The Texas A&M University System Internal Audit Department

FOURTH QUARTER REPORT
FISCAL YEAR 2009

September 10, 2009
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PROJECT SUMMARY

Overview

The financial management services’ processes at Texas A&M International University do not provide reasonable assurance that resources will be used in an efficient and effective manner, and in compliance with applicable laws, policies, regulations, and University rules. The processes have not kept pace with the University’s fast growth and the related increase in the level of activity. As A&M System’s fastest growing university, student enrollment has grown by 44% in the past five years while financial management services’ staffing has increased by approximately 4% (1.5 full-time equivalent employees). Additionally, the University’s processes that administer financial activities have mostly remained the same. Financial management services do not seem to have adequate staffing in all areas to perform their functions effectively and efficiently.

Summary of Significant Results

Regulatory Compliance

Financial management processes at the University do not ensure compliance with applicable laws, policies, regulations, and University rules. The University does not have a compliance monitoring program and in some cases, lacks a regulatory framework to ensure compliance. The magnitude of compliance exceptions identified indicates a lack of adequate guidance, oversight and accountability controls. The review found compliance exceptions in several areas including receipting/revenues, security of confidential information, and procurement card purchasing.

Operational Efficiency

The financial management services’ processes at the University do not provide reasonable assurance that resources will be used in an efficient manner. The efficiency of the University’s financial processes generally lags behind those of comparable A&M System members. The review found that the purchasing,
accounts payable, and revenue management processes need to be improved in order to increase the efficiency and effectiveness of these processes.

Resource Allocation and Staffing Levels

Financial management services do not have adequate staffing in some areas to perform its functions effectively and efficiently. This may be the underlying cause for a number of the other issues identified in this report. The University needs to analyze its current resources and determine if a realignment of resources could assist in leveraging its limited resources and addressing its risks more effectively.

Summary of Management’s Response

The University’s enrollment has grown by over 44% in just the last five years, and with such growth, the focus has unsurprisingly been on increasing faculty and faculty support versus administrative support services. We concur with the auditor’s finding that greater staffing levels in the area of financial management services could solve a number of the issues identified in this report.

The University’s growth does not appear to be slowing; however, so any increases in staff positions must continue to be tempered against increases in faculty positions. As discussed below, however, plans have been made to add at least two full-time positions to the financial management services area for fiscal 2010 with future increases in subsequent years as warranted. Additionally, this audit was very helpful in identifying potential weaknesses as well as possible solutions that we are confident we can implement with our existing staff.

We intend to ensure financial regulatory compliance by conducting our own, internal financial service compliance reviews of departments across campus, as well as by centralizing some cash handling operations that have spread across the campus throughout the years. Where appropriate, procedures will be developed and communicated to the University community to ensure an awareness of the regulations and expectations of compliance.

We also intend to improve operational efficiencies as permitted by our staffing levels. Prior to this audit, we were already reviewing our purchasing procedures, and plans are underway to revise them for the start of the new fiscal year. Additionally, as of this writing, we have either already implemented or are in the process of
implementing many of the software solutions suggested later in this report.

As will be discussed, the University has never shied away from implementing technological solutions to assist our employees in more effectively performing their duties. We have discussed with Internal Audit, and we continue to support, the notion of shared services via a system-wide implementation team to provide technical expertise that our staff may be lacking, particularly for technological solutions either already implemented on other campuses or being implemented across the System. Such a team would be especially useful to the smaller regional campuses and would allow for the more timely installation of new software solutions.

Texas A&M International University’s management is committed to ensuring sound fiscal management of all campus operations, and we sincerely thank the internal audit team for their time in assisting us with this endeavor.

Scope

The review of financial management services’ processes focused on accounts payable, accounts receivable, banking, performance measures, purchasing, revenue management, records retention, and staffing levels for the period September 1, 2007 to November 30, 2008. The fieldwork was conducted from January to March 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Regulatory Compliance

   Financial management services’ processes at the University do not ensure compliance with relevant laws, policies, regulations and University rules. The University needs to improve the guidance and oversight provided in order to strengthen the controls over financial operations. Specific areas needing improvement include departmental receipting, security over confidential information, records retention, purchasing, and accounts receivable.

1a. Guidance and Oversight Processes

   **Observation**

   The University does not have adequate guidance and oversight processes in place to provide reasonable assurance that compliance with applicable laws, policies, regulations, and University rules is occurring throughout the University. The University lacks a compliance monitoring program, as well as adequate guidance for some of its financial services areas. While the Business Office and Purchasing department generally have comprehensive written procedures to guide their staff on day-to-day operations, they have not provided the campus with sufficient guidance. In some cases, the University has not developed a regulatory framework to ensure compliance. The review found significant compliance exceptions in several areas including receipting/revenues, security of confidential information, procurement card purchasing, records retention and accounts receivable.

   Additionally, the University’s enterprise risk management assessment matrix did not specifically address regulatory compliance, generally a key risk category for state-funded entities. Without a comprehensive inventory of regulatory compliance risks, it is difficult to communicate and promote a risk management strategy that provides for strong compliance controls and processes.
**Recommendation**

1a. Guidance and Oversight Processes (cont.)

The University should improve its guidance and oversight to ensure all University financial services areas are operating in compliance with applicable laws, policies, regulations and University rules. Specific actions to address include:

- Developing and implementing a compliance monitoring program.
- Developing detailed written procedures for all financial management services’ operations. Communicating and training the applicable procedures and compliance requirements to all personnel responsible for handling financial activities.
- Addressing regulatory compliance risks in the University’s risk management process.

**Management’s Response**

We agree that it is necessary to improve the guidance and oversight given to all financial service areas, and we have committed to creating a new position in fiscal 2010. This position will report directly to the Comptroller, and the responsibilities will include:

1) **Working with the Comptroller and Executive Council to provide input for the risk management assessment matrix.**

2) Developing and implementing a compliance monitoring program which will consist of a minimum of one financial service compliance review per full length semester and one for both summer sessions of an area that is determined to be of high risk.

3) Developing or supervising the development of written procedures which incorporate compliance for all financial management services’ operations and communicating the procedures to the University community, and coordinating or conducting related training.

We expect to have this position posted by August 31, 2009. Due to the relatively steep learning curve of this position, full implementation will occur by August 31, 2010.
1b. Departmental Receipting

Observation

The departmental receipting process needs significant improvements.

The University's departmental receipting processes do not provide reasonable assurance that receipts are deposited timely in accordance with A&M System Regulation 21.01.02. Eighty-nine percent (32 out of 36) of departmental receipts tested were not deposited either daily (for $200 and over) or at least once every three business days. Seventy-eight percent (28 out of 36) of departmental receipts tested were not deposited within seven days in accordance with state law, Section 51.003, Texas Education Code. The deposits were 1 to 90 days late. Additionally, the University's receipting procedures do not require checks to be restrictively endorsed upon receipt as required by A&M System Regulation 21.01.02. This elevates the risk for financial impropriety to occur.

Receipting is one of the University's most decentralized financial processes with approximately 100 individuals performing receipting on campus. The University has not provided departments with adequate guidance, training and oversight over the decentralized financial procedures. Additionally, current processes do not ensure departmental cashiers are held accountable for complying with A&M System requirements. The review found that personnel performing departmental receipting/cashiering functions generally do not have cashiering duties on their position descriptions.

