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State Auditor

September 30, 2002

Members of the Legislative Audit Committee:

The Legislature and other oversight bodies can rely on The University of Texas at Brownsville's (University) financial information. This assurance is based on our testing of the University's financial system and financial processes as of May 2002.

The University's financial system is the primary source of information for all financial reports. The University's Internal Audit Department identified significant weaknesses in information technology (IT) security controls prior to the start of our audit. Our work confirmed the weaknesses identified by the Internal Audit Department. These weaknesses make the University's computer systems, including the financial system, vulnerable to unauthorized access. Because the University's financial system is the primary source of financial information and because our objective was to determine whether financial information was reliable, we considered the implications of the IT weaknesses when we designed our audit work. Our assessment is that, although weaknesses exist in IT controls, the University's manual reconciliation process mitigates the risk that reported financial data could be unreliable. Our testing found no evidence that the system had been compromised. The compensating manual controls reduce the risk of undetected errors or fraud in the financial system. The University is actively correcting the weaknesses. However, because we did not review for compensating controls in the other systems, our assurances are limited only to the financial system and do not extend to the overall reliability of the University's automated systems.

In addition, the University is spending state appropriations and local funds in accordance with limitations set forth in the General Appropriations Act and other applicable state laws and regulations. The University's appropriations for fiscal year 2002 totaled \$20.2 million.

While the University is providing accurate and consistent financial information, we noted certain weaknesses in its financial controls and procedures. The University is working to address weaknesses in wire transfer procedures and check handling to ensure that assets are properly protected. Despite these weaknesses, we saw no evidence of loss or abuse of funds.

We determined that the University's reported performance for the first generation graduation rate is understated because the University's data collection method does not fully capture information on graduates whose parents attended college but did not graduate. Also, the University's reported Examination for the Certification of Educators in Texas (ExCET) pass rate is incorrect because the University's data collection method for this performance outcome excludes certain teacher education graduates.

Objectives, Scope, and Methodology

The project objectives were to:

- Determine if the University's reporting processes enable it to provide legislative budget committees and University management with accurate and consistent financial information.
- Determine if the University is using state appropriations and local funds in accordance with applicable state laws and regulations.
- Determine the relationship between funds expended and outcomes.
- Determine if enrollment data the University reported to the Higher Education Coordinating Board (for both the University and Texas Southmost College) is reliable.

To achieve these objectives, we gained an understanding of controls over financial information and tested the controls and the accuracy of the financial information by reviewing financial reports, expenditures of state appropriations and local funds, revenues, transfers, lapses, and fund balances. We also examined the relationship between expenditures, key strategies, and the expected outcomes for the strategies. We conducted fieldwork between May and August 2002 and tested transactions that occurred from September 1, 2000, through May 30, 2002.

This audit was conducted in accordance with generally accepted government auditing standards.

SAO Report No. 03-003

The University manages and operates the education programs for Texas Southmost College (TSC), a community college, in accordance with a partnership agreement between the two institutions. As a result, the University receives the state funding appropriated to TSC. It includes in its financial statements the total revenues and costs associated with managing and operating TSC's programs.

Because state funding for the University and TSC is based on enrollment data, we reviewed fiscal year 2001 enrollment data for the two institutions. We found no duplication in the University and TSC enrollment data reported to the Higher Education Coordinating Board.

This financial review was an extension of work we conducted during fiscal year 2001 at the request of the Senate Finance Committee and the House Appropriations Committee. We reviewed the University's financial system and financial processes and tested selected financial transactions that occurred between September 1, 2000, and May 30, 2002. The attachment to this letter contains additional detail on the results of our work.

We appreciate the University's cooperation and responsiveness during this project. The University agrees with our observations and recommendations, and its responses are included in the attachment. If you have any questions, please contact Susan Riley, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Attachment

cc: The University of Texas System
Chair and Members of the Board of Regents
The Honorable Mark G. Yudof, Chancellor
The University of Texas at Brownsville
Dr. Juliet V. Garcia, President

Do the University's reporting processes enable it to provide legislative budget committees and University management with accurate and consistent financial information?

The University of Texas at Brownsville (University) is providing accurate and consistent financial information to the Legislature, The University of Texas System (System) Board of Regents, and University and System management. This assurance is based on our tests of the University's automated and manual processes.

The University's financial processes and systems are generally designed to ensure that information is recorded accurately and consistently.

The University's Datatel Colleague Software System (Colleague) is the primary source of reported financial information. The University maintains policies and procedures to ensure the integrity of information in this system. However, these policies and procedures are not adequate and are not always followed. The most significant concern we have is in the area of computer operations. The University's Internal Audit Department has identified significant information technology (IT) security control weaknesses in the University's computer operations, including the Colleague system (see text box).

