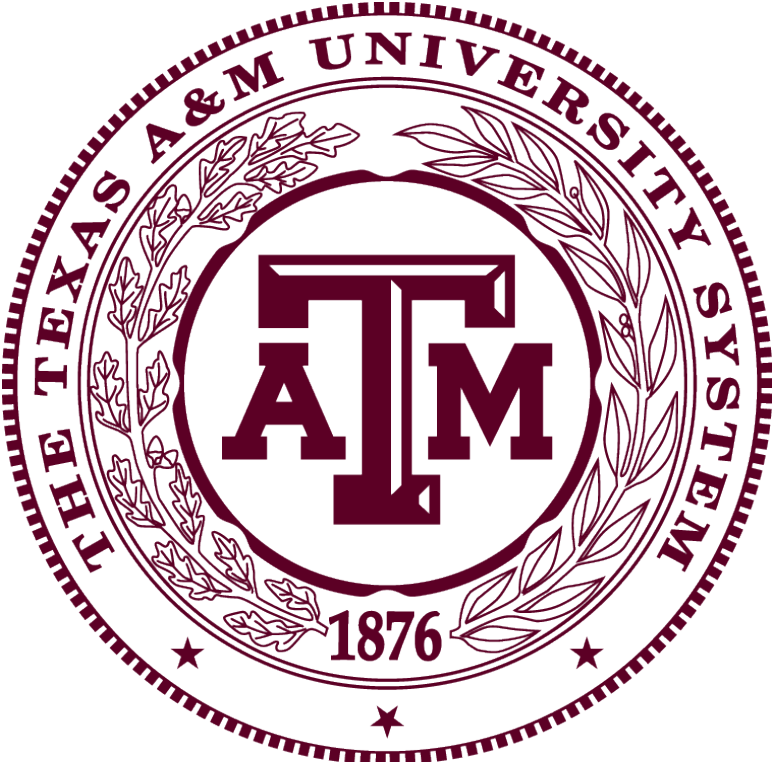


The Texas A&M University System Internal Audit Department

MONTHLY AUDIT REPORT



January 17, 2018



The Texas A&M University System Internal Audit Department
January 2018

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Accounts Receivable



System Internal Audit
THE TEXAS A&M UNIVERSITY SYSTEM

TEXAS A&M UNIVERSITY

Accounts Receivable

January 17, 2018

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

Project #20170212



Overall Conclusion

Overall, accounts receivable controls and processes at Texas A&M University are operating as intended and in compliance with applicable laws and policies. Opportunities for improvement were noted in the areas of non-FAMIS (Financial Accounting Management Information System) departmental receivables at University Press, state warrant holds, and demand letters. Texas A&M University reported \$50.6 million in accounts receivable as of August 31, 2016.

Areas Reviewed

- Accounts receivable collections
- Write-offs
- Credit balances
- Allowances for uncollectible accounts

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

Detailed Results

1. Non-FAMIS Departmental Receivables – University Press

Departmental receivable processes at University Press need improvement to ensure receivables are managed in compliance with state laws, A&M System regulation, and university procedures. Four of the eight university departments that do not process receivables in FAMIS were selected for review (Veterinary Pathobiology, Veterinary Teaching Hospital, University Press and Reed Arena) with the following results noted:

- University Press did not send demand letters for the 14 past due customer accounts reviewed in accordance with system regulation. The department sends monthly statements marked past due.
- University Press did not retain documentation of collection efforts in an efficient and easily retrievable manner. The department's current accounts receivable software system lacks the ability to store copies of letters sent to delinquent customers, and to automatically document either the dates letters were sent or the collection phone calls.
- University Press did not place accounts on state warrant hold when accounts were over 120 days past due and in excess of \$100 for any of the nine applicable customer accounts reviewed. The department has obtained Financial Management Operations (FMO) approval for an exception to the university's state hold procedures for consignment accounts; however, the

departmental extension of credit procedures do not include the department's policy on disputed invoices or clearly define the department's definition of delinquency for state hold processes.

A&M System Regulation 21.01.04 *Extension of Credit* states that documentation of all attempts to collect debt must be recorded and maintained on file, and provides the schedule for first and second demand letters in accordance with Texas Administrative Code. University Extension of Credit and Collection Procedures require departments that do not process accounts receivable through FMO to develop extension of credit procedures that include the department's methods to document collection efforts, the departmental policy on disputed invoices, and the department's procedure for placing external customers on state warrant hold. FMO procedures state that customer accounts are placed on state warrant hold when the account reaches 120 days past due and exceeds \$100.

