

The Texas A&M University System Internal Audit Department



Monthly Audit Report
November 10, 2021

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System Internal Audit
THE TEXAS A&M UNIVERSITY SYSTEM

WEST TEXAS A&M UNIVERSITY

FINANCIAL MANAGEMENT SERVICES

November 10, 2021

Charlie Hrncir, CPA
Chief Auditor

Project #20211801



Overall Conclusion

Internal controls over contract administration and state contract reporting processes require significant improvement. Further centralization and coordination of the administration of contracts at the university level is needed to ensure contracts are properly routed, approved, and renewed. Opportunities for improvement were also noted in the areas of contracting standards and oversight, cash handling training, bookstore working fund reconciliations, and travel cards. Internal controls over account reconciliations, contract term compliance, and vouchers are operating as intended.

West Texas A&M University had revenues for fiscal year 2020 of \$187 million and expenditures of \$163 million.

Summary Table

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

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

Detailed Results

1. Contract Administration

Contract administration processes require further coordination and centralization at the university level for proper identification, approval, and management of contracts to ensure compliance with university and state contracting requirements. Weaknesses were identified in the areas of contract routing, approvals, and renewals.

1a. Contract Routing

Contracts were not consistently routed through the Contract Administration department for review. During the audit, a comprehensive list of university contracts was not available and some contracts could not be located. Management indicated that not all university contracts are routed through the Contract Administration department as required.

WTAMU Rule 25.07.99.W1 *Contract Administration* states that funding sources for a contract should be identified and provided to Contract Administration along with the contract to be reviewed. Contract Administration is responsible for creating and maintaining well-defined administrative controls that ensures management exercises its fiduciary responsibilities when executing contracts on behalf of the university. Without prior review of contracts by the Contract Administration department, contracts may not be in compliance with university and state contracting requirements.

The university is currently training faculty and staff to emphasize the importance of routing contracts through the Contract Administration department for review. In addition, a centralized contract database and contract checklist are in the process of being developed to assist with tracking and managing contracts.

Recommendation

Continue current efforts to train faculty and staff to submit contracts to the Contract Administration department for review as required to ensure contracts are identified and properly tracked and managed. Implement additional enforcement mechanisms as needed. Complete the implementation of a university contract database and checklist to assist with the effective administration of contracts.

Management's Response

Management agrees with Internal Audit on the recommendations listed above and will fulfill them by completing the following:

- University database has been implemented (Agiloft software) and the hiring of additional temporary staff has been done to ensure the upload of all contracts by the end of May 2022.
- A risk assessment checklist will be completed and implemented before the end of the calendar year.
- Bi-annual notification will be sent out to all employees on the contract process.

Implementation Date: May 31, 2022

1b. Contract Approvals

Contracts were not consistently reviewed by the Office of General Counsel in compliance with system policy. Five of eight (63%) contracts tested that required review by the A&M System Office of General Counsel (OGC) did not have documentation of OGC review or approval. For three contracts, university personnel were not aware that OGC review was required when adding a pre-approved addendum to a contract that originally required OGC review. In some instances, documentation of OGC review was not retained by the university, but the auditor was able to obtain the documentation from OGC. OGC review is needed to decrease the financial and legal risk to the university related to contracting.

A&M System Policy 25.07 *Contract Administration* requires all contracts or agreements that have a stated or implied consideration of \$100,000 or more to be submitted to OGC for review and approval as to form and legal sufficiency when required by OGC guidelines. WTAMU Rule 25.07.99.W1 *Contract Administration*, indicates an administrative officer's delegated authority to approve and sign contracts must ensure that such documents have been reviewed as to form and legal sufficiency by Contract Administration and the A&M System Office of General Counsel. In addition, requests for contract review by the Office of General Counsel shall be routed through and administered by Contract Administration. A contract check list has been developed by the university, but not yet implemented, to help ensure all contract review and approval requirements have been completed before executing contracts.

Recommendation

Develop and implement procedures to ensure contracts are properly reviewed and approved by OGC in accordance with A&M System policy and university rules and that documentation of approvals is retained. Utilize the contract checklist recently developed to ensure proper contract approvals are obtained.

Management's Response

Management agrees with Internal Audit on the recommendations listed above and will fulfill them by completing the following:

- Contract checklist is in progress and will be completed and implemented before the end of the calendar year.
- Working with IT to develop possible workflows within the database completed by October 2022. If this does not happen, the paper workflow (contract checklist) will be utilized.

