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An Audit Report on Management Controls at Sam Houston State University March 1997

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Key Points of Report

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March 1997

Overall Conclusion

In several areas, management controls at Sam Houston State University (University) are inadequate in design and/or implementation. These inadequacies impact the University's ability to ensure that its mission and objectives will be fully accomplished and that assets will be appropriately safeguarded.

Key Facts and Findings

- The internal audit function is ineffective in addressing University risks because of executive management's limited participation in oversight and the Internal Audit Department's (Internal Audit) failure to fully follow standards. Neither executive management nor Internal Audit is proactive in using the internal audit function to reduce risk. Currently, Internal Audit has an impaired risk assessment process, does not always collect sufficient evidence and documentation to support audit conclusions, and had not received a peer review as of November 1996.

The level of executive management's involvement impacts the effectiveness of the internal audit function. The Internal Audit Department should be a key tool used by executive management to manage risk. Internal Audit should provide executive management with useful information through unbiased evaluations of control systems and programs based on statutes and professional standards.

- Controls over planning and developing, as well as budgeting, in two Auxiliary Enterprises should be strengthened. Proper cost analyses have not been performed regarding building and operating the golf course (\$3,010,000). Also, plans do not exist detailing the cost or implementation of the proposed recreational area, "Kat Kountry," including building the lake. Additionally, budgeting has not been realistic, causing expenditures to exceed revenues and creating deficit fund balances for the University day care center and the Twirling - Cheerleading Summer Camp Program. Consequently, other fees are being used to subsidize these accounts.
- The University should improve controls to ensure that assets are safeguarded. The University recently provided a reconciliation worksheet to make adjustments for \$5.8 million in property and equipment that was not reconciled as of January 1997. The Purchasing, Correspondence Course, and Administrative Accounting departments had control weaknesses which were caused by lack of established policies and procedures, not enforcing existing policies and procedures, or circumvention of existing controls.

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This audit was conducted in accordance with Government Code, Sections 321.0132 and .0133.

Executive Summary

In several areas, management controls at Sam Houston State University (University) are inadequate in design and/or implementation. These inadequacies impact the University's ability to ensure that its mission and objectives will be fully accomplished and that assets will be appropriately safeguarded. The internal audit function is ineffective in addressing University risks because of executive management's limited participation in oversight and the Internal Audit Department's failure to fully follow standards. Controls over planning and developing of new Auxiliary Enterprises could be strengthened. Budgeting of two Auxiliary Enterprises should be more realistic to reduce the occurrence of deficits in accounts.

Improve Internal Audit Function to Effectively Address University Risks

The ineffectiveness of the internal audit function is due in part to the Internal Audit Department's (Internal Audit) failure to fully follow standards. Neither executive management nor Internal Audit is proactive in using the internal audit function to reduce risk. Currently, Internal Audit has an impaired risk assessment process, does not always collect sufficient evidence and documentation to support audit conclusions, and had not received a peer review as of November 1996.

The level of executive management's involvement impacts the effectiveness of the internal audit function. The Internal Audit Department should be a key tool used by executive management to manage risk. Internal Audit should provide executive management with useful information through unbiased evaluations of control systems and programs based on statutes and professional standards.

The University Has Not Performed Necessary Analyses or Used Key Information to Support Decisions Made in Some Auxiliary Enterprise Operations

Proper cost analyses have not been performed regarding building and operational funds for the \$3,010,000 18-hole golf course. At the February 1996 Texas State University System Board of Regents (Board) meeting, the Board authorized the hiring of a recreational golf facility designer to develop final plans and specifications for the golf course. Profitability and funding analyses for the golf course are inadequate and could leave the University short of funds. The University did not conduct an independent analysis, and the only analysis performed is the best-case scenario. The Board also approved a proposal in its November 1996 meeting for the University to construct a lake. The lake is part of a proposed recreational area. Yet, there are no plans detailing the cost or implementation of the recreational area.

