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## February 2001 Follow-up Report on Rider 5: Texas Southern University Accountability Systems

April 30, 2001

Members of the Legislative Audit Committee:

Over the past two years, Texas Southern University (University) has significantly improved operations and services to students. The five key control systems identified in Rider 5, Article III-128, General Appropriations Act, 76th Legislature, are currently implemented and maintained. Nevertheless, we noted that improvements are needed in two of the systems: Finance and Accounting, and Human Resources.

### Key Control Systems

Per Rider 5, Article III-128, General Appropriations Act, 76th Legislature, the State Auditor's Office monitors and reports every six months on the University's implementation and maintenance of systems and controls, including the following:

- Finance and Accounting
- Human Resources
- Management Information Systems
- Student Financial Aid
- Management Oversight Systems

A *control system* is a set of processes put in place to ensure that organizational objectives are met, operations are effective and efficient, resources are appropriately managed and accurately accounted for, and laws and regulations are followed.

Although improvements have been made in the financial reporting processes, we found significant errors and a lack of support for some reported amounts in the University's Annual Financial Report (AFR) for fiscal year 2000. Some amounts were in error by at least 5 percent, were reported in a way that could mislead a financial decision maker, or were lacking appropriate support to show what financial activity was included in the amount reported. Specific examples include balances of \$3.4 million and \$1.8 million that were reported as unrestricted line items when in fact they were restricted, and a restatement of beginning fund balance that was underreported by \$649,000 (see Section 1-A of the Attachment).

Significant weaknesses in the Human Resources Department hinder the University's ability to successfully maintain all of its business systems. Management support for Human Resources is critical

to ensure that the University adheres to state requirements, employs qualified people, and provides effective employee training. Specific weaknesses include failure to submit job postings to the Texas Workforce Commission, failure to verify education and previous employment for new hires, and inadequate assessment of staff training needs (see Section 1-B of the Attachment).

Management must continue to improve systems and focus on strengthening the University's financial position, especially by reducing deficit balances. We plan to review the University's financial position as part of the final monitoring work required by the existing rider. We also encourage the University to implement all previous State Auditor's Office audit recommendations (see Section 2 of the Attachment).

SAO Report No. 01-027

Members of the Legislative Audit Committee  
April 30, 2001  
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Detailed information on the status of University systems and controls, a summary of previous State Auditor's Office audit recommendations, and the President's response are attached. We would like to thank the University management and staff for their cooperation during this review. If you have any questions, please contact Carol Noble, Audit Manager, at (512) 936-9500 or [cnoble@sao.state.tx.us](mailto:cnoble@sao.state.tx.us).

Sincerely,

Lawrence F. Alwin, CPA  
State Auditor

cbg

Attachment

cc: Members, Texas Southern University  
Board of Regents  
Dr. Priscilla D. Slade, President

# The University's Financial Reporting and Human Resources Systems Need Further Improvement

Section 1-A:

## Finance and Accounting

Overall, the University has implemented and maintained finance and accounting system controls, including controls over recording transactions, paying invoices timely, and reconciling cash balances. While we noted improvements in financial reporting processes, management needs to continue improving those processes to ensure financial statement accuracy and consistency.

In this report, **significant error** is defined as inaccuracy of at least 5 percent of an amount in the University's primary financial statements.

We found significant errors and a lack of support for some reported amounts in the University's Annual Financial Report (AFR) for fiscal year 2000. Some amounts were in error by at least 5 percent, were reported in a way that could mislead a financial decision maker, or were lacking appropriate support to show what financial activity was

included in the amount reported. Specific examples include balances of \$3.4 million and \$1.8 million that were reported as unrestricted line items when in fact they were restricted, and a restatement of beginning fund balance that was underreported by \$649,000.

### Balance Sheet – Exhibit A

Accounts Receivable and Deferred Revenue were overstated on the balance sheet. Management reported Accounts Receivable and Deferred Revenues for tuition, fees, and other charges to students who registered early for the Fall 2001 semester. As a result, those amounts are significantly overstated in Education and General, Designated, and Auxiliary Funds. The State Comptroller's Reporting Requirements specify that deferred revenues should be reported only to the extent of cash received.

The University erroneously reported balances of \$3.4 million and \$1.8 million as unrestricted line items when in fact they were restricted. Restricted Funds, by definition, should not be classified as unrestricted line items on the University's balance sheet.

Management could not provide adequate explanation for a significant variance (\$1.1 million) between fiscal year 1999 and fiscal year 2000 amounts reported as Restricted Fund Accounts Payable.

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## Statement of Changes in Fund Balances – Exhibit B

University financial management reclassified and adjusted operations in various fund types by reporting adjustments in Other Deductions rather than in related operational line items. This issue, as well as other errors, is reflected in the examples below.

