PROJECT SUMMARY

Overview

Overall, the controls established over the financial management services’ operations at Tarleton State University provide reasonable assurance that resources are used in compliance with applicable laws, policies, regulations and rules, except in the areas of study abroad fee management and account reconciliations. Significant improvements in the segregation of duties for study abroad fees and monitoring and review of reconciliations are needed. Opportunities for improvement were also noted in the areas of procurement cards and efficiencies in purchasing processes.

Summary of Significant Results

Study Abroad Fees

There is a lack of segregation of incompatible duties related to the collection and management of study abroad fees. Study abroad trip fees are collected, deposited, expensed, reconciled and monitored by faculty members leading the trips. Although credit card payments must be made at the Business Services’ cashiers, the majority of the $427,000 study abroad fees collected during the year were collected by the faculty members prior to deposit with Business Services. The segregation of incompatible duties is an important internal control to prevent and detect errors or misappropriation of funds.

Account Reconciliations

Account reconciliation processes require improvement to accurately identify outstanding items and clear them in a timely manner. The two payroll clearing account reconciliations reviewed did not clearly identify outstanding items. In addition, the February 2012 payroll account reconciliation had outstanding items from August 2011. Without adequate review and monitoring of reconciliations the risk of errors, discrepancies or misappropriations occurring and not being detected is increased.
Summary of Management's Response

With regards to study abroad fees, procedures have been revised to collect and deposit all study abroad program fees at the Business Service’s office. With respect to account reconciliations, existing procedures will continue to be followed and will be strengthened to emphasize timely resolution of outstanding items.

Scope

The review of financial management services at Tarleton State University focused on working funds and deposits, account reconciliations, receivables, procurement cards and expenditures. The audit period focused primarily on activities from March 1, 2011 to February 29, 2012. Fieldwork was conducted from April to June 2012.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Study Abroad Fees

Observation

<table>
<thead>
<tr>
<th>Study abroad fee management lacks adequate segregation of duties.</th>
</tr>
</thead>
<tbody>
<tr>
<td>There is a lack of segregation of incompatible duties related to the collection and management of study abroad fees. Study abroad trip fees are collected, deposited, expensed, reconciled and monitored by the faculty member leading the trip. During the past year, $248,000 of $427,000 (58%) in study abroad fees was collected by the faculty member prior to deposit with Business Services. All credit card payments were made with the Business Services’ cashiers. The University’s study abroad processes encourage the faculty members to collect fees directly rather than instruct students to pay through Business Services. A&amp;M System Regulation 21.01.02 requires the segregation of the authorization, custody, record-keeping and reconciliation of funds to reduce the risk of undetected errors or misappropriations.</td>
</tr>
</tbody>
</table>

In addition to financial risks, study abroad programs have a variety of risks related to international travel and business relationships with foreign entities. It is prudent to perform periodic assessments of risks associated with study abroad programs and determine if necessary controls and risk mitigation procedures have been established and are working effectively.

Recommendation

| Review and enhance segregation of duties for the study abroad program and other similar types of programs at the University. Additionally, assure that other controls and procedures for study abroad programs are working as expected to mitigate risks associated with study abroad trips. |

Management’s Response

| Procedures have been revised to collect and deposit all study abroad program fees at the Business Service’s office. In some cases where the study abroad trip involves students at a University off-campus site, program fees may be collected by authorized departmental personnel at the off-campus site. |
2. Account Reconciliations

Observation

Account reconciliation and review processes require improvement to accurately identify and clear outstanding items in a timely manner. We noted several instances where outstanding items had not been cleared for several years. Additionally, the payroll clearing account reconciliation did not clearly identify outstanding items which resulted in items not being cleared timely. There were items from August 2011 that had not been cleared on the February 2012 payroll clearing account reconciliation.

The reconciliation review process did not identify these outstanding items and ensure that they were resolved. Attention was not given to ensure reconciling items, regardless of amount and type of account, were cleared in a timely manner. Without adequate review to identify weaknesses in the reconciliation process the risk is increased that funds will be lost due to undetected errors or misappropriations.

Recommendation

Establish reconciliation review and monitoring procedures that identify process weaknesses and ensure individuals preparing reconciliations are adequately trained.

