

The Texas A&M University System Internal Audit Department



Monthly Audit Report
January 15, 2020

TABLE OF CONTENTS

The Texas A&M University System
Facilities Planning and Construction

Texas A&M University-Corpus Christi
Student Information System



System Internal Audit
THE TEXAS A&M UNIVERSITY SYSTEM

THE TEXAS A&M UNIVERSITY SYSTEM

FACILITIES PLANNING AND CONSTRUCTION

January 15, 2020

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

Project #20190107



Overall Conclusion

Internal controls over Facilities Planning & Construction (FP&C) operations at the Texas A&M University System are operating as intended and in compliance with applicable laws and policies.

Opportunities for improvement were noted in the areas of:

- Reconciliations
- Payment and change order processing
- Departmental written guidelines for selection processes
- Insurance documentation

Audit Areas

- Program of requirements
- Contracts and buyouts
- Bonds and insurance
- Change orders
- Payment applications
- Outsourced resources
- Labor rates
- Project completion
- Post-construction audits
- Construction management system

Management concurred with the audit recommendations and indicated that implementation will occur by the end of April 2020.

Detailed Results

1. Reconciliations Between Construction Management and Accounting Systems

Construction project reconciliations between the construction management system and accounting system are not being performed on a consistent basis. Written guidelines for reconciliations do not address frequency of reconciliations or timing for review and approval of reconciliations. A sample of 14 reconciliations indicated the following:

- Two project reconciliations were incomplete
- Two projects did not have reconciliations available
- Two project reconciliations were not completed timely
- Eight of 10 completed reconciliations were not reviewed

The construction management system is not integrated with the accounting system or the purchasing system, which feeds to the accounting system. The manual transfers of financial data between the systems necessitate regular reconciliations between the construction management system and accounting system on each

construction project to ensure accuracy of available balances, project commitments and expenses in both systems. System Budgets and Accounting (SOBA) performs periodic reconciliations between the systems.

Reconciliations are a necessary control activity to identify differences between two or more sets of records or systems so that appropriate actions can be taken to resolve any discrepancies or outstanding items. Timely reconciliations help ensure that discrepancies are detected and corrected in a timely manner.

Recommendation

Perform and review reconciliations between the construction management system and accounting system on a regular interval as agreed upon between SOBA and FP&C. Update procedures to reflect timing requirements for preparation and review of reconciliations. Review system access of individuals in the reconciliation process to ensure that it is at the minimum level needed to perform job duties.

Management's Response

SOBA agrees with Internal Audit's recommendation. In December 2019, SOBA met with the construction management team to discuss various intervals on completing the reconciliations. Both teams agreed upon a reconciliation timeframe for each project, the reconciliation will be completed within a 60-day timeframe after the month-end close. SOBA updated the procedures and will have processes in place by April 30, 2020.

In December 2019, the system access was updated, reviewed, and verified.

In March of 2019, SOBA assigned the project reconciliations as an employee's primary duty. During the past five months, 87% of the projects have been reconciled each month.

2. Processes for Construction Payments and Change Orders

Roles and responsibilities for internal controls in construction payment and change order processes need to be documented. Current processes include responsibilities carried out by four different departments across two system members. Due to the number of departments involved, each area was not fully aware of other areas' roles and responsibilities to ensure that effective internal controls over these processes were in place.

FP&C uses a construction management system to manage projects and assist in payment and change order processes. This system houses supporting documentation

for payments and change orders as well as the routing and approval for these items. The construction management system is not integrated with the accounting system or the purchasing system, which feeds to the accounting system. The lack of system integration requires manual transfers of financial information between systems, which are performed by SOBA.

For payments, an individual from SOBA extracts a system-generated payment invoice from the construction management system that includes the payment request amount and approvals. In the purchasing system, the individual from SOBA indicates the items or services are received and submits the invoice and supporting documentation. The construction project purchase order, receipt, and invoice are then automatically matched by the purchasing system for payment processing. Once matched, the payment routes to Texas A&M University Financial Management Operations (TAMU FMO) for final verification and approval for processing.

