The Texas A&M University System Internal Audit Department

THIRD QUARTER REPORT
FISCAL YEAR 2009

July 2, 2009
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PROJECT SUMMARY

Overview

Significant improvements are needed in financial controls over student financial aid management and scholarship management at Texas A&M University – Commerce. Financial Services is responsible for the financial management of student financial aid funds. The Office of Student Financial Aid and Scholarships (Student Financial Aid) is responsible for awarding financial aid and scholarships. In addition, many of the departments throughout the campus are involved in awarding scholarships. Communication and coordination between these departments is essential and needs improvement for successful University management of student financial aid and scholarships.

Student Financial Aid has established formal goals and objectives to enhance performance, ensure compliance with federal, state and university regulations and promote a positive customer service atmosphere on campus. Computerized data analysis of all financial aid records for compliance with federal regulations found immaterial error rates, all of which were less than four percent.

For fiscal year 2008, 56% of the students enrolled at Texas A&M University – Commerce received approximately $46 million in some type of financial aid, such as grants, loans, or scholarships. The three largest aid programs are Federal Direct Student Loans ($31 million), Federal Pell Grants ($6.7 million), and scholarships ($4.7 million).

Summary of Significant Results

Financial Management

Improvements are needed in controls related to financial aid reconciliations, cash drawdowns, and segregation of duties. Reconciliations were not performed on a regular, periodic basis increasing the risk that discrepancies would not be identified and resolved in a timely manner. In addition, all reconciling items were not researched and resolved within a reasonable timeframe. The
University’s cash drawdown process was not performed regularly. Cash drawdowns were infrequent and did not ensure that the University was reimbursed for financial aid awards on a timely basis. Lack of segregation of duties related to Perkins Loans management increases the risk that discrepancies would not be detected in a timely manner.

Scholarship Management

The University’s processes for selecting and awarding scholarship recipients lacks documented support within the departments across campus. All departments do not use scholarship committee reviews and established approval processes. Without a formal and complete scholarship monitoring process, there is a risk that scholarship awards may not be made on an objective basis or meet donor intent. This observation was also made in the University’s prior student financial aid audit report issued in the fall of 2002.

Summary of Management’s Response

Management concurs with the observations and recommendations in this report. Controls and monitoring processes will be implemented for financial management and scholarship management purposes.

Scope

Our review of financial and management controls over the student financial aid system focused on general eligibility for all major aid programs and scholarships. To test for compliance of selected controls, computer-based audit techniques were used to increase audit effectiveness and efficiency and test for specific attributes of one hundred percent of the general eligibility requirements.

We also reviewed information security and financial controls associated with the processing of financial aid and scholarship transactions. Transactions and activities related to these areas were reviewed for the period of September 1, 2007 to August 31, 2008. Fieldwork was conducted from October 2008 through January 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Financial Management

Improvements are needed in controls related to financial aid reconciliations, cash drawdowns, and segregation of duties for the efficient and effective financial management of student financial aid funds.

1a. Reconciliations

Observation

Reconciliations were not performed on a regular, periodic basis increasing the risk that discrepancies would not be identified and resolved in a timely manner. In addition, all reconciling items were not researched and resolved within a reasonable timeframe. The following was noted:

- A documented reconciliation of the amounts reported on the FISAP (Fiscal Operations Report and Application to Participate) to the U. S. Department of Education was not prepared. Student Financial Aid prepared the report using the student information system (Banner) information. A reconciliation of the FISAP report amount back to the Financial Accounting and Management Information System (FAMIS), the University’s official accounting record, was not performed and documented. The annual FISAP reporting process did not include documented reconciliations and verification by both Student Financial Aid and Financial Services for report accuracy prior to submission. At the auditors’ request, Financial Services prepared a reconciliation to determine that the amounts on the FISAP agree with FAMIS.

- Monthly reconciliations between FAMIS and Banner were not regularly performed for Pell Grants. In addition, the Pell Grant reconciliation that was reviewed contained an unexplained reconciling amount ($8,100) that has been outstanding for over a year.

- Monthly reconciliations were not performed between all FAMIS Perkins Loan accounts and the Perkins Loan management system. The Perkins Loan cash account is reconciled monthly;
Reconciliations are performed to identify discrepancies between two or more sets of records or systems so that appropriate actions can be taken to resolve outstanding items. Monitoring reconciliations needs to include procedures to ensure all reconciliations are completed and reconciling items are cleared in an appropriate timeframe. Without adequate review and monitoring procedures, the risks are increased that errors or misappropriations could occur and remain undetected from month to month.

**Recommendation**

Develop a schedule of reconciliations to be performed and document procedures and departmental responsibilities for the reconciliation processes. Monitor to ensure that reconciliations are performed and that reconciling items are cleared in a timely manner.

Develop and implement a process by which Student Financial Aid and Financial Services collaborate to complete a documented reconciliation of FISAP report amounts back to Banner, FAMIS, and the federal Grant Administration and Payment System (GAPS) prior to issuing the FISAP report to the Department of Education.

**Management’s Response**

A schedule of reconciliations to be performed on a monthly basis has been developed. This includes Pell, Direct Loans, LEAP, SLEAP, SEOG, ACG, SMART and TEACH as well as all Perkins Loan account details. A process has been put in place to ensure that the Office of Financial Aid and Scholarships and Financial Services communicate and collaborate on a monthly basis to complete reconciliations of the information found in FAMIS to that of BANNER, GAPS and, ultimately, the information to be reported on the FISAP. Detailed written procedures outlining this reconciliation process, including communication between the Office of Financial Aid and Scholarships and Financial Services, reconciling between all systems, assuring the resolution of outstanding reconciling items, and review of FISAP prior to its submission to the Department of Education, have been developed and were in effect by May 31, 2009. Separate procedures documenting the process for the monthly reconciliation of the Perkins Loan accounts were developed and were in effect by May 31, 2009, as well.
1b. Cash Management

Observation

Cash drawdown processes for Pell grant and Direct Loan funds were not consistently and routinely performed resulting in lost interest income to the University. Cash drawdowns were infrequent and did not ensure that the University was reimbursed for financial aid awards on a timely basis. In 2006, cash drawdowns were made on a fairly consistent (weekly) basis as needed during the semester. In 2007 and 2008, Pell grant and Direct Loan drawdowns were not made as frequently or routinely.

As of September 30, 2008, the University had a negative $2 million balance for the Federal Direct Loan program year ending on July 31, 2008. This means the University had not drawn down Federal Loan funds to reimburse the University for loans made to students. A letter received on October 14, 2008 from the U. S. Department of Education stated that the University was 68 days past the latest reported Direct Loan Award (Loan Period) end date and had an outstanding balance of $2.2 million due to the University. The University drew down the funds on October 16, 2008.

Financial Services has experienced turnover of personnel responsible for cash drawdown and related reconciliation duties. When the individual who performed the cash drawdowns for a number of years left the University, much of the knowledge of how and when to perform these duties left with them. Without standardized, documented procedures to direct activities, the risk is increased that important procedures and guidelines will be bypassed, incompletely performed, or inappropriately handled. This is particularly true when there are changes in personnel. Documented procedures provide management with a tool to ensure that adequate controls and supervisory oversight are in place, and assist with continuity should employee turnover occur.

Recommendation

Develop and implement documented procedures for the cash drawdown process. Ensure that adequate controls and supervisory oversight and approval are in place.

Management’s Response

Texas A&M University – Commerce has developed written procedures to document the weekly cash drawdown process that has already been implemented. The procedures address
1b. Cash Management (cont.)

communication and collaboration between the Office of Financial Aid and Scholarships and Financial Services to ensure all amounts due to the University are drawn down in a timely (at least weekly) manner and supervisory oversight and controls to ensure continuity in the event of turnover in the future. These procedures were completed and in effect by May 31, 2009.

1c. Segregation of Duties

Observation

The University’s processes for Perkins Loan program management lack segregation of duties between record-keeping and custody. One individual prepares and sends billing statements, receives payments, posts payments, makes deposits, and collects past due accounts. Lack of segregation of duties related to the management of the Perkins Loan program increases the risk that errors or misappropriations could occur and not be detected in a timely manner. The University issued approximately $372,000 in Perkins Loans during fiscal year 2008.

Recommendation

Segregate the collection duties from the record-keeping and reconciliation processes related to loan management.

Management’s Response

Texas A&M University - Commerce will ensure the segregation of duties between the collection and record-keeping duties for the Perkins Loan functions. The collection function will be reassigned to staff independent of the data input process. Written procedures were formulated concerning the Perkins Loans area and the proper segregation of duties. These procedures were completed and in effect by May 31, 2009.

2. Scholarship Management

Observation

The documentation and maintenance of scholarship files and records needs improvement to ensure adequate support for scholarship awards. We noted the following exceptions in our review of 19 scholarships awarded by six University departments during fiscal year 2008:
2. Scholarship Management (cont.)

- Three of seven (43%) departments reviewed did not have written procedures for the selection of scholarship awards. Documented procedures provide guidance to ensure a fair and unbiased selection process is followed in ranking applicants and making awards.

- Fourteen of 19 (74%) scholarship awards reviewed did not have documentation of the selection and approval of the scholarship awards in agreement with departmental scholarship procedures.

- Nine of 19 (47%) scholarships reviewed did not have documentation of award offer and acceptance.

- One of 19 (5%) awards did not meet scholarship criteria. Scholarships have specific criteria that must be met in order to receive the scholarship award in accordance with donor intent.

Although the University has made progress in improving scholarship management, further improvement is needed. While the departments reviewed generally described an applicant ranking process and gave consideration to the award criteria established by the donor, these processes were not consistently documented. Scholarship candidate identification, awards selection, award notification, and documentation differ from department to department. Several departments stated that scholarship award decisions were often verbally communicated and not documented. The University does not have current, comprehensive procedures to provide guidance and standards for scholarship award processes and documentation throughout the University.

This same issue of not having documented processes to guide the awarding of scholarships was included in our prior audit report on the University’s student financial aid processes issued in the fall of 2002. Management responded that “A Scholarship Handbook is being developed and will be in use at the University no later than November 1, 2002.” Although a scholarship handbook was created in 2002, it was not kept current and was not readily available for the departments to access. Since the prior audit and scholarship handbook development, scholarship responsibilities have been reorganized and processes are currently being updated. These responsibilities have also moved to Student Financial Aid.

The awarding of scholarships is a more subjective process than the awards for grants and loans, which are primarily based upon need. Therefore, the University should clearly document the scholarship decision-making process to better defend its position in the event it is challenged. Improved documentation and record retention would be a proactive step by the University to reduce risk and enhance
2. Scholarship Management (cont.)

accountability. Without formal administrative monitoring and procedures, scholarship awards may not be made on an objective basis or meet donor intent.

Recommendation

Establish formal administrative and university-wide scholarship procedures for an objective process to award scholarships. These procedures should address the need for:

- Developing and disseminating procedures for the scholarship award process.
- Documenting the evaluation and ranking of scholarship applicants.
- Documenting who participated in the application evaluation and their concurrence with the list of scholarship awards.
- Documenting the acknowledgement of those participating in the applicant review process and consideration of any conflicts of interest with applicants.
- Retaining the documentation for the length of time required according to the Texas A&M University System records retention schedule.

Establish monitoring processes to ensure departmental compliance with university-wide scholarship procedures.

Management's Response

A Scholarship Policy and Procedures Manual will be developed and readily available to all departments responsible for selecting scholarship recipients. This manual will contain comprehensive guidelines and standards for the formal administration of university-wide scholarships. Selecting and awarding procedures along with required documentation processes will be addressed in the manual. The Scholarship Policy and Procedures Manual will be developed and distributed to all departments by November 30, 2009. Subsequent to implementation, the Office of Student Financial Aid and Scholarships will monitor for compliance with the manual.
3. Audit Trail

**Observation**

Changes posted in the Banner financial aid module are not recorded; therefore, an audit trail is not maintained. One employee in Student Financial Aid who has access to make changes to student financial aid records in Banner is also a student that receives financial aid. Without an audit trail of changes made to the financial aid screens, anyone with Banner access rights could not demonstrate that they did not make inappropriate changes to student financial aid accounts.

The Texas Administrative Code requires the ability to audit and establish individual accountability for any action that can potentially cause access to, generation of, modification of, or affect the release of confidential information. Student financial aid screens within Banner contain confidential information. The risk exists that management cannot identify potential conflicts of interest or unauthorized access to student financial aid information. In addition, management cannot identify the source of errors in Banner to provide training to the employees making the mistakes.

**Recommendation**

Maintain an audit trail of changes posted in the Banner financial aid module.