Additionally, financial processes do not ensure departmental cashiers are subjected to a criminal background check. A&M System Regulation 33.99.01 requires System members to obtain criminal history information for the finalists of security-sensitive positions. University management indicated that it now performs criminal background checks on all new hires since September 1, 2008. However, management has not performed the necessary background checks on employees hired prior to September 1, 2008 who are in security-sensitive positions.

Recommendation

Improve compliance with A&M System and state requirements by:

- Reducing the number of personnel performing receipting duties by minimizing the locations on campus where funds are collected.
1b. Departmental Receipting
(cont.)

- Depositing funds timely and restrictively endorsing checks with “For Deposit Only” immediately upon receipt.
- Ensuring departmental cashiers’ position descriptions include cashiering duties and the responsibility for complying with applicable requirements.
- Performing criminal background checks on all employees who are in security-sensitive positions.

**Management’s Response**

*The University bursar and comptroller will conduct an assessment of departments on campus which perform cashiering functions to determine which ones will continue to operate in a decentralized manner. Upon completing the assessment of departments, a list of employees maintaining cashiering functions will be provided to HR for updates to position descriptions. Rubber stamps with the University “For Deposit Only” information have been distributed to some departments currently receipting, and all departments will receive a stamp following this assessment. This assessment will be done no later than November 30, 2009.*

*It is our intention to attempt to utilize our existing technology including TouchNet Marketplace to automate and Sunguard Banner to centralize cashiering when possible; thereby eliminating the need for individual departments to perform decentralized cashiering. As a pilot, summer camps were built as classes in Sunguard Banner to facilitate cashiering and record-keeping. In addition, effective August 1, 2009, the recreation sports center will no longer accept cash or checks, referring patrons wishing to use these tenders to the bursar’s office.*

*As previously noted, all employees hired since September 1, 2008, received background checks, and in a proactive measure, rather than waiting until the assessment is complete, all employees currently identified in existing cash-handling positions will receive a background check by August 31, 2009. Additionally, all employees maintaining receipting functions will also acknowledge acceptance of the responsibility for complying with cash handling policies by signing a “Cash Handling Certification.”*
1c. Security of Confidential Information

Observation

The University’s financial processes do not ensure the security of confidential credit card information. A number of departments that perform receipting do not have credit card terminals and proceed to collect credit card information including the entire credit card number, expiration date, and cardholder name for submission to the Business Office. The Business Office, in turn, retains and stores the credit card numbers in a campus warehouse. The collection of credit card information in this manner has been in effect since 2006. Credit card information should not be stored in any media once the transaction has been processed through the point-of-sale terminal. This reduces the risk of misuse and unauthorized access to customer credit card information and increases the University’s ability to comply with the procurement card industry guidelines.

Additionally, we noted that the Athletics Department collects and retains individual’s social security identification information in order to process payments through its working fund for athletic event workers. The social security information is submitted on payment vouchers to the Business Office where it is retained and stored. Maintaining social security information at the Athletics Department elevates the risk of unauthorized access to confidential information.

The University has not provided relevant personnel, including Business Office employees, with written procedures and appropriate training regarding the security over confidential credit card information. The A&M System implemented in June 2008 an online Purchase Card Industry Data Security Standard course for A&M System members. The notification that was emailed to System member human resources trainers indicated that the course is required “for every employee in the A&M System who accepts debit/credit card payments or is responsible for some part of the processing of credit card transactions.”

Recommendation

Improve confidential information security by discontinuing the practice of documenting and storing credit card information on University forms. All departments that do not have credit card terminals should send their credit card-paying customers to the Business Office. The Athletics Department should discontinue the practice of paying athletic event workers with working funds and should process the payments through the University’s financial system.
Management’s Response

1c. Security of Confidential Information (cont.)

Due to the nature of decentralized cashiering, we do not believe it is feasible to direct all customers wishing to pay via credit card to the bursar’s office. To address the concern, however, the form used to record credit card information for payments taken outside of the bursar’s office has been revised. Credit card information is now entered on a tear-away section of the form, and upon processing the payment, this section is removed and shredded. Additionally, after completing the assessment discussed in section 1b above, HR will assign the PCI Data Security Standard course to all employees whose position descriptions are updated to include cashiering.

The University is also implementing TouchNet MarketPlace, a PCI compliant, online solution for accepting payment via credit card. We expect to have this implementation completed by November 30, 2009, and as previously mentioned, we are piloting the use of Sunguard Banner to centralize cashiering eliminating the need to collect credit card information outside of the bursar’s office.

The Athletics Department will no longer maintain social security numbers, and payments will be processed via our existing accounts payable procedures. This will be implemented by August 31, 2009.

1d. Records Retention

Observation

The University’s financial processes do not ensure compliance with the A&M System Records Retention Schedule and state law. The review found confidential financial records, including payroll checks going back to fiscal year 2000, in the surplus property warehouse. The retention schedule requires payroll checks to be retained for four years.

The University’s records retention management controls do not include routine compliance monitoring of departments. The records retention program tends to be reactive as opposed to proactive. For example, most of the records retention management efforts are aimed at ensuring University departments obtain approval before destroying records while little attention is paid to identifying old records at the departments that should be destroyed. The records retention management function does not monitor and track records at the departments. There is a high risk that the University has records that have exceeded A&M System and state records retention standards.
Recommendation

1d. Records Retention (cont.)

The University should improve its records destruction processes to ensure departments are complying with the required records retention standards. Proactive methods for assisting departments with this process should be explored such as considering the use of electronic records over manual records wherever possible.

Management’s Response

The University is exploring the purchase of imaging software to maintain records in a digital format. If implemented, this will provide the means for automated record retention management as suggested.

Existing financial management services hardcopy records will be clearly labeled with the destruction date as determined by the A&M System records retention schedule, and all stale records will be destroyed by August 31, 2009, and on an annual basis thereafter.

1e. Procurement Card Purchasing – Business Meals

Observation

Business meal documentation is not in compliance with University requirements.

The University's procurement card purchasing processes do not ensure business meal purchases comply with University requirements. None of the business meal vouchers reviewed (30) adequately justified/supported the meal purchase, in accordance with University rules. Fifty-seven percent (17 out of 30) did not specify the reason for the meal. Fifty-three percent (16 out of 30) did not have an itemized receipt showing what was purchased. Thirty-seven percent (11 out of 30) did not provide a list of attendees.

The University’s procurement card guidelines require business meal receipts to always include information on who attended, what was purchased, when the meal occurred, where it occurred and why the meal was necessary. The high error rates indicate a need for improvements in controls in order to minimize the risk for the misuse of the procurement card.
1e. Procurement Card
Purchasing – Business Meals (cont.)

**Recommendation**

Improve compliance with the University’s procurement card rules regarding business meals. A standard form that prompts the users for the required information for business meal expenses might be helpful in reducing the number of exceptions, as well as a more comprehensive oversight review of business meal purchases.

**Management’s Response**

*To improve compliance with the University’s procurement card rules, itemized receipts are now required to document what, when and where the business meal was purchased. To address the questions of who and why, our “Reimbursement/Payment of Business Meals Form” (available online) has been modified, and its submission is now required for all business meals. This form, which was created in fall 2008, was previously only required when an itemized receipt was not available. The revised form has also been included in the Procurement Card Manual.*

\[This \text{ recommendation has been implemented.}\]

1f. Professional Services Contractors

**Observation**

The University does not monitor to ensure potential professional services contractors have not been employees of the System or state for the previous twelve months and two years, respectively, as required by A&M System Regulation 25.99.03. A&M System Regulation 25.99.03 disallows the use of appropriated funds for hiring an individual who has been employed as a consultant or professional services contractor by the System within the past 12 months.

