

# The Texas A&M University System Internal Audit Department



Monthly Audit Report  
March 10, 2021

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THE TEXAS A&M UNIVERSITY SYSTEM

# TARLETON STATE UNIVERSITY

## STUDENT HOUSING

**March 10, 2021**

**Charlie Hrcir, CPA  
Chief Auditor**

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**Project #20210401**



## Overall Conclusion

Internal controls over student housing at Tarleton State University are operating as intended and in compliance with applicable laws and policies. Overall, the university is monitoring financial activities for auxiliary operations; however, opportunities for improvement were noted in financial reporting for student housing.

### Summary Table

Areas Reviewed	Controls Assessment
Rate Analysis and Financial Reporting	Needs Some Improvement
Deferred Maintenance	Effective – No Observations
Key and Keycard Access	Effective – No Observations
Procurement Cards	Effective – No Observations
Safety Inspections	Effective – No Observations

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

## Detailed Results

### Financial Reporting

**Financial reports do not provide a comprehensive assessment of the financial condition and performance of student housing.** There are varying levels of management and financial information available for the auxiliaries. However, comprehensive financial reports are not prepared that contain an allocation of indirect expenses to student housing including depreciation, debt service, and future maintenance of facilities, as well as the corresponding reserves available to ensure adequate funds remain available in future years. In addition, balance sheets have not been prepared to indicate the current financial position of student housing.

Financial operations and corresponding reserves are reviewed primarily at the auxiliary fund group level with individual auxiliary enterprises managed through the budget process and various other management reports. Although the university is monitoring financial activities for overall auxiliary service operations, management

indicated there are plans to improve financial reports for student housing going forward.

A&M System Regulation 21.01.01, *Financial Accounting and Reporting*, encourages A&M System members to maintain proprietary basis reports of expenses and revenues and a comprehensive balance sheet for the results of auxiliary enterprise operations for management to utilize in making decisions regarding auxiliary activities. The National Association of College and University Officer's College and University Business Administration further states that accounting records are essential to ascertain the degree of self-support of an auxiliary enterprise and to provide the basis for control.

Financial reports should be designed to disclose the sources and uses of funds and should summarize financial and other management data in a meaningful way. Comprehensive financial reports are needed for management to make informed financial decisions including setting aside adequate reserve funding for future expenses including maintenance and debt service.

#### Recommendation

Further develop financial reports for student housing to provide a comprehensive assessment of its financial condition and performance. Include all revenues, direct and indirect expenses including depreciation, debt service, and future maintenance of facilities, and corresponding reserves to ensure adequate funds remain available in future years.

#### Management's Response

Auxiliary financial reports will be developed and reviewed with the Vice President for Finance and Administration and university president annually by December 31st of each year. Implementation of the audit team's recommendation will be completed by December 31, 2021.

## Basis of Audit

### Objective, Scope, & Methodology

The overall objective of this audit was to review internal controls over student housing at Tarleton State University to determine if the university's controls are sufficient to ensure compliance with applicable laws and policies.

The audit focused on the following areas:

- Rate analysis and financial reporting
- Deferred maintenance
- Key and keycard access
- Procurement cards
- Safety inspections

The audit period was primarily September 2019 to August 2020. Fieldwork was conducted from November 2020 to January 2021.

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

<b>Audit Objective</b>	<b>Methodology</b>
<u>Rate Analysis and Financial Reporting</u>  Determine whether student housing financial reports were accurate and complete and demonstrate an analysis of all revenues and expenses.	Auditors reviewed financial reports and other supporting documentation used by the university for accuracy and completeness and to determine whether analysis of all applicable revenues and expenses were included.
<u>Deferred Maintenance</u>  Determine if the university has adequate deferred maintenance plans and processes in place to identify and track deferred maintenance needs for student housing buildings.	Auditors obtained the deferred maintenance plans for student housing and reviewed plans and supporting documentation for reasonableness, accuracy, and completeness.

<b>Audit Objective</b>	<b>Methodology</b>
<p><u>Key and Keycard Access</u></p> <p>Determine if access to residence halls is being managed appropriately.</p>	<p>Auditors gained an understanding of the process for assigning and removing physical key and card access for student housing.</p> <p>Auditors used professional judgment to select a nonstatistical sample of 30 students, 30 employees, and 28 vendor employees and verified their building access was removed in a timely manner after move-out or termination.</p>
<p><u>Procurement Cards</u></p> <p>Determine if cardholders completed required training, had properly approved cardholder agreements on file, and are current employees.</p> <p>Determine whether selected procurement card transactions are reasonable and in compliance with procedures.</p>	<p>Auditors reviewed supporting documentation to determine if required training was completed within the last two years, properly approved cardholder agreements were on file, and cardholders were current employees at the time of cardholder application for all four cardholders in the department. Supporting documentation reviewed included training records, cardholder agreements, and employment data.</p> <p>Auditors performed data analysis on the department's population of procurement card transactions and cardholders during the audit period to identify the following subsets of data for further review:</p> <ul style="list-style-type: none"> <li>• Purchases exceeding transaction/card limits</li> <li>• Potential duplicate transactions</li> <li>• Potential split transactions</li> <li>• Unusual purchasing trends</li> </ul> <p>Results were analyzed for reasonableness and reviewed with management.</p>