Summary of Information Technology (IT) Review

The University's Internal Audit Department identified significant IT weaknesses. These weaknesses make the University's computer systems vulnerable to unauthorized access. Weaknesses were identified in the following areas:

- IT planning and risk assessment
- The data classification process used to establish data ownership and to enable appropriate security levels for critical or sensitive information
- Fire alarm monitoring
- Visitor log and restriction of non-essential employee access to data center
- Written policies and procedures for access to the data centers after regular hours
- Vendor maintenance activity logs
- Written information security policy
- Designation of a single IT security authority
- Local area network (LAN) administrator security training
- System security access controls
- Program change and patches controls
- Backup and disaster recovery procedures

Despite these weaknesses, we found no evidence that the system had been compromised. The University is actively correcting these weaknesses. However, we did not review the University's overall information technology controls; therefore, our assurances do not extend to the overall reliability and security of the University's automated systems.

Our work confirmed the weaknesses identified by the Internal Audit Department. These weaknesses make the University's computer systems, including the financial system, vulnerable to unauthorized access. Because the University's financial system is the primary source of financial information and because our objective was to determine whether financial information was reliable, we considered the implications of the IT weaknesses when we designed our audit work. Our assessment is that,

although weaknesses exist in IT controls, the University's manual reconciliation process mitigates the risk that reported financial data could be unreliable. Our testing found no evidence that the system had been compromised. The compensating manual controls reduce the risk of undetected errors or fraud in the financial system. The University is actively correcting the weaknesses that exist. However, because we did not review for compensating controls in the other systems, our assurances are limited only to the financial system and do not extend to the overall reliability of the University's automated systems.

The Colleague System

The Colleague system processes student records, registration, tuition payments, course inventory, financial aid, human resources, purchasing, budgeting, and accounting data for about 2,600 employees (including replacements) and a total enrollment of about 10,000 University and Texas Southmost College students.

Colleague processed all financial activity to account for the University's \$105 million in assets, \$88 million in revenue, and \$82 million in expenditures for all funds in fiscal year 2001. Colleague applications are fully integrated into a student, financial, and administrative system that is critical to the University's operations.

Although the University's manual reconciliation procedures provide a compensating control to verify that financial information is accurate, this is not the best way to permanently address the IT security control weaknesses. Because reconciliations are performed only periodically, there is still a risk that human error or fraud could occur and not be detected for a significant period of time (until the manual reconciliation is performed). In addition, manual processes are generally more costly because the time that employees spend performing these processes could be spent on other assignments.

The financial information reported to oversight agencies and management is consistent with the University's internal records.

The University reported reasonable revenue and expenditure estimates in the Legislative Appropriations Request (LAR) submitted to the Legislative Budget Board for the 2002–2003 biennium. We successfully traced a sample of revenues, expenditures, transfers, and fund balances from the University's LAR to its annual financial report and other source documents.

Financial information in the University's operating budget is consistent with the information reported in the annual financial report and in the Uniform Statewide Accounting System (USAS). We reviewed the University's annual financial reports to determine whether any revenues or expenditures had not been reported in USAS. We found that the annual financial report and USAS information were consistent.

We reviewed significant revenue and fund balance fluctuations from fiscal years 2000 to 2001 and found them to be reasonably explained and supported. Revenue fluctuated because of increases in:

- Semester credit and contact hours.
- Tuition rates.
- Interest earned on investments.

- Pass-through revenue for state grants.

Fund balances fluctuated because of increases in:

- Reserves for renovations and equipment purchases.
- Grant awards.
- Enrollment and fees.

Although financial information was found to be accurate and consistent for the period reviewed, certain controls and procedures must be strengthened.

Certain weaknesses must be addressed to ensure that assets are properly protected. We performed testing to determine whether loss or abuse of funds had occurred as a result of these weaknesses. Although our testing did not reveal evidence of loss or abuse, the University still must address these weaknesses to ensure that its financial information remains reliable and that assets are properly protected. Specifically:

- The University's procedures for executing wire transfers do not adequately safeguard assets. Staff do not perform daily reconciliations for wire transfers, and there is not adequate segregation of duties among the staff executing these transactions. In addition, the University lacks comprehensive written policies and procedures for executing wire transfers.
- The University's procedure for safeguarding checks and cash items received through the mail is to have all such mail routed to the University's post office box. However, the University has inadequate procedures for (1) informing students to send checks to the University's cashier-controlled post office box and (2) handling checks that are mistakenly sent to other departments through the University's Ft. Brown address. Current procedures in these areas do not adequately safeguard assets. Checks sometimes are sent to the incorrect address, and receiving departments often do not restrictively endorse these checks when they are received. A restrictive endorsement would help to ensure that only the University could cash these checks. All receipts (regardless of where the mail is opened) should be restrictively endorsed as soon as the mail is opened.