Management's Response

Existing procedures have been strengthened to emphasize timely resolution of outstanding items. Payroll staff has received Texas A&M System training since the audit regarding the BPP/FAMIS interface.

3. Procurement Cards

Observation

Certain procurement card processes need improvement in order to maintain a strong control system over purchases with procurement cards. The following issues were noted:

- Twelve of 65 (18%) procurement card purchases reviewed were coded to incorrect object codes. Within the past year changes have been made to procurement card procedures requiring departmental personnel to post procurement card purchases to the appropriate expense object code, a task
3. Procurement Cards (cont.)

previously completed by Business Services. Posting purchases to correct expense codes is needed to provide management with accurate information.

- Nine of 65 (14%) procurement card purchases reviewed did not have detailed receipts included with the expense report. The University’s Procurement Card Guidelines require a detailed receipt with a clear description of each item purchased. Detailed receipts provide support for purchases decreasing the risk that inappropriate purchases will be allowed and not detected during the review process.

- Six of 65 (9%) procurement card purchases reviewed were made to purchase items that were prohibited from being purchased using a procurement card. The University’s Procurement Card Guidelines prohibits the purchase of software, advertising, and travel with the procurement card. Improved monitoring and review is needed to identify and prevent prohibited purchases.

With the implementation of Citibank procurement cards (new state contract vendor) in the last fiscal year, the University has updated procedures and increased accounting and reporting responsibilities of cardholders and reviewers at the department level. Although the procurement card guidelines have been updated, additional guidance and review is needed for expense coding, restricted item purchases, and receipts.

**Recommendation**

Provide adequate cardholder training and guidance for making and documenting procurement card purchases to ensure compliance with requirements and restrictions. Enhance review and monitoring procedures for timely detection and correction of errors and non-compliance.

**Management's Response**

*Procurement card guidelines are being reviewed and clarified as suggested. New guidelines for procurement card purchases will be implemented and communicated to the campus. Online trainings will be placed in TrainTraq once the guideline adjustments are approved. This online training will be assigned to all new cardholders before the card is released for use, all administrative support staff responsible for reconciliation and allocation of the expense reports, and all employees that are the responsible person on an expense account. The training will be assigned and required on a yearly basis. The Office of Business Services will continue*
3. Procurement Cards (cont.)

| 100% review of the expense reports and support documentation. Implementation will be complete by February 2013. |

4. Efficiencies in Purchasing Processes

Observation

Purchasing processes do not use available electronic routing.

The University does not use the Financial Accounting and Management Information System’s (FAMIS) electronic routing capabilities for the review and approval process of purchase requests (requisitions) and vouchers. Purchase request forms and voucher preparation forms are manually routed for approval signatures. Using the electronic routing process will provide increased purchase and payment efficiency for the University’s departmental and Business Services’ personnel.

Recommendation

Implement electronic routing and approval of purchase requests and vouchers. Update purchasing procedures accordingly.

Management’s Response

Purchasing and Accounts Payable personnel have already visited with other System members to collect information regarding their e-routing and approval procedures. Weekly meetings have been set up between Purchasing and Accounts Payable who are working to implement e-routing and approval capabilities. It is estimated that the project will take approximately one year to complete, including a pilot program, personnel training, and reviewing and amending current policies and procedures. Target date for implementation will be September 1, 2013.
BASIS OF REVIEW

Objective

The overall 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 in compliance 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; Tarleton State University Rules and procedures; 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

Tarleton State University has campuses in Stephenville, Fort Worth, Waco, and Midlothian. Financial management services at Tarleton include Business Services, Purchasing, Central Receiving, the HUB Program, Contract Administration, Budgets, and Payroll.
AUDIT TEAM INFORMATION

Charlie Hrncir, CPA, Director
Sandy Ordner, CPA, Audit Manager
Joseph Mitchell
Tracey Sadler, CIA
Michelle Whitney

DISTRIBUTION LIST

Dr. F. Dominic Dottavio, President
Mr. Tye Minckler, Vice President for Finance and Administration
Dr. Cynthia Carter, Assistant Vice President for Finance and Administration
Mr. Mike Tate, Assistant Vice President for Business Services and Controller