

The Texas A&M University System Internal Audit Department



Monthly Audit Report
October 8, 2018

TABLE OF CONTENTS

Texas A&M AgriLife Research, Texas A&M AgriLife Extension
Service, & Texas A&M Veterinary Medical Diagnostic Laboratory

Financial Management Services



System Internal Audit

THE TEXAS A&M UNIVERSITY SYSTEM

**TEXAS A&M AGRILIFE RESEARCH,
TEXAS A&M AGRILIFE EXTENSION
SERVICE, AND TEXAS A&M VETERINARY
MEDICAL DIAGNOSTIC LABORATORY**

FINANCIAL MANAGEMENT SERVICES

October 8, 2018

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Chief Auditor**

Project #20180606



Overall Conclusion

Overall, the internal controls for financial management services at Texas A&M AgriLife Research, Texas A&M AgriLife Extension Service, and Texas A&M Veterinary Medical Diagnostic Laboratory are effective and efficient. Opportunities for improvement were noted in the areas of accounts receivable, revenue completeness, and reconciliations.

Audit Areas

- Accounts receivable
- Contract administration
- Payment Card Industry (PCI) compliance
- Procurement cards
- Reconciliations
- Revenue completeness
- Working funds

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

Detailed Results

1. Accounts Receivable

Notices for past due accounts are not being sent timely. Past due accounts managed by Banking and Receivables within the AgriLife fiscal office as well as those managed by the Soil, Water, and Forage Testing Laboratory were selected for testing. Accounts tested were not in compliance with A&M System Regulation 21.01.04, *Extension of Credit*, which requires the first demand letter be sent no more than 30 days and the second demand letter no more than 60 days after the obligation becomes delinquent. Procedures to monitor these past due accounts were not adequate to ensure notices were sent timely. Delayed billing correspondence could affect the collectability of accounts.

1a. Accounts Receivable – Soil, Water, and Forage Testing Laboratory

Collection procedures do not ensure compliance with the A&M System regulation. Current procedures to follow-up on outstanding balances include reviewing the balances quarterly in order to begin the collection process. However, past due invoices were overlooked during the last cycle, and collection efforts had not been initiated for any of the 10 accounts tested. These balances ranged from 131-261 days past due. The total accounts receivable balance is \$114,000 of which

\$69,400 is over 90 days past due. There has been turnover in the position responsible for managing the laboratory's receivables. The transition of these duties has increased the number of past due accounts.

Recommendation

Improve current processes to ensure monitoring of past due receivables is performed in compliance with the A&M System regulation.

Management's Response

A review of the accounts receivable processes at the Soil Water and Forage Testing Laboratory is currently underway. Processes will be implemented to expedite the payment processes for invoices and improve the timely process of collections. Implementation: March 31, 2019

1b. Accounts Receivable – Fiscal Office

First demand letters were not sent within 30 days of the original invoice due date for five of nine (55%) accounts tested. First demand letters were sent 67 to 177 days after the date of delinquency for these accounts. The total accounts receivable balance for AgriLife Research and AgriLife Extension Service excluding sponsored research is \$644,700 of which \$58,000 is over 90 days past due. Past due notices are generated by the A&M System's Financial Accounting Management Information System (FAMIS). The timing of the notices varies based upon invoice due dates and month end dates. For two of the five accounts tested, the agency did not receive the FAMIS-generated past due notices. Management stated that the remaining three accounts tested did not have first demand letters sent due to a data entry issue.

Recommendation

Improve current processes to ensure monitoring of past due receivables is performed in compliance with the A&M System regulation.

Management's Response

A review of the monthly distribution of past due notices will be conducted. The first and second past due notices generated by the accounting system will be sent to the customer directly. Implementation: March 31, 2019

2. Revenue Completeness

For two areas tested, sales of products are not being reconciled to physical inventory to ensure revenue completeness. Control activities such as inventory counts, reconciliations, and segregation of duties help ensure that discrepancies (i.e. errors, misappropriation) are detected and corrected in a timely manner and that revenue collected is accurate and complete. Lack of adequate controls in these areas increases the risk that missing revenue would not be detected.

2a. Revenue Completeness - Rosenthal Special Orders

Recordkeeping for special orders at the Rosenthal Meat Center is not sufficient to ensure special orders are invoiced. The current process requires the manager who receives the order to notify the department's business office to create an invoice. The manager is responsible for receiving the special order, fulfilling the order, billing, and, in some cases, transferring the product to the customer. There is no audit trail to document this process. The product used to fulfill special orders is stored in freezers separate from the general sales area. The flow of the physical inventory in and out of these freezers is recorded on a log; however, the log does not include sufficient detail to track the specific products used for sales inventory or to fulfill a special order. The special order process is infrequent; therefore, management has not reviewed the process for proper internal controls.

