The Texas A&M University System Internal Audit Department

FOURTH QUARTER REPORT
FISCAL YEAR 2013

October 17, 2013
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Fourth Quarter Report for Fiscal Year 2013

THE TEXAS A&M UNIVERSITY SYSTEM

Review of Sponsored Research Services

Catherine A. Smock, C.P.A.
Chief Auditor

Project #20130108
PROJECT SUMMARY

Overview

Sponsored Research Services (SRS), a shared services entity within the A&M System Offices, has encountered significant challenges in achieving its mission to provide superior centralized research administration services in a cost-efficient manner. The primary challenge relates to the lack of common operating processes among participating A&M System members which has limited the implementation of best practices and complicated SRS operations. While some progress has been made through collaboration among the A&M System members, the current process does not provide clear authority and decision-making capabilities for SRS to effectively implement best practices and achieve economies of scale. SRS also needs to make significant improvements to ensure sponsored projects are closed out timely and in compliance with federal requirements.

In addition, key SRS management processes require further development including documentation of operating procedures, performance measures, and management reports. Opportunities for improvement were also noted related to certain post-award processes and resolution of old accounts receivable balances.

Summary of Significant Results

Shared Service Transitional Issues

Since its creation almost two years ago, SRS has encountered significant challenges in trying to provide centralized research administration services in a cost-efficient manner. The primary challenge is the need to implement a common set of research administration processes (accounting and workflow) based upon
best practices with clearly defined roles and responsibilities. The lack of clear authority and decision-making capabilities for SRS to effectively address the lack of consistency in operations given the different administrative processes and systems being used by the participating A&M System members has resulted in the development and maintenance of multiple processes at SRS to accommodate these differences. This has greatly complicated SRS operations and created silos of expertise within SRS staff reducing the ability to cross-train and reallocate staff across participating members. Without a common set of research administration processes, SRS will be limited in its ability to achieve the expectation of a cost effective shared service entity that implements best practices and economies of scale.

Project Closeout Timeliness

Sponsored research projects are not being closed out in a timely manner. Testing indicated that 74% of the sponsored research projects maintained in the A&M System’s Financial Accounting and Management Information System (FAMIS) that ended between September 1 and December 31, 2012 had not been fully closed out as of June 2013, six to nine months after the project ended. The Office of Management and Budget (OMB) Circular A-110 requires several elements of the project closeout process to be completed within 90 calendar days after the end date of the award. Delays in closing out projects can result in non-compliance with the 90-day requirement and the potential loss of revenue due to untimely billings/collection efforts and temporary holds placed on future research funding from affected sponsors.

Summary of Management’s Response

Since commencing operations on September 1, 2011, SRS has made significant progress in establishing an effective research administration shared services’ organization. Consolidating the resources and procedures from six distinct organizations into a shared services operation has been a major challenge. During the startup of SRS, our priority was focused on hiring staff, ensuring that proposals for sponsored research projects were submitted in a timely manner and making certain on-going research projects were not disrupted by the consolidation. In addition, SRS worked collaboratively with A&M System members to establish agreed-upon procedures in such areas as purchasing practices, delegation of authority, and travel procedures.

To enhance the effectiveness and efficiency of SRS, we support the auditors’ conclusion that establishing common best practices for
research administration across all A&M System members is needed. To achieve this goal, SRS has developed research administration policies and regulations that clearly delineate the roles and responsibilities of SRS and A&M System members. SRS is working with the System Offices to submit the research administration policies to the Board of Regents for their review and approval at the January 2014 meeting.

When SRS was established, it inherited a significant backlog of research projects needing to be closed out. SRS management has dedicated additional resources to address the backlog of project closeouts and we have worked with A&M System members to streamline the process for closing out overdue projects. In addition, SRS’s Accounts Receivable group is monitoring project end dates and submitting timely invoices to sponsors regardless of project closeout status to help mitigate potential financial losses on overdue project closeouts.

Scope

The review of Sponsored Research Services within the Texas A&M University System focused on certain pre-award and post-award processes related to proposals, contracts, compliance approvals, indirect costs, cash management, expenditures, and project closeouts. A review of system development practices for the Maestro research administration system was also conducted. The audit period focused primarily on sponsored research administration activities from September 1, 2012 to April 30, 2013. Fieldwork was conducted from May to July, 2013.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Shared Service Transitional Issues

Observation

Since beginning operations in September 2011, SRS is still working through significant operational issues related to the merging of research administration activities for participating A&M System members. For instance, the historical use of different administrative processes and information systems by A&M System members has greatly limited SRS’s ability to implement a common set of research administration processes (accounting and workflow) based upon best practices with clearly defined roles and responsibilities. The lack of clear authority and decision-making capabilities for SRS to address these operational issues has resulted in the inability for SRS to meet the expectation of a cost effective shared service entity that implements best practices and economies of scale.

