

The Texas A&M University System Internal Audit Department



Monthly Audit Report
November 6, 2018

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THE TEXAS A&M UNIVERSITY SYSTEM

TEXAS A&M UNIVERSITY-TEXARKANA

FINANCIAL MANAGEMENT SERVICES

November 6, 2018

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Chief Auditor

Project #20182101



Overall Conclusion

Financial controls and processes at Texas A&M University-Texarkana (TAMUT) are operating as intended with the exception of contract administration. Opportunities for improved controls were also noted in the areas of student receivables, reconciliations, and working funds.

Management concurred with the audit recommendations and indicated that implementation will occur by the end of August 2019.

Audit Areas

- Contract administration
- Student receivables
- Reconciliations
- Working funds
- Compliance with disbursement requirements
- Procurement and travel cards

Summary of Audit Results

Significant Observations

- Contract monitoring procedures require significant improvement to ensure proper approval and compliance with contract terms.

Notable Observations

- Uncollectible student accounts receivable have not been written off.
- Improvements are needed to collection guidance to strengthen student accounts receivable processes.
- Improvements are needed to ensure account reconciliations are reviewed and outstanding items are cleared timely.
- Controls over working funds require improvement.

Detailed Results

1. Contract Administration

Contract monitoring procedures require significant improvement to ensure proper approval and compliance with contract terms. Weaknesses were identified in the areas of contract review and approval, monitoring of contract terms, and contract risk analysis procedures.

1a. Contract Approval

Contracts are not consistently routed for approval in compliance with system regulation and university delegation of authority. A review of 10 contracts noted that 2 (20%) lacked proper review or approval.

- One contract for software licensing and support totaling \$355,000 lacked approval from the System Chief Information Officer (SCIO) and the Office of General Counsel (OGC) in accordance with system policy and regulation. The university was unaware of the requirement for SCIO approval. It was an oversight not to obtain OGC review.
- One interagency grant agreement totaling \$249,500 related to recreational trail construction was not approved by the appropriate university official in accordance with the delegation of authority. The university did not value the contract appropriately for delegation purposes.

A&M System Regulation 29.0101 *Information Resources Governance* requires the SCIO to approve member information resources procurements that equal or exceed \$250,000. A&M System Policy 25.07 *Contract Administration* requires contracts exceeding \$100,000 to be submitted to OGC for review and approval unless exempted by OGC guidelines. Lack of proper review and approval increases the risk that contracts are not legally sufficient or properly authorized and resources are not used efficiently.

Recommendation

Enhance monitoring to ensure that contracts receive the required review and approvals. Review the university's delegation of authority to ensure thresholds accurately represent management's desired authorization levels.

Management's Response

We concur with the auditors' observation and recommendation.

This issue has been addressed and corrected. To assure consistency and compliance, the contract routing process has been enhanced to assure compliance with system regulation and university delegation of authority. This process also considers the overall value of the life of the contract to assure compliance with the university's delegation of authority.

1b. Contract Monitoring

Contracts that include commission revenues and the university's facilities support services agreement require additional monitoring. Verification of commission revenue amounts received is not performed to determine if commission revenues are calculated in accordance with contract terms. Commission revenues for fiscal year 2018 were approximately \$100,000. Management was unclear which department was responsible for verification.

The university monitors vendor performance for its facility support services agreement through visual inspections, regular meetings with the vendor, and review of invoices. However, the quality assurance program required by the contract which should include benchmarks for satisfaction, tools and metrics to measure quality levels of service, regular reports, and an action plan to correct deficiencies, is not currently in use. Changes in personnel at both the vendor and the university have resulted in a desire by both parties to review and redevelop the program.

Insufficient monitoring of contract terms can increase the risk of vendor noncompliance and performance issues which could negatively impact university finances and operations.

Recommendation

Develop procedures to monitor commission revenues. Implement the quality assurance program for the facilities support services agreement as required by contract terms.

Management's Response

We agree with the auditors' observation and recommendation.

A commission revenue reconciliation procedure has been created to address this recommendation. We have been working with vendors to provide us a more detailed commission report so we can verify that all commission revenues are calculated in accordance with the terms of the contract. The target date for completion is March 31, 2019.

The university's facilities support services agreement requires review and redevelopment of the program. The target date for completion of this redevelopment is August 31, 2019.

1c. Contract Risk Analysis

A risk analysis process is not in place to identify contracts that require enhanced monitoring of contract terms. The A&M System Contract Management Handbook and Texas Government Code 2261 *State Contracting Standards and Oversight* require agencies to develop a procedure to identify contracts that require enhanced contract or performance monitoring. This process should be performed at the origination of the contract.