When reviewing the payment application process, auditors noted four of 14 (29%) contractor payment applications processed through the purchasing system had incomplete documentation of approvals. In addition, four of the payment applications reviewed had supporting invoice documentation in the purchasing system that did not agree to the amount of the payment requested. These payments were properly approved and documented in the construction management system. Discussions with SOBA, TAMU FMO, and FP&C indicated there were different expectations among these departments regarding the appropriate approvals, supporting documentation, and the level of review performed to process the payment in the purchasing system.

Additionally, changes to construction project purchase orders are not always independently verified for amount and approval prior to updating the purchase order amount in the purchasing system. An individual in SOBA inputs comments into the purchasing system for change orders and the revised purchase order amount. The System Office of HUB and Procurement Programs (Procurement) adjusts the purchase order based on these comments. Spot checks are performed by Procurement in the construction management system to confirm that supporting documentation and approvals were obtained for the change to the purchase order; however, the 26 change orders tested had not been reviewed by Procurement. These change orders were properly approved in the construction management system. Discussions with SOBA and Procurement indicated there were different expectations regarding supporting documentation submitted in the purchasing system and the frequency of change order verifications within the construction management system.

Reliance is placed on manual transfers of financial data between systems; therefore, control activities to ensure accuracy of payment applications and change orders should be in place to reduce the risk of unauthorized or erroneous

transactions. An effective mix of control activities includes a range and variety of controls and may include a balance of approaches to mitigate risk, considering both manual and automated controls, and preventive and detective controls. Documenting these procedures helps departments understand their roles and responsibilities and provides clear expectations to everyone involved in the process.

Recommendation

Review and document the roles and responsibilities of FP&C, SOBA, Procurement and TAMU FMO to ensure that payment applications and change orders are properly approved, documented, and processed. Periodically review processes to ensure that control activities are operating effectively.

Management's Response

SOBA agrees with Internal Audit's recommendation. SOBA met with FP&C, Purchasing, and Accounts Payable (TAMU FMO) teams in December 2019 to ensure roles and responsibilities are clear.

The Purchasing Director agreed to update their processes to review every change order prior to approving. Also, the Director of Accounts Payable (TAMU FMO) completed training with their staff to ensure they understand what is expected and what documents need to be attached/reviewed in AggieBuy prior to approvals.

SOBA will add steps in the process to include additional backup in AggieBuy for the review. These changes will be implemented by April 2020.

3. Guidelines for Architect/Engineer Design Team and Construction Contractor Selection Process

FP&C written guidelines and templates have not been implemented to document the selection committee process to determine the shortlist of architect/engineer design teams and general contractors. FP&C utilizes a selection committee to select a general contractor or architect/engineer for construction projects. The committee evaluates the shortlist of respondents through a matrix and obtains approval of the final selection as required by System Policy 51.02 *Selection of*

The shortlist of architect/engineer design teams or general contractors is the listing of preferable candidates that have been selected for final consideration by the construction project selection committee from the population of respondents for the architect/engineer design team or general contractor solicitation.

Architect/Engineer Design Team and Construction Contractor. However, the committee's evaluation of all respondents to the solicitation to generate a shortlist using established criterion is not documented. FP&C is in the process of developing and implementing updated procedures to document the evaluation of respondents at each step in the selection process.

Procedures put into action the expectations established by policy. Without written procedures, oversight and monitoring responsibilities related to the competitiveness of the selection of architect/engineer design teams and general contractors may not be effectively and consistently performed.

Recommendation

Continue developing and implementing procedures to document committee decisions at each evaluation step for architect/engineer design team and general construction contractor selection processes.

Management's Response

Facilities Planning & Construction has developed improvements in how we document selection committee decisions at each step in the selection process. These improvements were tested on two selections in October with refinements incorporated. The improvements will be reviewed by Office of General Counsel and Office of HUB and Procurement Programs and our staff will be trained in their use during November and December. Full implementation of the improvements will occur by January 31, 2020.