Members use multiple information systems (see text box) and in some cases where a common system is used, such as FAMIS, the system is being used differently to varying degrees. Also member administrative processes and requirements vary in the areas of accounts receivable, accounts payable, procurement, travel, and other specialized processes. For example, participating members use different numbering systems, expense codes, forms, etc. for processing similar types of transactions. In addition, procurement and disbursement requirements related to information technology purchases, exempt purchases, stipends, independent contractors, and hotel agreements are not consistent requiring different levels of involvement by SRS depending on the member’s specific requirements. This lack of consistency has resulted in the development and maintenance of multiple processes at SRS to accommodate the member differences which has greatly complicated SRS’ operations and created silos of expertise within

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<td><strong>FAMIS</strong> - financial accounting and management information system used by most A&amp;M System members</td>
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<td><strong>EPIK</strong> – Texas Engineering Experiment Station’s financial and accounting system</td>
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<td><strong>AggieBuy</strong> – Texas A&amp;M University’s online purchasing system</td>
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<td><strong>Concur</strong> – electronic travel and expense system used by some A&amp;M System members</td>
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<td><strong>Other</strong> – various document imaging systems in use by A&amp;M System members</td>
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1. Shared Service Transitional Issues (cont.)

SRS staff reducing the ability to cross-train and reallocate staff across participating members as needed.

The Proposed Plan and Model for the Office of Sponsored Research Services prepared by The Texas A&M University System Research Administration Shared Services Development and Implementation Steering Committee (RASS DISC) listed several key impacts from the creation of SRS including the enhancement of sponsored research services to members by applying best practices under a common management and training function. In addition, the proposed plan stated that an optimal distribution of workloads to research administration personnel would also be more easily accomplished through greater centralization. An SRS Oversight Committee was also included in the proposed plan to provide an advisory mechanism for addressing issues related to the transition of sponsored project administration to SRS. The Development Support Committee (the precursor to the SRS Oversight Committee) was formed in January 2012 and addressed many issues in a collaborative manner including delegation of authorities, subcontracts, HUB and purchasing best practices. Since its creation in January 2013 the SRS Oversight Committee has continued working to address these transitional issues in a collaborative manner such as the recent standardization of travel requirements and practices.

Further efforts are needed to better align member processes and systems in the future in order to achieve the efficiencies planned for this shared service initiative. Common processes are also critical to the development and implementation of the new Maestro research administration system. As of the date of audit fieldwork, a proposed revision had been drafted to the A&M System regulation for the administration of sponsored agreements along with a new A&M System policy for SRS. These system-level directives were created to address oversight and authority for research administration services within the A&M System including consistency of research administration procedures for members utilizing SRS services. Currently the directives are expected to be presented for approval at the Board of Regents meeting in January 2014.

Recommendation

Continue plans to create a system-level structure to address issues that are negatively impacting the effectiveness and efficiency of shared research administration services within the A&M System. Formally evaluate the issues that continue to impact SRS services and communicate these barriers to A&M System management and the Oversight Committee. Clarify the roles and responsibilities
Sponsored research projects are not being closed out in a timely manner.

1. Shared Service Transitional Issues (cont.)

between SRS and participating members for sponsored research administration activities such as by approving the recently proposed A&M System policy for SRS and/or executing intra-system service level agreements with the participating members.

Management’s Response

SRS agrees with the auditors’ recommendation. As of August 2013 SRS has drafted new research administration policies and revised existing research administration regulations. The purpose of the new policies and revised regulations is to codify the Board of Regents decision to restructure research administration within The Texas A&M University System. It is SRS’s goal to have the research administration policies submitted to the Board of Regents for their review and approval at the January 2014 meeting with a planned implementation date of February 28, 2014.

The draft policies define procedures and delineate the responsibilities of SRS and A&M System members utilizing SRS services. The revised regulations will assist in clarifying the roles and responsibilities between SRS and participating A&M System members.

SRS will continue to identify and work collaboratively with the SRS CEO Advisory Board, the Oversight Committee and the Principal Investigator Faculty Advisory Committee to enhance research administration consistency among A&M System members and eliminate inefficient business practices.

2. Project Closeout Timeliness

Observation

Improvements are needed to close out research projects in a timelier manner. Testing of the 439 sponsored research projects in FAMIS that ended between September 1, 2012 and December 31, 2012 indicated that 325 (74%) had not been fully closed out as of June 2013. Regarding the 325 projects, 175 (40%) were in the process of being closed and 150 (34%) were still being readied for closeout by the project administrator. Overall, the average time for the project administrator to complete the first step of the project closeout process was 131 days before notifying the SRS closeout team. SRS closeout staff indicated that closeout steps involving receipt of the final report from the principal investigator (PI) and final payment from the sponsor have taken the longest to complete.
2. Project Closeout

Timeliness (cont.)

The federal OMB Circular A-110 requires several elements of the project closeout process to be completed within 90 calendar days after the end date of the award including submission of all required reports, liquidating all project obligations, and refunding unobligated cash balances as needed. In addition to noncompliance with these requirements, delays in closing out projects can result in potential loss of revenue due to untimely billings and collection efforts and holds on future research funding by affected sponsors until closeouts are completed.

According to SRS management, establishing a closeout process that would meet the varying needs of the participating members and staffing issues the department has experienced in the area of project administration have contributed to the delays in closing out projects. In addition, SRS inherited a large backlog of over 1,650 projects that needed to be closed out from the participating members during the transition of sponsored projects to SRS. Addressing these inherited projects has required a great deal of time and effort. Many of the inherited projects had several remaining closeout steps to be completed, some of which have been problematic and time consuming.

SRS has identified the need for improvement in this area and initiated steps to improve the timeliness of project closeouts such as revising closeout steps and forms, providing additional training to project administrators, and increasing focus and efforts in this area. Management indicated that progress is being made based on the above changes including reducing the number of the inherited projects that still need to be closed out by more than 300 projects.

