

The Texas A&M University System Internal Audit Department



Monthly Audit Report
July 14, 2021

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Texas A&M University-Central Texas
Financial Management Services



System Internal Audit
THE TEXAS A&M UNIVERSITY SYSTEM

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

FINANCIAL MANAGEMENT SERVICES

July 14, 2021

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Chief Auditor**

Project #20212402



Overall Conclusion

Internal controls over financial management services at Texas A&M University-Central Texas are operating as intended. Opportunities for improvement were identified in the areas of contracting standards and oversight, state contract reporting, and cash handling training.

Summary Table

Audit Areas	Controls Assessment
Contracting Standards and Oversight	Needs Some Improvement
State Contract Reporting	Needs Some Improvement
Working Funds – Cash Handling Training	Needs Some Improvement
Account Reconciliations	Effective – No Observations
Contract Administration	Effective – No Observations
Travel Cards	Effective – No Observations
Vouchers	Effective – No Observations

Management has concurred with the audit recommendations and indicated that implementation will occur by the end of January 2022.

Detailed Results

1. Contracting Standards and Oversight

The university is not in compliance with certain contracting requirements in Texas Government Code 2261, *State Contracting Standards and Oversight*, as follows:

- Contracts that have been identified as meeting the posting requirement have not been posted on the university's website, and
- The university has not established a procedure to identify contracts that require enhanced contract or performance monitoring with a notification submitted to the A&M System Chief Financial Officer when appropriate.

The university currently reviews large contracts that may require additional monitoring but does not have a documented process in place to ensure the reviews are consistently completed.

Texas Government Code 2261, *State Contracting Standards and Oversight*, requires specific contract administration and monitoring processes to be in place. Lack of adequate processes and procedures in these areas could lead to an increased risk of inadequate or improper contracting practices including potential conflicts of interest within the contracting process.

Recommendation

Post contracts on the university's website in compliance with statutory requirements. Update procurement procedures and monitoring processes to identify contracts that require enhanced contract or performance monitoring with a notification submitted to the A&M System Chief Financial Officer.

Management's Response

The Contracts Office and Procurement Coordinator will create a process for posting contracts on the university website as required.

The website will be implemented by October 1, 2021 with enhanced monitoring through January 1, 2022 to ensure that the process is maintaining compliance.

The Contracts Office and Procurement Coordinator will update procurement procedures to include which contracts require the A&M System reporting form to be submitted. A checklist for identifying which contracts require enhanced monitoring will be included along with the monitoring process.

The updated procedures and process will be implemented by October 1, 2021.

2. State Contract Reporting

The university is not in compliance with contract reporting requirements in the General Appropriations Act. The university does not have processes in place to ensure contracts are reported to the Legislative Budget Board when the reporting thresholds are met. One of five (20%) contracts reviewed was required to be reported to the Legislative Budget Board, but this contract was not reported appropriately.

The responsibilities for monitoring and reporting contracts in accordance with state requirements have not been clearly defined in the service agreement between the university and Texas A&M University Procurement Services. The General Appropriations Act, Article IX, Section 7.04, *Contract Notification: Amounts Greater than \$50,000* requires that universities report all contracts over \$50,000 to the Legislative Budget Board before the first payment is made and within 30 days of the execution of the contract. Other requirements provide for lower dollar thresholds and shorter deadlines depending on the type of contract. Legislative Budget Board guidance also requires the posted contract value include the value of the contract, amendments, and all extensions or renewals even if not exercised. Incorrect reporting can impact the Legislative Budget Board Contracts Oversight Team's ability to monitor procurements and conduct in-depth analysis of certain contracts.

Recommendation

Establish processes to monitor contracts to ensure they are reported to the Legislative Budget Board when reporting thresholds are met and that the correct amounts are reported. Ensure Purchasing and Contract Administration employees understand these requirements so the university is compliant with statutory contract reporting requirements.

Management's Response

The Texas A&M University-Central Texas Contracts Office and Procurement Coordinator will implement a process to ensure that all contracts are reported to the Legislative Budget Board (LBB) by the Texas A&M University Procurement Services department under a contractual agreement for procurement related support. To ensure compliance, a monitoring system will be developed for the Texas A&M University-Central Texas Contracts Office and Procurement Coordinator to review new contracts bi-weekly and ensure that LBB reporting requirements are met.

Documentation for this process will be added to procurement procedures to ensure that all Contracts Office and Procurement staff are trained to maintain compliance with these reporting requirements

The overall process and associated documentation will be implemented by October 1, 2021 with enhanced monitoring through January 1, 2022 to ensure that the process achieves compliance.

3. Working Funds – Cash Handling Training

Improvements are needed to ensure timely assignment and completion of cash handling training. During the audit period four of seven (57%) employees who handle cash had not taken cash handling training. Three of these employees have completed the TrainTraQ course as of April 2021. One employee has terminated from the university. University procedures currently do not address requirements for the assignment, completion, or frequency of cashier training.

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

Update university procedures to include management’s expectations for the assignment, completion, and frequency of cash handling training. Enhance controls over assignment and monitoring to ensure employees complete training as required.

Management’s Response

Procedures were updated to include management’s expectations for the assignment, completion, and frequency of cash handling training. In addition, assignment of cash handling training has been added to the checklist for new hires of student account specialists. Monitoring of the training completion will be included as part of the annual performance reviews for the applicable employees.

This process has been implemented in June of 2021 and will be ready for follow up after annual performance reviews are completed on July 31, 2021.

Basis of Audit

Objective, Scope, & Methodology

The overall objective of this audit was to determine if selected financial internal controls at Texas A&M University–Central Texas are operating as intended and in compliance with applicable laws and policies.