Recommendations

The University should:

- Implement the outstanding IT recommendations made by the Internal Audit Department.
- Review its current manual processes (after all IT recommendations have been implemented) to determine whether some procedures can be eliminated to improve efficiency.

- Strengthen its wire transfer procedures by:
 - ♦ Performing daily reconciliations for wire transfers.
 - ♦ Ensuring that there is adequate segregation of duties among the staff executing wire transfers.
 - ♦ Comprehensively documenting its policies and procedures for the wire transfer process.
- Ensure that all relevant University publications, Web site pages, and other written and oral communications clearly indicate that checks should be sent only to the University's post office box.
- Ensure that staff immediately restrictively endorse all checks received through the mail at the time that they open the mail.

Management's Response

The University of Texas at Brownsville will implement outstanding IT recommendations and review its current manual processes to improve efficiency. Wire transfer procedures will be strengthened as indicated. All publications, web site pages and communications will indicate that checks should be mailed only to the University's post office box. Upon receipt of the checks, they will be restrictively endorsed.

Chapter 2

Is the University using state appropriations and local funds in accordance with applicable laws and regulations?

The University is using state appropriations and local funds in accordance with applicable laws and regulations. Several facets of the University's budget and expenditure process support this assessment.

University expenditures are reasonable and appropriate.

A review of the University's annual financial report for 2001 showed that the University is spending approximately half of its current funds for faculty and staff salaries and benefits. For example, the University's \$34.6 million in expenditures for salaries and wages and \$6.1 million in expenditures for benefits in 2001 represented nearly 50 percent of the \$82 million in total current funds expenditures that year.

We tested a targeted sample of \$16 million in University expenditures (excluding those for salaries and benefits) from state appropriations and local funds to determine whether expenditures were:

- Made in accordance with the University's strategies and objectives.
- Paid to the appropriate vendors.
- Reasonable in amount, based on the type of transaction.
- Charged to the appropriate object code.
- Properly approved.
- Supported by adequate documentation.
- Entered into USAS in a timely manner.
- Correctly entered into USAS and the University's accounting system.
- In compliance with appropriation spending restrictions.

Testing showed that the University is spending state appropriations and local funds for appropriate goods and services in accordance with applicable state laws and regulations.

Expenditures for fiscal year 2001 were within limitations established by appropriation restrictions. The University is overseen by the System Board of Regents and does not reimburse board members from state appropriations. In addition, the University spent less than one-third of its appropriations in the fourth quarters of fiscal years 2000 and 2001.

We reviewed significant fluctuations from 2000 to 2001 and found them to be reasonably explained and supported. Expenditures fluctuated primarily because of growth in enrollment, which caused increases in:

- The number of faculty members, salaries, and departmental operating expenses.
- Plant maintenance.
- Scholarships, grants, and loans.

The University develops and adheres to reasonable budgets.

The University bases its operating budget on historical data, management's goals and assumptions, System guidance, and departmental funding requests. Both University management and the System Board of Regents approve the operating budget. Controls in the University's financial system allow payment of vouchers only when sufficient funds are available, which helps to ensure adherence to the budget. University management monitors the status of the budget by reviewing individual departmental budgets each month.

Encumbrances are reasonable and are paid within a reasonable amount of time.

The University reviews encumbrances (financial obligations for which funds are reserved) at the end of each month. It reviews encumbrance journals and encumbrance detail from the general ledger to ensure that it has posted all transactions to both reports. We reviewed \$373,285 (61 percent) of the \$608,993 in year-end encumbrances for 2001. This review indicated that the University properly clears encumbrances and maintains appropriate documentation to support encumbrances and corresponding payments.

The University makes appropriate transfers of state appropriations and unexpended balances.

The University transferred an unexpended balance of \$1,223,252 for the construction of a Life and Health Science Education Building from appropriation year 2000 to appropriation year 2001 based on unexpended balance authority. It transferred this unexpended balance because building construction was delayed. The University also coordinated appropriation authority with the System and the Comptroller of Public Accounts (Comptroller) to retire \$2,151,891 of tuition revenue bonds held by the System on behalf of the University. In addition, the University made a \$28,629 transfer in response to an appropriation reduction.

The University had a balance in state appropriations of \$5,025,583 on August 31, 2001, including \$3.8 million of Higher Education Assistance Funds (HEAF) funds and \$1.2 million to provide for encumbrances and potential adjustments between estimated and actual staff benefit costs. Article VII, Section 17, of the Texas Constitution provides that HEAF funds may be used to acquire land, capital equipment, and library books, and to construct, equip, repair, or rehabilitate buildings. Unexpended HEAF balances were reappropriated to the respective institutions for the same purposes for the following biennium.