Recommendation

Continue to provide additional focus and effort to improve the timeliness of project closeouts in compliance with federal and sponsor requirements. For instance, complete efforts to revise closeout processes and forms such as starting project closeout steps that take longer to complete earlier in the process. In addition, continue working with participating members to address the existing backlog of inherited projects and expedite the acquisition of required information from PIs and sponsors. Develop and implement SRS goals and performance measures related to project closeouts and create management reports to formally track progress in this area.
Management’s Response

2. Project Closeout
   Timeliness (cont.)

SRS agrees with the auditors’ recommendation. SRS has been working diligently to address the inherited backlog of projects needing to be closed out.

In the last quarter of fiscal year 2012, SRS started to track the number of projects closed. In June 2012 through August 2012, SRS closed 260 projects. In fiscal year 2013, SRS closed 1,899 projects. To continue our emphasis on timely closeout of projects in July 2013, SRS implemented a monthly report tracking the number of projects entering the closeout process and those that have been closed.

In addition, SRS has worked with A&M System members to develop an expedited process for closing out older projects. In part, the process includes the A&M System member providing designated accounts for cost overruns and allowing SRS access for posting journal entries to their accounts.

In addition, SRS Accounts Receivable staff is monitoring which projects require final invoices and is working with project administrators to determine final expenses so that invoices are submitted in a timely manner regardless of project closeout status which helps to mitigate the risk of potential financial losses.

As of August 2013, SRS has identified performance measurements for project closeout and by February 28, 2014, SRS will establish performance targets for closing out projects in accordance with sponsor guidelines.

3. Key Management Processes

Observation

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<th>Certain key management processes have not been fully developed and implemented by SRS.</th>
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<td>SRS is currently preparing detailed operating procedures for project administration processes, but completion of these procedures will require processes to be further defined in some areas. Formal performance measures including customer surveys are also in the process of being developed which are needed to provide valuable management information as well as ensure the department and its customers have the same expectations regarding performance, such as timeliness of processing.</td>
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Additional management reports for research administration processes being performed by SRS are also needed to facilitate greater oversight and monitoring of sponsored research
administration activities. These reports could be developed in conjunction with the development of performance measures, and included within the Maestro system as it is being implemented. Development and implementation of these key management processes are necessary for SRS to achieve its mission of delivering efficient and superior sponsored research services to The Texas A&M University System research community.

A&M System regulations require that written procedures be developed for sponsored research administration processes, related proposals, negotiations, expenditures, indirect costs, and cost sharing. In addition, the Treadway Commission’s Committee of Sponsoring Organization’s “Internal Control - Integrated Framework” (COSO) states that policies and procedures and corresponding monitoring processes are needed to help ensure management directives are carried out including actions to address risks to the achievement of objectives. Use of performance indicators to allow management to identify situations where objectives are not being achieved was also a key recommendation made by the RASS DISC Proposed Plan and Model for the Office of Sponsored Research Services.

Recommendation

Complete the development and implementation of detailed operating procedures, performance measures, and customer surveys. Develop additional management reports related to research administration processes being performed by SRS for increased oversight and monitoring of these processes.

Management’s Response

SRS agrees with the auditors’ recommendation. Documenting our operating procedures is a priority for SRS. We have dedicated resources to completing this task and developed a schedule for tracking our progress in documenting our procedures. Documentation of procedures for all functional areas is currently underway and scheduled to be completed by June 30, 2014.

As of August 2013, SRS has identified performance measurements for critical areas of operations. The next step in the process is to establish performance targets for each area being measured. Performance targets will be completed by February 28, 2014.

A draft customer survey instrument was developed in August 2013 and is being finalized. The customer survey will be distributed during the first quarter of fiscal year 2014. The survey feedback will be analyzed and shared with stakeholders by February 28, 2014.
Instances were noted in which post-award administration processes were not always effective or in compliance with sponsor or regulatory requirements.

4. Post-Award Sponsored Project Administration

As part of the performance measurement process, SRS will identify key management reports that can be used to track performance, increase oversight and monitoring of project administration processes, and assist in the management of resources. In addition, we will use the results from the customer survey to identify any additional management reports that may be needed.

Additional monitoring is needed to ensure certain post-award sponsored project administration processes are effective and in compliance with sponsor and regulatory requirements as follows:

- Seven of 30 (23%) voucher payments tested for selected sponsored projects were not paid within 30 days of receiving the invoice or the corresponding goods or services. Three (10%) of these payments were not made timely according to state prompt payment requirements. These three vouchers were paid an average of 32 days late. Payment processing delays were indicated to be due primarily to issues with obtaining PI approvals and receiving reports from participating member departments in a timely manner.

- Supporting documentation and/or justifications could not be readily provided for 2 of 32 (6%) project expenditures tested to verify the allowability of these expenditures in accordance with federal and sponsor requirements. A&M System regulations state that allowability of costs on sponsored agreements with agencies is governed by the cost accounting principles prescribed by OMB Circular A-21 and all costs charged to sponsored agreements must be adequately documented.

- Project account information for 6 of 85 (7%) account attributes tested and project billing information for 4 of 43 (9%) projects tested did not agree to the corresponding information entered into the accounting system. A monitoring process has not been implemented to ensure project data entered into the accounting system is accurate and complete.