**Recommendation**

Establish a process to ensure compliance with requirements related to the hiring of potential professional services contractors. Ensure that they have not been previously employed within the timeframes set by the applicable state and System requirements.

**Management’s Response**

*The following measures will be implemented by August 31, 2009, to ensure compliance with requirements related to the hiring of professional service contractors using appropriated funds:*
1f. Professional Services Contractors (cont.)

- The Office of Budget/Payroll/Grants & Contracts (BPG&C) will review Independent Contractor Agreements which utilize appropriated funds to confirm that potential professional service contractors have not been employees of the System or state for the previous 12 months and two years, respectively. The BPP Payroll System will be used to perform a query of the potential independent contractor. The Office of BPG&C will follow-up with the respective department for any Independent Contractor Agreements that are not in compliance, and the department will be asked to use non-appropriated funds or not contract with the professional service contractor.

- The University community will be informed of A&M System Regulation 25.99.03 via the Independent Contractor Agreement form and checklist. Additionally, each department will be asked to confirm that potential professional service contractors are in compliance with the System regulation by a certification statement signed on the Independent Contractor Agreement.

- The A&M System regulation will be discussed at the annual Budget and Grants Workshops conducted by the Office of BPG&C.

Although a formalized process was indeed lacking, it should be noted that no appropriated funds were, in fact, used to pay any professional service contractors as defined in the referenced regulation for the period covered by this audit.

1g. Accounts Receivable

Observation

The University’s accounts receivable processes do not ensure compliance with state law and A&M System Regulation 21.01.04. The University’s current accounts receivables written procedures do not adequately address the state and System requirements. The review found noncompliance in the areas discussed below:

State Comptroller’s Warrant Hold Process for Delinquent Accounts
The current write-off procedures do not include placing debtors with the State Comptroller’s warrant hold process to ensure payments are not issued to individuals that are indebted to the state. The University wrote off over $270,000 during the last two years. Management indicated it was not aware of this requirement. The State Comptroller’s Accounting Policy Statement No. 28, Reporting and Verification of State Debts and Hold Offset Procedures, require state agencies and institutions of higher education to report to the...
Texas Comptroller of Public Accounts the names of entities with a debt to the state. This includes student loan defaults. The State Comptroller’s policy requires agencies to use the State Comptroller’s warrant hold procedures to ensure payments are not issued to an entity with a debt to the state.

Monthly Report of Receivables
The University accounts receivable procedures do not include producing a monthly aging of outstanding accounts receivable balances, and a reconciliation of individual account balances to the controlling general ledger balance, as required by A&M System Regulation 21.01.04. The monthly aging listing is an important internal control that facilitates monitoring. Management was not aware of the requirement.

In addition, the accounts receivable collection process does not adequately document the University’s collection efforts for each receivable, as required by A&M System Regulation 21.01.04. The University’s accounts receivable function is relatively new, having been implemented with one employee. Comparable A&M System members have an average of three individuals in this area.

Recommendation

Improve compliance with A&M System and state requirements by adequately addressing all accounts receivable related requirements in the University’s written procedures and educating employees on the requirements.

Management’s Response

Written accounts receivable procedures will be updated to ensure compliance with A&M System Regulation 21.01.04 and the State Comptroller’s Accounting Policy Statement No. 28. Updated procedures will include the following:

- Demand letters will be sent out according to the Texas Administrative Code.
- Documentation of all attempts to collect debt will be maintained on file.
- State warrant holds will be placed on student delinquent accounts as the accounts are placed with a collection agency.
- Monthly aging reports of outstanding accounts receivable balances will be reconciled with FAMIS account balances.
1g. Accounts Receivable (cont.)

- Accounts returned from the collection agency as uncollectable will be submitted to the System Office of General Counsel for write-off approval.

The procedures will be updated and implemented by November 30, 2009.

2. Operational Efficiency

2a. Purchasing Process

Observation

The current purchasing process used by the University does not result in the efficient use of resources. The University's purchasing process allows small-dollar items to be acquired through the purchase order method which is the most rigorous and costly purchasing process. Eighty-five percent of the University's purchase orders are for items costing less than $2,000 which is below their current threshold for required purchase orders. The table above provides additional information on the volume and dollar magnitude of purchase orders processed by the University.

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<thead>
<tr>
<th>Dollar Amount of Purchased Items</th>
<th>Percent of Total Number of Purchased Items in Range</th>
<th>Dollar Amount of Purchased Items</th>
<th>Percent of Total Dollar of Purchased Items</th>
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<tr>
<td>&lt;$100</td>
<td>27%</td>
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<td>&lt;$2,000</td>
<td>84.8%</td>
<td>$3,297,000</td>
<td>15.7%</td>
</tr>
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The University currently utilizes two purchasing methods: the purchase order and the procurement card. If all purchase order transactions of less than $2,000 had been made using the procurement card method, the University would have processed only 1,600 purchase orders as opposed to 11,000. This could have resulted in significant savings in resources since the purchase order method is the more labor intensive and more costly of the two methods used. The purchase order requires involvement of the purchasing department, a purchase requisition, several approvals and a more complicated accounts payable process. Acquiring goods by purchase order could take an average of three weeks while using a procurement card could be instantaneous. A number of A&M System members also use a limited purchase order method which allows for items that do not meet the bidding threshold to bypass the Purchasing department. Thus, an opportunity also exists to improve operational efficiency by using limited purchase orders as an alternative to purchase orders wherever possible.
Management indicated that it has to balance between operational efficiency and meeting its HUB participation goal and since procurement card purchases are essentially out of the Purchasing department’s control, it is concerned that a push towards more procurement card purchases could result in a significant reduction in the University’s HUB purchases. However, in reviewing fiscal year 2008 procurement card data, 40% of procurement card purchases were from HUB vendors. Making a good faith effort to assist HUB vendors and having an efficient purchasing process do not have to be mutually exclusive.

**Recommendation**

Improve operational efficiency by implementing the use of purchasing methods that allow for the most efficient and effective use of resources. Reduce the number of purchase orders created by increasing the use of procurement cards for dollar items purchased below set thresholds. Review current thresholds and make adjustments that aim to purchase goods and services in the most efficient manner while making a good faith effort to assist HUB vendors. If needed, increase individual procurement card limits for departments that tend to have a high volume level of small dollar purchases (e.g. Physical Plant).

**Management’s Response**

The University agrees with this recommendation, and it is our intention to increase the procard dollar limit thresholds at the start of the new fiscal year. The procard and purchasing manuals will also be updated to reflect the new thresholds, and University employees will be advised of all revisions via email at the start of the semester. This recommendation will be implemented by August 31, 2009.

In addition to increasing procard limits, when the procard cannot be used, it is our intention to utilize limited purchase orders whenever possible to further reduce the number of purchase orders generated.