Implementation Date: October 31, 2022

1c. Contract Renewals

Contract renewals were not executed timely. Three of five (60%) contracts tested that required renewal had no written documentation indicating the contract was renewed prior to expiration of the previous contract term. One contract expired prior to executing a new contract and two contracts had no documentation of the current contract's renewal. University procedures do not ensure that expiration dates are monitored so contract renewals can be completed timely. A contract database is in the process of being implemented to assist with tracking contract expiration dates.

WTAMU Rule 25.07.99.W1 *Contract Administration* states that written contracts shall be executed whenever WTAMU enters into a binding agreement with another party that involves any stated or implied consideration. In instances when a contract expires but vendor or university services continue to be rendered, the contract may no longer be enforceable and the university could be effectively operating without a contract in place.

Recommendation

Develop and implement procedures to ensure that contract renewals are monitored and completed prior to the end of the original contract term. Utilize

the university's contract database currently being developed to track and manage contract renewals.

Management's Response

Management agrees with Internal Audit on the recommendations listed above and will fulfill them by completing the following:

- University database has automatic notifications that have been implemented for renewals, COIs, TAC 213, and terminations.
- All current contracts on the PUR (PURCHASING) shared drive will be reviewed and updated in the contract database by the end of May 2022.
- Template database has been reviewed and includes relevant templates including renewals and terminations.

Implementation Date: May 31, 2022

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 (LBB) when the reporting thresholds are met. The university has not reported any contracts to the LBB since March 2018. Management indicated that contracts were entered on the LBB website, but were mistakenly not submitted.

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. Incorrect reporting can impact the LBB's ability to monitor procurements and conduct in-depth analysis of certain contracts.

Recommendation

Submit previously omitted contracts to the LBB contracts database. Establish processes to ensure contracts are submitted to the LBB when reporting thresholds

are met as required. Utilize the university's contract database currently being developed to track and manage contracts for state reporting compliance.

Management's Response

Management agrees with Internal Audit on the recommendations listed above and will fulfill them by completing the following:

- All contracts through FY 2018 through current will be submitted by March 2022 to the LBB contracts database.
- Procedure will be implemented to ensure all contracts, including POs, have been identified for upload to the LBB timely. These procedures will be in place by March 2022.

Implementation Date: March 31, 2022

3. Contracting Standards and Oversight

The university is not in compliance with certain state contracting requirements as follows:

- The transparency report has not been consistently updated on the university's website to include bid solicitations when required. The A&M System Contract Management Handbook indicates that the solicitation document related to competitively bid contracts over \$15,000 must be posted on the A&M System member's website along with the corresponding contract or purchase order. Missing bid solicitations were subsequently posted during audit fieldwork.
- 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. A risk assessment tool is currently being developed by the university to identify projects that require enhanced contract or performance monitoring.
- The university has not established a procedure to ensure the A&M System contract reporting form is completed for contracts exceeding a value of \$1 million.
- Departmental employees authorized to execute contracts have not completed training in the selection of appropriate procurement methods and information resources purchasing technologies. Training was subsequently assigned to departmental employees authorized to execute contracts during audit fieldwork in August 2021.

The university currently reviews large contracts but does not have a documented process in place to ensure the reviews are consistently completed and include all required elements such as contracts that require additional monitoring or reporting. Purchasing personnel were unaware of the training requirement for authorized contract signatories.

Texas Government Code 2261, *State Contracting Standards and Oversight*, requires specific contract administration and monitoring processes to be in place. Texas Education Code 51.9337, *Purchasing Authority Conditional; Required Standards*, requires employees with authority to execute contracts to complete specific training. 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.

Recommendation

Update procurement procedures and monitoring processes to ensure:

- Bid solicitations are included on the transparency report posted on the university's website for contracts over \$15,000 that have been competitively bid in compliance with statutory requirements
- Contracts that require enhanced contract or performance monitoring are identified with a notification submitted to the A&M System Chief Financial Officer and completion of the A&M System contract reporting form
- Employees authorized to execute contracts complete training that meets the requirements of Texas Education Code 51.9337

Complete the development of a risk assessment tool to identify projects that require enhanced contract or performance monitoring. Ensure departmental employees authorized to execute contracts complete the recently assigned training as required.

Management's Response

Management agrees with Internal Audit on the recommendations listed above and will fulfill them by completing the following:

- All contracts over \$15,000 must be reported to the transparency report located on the WTAMU website. All bid solicitations are not required on the transparency report. Bid solicitations are posted to the Comptrollers Electronic State Business Daily (ESBD) and any resulting purchase orders/contracts will be posted to the transparency website.

