PROJECT SUMMARY

Overview

Overall, the controls established over the financial management services’ operations at Texas A&M University – Kingsville provide reasonable assurance that resources will be used in an efficient and effective manner, and in compliance with applicable laws, policies, regulations and rules, except in the area of student accounts receivable. The University’s current student accounts receivable collection processes do not ensure compliance with state law and A&M System regulations. Opportunity for improvement also exists in the area of bank and clearing account reconciliations.

Detailed data analysis was performed on all fiscal year 2012 expenditure transactions processed on vouchers and procurement cards, as well as, all expenditure transactions related to payroll. Minimal issues were noted indicating that adequate controls are in place over these types of expenditures.

Summary of Significant Results

Student Accounts Receivable

Student accounts receivable processes do not ensure compliance with state law and A&M System regulations. The review found a high error rate for compliance exceptions in demand letters to debtors, state warrant holds, collections and write-offs, and retention of historical collection documents. A lack of effective controls over the student accounts receivable process increases the University’s risk of loss of student owed funds. Delinquent student accounts receivable totaled over $2.3 million for fiscal year 2012. Turnover in the management of student accounts receivable contributed to the compliance issues noted in this report.

Summary of Management’s Response

The University agrees with the results and appreciates the guidance from the audit team. We have begun implementing new processes.
to ensure compliance with state law and A&M System regulations. In addition, the University will explore additional solutions to improve the control over the student accounts receivable process and decrease the risk of loss due to student owed funds.

Scope

The review of financial management services’ operations at Texas A&M University – Kingsville focused on the areas of bank and clearing account reconciliations, student accounts receivable, procurement cards, expenditures, payroll, working funds, and deposits. The audit period focused primarily on activities from September 1, 2011 to August 31, 2012. Fieldwork was conducted from October to December, 2012.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Student Accounts Receivable

Observation

Student accounts receivable collection processes do not ensure compliance with state and A&M System requirements. The loss of University funds is increased without an effective and timely collection process over student accounts receivable. Of the twenty-five delinquent student accounts reviewed, fifteen (60%) were missing documentation to record historical collection efforts made on the accounts. Thus, there were no records to indicate if the University had been aggressive in its efforts to collect funds owed from students. A&M System Regulation 21.01.04, Extension of Credit states that documentation of all attempts to collect the debt must be recorded and maintained on file. Employee turnover in student accounts receivable occurred in August 2011 and historical information was not retained by the prior employee. The current employee responsible for student accounts receivable started the collection process over in December 2011 by sending new demand letters to delinquent accounts. The University reported approximately $8.2 million in student accounts receivable at the end of fiscal year 2012, an increase of over 30% from the prior fiscal year. Of the fiscal year 2012 amount, approximately $2.3 million (28%) is considered delinquent, over 90 days past due.

The review found additional compliance exceptions with the timeliness of demand letters, the state warrant hold list, and collections and write-offs of accounts, as discussed below.

Demand Letters

Payment demand letters were not issued timely, within 30 days of account delinquency, for 9 of 25 (36%) accounts reviewed. For 11 of 25 (44%) accounts reviewed, the date of the demand letter could not be determined. In addition, second demand letters were not issued timely for 13 of 14 (93%) accounts reviewed. Without timely notification to students the risk increases that delinquent accounts will not be collected.

Student accounts receivable collection efforts are not tracked by student resulting in an inability to determine the number of demand letters sent to a student. Tracking of accounts receivable collection
1. Student Accounts Receivable (cont.)

Efforts consist of a spreadsheet by semester of outstanding accounts along with the student's name and address which is mailed with the demand letter on a specific date. The date of the demand letter is then documented on a calendar to keep track of when the next demand letters should be sent. Additionally, separate letters are sent depending on the type of debt (i.e. emergency loan, book loan, library fines, etc.). Therefore, an individual student could receive multiple demand letters in a semester if he/she had more than one type of debt. Consolidating all outstanding loans into one demand letter would be a more efficient and effective process. A&M System Regulation 21.01.04 requires there be no more than two demand letters sent to debtors. The first demand letter should be sent no more than 30 days after the obligation has become delinquent, and the second demand letter should be sent 30 – 60 days after the first demand letter.

State Warrant Hold

Thirteen of 25 (52%) delinquent accounts reviewed were not placed on the state’s warrant hold list, within a reasonable period of time, as required by A&M System regulations. Five of the 13 (38%) accounts have not been placed on the state’s warrant hold list as of this review. A&M System Regulation 21.01.04 requires System members to utilize the state comptroller’s warrant hold process when a debt is determined to be delinquent, and to ensure payments are not issued to the individual or entity that is indebted to the state. Current student accounts receivable procedures state that accounts receivable are deemed delinquent, after the last day of the last installment date during a long semester.