We will continue to follow our successful HUB vendor procedures for any purchase orders processed through the Purchasing department, and we will continue to encourage procard holders to utilize HUB vendors whenever possible. Despite this, it is expected that our HUB percentage will decrease.
2b. Accounts Payable Process

Observation

The University’s accounts payable process could be more efficient by implementing changes in certain financial processes. Since the University does not use Automated Clearing House (ACH) to pay vendors, it must process thousands of checks to individual vendors each month. Using ACH would save the University the costs associated with buying check stock, cutting checks, and mailing vendor checks. ACH reduces administrative costs and checks processing errors. ACH also eliminates issues with lost or stolen checks, streamlines accounting processes and reduces reconciliation costs. Comparable A&M System members have used ACH for several years.

Additionally, the University’s current process for transaction code allocation and the review and approval of procurement card transactions is cumbersome and inefficient. Currently, it takes the procurement card coordinator an average of two weeks to code procurement card transactions, a process that takes comparable A&M System members significantly less time with the use of Smart Data Online (SDOL). The University has not fully implemented SDOL. SDOL is a web-based card management tool available to procurement card users and reconcilers. SDOL provides many features to assist the University in managing its procurement card activity and use.

Recommendation

Improve the operational efficiency of the University’s accounts payable process by implementing ACH to process vendor payments and SDOL to give users and management the tools needed to efficiently manage the procurement card process.

Management’s Response

We agree that operational efficiencies can be increased through the use of technology. As of this writing, the SDOL Module has been implemented.

Although work has begun on ACH processing through FAMIS, due to other project implementations, we anticipate completion by February 28, 2010.
2c. Revenue Management

Observation

| Improvements need to be made to increase the efficiency of the revenue management process. |
| The University's current student billing process is manual and involves printing and mailing all student bills which is an inefficient revenue management process. Comparable A&M System members have implemented TouchNet Bill and Payment Suite. TouchNet Bill and Payment Suite provide students with online bill presentation, bill payments, electronic refund disbursements and web-based deposits. TouchNet Bill and Payment Suite not only streamlines business office processes, it also packages these functions into convenient self-service applications for students, parents/guardians (authorized users), and administrative users. Comparable A&M System members have also implemented TouchNet Cashiering. TouchNet Cashiering is a comprehensive business solution that automates and facilitates central management of the processing and receipting of both receivable and non-receivable transactions across campus. With TouchNet Cashiering, the University minimizes paper shuffling, improves the reconciliation process, and increases efficiency. The current accounts receivable process involves manually sending monthly bill statements and reminder letters to students, and making follow-up telephone calls to students as part of collection procedures. |

Recommendation

Improve the operational efficiency of the University’s revenue management processes by implementing technology solutions, such as TouchNet Bill, Payment Suite, and TouchNet Cashiering.

Management’s Response

The TouchNet Bill+Payment Module will be fully implemented by August 31, 2009. Due to other project implementations, namely TouchNet Market Place (previously discussed), we anticipate completion of the TouchNet Cashiering Module no later than May 31, 2010.

3. Resource Allocation and Staffing Levels

Some of the University's financial management services’ areas do not have adequate staffing to perform functions effectively and efficiently and in compliance with relevant laws, policies, regulations, and University rules. While the University’s student enrollment has
3. Resource Allocation and Staffing Levels (cont.)

The Business Office’s staffing levels are low. grown by 44% in the last 5 years, its financial management staffing has only increased by 4% (1.5 full-time equivalent employees).

3a. Staffing Levels

Observation

A comparison of the University's Business Office staffing resources to comparable A&M System members shows the University to have significantly lower levels. Despite some of the Comptroller’s staff working overtime during certain peak periods, financial operations are often pushed to the limit to meet deadlines. The University’s financial reports are often not submitted timely to the System Offices.

The University has lagged behind comparative A&M System members in implementing innovative and more efficient processes because of inadequate staffing levels. The University’s implementation projects generally take longer than comparable System members, because its staff does not have the extra capacity (time) to ensure implementation is performed in a timely and effective manner. Staff indicated that they generally work on the implementation projects in their own spare time. The Business Office has been working on implementing SDOL and TouchNet since March 2007 and November 2007, respectively. Management indicated the process has been slow, because it does not have resources to focus on the implementation. Management is aware of the issue of inadequate resources, but has not been able to address it due to the University’s limited resources.

Recommendation

University management should develop and implement strategies to provide the necessary resources to promote the ability to operate in such a manner to meet deadlines and implement new and efficient processes in a timely manner.

Management’s Response

We realize that implementing new and efficient processes will benefit us in the long run, but we cannot commit to any particular timeline for doing so without knowing the scope of a particular implementation and the parties required to be involved. As previously stated, we would welcome the creation of a system-wide, shared implementation team with the technical expertise to assist with the timely installation of new software solutions.
3a. Staffing Levels (cont.)

With that said, however, we agree that missing deadlines is not acceptable, and we have planned for two new accounting positions in fiscal 2010 to help address our staffing shortage. We intend to have these positions posted by August 31, 2009.

3b. Campus Card Services

Observation

The University’s administration of the student refund card and the debit/identification card is currently handled by Campus Card Services, which reports to the associate vice president for finance and administration. As cards increasingly become financial instruments and as Campus Card Services continues to collect considerable amounts of cash, the current reporting line may no longer be best because of the increased need for guidance and oversight from the Business Office.

Since Campus Card Services’ level of business activity is characterized with significant swings between peaks and troughs, realigning it with the Business Office could help leverage the University’s resources by having these staff assist the Business Office during slow periods.

Recommendation

University management should consider realigning Campus Card Services with the Business Office to improve internal control and assist in leveraging staffing resources.

Management’s Response

Although we don’t disagree with this recommendation, the Campus Card Services office and Business office are on opposite ends of the campus making managing from a distance difficult at best. Fortunately, the opening of the new student success building will find these offices side-by-side, and it is our intention to leverage our resources as suggested. The realignment of these departments will be completed with the occupancy of the student success building currently scheduled for August 31, 2010. Prior to that date, the business office will audit this department a minimum of once per full semester and once for both summer semesters to ensure that deposits are being made in a timely manner and that all financial procedures are being adhered to.
4. Bank Reconciliations

Observation

The University’s bank reconciliation process does not adequately ensure its funds are accounted for. Forty-three percent (3 out of 7) of the bank reconciliations reviewed included unexplained, long-outstanding reconciling items. A number of these items have remained unresolved since 1999. For example, one of the larger reconciling items is an outstanding deposit of approximately $110,000 dated February 18, 2000. This amount represents money deposited into the University’s bank account but still has to be reflected in the University’s accounting records. Some long outstanding reconciling items represent checks issued by the University that were never cashed and have since become stale. Carrying unexplained reconciling items for extended periods of time reduces the effectiveness of the reconciliation as an internal control.

In addition, there is no evidence of a secondary review on bank reconciliations. An independent review is an important supervisory control that ensures the internal controls are operating effectively, and that errors do not go undetected.

Recommendation

Improve the University’s bank reconciliation process by investigating and resolving long-outstanding bank reconciling items and ensuring an independent review of the bank reconciliation is performed each month. The independent review should be evidenced by the reviewer’s signature and date on the reconciliation form.

Management’s Response

Procedures were implemented immediately upon receiving this recommendation from the audit team. Monthly reconciliations are now required to have the supervisor’s signature as evidence of their independent review. Additionally, all reconciling items have been resolved and outstanding items will not be kept longer than two months. Stale, dated reconciling items are now used as performance measures for staff performing monthly reconciliations. This recommendation has been implemented.
5. Performance Measures

Observation

Performance measures could be improved.