- Procedure to identify contracts that require enhanced monitoring will be implemented by end of May 2022 including a notification to the WTAMU CFO.
- Trainings have been assigned in Traintraq for those employees who authorize and execute contracts and will be reviewed annually to identify gaps and take corrective action based on the updated annual Delegation of Authority. These will be completed by December 31, 2021.

Implementation Date: May 31, 2022

4. Working Funds

Improvements are needed to ensure timely assignment and completion of cash handling training. Additionally, documentation of bookstore working fund reconciliations should be enhanced to ensure compliance with university procedures.

4a. Cash Handling Training

Improvements are needed to ensure timely assignment and completion of cash handling training. During the audit period, 10 of 19 (53%) employees who handle cash had not taken cash handling training. University procedures currently do not address requirements for the assignment, completion, or frequency of cashier training. The A&M System TrainTraq course *Cash Handling – System Version* was subsequently assigned to these employees during audit fieldwork in August 2021.

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

Management agrees with Internal Audit on the recommendations listed above and will fulfill them by completing the following:

- Cash handling training will be assigned to all employees with safe and/or petty cash access. This training will be maintained as a requirement for such access. All trainings will be completed by December 31, 2021.

Implementation Date: December 31, 2021

4b. Bookstore Reconciliations

Bookstore working fund reconciliations were not consistently documented in compliance with university procedures. The university's accounting department performs a surprise cash count to reconcile the working fund at the main campus bookstore on a semi-annual basis and the working fund for the Amarillo Center bookstore on an annual basis. These counts were last conducted in March 2021 and all funds were accounted for, however, the following was noted in regards to the reconciliations performed by the bookstore staff for these two working funds.

- A balance of \$15,000 is maintained at the main campus bookstore location and is reconciled approximately every 30-60 days. A review of the most recent reconciliation identified an incorrect reconciling item due to a misunderstanding by bookstore staff regarding the total amount of the issued working fund.
- A balance of \$450 is maintained at the Amarillo Center bookstore location and is reconciled on a periodic basis; however, documentation of the reconciliation is not retained nor provided to the custodian of the working fund.

University fiscal procedures require monthly reconciliation of petty cash accounts which include working funds; however, bookstore procedures do not address working fund reconciliation requirements. Reconciliations help ensure that discrepancies are detected in a timely manner. Without regular reconciliations, the risk is increased that discrepancies could occur and would not be detected. The working funds were subsequently reconciled by the bookstore staff during audit fieldwork and all funds were accounted for as of August 2021.

Recommendation

Update bookstore procedures to include requirements for reconciling working funds. Procedures should address the frequency and documentation requirements for working fund reconciliations. Monitor to ensure bookstore working fund reconciliations are performed and documented as required.

Management's Response

Management agrees with Internal Audit on the recommendations listed above and will fulfill them by completing the following:

- Business Office will work with the Bookstore to review and clarify university reconciliation procedures including frequency of reviews and the required documentation of the review. Anticipated completion date of January 31, 2022.

Implementation Date: January 31, 2022

5. Travel Cards

Improvements are needed to ensure required travel card documentation is properly completed. Testing of 30 travel card transactions determined that four (13%) did not have a notification of absence submitted prior to the first day of travel as required. In addition, three (10%) travel vouchers submitted for travel card expenses incurred did not include all required expenditure documentation, such as expense receipts and mileage and lodging forms.

Cardholders are not required to complete training on travel card program requirements. University fiscal procedures require cardholders to submit a notification of absence and corresponding purchase requisition with the estimated cost prior to traveling, as well as adequate supporting documentation for expenditures incurred. Inadequate training of cardholders and enforcement of travel program requirements could lead to an increased risk of noncompliant or fraudulent transactions.

Recommendation

Improve internal controls to ensure compliance with university travel requirements. For instance, implement additional training for travel cardholders related to travel documentation requirements, and enhance tools for travel transaction approvers to ensure enforcement of the travel card program requirements.

Management's Response

Management agrees with Internal Audit on the recommendations listed above and will fulfill them by completing the following:

- The university will improve information processes to aid in compliance of internal controls related to employee travel. This will be information sent to all university employees bi-annually (beginning of each semester) documenting how, when, and where to begin their travel process including providing correct and accurate supporting documentation, filing of the notification of absence timely, and precise and appropriate reporting of the travel expense report. This will be implemented before the fall semester of 2022.