**Management’s Response**

*An audit trail is currently being maintained. The audit trail functionality in the Banner Financial Aid Module was activated on December 8, 2008.*
BASIS OF REVIEW

Objective

The purpose of this audit was to evaluate the financial and management controls over the University’s student financial aid system to ensure resources are used efficiently and effectively and in compliance with laws, policies, and regulations.

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 Administrative Code (TAC) 202; the Federal Code of Regulations and the Federal Student Financial Aid Handbook; the Treadway Commission’s Committee of Sponsoring Organization’s Internal Control – Integrated Framework (COSO); Texas A&M University - Commerce Rules, and other sound administrative practices. This audit was performed in compliance 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 University facilitates students in meeting their higher education goals through a variety of grants, scholarships, loans and other means of financial assistance. During fiscal year 2008, 9,071 students were enrolled at the University. The total amount of scholarships and grants awarded was over $13 million. In addition, students and their parents received approximately $33 million from federal loan programs. The largest student financial aid programs in actual dollars are Federal Direct Student Loans, Pell Grants, and scholarships, respectively.
AUDIT TEAM INFORMATION

Auditors Assigned to the Review

| Sandy, Ordner, CPA, Project Manager |
| Aliza Dirden, CIA |
| Lori Ellison |
| Katie Rannebarger, CPA |

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PROJECT SUMMARY

Weaknesses were identified in the current and prior two National Collegiate Athletic Association (NCAA) rules compliance audits for Prairie View A&M University. These continued weaknesses increase the risk that the control environment over the NCAA rules compliance program is not operating as intended, and institutional control is not being demonstrated as required by the NCAA. Noncompliance with NCAA rules related to maintaining accurate athlete recruiting log documentation, timely banned drugs notification to student-athletes, and maintaining the student athlete handbook were identified in this audit.

Audit recommendations still remain outstanding from the prior 2007 and 2008 NCAA rules compliance audits related to monitoring of the recruitment process, written policies and procedures, and NCAA rules education. Target implementation dates for these issues have been changed by management, sometimes more than once. Greater emphasis for the support of the NCAA rules compliance program is needed to better manage the risk of further NCAA violations and possible sanctions. It is important to note that a successful NCAA rules compliance program relies on a concerted effort from University executive management, Athletic Department coaches and management, as well as the NCAA rules compliance office.

In addition, we performed procedures agreed to by management on the University’s Athletic Program Statement of Revenues and Expenses for the fiscal year ended August 31, 2008 to assist the University in complying with NCAA Constitution 6.2.3. Based on these procedures we determined that the Statement is materially accurate. For fiscal year 2008, the athletics program expenditures were approximately $6 million. (See Attachment for the Statement of Revenues and Expenses)
Summary of Significant Results

Recruiting Log Documentation

Recruiting logs contain insufficient documentation for compliance with NCAA recruiting requirements. These complex requirements are many, and must be monitored for compliance on a regular basis. As a result, these weaknesses increase the potential for violating NCAA regulations.

Summary of Management’s Response

Management appreciates the System Internal Audit Department’s efforts to identify issues needing improvement and steps necessary to ensure that improvement is achieved. We are committed to satisfactorily addressing these issues and have developed and enhanced procedures to address these issues.

Scope

This review was performed to fulfill the NCAA requirements that each Division I member have its rules compliance program evaluated at least every four years by an authority outside the Athletic Department. Compliance areas are reviewed on a four-year rotating basis for Prairie View A&M University. This review focused on the compliance area of recruiting and the fieldwork was conducted in March and April 2009. The audit period focused primarily on activities from September 2007 through March 2009, although some activities outside this time period were examined as necessary.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Recruiting Log Documentation

Observation

Recruiting logs do not provide sufficient documentation for monitoring of the recruiting process.

The athletic recruiting logs and related documentation are insufficient and lack details to cover all the items needed to ensure compliance with NCAA requirements. Specific areas identified include:

- Verification that the prospect is registered with the Eligibility Center and was placed on the University’s Institutional Request List prior to their visit.
- Prospects’ high school class standing (i.e. sophomore, junior, and senior).
- Recording and determining compliance with the total number of contacts, evaluations and telephone calls with prospects required by each sport during the year.
- Specific sports’ compliance with restrictions on recruiting person days.
- Monitoring for verification or check of recruiting calendar restrictions.
- Identification of telephone call exceptions.

As a result of these weak and inconsistent processes, the potential could increase for violation of NCAA rules.

Recommendation

Management should improve recruiting compliance by:

- Revising recruiting logs and associated documents to record items required for NCAA compliance.
- Including instructions and NCAA Bylaw references to better track compliance requirements.
1. Recruiting Log Documentation (cont.)

- Providing the Athletic Compliance Officer with timely and complete access to recruiting logs for periodic compliance reviews.

Management's Response

We agree with your recommendations and we are implementing a formal process to ensure recruiting logs contain sufficient documentation for compliance with NCAA recruiting requirements.

Athletic management will conduct the following:

- The policy, recruiting logs, and associated documents for tracking and documenting recruiting activities have been updated to reflect current NCAA, Conference, and University guidelines. The Recruiting Coordinator or designee will monitor all recruiting activity and update the policy to ensure accuracy no later than June 30th of each year.

- Specific guidance for the use of the updated/revised recruiting logs has been established to ensure that coaches/recruiters are aware and capable of maintaining accurate and up-to-date records. Updates and changes will be provided annually during recruiting training and testing (prior to the initial recruiting trip for new staff members). In addition, head coaches will continue to attend annual NCAA Regional Rules compliance training and the Athletic Compliance Office will provide ongoing training for updates during each year as required.

- Recruiting records will be maintained by the Recruiting Coordinator and will be made available for periodic compliance review upon request.

This process will be implemented by July 1, 2009.

2. Banned Drug List Notifications

Observation

Banned drug notifications to student-athletes were not taking place before July 1 as required by NCAA rules.

The NCAA banned drug list was not provided to prospective student-athletes and/or prospective student-athletes' parents before July 1 and the prospective student-athlete's initial enrollment at the University as required by NCAA Bylaw 13.3.2. Noncompliance with this rule is considered a violation according to the NCAA Constitution. The University’s current procedure is to discuss and provide student-athletes the NCAA banned drug list and information regarding nutritional supplements during an August training meeting. Lack of oversight and minimal monitoring for compliance were
2. Banned Drug List Notifications (cont.)

The student-athlete handbook was not current or available to students during the review period. contributing factors. It was understood by management that a banned drug list was part of the financial aid agreement package sent with financial aid agreements to prospective student-athletes early in the summer. This was not the case.

**Recommendation**

Management should develop a procedure to provide prospective student-athletes with the NCAA banned drug list and nutritional supplement information at the earliest practical opportunity, but not later than July 1 before the prospective student-athlete’s enrollment at the University. Additionally, management should submit this institutional violation to the NCAA as required by NCAA rules.

**Management’s Response**

We agree with your recommendations and we are implementing a formal process to ensure prospective student-athletes receive the NCAA banned drug list and nutritional supplement information.

**Athletic management will conduct the following:**

- Management has developed a procedure to provide prospective student-athletes with the NCAA banned drug list and nutritional supplement information. The procedure will consist of incorporating the information into the Financial Aid Agreement and National Letter of Intent. For prospective student-athletes recruited after July 1, the institution will send the banned drug list and information about nutritional supplements at the earliest opportunity.

- Additionally, a secondary institutional violation has been filed with the NCAA conference office. Further, according to NCAA proposal 2008-21 (effective for the 2010-11 academic years) institutions will no longer be responsible for providing this information to prospective student-athletes. The information will be provided by the NCAA Eligibility Center.

This process will be implemented by July 1, 2009.

3. Athletic Procedures Manual

**Observation**

The student-athlete handbook, used to educate student-athletes on NCAA compliance issues, was not up-to-date or available to student-athletes. The handbook was removed from the University web page when it was determined to be out-of-date. As a result, the
effectiveness of the manual as a compliance tool was limited during the review period.

**Recommendation**

Ensure that the student-athlete handbook is updated periodically to reflect changes in NCAA or University policy. Make the student-athlete handbook readily available to all student-athletes.

**Management’s Response**

*We agree with your recommendations and we will review and update the student-athlete handbook periodically and make it accessible via the web page.*

*Athletic management will conduct the following:*  

- The student-athlete handbook has been updated to reflect current NCAA Bylaws and University policy.  
- The handbook will be uploaded on the Prairie View A&M University athletics web page for student-athlete accessibility.  
- The handbook will be reviewed periodically to ensure effectiveness and accuracy.  

*This process will be implemented by July 1, 2009.*
BASIS OF REVIEW

Objective

The objective of this review was to review and assess the adequacy of the University's NCAA rules compliance program for selected compliance areas and to perform a review of the athletic program’s financial statement for the fiscal year ended August 31, 2008, as required by the NCAA.

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 2007-08 National Collegiate Athletic Association Division I Manual; the University’s Athletics Compliance Manual; and other sound administrative practices. This audit was performed in compliance 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

Prairie View A&M University participates in intercollegiate athletic competition as a Division I member of the NCAA, Division I-AA for football. In fiscal year 2008, the University’s athletics program consisted of 16 intercollegiate athletic sports, representing approximately 360 student-athletes.
They included:

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<th>Women’s</th>
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<td>Basketball</td>
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<td>Baseball</td>
<td>Volleyball</td>
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<tr>
<td>Basketball</td>
<td>Bowling</td>
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<td>Cross Country</td>
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<td>Tennis</td>
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<td>Track &amp; Field</td>
<td>Softball</td>
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<td>Tennis</td>
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<td></td>
<td>Track &amp; Field</td>
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The Athletics Department is supported by student athletics fees and supplemental transfers from the University, in addition to revenues generated by the program, such as ticket sales, other sales and services, gifts, and game guarantees. For fiscal year 2008, the athletics program was funded approximately 60% from student athletics fees and direct institutional support.
AUDIT TEAM INFORMATION

Auditors Assigned to the Review

William Williams, CPA, Project Manager
Nora Miles, CPA
Chris Powell

Contact Information

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## ATTACHMENT

**Prairie View A&M University**
**Intercollegiate Athletic Department**
**Statement of Revenues and Expenditures**
**For the Year Ended August 31, 2008**

### REVENUES

<table>
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<tr>
<th></th>
<th>FOOTBALL</th>
<th>MEN’S BASKETBALL</th>
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<td>Student Fees</td>
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<td>745,092</td>
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</tr>
<tr>
<td>Guarantees</td>
<td>160,236</td>
<td>426,652</td>
<td>12,000</td>
<td>6,400</td>
<td>-</td>
<td>607,288</td>
</tr>
<tr>
<td>Contributions</td>
<td>27,015</td>
<td>-</td>
<td>-</td>
<td>6,860</td>
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<td>119,638</td>
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<tr>
<td>Compensation and Benefits Provided by a Third-Party</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Direct State or Other Government Support</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Direct Institutional Support</td>
<td>161,676</td>
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<td>4,000</td>
<td>36,310</td>
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<td>662,003</td>
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<tr>
<td>Indirect Facilities and Administrative Support</td>
<td>176,833</td>
<td>54,655</td>
<td>43,607</td>
<td>146,884</td>
<td>158,754</td>
<td>580,733</td>
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<tr>
<td>NCAA/Conference Distributions Including All Tournament Revenues</td>
<td>655</td>
<td>-</td>
<td>-</td>
<td>2,736</td>
<td>-</td>
<td>359,597</td>
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<td>Broadcast, Television, Radio, and Internet Rights</td>
<td>-</td>
<td>-</td>
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<td>Program Sales, Concessions, Novelty Sales and Parking</td>
<td>3</td>
<td>-</td>
<td>475</td>
<td>-</td>
<td>6,014</td>
<td>6,492</td>
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<td>Royalties, Advertisements and Sponsorships</td>
<td>-</td>
<td>-</td>
<td>220</td>
<td>500</td>
<td>101,500</td>
<td>102,220</td>
</tr>
<tr>
<td>Sports Camp Revenues</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Endowment and Investment Income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10,117</td>
<td>10,117</td>
</tr>
<tr>
<td>Other</td>
<td>250</td>
<td>-</td>
<td>750</td>
<td>3,780</td>
<td>88,645</td>
<td>93,425</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td><strong>1,382,307</strong></td>
<td><strong>603,689</strong></td>
<td><strong>187,716</strong></td>
<td><strong>1,079,910</strong></td>
<td><strong>2,010,626</strong></td>
<td><strong>5,264,248</strong></td>
</tr>
</tbody>
</table>