While the University's financial management services’ areas have formally sought feedback from University employees it has not established performance measures to track its performance. Some possible measures to implement include the number of training sessions provided to the campus community, number of employees trained, timeliness and accuracy of financial reports, timeliness of travel reimbursements and reduction in the number of vouchers paid late. Performance measures provide management with a tool for reviewing operations and identifying areas for improvement.

Recommendation

Develop performance metrics to measure and track the key operational aspects of the financial management services’ areas. Analyze the metrics and make changes as warranted.

Management’s Response

We believe the tracking of performance metrics will complement our annual Finance and Administration Service Quality Survey responses and give us an objective accounting of the services we provide. Performance metrics will be developed by August 31, 2009 for implementation in fiscal 2010.
BASIS OF REVIEW

Objective

The overall objective was to evaluate the financial and management controls over the University's financial management services' operations to determine if resources are used efficiently and effectively, assets are safeguarded, and compliance is achieved with applicable laws, policies, regulations, and University rules. The University's financial management services include budgeting, receivables and disbursements, accounting and reporting, property management and payroll.

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 Texas A&M International University's financial management services' function is decentralized between the Comptroller’s Office, Office of Contracts and Grants, Purchasing, and Campus Card Services. The University's financial management services aims to provide reliable financial information, quality financial services and relevant training in an efficient and effective manner to support the University's mission. The University’s financial management services have approximately 45 employees with an annual budget of approximately $1.8 million.
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PROJECT SUMMARY

Overview

At West Texas A&M University, the financial and management controls over the financial aid processes generally ensure resources are used effectively and efficiently and in compliance with laws and regulations except for control weaknesses in the protection of student information used in the scholarship selection processes and Fiscal Operations Report and Application to Participate reporting process. Opportunities for improvement also exist in the accuracy of data for ad hoc reporting, contract reviews, and access to the vendor loan system.

During fiscal year 2008, the total amount of scholarships and grants awarded was over $10 million. In addition, students and their parents received approximately $25 million in Federal Family Education Loans (FFEL). The three largest student financial aid programs are FFEL, Pell grants, and scholarships, respectively.

Summary of Significant Results

Distribution of Student Information for Scholarship Selections

Confidential student information was distributed to departmental scholarship coordinators in an unsecure manner. The student information, including grades and test scores, was emailed in spreadsheet format to the departmental scholarship coordinators throughout the campus in an unsecure format. Email is not a secure method of transmitting confidential information. Without a secure method to share student information, the risk is increased that confidential student information will become exposed.

Federal Operations Report and Application to Participate (FISAP)

The process for developing the University’s FISAP does not ensure the information reported to the United States Department of Education is accurate. A review of the 2007-2008 FISAP found discrepancies and inconsistencies between amounts in the FISAP and amounts in the University’s official financial records.
Inaccurate information reported to the Department of Education increases the University’s risk for inaccurate future federal funding.

Summary of Management’s Response

Distribution of Student Information for Scholarship Services:

Information was sent by email to specific scholarship coordinators and managers. Since coordinators and managers use secure passwords, we did not consider this transmission method to be unsecured. The university technology team is working on placing the spreadsheets in a “secured” area that only authorized coordinators and managers can access. This information will no longer be sent by email. Implementation date: November 30, 2009.

Federal Operations Report and Application to Participate (FISAP):

The Financial Aid Office is in the process of filling the vacant position that handles the Federal Work Study Program. As part of the reorganization of this position, part of the new job responsibilities is to reconcile the Federal Work Study account on a quarterly basis with the Business Office and to perform an annual reconciliation prior to the submission of the FISAP. While no other areas of the FISAP showed discrepancies, reconciliation will be performed on the Supplemental Educational Opportunity Grant (SEOG) program as well. The Business Office is already reconciling the Perkins Loan program prior to submitting the FISAP information to the Financial Aid Office. All parts of the FISAP will be reconciled prior to submission. Implementation date: August 31, 2009.

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 March 2009 through May 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Distribution of Student Information for Scholarship Selections

Observation

Confidential student information was distributed to departmental scholarship coordinators in an unsecure manner. Student information, including student identifications, grade point averages and test scores, was emailed in spreadsheet format to departmental scholarship coordinators throughout the campus. The Family Educational Rights and Privacy Act is a federal law that protects the privacy of student education records. Email is not a secure method of transmitting confidential information. Without a secure method to share student information, the risk is increased that confidential student information will become exposed.

Recommendation

Provide scholarship coordinators with access to confidential student information through a secure means such as encrypted files or shared directory access.

Management’s Response

Information was sent by email to specific scholarship coordinators and managers. Since coordinators and managers use secure passwords, we did not consider this transmission method to be unsecured. The university technology team is working on placing the spreadsheets in a “secured” area that only authorized coordinators and managers can access. This information will no longer be sent by email. Implementation date: November 30, 2009.

2. Federal Operations Report and Application to Participate (FISAP)

Observation

The process for developing the University’s FISAP does not ensure the information reported to the US Department of Education is accurate. A review of the 2007-2008 FISAP found discrepancies and inconsistencies between Federal Work Study amounts in the
2. Federal Operations Report and Application to Participate (FISAP) (cont.)

FISAP and amounts in the University’s official financial records. The annual FISAP reporting process did not include a documented reconciliation and verification by both the Financial Aid Office and the Business Office for report accuracy prior to submission. The purpose of reconciliations is to identify discrepancies between two or more sets of records or systems so that appropriate actions can be taken to resolve outstanding and/or conflicting items.

The FISAP is prepared annually and submitted to the US Department of Education to ensure continued funding in the areas of Federal Work Study, Federal Supplemental Education Opportunity Grant, and Federal Perkins loans. If the University submits inaccurate information, there is a risk that future federal funding for these programs is not accurate.

Recommendation

Develop and implement a formal process to maintain comprehensive financial records to support the numbers reported on the FISAP for a clear audit trail including a reconciliation of the FISAP amounts back to the student information system report, general ledger accounts, and the federal Grant Administration and Payment System (GAPS). The reconciliation should be approved by both the Financial Aid Office and the Business Office prior to issuing the FISAP report to the Department of Education.

Management’s Response

The Financial Aid Office is in the process of filling the vacant position that handles the Federal Work Study Program. As part of the reorganization of this position, part of the new job responsibilities is to reconcile the Federal Work Study account on a quarterly basis with the Business Office and to perform an annual reconciliation prior to the submission of the FISAP. While no other areas of the FISAP showed discrepancies, reconciliation will be performed on the SEOG program as well. The Business Office is already reconciling the Perkins Loan program prior to submitting the FISAP information to the Financial Aid Office. All parts of the FISAP will be reconciled prior to submission. Implementation date: August 31, 2009.
3. Data Accuracy for Ad Hoc Reporting

Observation

Data extracted from the student information system was not reliable.

The University was unable to supply auditors with accurate student data regarding attempted and earned hours, class level and grade point averages. Auditors requested corrected data several times during the audit. One hundred seventeen of 390 sample items tested during the audit had one or more incorrect data fields. An adequate portion of the data was not reviewed by University staff to ensure data integrity prior to submission to the auditor for testing. Data inaccuracies create concern as to whether ad hoc reports generated from the system are reliable. The auditors were able to determine that the data maintained in the student information system is accurate. The problems occur when the data is extracted incorrectly, causing errors in the data fields. Accurate information is necessary for management to make informed decisions that ensure the organization meets its goals and objectives.

