

The Texas A&M University System Internal Audit Department

MONTHLY AUDIT REPORT



December 19, 2017



The Texas A&M University System Internal Audit Department
December 2017

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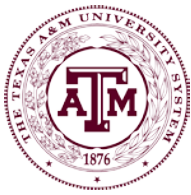
THE TEXAS A&M UNIVERSITY SYSTEM

Easterwood Airport Operations

December 19, 2017

**Charlie Hrncir, C.P.A.
Chief Auditor**

Project #20170108



Overall Conclusion

Overall, the controls established over contract administration for outsourced operations of Easterwood Airport provide reasonable assurance that airport operations are in compliance with contract terms and applicable regulations. Opportunities for improvement were noted in the areas of contract administration, usage fees, and documented procedures.

Two contracts for Easterwood Airport operations were originally executed between Texas A&M University and Astin Limited, LLC in June 2014. Contract administration responsibilities transitioned from the university to The Texas A&M University System (A&M System) in September 2015. In addition, Astin Limited, LLC created two corporations for the general aviation fixed base operations and airport operations, Astin Aviation CLL, LLC (Astin Aviation) and Easterwood Airport Management LLC (EAM), respectively. The contract between the A&M System and Astin Aviation governs the general aviation fixed base operations, and the contract between the A&M System and EAM governs commercial terminal operations. See Appendix.

Management concurred with the audit recommendations and indicated that implementation will occur by the end of March 2018.

Processes Reviewed

- Contract compliance
- Contract monitoring

Contracts Reviewed

- Astin Aviation CLL, LLC
- Easterwood Airport Management, LLC

Detailed Results

1. Contract Administration

Contracts governing airport operations need improvement to ensure efficient and effective operations. Although no significant compliance issues were identified for the contract terms reviewed, certain contract terms could be revised to provide for more efficient and effective business processes for both parties of the contract.

The contracts contain terms that create complex and inefficient processes, and do not provide enhanced controls or benefits for either party. One such term is the requirement for several different bank accounts. There are currently a total of six EAM bank accounts at three different banks, resulting in numerous fund transfers

between the accounts. Additionally, roles and responsibilities of the parties are not well defined or have changed over time in many areas and the contract terms no longer reflect current operations. For example, contract terms related to grant expenditure processing indicate that EAM is responsible for vendor payments; however, the A&M System has been processing these payments. The division of airport assets and the corresponding financial records between the A&M System and EAM creates additional complexity in the administration and monitoring of the contract.

Although processes have been developed and implemented for administering and monitoring contract performance, extraneous and inconsistent contract terms can increase the risk of compliance and performance issues which could negatively impact the airport's finances and operations.

Recommendation

Review current operations, roles and responsibilities, and contract terms to determine whether revisions are needed for contract terms and corresponding processes to provide for more efficient and effective administration of airport operations.

Management's Response

Management will review current airport contracts in an effort to provide more streamlined and effective contract monitoring. Both the EAM contract and the Astin Limited contract will be reviewed and updated by March 31, 2018.

2. Usage Fees

Astin Aviation was not in compliance with contract terms for monthly usage payments to EAM. One of five (20%) \$22,500 monthly usage fee payments reviewed was not processed. Astin Aviation made the February usage fee deposit into the EAM bank account in September, after audit inquiry. The payment error was inadvertently overlooked during normal monthly processing and review activities. Periodic monitoring and review procedures reduce the risk that errors will not be detected and corrected in a timely manner. Monitoring procedures should include timely communication to appropriate parties to make corrections or resolve outstanding issues.

Recommendation

Establish procedures to ensure monthly usage fee payments are deposited into EAM bank accounts in compliance with contract terms.

Management's Response

Procedures have been developed for the monitoring of payments between the contracted parties. The procedures for this process were approved on November 21, 2017 and this response is implemented.

3. Documented Procedures

A&M System contract monitoring procedures are not documented. The A&M System has developed processes to monitor compliance for the contracts governing outsourced airport operations. Several A&M System employees have been assigned certain contract monitoring responsibilities; however, the procedures are not yet documented. Documented procedures help employees understand their roles and responsibilities and provide clear expectations to everyone involved in the process. Additionally, documented procedures provide a valuable training tool should employee turnover occur.

Recommendation

Clearly define A&M System employee roles and responsibilities, and establish documented procedures to provide guidance on contract administration and monitoring activities.

Management's Response

It is acknowledged that while monitoring procedures do exist, they are not documented for future use. In alignment with the review of contracts, documented procedures will be finalized by March 31, 2018.

Basis of Review

Objective and Scope

The objective of this audit was to review controls established over contract administration for outsourced operations of Easterwood Airport to determine compliance with contract terms and applicable regulations. Contract terms reviewed included those related to contract revenues, expenditures, fixed assets, insurance requirements, and performance measures.