The university was unaware of the requirement for a documented risk analysis process and assesses contracts informally. Without such a procedure the university may not identify higher risk contracts requiring enhanced monitoring which may increase the risk of vendor performance issues.

Recommendation

Perform and document a required risk analysis to identify those contracts that require enhanced monitoring.

Management's Response

We agree with the auditors' observation and recommendation.

An enhanced contract monitoring procedure has been created, implemented and included in our contract approval process to address contracts that could be at risk and require additional monitoring.

2. Write-Off of Student Accounts Receivable

Uncollectible student accounts receivable have not been written off. As of June 2018, the university had approximately \$960,000 in student receivables more than three years past due, including approximately \$575,000 more than five years past due.

University procedures indicate accounts up to \$50 may be approved for write off by the Controller and Director of Accounting if they have been outstanding for four years; however treatment of larger balances is not addressed. Management indicated that uncollectible accounts have been identified but have not been written off, primarily due to uncertainty regarding the student system's capabilities to write off the account without removing the student's transaction record.

Without writing off student accounts deemed uncollectible, the university's accounts receivable balance does not accurately reflect future cash flow expectations.

Recommendation

Update university procedures to establish a write-off process for uncollectible student receivables over \$50. Write off uncollectible student accounts receivable following the process established by system regulation.

Management's Response

We concur with the auditors' observation and recommendation. By May 1, 2019, the university's write off procedures will be updated to establish a write-off process for uncollectible student receivables over \$50. This will include the process to account for write-offs in the student system, Banner.

Uncollectible student accounts receivable will be written off following the process established by system regulation. Target date for completion of write-offs in FAMIS and Banner is August 31, 2019.

3. Collection Procedures for Student Accounts Receivable

Improvements are needed to collection guidance to strengthen student accounts receivable processes.

- The university has established a collection process for student receivables. Collection actions are performed at specified intervals for past due student accounts; however, university procedures do not clearly define timing of these collection actions and do not reflect current practices.
- The collection process for payment agreements is not addressed in university procedures. Students with delinquent account balances are excluded from collection activities if they sign payment agreements with the university prior to the initiation of collection activity. A review of these accounts with payment agreements noted that accounts are not placed on state hold when debt is determined to be delinquent as required by A&M System Regulation 21.01.04, *Extension of Credit*.

Procedures provide guidance to staff and help ensure management directives are carried out. Without complete and accurate procedures for student accounts receivable, collection activities may not occur as intended or in compliance with university procedures.

Recommendation

Update university procedures to clarify timelines for collection actions and include payment agreements. Ensure accounts determined to be delinquent are placed on state hold in accordance with system regulation.

Management's Response

We concur with the auditors' observation and recommendation. By January 31, 2019, written university collection procedures for student account receivables will be updated to reflect current practices. Internal payment agreement procedures will also be updated and reviewed to include state hold placement.

4. Account Reconciliations

Improvements are needed to ensure account reconciliations are reviewed and outstanding items are cleared timely. Of the ten account reconciliations reviewed, four (40%) did not include evidence of supervisory review. Five (50%) of ten reconciliations reviewed had outstanding items ranging from 913 to 1,693 day old. Reconciling items are documented; however, follow up action is limited due to lack of established procedures and assignment of responsibility.

The university has processes in place to complete reconciliations; however, there is no written guidance indicating timelines for preparation, required review, or assignment of responsibility for clearing or further escalating the resolution of outstanding items.

Timely reconciliations are an important control for the detection of errors, discrepancies, and systemic problems. Monitoring and oversight of the reconciliation process is important to ensure that employees understand account reconciliation processes, and how and when to alert management to issues or problems in resolving outstanding items.

Recommendation

Develop written procedures for reconciliations that establish requirements for preparation, review, and resolution of reconciling items. Clear reconciling items in a timely manner in accordance with university procedures.

Management's Response

We concur with the auditors' observation and recommendation. By January 31, 2019, written procedures for reconciliations will be established for preparation, review, and resolution of reconciling items. Accounts will be reconciled on a

monthly basis with all outstanding items cleared within two months. The reconciliations will be due to the Controller for review within 20 days after the close of the prior month. Target date for completion of account reconciliations is March 1, 2019.

5. Working Funds

Controls over working funds require improvement. A review of working fund procedures for the \$300 fund at the University Police Department (UPD) identified several control weaknesses including:

- Individual accountability for the working fund cash box is not maintained. The primary custodian maintains the cash box in a locked file cabinet; however, all UPD personnel have access to the key.
- Duties are not segregated for the receipt of cash and record keeping for parking fines and parking permits. In addition, other UPD personnel have access to the parking fine records.
- Reconciliations between parking tickets and permits issued to parking fines and permit fees collected are not performed to ensure that tickets and permits issued are recorded and that revenue collected is accurate and complete.