Collections & Write-offs

For delinquent accounts over one year past due, 9 of 17 (53%) were not sent to an outside collection agency. Of these 9 accounts, 8 (89%) were also not written-off. Student accounts receivable procedures do not specify when accounts should be sent to collections or written-off, which leads to inconsistency in the treatment of delinquent student accounts receivable.

Recommendation

Develop and implement guidelines over accounts receivable to improve the University’s ability to collect outstanding student accounts receivables. The guidelines should address historical documentation requirements, the timely issuance of demand letters, submission of the account to a collection agency, application of the state warrant hold, and when to write-off a delinquent account. Consider consolidating all outstanding loans for each student into
one demand letter. Establish a monitoring process to ensure that student accounts receivables are in compliance with state and A&M System requirements.

Management's Response

The University agrees with the points listed above and is working diligently to implement the recommendations.

Effective January 14, 2013, the University reorganized the student account department allowing the collections area to employ tighter measures to comply with the recommendations of the audit. Banner consultants have been retained to train every member of our staff who has access to student accounts. The Banner consulting team will be on campus the weeks of February 11 and February 18, 2013.

Demand Letters

In accordance to A&M System Regulation 21.01.04, the University updated procedures and revised the demand letter to include all debts owed by the student; this update was effective February 1, 2013. Additionally, the revised procedures clearly state the student obligation becomes delinquent after the last day of the last installment date.

In February 2013, a new folder will be created in Laserfiche for the University to store copies of the original demand letters addressing historical documentation requirements. Also in February 2013, the Associate Director of Student Accounts/Loans & Collections will begin confirming, on a monthly basis, that these files are being stored in the correct folder in a timely manner.

State Warrant Hold

Effective January 2013, we began placing individuals on state hold after the last day of the last installment date according to the University's procedures. Also, beginning in February 2013, the University will automate the state warrant hold process by utilizing an FTP file feed to FAMIS.

Collections & Write-Offs

Effective February 2013, the University will amend our procedures to clearly state when the delinquent account is to be sent to collections and when the account is to be written off. Furthermore, we will have all required outstanding items written off by August 31, 2013. The University is also exploring options with Banner, Touchnet, and Campus Loans Manager to find the best software to automate the
2. Account Reconciliations

Observation

Bank and clearing account reconciliation processes require improvement to ensure that reconciliations are completed and outstanding items are identified and cleared in a timely manner. Of the 15 reconciliations reviewed, three (20%) were not conducted timely. Four of the remaining twelve (33%) reconciliations reviewed did not include the preparer date and/or the reviewer date to determine the timeliness of the reconciliation. Furthermore, outstanding reconciling items exceeded 90 days for eleven of the fifteen (73%) reconciliations reviewed.

Current Business Office reconciliation procedures lack a clear definition of the preparer and reviewer responsibilities in the reconciliation process. For example, there is no requirement that the preparer and reviewer initial and date the reconciliations. Implementation of this process would aid management in monitoring the timeliness of reconciliations. Without adequate review and monitoring of reconciliations the risk of errors, discrepancies or misappropriations occurring and not being detected in a timely manner is increased. Management was aware of this issue and indicated that staff turnover has hindered the timeliness of the reconciliation process.

Recommendation

Establish monitoring processes to ensure reconciliations are prepared and reviewed timely, and that all outstanding items are cleared in a timely manner. Update departmental procedures to appropriately define the role of the preparer and reviewer to ensure management’s ability to monitor the reconciliation process and assign employee accountability.

Management’s Response

The University is in agreement with the recommendation that the bank and clearing account reconciliations, as well as updating of the reconciliation processes and procedures require improvement.

As of January 2013, departmental procedures were updated to better define the role of the preparer and reviewer, which will aid in clearing the outstanding items in a timely manner and assist the
2. Accounts Reconciliations (cont.)

supervisor/account manager to monitor the process. The procedure includes the requirement of bank and account reconciliations to be prepared, reviewed, and cleared promptly. The update ensures that the outstanding items are cleared within 90-days as recommended by the auditors. In addition, the preparer and reviewer will initial and date the reconciliations upon completion to ensure accountability.
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 efficiently and effectively; assets are safeguarded; and compliance is achieved with applicable laws, policies, regulations and University rules.

Criteria

Our review was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; Texas A&M University – Kingsville Rules and procedures; and other sound administrative practices. The evaluation was performed in compliance with generally accepted government auditing standards and other criteria to conform with the Institute of Internal Auditors’ “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

Financial management services’ operations at Texas A&M University – Kingsville are within the division of Fiscal Affairs and include Accounting, Business Services, Strategic Sourcing and General Services, and Payroll. The mission of the division of Fiscal Affairs is to provide a wide variety of support services and financial stewardship to the entire academic community. In fiscal year 2012, the University had annual operating expenditures of approximately $125 million.
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