The contracts reviewed included the A&M System's agreements with Astin Aviation CLL, LLC for general aviation fixed base operations, and with Easterwood Airport Management LLC for commercial terminal operations. The audit focused on contract monitoring and compliance with contract terms. The audit period was primarily September 1, 2016 through May 31, 2017. Fieldwork was conducted from July to September, 2017.

Methodology

Our audit methodology included interviews, observation of processes, review of documentation and testing of data using sampling as follows:

- To determine compliance with contract requirements and whether adequate contract monitoring processes are in place, auditors used professional judgment to select a nonstatistical sample of contract terms.
- To determine whether usage fee payments were received as stipulated in a selected contract term, auditors used professional judgment to select a nonstatistical sample of five months of payments during the audit period.
- To determine whether fuel flowage payments were received as stipulated in a selected contract term, auditors used professional judgment to select a nonstatistical sample of three months of payments during the audit period.

Criteria

Our audit was based upon standards as set forth in The Texas A&M University System Policies and Regulations, stated contract stipulations, and other sound administrative practices. The audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Additionally, we conducted the 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.

Audit Team

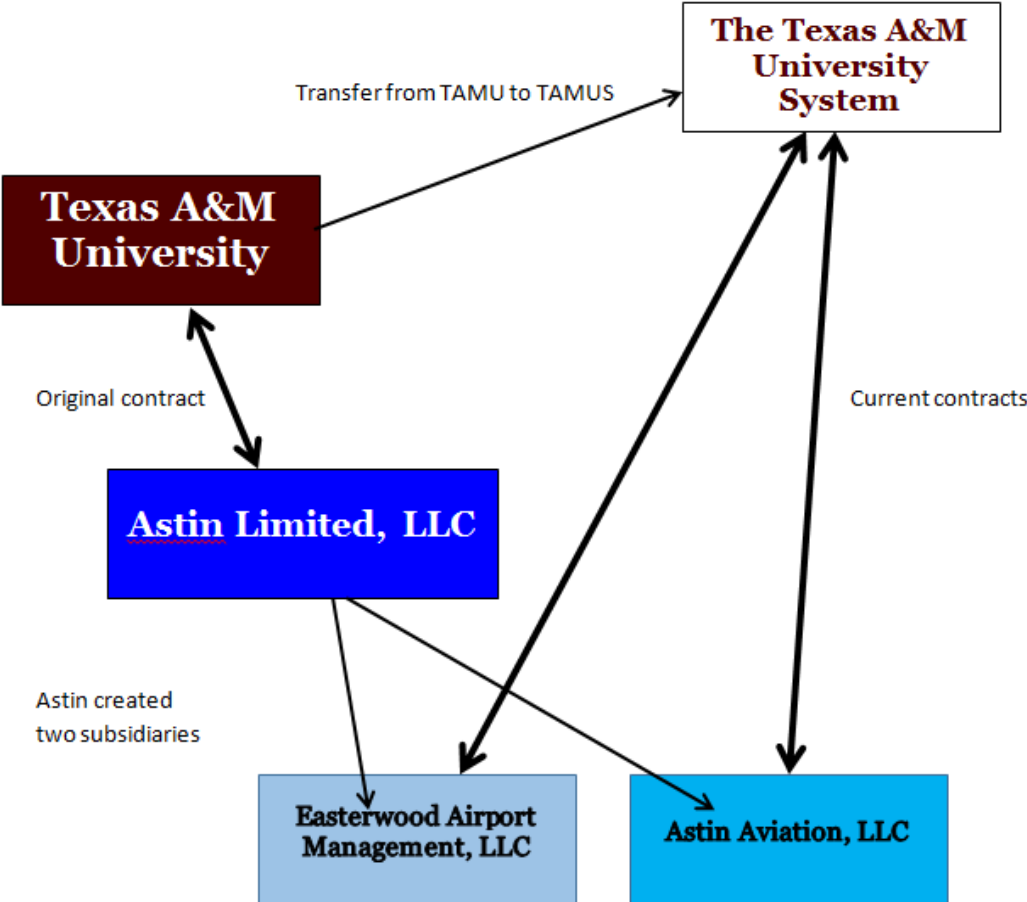
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Appendix

Contract Relationships





System Internal Audit
THE TEXAS A&M UNIVERSITY SYSTEM

TEXAS A&M UNIVERSITY

Sponsored Research Services

December 19, 2017

**Charlie Hrncir, C.P.A.
Chief Auditor**

Project #20170207



Overall Conclusion

Texas A&M University's Sponsored Research Services (SRS) controls and processes are operating as intended and in compliance with laws, regulations and policies.

There is an opportunity for improvement in the use of performance measures and customer surveys. SRS currently provides project administration services for Texas A&M University, A&M System Offices, Tarleton State University, Texas A&M University – Corpus Christi, and most of the A&M System agencies. During fiscal year 2017, SRS administered over \$440 million of research expenditures.