The University does not lapse appropriations.

A review of the University's financial data and supporting documentation for 2000 and 2001 showed that the University used USAS lapse accounts but did not actually lapse appropriated funds in any of those years. Using the lapse accounts is in accordance with the Comptroller's approved method for accounting for the retirement of tuition revenue bonds the System holds on behalf of the University. The University had a \$210,040 committed lapse in its Estimated Other Income for fiscal year 2001; however, this was only an estimated item and not an actual collected lapse.

Is there alignment between funds expended and outcomes?

Although we could not compare performance and expenditure data, according to the University, it uses its Educational and General State Support funds to improve its performance measure outcomes. For example, the University offers various programs to help students improve their performance on the Examination for the Certification of Educators in Texas (ExCET). These programs include examination review classes, tutoring, and special needs programs. According to the University's School of Education, some of its efforts to improve performance measure outcomes are limited by the number of full-time faculty members it has.

A review of the University's annual financial reports indicated that the University's Educational and General fund expenditures increased 9.3 percent from fiscal year 1999 to fiscal year 2001. The increase was due, in part, to 8 percent and 32 percent increases in Texas Southmost College (TSC) and University enrollment, respectively, during those years. The University manages and operates the education programs for TSC in accordance with a partnership agreement between the two institutions.

The University is not collecting the proper information to calculate two performance measures.

The University's reported actual performance for the first generation is understated because its data collection method does not fully capture information on first generation graduates whose parents attended college but did not graduate. As Table 1 on the following page shows, the University's reported actual performance for the first generation graduation rate was within 5 percent of the target during fiscal year 2000 and slightly lower than 5 percent of the target during 2001.

Table 1 also indicates the University's reported actual performance for the ExCET pass rate has been substantially lower than the target. However, the ExCET pass rate targets have been lowered to 41.6 percent in fiscal year 2002 and 42 percent in fiscal year 2003. Nevertheless, the University's data collection procedures for the ExCET measure are inappropriate because the procedures exclude teacher education graduates from the year immediately prior to the reporting year who were certified or took at least one ExCET during the reporting year.

In addition, the University's review procedures for both measures are inadequate because the University did not detect and correct these weaknesses.

Table 1

Comparison of Outcome Targets to Reported Actual Performance				
Outcome Measure	Fiscal Year 2000		Fiscal Year 2001	
	Target	Reported Actual Performance	Target	Reported Actual Performance
First generation graduation rate	78.0%	75.8% ^a	79.0%	74.9% ^a
ExCET pass rate	85.0%	40.8% ^b	85.0%	42.0% ^b
<p>^a Because the University did not collect data on graduates whose parents had attended college but did not graduate, the measure could not be recalculated and the extent of the understatement of this measure could not be determined.</p> <p>^b The reported fiscal year 2001 rate was 42.0 percent. However, we determined the correct rate was 56.5 percent. For fiscal year 2000, the reported rate was 40.8 percent. We did not reconstruct the underlying data and, therefore, did not determine the extent of error in the reported fiscal year 2000 rate.</p>				

Source: Automated Budget and Evaluation System of Texas (ABEST)

Recommendations

The University should:

- Properly determine its first generation graduation rate by including in its calculation the number of first generation graduates whose parents attended college but did not graduate. The University should request this data on students' applications for graduation and use it to calculate performance.
- Properly determine its ExCET pass rate by including in its calculation teacher education graduates from the year immediately prior to the reporting year who took at least one ExCET during the reporting year.

Management's Response

The University will modify its application for graduation to request data on students' parents who attended college but did not graduate. This information will be used to properly determine the first generation graduation rate. The University will also include in its ExCET calculation, teacher education graduates from the year immediately prior to the reporting year who took at least one ExCET during the reporting year.

Is reported enrollment data for the University and Texas Southmost College reliable?

Reported enrollment data for the University and TSC is generally reliable. We found no duplication in the University and TSC enrollment data reported to the Higher Education Coordinating Board (Board). The University has adequate policies and procedures for collection of enrollment data. These processes include admission, registration, and payment processes, as well as policies and procedures for reporting enrollment data.

An enrollment-data reporting module in Colleague provides TSC student contact hour data that is subsequently submitted to the Board for state formula funding purposes. The University reports (and is funded based on) semester credit hour enrollment data that an in-house system extracts from enrollment data in Colleague and then processes. Data edit checks and management reviews ensure the validity of the data submitted to the Board. We found no errors in the selected fiscal year 2001 data we reviewed.