Inaccurate project data could result in incorrect project billings or other accounting and reporting activities related to the administration of the project. Noncompliance with sponsor requirements and federal laws and regulations could result in reputational damage and lost future research funding from the sponsors affected.
4. Post-Award Sponsored Project Administration (cont.)

**Recommendation**

Reassess the current voucher payment processes to better ensure payments are made in a timely manner. For instance, review the current process for obtaining PI approvals and receiving reports from member departments.

Given the volume of project expenditures being processed, consider implementing data analysis techniques to identify and review expenditures that appear unusual given the nature of sponsored research, such as meals and entertainment, to ensure these expenditures are allowable in accordance with federal and sponsor requirements. Maintain adequate supporting documentation of the justification for these higher risk project expenditures.

Develop and/or improve monitoring processes to ensure project data entered into the accounting system is accurate and complete.

**Management’s Response**

*SRS agrees with the auditors’ recommendation. SRS has reviewed voucher payment processes of peer institutions and is developing a revised process. The new process that is being considered will necessitate an enhancement to Maestro and SRS received the concurrence of the Maestro Steering Committee at the September 2013 meeting to allocate resources to the enhancement. As the process is further defined SRS will consider the implementation of data analysis techniques and other process changes that improve the efficiency of SRS while maintaining internal controls over the voucher payment process. SRS will continue to work in a collaborative manner with the SRS CEO Advisory Board, the Oversight Committee and the Principal Investigator Faculty Advisory Committee in implementing this process. It is anticipated that the new process will be finalized in the third quarter of fiscal year 2014 with a planned implementation date of September 30, 2014. SRS is currently working on the system requirements for the projects module of Maestro. The projects module will be sharing information between Maestro and the accounting system automatically. A process to ensure that the data is accurate and complete will be developed by August 31, 2014.*
5. Accounts Receivable

Observation

As of April 2013, $5.1 million or 11% of the $46.5 million of research receivables being collected by SRS for A&M System members was over 90 days past due and $2.2 million or 5% was over 180 days late. Approximately $17.9 million of past due receivables was transitioned to SRS in March 2012 when it began performing collections for participating A&M System members. Since taking over the collection duties, SRS has reduced these past due receivables by 72% including 74% of the receivables over 180 days past due. However, additional efforts are needed to further reduce the remaining past due receivables especially those over 180 days late. This is important due to the fact that the ability to collect past due receivables diminishes the longer the receivable remains uncollected.

While collection procedures are in place to address more current past due receivables, additional coordination is needed between SRS and the members to resolve older receivables especially those that were inherited by SRS. SRS has agreed with various participating members that the member is responsible for performing various collection duties for older receivables. However, this is not formally documented to ensure each party is aware of their collection responsibilities in these situations. This increases the risk that some accounts receivable balances could be overlooked or collection efforts be duplicated. In addition, an analysis has not been performed to determine the feasibility or the cost versus the benefit of continuing to pursue these older receivables.

Recommendation

Continue to work in a collaborative manner with the corresponding member to collect older receivables that are still considered feasible and cost beneficial to pursue. Formally define roles and responsibilities for any shared collection duties between SRS and the members to ensure all parties are aware of their collection responsibilities. Work with A&M System members to facilitate the write-off of any receivables determined to be uncollectible or not cost beneficial to collect as feasible. Develop and implement SRS goals and performance measures related to accounts receivable collections to formally track progress in this area.
Management’s Response

5. Accounts Receivable (cont.)

SRS agrees with the auditors’ recommendation. As SRS developed its staffing pattern it was not anticipated that a large volume of past due receivables would be transferred to SRS for collection. However, SRS has dedicated resources to address this large influx of past due receivables as evidenced by the 74% reduction of receivables over 180 days past due.

We have analyzed the current past due receivables over 90 days old and have identified that 52% of the receivables are related to federally funded research projects. While it may take additional time to collect these payments, federally-funded projects are highly collectible even more than a year past their payment date.

SRS will work with A&M System members to formally document the roles and responsibilities of shared duties regarding accounts receivable collections. As part of the documentation of responsibilities, SRS will document its role in identifying potential uncollectible receivables and the A&M System member’s role in making the final decision to write-off a receivable. Formal documentation of roles and responsibilities will be completed by February 28, 2014.

Development and implementation of goals and performance measurements for accounts receivable will be in place by February 28, 2014.
BASIS OF REVIEW

Objective

Review controls and processes at The Texas A&M University System Sponsored Research Services to ensure sponsored research services provided are in compliance with laws and policies and are operating efficiently and effectively.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System; The United State's Office of Management and Budget (OMB) Circular A-110; the Committee of Sponsoring Organization's Internal Control Integrated Framework; The Texas A&M University System Research Administration Shared Services Development and Implementation Steering Committee's (RASS DISC) Proposed Plan and Model for the Office of Sponsored Research Services; federal and state laws; 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

The Texas A&M University System Sponsored Research Services (SRS) was created by the A&M System Board of Regents in February 2011 to implement shared research administration services within the A&M System. A Research Administration Shared Services Development and Implementation Steering Committee was created and much of the six months prior to the implementation of SRS in September 2011 was devoted to developing a proposed plan and model for SRS; establishing funding, finding and furnishing office space; and hiring and training employees. The mission of SRS is to deliver efficient and superior service to the A&M System’s research community.
SRS is currently staffed with 171 full-time equivalent employees to perform pre-award and post-award research administration duties for ten A&M System members along with pre-award duties for Texas A&M University – Corpus Christi. SRS had a fiscal year 2013 operating budget of $18.7 million which included $3 million for development of the Maestro research information system. SRS administered almost $450 million of research expenditures for the participating A&M System members during its first year in operation and over 4,150 research projects during the first eight months of fiscal year 2013.