Recommendation

Review data extracted from the student information system for ad hoc reporting or data analysis to ensure data accuracy.

Management’s Response

The Financial Aid Office will review all future ad hoc reports submitted by the University’s IT Department for accuracy and completeness. Implementation date: August 31, 2009.

4. Perkins Loan System Vendor Contract

Observation

The vendor contract did not have review for legal sufficiency.

The contract with the third-party vendor managing Perkins loans and institutional emergency loan records was not reviewed and approved by the System Office of General Counsel. The vendor maintains detailed loan records and does billing and collection functions for the University. Although the contract does not involve stated or implied consideration of $50,000 or more per year, it does involve management of detailed student loan accounts and the collection and remittance of loan principal and interest that have a significant level of risk. Without legal review to ensure that the contract contains any necessary insurance, bond, nondisclosure, or audit requirements, the risk is increased that the University may be exposed to unexpected liabilities.
Recommendation

4. Perkins Loan System Vendor Contract (cont.)

Ensure that the management contract for Perkins and emergency loans is reviewed and approved by the System Office of General Counsel for legal sufficiency.

Management’s Response

The University has sent the contract to the Office of General Counsel for review. A new contract will be developed to include new additional requirements such as the Red Flag Rules. Implementation date November 30, 2009.

5. Access to Vendor Loan System

Observation

No formal process exists for granting and managing University employee access to the vendor’s student loan management system. The University employee administering Perkins and emergency loans also has update access to the system, and is responsible for contacting the vendor and coordinating University employee access, software installation, and software training. There are no documented authorizations for access and no periodic review of employee access for relevance to current job duties. The University Information Technology Division’s Standard Administrative Procedure for Account Management states, “An approval process is required prior to granting access authorization to an information resource. The approval process shall document the acknowledgement of the account holder to follow all terms of use and the granting of authorization by the resource owner or their designee. All access privileges to information resources must be reviewed at least bi-annually by the owners (department heads or administrators), and documented as such.” Without a process to adequately manage employee access to the system, there is an increased risk of loss or misuse of funds and/or confidential student loan information.

Recommendation

Establish a formal process for granting and managing (periodically reviewing) University employee access to student loan systems maintained by the vendor.
Management’s Response

5. Access to Vendor Loan System (cont.)

The University Controller has established a process for granting University personnel access into the student loan systems maintained by third-party vendors. This will be reviewed at least semi-annually. Estimated implementation date will be August 31, 2009.
BASIS OF REVIEW

Objective

The objective 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); West Texas A&M University 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, 7,508 students were enrolled at the University. The total amount of scholarships and grants awarded was over $10 million. In addition, students and their parents received approximately $25 million from federal loan programs. The largest student financial aid programs in actual dollars are Federal Family Education Loans, Pell Grants, and scholarships, respectively.
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PROJECT SUMMARY

Overview

Overall, the financial management processes at Texas A&M University – Kingsville provide reasonable assurance that resources will be used in an efficient and effective manner, and in compliance with relevant policies, regulations and University rules. The University’s financial management services’ areas provide guidance and oversight over the decentralized financial processes to ensure they are performed effectively, efficiently and in compliance with relevant policies, regulations and rules. Financial management services’ areas have also provided guidance, training and other assistance in developing financial processes at the San Antonio campus. The San Antonio campus’ fast growth has required a rapid development and transition of administrative processes. The University’s financial management services’ areas have streamlined revenue management and procurement card purchasing processes and enhanced operational efficiency with the implementation of TouchNet Commerce Management and Smart Data Online. They have improved accountability controls by implementing quantitative performance measures to track performance against divisional and University key success factors. Some opportunities for improvements were noted regarding the efficiency of the purchasing process and the regulatory compliance of procurement card purchases.

Summary of Management’s Response

Texas A&M University – Kingsville is committed to the most efficient and effective use of technology and systems in procurement, accounts payable, and financial management of its resources. The institution will be taking assertive steps over the coming months to be more efficient in these areas, especially as they relate to the use of procurement cards. Management recognizes the improvement needed in training, documentation, and greater and more-widespread use of this very effective procurement tool.
Scope

The review of Texas A&M University – Kingsville’s financial management services focused on accounts payable, bank reconciliations, information security, performance measures, purchasing, and revenue management for the period September 1, 2007 to January 1, 2009. Fieldwork was conducted from March through May, 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Efficiency of the Purchasing Process

Observation

The purchasing process could be more efficient. Although departments have been delegated the authority to procure goods and services not to exceed $5,000 through the procurement card, many purchases are submitted to the University’s Office of Strategic Sourcing and General Services (SSGS) for processing as a formal purchase order or processed at the department via a limited purchase order. While the procurement card transaction volume has increased by 74% since its inception in fiscal year 2006, the procurement card still accounts for less than a third of the University’s purchase transaction volume. This is mainly because the limited purchase order still accounts for the majority of the University’s purchase transactions (at least 58%). The volume of purchase orders has decreased by approximately 25% since fiscal year 2006 while that of the limited purchase order has only decreased by 10%. The University stands to realize savings by utilizing the procurement card for purchases less than $5,000 instead of the more involved purchasing process which uses purchase orders. By taking advantage of the efficiencies of the procurement card, departments will reduce administrative costs and the time it takes them to receive their goods and services. Management estimates that it could reduce purchase orders an additional 33%.

Recommendation

Improve the efficiency of the purchasing process by increasing the use of procurement cards for expenditures within the University department’s delegated purchasing authority. Consider tracking and monitoring procurement card activity by department and working with departments that can further utilize the card. Also, consider raising individual procurement card limits for departments that need additional amounts to cover many monthly purchases (e.g. Physical Plant).

Management’s Response

The university concurs that increasing the use of procurement cards is a more efficient and effective method for purchasing. Effective September 1, 2009, only procurement cards may be used for
1. Efficiency of the Purchasing Process (cont.)

The procurement card purchasing processes do not ensure business meal purchases comply with University requirements. Forty-seven percent (18 out of 38) of business meal documentation reviewed did not provide a list of attendees, as required by University rules. Twenty-four percent (9 out of 38) of the business meal documentation tested did not include an itemized receipt showing what was purchased. Thirteen percent (5 out of 38) of business meal documentation reviewed did not specify the reason for the meal.

The high error rates suggest the need for targeted training and more enhanced oversight and monitoring from Accounts Payable. It may also suggest that cardholders are currently signing off on the checklist without carefully considering all the checklist questions. The University’s procurement card guidelines require business meal receipts to always include information on who attended, what was purchased, when the meal occurred, where it occurred and why the meal was necessary.

A review of the University’s procurement card guidelines revealed that they are not consistent with practice. For example, while the guidelines only require departments to send the expense report to SSGS, the practice is that they send the transaction log and all supporting documentation for review. The gaps in guidance and practice elevate the risk of noncompliance. Management indicated that procurement guidelines were last reviewed and updated in May 2007. In addition, SSGS personnel did not issue infraction letters in a consistent manner for the period reviewed. For example, SSGS personnel had not issued infraction letters for any of the errors found by this review. The University’s procurement card guidelines require noncompliance to be documented on a noncompliance form (an infraction letter).

In addition, an analysis will be done on those departments which are not using procurement cards for purchases. These departments will be targeted for acquisition of cards, training, and monitoring of use.