### EXPENSES

<table>
<thead>
<tr>
<th></th>
<th>FOOTBALL</th>
<th>MEN’S BASKETBALL</th>
<th>WOMEN’S BASKETBALL</th>
<th>OTHER SPORTS</th>
<th>NONPROGRAM SPECIFIC</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Athletics Student Aid</td>
<td>668,794</td>
<td>110,608</td>
<td>120,894</td>
<td>608,643</td>
<td>12,573</td>
<td>1,521,512</td>
</tr>
<tr>
<td>Guarantees</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Coaching Salaries, Benefits, and Bonuses Paid by the University and Related Entities</td>
<td>433,708</td>
<td>104,460</td>
<td>126,801</td>
<td>75,716</td>
<td>9,395</td>
<td>750,080</td>
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<tr>
<td>Coaching Other Compensation and Benefits Paid by a Third-Party</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Support Staff/Administrative Salaries, Benefits, and Bonuses Paid by the University and Related Entities</td>
<td>150,673</td>
<td>29,260</td>
<td>-</td>
<td>146,926</td>
<td>542,451</td>
<td>869,310</td>
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<td>Support Staff/Administrative Other Compensation and Benefits Paid by a Third Party</td>
<td>11,115</td>
<td>2,232</td>
<td>-</td>
<td>6,310</td>
<td>93,061</td>
<td>112,718</td>
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<tr>
<td>Severance Payments</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Recruiting</td>
<td>12,781</td>
<td>6,367</td>
<td>8,173</td>
<td>9,844</td>
<td>63,015</td>
<td>100,180</td>
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<td>Team Travel</td>
<td>65,811</td>
<td>31,713</td>
<td>59,583</td>
<td>162,099</td>
<td>26,236</td>
<td>345,442</td>
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<tr>
<td>Equipment, Uniforms, and Supplies</td>
<td>6,086</td>
<td>8,061</td>
<td>2,644</td>
<td>62,169</td>
<td>65,722</td>
<td>144,682</td>
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<td>Game Expenses</td>
<td>16,580</td>
<td>26,500</td>
<td>19,150</td>
<td>29,803</td>
<td>-</td>
<td>92,033</td>
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<td>Fund Raising, Marketing and Promotion</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sports Camp Expenses</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Direct Facilities, Maintenance, and Rental</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>85,835</td>
<td>85,835</td>
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<tr>
<td>Spirit Groups</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>513,286</td>
<td>513,286</td>
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<tr>
<td>Indirect Facilities and Administrative Support</td>
<td>176,834</td>
<td>54,655</td>
<td>43,607</td>
<td>146,884</td>
<td>158,754</td>
<td>580,734</td>
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<td>Medical Expenses and Medical Insurance</td>
<td>-</td>
<td>900</td>
<td>118</td>
<td>6,107</td>
<td>409,172</td>
<td>416,297</td>
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<td>Memberships and Dues</td>
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<td>-</td>
<td>-</td>
<td>1,210</td>
<td>3,600</td>
<td>4,810</td>
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<tr>
<td>Other Operating Expenses</td>
<td>61,019</td>
<td>16,969</td>
<td>24,658</td>
<td>77,283</td>
<td>278,447</td>
<td>458,376</td>
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<td><strong>Total Operating Expenses</strong></td>
<td><strong>1,603,401</strong></td>
<td><strong>391,725</strong></td>
<td><strong>405,628</strong></td>
<td><strong>1,332,994</strong></td>
<td><strong>2,261,547</strong></td>
<td><strong>5,995,295</strong></td>
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### EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSES

<table>
<thead>
<tr>
<th></th>
<th>FOOTBALL</th>
<th>MEN’S BASKETBALL</th>
<th>WOMEN’S BASKETBALL</th>
<th>OTHER SPORTS</th>
<th>NONPROGRAM SPECIFIC</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(221,094)</strong></td>
<td>211,964</td>
<td>(217,912)</td>
<td>(253,084)</td>
<td>(250,921)</td>
<td>(731,047)</td>
<td>(731,047)</td>
</tr>
</tbody>
</table>
ATTACHMENT

Notes to the Statement of Revenues and Expenditures

1. Nature and Basis of Accounting and Reporting


The financial statement accounts for the Prairie View A&M University Intercollegiate Athletics Program are maintained by the University’s Fiscal Affairs Department. The operation is an auxiliary enterprise and is responsible for promoting a competitive intercollegiate athletic program.

The accompanying financial statement is presented in accordance with the accounting and financial reporting standards prescribed by the NCAA, the Governmental Accounting Standards Board, the principles of fund accounting, and is reported on the accrual basis.

The University financial statements will be incorporated into the statewide audit of the State of Texas for the fiscal year ended August 31, 2008, by the State Auditor’s Office. Total operating revenues and expenditures reported by the University for the fiscal year ended August 31, 2008, were approximately $71 million and $153 million, respectively. Revenue from Legislative Appropriations, considered a non-operating source of revenue, was approximately $66 million in fiscal year 2008.

2. Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The capitalization threshold for personal property is $5,000. The capitalization threshold is $100,000 for buildings/building improvements, facilities and other improvements, software developed for internal use, and leasehold improvements. Infrastructure has a capitalization threshold of $500,000.

As required in GASB No. 34 and 35, the A&M System is required to depreciate capital assets. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; generally, 40 to 50 years for buildings, 20 to 25 years for infrastructure, and 5 to 7 years for equipment.

3. Contributions

No individual contributions of money, goods or services were received directly by intercollegiate athletics from an affiliated or outside organization, agency or individual that constituted 10 percent or more of all contributions received for intercollegiate athletics during the fiscal year ended August 31, 2008.
PROJECT SUMMARY

Overview

Overall, significant improvement is needed in Texas A&M University’s monitoring over the faculty hiring processes to provide reasonable assurance that faculty are hired in compliance with applicable laws, policies, regulations and rules. Significant noncompliance was found in the completion of criminal history record checks. Opportunities for improvement also exist in the timeliness of faculty credential verifications, support for position postings to the Texas Workforce Commission, hiring file documentation and non-tenure track faculty hiring guidance.

Texas A&M University employs over 2,600 faculty members holding tenured, tenure-track, and non-tenure track positions. Approximately 220 new faculty members were hired during the 2008 fiscal year. Implementation of the University’s Faculty Reinvestment Program has been instrumental in a 16% increase in faculty positions from fiscal year 2004 to fiscal year 2009. Faculty salaries during fiscal year 2008 totaled approximately $244 million.

Summary of Significant Results

Monitoring

The University lacks effective monitoring of faculty hiring processes. Although management has developed hiring procedures requiring supporting documentation, a timely and effective monitoring process is not in place to ensure that documentation is maintained and all steps are completed. University-wide audit tests carried out in the areas of criminal history record checks, degree verifications, posting to the Texas Workforce Commission, and hiring file documentation showed significant levels of noncompliance at the University, indicating that the University’s faculty hiring process needs to be improved to provide reasonable assurance that faculty are hired in compliance with laws, policies, regulations and rules.
Criminal History Record Check

Sixty-three percent of the faculty hires reviewed did not have a criminal history record check completed prior to finalization of the hiring process. There is no control in place to prevent completion of payroll processing for new faculty employees without a criminal history record check as required by A&M System regulation.

Summary of Management’s Response

The Office of the Dean of Faculties and Associate Provost has reviewed the audit findings and concurs with recommendations to improve significantly both monitoring practices (including compliance with criminal history record checks, degree verifications, posting to the Texas Workforce Commission, and retaining hiring file documentation) and training procedures of hiring departments. Detailed responses are described in each of the following sections.

Scope

The review of faculty recruitment and retention focused primarily on the recruiting, selection, and hiring procedures for University faculty. Reporting mechanisms for faculty retention rates were observed. Activities related to these areas were reviewed for the period from September 2007 to August 2008. Audit fieldwork was conducted in February and March 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Monitoring

Observation

The University does not have an effective monitoring system for the faculty hiring process. Although management has developed hiring procedures requiring supporting documentation, a timely and effective monitoring process is not in place to ensure that documentation is maintained and that all steps are completed. Weaknesses include the lack of completed criminal history record checks, credential verifications, position advertisements, and other hiring file documentation.

The faculty hiring process is a rigorous process involving the individual academic hiring departments, colleges, and the Dean of Faculties Office. In addition, Human Resources and Payroll Services are involved in the administrative process to complete the hiring process and add the new employee to the University’s payroll system. Although faculty hiring procedures have been put in place, the related procedures to monitor them for compliance and timeliness have not been established. Without effective monitoring processes for hiring procedures that involve many steps and multiple departments, the risk of administrative weaknesses and noncompliance with applicable laws, policies, regulations and rules is increased, weakening the University’s ability to defend its hiring decisions.

Recommendation

Develop a strong monitoring system to ensure that faculty hiring procedures are completed in accordance with all applicable laws, policies, regulations, and University hiring requirements.

Management’s Response

The Dean of Faculties and Associate Provost Office has reviewed the audit findings and will implement significant improvements in monitoring faculty hiring practices as described in each of the following sections, paying close attention to monitoring hiring paperwork processes and training of hiring departments.

Implementation Date: November 30, 2009.
2. Criminal History Record Check

Observation

Criminal history record checks were not conducted in a timely manner.

Thirty-eight of 60 (63%) faculty hires reviewed did not have a criminal history record check completed prior to the finalization of the hiring process. There was no record of a check being completed for 20 of the 60 (33%) new hires reviewed. Eighteen of 60 (30%) new hires reviewed had checks completed from one day to eight months after their date of employment. There is no control in place to prevent payroll processing of new faculty employees who have not had a criminal history record check. A&M System Regulation 33.99.14 states that every offer of A&M System employment shall be conditioned on receipt of an acceptable criminal history record information check. Criminal history record checks on potential employees are performed to reduce risks to the University community as well as the University’s reputation.

Recommendation

Establish procedures to ensure that the faculty hiring process includes the completion of criminal history record checks prior to the finalization of the employment process as required by A&M System regulation.

Management’s Response

The Office of the Dean of Faculties and Associate Provost will implement a monitoring process to provide assurance that criminal history record checks are completed prior to finalizing the employment process. The monitoring process will include verifying that a criminal history check has been completed prior to the new Faculty member’s start date. As part of the monitoring process, communication will occur between the Office of the Dean of Faculties and Associate Provost, department head of the hiring department, and the new faculty member as needed to ensure that employment does not begin until completion of the criminal history record check. If needed, start dates will be adjusted.

Implementation Date: August 31, 2009.

3. Faculty Credential Verifications

Observation

The academic credential verification process is not carried out on a timely basis for new faculty hires. Of the 60 new faculty hire files...
3. Faculty Credential Verifications (cont.)

reviewed, 11 (18%) did not have the necessary supporting documentation for a verification of a terminal degree or minimum of 18 hours in the teaching discipline they were hired to instruct as required by the University. Requests for release forms and credential verifications were not consistently made before or shortly after the employment dates. A degree release form from the new faculty, necessary to obtain credential information, had not been obtained for 8 of 60 (13%) files reviewed. Although a time lag is to be expected for receiving verification of international credentials, significant time lags are also occurring for requests of credentials from other colleges and universities in the United States. Most credential verifications are received within several days of the request.

Faculty credential guidelines are established by the Commission on Colleges, Southern Association of Colleges and Schools (SACS) to ensure that the institution’s faculty has acceptable qualifications. The University is responsible for verifying and documenting the qualifications of its faculty as an element in maintaining accreditation by SACS.

Recommendation

Establish a process to ensure that credential verifications are obtained in a timely manner for compliance with SACS accreditation guidelines.

Management’s Response

The Office of the Dean of Faculties and Associate Provost will implement a monitoring process to provide assurance that credential verifications (including terminal degree or minimum teaching hours) are obtained in a timely manner. The monitoring process will include confirming credential verifications have been completed prior to the new faculty member’s start date. As part of the monitoring process, communication will occur between the Office of the Dean of Faculties and Associate Provost, department head of the hiring department, and new faculty member as needed to ensure that employment does not begin until completion of the credential verifications. If needed, start dates will be adjusted.

Particular circumstances that may warrant variation from this process will be reviewed on a case-by-case basis by the Office of the Dean of Faculties and Associate Provost. Additional monitoring will occur to ensure that credential verifications are obtained in a timely manner.

Implementation Date: August 31, 2009.
4. Texas Workforce Commission Advertisements

**Observation**

<table>
<thead>
<tr>
<th>Support is not maintained to determine if faculty positions are advertised on the Texas Workforce Commission website.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thirty-five of 60 (58%) faculty hiring files reviewed did not have support to determine if the position was advertised on the Texas Workforce Commission website as required by state and federal law. Hiring departments and/or search committees notify the Dean of Faculties Office when they begin a new search so that the Dean of Faculties Office may advertise the position on the Texas Workforce Commission website, <a href="http://www.WorkinTexas.org">www.WorkinTexas.org</a>, in compliance with Texas Government Code 656.001. However, there is not a process in place to ensure that open faculty positions are listed on the website. The Dean of Faculties Office provides guidelines on requirements for advertising tenured track faculty positions but not for non-tenure track faculty positions. Without a process that provides assurance that required actions have been taken, the risk is increased that the University would not be able to demonstrate that positions were advertised in compliance with Texas Workforce Commission requirements.</td>
</tr>
</tbody>
</table>

**Recommendation**

- Develop and implement a process to ensure compliance with Texas Workforce Commission requirements for open faculty positions.