4. Guidelines for Buyout Process

FP&C written guidelines have not been developed for the approval of general contractor buyout selections.

The buyout process involves the general contractor selecting subcontractors, including the option for the general contractor to self-perform portions of the project, and submission of these selections to the FP&C project manager for review and agreement. While FP&C followed the established approval process for buyouts, the following was noted for the projects selected for review:

- For trades recommended by the general contractor as self-performed work, half did not have documentation of competitive bids

The buyout process refers to the general contractor's award process to subcontractors for trade work and supplies. This includes advertising, proposal review for completeness of scope and price, negotiation and selection, including recommendations to self-perform work. Contractor selections are reviewed by FP&C.

evaluated as part of the subcontractor selection. In contrast, most but not all, trades with subcontractor recommendations had competitive bids evaluated as part of the subcontractor selection in the buyout process.

- The construction management system buyout process allows contractors to submit large numbers of trades in a single buyout. This can result in single-bidder trades and recommendations for subcontractors other than the lowest bidder being combined in supporting documentation that is hundreds or thousands of pages in length, which is more difficult for project managers to review.
- Contractors are not required to submit additional supporting documentation of attempts to obtain competitive bids when recommending a single-bidder for a trade, including self-performed work.
- Contractors are not required to provide additional written explanations with the submitted grading matrix when recommending a subcontractor other than the lowest bidder.

Procedures put into action the expectations established by policy. Without comprehensive written procedures, oversight and monitoring responsibilities related to the competitiveness of the construction project buyouts may not be effectively and consistently performed and risks to ensure the completion of construction competitiveness objectives may not be addressed.

System Policy 25.06 *Participation by Historically Underutilized Business* objectives include involving qualified HUBs to the greatest extent allowed by law in the system's procurement and contracting of construction, professional services, and purchase, lease or rental of all supplies, materials, services and equipment. In addition, Texas Education Code Chapter 51, Section 51.9335 *Acquisition of Goods and Services* requires institutions of higher education to acquire goods and services by determining best value. Best value is most often determined by a competitive bidding process.

Recommendation

Establish procedures for the buyout process that include expectations for documenting competitiveness. Consider including the following:

- Requiring contractors to submit a limited number of trades through the buyout process to gain greater transparency into each trade.

- Establishing a method for clearly identifying when a recommended subcontractor is submitted as a single-bidder and require additional supporting documentation of the advertising process and attempts to solicit additional bids.
- Establishing a method in the buyout process to identify whether the recommended subcontractor was the lowest-bidder and require additional explanations when low-cost bidders are not recommended.

Management's Response

Facilities Planning & Construction is modifying our contractor buyout process to require additional information from the contractor if they only receive a single bid on a trade package or if they are recommending a subcontractor other than the low bidder. The department conducted a contractor buyout training on November 11, 2019 and will conduct additional staff training in January 2020. Full implementation of the improvements will occur by January 31, 2020.

5. Insurance Documentation

Six of ten (60%) projects tested did not have sufficient documentation on file to demonstrate that the insurance coverage met the contract requirements.

The six projects were missing documentation of at least one of the insurance requirements as follows:

- Two projects did not have documentation of continuous coverage for an insurance category.
- Four projects did not have documentation of all insurance requirements that were in place prior to the construction phase, such as lacking documentation of an insurance category, coverage not including required endorsement, or coverage not at the minimum required amount.

FP&C has experienced turnover in the position tasked with monitoring insurance. In addition, FP&C does not have procedures in place to monitor insurance coverages for expiration dates.

Contracts require general contractors to have the following types of insurance in specified amounts and with certain endorsements prior to commencing work on the construction phase of the project:

- Commercial general liability / comprehensive general liability
- Workers' compensation and employers' liability

- “Umbrella” liability insurance
- Comprehensive automobile liability
- Builder's risk / owner’s protective liability

In addition, architect/engineers are to be covered by professional liability insurance and, depending on the type of construction project, may require the following:

- Commercial general liability / comprehensive general liability
- Workers' compensation
- Employers' liability and comprehensive automobile liability

The risk of financial loss to the contractor and the system is increased if contractor insurance is insufficient.