Implementation Date: August 31, 2022

Basis of Audit

Objective, Scope, & Methodology

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

The audit focused on the following areas:

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

The audit period was primarily May 2020 to April 2021. Fieldwork was conducted from July 2021 to September 2021. Audit fieldwork included financial transactions and processes at the university's main campus in Canyon and its bookstore in Amarillo.

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

Audit Objective	Methodology
<u>Contract Administration</u> Determine whether contracts were properly approved and renewed and that selected terms were monitored for compliance.	Auditors requested a list of all university contracts with a value greater than \$100,000 and used professional judgment to select a nonstatistical sample of ten contracts based upon magnitude and risk. Executed contracts were obtained and reviewed for proper approval based upon A&M System policy and regulations and the university's authorized delegation of authority

Audit Objective	Methodology
	<p>depending on the contract type, magnitude, and term.</p> <p>Auditors verified whether contracts that had expired were renewed or extended prior to the contract's expiration date as applicable.</p> <p>Supporting documentation of university monitoring of select contract terms was reviewed for five of the contracts selected above.</p>
<p><u>State Contract Reporting</u></p> <p>Determine compliance with state contract requirements for reporting.</p>	<p>Auditors reviewed a listing of all contracts submitted to the Legislative Budget Board for reasonableness. No further testing was performed due to results of the reasonableness testing.</p> <p>Auditors used professional judgment to select a nonstatistical sample of ten contracts and verified whether they were reported to the Texas Ethics Commission, if required.</p>
<p><u>Contracting 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 656.051 and Texas Education Code 51.9337, which includes:</p> <ul style="list-style-type: none"> • Training and/or certification for purchasing personnel • Training for contract signatories
<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, petty cash funds, and corresponding employees with access to each fund.</p> <p>Auditors tested the population of employees with access to the working fund to ensure required cash handling training was completed.</p> <p>Auditors also obtained and reviewed recent examples of working fund reconciliations and surprise cash counts for each working fund and petty cash fund.</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 cardholders and large transactions.</p>

Audit Objective	Methodology
	<p>Results were analyzed for reasonableness and reviewed with the client.</p> <p>Auditors used professional judgment to select a nonstatistical sample of 30 travel card transactions including in-state and out-of-state travel with various object codes for testing. Supporting documentation was obtained and reviewed for evidence of:</p> <ul style="list-style-type: none"> • Monitoring and approval processes • Detailed supporting documentation • Appropriate travel transaction procedure compliance
<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.</p> <p>Completed reconciliations were obtained and reviewed for completeness, proper approvals, agreement with supporting documentation, timeliness of preparation, and clearing of outstanding items.</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>

Audit Objective	Methodology
	<p>Results for the top ten vendors by dollar amounts were analyzed for reasonableness and reviewed with the client.</p> <p>Results from the potential split or duplicate vouchers were reviewed with the client and supporting documentation was obtained and reviewed as applicable.</p> <p>Auditors randomly selected a nonstatistical sample of 60 vouchers. Documentation from the client was reviewed for evidence of:</p> <ul style="list-style-type: none"> • Proper approvals • Proper supporting documentation • Appropriate object code • Appropriate purchasing procedure compliance • Payment timeliness <p>Auditors used professional judgment to select a nonstatistical sample of six top vendors by dollar amounts and verified contracts were in place as applicable.</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
- West Texas A&M University Rules and Procedures
- Stated contract stipulations
- Texas A&M University System *Contract Management Handbook*
- Texas Government Code Chapter 2261, *State Contracting Standards and Oversight*
- Texas Government Code 656.051, *Training and Certification of State Agency Purchasing Personnel and Vendors*
- Texas Education Code 51.9337, *Purchasing Authority Conditional; Required Standards*
- General Appropriations Act, Article IX, Section 7.04, *Contract Notification: Amounts Greater than \$50,000*
- 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 DEPARTMENT OF EMERGENCY MANAGEMENT

GOVERNANCE

November 10, 2021

**Charlie Hrncir, CPA
Chief Auditor**



Overall Conclusion

Internal controls over selected governance processes at Texas Division of Emergency Management (TDEM) are in place to ensure compliance with applicable laws and policies. An opportunity for improvement was noted in the area of the health and safety program.

TDEM is responsible for the State Operations Center (SOC). The SOC operates on four levels of readiness, and activation of the SOC is considered any level above normal conditions. Since becoming a Texas A&M University System member in September 2019, the SOC was considered activated 19 of the following 23 months to July 2021.

