PROJECT SUMMARY

Overall, the controls established over the financial management services' operations at Texas AgriLife Research and the Texas AgriLife Extension Service are effective in providing reasonable assurance that resources are used efficiently and effectively; assets are safeguarded; and compliance is achieved with applicable laws, policies, regulations and rules except for controls over working funds. Weaknesses in monitoring and controls over working funds resulted in discrepancies of fund amounts, reimbursement coding errors for federal income tax reporting, signature cards not on file, and inactive accounts. Opportunities for improvement were also noted in the areas of accounts receivable collections, annual financial reporting, and consistency in financial processes.

AgriLife Research and AgriLife Extension have combined administrative functions, including fiscal office processes. Each agency maintains separate bank accounts and separate accounting records, but business processing is managed as one office.

Summary of Significant Results

Working Funds

Weaknesses were noted in the monitoring and controls over approximately $70,000 in working funds held by AgriLife Extension and AgriLife Research. Discrepancies were noted in the amount of funds recorded in the financial records and the amount of funds actually on hand. Monthly reconciliations were not received timely for all accounts resulting in uncorrected errors. Other weaknesses included payments for day laborers not being recorded correctly as required for 1099 reporting to the Internal Revenue Service and not having checking account signatures on file. Activity of the working funds has not been assessed periodically to reduce or eliminate unnecessary accounts. Consistent and timely monitoring controls over working funds reduce the risk of noncompliance with applicable laws, policies.
and regulations, and loss due to undetected errors or misappropriations.

Summary of Management’s Response

Based on the auditors’ recommendations we are reviewing current procedures and policies and will make appropriate modifications as noted in each section.

Scope

The review of financial management services’ processes focused on reconciliations, accounts payable, accounts receivable, purchasing, revenue management, records retention, information technology, working funds and property management for the period January 1, 2010 to December 31, 2010. Fieldwork was conducted from March to May, 2011.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Working Funds

   Observation

   Weaknesses in monitoring and controls over working funds resulted in discrepancies of fund amounts, reimbursement coding errors for federal income tax reporting, signature cards not on file, and inactive accounts. Working funds consist of three petty cash funds totaling $1,550 and 18 checking accounts totaling $67,800 maintained at the regional centers throughout the state. The following items were noted during a review of the working fund checking accounts for a seven-month period:

   - Two working funds had a discrepancy between the amount recorded on the financial records and the amount maintained by the fund custodian. The difference is attributable to a $300 discrepancy in the AgriLife fiscal office petty cash fund and a $4,000 discrepancy in one of the regional checking accounts.

   - Two working funds had balances and activity levels that were not reasonable for the authorized fund amounts. One fund with an authorized balance of $3,000 had monthly balances of $10,000 to $32,000 for several months. Another fund with an authorized amount of $3,500 had account balances that were never more than $2,250 over a seven-month period.

   - Reimbursement payments for contract day laborers were not consistently recorded correctly to be included in required 1099 reporting to the Internal Revenue Service.

   - Eleven working funds did not have checking account signature cards on file and approved by management.

   - Four working funds had no activity during the seven-month period reviewed. These four funds totaled $11,800.

The working funds were established prior to the use of purchasing cards. The necessity of these funds after implementation of the purchasing card program has not been reviewed. Although monitoring procedures have been established, they are not consistently followed. Without timely and consistent monitoring...
1. Working Funds (cont.)

| procedures the risk of undetected errors or misappropriation of funds is increased. |

**Recommendation**

| Review activity of working funds and eliminate those that are no longer necessary. Enhance monitoring procedures to ensure timely and consistent review of working fund balances and activities. Utilize other methods of payments for vendors and employee reimbursements when possible. |

**Management’s Response**

| A review of all working funds is currently in process. This review will consider the type of expenditures being made from each fund as well as the volume of transactions and the possibility of using alternative methods of payment. In addition, agency policies are being revised to establish more stringent monitoring procedures and to encourage the use of purchasing cards. A process is being established for closing unnecessary working fund accounts. Copies of current signature cards for all accounts are being obtained. These changes should be in place by December 31, 2011. |