Recommendation

Develop procedures to ensure that insurance certificates are obtained, recorded, and tracked to document contractor fulfilment of contractual insurance obligations.

Management’s Response

Facilities Planning & Construction has modified the design team and contractor payment application processes to include the expiration date of the insurance certificates with the ability for the vendor to upload new certificates to replace expired ones. The department will conduct training on insurance in January 2020 and coordinate with System Risk Management to verify coverages and required clauses on certificates. Full implementation of the improvements will occur by January 31, 2020.

Basis of Audit

Objective and Scope

The objective of this audit was to review and assess Facilities Planning and Construction's internal control systems to determine if resources are used in compliance with laws, policies, and regulations.

The audit focused on the following areas:

- Program of requirements
- Contracts and buyouts
- Bonds and insurance
- Change orders
- Payment applications
- Outsourced resources
- Labor rates
- Project completion
- Post-construction audits
- Construction management system

The audit period was primarily September 2017 to March 2019. Fieldwork was conducted from June 2019 to October 2019.

Methodology

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

- To determine if the program of requirements was completed in accordance with system policies, auditors tested the entire population of ten active construction projects in the design phase or design team selection process.
- To verify the architect/engineer design team and general contractor selection processes were in compliance with system policies and regulations, auditors judgmentally selected a nonstatistical sample of ten active construction projects in the construction phase.
- To determine if subcontractor selections through the buyout process followed a competitive evaluation and approval process, the auditors

judgmentally selected a nonstatistical sample of three buyouts each from a nonstatistical sample of fifteen active construction projects in the construction phase, resulting in a total sample size of forty-five buyouts.

- To determine if contractor self-performed work recommendations through the buyout process followed a competitive evaluation and approval process, the auditors judgmentally selected a nonstatistical sample of fifteen active construction projects in the construction phase and reviewed all buyouts containing self-performed work recommendations, resulting in a total sample size of thirty buyouts.
- To determine if performance and payment bonds were compliant with system policies and contractual requirements, including rebated as appropriate, auditors judgmentally selected a sample of ten active construction projects with substantial completion dates during the audit period.
- To determine if initiated construction projects were in compliance with system and contractual insurance requirements, auditors judgmentally selected a sample of ten active construction projects in the construction phase during the audit period.
- To determine if change orders were reviewed in accordance with established procedures, properly supported, and in compliance with contract terms and conditions, auditors judgmentally selected two change orders each from a nonstatistical sample of fifteen active construction projects in the construction phase for a total sample size of thirty change orders.
- To determine whether payment applications were properly approved and accounted for, and if the subsequent reconciliations between the construction management system and accounting system were completed and reviewed, auditors judgmentally selected one payment application and the subsequent month's reconciliation from a nonstatistical sample of fifteen active construction projects in the construction phase, resulting in a total sample size of fifteen payment applications and fifteen reconciliations.
- To determine if billings for outsourced resources contained any unallowable charges per the applicable contract, auditors judgmentally selected a sample of three vouchers for each master vendor which received payments for outsourced project managers, area managers or

inspectors during the audit period for a total sample size of twelve vouchers.

- To determine if worker wage rate forms were completed in accordance with established procedures, auditors judgmentally selected four worker wage rate forms each from a nonstatistical sample of fifteen active construction projects in the construction phase, resulting in a total sample size of sixty worker wage rate forms.
- To determine if remaining funds were appropriately reverted upon project completion, auditors judgmentally selected a sample of five construction projects with substantial completion dates in the fiscal year prior to the audit period.
- To determine if post-construction audits were performed as described by management, according to the scope of services and timely, auditors tested the entire population of four completed post-construction audits and judgmentally selected an additional nonstatistical sample of six in-process post-construction audits for a total sample size of ten post-construction audits.
- To determine if construction management system users were assigned the correct role and project access, auditors selected a statistical sample through random selection of fifty-eight users and an additional judgmentally selected sample of two users with system administrator privileges outside of Facilities Planning & Construction, resulting in a total sample size of sixty users.

