

The Texas A&M University System Internal Audit Department



Monthly Audit Report
June 16, 2021

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THE TEXAS A&M UNIVERSITY SYSTEM

**TEXAS A&M INTERNATIONAL
UNIVERSITY**

FINANCIAL MANAGEMENT SERVICES

June 16, 2021

**Charlie Hrncir, CPA
Chief Auditor**

Project #20211601



Overall Conclusion

Internal controls over financial management services at Texas A&M International University are operating as intended with the exception of state contract reporting. Opportunities for improvement were also identified in the area of contracting standards and oversight.

Summary Table

Audit Areas	Controls Assessment
State Contract Reporting	Needs Significant Improvement
Contracting Standards and Oversight	Needs Some Improvement
Account Reconciliations	Effective - No Observations
Accounts Receivable	Effective - No Observations
Contract Administration	Effective - No Observations
Student Receivables	Effective - No Observations
Travel Cards	Effective - No Observations
Vouchers	Effective - No Observations
Working Funds	Effective - No Observations

Management concurred with the audit recommendations and indicated that implementation will occur by the end of July 2021.

Detailed Results

1. State Contract Reporting

The university is not in compliance with contract reporting requirements in the General Appropriations Act. Four of the 11 (36%) contracts reviewed were not reported to the Legislative Budget Board as required. A fifth contract was reported at an incorrect amount. The university does not have processes in place to value or monitor variable contracts to ensure they are reported to the Legislative Budget Board when the reporting thresholds are met. Purchasing and Contract Administration staff also misinterpreted some of the state reporting requirements.

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

Develop a process for assessing expected values for contracts that do not have fixed values in the contracts. Establish processes to monitor variable 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 Purchasing and Contracts Office will develop a written procedure for determining expected contract values and monitoring of variable contracts to ensure timely reporting to the Legislative Budget Board. Additionally, the Purchasing and Contracts Office will review recently executed contracts at least bi-weekly to ensure compliance with the reporting requirements.

All employees in the Purchasing and Contracts Office will receive written documentation to assist with understanding these reporting requirements.

This will be implemented by July 1, 2021.

2. Contracting Standards and Oversight

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

The university is not completing the A&M System contract reporting form for contracts exceeding a value of \$1 million. In addition, 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.

Purchasing and Contract Administration was unaware of the requirement to complete the contract reporting form for certain contracts. 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

Enhance and fully document procurement procedures and monitoring processes to ensure the contract reporting form is being completed and a process is in place to identify contracts that require enhanced monitoring in accordance with statutory requirements.

Management's Response

The Purchasing and Contracts Office will update internal procedures to include when the A&M System contract reporting form should be filled out. The steps for identifying contracts that may require enhanced monitoring, along with the process for performing this monitoring, will also be outlined in these procedures.

This will be implemented by July 1, 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 International University are operating as intended and in compliance with applicable laws and policies.

The audit focused on the following areas:

- State contract reporting
- Contract standards and oversight
- Account reconciliations
- Accounts receivable
- Contract administration
- Student receivables
- Travel cards
- Vouchers
- Working funds

The audit period was primarily September 2019 to December 2020. Fieldwork was conducted from January 2021 to March 2021.

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

Audit Objective	Methodology
<u>State Contract Reporting</u> Determine compliance with state contract requirements for reporting.	Auditors used professional judgment to select a nonstatistical sample of 11 contracts and verified whether they were reported to the Legislative Budget Board and/or the Texas Ethics Commission, if required.

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>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>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. • Completion of the contract reporting form for contracts of \$1 million or more. • Certification of the solicitation process for contracts over \$5 million. • Purchasing accountability and risk analysis guidelines.
<p><u>Account Reconciliations</u></p> <p>Determine whether account reconciliations are completed timely and if outstanding items are reasonable.</p>	<p>Auditors inquired regarding the reconciliation process for bank and clearing accounts and used professional judgment to select a 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>

Audit Objective	Methodology
<p><u>Accounts Receivable</u></p> <p>Determine whether accounts receivable are processed in compliance with established policies and procedures.</p>	<p>Auditors gained an understanding of the accounts receivable processes through interviews and the review of procedure manuals.</p>
<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 10 contracts based upon magnitude and risk. Executed contracts were obtained and reviewed for proper approval based upon contract type, magnitude, and term.</p> <p>Auditors used professional judgment to select a nonstatistical sample of five contracts based upon magnitude and risk. Supporting documentation of university monitoring of select contract terms was reviewed.</p>
<p><u>Student Account Receivables</u></p> <p>Determine whether student receivables are processed in compliance with established policies and procedures.</p>	<p>Auditors used professional judgment to select a nonstatistical sample of 30 student receivable accounts based on magnitude and risk.</p> <p>Student account documentation was reviewed to ensure the collections process was performed in compliance with A&M System policy and university procedures.</p>

Audit Objective	Methodology
<p><u>Travel Cards</u></p> <p>Determine whether travel transaction monitoring is reasonable and in compliance with procedures.</p>	<p>Auditors gained an understanding of travel card monitoring and approval processes.</p> <p>Auditors reviewed documentation demonstrating the travel card approval and monitoring processes for compliance with university procedures.</p>
<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 client.</p> <p>Auditors judgmentally selected both a nonstatistical sample of vouchers 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 codes. • Contracts related to the top ten vendors. • Appropriate purchasing procedure compliance.