2. Accounts Receivable Collection Procedures

**Observation**

| The agencies’ collection procedures are not in agreement with A&M System Regulation 21.01.04, Extension of Credit. Accounts receivable collection procedures do not provide guidance on reasonable tolerance thresholds to determine when delinquent accounts should be referred for collections and when to use the state warrant hold process. 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. Accounts receivable accounts greater than 365 days past due totaled approximately $57,000 in April 2011. |

**Recommendation**

| Establish procedures for collection efforts in agreement with A&M System Regulation 21.01.04. |

**Management’s Response**

| Agency policies are being modified for compliance with A&M System Regulation 21.01.04, Extension of Credit. This will address... |
2. Accounts Receivable Collection Procedures (cont.)

The use of the state warrant hold process and provide guidance on when and if delinquent accounts should be referred for collections. We are currently in discussion with the Office of the General Council to ensure these policies will be in agreement with the Texas Administrative Code. These changes should be in place by December 31, 2011.

3. Annual Financial Report

Observation

Corrections are needed in recording activity for fleet operations to ensure accurate financial reporting.

AgriLife Extension reported rental and lease expenses as a negative $723,830 on the fiscal year 2010 Annual Financial Report schedule IV-1, NACUBO Function to Natural Classification Matrix. Fleet activity was not recorded as a designated service center and costs were moved between multiple accounts and recorded as negative expenses instead of revenues. During the annual financial reporting process AgriLife Extension was advised that the inconsistent reporting methodology for fleet activity was impacting recording of this activity on the Agency’s annual financial report. Inappropriate recording of this activity results in inaccurate financial information in the Agency’s Annual Financial Report.

Recommendation

Establish appropriate accounting transactions to record fleet operations for accurate financial statement reporting.

Management’s Response

Texas AgriLife Extension recognizes the reporting impact and is in the process of establishing a designated services center for fleet operations beginning in fiscal year 2012.

4. Consistency of Processing

Observation

More consistency in financial processes and account structures would increase efficiencies.

Some of the financial processes for AgriLife Research and AgriLife Extension are not the same although financial processes for both agencies have been combined and are performed by Texas A&M AgriLife Administrative Services. Expenditure processing (vouchers, purchasing cards) is generally performed in the same way for both agencies. However, scholarship payments are not consistently processed through the Administrative Support Services Disbursements Office and routed through the appropriate
4. Consistency of Processing (cont.)

university financial aid office. Revenue processes at each agency are different — AgriLife Extension has centralized revenue processes, while AgriLife Research’s revenue processes are decentralized. In addition, AgriLife Research and AgriLife Extension did not establish their Financial Accounting Management Information System chart of accounts in the same way. Accounts and support accounts are used in different ways which results in processing transactions and reconciliations differently depending upon the type of transactions and accounts involved. More consistent procedures and account structures between the two agencies would provide more efficiency in processing and employee training.

Recommendation

Review financial processes and streamline and consolidate for more consistent account structure and efficient processing. Ensure scholarship payments are consistently processed through the appropriate university financial aid office.

Management’s Response

We acknowledge expenditure processes are generally more similar and that revenue processes are different between the two agencies. The mission and scope of the agencies impact these processes. However, a review of current financial processes will be made to determine if greater efficiencies can be achieved and if more consistency between agency policies and procedures is possible. All units have been reminded of the requirement that scholarship payments be made through the Student Financial Aid Office at Texas A&M University. In addition we will coordinate with that Office and implement procedures to help ensure these payments are consistently processed by the agencies. This process should be completed by December 31, 2011.
BASIS OF REVIEW

Objective

The objective of this audit was to review the financial and management controls over the agencies’ 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

AgriLife Research and AgriLife Extension are headquartered in College Station, Texas and have offices throughout the state providing research and education in agriculture, natural resources, food, and life sciences. Financial management services are provided by Texas A&M AgriLife Services which is comprised of AgriLife Contracts and Grants, AgriLife Fiscal, AgriLife Human Resources and AgriLife Support Services. These offices support the College of Agriculture and Life Sciences, Texas AgriLife Research, Texas AgriLife Extension Service, and the Texas Veterinary Medical Diagnostic Laboratory.
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