Restatements of beginning fund balances in Designated and Restricted Funds were understated by \$649,000. In Designated Funds, the error was adjusted by overstating Other Deductions. This presentation does not reflect the accurate restatement amount of \$11.9 million. In Restricted Funds, it appears that the error was not adjusted and year-end fund balance appears to be understated by \$649,000. This error may require restatement of the beginning fund balance for fiscal year 2001.

Increases in Allowances for Doubtful Accounts were inconsistently reported on the Statement of Changes in Fund Balances. \$1.35 million was expensed and another \$917,000 was reported in Other Deductions. Consistency in accounting and reporting practices is an essential part of clear financial statement presentation.

In Unexpended Plant Funds, \$5.8 million of maintenance costs were erroneously reported as Expended for Plant Facilities. Non-capitalized costs such as maintenance should be reported as Other Deductions per the State Comptroller's Reporting Requirements.

Management did not provide complete support for another \$5.8 million of Other Deductions in Unexpended Plant Funds.

## Statement of Current Funds Revenues and Expenditures – Exhibit C

Although University procedures state that support for annual financial report exhibits and schedules should be retained, support for expenditures on the Statement of Current Fund Revenues and Expenditures was not retained. The University recreated the support in January 2001.

### Recommendation:

Texas Southern University should enhance its annual financial reporting processes and ensure that those processes are followed. At a minimum, financial management should:

- Create and maintain files that support each AFR exhibit, note, and schedule.
- Conduct a complete review of all exhibits and schedules to ensure that they are complete and accurate. This review should include variance analyses to identify and correct reporting inconsistencies. Financial management should also completely document explanations for significant variances between years.

- Correct the error detected in the fiscal year 2000 AFR that affects balances in the fiscal year 2001 AFR.

Section 1-B:

## **Human Resources**

Despite the improvements noted below, the University's Human Resources system needs further enhancement. The University has had an Interim Director of Human Resources since August 2000. The ability of the University to realize its goals and continue improving business systems depends on how well it can secure and manage its human resources.

The following is a list of Human Resources improvements.

- Position analyses and job descriptions were completed for key management positions.
- Performance evaluations were completed for executive managers.
- Human Resources reported only 23 vacant positions for the entire University as of November 30, 2000, in contrast to 104 reported vacancies two years ago.

**We noted the following Human Resources weaknesses:**

- Education and employment verification were not documented in the employee files tested. Transcripts and diplomas were absent from personnel files. Failure to verify education and employment may result in hiring employees who lack necessary skills, and may lead to reduced productivity and higher training costs.
- Since August 2000, the University has not reported external postings (positions open to non-University employees) to the Texas Workforce Commission, as required by Section 656.022, Texas Government Code Annotated. Failure to do so may reduce the pool of qualified applicants.
- Two Human Resources staff members hired during fiscal year 2000 did not appear to meet experience requirements for their positions. We noted a discrepancy between the vacancy posting and the job description for one of the positions. Failure to verify whether applicants meet experience requirements may result in the hiring of unqualified personnel.
- Human Resources does not consistently assess the University-wide training needs for staff. Training assessment is crucial to ensure the productivity and professional growth of employees, and will assist the University in accomplishing its goals and objectives. Inadequate training can reduce productivity and individual performance.

- Employee files were disorderly and lacked performance evaluations and payroll actions. File checklists had been developed to help ensure that files were complete, but the checklists were not always used.

Recommendation:

To improve Human Resources systems the University should:

- Take immediate steps to ensure that only qualified applicants are hired. Follow University policy and procedures relating to recruitment and selection.
- Ensure that external postings are reported to the Texas Workforce Commission as required by Texas Government Code Annotated, Section 656.022. (We provided the Interim Director of Human Resources with instructions for online reporting. Human Resources began submitting online postings in February 2001.)
- Complete a University-wide assessment of staff training needs, and ensure that staff are adequately trained.
- Take steps to ensure that personnel files are orderly, complete, and maintained.

Section 1-C:

### **Management Information Systems**

The University has implemented and is maintaining Management Information Systems. Management has also created a Strategic Plan for Information Technology and organized a Council on Information Resources and Technology to provide guidance in this area.

The University's contract with the SCT Software and Resource Management Corporation (SCT) has been renegotiated to include specific timeframes and deliverables, including monthly progress reports on implementing changes to SCT Banner system modules. In addition, the University's current Biennial Operating Plan for Information Technology was approved in July 2000.

Section 1-D:

### **Student Financial Aid**

We noted improved student financial aid operations and student services in our *February 2000 Follow-up Report on Rider 5: Texas Southern University Accountability Systems* (see SAO Report No. 00-021, March 2000). Since that review, the U.S. Department of Education has removed the University from

reimbursement to advance payment status. The Department of Education also plans to conduct a student financial aid program review early in 2001.