Audit Objective	Methodology
<p><u>Working Funds</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, fund amounts, and custodian(s) for each.</p> <p>Auditors tested the population of four working funds to ensure working fund custodians have taken required cash handling training. Auditors also obtained and reviewed recent examples of surprise cash counts and results for each working fund.</p>

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 International University 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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System Internal Audit
THE TEXAS A&M UNIVERSITY SYSTEM

TEXAS A&M AGRILIFE RESEARCH

CENTERS AND INSTITUTES

June 16, 2021

Charlie Hrncir, CPA
Chief Auditor

Project #20210602



Overall Conclusion

Internal controls over selected centers and institutes at Texas A&M AgriLife Research are operating as intended and in compliance with applicable laws and policies. Opportunities for improvement were noted in the areas of National Center for Electron Beam Research (NCEBR) financial accounting, comprehensive financial statements, and the Agricultural and Food Policy Center (AFPC) strategic plan.

Centers and Institutes Selected

- Agricultural and Food Policy Center (AFPC)
- Institute for Infectious Animal Diseases (IIAD)
- National Center for Electron Beam Research (NCEBR)
- Norman Borlaug Institute for International Agriculture (BIIA)
- Texas A&M Natural Resources Institute (NRI)

Summary Table

Audit Areas	Controls Assessment
Financial Reporting	Needs Some Improvement
Strategic Plans	Needs Some Improvement
Governance & Oversight	Effective – No Observations
Major Contracts & Agreements	Effective – No Observations
Research Compliance Training	Effective – No Observations

Management concurred with the audit recommendations and indicated that implementation will occur by the end of December 2021.

Detailed Results

1. NCEBR Financial Accounting

Center revenue and expenses are not being fully captured in the financial information. The eBeam facility operates within NCEBR and generates the majority of its revenue through commercial customers, rather than research initiatives. While the commercial customers are billed and revenue is recorded, several research projects that utilize the eBeam technology are not consistently invoiced. Additionally, eBeam expenses are occasionally paid for on sponsored research accounts instead of the eBeam facility’s account. The center director is the principal investigator on the sponsored research projects and is familiar with financial

transactions across all of the accounts; however, the eBeam facility account alone does not provide a comprehensive financial picture.

NCEBR was established in 2003 by a federal grant and not through the typical center and institute creation process initiated by AgriLife management and approved by the A&M System Board of Regents. The typical process would have followed A&M System Policy 11.02, *Creation of Centers and Institutes*, which includes evaluating the rationale for creating the center, sources of financial support, and a governance structure.

A&M System Policy 21.01.01, *Financial Accounting and Reporting*, requires account administrators to keep such records as are necessary to furnish accurate information on sales, transfers, other credits, expenses, other charges, and encumbrances. Without periodic invoicing and transfers of funds to reflect eBeam usage, management does not have a comprehensive picture of NCEBR financial information.

Recommendation

Analyze NCEBR activities to determine the appropriate classification as a research center, a service center, or some other type of organizational unit based on the services it provides in support of the college and agency mission. Comply with relevant policies and regulations as applicable based on classification, including approval from the Board of Regents, if necessary. Establish a procedure to periodically invoice internal customers for eBeam facility revenue and transfer funds as appropriate. Ensure revenue and expense activity specific to the eBeam facility is recorded in the proper accounts.

Management's Response

We will review the mission and services provided by the unit to determine the future role of the NCEBR within Texas A&M AgriLife. We anticipate implementation of this aspect by December 31, 2021. We will also establish procedures by September 1, 2021, to ensure revenue and expense activity is recorded in the proper accounts.

2. Comprehensive Financial Statements

The financial reports for the centers and institutes are not comprehensive and may not be inclusive of all activity. While not required by policy, management created customized financial reports for certain centers and institutes to focus on specific areas and account types. However, these reports are not comprehensive to include all expense types and cannot be easily tied to the financial accounting system.

The National Association of College and University Business Officer's (NACUBO) College and University Business Administration, 7th Edition, *Decision Support and Information Reporting*, states that effective reports to support management decisions should have a clear purpose, track both financial and non-financial performance, be internally consistent, and auditable. Agency management has indicated an expectation for centers and institutes to be self-sustaining financially. The current format for financial reports would be difficult to ascertain financial sustainability and could result in potentially erroneous judgments, estimates, or other management decisions.