Controls Over Budgeting and Budget Monitoring for Auxiliary Enterprises Should Be Strengthened

The Bearkitten Academy (Academy), a day care center for the children of University students and faculty, has been unable to operate within its budget. During fiscal year 1996, the University transferred approximately \$60,000 from parking fees and used an additional unauthorized \$23,000 in student services fees—above the \$23,000 that was authorized by the Student Service Fee Advisory Committee—to operate Bearkitten Academy. Despite the infusion of additional funds, the Academy ended fiscal year 1996 with a deficit fund balance of \$4,702.56. In

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March 1997, funds were transferred from the Unallocated Student Service Fees Fund Balance to cover the deficit.

The Music Department's Twirling - Cheerleading Summer Camp Program has been unable to operate within a budget, which has contributed to its deficit fund balance of \$111,314.66 as of August 31, 1996. The Summer Camp Program has experienced financial management problems for at least the past five years. The Music Department spent more than the projected Summer Camp Program profits on general Music Department expenses (particularly scholarships) before the Summer Camp Program began operation. In fiscal year 1993, management and the Board agreed that the Music Department would pay off the deficit in increments of \$16,000 per year. While the Music Department has reduced the deficit by \$55,250.06 during the last three years, the deficit has still increased by approximately \$28,000.

To improve accountability, realistic budgets should be established for each department. Departments should be expected to operate within budget parameters. Also, to ensure students are aware of the costs of student services, the Student Service Fee Advisory Committee should be advised and consulted prior to reallocating student service fees.

The University Should Improve Controls to Provide for the Safeguarding of State Assets

The University should improve controls to ensure that assets are safeguarded. A \$5.8 million difference was identified for fiscal year 1995 between the amount reported in the University's *Annual Financial Report (AFR)* for property and equipment and the amount reported in the State Property Accounting

System. The University had not reconciled this amount as of January 1997. However, the University recently produced a reconciliation worksheet identifying the needed adjustments to State Property Accounting system and the AFR.

The Purchasing, Correspondence Course, and Administrative Accounting departments had control weaknesses that were caused by lack of established policies and procedures, not enforcing existing policies and procedures, or circumvention of existing controls. Controls over the cash handling process in the Correspondence Course Department, travel advances, and cellular phone use should be improved to ensure that assets are not misused.

Human Resource Controls Need Improvement

The Human Resources Department (Human Resources) has no way of ensuring that employee evaluations occur, take place in a timely manner, or are appropriately documented. Without timely written evaluations, it becomes difficult for the University to reward good performance or correct poor performance.

Training at the University is decentralized, which could lead to duplication of training efforts and inefficient use of training resources. Each department has its own training budget. There are no short- or long-term training goals. Therefore, staff training may not support the goals and objectives of the University.

Human Resources has not performed a centralized staffing analysis and is not involved in the strategic planning process. Currently, each department is responsible for

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its own staffing levels; however, the departments do not perform formal staffing analyses. Without a staffing analysis and involvement by Human Resources in the strategic planning process, the University risks being underemployed in some areas and over employed in others.

Improvements to controls could be made to ensure that all jobs are posted, that there are no inappropriate questions on job applications, and that inappropriate information is not included in the personnel files.

Summary of Management's Responses

Management concurs with many of the findings and recommendations contained in this report. The finding and recommendations that management disagrees with are noted in its responses. The University has already

begun implementing many of these recommendations.

Summary of Audit Objective and Scope

The objective of this audit was to evaluate the existing management control systems within Sam Houston State University to identify strengths and opportunities for improvement.

The scope of this audit included consideration of executive management's oversight of and attention to management controls.

