



A Legislative Summary Document Regarding Texas A&M University

Contents

Financial Profile

Key Findings from Previous Audits
and Reviews

Performance Management

Disaster Preparedness

Information System Vulnerability
Assessments

State Auditor's Observations

Our audit of a sample of 233 items from the Texas A&M University (TAMU) property accounting system resulted in a zero error rate, indicating that we were able to find or account for each of the property items.

TAMU's methods for estimating revenues and expenditures for its Legislative Appropriations Request (LAR) appear to accurately present its budgetary activities.

TAMU failed to meet two of its nine key performance measures for 2001. The Percentage of Baccalaureate Graduates Who Are First Generation College Graduates measure was 30.5 percent, which is short of the target of 57 percent. This was a new measure designed to report fiscal year data for 1998 but was instituted too late in the year to gather any graduation data other than for Summer 1998. Therefore, the fiscal year 2001 count did not have the full four years of data included.

The Administrative Cost as a Percent of Total Expenditures measure was 4.21 percent, with a target of 3.3 percent. An unanticipated increase in the cost of utilities caused the institutional support expenditures to increase significantly. However, when compared with other large state universities, TAMU had a relatively low administrative cost ratio in 2001 (total non-auxiliary institutional support expenditures to total non-auxiliary expenditures)

Prepared for the 78th Legislature
by the State Auditor's Office

January 2003

SAO No. 03-335

This is not an audit report and, with the exception of any audit report summaries, the material in this document has not been subjected to all of the tests and confirmations performed in an audit.

Texas A&M University

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Financial Profile

Revenue Projections

Texas A&M University's (TAMU) methods for estimating revenue appear to be reasonable. Whether projecting current-year or future-year Educational and General revenues, the processes are essentially the same. TAMU determines the year-to-date revenue collected in each revenue category from its accounting system and compares those amounts with like categories in the previous year. Then the percentage of the total collected in the previous year is calculated, and that percentage is applied to the current year amount to project the amount to be collected by year end. The result may be adjusted based on the expected impact of increases in tuition or fee rates, changes in the investment allocation rate, trends in indirect cost revenues, seasonal and economic factors, changes in balances of investment earnings, anticipated fluctuations in contracts and grants, enrollment growth, and caseload at the Veterinary Medical Teaching Hospital.

Expenditure Analysis

TAMU estimates expenditures on the basis of prior year actual information, and TAMU's estimating methods appear to be reasonable. Expenditures reported in the 2001 Annual Financial Report were within 2.52 percent of the operating budget.

Because of changes in weighted semester credit hours (part of formula funding), expenditures for two strategies increased significantly from 2001 to 2002. Operations Support expenditures increased \$30,311,626 (18 percent), and Teaching Experience Supplement increased \$3,099,993 (113 percent).

The table below shows TAMU's expenditures by Comptroller of Public Accounts category as reported by TAMU in the Uniform Statewide Accounting System (USAS) for appropriation years 2000, 2001, and 2002. This data has not been audited. It is provided for informational purposes to show how TAMU has spent its funds. We obtained explanations from TAMU for fluctuations across years that appeared unusual.

However, the financial information recorded in USAS and presented here includes only expenditures paid from funds held in the State Treasury. These expenditures do not include expenditures paid from funds held locally by TAMU. As a result, variances from year to year may reflect internal funding decisions and therefore may not be comparable.

Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Salaries and Wages	\$ 246,115,607	\$ 257,097,881	\$ 274,380,784
Employee Benefits	54,868,149	55,195,742	63,391,570
Communications and Utilities	31,312,578	29,576,249	22,868,180
Capital Outlay	4,973,387	5,367,065	2,295,428
Supplies and Materials	4,703,259	5,072,642	3,755,566
Other Expenditures	4,324,101	4,377,964	5,874,812
Intergovernmental Payments	2,961,718	4,154,063	3,002,943
Public Assistance Payments	1,979,833	2,982,021	5,949,212
Interfund Transfers/Other (Note A)	1,062,261	8,671,396	21,464,147
Repairs and Maintenance	789,105	778,625	698,303
Rentals and Leases	625,931	579,081	789,035
Travel	501,520	703,389	562,344

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Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Professional Services and Fees	256,399	178,576	444,437
Cost of Goods Sold	116,362	345	0
Printing and Reproduction	102,946	69,974	130,890
Payment on Principal - Debt Service	42	0	0
Interest/Prompt Payment Penalties	7,129	12,269	7,547
Total Expenditures	\$ 354,700,327	\$ 374,817,282	\$ 405,615,198

Source: USAS - All funds including appropriated, unappropriated, and non-appropriated as of November 30, 2002.

Note A – Interfund transfers may include transactions and adjustments made by the Comptroller of Public Accounts, as well as transfers between funds within TAMU and transfers out to other state agencies. The amount for Interfund Transfers/Other increased in 2001 because of an unexpended balance transfer forward of \$7.3 million. A similar transfer of \$20 million was executed in 2002.

Reconciliations to USAS and ABEST

TAMU is current in its reconciliations between its internal accounting system, USAS, and the Automated Budget and Evaluation System of Texas (ABEST), and it appears that TAMU follows up on and resolves reconciling items in a timely manner. Reconciliations are an integral process of financial management and provide information regarding the accuracy of accounting and funding information accounted for in various systems and accounts.

Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

An Audit Report on Property Reported as Lost or Stolen

(Report No. 01-032, June 2001)

The objectives of this audit were to determine (1) whether selected agencies and universities have inventory and asset management practices to prevent or minimize the loss of state property and (2) the cost to the State of weaknesses in inventory and asset management. We randomly selected 233 assets from the property accounting system of each agency and university we visited.

Status of Audit Recommendations ¹ as of November 30, 2002 (unaudited)	
TAMU has reported the following:	
Implemented	2
Total recommendations	2
¹ From management letter No. 01-466	

Notably, the percentage of missing test items at Texas A&M University was zero, indicating that we were able to find or account for each of the property items in the sample we tested there.

Texas A&M University

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A Report on the Fiscal Year 2002 University Accreditation Reviews

(Report No. 02-036, April 2002)

The State Auditor's Office published an accreditation review report for Texas A&M University (TAMU) in fiscal year 2002. The Southern Association of Colleges and Schools (SACS) requires these financial reviews as a part of its university accreditation process. Universities may choose to have this work done by the State Auditor's Office or by an independent CPA firm.

We perform these accreditation reviews in conjunction with the internal audit departments of the universities. The internal audit departments prepare summarized financial statements and supporting information. The State Auditor's Office reviews the information provided and determines whether the financial information is appropriately presented and supported. This approach is cost efficient for the universities and provides the State Auditor's Office with opportunities to review the accounting systems used by the various universities.

We had positive results on TAMU's review. In our review, nothing came to our attention that would require a material modification to the financial statements for them to be in conformity with generally accepted accounting principles.

State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001¹

(February 2002)

Special Tests and Provisions - Student Loan Repayments

The Texas A&M System Internal Audit Department had previously observed that the monthly invoice notices sent out to Perkins loan borrowers by Texas A&M University (TAMU) were not in accordance with federal regulations, which require that late notices be sent 15, 30, and 45 days after a payment is past due.

<p>Status of Audit Recommendations as of November 30, 2002</p>

<p>KPMG LLP will report on the status of these recommendations in the federal portion of the statewide single audit for fiscal year 2002. This report is expected to be released in Spring 2003.</p>
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The audit procedures performed supported this noncompliance. For all five students selected in default status prior to June 15, 2001, TAMU had sent notices on the thirtieth day after the violation date. The five students' loan balances totaled \$9,209. As of June 30, 2001, loans in default were \$3,104,201. The questioned costs were \$9,209.

Because the proper corrective action had already been implemented as of August 31, 2001, no further action is considered necessary.

Performance Management

Performance Indicators Used by Management

Texas A&M University (TAMU) uses Legislative Budget Board measures for monitoring performance. TAMU also measures its success by annually updating its Vision 2020 Plan goals and its strategic plan targets, preparing a status report on performance for each goal.

The Division of Institutional Studies and Planning collects and analyzes performance data and reports to management, but it does not make management decisions. The division submits data such as student information and graduation rates to the Higher Education Coordinating Board (Board) and makes corrections based on the Board's input. TAMU uses a seven-year

¹ Results from only the most recent statewide single audit are included in this Legislative Summary Document. KPMG LLP conducted the federal portion of that audit under contract with the State Auditor's Office. Only excerpts from the KPMG audit report are presented above. For the full text of the KPMG audit report, please see www.sao.state.tx.us/Reports/report.cfm?report=2002/02-345.

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trend analysis of all outcomes to monitor performance. Upper management decides on corrective action plans when performance is not on track.

Estimating Performance Targets

TAMU's methodology to estimate performance targets appears reasonable. Estimates are based on historical data, state programs, and trends. The Division of Institutional Studies and Planning prepares a trend analysis and reports any variances between target and actual performance to TAMU management.

TAMU failed to meet two of its nine key measures for 2001. The Percentage of Baccalaureate Graduates Who Are First-Generation College Graduates measure was 30.5 percent, which is short of the target of 57 percent. This was a new measure designed to report fiscal year data for 1998 but was instituted too late in the year to gather any graduation data other than for Summer 1998. Therefore, the fiscal year 2001 count did not have the full four years of data included. The Administrative Cost As a Percent of Total Expenditures measure was 4.21 percent, with a target of 3.3 percent. An unanticipated increase in the cost of utilities caused the Institutional Support Expenditures to increase significantly.

Disaster Preparedness

We gathered information from Texas A&M University (TAMU) on plans in place to provide continued operations and services in the event of a disaster. Standard audit criteria for disaster preparedness have not been established; therefore, we are not evaluating TAMU's plans. Our objective was only to provide the information reported by TAMU.

TAMU has a Business Resumption Plan for the Finance Division. The plan incorporates a Disaster Recovery Plan for information technology that was approved by the Department of Information Resources and that was updated in the spring of 2002. TAMU also has prepared a Crisis Management Plan that includes procedures for preserving TAMU property and resources and for protecting human life and health.

TAMU collaborates with the City of College Station and Brazos County on emergency planning.

Information System Vulnerability Assessments

The State Auditor's Office (SAO) and/or the Department of Information Resources performed one or more information system vulnerability assessments at Texas A&M University between January 2000 and November 2002. Detailed results of this work are confidential under Texas Government Code, Section 2054.077(c). The SAO's Legislative Summary Document titled "Information System Vulnerability Assessments" provides general information about the results of information system vulnerability assessments.