2. Regulatory Compliance

2a. Procurement Card Purchasing – Business Meals

Observation

The procurement card purchasing processes do not ensure business meal purchases comply with University requirements. The recommended individual card holder limits on the cards will be revised also at that time to $5,000. These program changes were communicated to the departments in July, 2009.

centrally billed accounts such as Federal Express and office supplies. The recommended individual card holder limits on the cards will be revised also at that time to $5,000. These program changes were communicated to the departments in July, 2009.
Recommendation

2a. Procurement Card Purchasing – Business Meals (cont.)

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**Recommendation**

Improve compliance with the University’s rules regarding the purchase of business meals with a procurement card by:

- Reviewing the procurement card guidelines and updating them for any differences with current practice. Ideally, written procedures should be reviewed and updated at least annually.

- Enhancing the University’s review process to ensure errors are detected and rectified.

- Writing infraction letters in a more consistent manner.

- Providing training to cardholders who receive infraction letters.

Management’s Response

**Communication will be sent out by September 1, 2009 reminding departments of the proper meal reimbursement procedures, including providing itemized receipts. Any person acquiring a procurement card must attend mandatory training on the proper use of the card. We are also considering changes to our positions on taxes and tipping, and developing plans for a Travel Card program which will indirectly address some of the procurement card complexities.**

An infraction letter will be sent out for incidents of noncompliance. A database has been started to track infractions per individual cardholder. We will follow the schedule of remediation per the procurement card manual.

*The procurement card guidelines will be reviewed and updated periodically as changes are needed.*

2b. Procurement Card Purchasing - Other

**Observation**

The University’s procurement card processes do not ensure transactions are accurately coded. Thirty-seven percent (11 out of 30) of transactions tested had not been coded to the correct account within the University’s financial system. Miscoding generally occurs because the cardholder incorrectly coded the transaction in Smart Data Online (SDOL). Financial management services’ areas expect the accuracy of coding to improve as cardholders become more experienced with the object code definitions. The University has
given card users access to view, reallocate, and approve expenditure transactions online. SDOL provides cardholder maintenance activities, custom data collection fields and flags, mapping features to code transactions before final review by cardholders, editing and allocation of transactions to specific accounts. Inaccurate coding, when undetected and unresolved, results in inaccurate financial information.

**Recommendation**

Enhance current procurement card review processes to include a more detailed review of the coding of transactions in order to identify and correct inaccurate object codes.

**Management’s Response**

*The institution has provided an expanded field in SDOL for the user to provide more detailed descriptions. A new “description” field has been added to the billing spreadsheet. These additional fields are now provided to Accounts Payable and Grants & Contracts to review the full description on the monthly reports. This will help their review to ensure the coding on the object code is correct.*
BASIS OF REVIEW

Objective

The overall objective was to evaluate the financial and management controls over the University’s financial management services’ operations to determine if resources are used efficiently and effectively, assets are safeguarded, and compliance with policies, regulations and University rules is achieved. Financial management services include accounting and reporting, budgeting, disbursements, revenue management, payroll and property management.

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 Texas A&M University – Kingsville’s financial management services function is decentralized between the Comptroller’s Office and the Office of Strategic Sourcing and General Services. The University’s financial management services aims to provide “excellent support services to the instructional and research departments as they pursue the stated mission of the University and financial leadership and stewardship for all university resources.” The University’s financial management services have approximately 48 employees with an annual budget of approximately $2 million.
AUDIT TEAM INFORMATION

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PROJECT SUMMARY

Overall, the controls established by the Division of Student and Academic Support Services at Texas A&M University - Texarkana related to student recruitment, admissions and enrollment management are effective in providing reasonable assurance that the University’s processes are conducted in compliance with laws, policies, regulations, Higher Education Coordination Board, and University rules. However, opportunities exist to improve the efficiency of the graduation application process by automating the current manual process. The University enrolled 1,625 students in fall 2008. The University's downward expansion plan is underway for the entering of its first freshman class in fall 2010.

OBSERVATION, RECOMMENDATION, AND RESPONSE

Graduation Application Process

Observation

While graduation records for December 2008 were reviewed and compliant with published University graduation procedures, the graduation application process is a manual, inefficient process. The University has not implemented the Curriculum, Advising, and Program Planning (CAPP) module of Banner. This module provides the ability for automated processing in a full range of degree related areas including student degree tracking and degree audits for graduation. State law (Section 51.4032 (b) (2), Texas Education Code) requires the University to provide students with access to an online student degree progress reporting system.

The CAPP module of Banner has not been implemented due to limited University personnel resources, changes in SunGard SCT consultants and other problems that were encountered with the overall Banner implementation. SunGard SCT Corporation has indicated it will provide additional consulting service at no cost to assist the University in the implementation of CAPP. However,
the consultant will only be available for a limited time period during summer 2009 and the University will need to find a solution for freeing up the time for the University’s CAPP implementation expert who is not available due to other duties.

**Recommendation**

Develop a plan and devote the necessary personnel resources to implement the CAPP module of Banner to achieve greater efficiency in the graduation application process and comply with state law.

**Management's Response**

*The Graduation Specialist, who is also the University’s CAPP expert, had a designated schedule to work with a Banner consultant to facilitate the CAPP implementation process. The assigned consultant was dismissed by the software company and a replacement was to be provided by July 1. An additional week of consultation was provided during the week of August 3 and some additional consultation days have been requested but not yet confirmed. A part-time clerk will be hired to relieve the graduation specialist of other duties during this time. CAAP is being built with an implementation date of November 30, 2009.*

**BASIS OF REVIEW**

**Objective and Scope**

The objective was to review the University’s recruitment, admissions and enrollment management processes to determine if resources are used efficiently and effectively and in compliance with laws, policies, regulations, Higher Education Coordinating Board, and University rules.

The review focused on recruiting, admissions, and enrollment management functions for the period from September 1, 2007 through December 31, 2008. Fieldwork was conducted in May 2009.

**Criteria**

Our review was based upon standards as set forth in the Texas Educational Code; System Policy and Regulation Manual of The Texas A&M University System; Texas A&M University-Texarkana Rules; and other sound administrative practices. The review was
performed in compliance with generally accepted government auditing standards and other criteria to conform 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**

Located on the border of Texas and Arkansas, Texas A&M University – Texarkana is currently serving junior, senior, and graduate students. Students in Oklahoma and Arkansas attend at in-state tuition rates and approximately 26 percent of the student body is from Arkansas. The University has 132 faculty members and an enrollment of 1,625 students which includes 1,324 undergraduate students and 301 graduate students. The student population is comprised of both traditional students transferring from community colleges and non-traditional adult students returning to update or complete his or her education.

The University has embarked upon an expansion program which has included the construction of a new campus to accommodate the expansion of degree programs and the addition of freshman and sophomore level courses. Plans are underway for the University to begin accepting freshman and sophomore students in fall 2010.
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PROJECT SUMMARY

The financial and management controls over Texas A&M University – Texarkana’s financial aid system generally ensure resources are used efficiently and effectively and in compliance with laws, policies, regulations, and University rules. Opportunities for improvement exist in the areas of reconciliations and departmental scholarships. Improvements in these areas will become more important with the increase in financial aid activity due to the future growth in student enrollment from the downward expansion of the University.

For fiscal year 2008, approximately 690 of the 1,605 (43%) students enrolled at Texas A&M University – Texarkana received $3.2 million in some type of financial aid such as grants, loans, or scholarships. The three largest aid programs are the Federal Family Education Loan Program ($1.77 million), the Federal Pell Grant Program ($945,000), and scholarships ($400,000). Approximately 300 students received scholarships.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Reconciliations

Observation

A formal reconciliation of student financial aid funds is not performed.