Summary Table

Audit Areas	Controls Assessment
Health and Safety Program	Needs Some Improvement
Enterprise Risk Management Plan	Effective – No Observations
Human Resources	Effective – No Observations
Information Technology	Effective – No Observations
Required Rules and Procedures	Effective – No Observations
Strategic Plan	Effective – No Observations

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

Detailed Results

Health and Safety Program

The agency health and safety program is not complete. Resource limitations due to the agency's emergency response obligations delayed the development of this required program. TDEM hired a health and safety officer in April 2021 and a standard administrative procedure (SAP) was implemented in July 2021. Plans and timelines have not been established for the development of the detailed health and safety areas under this required program.

A&M System Policy 24.01, *Risk Management*, requires each member to implement and administer a health and safety program and submit an annual report to System Risk Management on the status of the program. Without a comprehensive health and safety program, risks may not be identified or addressed timely to provide a safe and healthy environment for all employees and visitors, and ensure the preservation of state property.

Recommendation

Complete the development and implementation of a comprehensive health and safety program. Submit annual reports to System Risk Management, as required. Establish written procedures for the administration and monitoring of the program.

Management's Response

TDEM recognizes the benefit of a more robust health and safety program. TDEM will publish additional written administrative procedures for the health and safety program to include a detailed monitoring control process and create guidance addressing agency specific hazard risks. TDEM will also provide training modules associated with each identified hazard risk with TDEM Training monitoring the completion of the training units. These documents and training links will be published on the TDEM Health and Safety SharePoint site. TDEM will also draft and update an annual report to submit to System Risk Management as required. We expect all actions to be fully developed and implemented by May 30, 2022.

Basis of Audit

Objective, Scope, & Methodology

The overall objective of this audit was to determine if internal controls for selected governance processes at Texas Division of Emergency Management are in place to ensure compliance with applicable laws and policies.

The audit focused on the following areas:

- Health and safety program
- Enterprise risk management plan
- Human resources
- Information technology
- Required rules and procedures
- Strategic plan

The audit period was primarily May 1, 2020 to April 30, 2021. Fieldwork was conducted from June 2021 to September 2021.

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

Audit Objective	Methodology
<u>Health and Safety Program</u> Determine whether the agency is in compliance with requirements in system regulations for a member health and safety program.	Auditors gained an understanding of the documented health and safety program.
<u>Enterprise Risk Management Plan</u> Determine if the agency's enterprise risk management plan is in compliance with system requirements.	Auditors gained an understanding of the documented enterprise risk management plan status and reviewed supporting documentation.
<u>Human Resources</u> Determine if procedures are in place to support human resources	Auditors gained an understanding of the human resources structure, responsibilities, and assignment and timely completion of required training

Audit Objective	Methodology
<p>processes in compliance with system requirements.</p>	<p>for agency employees. Auditors obtained and reviewed written procedures available to support the human resources processes.</p>
<p><u>Information Technology</u> Determine if procedures are in place to support information technology processes.</p>	<p>Auditors gained an understanding of the information technology structure and controls in place over various technologies used. Auditors obtained and reviewed written procedures available to support the information technology processes.</p>
<p><u>Required Rules and Procedures</u> Determine whether the agency is in compliance with system requirements for a member rule and/or procedure.</p>	<p>Auditors compared a listing of member rules and procedures required by system policies and regulations to rules and standard administrative procedures implemented by the agency. Auditors gained an understanding of the process for determining rule and procedure applicability to the agency.</p>
<p><u>Strategic Plan</u> Determine if the agency’s strategic plan is in compliance with system requirements.</p>	<p>Auditors gained an understanding of the documented strategic plan status and reviewed available documentation including a summary of work performed by a consultant thus far. Auditors also obtained and reviewed key governing documents that the agency has relied upon for strategic direction, prioritization, and focus in the absence of the strategic plan.</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 Division of Emergency Management 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 (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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Ms. Paula Hanson, Chief Financial Officer
Mr. Charles Merriweather, Public Information Coordinator and Compliance Officer



System Internal Audit
THE TEXAS A&M UNIVERSITY SYSTEM

TEXAS A&M UNIVERSITY

COLLEGIATE LICENSING

November 10, 2021

Charlie Hrncir, CPA
Chief Auditor

Project #20210203



Overall Conclusion

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

The Office of Brand Development promotes and protects the Texas A&M University brand by regulating the use of the university's intellectual property such as trademarks, names, and logos. Responsibilities for intellectual property include registration with governing bodies, establishing licensee agreements, monitoring for unlicensed use, and monitoring royalties paid by licensees. The university has contracted with a product licensing agent to assist with several of these processes. The Office of Brand Development received royalty revenues totaling approximately \$6.6 million and \$4.5 million in fiscal years 2021 and 2020, respectively.