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Fourth Quarter Report for Fiscal Year 2013

TEXAS A&M UNIVERSITY – TEXARKANA

Review of Environmental Health, Safety, and Security

Catherine A. Smock, C.P.A.
Chief Auditor

Project #20132202
PROJECT SUMMARY

Overview

Overall, the controls over environmental health, safety and security processes at Texas A&M University - Texarkana are generally in compliance with relevant laws and policies and provide reasonable assurance that a safe and secure environment exists for students, faculty, staff, and visitors except in the area of university-sponsored camps and youth programs. Significant weaknesses were identified in the safety and security processes associated with university-sponsored youth camps and programs. Opportunities for improvement were also noted in the areas of development of university rules and procedures for health and safety, and monitoring new employee safety training.

The university created an Environmental Health and Safety Department (EHS) and hired their first EHS Officer in September 2012. Our review indicated that processes have been developed for student safety training, hazardous chemical inventory and storage, safety inspections, and Clery Act reporting.

Summary of Significant Results

Camps and Youth Programs for Minors

The university does not provide adequate guidance and monitoring to ensure university-sponsored camps and programs for minors are providing a safe environment for workers and participants. Camp sponsors were unaware of A&M System requirements for administering camps and youth programs and have a general lack of knowledge of the related records retention requirements. Weaknesses in procedures, criminal conviction and sex offender background checks, child protection training, and document retention have contributed to the noncompliance with the A&M System regulation for camps and programs for minors.
Summary of Management's Response

Texas A&M University – Texarkana’s administration is in agreement with the recommendations as set forth from the A&M System Internal Audit Department’s review of environmental health, safety and security processes.

The university acknowledges that further improvement to its rules, programs and procedures are needed to assure adequate guidance and monitoring for a safe environment for participants and workers of camps and youth programs for minors. The university is taking necessary actions to improve and strengthen these processes and procedures. The position for an Environmental Health and Safety Officer was filled on September 24, 2012. Since the audit period, many of the observations concerning camps and programs for minors have been addressed. All recommendations will be implemented by August 31, 2014.

Scope

The review of environmental health, safety, and security processes at Texas A&M University - Texarkana focused on safety training, safety inspections, youth programs and camps, hazardous chemical administration, and Clery Act reporting. The audit period focused primarily on activities from September 1, 2012 to May 31, 2013. Fieldwork was conducted from June to July, 2013.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Camps and Youth Programs for Minors

Observation

The administration of camps and programs for minors needs improvement.

Administration and oversight of university-sponsored camps and programs for minors (camps) require significant improvement to ensure all camps are operating in compliance with applicable rules and standard administrative procedures. A review of the camps held during fiscal year 2012 included weaknesses in child protection training, criminal conviction and sex offender background checks, and proper records retention.

Three of 24 (13%) selected camp personnel did not complete child protection training prior to the start of the camp. The training was not taken until after the camp was over. A&M System Regulation 24.01.06 requires that all individuals hired or assigned to an employee or volunteer position involving contact with minors at a camp and program for minors are required to complete child protection training prior to the employees’ or volunteers’ interaction with minors. Two of 24 (8%) selected camp volunteers did not receive a criminal conviction and sex offender background screening. The regulation also requires that criminal conviction and sex offender background checks be conducted on all individuals hired or assigned to employee or volunteer positions involving contact with minors at a camp and program for minors.

Camp rosters, liability waivers, and medical treatment authorization and emergency contact information were not retained for one of the three camps conducted during fiscal year 2012. Twenty-two of 25 (88%) selected participants from the other two camps did not have the original liability waivers on file. Copies of the documents were retained, but the original documents were not available. Without properly completed and maintained camp documentation to facilitate monitoring, there is an increased risk of personal injury to a minor due to the lack of medical treatment authorizations.

The university has not developed University Procedure 24.01.06.H0.01 Camps and Programs for Minors (see Rules and Procedures observations below) to provide guidance and oversight for camps. The university does not have a monitoring mechanism in place to ensure that all volunteers (including university employees) participating in university-sponsored camps...
1. Camps and Youth Programs for Minors (cont.)

and youth programs receive criminal conviction and sex offender background checks, and complete the required child protection training. In addition, the university is not providing camp personnel with adequate training to ensure they understand the A&M System requirements for administering camps and youth programs, and the related records retention requirements. Without providing additional guidance and monitoring for camps, the university is at an increased risk of personal injury to a minor.

Recommendation

Develop university procedures for the administration and operation of all university-sponsored camps and programs for minors including requirements for the use of standardized forms, background screenings, and records retention.

Provide training for camp personnel to ensure they understand A&M System requirements for administering university-sponsored camps and youth programs.

Develop a monitoring process to ensure that all volunteers (including university employees) at university-sponsored camps and youth programs receive criminal conviction and sex offender background screening, and complete the required child protection training prior to contact with minors.

Comply with the A&M System Records Retention Schedule regarding background screening results, liability waivers, and other required camp documentation.