The Office of Student Financial Aid is not completing formal reconciliations timely to ensure that all Department of Education (DOE) funds are accounted for. A formal reconciliation between the DOE cash management system, the Financial Accounting Management Information System (FAMIS), and the Student Information System is not being performed to ensure accuracy of draw downs and expenditures. Activity from each system underwent an informal review on a periodic basis, but there was no comprehensive reconciliation identifying all differences between the systems and their disposition increasing the risk that differences would not be identified and resolved in a timely manner. Additionally, secondary reviews and approvals are not occurring.
Reconciliations are necessary to identify differences between two or more sets of records or systems so that appropriate actions can be taken to resolve any discrepancies or outstanding items. Monitoring of 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 discrepancies would remain undetected from month to month.

**Recommendation**

Establish formal monthly reconciliation and review procedures and ensure that student financial aid fund draw downs and expenses are reconciled and any unresolved differences are cleared in a timely manner. Ensure that reconciliations are conducted between the DOE Cash Management System, FAMIS, and the Student Information System.

**Management’s Response**

*Revised procedures have been developed and will be utilized monthly for reconciling revenues from the Department of Education and expenditures of federal funds. Reconciliation will compare transactions processed through the following electronic systems: (1) the Common Origination and Disbursement (COD) with the Department of Education, (2) draw-down of federal funds with the Department of Education (G5), (3) fund expenditures in FAMIS, and (4) fund disbursements/expenditures in Banner (SIS).*

2. Departmental Scholarships

**Observation**

The University has not established a process for awarding departmental scholarships. We noted the following exceptions in our review of eight scholarships awarded by three University departments during fiscal year 2008:

- Three of three (100%) 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.
Eight of eight (100%) scholarship awards reviewed did not have documentation of the basis for the scholarship award decisions. The lack of documentation of the basis for the scholarship award decisions increases the risk that scholarships are not awarded in a fair and unbiased manner.

Funding for the departmental scholarships reviewed was obtained from grants, departmental discretionary funds, or private donations. For the scholarships reviewed, all awardees met the basic requirements for their specific scholarships. However, no formal criteria was in place for awarding these scholarships. Departments reviewed did not require formal applications to be completed for scholarships, and awards were typically made on a first-come, first-serve basis. The University allows departments to award some scholarships because the departments prefer to have the flexibility to manage their own scholarships.

Departments should clearly document the scholarship decision-making process to better defend its position in the event it is challenged. Requiring improved documentation and record retention for departmental scholarships would be a proactive step by the University to reduce this risk and enhance accountability. Without formal administrative monitoring and procedures, scholarship awards may not be made on an objective basis or meet donor intent. Additionally, ensuring an appropriate process is in place for departmental scholarships becomes more important with the anticipated future downward expansion of the University and the anticipated growth in departmental scholarships.

Recommendation

Establish a process for all phases of departmental scholarship administration. Maintain oversight and monitor departmental scholarship awards to ensure compliance with donor requirements. Provide guidance to departments on an appropriate process to have in place for awarding scholarships.

Management’s Response

Procedures for awarding departmental scholarships have been developed by the Scholarship Office to provide guidance in establishing a process for all phases of departmental scholarship administration. The proposed procedures include the establishment of formal scholarship criteria, documentation of the decision-making process, records retention, and enhanced accountability. The procedures are under review by the Deans’ Council and will be implemented by February 28, 2010.
BASIS OF REVIEW

Objective and Scope

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

Our review of student financial aid and management controls over the student financial aid system at Texas A&M University – Texarkana focused on general eligibility for all major aid programs and scholarships. To test for compliance of selected controls, computer-assisted audit techniques were used to increase audit effectiveness and efficiency and test for specific attributes of one hundred percent of the general eligibility requirements. Transactions and activities related to these areas were reviewed for the period from September 1, 2007 through October 31, 2008. Fieldwork was conducted in May 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; 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 - Texarkana Rules; and other sound administrative practices. The audit was performed in compliance with generally accepted government auditing standards and other criteria to conform 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 – Texarkana has embarked upon an expansion program which has included the construction of a new campus to accommodate the expansion of degree programs and the addition of
freshman and sophomore level courses. Plans are underway for the University to begin accepting freshman and sophomore students in fall 2010.

Located on the border of Texas and Arkansas, A&M – Texarkana is currently an upper level university serving junior, senior, and graduate students. Students in Oklahoma and Arkansas attend at in-state tuition rates and approximately 26 percent of the student body is from Arkansas. The student population is comprised of both traditional students transferring from community colleges and non-traditional adult students returning to update or complete his or her education.
AUDIT TEAM INFORMATION

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PROJECT SUMMARY

The Texas Engineering Extension Service has designed and implemented a comprehensive, organization-wide enterprise risk management (ERM) process. It incorporates the elements of an effective risk management program as defined by the Committee of Sponsoring Organizations of the Treadway Commission and facilitates agency-wide communication of executive management's commitment to ERM. The Agency's ERM process allows for the identification of significant events that could adversely affect the accomplishment of key goals and evaluates and assigns appropriate mitigating and monitoring strategies. In addition, senior management is apprised of the risk management activities via several communication channels throughout the year. The ERM process is tied to the Agency's Strategic Plan and Compact, providing a high degree of assurance that the Agency remains well-positioned to serve its client base in the best possible manner.

The Agency is continuing to develop ERM at the division and administrative unit levels by providing ERM training and assisting in the risk identification and assessment process with each area. The process is moving toward improved and standardized ERM documentation. Management anticipates the unit level ERM processes to be complete by the end of fiscal year 2009.

BASIS OF REVIEW

Objective and Scope

The overall objective was to determine if the key elements of the Agency enterprise risk management processes are designed to identify and mitigate risks through the use of a systematic, organization-wide approach. Our review focused on the components of enterprise risk management as defined by the Committee on Sponsoring Organizations of the Treadway Commission. These components include the institution's internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring processes. Activities and documentation related to these components were reviewed in correlation to the August 2008 ERM Risk Matrix. Audit fieldwork was conducted during April and May, 2009.
Criteria

Our review was based upon standards as set forth in the Treadway Commission’s Committee of Sponsoring Organization’s Enterprise Risk Management - Integrated Framework and other sound administrative practices. The review was performed in compliance with generally accepted governmental auditing standards and other criteria to conform to the Institute of Internal Auditors’ “International Standards of 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 Engineering Extension Service’s mission is to develop a skilled and trained workforce that enhances public safety, security, and economic growth of the state and the nation through training, technical assistance, and emergency response. The Agency is an internationally recognized leader in the delivery of emergency response and workforce training, exercises, technical assistance and technology transfer. The Agency offers a wide range of hands-on, customized training solutions impacting the homeland security and the occupational and economic development of Texas and beyond. Major training programs include fire services, homeland security, public safety and security, public works, safety and health, search and rescue, and economic solutions. Texas Engineering Extension Service is the sponsoring agency for Texas Task Force 1, a part of FEMA’s national urban search and rescue program and Texas’ only type 1 statewide urban search and rescue team. During fiscal year 2008, the Agency provided training and technical assistance to over 209,000 people from the U.S. and its five territories along with 61 foreign countries.
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