Summary Table

Audit Areas	Controls Assessment
Contract Compliance	Effective – No Observations
Intellectual Property Use Approvals	Effective – No Observations
Revenue Collection Processes	Effective – No Observations

Basis of Audit

Objective, Scope, & Methodology

The overall objective of this audit was to determine if internal controls over collegiate licensing at Texas A&M University are operating as intended and in compliance with laws and policies.

The audit focused on the following areas:

- Contract compliance
- Intellectual property use approvals
- Revenue collection processes

The audit period was primarily July 1, 2020 to June 30, 2021. Fieldwork was conducted from August 2021 to September 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 Compliance</u></p> <p>Determine whether selected product licensing contract terms were monitored for compliance.</p>	<p>For the product licensing contract, auditors obtained supporting documentation of university monitoring for select contract terms and reviewed for compliance.</p>
<p><u>Intellectual Property Use Approvals</u></p> <p>Determine whether processes are established to approve the use of intellectual property as required by university procedures.</p>	<p>Auditors reviewed example documentation of the intellectual property use application and review process.</p>
<p><u>Revenue Collection Processes</u></p> <p>Determine whether licensing royalties are received in compliance with the product licensing contract and distributed in accordance with university guidelines.</p>	<p>For the four quarters during the audit period, auditors performed the following:</p> <ul style="list-style-type: none"> • Confirmed receipt of all quarterly payments in the financial accounting records • Determined timeliness of payments • Obtained royalty reports to confirm the calculation of administrative fees retained by the agent • Confirmed calculation and reviewed supporting documentation for internal transfers

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 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 (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-KINGSVILLE

FINANCIAL MANAGEMENT SERVICES

November 10, 2021

Charlie Hrncir, CPA
Chief Auditor

Project #20211701



Overall Conclusion

Internal controls over financial management services at Texas A&M University-Kingsville are operating as intended and in compliance with applicable laws and policies.

The university had revenues for fiscal year 2020 of \$166 million and expenditures of \$162 million.

Summary Table

Audit Areas	Controls Assessment
Account Reconciliations	Effective – No Observations
Contract Administration	Effective – No Observations
Contract Reporting	Effective – No Observations
Contracting Standards and Oversight	Effective – No Observations
Non-Student Receivables	Effective – No Observations
Travel Cards	Effective – No Observations
Vouchers	Effective – No Observations
Working Funds	Effective – No Observations

Basis of Audit

Objective, Scope, & Methodology

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

The audit focused on the following areas:

- Account reconciliations
- Contract administration
- Contract reporting
- Contracting standards and oversight
- Non-student receivables
- Travel cards
- Vouchers
- Working funds

The audit period was primarily September 1, 2019 to May 31, 2021. Fieldwork was conducted from June 2021 to September 2021.

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

Audit Objective	Methodology
<u>Account Reconciliations</u> Determine whether account reconciliations are completed timely and if outstanding items are reasonable.	Auditors used professional judgment to select a nonstatistical sample of 10 reconciliations for testing. Reconciliations were reviewed for timeliness of preparation, review, and clearing of outstanding items.
<u>Contract Administration</u> Determine whether contracts were properly approved and select terms were monitored for compliance.	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

Audit Objective	Methodology
	<p>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>Contract Reporting</u> 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>Contracting Standards and Oversight</u> Determine compliance with state contract requirements for reporting, 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

Audit Objective	Methodology
	<ul style="list-style-type: none"> • 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>Non-Student Receivables</u> 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 review of procedures.</p>
<p><u>Travel Cards</u> 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 cardholders and large transactions.</p> <p>Results were analyzed for reasonableness and reviewed with the client.</p> <p>Auditors used professional judgment to select a nonstatistical sample of 30 travel expense reports based on population size and risk. Expense reports were tested for compliance with agency procedures.</p>
<p><u>Vouchers</u> 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>

Audit Objective	Methodology
	<p>Results were analyzed for reasonableness and reviewed with the 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
<p><u>Working Funds</u> 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 custodians for each.</p> <p>Auditors tested the population of four working funds to ensure working fund custodians have completed required cash handling training.</p> <p>Auditors obtained and reviewed recent examples of surprise cash counts and results for each working fund.</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 University-Kingsville 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*
- 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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