

# The Texas A&M University System Internal Audit Department



Monthly Audit Report  
April 4, 2019

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Tarleton State University  
Financial Management Services



System Internal Audit  
THE TEXAS A&M UNIVERSITY SYSTEM

**TARLETON STATE UNIVERSITY**

**FINANCIAL MANAGEMENT SERVICES**

**April 4, 2019**

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

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**Project #20190402**



## Overall Conclusion

Financial controls and processes at Tarleton State University are operating as intended with the exception of contract administration.

Opportunities for improved controls were also identified in the following areas:

- Account reconciliations
- Student receivables
- Working funds

### Audit Areas

- Contract administration
- Account reconciliations
- Student receivables
- Working funds
- Compliance with disbursement requirements

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

## Summary of Audit Results

### Significant Observations

- Contract administration processes continue to require significant improvement to ensure compliance with contract terms.

### Notable Observations

- Three of 10 (30%) account reconciliations reviewed have outstanding reconciling items dating back to July 2016.
- The university has not developed formal procedures for the collection and write-off of student receivables to ensure compliance with laws and regulations.
- University departments with working funds did not consistently document cash handling procedures or complete cash handling training.

## Detailed Results

### 1. Contract Administration

Contract administration processes continue to require significant improvement to ensure compliance with contract terms. Weaknesses were identified in the areas of contract compliance monitoring and contract database information.

#### 1a. Contract Compliance Monitoring

**Contract administration processes require additional monitoring in some areas to further ensure compliance with contract terms.** Management relies on responsible departments to monitor compliance with contract terms. The following instances were noted in which contract terms were not being sufficiently monitored for compliance with contract requirements for two of the university's largest contracts.

##### *Southeast Service Corporation*

- The required quality assurance program has not been developed to measure quality levels of vendor services, including action plans to correct deficiencies.

##### *Sodexo Dining Services*

- Sodexo royalty payments are being received by the university; however, verification of amounts is not performed.
- The annual payment statement has not been submitted to the university after the end of the fiscal year as required.

University Rule 25.07.99.T1, *Contract Administration*, states that the Director of Procurement and Contracts is responsible for creating and maintaining a well-defined administrative control environment that assures management exercises its fiduciary responsibilities when executing contracts on behalf of the university. It also states that the department in which a contract originates will be responsible for verifying that all contractual obligations have been fulfilled; for fulfilling all contract reporting required under A&M System policy and regulation, applicable law, and the terms of the contract; and for closing out the contract.

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

### Recommendation

Address the areas of noncompliance with contract terms identified above. Develop and implement processes to provide additional monitoring of compliance with contract terms and vendor performance. Implement controls needed to ensure that management exercises its fiduciary responsibilities when executing contracts.

### Management's Response

Tarleton will develop a centralized contract monitoring plan and process to comply with the University Rule 25.07.99.T1, Contract Administration. This plan and process will include centralized oversight of the monitoring of contract deliverables within the Procurement and Contracts office, as well as clear requirements and expectations at the point of contract execution for those managing the contracts for the university in various departments. A process will also be developed to address vendors that fail to meet the contract requirements and deliverables. A thorough review of active contracts, including the Sodexo agreement, will be completed to ensure departments are equipped for appropriate monitoring.

Development is already taking place for a quality assurance program for the SSC contract using Qualtrix. A survey is being developed for SSC inspections, as well as university inspections with a rating system to determine the quality of work being performed on the university campus by SSC. A rating system will be developed to determine the appropriate bar being set that matches the expectation of the university based on the SSC contract.

The implementation and monitoring phase of this effort is expected to be completed by December 31, 2019

## 1b. Contract Database

**The Procurement Office is not tracking contract dollar amounts consistently in the university's contract database.** There is a field in the database to record the contract dollar amount, but the field was not consistently being filled out.

A lack of consistent procedures contributed to some contracts having value associated with them while others do not. Management indicated there are limitations with the current database and alternative software options are being explored.

Consistent tracking of contract value is necessary to ensure compliance with the university's delegation of authority, and to assess risk and identify contracts that require enhanced monitoring.

### Recommendation

Document and consistently track the total contract value for university contracts.

### Management's Response

Tarleton is beginning a project to review all active agreements and update the Contract Logix database with accurate information.

The implementation and monitoring phase of this effort is expected to be completed by December 31, 2019.

In addition, a more user-friendly software solution is being considered. Tarleton plans to implement the Total Contract Management tool that will integrate with the current procurement system (Texan Buy), which would allow Tarleton to better track the contract dollar amounts consistently with adjustments due to rate increases. A final decision on this solution is expected to be made soon and Tarleton will implement as quickly as is feasible once a contract is executed.

## 2. Account Reconciliations

**Three of 10 (30%) account reconciliations reviewed have outstanding reconciling items dating back to July 2016.** The university has taken action in the past year to strengthen account reconciliation controls through improved oversight, monitoring, and documented procedures. Management continues to research and address long-term reconciling items. Monitoring of these outstanding items is now being tracked through an aging report provided to university management. The older outstanding items are generally more complicated and often require management decisions to make the necessary corrections.

University Standard Administrative Procedure (SAP) 21.01.01.T0.02 *Accounting and Fiscal Record Keeping* Section 5.2 states outstanding items, including any unusual or unidentified items should be resolved within ninety (90) days of the end of the month in which the transaction occurred. Any items older than ninety (90) days will be brought to the attention of the university chief financial officer.

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

Continue efforts to resolve and reconcile long-term outstanding items. Continue reporting status of account reconciliations to management to enhance decision-making related to outstanding items.