**Management's Response**

*The Office of the Dean of Faculties and Associate Provost will monitor each faculty hiring authorized by the Office of the Dean to ensure all faculty position advertisements are posted to the Texas Workforce Commission and documentation retained.*

*A written authorization to search will be sent by the Office of the Dean of the hiring college to the hiring department head and copied to the Dean of Faculties and Associate Provost. Upon receipt of the authorization to search, the Office of the Dean of Faculties and Associate Provost will request the hiring advertisement from the hiring department and post it on the Texas Workforce Commission’s website. For delayed searches, the Office of the Dean of Faculties and Associate Provost will continue to request the hiring advertisement every 30 days until the position is posted. Any deviation from this procedure will be analyzed on a case-by-case basis and recorded.*

*Implementation Date: August 31, 2009.*
5. Faculty Hiring Documentation

Observation

Improvements are needed in hiring file documentation.

Documentation to support the search and selection of new faculty employees was not consistently maintained. The hiring file documentation is maintained in coordination between the academic hiring department and the Dean of Faculties Office. In our review of 60 faculty hiring files (30 tenured/tenure-track positions, 30 non-tenured positions), the following was noted:

- Six of 30 (20%) of tenured/tenure-track faculty hiring files did not have documentation of formal written authorization from the Dean to initiate the recruitment process as required according to the University Rule 12.99.99.M1.

- Ten of 30 (33%) of non-tenured faculty hiring files did not have written authorization from the Dean to begin recruitment as required by the University Rule 12.99.99.M1.

- Fourteen of 60 (23%) hiring files had offer letters that were missing applicable offer contingency statements (e.g., pending University approval, contingent on ability to provide eligibility documentation required by federal employment and/or immigration laws, pending approval by the Board of Regents). These offer letters did not contain necessary language to ensure prospective employees would have an understanding of the contingencies involved with the employment offer.

- Five of 60 (8%) did not have signed tenure agreement forms. Prospective employees are not signing and returning the appropriate tenure form which illustrates their understanding and the University’s agreement of the tenure status of the faculty position they are accepting.

- Eight of 60 (13%) hiring files lacked documentation that reference checks had been performed.

- Six of 60 (10%) were missing documentation to show how top candidates for interviews were selected.

- Three of 30 (10%) of tenured/tenure-track faculty hires did not have documentation for the search, host, and sort process.

- Three of 60 (5%) did not maintain the record of all offers and results.
5. Faculty Hiring Documentation (cont.)

Without the necessary supporting documentation the hiring departments and search committees are not in compliance with University rules, Dean of Faculties Office guidelines, and state records retention laws.

**Recommendation**

Ensure that all necessary faculty hiring documentation is completed and maintained by the Dean of Faculties Office and the hiring department.

**Management’s Response**

*With the new monitoring procedures described above, the Office of the Dean of Faculties and Associate Provost will ensure all necessary faculty hiring documentation is completed, and the Office will notate in each file if and why an exception is made.*

*Regarding the written authorization by the Office of the Dean of the hiring college to start the faculty search process, the Office of the Dean of Faculties and Associate Provost will ensure that the Office of the Dean will copy the Dean of Faculties and Associate Provost on each faculty search or provide a written notice as to why an exception to search was warranted.*

*For offer contingency statements, the Office of the Dean of Faculties and Associate Provost will create standardized statements for each of the possible contingencies and distribute them to each hiring department and require that they appear in every offer letter as appropriate.*

*As for the proper hiring documentation being retained at the department level, the Office of the Dean of Faculties and Associate Provost will upgrade our faculty hiring procedures training and request attendance from search committee chairs, department heads and departmental/college staff involved in faculty hiring. Our training manual will be updated to include sample materials or templates of the documentation that is expected at the department level.*

*Implementation Date: May 31, 2010.*
6. Non-Tenured Faculty Hiring Process Guidance

Observation

<table>
<thead>
<tr>
<th>Guidance for non-tenure track faculty hiring processes needs improvements.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hiring departments and search committees are unaware of the necessary requirements and processes for hiring non-tenure track faculty members. The Dean of Faculties Office has an online handbook that explains recruitment and retention policies, guidelines, and suggestions for search committees. However, this handbook is primarily geared towards tenured and tenure track faculty. There is no specific guidance, manual, or training for departments to specify what documentation and steps are necessary for hiring non-tenure track faculty members. It is necessary to maintain adequate documentation to support the hiring decision for all individuals hired by the University. Without more specific guidance, the risk is increased that inadequate documentation is maintained to support hiring decisions for non-tenure track faculty positions.</td>
</tr>
</tbody>
</table>

Recommendation

| Enhance the recruitment and retention handbook to include non-tenure track faculty member hires. Establish a training mechanism to ensure search committees, department heads, and administrative staff involved in the hiring process are aware of the requirements for both tenured/tenure-track and non-tenured track positions. |

Management’s Response

| The Office of the Dean of Faculties and Associate Provost will work with department heads and deans to resolve this issue. Specifically, the Office will revise the online handbook to include a section for hiring Non-Tenure Eligible faculty. The Office will revise the handbook by spring 2010 in consultation with department heads, deans, Council of Deans, and the Department Head Council. Once the handbook has been revised, it will be incorporated into the regular training process. |

| Implementation Date: May 31, 2010. |
BASIS OF REVIEW

Objective

The objective of the audit was to review and assess the University’s processes for the recruitment and retention of faculty and to determine the extent to which the processes are in compliance with applicable laws, policies, regulations, and University rules, to ensure that quality candidates are hired and retained in an effective and efficient manner.

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 University Rules; the Southern Association of Colleges and Schools, Faculty Credentials Guidelines; Texas Government Code, Chapter 656.001, State of Texas Records Retention Schedule; The Treadway Commission’s Committee of Sponsoring Organization’s Internal Control – Integrated Framework (COSO); and other sound administrative practices. The evaluation was performed in compliance with generally accepted government auditing standards and other criteria to conform to the Institute of Internal Auditors’ “International Standards of the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Texas A&M University employs over 2,600 faculty members holding tenured, tenure-track, and non-tenure track positions. The faculty recruitment and retention processes are administered through a coordinated effort between the Dean of Faculties Office and hiring departments. The Dean of Faculties Office administers hiring procedures, offers guidance for search and selection of candidates, provides approvals during the selection process, conducts Equal Employment Opportunity reporting, and verifies faculty credentials.
The hiring departments advertise the faculty employment opportunities, evaluate and select the candidates, and extend employment offers at search conclusions. There has been a 16% increase in faculty positions from fiscal year 2004 to the start of fiscal year 2009. The University spent over $244 million in faculty salaries for fiscal year 2008.
AUDIT TEAM INFORMATION

Auditors Assigned to the Review

<table>
<thead>
<tr>
<th>Sandy Ordner, CPA, Project Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aliza Dirden, CIA</td>
</tr>
<tr>
<td>Lori Ellison</td>
</tr>
<tr>
<td>Katie Rannebarger, CPA</td>
</tr>
</tbody>
</table>

Contact Information

For questions regarding this review, contact Charlie Hrncir, Director.

E-Mail: chrncir@tamu.edu
Phone: (979) 458-7100
Fax: (979) 458-7111
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System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

<table>
<thead>
<tr>
<th>Dr. R. Bowen Loftin, Interim President</th>
</tr>
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<tbody>
<tr>
<td>Dr. Jeffrey S. Vitter, Provost and Executive Vice President for Academics</td>
</tr>
<tr>
<td>Mr. Terry Pankratz, Vice President and Chief Financial Officer</td>
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<tr>
<td>Dr. Karan Watson, Vice Provost for Strategic Initiatives and Interim Vice President and Associate Provost for Diversity</td>
</tr>
<tr>
<td>Dr. Antonio Cepeda-Benito, Dean of Faculties</td>
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<tr>
<td>Mr. Charley Clark, Associate Vice President for University Risk and Compliance</td>
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</tbody>
</table>
PROJECT SUMMARY

Overview

The Texas Engineering Experiment Station (TEES) generally has processes and controls in place to provide reasonable assurance that human resources operations are being performed effectively and efficiently and in compliance with applicable laws, policies, regulations, and rules. Changes made by the Agency over the last several years have strengthened controls over human resources processes especially those in decentralized areas. However, more consistent and complete documentation of the staff hiring process is needed to better ensure this decentralized process is functioning as intended. Opportunities for further improvement were also noted in the areas of training, terminations, confidential information, and performance evaluations.

Overall, the results of our audit work indicate that the Agency’s Personnel Services Department has made significant strides in monitoring decentralized human resources processes and is working to further standardize these processes through expanded use of its recently implemented human resources management system. TEES employs approximately 450 employees with total budgeted salaries of more than $40 million. In addition, the Agency provides selected human resources services to Texas A&M University’s College of Engineering which employs approximately 500 employees with budgeted salaries totaling more than $50 million.

Summary of Significant Results

Staff Hiring Process

Staff hiring decisions made within decentralized units are not consistently supported by documentation from the hiring units. Instances were noted where certain hiring documentation was not available or was not completed in a timely manner by the hiring units/departments some of which is not specifically required by the Agency. Without adequate documentation of hiring processes, there is a greater risk that established procedures for identifying
and hiring the best-qualified candidates are not being followed and compliance with applicable laws, regulations, rules and procedures is not achieved.

Summary of Management’s Response

While significant strides in monitoring decentralized human resource processes have been made, TEES is committed to continuing to refine processes and enhance procedures as identified in this report.

Scope

The review of Texas Engineering Experiment Station human resources processes focused on hiring procedures, performance evaluations, position descriptions, merit increases, required training, workplace notices, termination procedures, nepotism, and security of confidential data. Audit tests did not include faculty with the exception of required training, termination procedures, and nepotism since these are areas where the faculty are administered by TEES rather than through the Provost Office at Texas A&M University. In addition, data analysis of selected payroll information was performed for potential anomalies. The audit reviewed activities at various units/departments within both TEES and the Texas A&M University College of Engineering from September 2007 to December 2008. Fieldwork was conducted in February and March 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Staff Hiring Process

Observation

Decentralized staff hiring decisions are not consistently documented to better ensure that the individual hired was the best candidate and that hiring decisions are being conducted in accordance with applicable regulations, rules and procedures. TEES provides guidance to hiring supervisors but does not require them to complete hiring training. In addition, there is no specific requirement for hiring units/departments to perform or document certain important steps in the hiring process. Thirty newly hired positions were selected for testing of which twenty were required to be posted. Exceptions identified from testing included the following:

- Fourteen of twenty (70%) hiring files for positions that required posting did not contain sufficient documentation to determine how the applicants were selected for interviews. In five cases, documentation was insufficient to determine how many applicants were interviewed. Additionally, six (30%) of these files did not contain adequate documentation ranking the candidates that were interviewed. TEES suggests that hiring supervisors develop a standard list of job-related, weighted screening criteria with which to evaluate applications to determine which ones they should interview. Personnel Services offers to assist hiring supervisors by providing examples of selection criteria and weighting methodologies. However, hiring files reviewed did not consistently contain documentation to demonstrate that this suggested procedure was performed.

- Thirteen of twenty (65%) hiring files for positions that required posting did not have documented interview questions and notes for all applicants interviewed. The TEES Staffing Guide instructs the hiring supervisors to develop a list of interview questions based on the position description prior to screening or reviewing the applications. The hiring supervisor is to ask all applicants the same basic set of questions. At the end of the interview process, the list of questions and any notes are required to be forwarded to Personnel Services. Without documentation of the interview questions and notes, the hiring supervisor is unable to
1. Staff Hiring Process (cont.)

demonstrate that the applicants were asked the same questions and that these questions were appropriate.

- Eleven of twenty (55%) hiring files for positions that were posted did not contain sufficient documentation of reference checks performed. The TEES Staffing Guide states that it is a “good idea” for hiring supervisors to conduct reference checks, and that any notes taken during the reference checks are to be turned in to Personnel Services at the end of the hiring process. In addition, one of the five hiring files for a vacant position requiring an advanced degree did not document that the applicant’s degree had been verified. Documentation of reference checks and verifications performed would also better ensure compliance with Section 5.2 of A&M System Regulation 33.99.01, Employment Practices, which states that references and other job-related credentials “should” be verified before an offer of employment is made.