Recommendation

Enhance financial reports for center and institute operations to provide a comprehensive assessment of each one's financial condition and performance that reconciles to the financial accounting system. Include all revenues, direct and indirect expenses including designated accounts, indirect cost returns, and sponsored research activity.

Management's Response

Management concurs and will ensure financial activity is captured in a manner that provides a comprehensive assessment of the financial condition of the units. Implementation date will be September 1, 2021.

3. AFPC Strategic Plan

The strategic plan for AFPC needs improvement to ensure it adequately addresses management initiatives. The center's current strategic plan does not include considerations for collaboration across the department and agency. Additionally, the plan has not been formally approved by the Department of Agricultural Economics management. AFPC's last formal management review in 2017 was completed under different AgriLife program leadership.

A&M System Policy 11.02, *Creation of Centers and Institutes*, requires centers to disclose the rationale for creating the entity, projected impact, financial support, governance, and review mechanisms. Major changes in function, focus, or funding require prior approval. An approved strategic plan would help center management monitor for major changes requiring approval, and ensure that center operations and initiatives align with the original rationale and expectations of agency leadership.

Recommendation

Gain an understanding of AgriLife management’s expectations for the strategic planning process. Revise the center strategic plan in accordance with management requirements.

Management’s Response

Management is finalizing the AgriLife strategic plans and will work to update the strategic plan for AFPC, ensuring that it is reviewed and approved as required. Implementation date will be December 31, 2021.

Basis of Audit

Objective, Scope, & Methodology

The overall objective of this audit was to determine if internal controls for selected centers and institutes at AgriLife Research are in place to ensure compliance with applicable laws and policies.

The audit focused on the following areas:

- Financial reporting
- Strategic plans
- Governance and oversight
- Major contracts and agreements
- Research compliance training

The audit period was primarily September 1, 2019 to August 31, 2020. Fieldwork was conducted from December 2020 to April 2021. The following two centers and three institutes were selected for audit fieldwork:

- Agricultural and Food Policy Center (AFPC)
- Institute for Infectious Animal Diseases (IIAD)
- National Center for Electron Beam Research (NCEBR)
- Norman Borlaug Institute for International Agriculture (BIIA)
- Texas A&M Natural Resources Institute (NRI)

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

Audit Objective	Methodology
<p><u>Financial Reporting</u></p> <p>Determine the financial risks related to selected centers and institutes and whether controls are in place to manage those risks.</p>	<p>Auditors reviewed financial reports prepared for the selected centers and institutes to gain an understanding of financial risks, opportunities, and commitments.</p> <p>Auditors reviewed selected financial transactions and supporting documentation for reasonableness.</p>
<p><u>Strategic Plans</u></p> <p>Determine whether centers and institutes have a current and approved strategic plan that addresses key elements of management’s vision for AgriLife Research centers and institutes.</p>	<p>Auditors obtained and reviewed the strategic plan for each of the selected centers and institutes to determine whether they were current, approved, and included key elements of agency management’s vision.</p>
<p><u>Governance & Oversight</u></p> <p>Determine whether centers and institutes have governance and advisory structures in place and if they are compliant with periodic reviews required by system policy.</p>	<p>Auditors used professional judgment to select a nonstatistical sample of two centers and three institutes for review throughout the audit areas. Auditors reviewed key documents and conducted interviews to gain a high-level understanding of the risks, governance structures, strategic plans, and financial commitments for each.</p> <p>Auditors reviewed center and institute creation documentation, most recent management review, and advisory structures for each of the selected centers and institutes. Auditors determined whether governing documentation and structures complied with system policy and appeared reasonable.</p>
<p><u>Major Contracts & Agreements</u></p>	<p>Auditors used professional judgment to select a nonstatistical sample of</p>

Audit Objective	Methodology
<p>Determine the major contractual financial and relational commitments related to centers and institutes and whether controls are in place to manage the risks associated with those commitments.</p>	<p>major contracts and agreements for the selected centers and institutes. Supporting documentation was reviewed for proper authorizations.</p> <p>Auditors used professional judgment to select a sample of expenditures from the contracts and agreements to review for proper support and allowability.</p> <p>Auditors used professional judgment to select a sample of deliverables from the contracts and agreements to review for proper support and timely delivery.</p>
<p><u>Research Compliance Training</u></p> <p>Determine whether center and institute employees are current with required research compliance training.</p>	<p>Auditors used professional judgment to select a nonstatistical sample of employees from each of the centers and institutes selected. Auditors reviewed employee training records for compliance with required training.</p>

Controls Assessment Classification

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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 AgriLife Rules and Standard Administrative Procedures
- The National Association of College and University Officer's College and University Business Administration, 7th Edition
- 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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