

Key Points Of Report

Texas Southern University 1994 Statewide Financial and Compliance Audit

March 1995

Overall Conclusion

The University has made progress in implementing corrective measures to resolve the material weakness identified in the 1993 student financial aid audit, such as reorganizing the Student Financial Aid Office and acquiring the services of a consultant. However, the University has not developed and distributed current written policies and procedures for its student financial aid operations. As a result, the University cannot ensure that it is resolving the material weakness identified in the fiscal year 1993 audit and that its daily operations are consistent and in compliance with federal regulations. In addition, the University did not fully comply with the state laws when entering into a \$300,000 contract related to student financial aid. We performed limited follow-up procedures and will conduct a complete review of the federal student financial aid programs in fiscal year 1995 to determine if the material weakness has been resolved. The University received approximately \$35 million in federal student financial aid funds for fiscal year 1994.

The University's bond schedules and bond-related Notes to the Financial Statements in the 1994 Annual Financial Report are materially correct and in conformity with the Comptroller's reporting requirements. At August 31, 1994, the University reported three outstanding bond issues, totaling \$23.9 million.

Key Findings

- Texas Southern University has not developed and distributed current written policies and procedures to improve the control environment over the student financial aid operations. As a result, the University cannot ensure that it is resolving the material weakness in controls over student financial aid.
- Texas Southern University did not fully comply with the state law when entering into a \$300,000 personal services contract. The University did not obtain prior approval from the State's General Services Commission.

Table of Contents

Internal Control Issue	1
Develop Student Financial Aid Policies And Procedures	1
State Compliance Issue	1
Fully Comply With State Law Regarding Contracts	1
Audit Scope	2

Internal Control Issue

Internal Control Issue:

Develop Student Financial Aid Policies And Procedures

The University has not developed and distributed current written policies and procedures to improve the control environment within the Student Financial Aid Office. As a result, the University cannot ensure that it is resolving the material weakness identified in the fiscal year 1993 audit and that its daily operations are consistent and in compliance with federal regulations.

Current written policies and procedures are an essential element of the control environment, which ensures consistency and control over daily operations. They also serve as a management control mechanism by standardizing recurring tasks.

Recommendation: We recommend that the University develop and distribute current written policies and procedures for its student financial aid operations. The University should also implement procedures to ensure that these policies and procedures are revised on a timely basis in the future.

Management's Response: *In an effort to ensure that the University's daily financial aid operations are consistent and in compliance with federal regulations, the University is reviewing and revising, as applicable, its written policies and procedures in the area of financial aid.*

The Financial Aid Office will distribute written, updated, and current policies and procedures to the University community and others, as appropriate, no later than March 31, 1995. Moreover, the Financial Aid Office will routinely review, for modification, these policies and procedures on a quarterly basis or more frequently if policy changes dictate.

The Financial Aid Office is developing a growing dissemination list of persons, agencies, and groups who should receive the written policies and procedures. This listing will be amended as appropriate.

State Compliance Issue

State Compliance Issue:

Fully Comply With State Law Regarding Contracts

The University did not fully comply with state law when entering into a contract relating to student financial aid. The University did not obtain prior approval from the State's General Services Commission for a \$300,000 personal services contract.

Texas Annotated Code (TAC), Section 113.11,(4), states that for purchases of services estimated to cost more than \$100,000 per year, the General Services Commission must

review any proposed specifications or statements of work and determine whether the award should be made. This review ensures that the services are needed and reasonable.

Recommendation: We recommend that the University fully comply with all applicable state laws and regulations when entering into contracts.

Management's Response: The University processed the Request for Proposal to conduct services for the TSU Financial Aid Delivery System Project as a Consulting Services Contract. The resulting contract was processed as a Consulting Services Contract and invoices against that contract were presented to the Comptroller as a consulting service. In November 1994, the Comptroller of Public Accounts informed TSU that they had determined this was not a consulting services contract but rather a personal services contract. Since the contract was already executed and operational, TSU could not obtain prior approval from the General Services Commission for the personal services contract.

The University has installed controls in the procurement process to assure that future contracts are properly classified and that the appropriate prior approval is obtained before the contract is executed.

Audit Scope

The primary focus of our audit was on the University's three bond issues (\$23.9 million). For each bond issue, we tested the bond-related disclosures in the Fiscal Year 1994 Annual Financial Report and verified compliance with significant bond covenants. Follow-up work was performed to determine the status of actions taken by the University to resolve the fiscal year 1993 material weakness identified in the control environment of the Student Financial Aid Office. We performed limited follow-up procedures because the University has not had sufficient time to correct all of the problems previously identified. The University received approximately \$35 million in federal student financial aid funds for fiscal year 1994. A complete review of the federal student financial aid programs will be conducted in fiscal year 1995 to determine if the material weakness has been resolved.