- Five of thirty (17%) hiring files tested indicated that the applicant’s criminal history background check was not completed prior to their hire date. According to the TEES Staffing Guide, a criminal history background check must be performed prior to making an offer of employment. In addition, Section 2.1 of A&M System Regulation 33.99.14, Criminal History Record Information-Employees and Applicants, requires that every offer of employment be conditioned on receipt of an acceptable criminal history record information check.

- Seven of thirty (23%) hiring files tested had no signed acceptance of the offer by the employee. The TEES Staffing Guide suggests all offers be confirmed in writing with written confirmation of acceptance from the applicant.

TEES implemented the PeopleAdmin software program in January 2008 to help manage the hiring process. For instance, this program allows the hiring supervisor to enter brief descriptions from a drop down menu to explain why an applicant was not hired; however, it does not currently have capabilities to allow them to rank the applicants and interviewees. Additionally, hiring supervisors are not yet using the program consistently in some areas such as indicating which applicants were interviewed for the position. Additional training of hiring supervisors and continued efforts to expand the use of the PeopleAdmin software could assist Personnel Services in gathering the necessary hiring information from decentralized hiring units/departments in a timely manner.
Recommendation

1. Staff Hiring Process (cont.)

<table>
<thead>
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<th>Recommendatio n</th>
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<tr>
<td>Revise current TEES human resources procedures to require completion and</td>
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<td>documentation of all hiring processes necessary to ensure that the best qualified</td>
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<td>candidates are being hired and that hiring processes are being conducted in</td>
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<tr>
<td>accordance with applicable regulations, rules and procedures.</td>
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<tr>
<td>Provide additional training to hiring supervisors regarding the overall</td>
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<td>hiring process requirements including required documentation and proper and</td>
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<tr>
<td>consistent use of PeopleAdmin.</td>
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<tr>
<td>Enhance the current monitoring program by increasing efforts to promote and</td>
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<tr>
<td>verify compliance with hiring procedures. Organize hiring documentation and</td>
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<tr>
<td>standardize the location of this information to the extent possible to better</td>
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<tr>
<td>facilitate the monitoring process.</td>
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<tr>
<td>Continue exploring the possibility of utilizing additional automated controls</td>
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<tr>
<td>within PeopleAdmin to require receipt of certain hiring documentation before the</td>
</tr>
<tr>
<td>new employee can be processed for payroll.</td>
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</table>

Management's Response

TEES Personnel Services will revise the Staffing Guide and online employment user's manual regarding the documentation of hiring processes by August 31, 2009.

During the next compliance monitoring review which will be completed by February 28, 2010, compliance with hiring procedures will be verified.

By November 30, 2009, training will be developed for hiring supervisors regarding the hiring process requirements. Hiring supervisors will attend this training by August 31, 2010.

By August 31, 2009, the utilization of PeopleAdmin to increase documentation controls will be reviewed and alternative ways to organize and standardize the location of hiring documentation will be considered.
2. Required Training

Observation

System regulations identify five training courses for all System employees to complete upon hiring of which four must be retaken on a periodic basis. These training courses are:

- Creating a Discrimination-Free Workplace
- Ethics
- Information Security Awareness
- Orientation to the A&M System
- Reporting Fraud, Waste, and Abuse

Each of the training courses are available on the Texas A&M University System’s web-based TrainTraq system. Overall completion of required training in these five areas ranged between 83% and 91% as follows:

<table>
<thead>
<tr>
<th>Employee Type</th>
<th>Creating a Discrimination Free Workplace</th>
<th>Ethics</th>
<th>Information Security Awareness</th>
<th>Orientation to the A&amp;M System</th>
<th>Reporting Fraud, Waste, and Abuse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Worker</td>
<td>90%</td>
<td>90%</td>
<td>88%</td>
<td>90%</td>
<td>89%</td>
</tr>
<tr>
<td>Staff</td>
<td>92%</td>
<td>89%</td>
<td>85%</td>
<td>94%</td>
<td>87%</td>
</tr>
<tr>
<td>Faculty</td>
<td>76%</td>
<td>74%</td>
<td>73%</td>
<td>90%</td>
<td>73%</td>
</tr>
<tr>
<td>Combined</td>
<td>88%</td>
<td>88%</td>
<td>86%</td>
<td>91%</td>
<td>83%</td>
</tr>
</tbody>
</table>

The TrainTraq system sends reminder emails on a monthly basis to all employees who have outstanding assignments. In addition, Personnel Services has made great efforts to increase compliance numbers. For instance, Personnel Services monitors TrainTraq data and sends separate reminders to employees when they are more than 30 days past their training due date as well as quarterly reports of these individuals to the unit/department and senior management for corrective action. As these programs are mandatory, further efforts are needed to continue improving these overall numbers for compliance with System regulations and state laws.
2. Required Training (cont.)

**Recommendation**

Initiate additional management incentives to encourage employees to accomplish required training as needed. For instance, establish a formal performance goal/measure to establish the Agency’s support for completion of required training and include this goal on employee and supervisor performance evaluations.

Coordinate with the Texas A&M University Human Resources Department, which recently began working with the University’s Dean of Faculties, to develop a process to improve the completion rates for faculty.

To the extent there may be circumstances that preclude an employee from taking a required training course, provide a means of documenting the situation and alternative ways to achieve the goal of the training.

**Management’s Response**

Completion of training courses is currently monitored and reported to the divisions. By August 31, 2009, an analysis of training completion will be conducted and a threshold will be determined. This report will be communicated by November 30, 2009 to the Associate Agency Director for Academic Affairs or the Deputy Director in an effort to increase completion rates. Extraordinary circumstances and alternate means to achieve compliance will be documented.

TEES will work with Texas A&M University Human Resources Department as they implement their recommendations for accountability, performance, compliance, and related consequences relative to mandatory trainings for faculty, staff and student employees.

3. Termination Out-Processing

**Observation**

Terminated employee files do not consistently include completed out-processing checklists.

TEES has developed a comprehensive out-processing checklist to ensure the return of Agency and University property and the timely removal of access to physical facilities and information resources. However, twenty-six of thirty (87%) terminated employees tested did not have a copy of the completed checklist included with their personnel file making it difficult to determine whether the termination process was correctly completed for these employees. Additional
3. Termination Out-Processing
(cont.)

verification steps performed indicated that most of the out-processing steps were completed with the exception of the following:

- Two of thirty (7%) terminated employees did not have their employee payroll action routing report completed in a timely manner.

- Two of eight (25%) terminated employees who had been granted lab access did not have their access inactivated or removed.

- Five of eighteen (28%) terminated employees who had been issued keys either did not return their keys or had no documentation to verify that the keys were returned.

In some cases, the timeliness with which out-processing steps were taken could not be determined, such as removal of the employee’s access to the TEES EPIK Portal. This is the Agency’s Intranet containing research project information and various other administrative forms and reports. TEES personnel indicated that a new online account request system is currently being implemented which could include a log of when user access to EPIK is activated or deactivated. In addition, the current out-processing checklist does not contain a step to perform an exit interview with the employee as a means to gain valuable information about ways to further improve employment at the Agency and University.

**Recommendation**

Require units/departments to complete the TEES out-processing checklist and retain it in the terminated employee’s file. Instruct departments to include responses for each out-processing step on the checklist to indicate its completion or otherwise notate that the step was not applicable. In addition, advise the units/departments to further document actions taken as needed such as by including notations indicating who completed the step as well as the date the action was taken. Monitor for proper completion and retention of out-processing checklists as part of the ongoing monitoring program.

Continue developing and implementing the new online account request system to include the ability to capture activation and deactivation times/dates to the TEES personnel database EPIK portal.

Consider including a step on the out-processing checklist to complete an exit interview with the employee or to provide the employee with the option of completing an exit survey.
Management's Response

3. Termination Out-Processing (cont.)

By August 31, 2009, the employee out-processing checklist will be enhanced to include certification dates, signatures, and the option of an employee exit survey. Divisions will be instructed through training to provide a completed out-processing checklist with payroll out-processing documents.

Proper completion of the out-processing checklist will be reviewed during the compliance monitoring to be completed by February 28, 2010.

Effective February 28, 2009, an online account request system was implemented which includes a deactivation date for the EPIK Portal.

4. Confidential Information

Observation

During testwork it was noted that manual employee personnel files were well secured. However, two areas were noted where confidential or personally identifiable employee information could be better protected as follows:

- TEES’s current service agreement with PeopleAdmin was executed by the Texas Engineering Extension Service (TEEX) in 2004. This agreement does not contain sufficient language to ensure that TEES confidential employee data is adequately protected or that the vendor will be responsible/liable in the event that this data is lost while in their possession. For instance, there are only very vague references to how the data will be protected and the agreement specifically precludes any damages against the vendor arising from any breach, unauthorized access, misuse of, or intrusion into TEES's data residing on the vendor’s equipment. In addition, this agreement does not comply with TEES Information Resources Security Procedure - Vendor Access which requires stipulations in the agreement indicating how TEES information is to be protected by the vendor and acceptable methods of return, destruction, or disposal of TEES information at the end of the contract.

- Although testing indicated that manual employee personnel files are adequately secured, nineteen of thirty (63%) personnel files tested contained unneeded confidential or personally identifiable data including instances of social security numbers, driver’s license numbers, medical information, or direct deposit information. TEES has provided specific guidance to the
4. Confidential Information
(cont.)

Documentation of employee performance evaluations was not consistently in compliance with TEES requirements; however, it does not directly address what is considered unnecessary confidential or personally identifiable information that should be excluded or removed from the files.

TEES may be at risk of liability and bad publicity in the event that confidential or personally identifiable data being hosted by PeopleAdmin or retained in personnel files is exposed or otherwise misused. In addition, System Regulation 31.03.02 requires that employee medical records be filed in a confidential medical file, separate from the employee's personnel file.

Recommendation

Attempt to amend the current agreement with PeopleAdmin to include the necessary stipulations regarding protection of confidential TEES data as well as appropriate language regarding responsibility and liability for any unauthorized exposure of this data. Otherwise make these changes during the next renewal period for this agreement. Ensure the revised agreement is in compliance with TEES Information Resources Security Procedure - Vendor Access 24.99.99.E1.17.

Provide additional guidance to departments regarding the type of confidential or personally identifiable data that should no longer be retained in the personnel files. Increase monitoring efforts in this area as part of the ongoing monitoring program.

Management’s Response

By August 31, 2009, revised contract language will be presented to PeopleAdmin to ensure protection of confidential data.

A TEES Personnel Services Memo about the protection of confidential data will be sent by August 31, 2009.

Personnel files will be reviewed for confidential data during the compliance monitoring to be completed February 28, 2010.

5. Performance Evaluations

Observation

Documentation of employee performance evaluations was not consistently in compliance with TEES requirements.

Testing of performance evaluations for thirty employees indicated overall compliance with stated TEES requirements with the exception of the following:
5. Performance Evaluations (cont.)

- Five of thirty (17%) evaluations did not document the reasons for the highest and lowest rankings on the employee’s evaluation.

- Six of thirty (20%) evaluations did not include written objectives or goals.

TEES guidance provided to unit/departmental supervisors indicates that written comments be provided when giving employees either the highest and lowest rankings on their evaluation. In addition, the TEES Staffing Guide requires that supervisors and employees review objectives set during the previous performance appraisal and discuss how these objectives have been met.

Recommendation

Regularly monitor performance evaluations as part of the ongoing monitoring process for compliance with TEES performance evaluation requirements. Provide additional training as needed.

Management’s Response

TEES will continue to review performance evaluations for proper completion and timeliness during the annual compliance monitoring efforts completed by February 28, 2010. Performance evaluation requirements will be reiterated to supervisors throughout the fiscal year 2010 evaluation cycle concluding on May 31, 2010.
BASIS OF REVIEW

Objective

The overall objective was to analyze the Agency’s management processes for human resources to determine if strategic and operational results and outcomes are achieved in an efficient and effective manner and to determine compliance with laws, policies, regulations and Agency 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, Texas Engineering Experiment Station Rules, Texas A&M University Rules, Texas Engineering Experiment Station’s Staffing Guide, various other human resources guidelines published by the Texas Engineering Experiment Station and Texas A&M University, federal and state laws, and other sound administrative practices. This audit was performed in compliance 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

TEES’ Personnel Services department has approximately eight full-time equivalent employees who oversee the human resources functions for the Agency as well as many of the human resources functions for Texas A&M University’s College of Engineering. In addition, the department performs some limited human resources functions in conjunction with the Texas Transportation Institute. The Agency’s human resources function is mostly decentralized in that most of the human resources processes are performed at the unit/department level. The Personnel Services department provides guidance and training to the units and performs ongoing monitoring of the units for compliance. The majority of TEES’ employees are based in the Bryan/College Station area; however, some employees
may work in research labs in Austin, San Antonio, and various other areas. TEES has approximately 450 employees; however, it also oversees selected human resources functions for approximately 500 employees within the Texas A&M University’s College of Engineering. In addition, TEES provides benefits services to the more than 400 employees at the Texas Transportation Institute.
AUDIT TEAM INFORMATION

Auditors Assigned to the Review

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| Holly Blue, CPA |
| Mark Heslip |

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| Mr. Damon Slaydon, Director of Personnel Services |
PROJECT SUMMARY

Overview

The Texas Transportation Institute’s (TTI) processes for research administration provide reasonable assurance that the Agency is generally in compliance with applicable laws, policies, regulations, and rules. Some improvements can be made regarding certifying conflicts of interest, managing cost sharing, making contract changes timely, and tracking human subject research.