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 System Uniform General and Supplementary Conditions
- Texas Education Code Chapter 51, Section 51.9335 Acquisition of Goods and Services
- Texas Government Code Title 10 General Government, Subtitle F State and Local Contracts and Fund Management, Chapter 2258 Prevailing Wage Rates

- Texas Department of Information Resources Security Control Standards Catalog v. 1.3, Standard AC-6 Least Privilege
- 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

Amanda Dotson, CPA, CIA, Director
Michelle McMillin, CPA, Senior Manager
Holly Blue, CPA
Jessica Bolding, CPA, CIA
Ana-Lisa Liotta

Distribution List

Mr. John Sharp, Chancellor
Mr. Billy Hamilton, Deputy Chancellor and Chief Financial Officer
Mr. Phillip Ray, Vice Chancellor for Business Affairs
Mr. Joseph Duron, Executive Director, Budgets and Accounting
Ms. Teresa Edwards, Controller
Mr. Russell Wallace, Executive Director, Facilities Planning & Construction
Mr. Peter Schmid, Director, Facilities Planning & Construction
Mr. James Davidson, Area Control Manager, Facilities Planning & Construction
Ms. Janet Gordon, System Ethics and Compliance Officer



System Internal Audit
THE TEXAS A&M UNIVERSITY SYSTEM

**TEXAS A&M UNIVERSITY
-CORPUS CHRISTI**

STUDENT INFORMATION SYSTEM

January 15, 2020

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

Project #20201501



Overall Conclusion

Internal controls over the student information system at Texas A&M University-Corpus Christi are working as intended and in compliance with applicable laws and policies.

Audit Areas

- Application logical security
- Change management
- Data backups
- Database logical security
- Disaster recovery
- Server logical security

Basis of Audit

Objective and Scope

The objective of this audit was to determine if internal controls are in place to ensure the confidentiality, integrity, and availability of the student information system at Texas A&M University-Corpus Christi.

The audit period was primarily September 1, 2018 to August 31, 2019. Fieldwork was conducted from October 2019 to December 2019.

Methodology

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

- To determine whether logical security settings are appropriate and backups are performed in accordance with procedures, auditors judgmentally selected a nonstatistical sample of ten Linux servers and one Oracle database.
- To determine whether access granted for new accounts was properly approved and documented and that new users complete required training, auditors judgmentally selected a nonstatistical sample of ten new users.
- To determine whether accounts in the student information system belong to active employees, auditors tested all accounts that had current access to the student information system.
- To test the appropriateness of employees with test environment access, auditors selected all users with access to the test environment.

- To determine whether the change management process operated as intended, auditors judgmentally selected a nonstatistical sample of five changes designed to be representative of the population.
- To determine whether access to high risk student information system screens is appropriately restricted, auditors judgmentally selected a nonstatistical sample of 40 screens considered to be high risk.
- To determine whether the periodic user access review is conducted in accordance with procedures, the auditor judgmentally selected the most recent annual review for testing.

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-Corpus Christi Rules and Standard Administrative Procedures
- 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

Robin Woods, CPA, Director
Chesney Cote, CISA, Audit Manager
Keith Newland, CISA
Darwin Rydl, CPA
Stacy Spann

Distribution List

Dr. Kelly M. Miller, President
Dr. Clarenda Phillips, Provost and Vice President for Academic Affairs
Ms. Jaclyn Mahlmann, Executive Vice President for Finance and Administration
Mr. Ed Evans, Senior Associate Vice President for Information Technology and Chief
Information Officer
Ms. Judy Harral, Executive Director, Administrative Services
Mr. John C. B. LaRue, Chief Compliance Officer