The University recently produced an updated Student Financial Aid Policies and Procedures manual. However, the State Auditor's Office (Office) review of student financial aid controls and systems was limited to avoid duplication of the pending review by the Department of Education.

Section 1-E:

### **Management Oversight Systems**

The University has established and maintained an oversight system for monitoring progress toward its goals. During this review, the University was improving its system by developing department/division action plans and new means of tracking progress on those plans. These plans appeared to link to the University's strategic plan. We also noted that weekly Executive Team meetings have continued.

In addition, we found that the University has implemented a formal system for providing timely information to the Board of Regents. Performance and financial information is included in Board agenda materials.

Section 2:

## **Other State Auditor's Office Review Work at Texas Southern University**

University management should ensure that corrective action is taken on all previous recommendations from the State Auditor's Office. Results of other recent reviews are listed below.

### ***August 2000 Follow-up Report on Rider 5: Texas Southern University Accountability Systems (SAO Report No. 01-003, September 2000)***

Two facilities-consulting contracts did not receive formal legal reviews and lack standard terminology to help protect the University in the event the contractors do not provide the expected services. We recommended that the University amend the two contracts to include appropriate legal clauses and clear deliverables. (Note: Amendments with legal clauses were forwarded to the contractors for their approvals in January 2001.)

We also recommended that University management assess contract administration policies and procedures, establish formal processes as needed, and ensure that those processes are followed on all University contracts. The University self-reported both recommendations as partially implemented in January 2001.

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ATTACHMENT

***An Audit Report on Performance Measures at 25 State Agencies and Educational Institutions (SAO Report No. 01-007, November 2000)***

The State Auditor's Office tested data reported to the Legislative Budget Board on four performance measures at 23 universities. All four measures at Texas Southern University were assessed as inaccurate.

We recommended that the University document and implement policies and procedures for the collection, review, and reporting of performance measure data. We also recommended that review of the data be documented.

***The 2000 Statewide Single Audit Report, Financial and Federal Compliance Audit Results (SAO Report No. 01-555, April 2001)***

In following up on previously reported issues, the State Auditor's Office found a continuing material weakness in the payroll system at Texas Southern University.

The report includes the following recommendations:

- In order to provide assurance that payroll charges to Research and Development federal programs are allowable, the University should:
  - Revise payroll policies and procedures to address all relevant federal requirements.
  - Implement additional control procedures over time and effort certifications.
  - Implement additional review and approval controls regarding supplemental salary payments and longevity payments.
- Report all Research and Development (R&D) programs within the R&D cluster in the federal schedule included in the University's AFR.
- Ensure accurate and timely reporting of enrollment changes for the *Federal Family Education Loans* program.
- Report *Federal Pell Grant Program* payment data in a timely manner.

***A Report on State Entities' Compliance with the Public Funds Investment Act (SAO Report No. 00-033, July 2000)***

The University identified deficiencies regarding compliance with the Public Funds Investment Act (Act) in five of six compliance areas during fiscal year 1999. The University had also identified noncompliance in five areas for fiscal year 1998.

University Internal Audit reported that management implemented new control procedures in fiscal year 2000 to ensure compliance with the Act.



Section 3:

## Performance Measures Implemented

The Office, in consultation with the University, developed the set of 19 performance measures below in 1997. These measures defined what “expected performance” for specific critical functions would look like when achieved.

Measure	Implemented as of February		
	1999	2000	2001
<b>Finance and Accounting</b>			
1. Texas Southern University’s (University) Annual Financial Report Tested for Material Weaknesses and Corrected for Fiscal Year 2000. Validate Material Items for Financial Statement Reliability, Including Cash, Accounts Receivable, Accounts Payable, Payroll, and Grants and Contracts.  Note: Although the University continued to improve financial reporting processes, we noted significant errors in the Annual Financial Report for fiscal year 2000. This measure is assessed as implemented; however, the University needs to further improve these processes, as described in Section 1-A. Procedures applied in our review of financial reporting were not extensive enough to express an opinion on the financial statements.	No	Partially (progress made)	Yes
2. Cash Flow Projected From September 1, 1999, Through August 31, 2000.	Partially	Yes	Yes
3. Financial Systems Implemented and Functioning.	Partially	Yes	Yes
4. Policy and Procedures Manual Current for all Financial and Administrative Functions, Including Banner System Modules.	Partially	Yes	Yes
<b>Human Resources</b>			
5. University Hires Chief Operating Officer and Internal Audit Director Via Board-Approved Process.	Yes	Yes	Yes
6. Effective Immediately, All Executive Team Positions Filled by University Administration Comply With Written Selection Process, to Include Selections Committee Composed of Internal and External Parties, Regional and National Search.	Partially	Yes	Yes
7. Human Resources Management Systems Developed. Although we noted some improvements in human resource processes and this measure is assessed as implemented, the University needs to further improve processes in this area (see Section 1-B).	Partially	Yes	Yes
<b>Management Information Systems</b>			
8. Completed and Updated Biennial Operating Plan Provided to Department of Information Resources (DIR).	Yes	Yes	Yes
9. Banner System Finance and Student Financial Aid (SFA) Modules On Line, Tested, and Implemented.	Yes	Yes	Yes
10. Banner System Training Completed by All Appropriate Staff Currently Using Banner System Modules, Including Finance and Accounting and Financial Aid.	Partially	Yes	Yes
<b>Planning and Communications</b>			
11. Outcome Measures Developed for Administrative Departmental Operations.	Yes	Yes	Yes
<b>Student Financial Aid</b>			
12. Key Positions Filled with Experienced and Qualified Personnel.	Partially	Yes	Yes