A Texas A&M University System initiative is underway to implement an effort reporting system for members who are involved in research. Currently, several members, including the Texas Transportation Institute, do not have the ability to certify 100% effort for employees with a dual appointment to another member. The new effort reporting system began accumulating data on January 1, 2009. The first certifications are scheduled to be performed starting July 1, 2009. Since a certification has not been performed, we were not able to review the effectiveness of this system.

Summary of Management’s Response

Management concurs with the recommendations detailed in the audit report. Implementation of the recommendations will enhance existing research administration procedures. All recommendations have been implemented with the exception of adopting a new member rule governing conflict of interest in research. The new rule will be in place by December 31, 2009.

Scope

The review focused on sponsored agreements administered by the TTI Research Development and Project Accounting Offices. The review included both pre-award and post-award activities. The period of review was from September 1, 2007 through December 31, 2008. Audit fieldwork was conducted in February and March, 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Conflicts of Interest

Observation

TTI lacks a standard administrative procedure on the handling of conflicts of interest.

TTI has not established a standard administrative procedure to address how conflicts of interest should be disclosed, reviewed, and managed. Currently, principal investigators (PIs) sign the proposal routing sheet to certify that they agree to comply with the Texas A&M University System regulation on conflict of interest, in addition to other System regulations and federal requirements. However, PIs do not have to provide positive assurance that they have or do not have a conflict of interest.

System Regulation 15.01.03, Conflict of Interest in the Design, Conduct and Reporting of Sponsored Research and Educational Activities, specifically applies to research conducted under contracts and grants with the National Science Foundation and the Public Health Service but may be extended by the member’s chief executive officer to apply to all sponsored research. Section 3.1 further states that even the possibility of a potential conflict should be noted and disclosed no later than the time of proposal submission.

Without proper disclosures there could be damage to the Agency’s reputation with research agencies resulting in significant loss of research funding. In addition, there could be noncompliance with federal laws and regulations related to conflicts of interest.

Recommendation

Establish member rules and procedures that address how conflicts of interest will be disclosed, reviewed, and managed. Require that PIs report any potential conflict of interest during the proposal stage and thereafter if any unreported conflicts arise. Require annual conflict of interest disclosures which can be incorporated into the annual employee evaluation process.

Management’s Response

Procedures have been established that a) require PIs to provide positive assurance that they do or do not have a conflict of interest during the proposal stage; b) require PIs to report any conflict of
1. Conflicts of Interest (cont.)

Proposals containing cost sharing are not routinely examined by Project Accounting and separate cost sharing accounts are not always created.

interest that arises thereafter; c) require PIs to provide positive assurance that they do or do not have a conflict of interest at annual performance evaluations; and d) require supervisors to review conflict of interest disclosures and report to the Agency Director how conflicts of interest are being managed. In addition, these procedures will be formalized through the development of a member rule on conflict of interest. This TTI rule will be in place no later than December 31, 2009.

2. Cost Sharing

Observation

Proposals and contracts containing cost sharing requirements are not routinely examined by Project Accounting prior to submission to the sponsor. The proposal routing sheets currently go the Executive Associate Agency Director for approval. Without having proposals or contracts involving cost sharing reviewed by Project Accounting, the Agency could propose or commit to cost sharing which is not available. At one time, proposals did route through Project Accounting but this practice was discontinued because of perceived time constraints.

Separate accounts had not been established to record cost sharing for the three projects in our sample of 15 which contained cost sharing. All three projects are considered nonstandard cost sharing projects (i.e., cost sharing provided by a third party). For sponsored projects where the Agency agrees to share in the cost of the project, a separate account must be created to account for the funds (System Regulation 15.01.01, Administration of Sponsored Agreements – Research and Other, section 11.5). This is necessary to ensure that the funds are available, properly captured in the accounting system, and are not used as cost sharing on more than one project.

Recommendation

 Require that proposals and contracts containing cost sharing are reviewed by Project Accounting prior to submission to the sponsor. Establish separate accounts in which to record all cost
2. Cost Sharing (cont.)

A few instances were identified where contract changes/requests were not always processed promptly.

Management’s Response

When a proposal or contract contains cost sharing, TTI currently requires PIs to submit a letter through the organizational structure to the Agency Director that outlines the requirement for cost sharing, the benefit to the institution and the source of support for the cost sharing. This letter will be sent to the Director of Project Accounting for preliminary review and concurrence prior to the approval of the Agency Director. All future proposals containing cost sharing will be routed to the Director of Project Accounting for review and approval prior to submission to the sponsor. Upon award of a contract, project accounting staff will set up separate accounts to track the cost sharing to ensure that the related contract requirements are met. Procedure manuals have been updated to reflect these changes.

3. Timeliness of Contract Changes

Observation

For two of the fifteen projects reviewed, delays were identified in the processing of cost modifications and overages. One of the modifications took over four months to process and the other over one month. In both instances, the failure to obtain the approval for modifications did not affect the project. However, without a process in place to log and monitor all change requests, the likelihood exists that such requests could go unaddressed and negatively impact the projects.

Recommendation

Log and monitor all requests for changes to projects to help ensure that these are addressed promptly. Document any delays.

Management’s Response

A process to time stamp incoming change requests is in place. Staff members have been trained to use the time stamp and document any delays.
4. Human Subject Research

Observation

During the audit period, the Agency was in the process of expanding their existing project tracking system to include information that would allow them to better monitor items related to human subject research. One such item is obtaining Institutional Review Board (IRB) approval before research involving human subjects is initiated as required by System Regulation 15.99.01, Use of Human Participants in Research. However, not all employees were aware of the changes and, as a result, several fields had not been populated including the due date for IRB approval. If the due dates for IRB approval are not tracked and reminders are not sent to those involved, the possibility exists that the protocol will not be reviewed by the IRB prior to starting the human subject portion of the project. Based on our findings, the Agency immediately began a review of existing projects to ensure that all required information had been captured.

Recommendation

Provide training to all staff members on the new features of the project tracking system related to human subject research. Complete the review of active projects to ensure that all needed information has been captured.

Management's Response

All staff members have been trained on the new features of the project tracking system related to human subject research. The review of active projects was completed in mid-March 2009.
BASIS OF REVIEW

Objective

The objective was to review research administration to determine if resources are used efficiently and effectively and in compliance with laws, policies, regulations, and Agency 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; the Treadway Commission's Committee of Sponsoring Organization’s Internal Control-Integrated Framework (COSO), U.S. Government's OMB Circulars A-21 and A-110, and other sound administrative practices. This audit was performed in compliance 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

At TTI, research administration is divided into two areas: the Research Development Office and Project Accounting. The Research Development Office is responsible for pre-award activities, which include proposal preparation through contract negotiation. They are also the liaison for all changes on Texas Department of Transportation (TxDOT) projects. Project Administration is responsible for all post-award activities. This includes project establishment in the Financial Accounting Management Information System, compliance monitoring of project activity, sponsor billings, and project close out.

In 2008, TTI was awarded contracts totaling approximately $64 million with approximately $43 million from TxDOT programs. TxDOT provides the majority of funding for the Agency, though concerted efforts have been made to find other funding sources so the reliance on TxDOT will not be as great.
AUDIT TEAM INFORMATION

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PROJECT SUMMARY

Overview

Overall, the property management processes at the Texas A&M University Surplus Property Office (Surplus) provide reasonable assurance that surplus property is safeguarded and disposed of efficiently and effectively and in compliance with relevant laws, policies, regulations, and University rules. While Surplus’ property management controls have improved, they do not ensure that non-inventory and computer equipment items are accounted for from receipt at Surplus to final disposal. Consequently, the audit could not confirm the disposal of individual computer equipment and non-inventory items. Consequently, the audit could not determine if all sales of non-inventory items have been accounted for. Management has considered this risk and is in the process of determining whether the benefit of additional controls in this area would justify the cost. The audit also found that Surplus’ cash receipting processes do not ensure timely deposits in accordance with state law and System policy.

The Surplus Property Office’s auction sales revenue has increased significantly due to Surplus’ implementation of more innovative (online) sale methods that bring in more money per item sold. For example, approximately 1,000 bikes were sold for approximately $17,000 in fiscal year 2008 while approximately the same number was sold for approximately $3,000 in fiscal year 2007. The recently improved scrap metal and recycling program has increased scrap metal sales revenues from $3,000 to $27,000.
Summary of Management's Response

Management concurs with the recommendations detailed in the audit report. Implementation of the recommendations in the audit report will enhance existing Surplus Property procedures. Efforts are currently underway to implement the recommendations as outlined in the report.

Scope

The review of surplus property focused on chain of custody controls for inventory, non-inventory and controlled assets, revenue management and customer satisfaction processes for the period September 1, 2007 to November 30, 2008.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Chain of Custody Controls

Observation

The chain of custody controls over non-inventory and computer items may not be adequate.

While Surplus’ property management processes have sufficient chain of custody controls to account for surplus capital items from receipt at Surplus to the auction sales report or external party’s custody, the processes do not provide the same level of controls for non-inventory and computer equipment items. For example, while Surplus documentation showed computer equipment as having been collected by the Texas Department of Criminal Justice (TDCJ), the documentation signed by TDCJ’s personnel did not show an individualized list of the items collected but rather the number of pallets of computer equipment. Thus, Surplus management could not verify and the audit could not confirm the transfer of individual computer equipment to TDCJ’s custody. This elevates the risk that some computer equipment may not be disposed of in the manner shown on Surplus’ records.

Additionally, while Surplus’ property management processes track non-inventory items that are sold through online auction, the process does not track non-inventory items disposed of by other means, such as departmental transfer or scrap. Surplus management stated that the difference in the level of controls is derived from the item’s perceived value. If a non-inventory item is expected to sell for a good price, it is assigned a lot identification number and sold via online auction while those with low perceived value are not individually tracked. Consequently, the audit could not determine if all sales of non-inventory items had been accounted for by Surplus. Management indicated that the value of individual non-inventory items has not justified tracking individual items.

Finally, Surplus’ processes do not provide in a consistent manner independent confirmation of assets that are scrapped. Fifty-three percent (9 out of 17) of scrapped items tested did not have evidence of independent confirmation that the item was scrapped. The relevant chain of custody forms (Form FDP 414, Property Additions and Deletions) for these nine items did not have a second signature as required.
Recommendation

1. Chain of Custody Controls (cont.)

Surplus management should improve chain of custody controls by:

- Having the TDCJ custodian sign for the list of computer equipment rather than the number of pallets of computer equipment collected.

- Developing and implementing formal guidelines on tracking decisions related to non-inventory items. The threshold on what is tracked should be based on what is cost beneficial to the University.

- Requiring Surplus personnel to complete the FDP 414 forms in a consistent manner, to ensure the form functions as an effective internal control mechanism.

Management's Response

In reference to bullet point one, Surplus will purchase a software solution that will assist in documenting the change of custody from Texas A&M to TDCJ. The software is anticipated to be installed by August 31, 2009. The software is anticipated to be used at its full functionality by November 30, 2009.

In reference to bullet point two, management will develop formal guidelines that will assist Surplus personnel in determining the threshold at which non-inventory items will be tracked in accordance with what is cost beneficial to the University. The guidelines will be documented and in use by August 31, 2009.

In reference to bullet point three, management will make the internal procedural change to require two signatures on the FDP 414, Property Additions and Deletions, disposal form. This process will be in place by August 31, 2009.

2. Cash Receipts

Observation

Surplus’ cash receipting processes do not ensure timely deposit in accordance with A&M System Regulation 21.01.02. Thirty-five percent (6 out of 17) of the receipts tested were not deposited timely. Three out of the six also did not comply with state law, Section 51.003, Texas Education Code, which requires receipts to be deposited within seven days of the original date of receipt. The timeliness of the deposits tested ranged from 1 day to 16 days,
2. Cash Receipts (cont.)

with an average of 4 days. Surplus reported fiscal year 2008 cash sales of approximately $8,000. These cash sales were mainly comprised of bike sales which generally occur from September to December of each year.