#### Management's Response

One of the outstanding accounts has been resolved and does not contain outstanding items greater than 90 days as of February 18, 2019. We are working with the Manager of Payroll to obtain reports and additional information for the Teacher Retirement System account in order to identify and correct outstanding items. The A&M System Office of Budgets & Accounting has also been engaged to troubleshoot this complex reconciliation.

We are working closely with Financial Aid relating to account reconciliations. We have made good progress over the past six months and will continue efforts to reconcile the accounts and correct the old outstanding items.

All reconciliation items greater than 360 days old will be cleared no later than July 31, 2019. Items exceeding 90 days will continue to be escalated to the Executive Cabinet for review and action.

### 3. Collection Procedures for Student Accounts Receivable

**The university has not developed formal procedures for the collection and write-off of student receivables to ensure compliance with laws and regulations.** Management has developed technical procedures for performing specific tasks in Banner and other software used in the collection process, but has not developed procedures that address the timing of collection events and actions to be taken.

A&M System Regulation 21.01.04 *Extension of Credit* and the related statutes, policies, and requirements listed in the regulation describe the processes that should be followed by members when developing their guidelines for collecting and writing off student accounts that management has determined to be delinquent.

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

#### Recommendation

Develop university procedures that address when accounts are determined to be delinquent and the timing of the resulting collection actions in accordance with the requirements found in the system regulation. Continue to address the revisions that were recommended by the Office of General Counsel after their review of the university's collection and write-off processes. Ensure accounts determined to be delinquent are placed on state hold in accordance with the system regulation.

#### Management's Response

Tarleton has a project in place to address efficiencies, policies, and processes concerning compliance with A&M System Regulation 21.01.04. Currently, the standard administrative procedure (SAP) is being written and reviewed for submission and approval by the appropriate authority. This SAP will address the formal procedure for the collection and write-off of student receivables. A draft of a template has been submitted to the Office of General Counsel for review concerning the approval of the write off of uncollectable student receivables. This proposed template was submitted on February 20, 2019 and was developed based on the recommendation of the Office of General Counsel. Once the template is approved, it will be documented as part of the formal process of writing off uncollectable student receivables. Placement of delinquent student receivable accounts on state hold is being addressed in the formal SAP and will comply with all state and system regulations.

The implementation and monitoring phase of this effort is expected to be completed by December 31, 2019.

#### 4. Working Funds

University departments with working funds did not consistently document cash handling procedures or complete cash handling training. As of the end of audit fieldwork, the university had 16 working funds totaling \$13,896.

#### 4a. Working Funds - Cash Handling Procedures

**Eight of the 14 (57%) departments with working funds did not have documented departmental cash handling procedures.** Management's oversight activities for university working funds did not identify the lack of departmental procedures.

A&M System Regulation 21.01.11 *Working Funds* Section 3.5 states that departments are responsible for maintaining official records of working funds, including records indicating who have been assigned custody of departmental working funds and all other correspondence and documentation related to departmental cash handling and cash controls, including cash handling procedures. A lack of documented procedures may result in key control activities not being performed consistently.

##### Recommendation

Require departments with working funds to document cash handling procedures to ensure compliance with the system regulation. Business Services should consider developing a template that can be provided to departments to ensure that departmental procedures address the system regulation and university requirements.

##### Management's Response

Tarleton will create the recommended template for departments to complete before working funds will be distributed. This template will address A&M System Regulation 21.01.02 and 21.01.11.

The implementation and monitoring phase of this effort is expected to be completed by May 31, 2019.

#### 4b. Working Funds - Cash Handling Training

**Five of the 26 (19%) working fund custodians or backup custodians had not taken cash handling training.** The university's current procedure is to assign cash handling training to the working fund custodians; however, some funds have been in place longer than that procedure.

A&M System Regulation 21.01.02, *Receipt, Custody and Deposit of Revenues* requires cash handling procedures that address cashier training. Without proper training, employees may not have knowledge of proper controls over cash collected and documentation that must be maintained for the working fund.

Recommendation

Assign cash handling training to working fund custodians and backup custodians upon fund establishment and periodically thereafter. Monitor to ensure training completion.

Management's Response

Based on the template creation in the above response, Tarleton will assign cash handling training, as well as PCI DSS training in TrainTraq to individuals listed on the template as custodian and backup. We will also ask the department to provide (on the template) a list of all employees that could potentially handle the working fund. These employees will also be assigned the cash handling training and PCI DSS training in TrainTraq. The custodian and backup will be required to complete the trainings before the working fund will be approved and released. To maintain an accurate list of employees requiring training, Business Services' staff will request an update to the list of employees with access to the working fund each time a surprise cash count is completed. Trainings will be assigned to be repeated annually.

The implementation and monitoring phase of this effort is expected to be completed by May 31, 2019.

## **Basis of Audit**

### Objective and Scope

The objective of this audit was to determine if selected financial controls and processes at the Tarleton State University 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
- Account reconciliations
- Voucher expenditures
- Working funds

The audit period was primarily September 2017 to November 2018. Fieldwork was conducted from November 2018 to January 2019.

### 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 nonstatistical 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 nonstatistical sample of 20 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 nonstatistical sample of ten account reconciliations designed to be representative of the population.
- To determine whether voucher transactions were appropriate and reasonable, auditors selected a nonstatistical sample of 30 voucher transactions through random selection designed to be representative of the population.

- To determine whether working fund processes were in compliance with A&M System regulations and university procedures, auditors reviewed selected controls for the entire population of 16 working funds in place at the university.

## Criteria

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

- Texas A&M University System Policies and Regulations
- Tarleton State University standard 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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