Management’s Response

The university is taking necessary steps to improve and strengthen controls over camps and youth programs. Procedures and forms have been developed to provide guidance for administration and operation of camps and youth programs. University Procedure 24.01.06.H0.01 has been developed and is in the process of administrative approval. The university has established a process to ensure training for both the university employees and volunteers involved in camps and youth programs. The camp administrator has responsibility for monitoring camps and youth programs to ensure that they are in full compliance with requirements including timely background screening and records retention. Full implementation of procedures and monitoring will be completed by June 20, 2014.
2. Rules and Standard Administrative Procedures

Observation

The university has not developed and published rules and procedures related to health and safety that are required by A&M System policies and regulations. System Policy 01.01, System Policies, Regulations, and Member Rules and Procedures require system member chief executive officers (CEOs) to establish system member rules and procedures when required by a policy or regulation. The following health and safety related rules and procedures have not been completed:

- Procedure 24.01.06.H0.01 Camps and Programs for Minors, required by System Regulation 24.01.06 Camps and Programs for Minors
- Rule 13.04.H1 Student Travel, required by System Policy 13.04 Student Travel
- Rule 34.02.01.H1 Drug and Alcohol Abuse and Rehabilitation Programs, required by System Regulation 34.02.01 Drug and Alcohol Abuse and Rehabilitation Programs

The development of university rules and procedures required by the A&M System policy has not been a priority. The lack of documented rules and procedures that are required by A&M System policy increases the risk that important procedures and guidelines will be bypassed, incompletely performed, or inappropriately handled.

Recommendation

Complete the development of health and safety related university rules and procedures that are required by A&M System policy.

Management's Response

The university recognizes the significance of having rules and procedures in place to guide the operation of the university. Currently, Rule 13.04.H1, ‘Student Travel’ (submitted to the A&M System Office of General Counsel on June 24, 2012) and 34.02.01.H1, ‘Drug and Alcohol Abuse and Rehabilitation’ (submitted to the A&M System Office of General Counsel on November 1, 2012) are in the review process. Procedure 24.01.06.H0.01 ‘Camps and Programs for Minors’ is in the process of administrative approval.
2. Rules and Standard Administrative Procedures (cont.)

Implementation of new rules and procedures related to health and safety is expected by August 31, 2014.

3. New Employee Safety Training

Observation

New employees with potential exposure to hazardous chemicals or bloodborne pathogens are not identified and provided training prior to exposure.

The university does not have a mechanism in place to identify and provide hazard communication (HazCom) and bloodborne pathogens (BBP) training for newly hired employees in applicable positions. Newly hired employees who have the potential for exposure to hazardous chemicals, such as university health services and police staff, are required to complete HazCom training before performing functions which may cause exposure. In addition, newly hired employees in job classifications identified as a risk for occupational exposure to bloodborne pathogens are required to receive BBP training prior to initial assignment to tasks where occupational exposure may occur. A complete turnover of Human Resources personnel has delayed the establishment of a process to identify new employees that will require HazCom or BBP training. The risk of injury to employees from exposure to chemicals or bloodborne pathogens due to improper understanding, handling, use, or storage of those substances is increased when timely training is not provided.

Recommendation

Develop monitoring controls of the employee safety training for new hires to ensure that employees who could be potentially exposed to hazardous chemicals and/or bloodborne pathogens receive safety training prior to initial exposure to these chemicals and/or pathogens. Consider using the automated feature in TrainTraq to establish position training requirements, due dates, notifications, and monitoring.

Management's Response

The university has developed a new hire committee to identify and address areas of need for the proper orientation and training of new employees. Implementation of the new hire orientation will include automatic assignments through TrainTraq of additional training that is necessary to assure employees in sensitive and special needs areas are receiving specialized training (HazCom and BBP) as required. Monitoring controls of the employee safety training for new hires will be implemented by January 31, 2014.
BASIS OF REVIEW

Objective

The objective of the audit was to review the controls over environmental health, safety and security to determine if the university is in compliance with laws and policies, and provide reasonable assurance that a safe and secure environment exists for students, faculty, staff, and visitors.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System, the U.S. Department of Education’s The Handbook for Campus Safety and Security, 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

The Environmental Health and Safety Department and the University Police Department, reporting to the Vice President for Finance and Administration, are responsible for oversight of the safety and security functions at Texas A&M University – Texarkana and ensuring a safe and secure learning and working environment for faculty, staff, students, and visitors. The College of Science, Technology, Engineering and Mathematics also provides expertise and monitoring of student laboratory safety training and hazardous chemical inventory and storage. The university has approximately 1900 students and 200 employees on a 375-acre campus that contains four buildings.
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Texas A&M University System Internal Audit Department

Fourth Quarter Report for Fiscal Year 2013

Texas A&M Forest Service

Review of Financial Management Services

Catherine A. Smock, C.P.A.
Chief Auditor

Project #20131101
PROJECT SUMMARY

The controls established over the financial management services’ operations at the Texas A&M Forest Service provide reasonable assurance that resources are used in compliance with applicable laws, policies, regulations, and rules. Opportunities for improvement were noted regarding operational and processing efficiencies and in-store charge account usage.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Operational and Processing Efficiencies

Observation

Opportunities for increased efficiencies in the agency’s business operations can be made by:

- Utilizing the electronic Employee Payroll Action (EPA) form for payroll changes. Currently, a manual Form 500 is prepared and routed for approval. The completed Form 500 is then forwarded to payroll for review and entry into the Budget/Payroll/Personnel (BPP) System. The use of the EPA system provides for web entry of BPP documents and the use of electronic routing and approval of those documents. Additionally, starting the process electronically would eliminate the effort expended on recording information twice.