**Recommendation**

Improve compliance with state law and A&M System regulation by making deposits within the required timeframe.

**Management’s Response**

Management will train personnel on the cash receipting processes in accordance with A&M System Regulation 21.01.02 as well as monitor for compliance.

To be completed by August 31, 2009.

3. Member Approval of Online Auction Sales

**Observation**

Surplus processes do not ensure System member approval is obtained for all online auction sales, in accordance with Surplus internal procedures. There was no evidence of prior approval for 16% (6 of 37) of the online auction sales tested. Surplus management indicated that this was due to a procedural error. Seeking member approval before selling an item online ensures that the member is aware of the sale and there are no contractual obligations that would preclude Surplus from selling the item.

**Recommendation**

Improve compliance with Surplus’ internal procedures by ensuring the A&M System member approval is on file before each item is submitted for online auction sale.

**Management’s Response**

Management will modify internal procedures to verify member approval is on file before submission for online auction.

To be completed by August 31, 2009.
4. Customer Satisfaction

Observation

While Surplus’ management works closely with property managers from University departments, System Offices and A&M System agencies, it has not formally sought feedback from customers on the quality of its services. A formal customer satisfaction survey could identify areas requiring improvement. The general consensus from discussions with several of A&M System’s property managers was that while the quality of Surplus’ services has improved over the last couple years, there are opportunities for improvement in the turnaround of transfer documentation. A more timely turnaround of the transfer documentation to signify Surplus’ receipt and/or disposal of the items would result in more timely deletions of disposed items and more manageable System member inventory records.

Recommendation

Obtain feedback from System members by conducting a formal customer satisfaction survey in order to identify customer concerns and make changes that will make the system work more effectively.

Management’s Response

Management will conduct periodic customer satisfaction surveys to assist the Surplus Property Office in identifying customer concerns. The first survey will be developed and completed by August 31, 2009.
BASIS OF REVIEW

Objective

The overall objective was to review and assess the University’s controls and processes over surplus property to provide reasonable assurance that it is properly safeguarded and administered in compliance with relevant laws, policies, regulations, and University 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 performed in compliance 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

With an annual operating budget of approximately $100,000 and two employees, Surplus’ primary focus is to refurbish and transfer surplus property from University departments and System members to others in the A&M System, TDCJ (for computers), school districts and the general public. Surplus disposes approximately 5,500 computers and data processing equipment, 1,000 bicycles, 100 vehicles, and numerous pieces of other equipment and furniture. Surplus retains 10% of all net proceeds from sales.
AUDIT TEAM INFORMATION

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PROJECT SUMMARY

Overall, Texas A&M University has an effective system for monitoring National Collegiate Athletic Association (NCAA) compliance. The University has an established Athletic Compliance Office dedicated to enhancing compliance with NCAA Bylaws for twenty varsity sports (nine men’s, eleven women’s) which represent approximately six hundred thirty student-athletes. The Athletic Compliance Office has a direct reporting line to the Texas A&M University president. Several University departments, including the Athletic Compliance Office, the Athletic Department, and the Student Financial Aid Office, provide NCAA compliance activities for the areas reviewed.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Student-Athlete Employment

Observation

Changes in staff responsible for monitoring student-athlete employment over the last three years has resulted in a weakened control system. Effects of the weakened system include:

- Employment documentation for 8 of 21 (38%) student-athletes tested was incomplete or unavailable. Follow-up processes performed for employer verifications and/or spot checks not completed on the initial attempt were not documented. Incomplete or unavailable documentation and undocumented follow-up on open issues pose an increased risk to the University in demonstrating adherence to established policies and procedures and compliance with NCAA Bylaws. The Athletic Compliance Office Student Athlete Employment and Related Procedures for Monitoring NCAA Compliance manual states that Athletic Compliance personnel are to “document efforts to resolve missing information, address potential noncompliance, and responses received in either the athlete’s file or an investigation file.”
- Student-athlete employers are not educated on the NCAA Bylaws related to employment of student-athletes prior to or at the start of employment. In the past, educational information regarding student-athlete employment had been provided to potential employers prior to employment of student-athletes; however, the practice was discontinued. Employers who are not educated on the NCAA Bylaws pertaining to student-athlete employment may not be cognizant of the applicable regulations or penalties that can result from violations of the bylaws.

- Two procedure manuals, one detailed and one summarized, are used by the Athletic Compliance Office to establish guidelines for student-athlete employment. The detailed manual has not been updated since September 2006 while the summarized manual has not been updated since May 2007. The detailed manual references obsolete forms, includes titles of employees no longer affiliated with student-athlete employment, and does not include specific processes for completion of spot checks and employer verifications if not completed on the initial attempt. The summarized manual was developed as a means to relay specific procedures to compliance staff, such as interns or student workers, who assist with verifying student-athlete employment and includes outdated materials and incomplete procedures similar to that identified in the detailed procedures manual. The existence of two separate manuals with outdated information is ineffective for an employee attempting to fulfill job requirements in the absence of another employee. In addition, if both manuals are not updated simultaneously, confusion resulting in errors and/or omissions in processes may occur.

A strong control system over employment of student-athletes reduces risks of noncompliance with Athletic Compliance Office procedures and NCAA Bylaws. Components of an effective control system include a strong monitoring function, education of individuals, both internal and external, involved in employment of student-athletes, and a current, comprehensive procedures manual.

**Recommendation**

Strengthen the current student-athlete employment monitoring process by ensuring forms utilized by student-athletes, student-athlete employers, and Athletic staff responsible for monitoring of student-athlete employment are completed and filed for evidence of adherence to NCAA Bylaws. Follow up and document the resolution to open issues in a timely manner.
Provide documentation of NCAA Bylaws governing student-athlete employment and possible penalties which could be inflicted upon the student-athlete and the University to employers listed on athletes’ pre-vacation and/or post-vacation forms and academic year employment forms. Educational material should be sent in a timely manner after submission of the employment forms.

Consolidate the two procedures manuals for student-athlete employment into one manual. Update the manual to reflect current forms used (both online and paper form), practices followed, and employees responsible for performing those requirements. Include specific guidelines for spot checks and employer verifications and alternate procedures should either of these venues fail to provide student-athlete employment verification. Review the manual regularly and update as necessary.

Management’s Response

Management concurs with the recommendations. The consolidation of the two procedures manuals has been completed. Policy and procedures have been added to strengthen the monitoring of student-athlete employment which includes enhancement of the spot check guidelines, employment verification follow up, and documentation concerning resolution of any open issues. These procedures will be in use by the institution for monitoring summer 2009 student-athlete employment. Finally, educational materials have been created and will be distributed to employers as part of the summer 2009 employment program.

2. Sufficiency of Athletic Compliance Staff

Observation

In a comparison of Big XII Conference universities, Texas A&M University has the greatest number of enrolled student-athletes and one of the smaller Athletic Compliance Office staff. Full-time Athletic Compliance employees ranged from three to eight with Texas A&M University having four full-time staff. Student-athletes enrolled at other Big XII Conference universities ranged from 375 to 630 with Texas A&M University having the greatest number at 630 students-athletes. In addition, Texas A&M University has the largest student-athlete to full-time Athletic Compliance staff ratio of all Big XII universities at approximately 158 athletes per compliance staff member with the University of Missouri being second with approximately 129 athletes per compliance staff member. Texas A&M University has an average of approximately 55 more student-athletes per Athletic Compliance full-time staff as...
compared with the other Big XII universities. The current Athletic
Compliance staff has successfully maintained compliance with
NCAA Bylaws with the most recent major infraction having
occurred in 1994. Because of this success rate, a need for
additional Athletic Compliance staff has not been assessed. A
limited Athletic Compliance staff size with a large number of
student-athletes coupled with increasing NCAA Bylaw
complexities could result in the occurrence of infractions that are
either not detected or not detected timely. In addition, the loss of
any of the current full-time Athletic Compliance staff for an
extended period would adversely affect operations.

Recommendation

Perform a formal work-load study to ensure that the current
staffing level of the Compliance Office is reasonable for the
University to continue to maintain an effective compliance
program.

Management’s Response

Management concurs with the recommendation made by the audit
team. Management believes demands on the Athletic Compliance
Office warrant an additional staff member immediately. Therefore
a request for an additional staff member has been included as part
of the 2010 budget review process. Additional review of staffing
levels will be performed as part of an internal work-load study
which will be completed by May 31, 2010.

BASIS OF REVIEW

Objective and Scope

The overall objective was to review and assess the adequacy of
the University’s NCAA rules compliance program for selected
compliance areas. The NCAA requires that each Division I
member have its rules compliance program evaluated at least
every four years by an authority outside the Athletic Department.
Recently, the Big XII Conference retained The Compliance Group
to perform these external compliance program reviews at
conference members on a rotating basis; one of which was
completed in February 2007 for Texas A&M University. This audit
served to provide continued review with focus on specific areas to
enhance coverage. The internal audit review focused on student-
athlete financial aid, student-athlete employment, amateurism,
avcademic performance program and athletic compliance staffing.
The audit focused on activities from December 31, 2007 through
December 31, 2008, although some activities outside this time period were examined as necessary. Fieldwork for this audit was conducted from February through March, 2009.

Criteria

Our audit was based upon standards as set forth in the 2008-2009 NCAA Division I Manual. This audit was performed in compliance with the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing”.

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Texas A&M University is a member of the NCAA and competes on the Division I level as a member of the Big XII Conference. Texas A&M sponsors twenty varsity sports (nine men’s, eleven women’s) which represent approximately six hundred thirty student-athletes. The Athletic Department’s mission statement states “Texas A&M Athletics is committed to Building Champions through academic achievement, athletic excellence, and national recognition of our student-athletes, teams and programs. We provide our student-athletes with all the necessary tools for them to be Champions in their sport and in life. The integrity of our program is rooted in the tradition and spirit of Texas A&M to bring honor and distinction to our University.” Texas A&M maintains an Athletic Compliance Office that reports directly to the President and has four full-time staff members. The stated mission of the Compliance Office is to “conduct efficiently and effectively the business of intercollegiate athletic compliance as directed by the University’s president, the NCAA and the Big XII Conference.”
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PROJECT SUMMARY

The Texas Engineering Extension Service (TEEX) Human Resources Department has appropriate processes and controls in place, including a compliance-monitoring program that provides reasonable assurance that the Department’s mission is achieved and operations are performed effectively and efficiently and in compliance with applicable laws, policies, regulations, and rules. Opportunities to improve or enhance human resources processes were identified in the areas of position descriptions, terminations, and workplace notices.

In fiscal year 2008, the Agency had approximately 1,450 employees (530 budgeted, 80 student workers, and 840 wage employees) and combined salary, wages, and benefit expenses of approximately $45 million. The Human Resources Department had eight full-time employees and an operating budget of approximately $1 million in fiscal year 2008.

OBSERVATION, RECOMMENDATION, AND RESPONSE

Compliance Monitoring Program

Observation

Opportunities for improvement in the current compliance-monitoring program exist in the areas of position descriptions, terminations, and workplace notices.

TEEX’ Human Resources compliance monitoring program generally provides assurance of operational effectiveness and compliance with relevant laws, policies, regulations, and rules. Exceptions identified included the following:

- Four of thirty (13%) employee position descriptions requiring changes were not submitted to Human Resources within the required time period. TEEX Standard Administrative Procedure (SAP) 33.99.03.99-1, Performance Evaluations, states position description changes are to be sent by the supervisor to Human Resources within 30 days of the employee/supervisor evaluation meeting. In three of the four instances noted, the supervisor did not provide the updated
position description to Human Resources; in the remaining instance the position description was provided after the 30-day requirement. Position descriptions guide both employees and supervisors in their responsibilities for the position and in gauging whether those responsibilities are being met. Outdated position descriptions may result in employees failing to perform job-related duties and supervisors misjudging employee performance.

- For two of two (100%) employees terminated for cause, no documentation was maintained regarding notice provided to and approval obtained from the Texas A&M System Office of General Counsel (OGC) prior to the terminations. According to System Regulation 32.02.02, Discipline and Dismissal of Nonfaculty Employees, OGC must review and approve in advance any suspension without pay, transfer, demotion, reduction in salary, or dismissal absent exceptional circumstances. In the event exceptional circumstances prevent OGC review, OGC is to be notified as soon as possible after the action occurs. Human Resources management stated communication did occur via telephone between TEEX and OGC; however, no documentation was maintained. Changes in employee status resulting from disciplinary issues without involvement of OGC increases the Agency’s risk of litigation resulting from wrongful disciplinary actions and terminations.