Audit Objective	Methodology
	In addition, auditors judgmentally selected a nonstatistical sample of 30 procurement card statements to include statements from each of the four cardholders. Within each statement a nonstatistical sample of cardholder transactions was judgmentally selected for a total of 30 transactions that were tested for compliance with purchasing/expenditure requirements.
<p><u>Safety Inspections</u></p> <p>Determine whether inspections are completed timely and whether identified deficiencies are addressed in a timely manner.</p>	<p>Auditors reviewed safety inspection reports completed for the university’s 11 residence halls and apartments over a four-month period for proper completion and timeliness.</p> <p>Deficiencies identified on these inspection reports were reviewed to determine if appropriate and timely corrective actions were taken.</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
- Tarleton State University Rules and Standard Administrative Procedures
- National Association of College and University Officer's College and University Business Administration
- Committee of Sponsoring Organizations (COSO) Internal Control: Integrated Framework
- Departmental 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 (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.



## **Audit Team**

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System Internal Audit  
THE TEXAS A&M UNIVERSITY SYSTEM

# TEXAS A&M UNIVERSITY

## PURCHASING

**March 10, 2021**

**Charlie Hrncir, CPA  
Chief Auditor**

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**Project #20210201**



## Overall Conclusion

Internal controls over the purchasing function at Texas A&M University are operating as intended and in compliance with applicable laws and policies.

The Department of Procurement Services at Texas A&M University processes requisitions, bids and purchase orders for purchases exceeding the departmental delegated limit of \$10,000. This audit included selected purchasing activities at Texas A&M University, Texas A&M University at Galveston, and Texas A&M University Health Science Center. Purchases over \$10,000 at these locations during the audit period totaled more than \$1.2 billion.

### Summary Table

Audit Areas	Controls Assessment
Data Analysis	Effective – No Observations
Emergency Purchases	Effective – No Observations
Exempt Purchases	Effective – No Observations
General Purchases	Effective – No Observations
HUB Reporting	Effective – No Observations

## Basis of Audit

### Objective, Scope, & Methodology

The overall objective of this audit was to assess internal controls over the university's purchasing function to determine if purchasing processes are operating as intended and in compliance with applicable laws and policies.

The audit focused on the following areas:

- Data analysis
- Emergency purchases
- Exempt purchases
- General purchases
- Historically underutilized business (HUB) reporting

The audit period was primarily September 1, 2019 to August 31, 2020. Fieldwork was conducted from October 2020 to January 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>Data Analysis</u></p> <p>Analyze purchasing data to identify potential anomalies for further research as needed.</p>	<p>Auditors performed data analysis on the entire population of purchase transactions to identify the following subsets of data for further review:</p> <ul style="list-style-type: none"><li>• Vendor and employee address matches</li><li>• Invoice date prior to purchase order date</li></ul> <p>Auditors judgmentally selected purchase transactions from each subset and reviewed supporting documentation and/or obtained further explanation from the client as needed to ensure the appropriateness of the purchase.</p>

<b>Audit Objective</b>	<b>Methodology</b>
<p><u>Emergency Purchases</u></p> <p>Determine compliance with purchasing procedures related to emergency purchases.</p>	<p>Auditors selected all emergency purchases during the audit period. Supporting purchase documentation was reviewed for compliance with emergency purchasing requirements.</p>
<p><u>Exempt Purchases</u></p> <p>Determine compliance with purchasing procedures related to exempt purchases.</p>	<p>Auditors used professional judgment to select a nonstatistical sample of 30 exempt purchases during the audit period. Supporting purchase documentation was reviewed for compliance with exempt purchase requirements.</p>
<p><u>General Purchases</u></p> <p>Determine compliance with purchasing procedures related to general purchases.</p>	<p>Auditors stratified purchasing data into six subpopulations to ensure testing of purchase transactions from all three Texas A&amp;M University locations as well as purchase orders with the largest dollar amount, and vendors with the largest number and dollar amount of transactions. Within each subpopulation a nonstatistical sample of thirty purchases over \$10,000 was selected using monetary unit sampling. Supporting documentation was reviewed for the resulting 180 transactions for compliance with general purchasing requirements.</p>
<p><u>HUB Reporting</u></p> <p>Determine whether HUB reports are accurate and complete and in compliance with state reporting requirements.</p>	<p>Auditors verified that all seven required HUB reports for each Texas A&amp;M University location were properly submitted during the audit period. Supporting HUB documentation was reviewed for the annual HUB reports submitted to the Texas Comptroller of Public Accounts to ensure the accuracy and completeness of the reports.</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.

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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 University Rules and Standard Administrative Procedures
- Texas A&M University Purchasing Guidelines
- Texas Administrative Code, Title 34, Rule §20.287 *State Agency Reporting Requirements*
- Texas Government Code, Title 10, Chapter 2161. *Historically Underutilized Businesses*
- Texas General Appropriations Act for the 2020-21 Biennium – Article IX
- Texas Procurement and Contract Management Guide - Version 1.3
- 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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