The Division of Finance and Administration performs periodic cash counts at UPD and other departments with working funds, but does not review controls over working funds.

A&M System Regulation *21.01.02 Receipt, Custody and Deposit of Revenues* requires a designated individual be responsible for cash funds held within a department and that the individual must retain custody and control over funds at all times. The regulation also states that generally there are four incompatible duties or responsibilities: authorization, custody, record keeping, and reconciliation. Reconciliations help ensure that discrepancies are detected and corrected in a timely manner. Without these controls the risk is increased that discrepancies could occur and would not be detected.

Recommendation

Relocate the responsibility for receipt of payments for parking tickets and permits to the Bursar's Office. Review the purpose for other departmental working funds. For those working funds retained, review departmental controls to ensure compliance with system regulations for cash handling and receipt, custody and deposit of revenues.

Management's Response

We concur with the auditors' observation and recommendation. Effective September 26, 2018, UPD's working fund was deposited and parking tag sales as well as parking ticket payments were moved to the Business Office. UPD will only accept credit card payments for after-hours parking fines where a wheel lock clamp boot removal is required.

Remaining departmental working funds will be reviewed for purpose and compliance. Target date for review of departmental working funds is December 21, 2018.

Basis of Review

Objective and Scope

The objective of this audit was to determine if selected financial controls and processes at the Texas A&M University-Texarkana are operating as intended and in compliance with applicable laws, policies, regulations, and university rules.

The audit focused on the following:

- Contract administration
- Student receivables
- Reconciliations
- Voucher expenditures
- Working funds
- Procurement cards
- Travel cards

The audit period was primarily May 2017 to April 2018. Fieldwork was conducted from June 2018 to August 2018.

Methodology

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

- To determine if contracts were properly approved and if selected contract terms were in compliance with contract requirements, auditors used professional judgment to select a non-statistical sample of ten agreements based upon magnitude and risk.
- To determine if student accounts receivable collection processes were in compliance with A&M System regulations, auditors used professional judgment to select a non-statistical sample of 30 delinquent student accounts designed to be representative of the population.
- To determine the timeliness and accuracy of account reconciliations, auditors used professional judgment to select a non-statistical sample of ten account reconciliations designed to be representative of the population.
- To determine whether voucher transactions were appropriate and reasonable, auditors used professional judgment to select a non-statistical sample of 30 voucher transactions.

- To determine whether contracts were in place with frequently used vendors, auditors used professional judgement to select a non-statistical sample of 14 vendors with cumulative fiscal year expenditures greater than the delegated purchasing authority threshold established by the university.

Criteria

Our audit was based upon standards as set forth in the following:

- Texas A&M University System Policies and Regulations
- Texas A&M University – Texarkana administrative procedures, rules and guidelines
- Stated contract stipulations
- Texas Government Code Chapter 2261
- 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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System Internal Audit
THE TEXAS A&M UNIVERSITY SYSTEM

**TEXAS A&M UNIVERSITY-CENTRAL
TEXAS**

UNIVERSITY POLICE DEPARTMENT

November 6, 2018

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

Project #20192401



Overall Conclusion

Controls and processes within the University Police Department at Texas A&M University–Central Texas are operating as intended and in compliance with applicable laws and policies.

Basis of Review

Objective and Scope

The objective of this audit was to assess internal controls to determine if processes within the University Police Department are operating as intended and in compliance with applicable laws and policies.

The audit period was primarily September 2017 to August 2018. Fieldwork was conducted from September 2018 to October 2018.

Methodology

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

- To verify evidence room inventory is properly accounted for and secured, auditors tested the entire population of eight items.
- To determine the existence of fixed assets, auditors tested the entire population of 15 assets.
- To determine compliance with training and certification requirements, auditors selected a nonstatistical sample of six employees through random selection designed to be representative of the population.
- To verify weapon inventory is properly accounted for and secured, auditors tested the entire population of 25 weapons.

Audit Areas

- Accreditation
- Clery Act compliance
- Evidence room inventory
- Fixed assets
- Goals and performance metrics
- Procurement cards
- Training and certifications
- Weapons inventory

Criteria

Our audit was based upon standards as set forth in the following:

- Texas A&M University System Policies and Regulations
- Department Standard Operating Procedures
- Department Policy Manuals
- Handbook for Campus Safety and Security Reporting
- 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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