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Measure	Implemented as of February		
	1999	2000	2001
13. Policies and Procedures Developed and in Use That Ensure Consistent Practices for Administering and Processing Student Financial Aid.	Partially	Partially (progress made)	Yes
14. Reimbursement Process Developed and Implemented Which Ensures Timely and Accurate Submissions of Reimbursement Requests.	No	Yes	Yes
15. Establish System of Communications Between Departments Responsible for Student Financial Aid.	Partially	Yes	Yes
16. Resolve Agreed-Upon Outstanding Audit Issues Identified by State Auditor's Office During November 1997 Follow-Up.	No	Yes	Yes
17. Resolve Outstanding Program Review Issues Identified by the Department of Education as Agreed to in the Settlement Agreement.	Partially	Yes	Yes
<b>Management Oversight Systems and Controls</b>			
18. Establish and Maintain a System for Executive Management to Use in Setting Goals, Objectives, and Priorities for the University and Monitoring the University's Performance.	Yes	Yes	Yes
19. Establish and Maintain a Formal System for Providing Accurate and Timely Financial and Performance Information to the Board of Regents.	Partially	Yes	Yes

## Objective and Scope

The objective of this project was to report on the results of the University's implementation and maintenance of key systems and controls, including finance and accounting, human resources, management information systems, planning and communications, and student financial aid (Rider 5, Article III-128, General Appropriations Act, 76th Legislature).

Our methodology included analyses, testing, interviews, and reviews of reports and other pertinent documents regarding the controls and systems mentioned above. Procedures applied in our review of financial reporting (a part of the University's Finance and Accounting system) were not extensive enough to express an opinion on the financial statements. We therefore do not express an opinion on the financial statements and accompanying notes to the financial statements included in the University's AFR for Fiscal Year 2000.

## Management's Response



TEXAS SOUTHERN UNIVERSITY  
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OFFICE OF THE PRESIDENT  
TELEFAX  
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April 11, 2001

Ms. Deborah Kerr, Director  
Texas State Auditor's Office  
1501 North Congress Avenue, Ste. 4.224  
Austin, Texas 78701

Dear Ms. Kerr:

While the University's overall financial position has improved over the last fiscal year, there is still room for improvement. A reduction or abatement of the \$11 million debt owed to the Department of Education would improve our long-term financial position and we presently are working toward this goal.

We have developed additional control procedures to enhance our financial reporting processes. These controls include the following:

- Utilize a checklist and sign-off form to verify that each exhibit and schedule has been prepared according to Comptroller guidelines
- Place all supporting documentation in the same file for each applicable schedule and exhibit along with check list and sign-off forms
- Obtain supporting documentation for all line item variances of 10% or more - This will also be filed in the applicable schedule or exhibit file.
- Require Internal Audit to sign off that each schedule and exhibit contains the required checklist, sign-off, and supporting documentation if applicable

It should be noted that the items cited by the State Auditor's Office do not require adjustments to the University's accounting records.

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**Human Resources:**

We have taken steps to ensure that all policies and procedures relative to recruitment and selection are followed and that all external postings are reported to the Texas Workforce Commission.

Although the Department of Human Resources prepares a University-wide training calendar and program each year, it encompasses training on a macro level. The training needs of individual employees are assessed by their immediate supervisors during their annual review process. The immediate supervisor is most knowledgeable of the strengths and weaknesses of his/her employees, and is therefore more qualified to determine immediate training needs. Additionally, the University has such a varied and unique group of employees with regards to educational levels and especially job functions, that a University-wide training assessment for such a diverse group of employees would be far too time-consuming for our Human Resources staff. As a result, we assess our training needs as part of the annual action plan and employee evaluation process.

We have developed procedures to ensure all required documentation is in the appropriate personnel files.

Please contact me if you have any questions or comments or would like to discuss this matter further.

Sincerely,



Priscilla Slade, President

PS:erv