The audit focused on the following areas:

- Contract standards and oversight
- State contract reporting
- Working funds - cash handling training
- Account reconciliations
- Contract administration
- Travel cards
- Vouchers

The audit period was primarily September 2019 to November 2020. Fieldwork was conducted from February 2021 to April 2021.

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

Audit Objective	Methodology
<p><u>Contract Standards and Oversight</u></p> <p>Determine compliance with state contract requirements for standards and oversight, conflicts of interest, and training.</p>	<p>Auditors reviewed the following for compliance:</p> <p>Contracting standards, per Texas Government Code 2261, which includes:</p> <ul style="list-style-type: none"> • Disclosure of potential financial conflict of interest and prohibited contracts • Posting of certain contracts • Procedure to identify contracts requiring enhanced monitoring/A&M System reporting

Audit Objective	Methodology
	<ul style="list-style-type: none"> • Completion of contract reporting form for contracts \$1 million or more • Certification of solicitation process for contracts over \$5 million • Purchasing accountability and risk analysis guidelines <p>Training requirements, per Texas Government Code 656, which includes:</p> <ul style="list-style-type: none"> • Training and/or certification for purchasing personnel • Training for contract signatories
<p><u>State Contract Reporting</u></p> <p>Determine compliance with state contract requirements for reporting.</p>	<p>Auditors used professional judgment to select a nonstatistical sample of five contracts and verified whether they were reported to the Legislative Budget Board and/or the Texas Ethics Commission, if required.</p>
<p><u>Working Funds – Cash Handling Training</u></p> <p>Determine whether working funds are properly accounted for and in compliance with regulations and established procedures.</p>	<p>Auditors inquired regarding the working fund processes, and obtained a list of working funds, petty cash funds, and custodian(s) for each.</p> <p>Auditors tested the population of seven working fund custodians to ensure cash handling training was completed. Auditors also obtained and reviewed recent examples of surprise cash counts and results for each working fund.</p>
<p><u>Account Reconciliations</u></p> <p>Determine whether account reconciliations are completed timely</p>	<p>Auditors inquired regarding the reconciliation process for bank and clearing accounts and used professional judgment to select a</p>

Audit Objective	Methodology
and if outstanding items are reasonable.	nonstatistical sample of 10 account reconciliations based on magnitude and risk. Completed reconciliations were obtained and reviewed for timeliness of preparation and clearing of outstanding items.
<p><u>Contract Administration</u></p> <p>Determine whether contracts were properly approved and selected terms were monitored for compliance.</p>	<p>Auditors used professional judgment to select a nonstatistical sample of five contracts based upon magnitude and risk. Executed contracts were obtained and reviewed for proper approval based upon contract type, magnitude, and term.</p> <p>Supporting documentation of university monitoring of select contract terms was reviewed.</p>
<p><u>Travel Cards</u></p> <p>Determine whether travel transaction monitoring is reasonable and in compliance with procedures.</p>	<p>Auditors performed data analysis on all travel card transactions processed during the audit period to identify high volume vendors and cardholders, large transactions, and out-of-pocket payments.</p> <p>Results were analyzed for reasonableness and reviewed with the client.</p> <p>Auditors randomly selected a sample of travel card transactions. Documentation from the client and the travel card system was reviewed for evidence of:</p> <ul style="list-style-type: none"> • Monitoring and approval processes • Detailed supporting documentation

Audit Objective	Methodology
	<ul style="list-style-type: none"> • Appropriate travel transaction procedure compliance
<p><u>Vouchers</u></p> <p>Determine whether voucher transactions are reasonable and in compliance with procedures.</p>	<p>Auditors performed data analysis on all vouchers processed during the audit period to identify top vendors by total dollar amount and potential split or duplicate vouchers.</p> <p>Results were analyzed for reasonableness and reviewed with the client.</p> <p>Auditors judgmentally selected both a nonstatistical sample of top vendors from the data analysis results and a random sample of vouchers. Documentation from the client and the procurement system was reviewed for evidence of:</p> <ul style="list-style-type: none"> • Detailed supporting documentation • Appropriate account and object code • Contracts related to the top ten vendors • Appropriate purchasing procedure compliance

Controls Assessment Classification

Audit areas highlighted in red in the Summary Table are considered to have significant weaknesses in internal controls. Significant weaknesses include errors, deficiencies, or conditions which result in one or more violations of internal controls, laws, A&M System policies, or member rules. These violations have a high probability for legal consequences, financial consequences, or negative impacts to the organization’s reputation. These are situations in which a CEO,

provost, vice president, dean, or director need to be involved in the problem resolution.

Audit areas highlighted in yellow in the Summary Table are considered to have notable weaknesses in internal controls. Notable weaknesses include errors, deficiencies or conditions which result in minor to moderate noncompliance with internal controls, laws, A&M System policies, or member rules. These are situations which can and should be corrected at the department or supervisor level.

Audit areas highlighted in green in the Summary Table are considered to have effective internal controls.

Items that were not significant or notable were communicated to management during the course of the audit.

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–Central Texas Rules and Standard Administrative Procedures
- Stated contract stipulations
- Texas A&M University System *Contract Management Handbook*
- Texas Government Code 2252.908, *Disclosure of Interested Parties*
- Texas Government Code Chapter 2261, *State Contracting Standards and Oversight*
- General Appropriations Act, Article IX, Section 7.04, *Contract Notification: Amounts Greater than \$50,000*
- The Committee of Sponsoring Organization’s 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 (GAGAS). 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. The Office of Internal Audit is independent per the GAGAS standards for internal auditors.

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