- Utilizing an electronic scanning and storage system for support documentation. The agency currently maintains support documentation in paper copies. Storing information digitally decreases physical space needs for storage purposes, simplifies the record retention process, and reduces the risk of information being destroyed by fire or water. An agreement has been signed with Texas A&M AgriLife for the use of the Laserfiche Document Management System; however, no timeline has been established to ensure the implementation of Laserfiche across the agency. Agency management has said that Laserfiche will be implemented in Human Resources in October 2013.
• Utilizing electronic means of sharing monthly Financial Management Information System (FAMIS) reports with the field offices. Different electronic tools are available for the transmission of these types of documents such as reports generated within Canopy, Document Direct for the Internet (DDRINT), or Laserfiche. Agency management has considered discontinuing mailing these reports; however, they are currently still mailing them. Electronically transferring these reports would decrease postal costs as well as increase the timeliness of the information received by the field offices.

Establishing business processes that utilize more electronic options provides the agency with more time for other activities, such as review and analysis of transactions, as well as provides for more efficient operations and enhanced customer service.

Recommendation

Conduct a thorough cost analysis review of the areas identified above and implement those actions that provide for increased efficiencies in the agency's business processes.

Management’s Response

We plan to have the cost analyses completed and appropriate actions implemented by August 31, 2014.

2. In-Store Charge Accounts

Observation

<table>
<thead>
<tr>
<th>In-store charge account usage should be reviewed.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The agency does not centrally monitor or review the opening of in-store charge accounts and the usage of these accounts has not been analyzed to determine if they are needed. Therefore, the magnitude of in-store charge accounts opened and used during the audit period could not be determined. The agency’s Budgets and Accounting office and the various field offices do not retain a copy of the application submitted to vendors to initiate opening a charge account for the agency. Additionally, in-store charge account purchases are not differentiated from other types of purchases within FAMIS. Of the ten in-store charge account purchases reviewed, seven (70%) of the purchases were made by purchasers who had a procurement card, but chose to use the in-store charge account for the purchase instead of the procurement card. While all purchases are centrally reviewed, regardless of purchasing method used, in-store charge account usage increases the number of vouchers processed because, in most</td>
</tr>
</tbody>
</table>
cases, field offices are submitting a voucher per purchase as opposed to waiting for the monthly statement from the vendor.

Agency management indicated alternate purchasing procedures are sometimes needed, with full discretion given to the field offices to determine which purchasing method to use. Field office staff indicated that many of the in-store charge accounts were opened prior to the use of procurement cards by the agency. The lack of central monitoring or review over the opening of in-store charge accounts and their usage increases the risk of possible inefficiencies in the purchasing process.

**Recommendation**

Establish procedures for periodic analysis of in-store charge account activities to determine if the accounts are necessary. Review current purchasing processes to identify efficiencies such as requiring the use of procurement cards for all vendors who accept credit cards as a form of payment. Review the current procurement card limits to ensure they are at a level to meet field office purchasing needs.

**Management's Response**

*We plan to have the initial analysis completed and appropriate actions implemented by February 28, 2014.*
BASIS OF REVIEW

Objective and Scope

The overall objective of the audit was to review the agency’s financial management services’ operations to determine if resources are used efficiently and effectively and compliance is achieved with applicable law, policies, regulations, and agency rules. The audit period focused primarily on activities from September 1, 2011 to January 31, 2013. Areas reviewed included bank and clearing account reconciliations, procurement cards, expenditures, deposits, and accounts receivable. In addition, approximately 33,000 vouchers totaling about $164.8 million and approximately 11,000 procurement card purchases totaling about $1.3 million were analyzed using automated data analysis techniques for various purposes including split payments, duplicate payments, and adherence to required purchasing processes. Fieldwork was conducted from April to May, 2013.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System; the Texas A&M Forest Service 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

The mission of the Texas A&M Forest Service is to provide statewide leadership to assure the state’s trees, forests and related natural resources are protected and sustained for the benefit of all. The agency’s fiscal year 2013 operating budget totaled approximately $49 million.
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TEXAS A&M TRANSPORTATION INSTITUTE

Review of Financial Management Services

Catherine A. Smock, C.P.A.
Chief Auditor

Project #20131203
PROJECT SUMMARY

The controls established over financial management services’ operations at the Texas A&M Transportation Institute (TTI) provide reasonable assurance that resources are used in compliance with applicable laws, policies, regulations and rules. Only minimal exceptions were noted in our testing of financial transactions. Though controls appear to be effective, opportunities for efficiencies in financial operations were identified, particularly regarding expansion of the procurement card program.

OBSERVATION, RECOMMENDATION, AND RESPONSE

Opportunities for Efficiency

Observation

Multiple opportunities for increased efficiencies in financial operations were identified throughout the audit.

Opportunities for increased efficiencies in various financial operations were identified. Expanding the use of TTI’s procurement card program should be made to increase efficiencies in the agency’s purchasing processes. The agency currently has one procurement card held by the Business Office which can be checked out for use by individual departments. While procurement card activity did occur during the audit period, payments for purchases through the voucher process is much more prevalent. During the audit period, approximately 12,800 vouchers were processed for vendor payments, the majority of which (79%) were for amounts of $1,000 or less.