Over the past eighteen months SRS has mapped and updated procedures for all areas to provide for more efficient and effective project administration. According to representatives from the faculty researchers and A&M System members using SRS services, these changes have resulted in significant improvements in services provided by SRS.

Management concurred with the audit recommendation and indicated that implementation will occur by the end of August 2018.

Areas Reviewed

- Pre-award
- Post-award – project setup
- Post-award – expenditures
- Post-award – sub-recipient monitoring
- Post-award – billing/receivables
- Post-award – project reporting
- Post-award – project closeout
- Maestro access controls
- Performance measures
- External financial reporting

Detailed Results

Performance Measures

SRS has not been tracking performance measures or using surveys to obtain customer feedback. SRS stopped tracking performance measures when it updated operating procedures and restructured the department. SRS has been depending upon the Stakeholders Operation Committee (TSOC) as the primary source of customer feedback, as well as information obtained from the Council of Principal Investigators (CPI), University Research Council (URC), TAMU Research Administration Committee (TRAC), regularly scheduled A&M System member coordination meetings, and departmental meetings as requested. TSOC committee members indicated that SRS has significantly improved processes in the past year, although there are still areas for additional improvement including the use of performance measures and customer surveys. The absence of performance

measures and customer feedback increases the risk of client dissatisfaction and undetected performance problems.

According to the Committee of Sponsoring Organization's Internal Control - Integrated Framework, the control environment is a set of standards, processes, and structures that provide the basis for carrying out internal control across an organization. The control environment includes, among other things, performance measures, incentives, and rewards to drive accountability for performance. Performance measures and customer feedback can provide decision-makers with useful and meaningful information in addition to identifying areas for improvement.

Recommendation

Update and track performance measures and utilize surveys to obtain customer feedback to ensure SRS is providing services effectively and in compliance with established procedures.

Management's Response

SRS agrees with the auditors' recommendation. In August 2017, members of the SRS management team attended a seminar on the development and use of metrics in a research administration environment. SRS has been analyzing data in core service areas with the goal of establishing associated performance measures to be implemented August 31, 2018. It is a priority that SRS continues to increase communication and collaboration to create transparent research administration services to the research community that we serve. SRS's goal is to deliver efficient and superior services to members of the A&M System research community. Members that we serve currently have the opportunity to provide feedback via the SRS website. Additionally, by August 31, 2018, SRS will establish a formal process to solicit feedback from the clients that we serve.

Basis of Review

Objective and Scope

The objective of this audit was to review and assess the controls and processes at Sponsored Research Services to ensure sponsored research projects are managed in compliance with laws and policies.

The audit focused on pre-award proposal, contract, and subcontract administration; post-award project management; Maestro access controls; assessing client satisfaction and performance measures; and external financial reporting. The audit

period was primarily from April 2017 through August 2017. Fieldwork was conducted from August to November 2017.

Methodology

Our audit methodology included interviews, observation of processes, review of documentation, and testing of data using sampling as follows:

- To determine whether project proposals, contracts, and sub-recipient contracts were processed in compliance with system member procedures and A&M System regulations, auditors used professional judgement to select a nonstatistical sample of 30 project proposals designed to be representative of the population.
- To determine whether sponsored projects were set up timely, accurately, and in compliance with requirements, auditors used professional judgement to select a nonstatistical sample of 50 projects designed to be representative of the population.
- To determine whether sponsored project billings were accurate, timely, and in compliance with requirements, auditors used professional judgement to select a nonstatistical sample of 50 invoices designed to be representative of the population.
- To determine whether sponsored project receivables collections were timely and in compliance with system member procedures, auditors used professional judgement to select a nonstatistical sample of 14 invoices over 180 days past due designed to be representative of the population.
- To determine whether sponsored project expenditures were compliant with requirements, auditors used professional judgement to select a nonstatistical sample of 140 expenditures designed to be representative of the population.
- To determine whether cost transfers were compliant with sponsor guidelines and system member procedures, auditors used professional judgement to select a nonstatistical sample of 50 cost transfer transactions designed to be representative of the population.
- To determine whether sponsored project sub-recipients were monitored in compliance with requirements and were closed out timely, auditors used professional judgement to select a nonstatistical sample of 30 projects designed to be representative of the population.

- To determine whether employee access to Maestro was in compliance with system member procedures, auditors used professional judgement to select a nonstatistical sample of 15 active SRS employees designed to be representative of the population.

Criteria

Our audit was based upon standards as set forth in the Texas A&M University System Policies and Regulations; the Committee of Sponsoring Organization's Internal Control - Integrated Framework; federal and state laws; Sponsored Research Services' procedures; and other sound administrative practices. The audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

Additionally, we conducted the 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.

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