- Information system access was not removed timely after termination for six of thirty (20%) terminated wage employees tested due to delinquent notice of the terminations from Human Resources to the Network Information Services (NIS) Department. The employees noted did not have access to confidential Agency information. Best practices state that information system access should be removed immediately after termination not to exceed a 30-day window. On average, notice was not provided from Human Resources to NIS of the terminations until approximately 39 days past the 30-day time frame. Delinquent removal of information system access from terminated employees increases the risk the former employee could access, remove, alter, or destroy data.

- The following exceptions were noted in regards to workplace notices:

  Eight of twelve (67%) TEEX facilities did not have Whistleblower Act notices posted.
Twelve of twelve (100%) TEEX facilities did not have the Spanish version of the Notice Regarding Certain Work Related Communicable Diseases posted.

Eleven of twelve (92%) TEEX facilities did not have the Spanish version of the Office of Injured Employee Counsel’s Ombudsman Program posted.

Eleven of twelve (92%) TEEX facilities did not have the Spanish version of the Notice to Employees Concerning Worker’s Compensation in Texas posted.

These postings are required by various governmental agencies including the Texas Department of Insurance and the United States Department of Labor. Management oversight of the requirement to display the aforementioned postings is a violation of both federal and state laws.

Recommendation

Enhance the current compliance-monitoring program to achieve greater operational effectiveness and compliance by implementing the following:

- Strengthen procedures over submission of revised position descriptions to Human Resources to promote compliance with the 30-day submission period as required by TEEX SAP 33.99.03.99-1.

- Maintain documentation of required communications between Human Resources and OGC concerning discipline and dismissal of employees as mandated by System Regulation 32.02.02.

- Provide timely notice from Human Resources to NIS of terminated employees so that information system access can be removed as soon as possible after termination, not to exceed 30 days. Information system access for terminated employees who have access to confidential information should be removed immediately after termination.

- Regularly monitor federal, state, and A&M System requirements for workplace notices to determine if all workplace notices are displayed and post new notices or changes in notices in a timely fashion. Consider posting workplace notices on the Agency intranet if all employees have access, giving consideration to posters such as the
Equal Employment Opportunity and Family Medical Leave Act notices which also protect job applicants who do not have access to the intranet.

Management’s Response

The process for obtaining updated position descriptions has been reviewed and will be revised to ensure compliance for the submission of revised position descriptions. This will be implemented no later than August 31, 2009.

The Office of General Counsel and TEEX Human Resources have developed a process whereby any suspension without pay, transfer, demotion, reduction in salary, or dismissal absent exceptional circumstances will be reviewed and approved according to System Regulation 32.02.02, Discipline and Dismissal, and in the case of exceptional circumstances the Office of General Counsel will be notified as soon as possible after the disciplinary action. The written documentation of these communications shall remain in the employee’s personnel file. This process has been implemented.

TEEX Human Resources has reviewed the current process for notification to Network and Information Services of the employees who are leaving employment. The process has been revised to provide for more timely notice so that information system access may be removed. This revised process has been implemented.

TEEX Human Resources has purchased and posted the required workplace notices in all locations. TEEX Human Resources will post those notices as required on the TEEX jobsite, www.teexjobs.com, as well as on the employee portal no later than August 31, 2009. This will be monitored annually.

BASIS OF REVIEW

Objective and Scope

The overall objective was to analyze TEEX management processes for human resources to determine if strategic and operational results and outcomes are achieved in an efficient and effective manner. In addition, systems were evaluated to determine if the Agency is in compliance with relevant laws, policies, regulations, and Agency rules. The review focused on hiring procedures, required training, performance evaluations, position descriptions, terminations, merit increases, instructor promotions, workplace notices, and payroll, nepotism, and grievance processes. Human resources processes were
reviewed for the period of September 2007 through September 2008. Audit fieldwork was performed during December 2008 and January 2009.

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 performed in compliance 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 TEEX Human Resources Department is to provide quality services and support in employment, training, employee relations, benefits, payroll, compensation and safety enabling employees to better serve their customers.

The TEEX Human Resources Department has eight full-time employees that centrally provide services to the seven TEEX divisions and the administrative unit. The Department is responsible for overseeing the Agency’s human resources functions including hiring, performance evaluations, employee relations, benefits administration, compensation, terminations, and training.
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PROJECT SUMMARY

The Texas Engineering Extension Service’s (TEEX) processes over financial management services provide reasonable assurance that resources will be used in an effective and efficient manner, and in compliance with applicable laws, policies, regulations and Agency rules. The Agency’s Financial Services division provides proactive guidance and oversight of the Agency’s decentralized financial management services’ activities to ensure they are performed effectively, efficiently and in compliance with requirements. The guidance includes comprehensive written procedures with standardized forms, employee training, and periodic reminders and instructions. Agency management has developed and implemented a compliance-monitoring program to periodically review the effectiveness of the Agency’s key controls and processes, making adjustments where necessary.

OBSERVATION, RECOMMENDATION, AND RESPONSE

Delivery Records Review

Observation

Delivery record reviews are not being performed in accordance with TEEX’s standard administrative procedures.

<table>
<thead>
<tr>
<th>Delivery Records</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery records serve as the single repository for all required student and financial information for a given class or technical assistance.</td>
</tr>
</tbody>
</table>

Division delivery record review processes do not ensure that 20% of the delivery records are reviewed, as required by TEEX standard administrative procedures. A test of delivery record reviews found no evidence that 33% (5 out of 15) of identified folders had been reviewed. The delivery record checklist either did not have an independent reviewer signature or was missing from the folder. The reconciliation of the contents of the delivery records is an important internal control that ensures that student/participant information and all revenues entitled to the Agency, related to each delivery, are accounted for and accurately recorded into the Agency Student Management System and the Financial Information System. The review of 20% of the class
folders is an important oversight control that serves to ensure that class folder reconciliations are performed. Not performing the reviews in a consistent manner reduces the effectiveness of the control. Agency management stated that the delivery records with missing signatures generally represented delivery records that had been returned to the relevant program office for additional information, but were not signed off by the independent reviewer after the issue was resolved.

Recommendation

Improve the current delivery record review process by requiring all reviewed checklists to be completed in full with reviewer signatures. When a checklist is returned to the program for correction or additional information, require the reviewer to follow up, resolve the issue, and sign off on the checklist.

Management’s Response

Management concurs with the recommendation to require all current delivery record review processes to be completed in full (to include the signature of the reviewer). The current TEEX Standard Administrative Procedure pertaining to delivery records will be reviewed and updated by August 31, 2009 to ensure that fulfillment of all independent review steps are a condition for review completion.

By August 31, 2009, the divisions of the Texas Engineering Extension Service will develop and implement a process for tracking the “return for action/correction” folders and subsequent resubmission of checklists identified as incomplete by the independent reviewer.

BASIS OF REVIEW

Objective and Scope

The overall objective was to evaluate the financial and management controls over the Agency’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 Agency rules. Financial management services include budgeting, receivables and disbursements, accounting and reporting, property management and payroll. The review focused on accounts payable, accounts receivable, delivery records, procurement card purchases, and receipting for the period
September 1, 2007 to November 30, 2008. Fieldwork was conducted from December 2008 to March 2009.

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 performed in compliance 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 TEEX financial management services function is decentralized between the Controller’s Office at TEEX Headquarters, which reports to the Chief Financial Officer, and the divisional business offices, which report to the relevant Division Head. Financial Services aims to provide “reliable financial information, quality financial services and relevant training in an efficient and effective manner to support the Agency’s mission.” The Controller’s Office has approximately eleven employees with an annual budget of approximately $2.6 million.
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Ms. Sue Shahan, Deputy Director
Mr. John Skrabanek, Associate Agency Director and Chief Finance Officer
Mr. James Thyne, Associate Agency Director
Ms. Carolyn Record, Controller
PROJECT SUMMARY

Overall, the enterprise risk management (ERM) processes at Texas AgriLife Research provide reasonable assurance that significant events that could adversely affect the accomplishment of key goals will be identified, evaluated appropriately and assigned appropriate mitigation and monitoring strategies. The broad categories of risks detailed in the risk matrix are in line with AgriLife Research’s Strategic Plan and it’s Compact with the A&M System. AgriLife Research has developed an ERM procedure and an ERM plan that provide guidance on the Agency’s underlying approach to risk management and assign responsibility to the senior management team and other key parties. AgriLife Research management has designed appropriate mitigation strategies and control activities to address the risks identified. Control activities include internal control reviews, business continuity plan, advisory committees, employee training, external agency reviews, and written procedures.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Employee Training

Observation

While Agency senior management communicated its ERM plan and ERM procedure to the unit heads, it has not provided them or their employees with training to assist in better understanding the Agency’s ERM processes and terminology. For example, to ensure common interpretation, unit heads could have been trained on the Agency risk appetite, risk response, and risk evaluation before being requested to submit information on them. The ERM processes should also aim to train all employees of their responsibilities in managing risk in their daily operations. Part of effective ERM processes is the recognition by employees that risk management is important and that they are expected to communicate significant risks upstream. In addition, sharing the
ERM processes helps emphasize that everyone in the organization is a “risk manager.”

Recommendation

Provide employees with training on the Agency’s ERM processes and the general concepts of risk management.

Management’s Response

A general description of AgriLife Research’s ERM processes as well as the general concepts of risk management will be placed on the Agency’s web page. This description will include definitions of relevant terms and will inform employees of their responsibility to manage risk in their daily operations and to communicate any significant risks to Agency higher management. An email informing all employees of this information and providing a link will be sent out when complete. This will help ensure that all employees understand the ERM process and the role they should play in that process. We plan to complete this by December 31, 2009.

2. Communication Debate Method

Observation

The Agency has improved the process by which it identifies and evaluates risk by involving (in fiscal year 2009) research directors and unit heads. However, while primarily using email as the method to gather risk information, the Agency did not benefit from bringing people together to discuss/debate risk and its management. With a debate format, new insights are identified and awareness of the nature of risks is raised. This type of method promotes and reinforces consistency and understanding by presenting a shared view of the most significant risks. It also enables management to assess risks relative to each other. For the fiscal year 2009 cycle, 39% (11 out of 28) of the unit heads responded with risk information. Four of the ten interviewed by the audit team indicated they had consulted with their employees in arriving at the risk information submitted. The risk inventory is more comprehensive when management seeks input from more levels within the organization. Involving more people also ensures employee buy-in which is critical in instilling the “everyone is a risk manager” concept. Thus, it is important to have both cross-discipline and cross-level involvement.

While the finalized risk matrix was communicated to the entire organization, there is no evidence of feedback to individual unit
heads on how their respective information was used. This is especially important because 50% of the unit heads interviewed by the audit team indicated that they were not sure how the ERM processes benefited their unit.

**Recommendation**

Improve the Agency’s ERM processes by:

- Seeking to have a more cross-level, cross-discipline discussion/debate by involving employees from different disciplines and levels.
- Gathering risk information through facilitated discussions in addition to email submission.
- Providing individual units with feedback on their respective risk information for continued buy-in and support.

**Management’s Response**

*Unit heads will be asked to include employees at all levels in the process. Each unit will be required to create a consolidated list of comments which will be discussed/debated at unit head meetings. Final decisions as to what to include in the plan will be made at the administrative level; however, each unit will be given feedback with regard to their specific input. This will help insure that all employees are included in the process and will have an understanding of the Agency administration’s direction with the ERM Program. We plan to have this complete by December 31, 2009.*

**BASIS OF REVIEW**

**Objective and Scope**

The overall objective was to review the Agency’s enterprise risk management processes and determine if the key elements are designed to identify and mitigate risks through the use of a systematic, organization-wide approach. The review focused on the elements of risk identification, evaluation, response, control and monitoring activities performed for the period September 1, 2007 through November 30, 2008. Fieldwork was conducted from February to April 2009.
Criteria

Our review was based upon standards as set forth in the Treadway Commission’s Committee of Sponsoring Organization’s Internal Control - Integrated Framework (COSO) and other sound administrative practices. The evaluation was performed in compliance with generally accepted government auditing standards and other criteria to conform to the Institute of Internal Auditors’ “International Standards for the Professional Practice of Internal Auditing.”

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Texas AgriLife Research’s mission is to conduct research that benefits consumers and the agricultural industry; maintain and enhance the environment and natural resources; ensure a safe, wholesome and affordable supply of agricultural products; and contribute to the state’s economic vitality. Texas AgriLife Research’s annual operating expenses for fiscal year 2008 were approximately $183 million, supporting 13 research centers and associated research stations. Texas AgriLife Research has approximately 1,700 employees.
AUDIT TEAM INFORMATION

Auditors Assigned to the Review

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