Delays in collecting accounts receivable could result in a loss of university funds. Consistent use of demand letters and state warrant holds may provide greater opportunities for collection of delinquent debts.

Recommendation

Issue demand letters for delinquent customer accounts in accordance with A&M System regulation. Update University Press departmental extension of credit procedures to ensure they address documentation of collection efforts, disputed invoices and state warrant hold procedures. Obtain FMO approval of the updated procedures.

Determine whether the software solution used by University Press supports efficient and effective management of receivable collections. Consider implementing the university's iPayments system to improve oversight and consistency for the remaining university departments not currently using the system.

Management's Response

University Press and the Associate Vice President for External Affairs will meet with the Office of General Counsel and seek guidance on whether the current practice of monthly past due notices meets with the appropriate compliance and regulations by March 31, 2018.

University Press is updating their departmental extension of credit procedures (which includes state warrant hold processes) and documentation of collection

efforts to ensure compliance with A&M System Regulation 21.01.04. These procedures will be presented and approved by FMO by February 28, 2018.

University Press will meet with FMO iPayments staff to determine viability and improvements to current software solutions by January 31, 2018.

FMO will reach out to the departments that we feel would benefit from using iPayments by August 31, 2018.

2. State Warrant Holds

Nine of sixty (15%) external customers were not placed on state warrant hold when accounts were over 120 days past due and in excess of \$100 as required by FMO procedures. Departments were notified to complete the state warrant hold process, but did not do so in a timely manner. All nine customers have subsequently been placed on state warrant hold or paid the outstanding balances. Reducing the time between account delinquency and application of state warrant holds increases the likelihood of collection.

Recommendation

Review and enhance processes to ensure state warrant holds are placed after 120 days of non-payment for customers with invoices exceeding \$100. For departments not placing state warrant holds in a timely manner, elevate notification to the appropriate levels of management.

Management's Response

FMO's process will be enhanced by adding a step to escalate a department to their assistant dean or appropriate vice president when state warrant holds are not placed in a timely manner. FMO will also send out reminders in the Controller Connection quarterly reminding departments of the importance of this step. Both enhancements will be effective by January 1, 2018.

3. Demand Letters

Demand letter processes require clarification to ensure compliance with A&M System regulation and Texas Administrative Code. FMO mails FAMIS-generated past due notices every 30 days after an invoice is due and continues to do so until the invoice is paid or is deemed uncollectible. The university does not consider these past due notices as demand letters; however, separate demand

letters setting forth the nature and amount of the obligation are not prepared and mailed.

A&M System Regulation 21.01.04 *Extension of Credit* and Texas Administrative Code provide that no more than two demand letters should be transmitted to debtors. The first demand letter should be sent no more than 30 days after the obligation becomes delinquent and the second demand letter should be sent 30 to 60 days after the first demand letter.

Recommendation

Work with the A&M System Office of General Counsel to determine if the current practice of mailing monthly past due notices should be amended in any way, or whether separate demand letters should be prepared to ensure compliance with A&M System regulation and the Texas Administrative Code.

Management's Response

FMO will work with the Office of General Counsel to clarify that current practices are in compliance with A&M System Regulation 21.01.04 and Texas Administrative Code. FMO expects to have this clarified by March 31, 2018.

Basis of Review

Objective and Scope

The objective of this audit was to review and assess the controls and processes over accounts receivable at Texas A&M University to determine if the university is in compliance with policies, regulations, and rules.

The audit focused on accounts receivable collections, write-offs, credit balances, and allowances for uncollectible accounts. For the purposes of this audit, accounts receivable related to sponsored research projects were excluded from testing due to an ongoing audit of Sponsored Research Services (SRS). Additionally, accounts receivable for the Texas A&M Health Science Center were excluded from testing as the receivables function had not merged with FMO at the time of fieldwork. The audit period was primarily September 2015 to March 2017. Fieldwork was conducted from May 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 university, system and state collection procedures for centrally managed accounts receivable in FAMIS, auditors judgmentally selected a sample of outstanding receivables aged more than 60 days.
- To determine compliance with university, system and state collection procedures for departmental receivables not processed in FAMIS, auditors judgmentally selected outstanding receivables aged more than 90 days as of March 31, 2017 for four departments.
- To determine compliance with university procedures for credit balances, auditors judgmentally selected a sample of credit balances aged more than 365 days.

Criteria

Our audit was based upon standards as set forth in Texas A&M University System Policies and Regulations; Texas A&M University Extension of Credit and Collection Procedures; Texas Administrative Code §59.2; the Treadway Commission's Committee of Sponsoring Organization's Internal Control – Integrated Framework (COSO); 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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