2012.

6. Records Retention

**Observation**

Old records were not in compliance with A&M System records retention requirements. Old records maintained by the University were not in compliance with the A&M System’s records retention requirements. A review of the Business Office vault found that credit card receipts from 2003 were being stored within the vault and contained customer credit card numbers. The current A&M System records retention schedule requires that billing details and cash receipts be maintained for three
5. Purchasing Efficiencies (cont.)

years past the fiscal year-end. Additionally, customer credit card numbers were not being stored in compliance with Payment Card Industry Data Security Standards (PCI DSS) which regulate the storage of customer credit card numbers.

Recommendation

Properly dispose of financial records in accordance with the A&M System’s record retention schedule and other external party requirements, particularly any records containing confidential and sensitive information.

Management’s Response

Texas A&M University – Texarkana’s administration concurs and is taking the following actions:

Annual reminders will be sent out from the University records retention officer and the Vice President for Finance and Administration to all University employees about the A&M System record retentions schedule. This will include disposition procedures for records and documents. This will be completed by November 30, 2011.
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

Texas A&M University - Texarkana began a downward expansion program and started accepting freshmen, sophomore, and doctoral students in fall 2010. The mission of the University is to be a comprehensive regional University that provides students with academically challenging, engaging, and rewarding educational experiences through quality teaching, scholarship, student support services, co-curricular programming, research and services.
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