Recommendation

Develop a mechanism to record special orders including sufficient detail to track the specific products used for each special order. Ensure written procedures are in place for completing and maintaining these records. Log fluctuations in physical inventory to allow tracking of products from intake to sale. Periodically reconcile reductions of physical inventory to sales to ensure special order sales were properly invoiced. Ensure appropriate segregation of duties in the special order process.

Management's Response

We will work with the unit to establish procedures for special order processing to include proper recordkeeping, inventory tracking and billing. Implementation: June 30, 2019

2b. Revenue Completeness – 4-H Center Store

Physical inventory at the 4-H Center t-shirt shop is not being compared with sales information to ensure all inventory reductions are recorded as sales.

The 4-H Center currently prepares and maintains logs of sales for the shop. The center also performs periodic inventory counts of the t-shirt shop inventory; however, no comparison is performed to reconcile the sales and inventory records. There has been turnover in the position responsible for this reconciliation.

Recommendation

Periodically reconcile sales to physical inventory for the t-shirt shop and investigate any discrepancies.

Management's Response

A reconciliation between sales and physical inventory will be conducted twice a year at the 4-H Center. Implementation: March 31, 2019

3. Reconciliations

Four of 16 (25%) bank and clearing account reconciliations tested were not completed in a timely manner. Two reconciliations were completed between 50 and 76 days after month end, and two reconciliations have not yet been completed through the review stage. Additionally, three of 16 (18%) account reconciliations had reconciling items older than 240 days at the time of the reconciliation that had not cleared by the time of auditor testwork. The three accounts had a total of 72 reconciling items ranging from 240 to 1,064 days outstanding.

The CFOs of each agency are reviewers for these reconciliations and are aware of the status of these outstanding items. Complexity of the transactions and accounts attributed to the delayed completions.

Control activities, including reconciliations, help ensure management directives are carried out and that necessary actions are taken to address risks. Monitoring reconciliation status and resolving outstanding items in a timely manner increases the likelihood of detecting errors and discrepancies.

Recommendation

Complete outstanding reconciliations and investigate outstanding reconciling items for resolution. Internal agency procedures should be further defined to specify fiscal office expectations for timeliness of completing reconciliations and clearing outstanding items. Monitor reconciliation status for compliance with established procedures.

Management's Response

The agencies will seek to complete and bring resolution to outstanding items in a more timely manner. Internal agency procedures will be established to define timeliness expectations for reconciliation process. Implementation: June 30, 2019

Basis of Review

Objective and Scope

The objective of this audit was to determine if internal controls for financial management services at Texas A&M AgriLife Research, Texas A&M AgriLife Extension Service, and Texas A&M Veterinary Medical Diagnostic Laboratory are effective and efficient.

The audit focused on the following:

- Accounts receivable
- Contract administration
- Payment Card Industry (PCI) compliance
- Procurement cards
- Reconciliations
- Revenue completeness
- Working funds

The audit period was primarily April 1, 2017 to March 31, 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 as follows:

- To determine if accounts receivable procedures are in compliance with the system regulation, auditors judgmentally selected a nonstatistical sample of ten invoices.
- To determine if contracts are approved and contract terms are monitored, auditors judgmentally selected a nonstatistical sample of ten contracts.
- To test compliance with Payment Card Industry Data Security Standards, auditors judgmentally selected a nonstatistical sample of ten PCI self-assessment questionnaires.
- To determine whether bank, clearing, and working fund account reconciliations are completed timely and that outstanding items are reasonable, auditors judgmentally selected a nonstatistical sample of 16 reconciliations.
- To test the completeness and accuracy of Rosenthal Meat Center store revenue, auditors judgmentally selected a nonstatistical sample of months and days to compare sales data to inventory and to the Financial Accounting Management Information System (FAMIS).

- To test the completeness and accuracy of the Texas 4-H Center camp registration revenue, auditors judgmentally selected a nonstatistical sample of 30 participant registrations.
- To test the completeness and accuracy of the Texas 4-H Center facility rental revenue, auditors judgmentally selected a nonstatistical sample of seven events.
- To test the completeness and accuracy of Conferencing Services' event revenue, auditors judgmentally selected a nonstatistical sample of 26 events.
- To test the completeness and accuracy of the Soil, Water and Forage Testing Laboratory revenue, auditors selected a nonstatistical sample of 30 lab samples.
- To test the completeness and accuracy of TVMDL lab testing revenue, auditors judgmentally selected a nonstatistical sample of 30 accessions.

Criteria

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

- Texas A&M University System Policies and Regulations
- Texas A&M AgriLife Research Procedures
- Texas A&M AgriLife Extension Service Procedures
- Texas A&M Veterinary Medical Diagnostic Laboratory Procedures
- Committee of Sponsoring Organizations (COSO) Internal Control: Integrated Framework
- 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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