Expanding the purchasing card program would provide a more efficient and less expensive method of processing high-volume, small dollar payments to vendors by reducing the number of individual vendor payments, reducing the number of employee purchase reimbursements, and reducing the number of vouchers processed. In addition, purchasing cards provide stronger purchasing and fraud prevention controls than the use of local store charge accounts or personal funds for payment. The following additional opportunities for efficiency were also identified:
• Utilizing electronic payment methods such as an automated clearing house (ACH) to allow for electronic vendor payments in place of processing paper checks. During the audit period approximately 9,000 paper checks were written to vendors.

• Better utilization of the direct deposit payment process for payments to employees. During the audit period approximately 2,800 paper checks were written to employees.

• Utilizing an electronic scanning and storage system for support documentation. The agency currently maintains support documentation in paper copies. Storing information digitally decreases physical space needs for storage purposes, simplifies the records retention process, and reduces the risk of information being destroyed by fire or water.

• Creation of electronic vouchers by individual departments in the Financial Accounting Management Information System (FAMIS) rather than through paper vouchers. Currently, departments complete paper vouchers which then must be entered by the TTI Business Office into FAMIS, resulting in a duplication of effort. Starting the process electronically at the department level would allow for an automated approval routing process and would eliminate the effort expended on recording information twice, once in paper format and again in electronic format.

• Limiting the use of travel advances, thus reducing the number of advances processed. Approximately 230 regular travel advances were issued during the audit period, 29% of which were less than $400. Inquiries with other Texas A&M University System members indicate that travel advances are primarily issued for situations involving foreign travel. TTI currently has minimal restrictions regarding the issuance of travel advances.

**Recommendation**

Expand the purchasing card program to enhance the efficiency of the purchasing and accounts payable processes. Provide training to individual cardholders as well as employees responsible for allocating and reconciling accounts. Update internal procedures to reflect the changes in purchasing processes. Conduct a thorough cost analysis of the other potential efficiencies identified in this report and implement changes in those areas where the analysis supports reduced costs over the current processes being used.
Management’s Response

TTI agrees with the audit recommendation and will immediately begin the expansion of the procurement card program across the agency. We will distribute procurement cards to the department level, provide employee training and update internal procedures. The process will be completed by August 31, 2014.

TTI will conduct a comprehensive cost analysis to identify other opportunities for operational efficiencies. The analysis will focus on the areas listed in the audit report and changes will be made where the analysis supports reduced costs over current processes. The process will be completed by August 31, 2014.

BASIS OF REVIEW

Objective and Scope

The review of financial management services at the Texas A&M Transportation Institute focused on tests of controls to determine compliance with laws and policies as well as to determine if resources are used efficiently and effectively. The audit period focused primarily on activities from September 1, 2011 to January 31, 2013. Areas reviewed included deposits, accounts receivable, travel advances and temporary working funds. In addition, approximately 12,800 purchase vouchers totaling about $28.9 million were analyzed for various purposes including: split payments, duplicate payments and adherence to required purchasing processes. Fieldwork was conducted from April to May, 2013.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System; Texas A&M Transportation Institute 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

The mission of the Texas A&M Transportation Institute is to solve transportation problems through research, to transfer technology, and to develop diverse human resources to meet the transportation challenges of tomorrow. The agency’s fiscal year 2013 operating budget totaled approximately $62.4 million.

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TEXAS A&M UNIVERSITY

Review of Differential Tuition

Catherine A. Smock, C.P.A.
Chief Auditor
PROJECT SUMMARY

Texas A&M University has processes in place to provide reasonable assurance that differential tuition is spent as intended. The six colleges that receive differential tuition have established procedures to monitor use of the funds in compliance with the Board of Regents approved purpose for charging differential tuition. Annual reporting processes are also in place to provide management at the university and System Offices with information on how the funds are used at each of the colleges.

Differential tuition is an additional charge that pays for enhancements to the learning experience for undergraduate students in the Colleges of Agriculture (Department of Biological and Agricultural Engineering), Architecture, Business, Education, and Engineering and for professional students in the College of Veterinary Medicine. These enhancements include high impact hands-on learning experiences, laboratory and equipment upgrades, industry guest lecture series, and recruitment and retention of faculty and instructors to increase class offerings and reduce class sizes. A portion of differential tuition funds are set aside for need-based scholarships.

BASIS OF REVIEW

Objective and Scope

The objective of the audit was to review processes and controls over undergraduate differential tuition charged by the colleges to determine if funds were spent in accordance with the Board-approved purpose and intent. The areas reviewed included differential tuition account analysis, tuition set aside, expenditures, and reporting. The audit period covered was September 1, 2011 through March 31, 2013. Fieldwork was conducted from April to June, 2013.

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

The Mays Business School began charging differential tuition to junior and senior level undergraduate students in fall 2008, and charging all undergraduate students in fall 2011. The College of Agriculture (Department of Biological and Agricultural Engineering), College of Architecture, and Dwight Look College of Engineering also began charging undergraduate differential tuition in fall 2011. In fall 2012, the College of Education began charging differential tuition to students in undergraduate programs leading to teacher certification, and the College of Veterinary Medicine began charging differential tuition to their professional students. In fiscal year 2013, the six colleges received approximately $12 million in differential tuition revenues.

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