Management control areas reviewed include:

- Policy management
- Performance management
- Resource management
- Information management

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Improve Internal Audit Function to Effectively Address University Risks

The internal audit function is ineffective in addressing University risks because of executive management's limited participation in oversight and the Internal Audit Department's (Internal Audit) failure to fully follow standards. Neither executive management nor Internal Audit is proactive in using the internal audit function to reduce risk. Currently, Internal Audit has an impaired risk assessment process, does not always collect sufficient evidence and documentation to support audit conclusions, and had not received a peer review as of November 1996.

The level of executive management's involvement impacts the effectiveness of the internal audit function. The Internal Audit Department should be a key tool used by executive management to manage risk. Internal Audit should provide executive management with useful information through unbiased evaluations of control systems and programs based on statutes and professional standards.

The following examples illustrate the need for Internal Audit to increase its effectiveness:

- The Texas State University System Board of Regents Finance Committee, which acts as the audit committee, should improve oversight of the internal audit function. The 1995 audit reports and the 1996 audit plans for all of the schools in the Texas State University System (System), including Sam Houston State University, were not approved by the Board. The *Standards for the Professional Practice of Internal Auditing* state that senior management and the Board should provide general direction as to the scope of work and the activities to be audited. State law requires that audit reports be reviewed by governing boards and administrators. Internal Audit should take a proactive role in ensuring that the Board approves its audit plans and reviews its reports. Also, no documentation exists that shows the Board had an active role in hiring the University's Internal Auditor.
- The Internal Auditor has not been evaluated for approximately one and one-half years, and has not had a recent peer review. It is the Board's responsibility to oversee Internal Audit and ensure that all necessary reviews occur.
- Internal Audit's annual risk assessment process needs improvement to ensure that high-risk audit areas receive audit coverage. The risk assessment process includes identification of auditable activities, identification of relevant risk factors, and an assessment of their relative significance. By not conducting audits of those areas deemed high-risk, audit resources may be spent in areas of less importance, maximum value may not be obtained from those resources, and significant risks may go unaddressed. The *Standards for the Professional Practice of Internal Auditing* state that risk assessment is a process that is crucial to the development of effective audit work schedules.

- Projects assessed as high risk were not always included in the annual audit plan, and there was no documentation to support why these projects were excluded or to show that management was informed of the risk assumed by not conducting these high-risk audits.
- Fifty-seven percent of the planned audits were not completed in fiscal years 1995 and 1996. No documentation exists to explain why the majority of the plan was not completed. Additionally, there was no documentation to justify why a large number of special projects were completed instead of the projects listed in the audit plan. By not completing the planned audits, important risks faced by the University may not be addressed in a timely manner.

Internal Audit does not record direct audit hours and only recently began estimating the number of hours for each planned project. Therefore, it is difficult for Internal Audit to determine the appropriate level of resources needed.

- The auditable units used in the risk assessment are too broadly defined. Auditable units are defined as entire entities such as the Health Center or the Athletics Department. The purpose of the risk assessment should be to determine which portions of the entities pose the greatest risk to the University.
- The Internal Audit Department should ensure that there is appropriate quality and sufficiency of evidence and documentation to support audit conclusions. Audit evidence used to support conclusions was often either insufficient or difficult to locate in audit working papers. Without sufficient evidence to support conclusions, Internal Audit risks incorrectly reporting the results of its work. Additionally, audit work conducted in some instances did not appear to be sufficient to cover the area being audited. (See Appendix 4 for detailed review of audits.)

Government Auditing Standards require that audit working papers contain sufficient information to enable an experienced auditor who has no previous connection with the audit to ascertain from them the evidence that support the auditor's significant conclusions and judgements. Internal Audit's current level of working paper documentation is insufficient to comply with *Government Auditing Standards*.

- As of November 1996, Internal Audit was not scheduled to have a peer review. Without a peer review, Internal Audit is unable to obtain an independent assessment of its compliance with internal audit standards, which could enable it to correct deficiencies. *Standards for the Professional Practice of Internal Auditing* state that an external review (peer review) of the Internal Audit Department should be performed to appraise the quality of Internal

Audit's operations. These reviews should be conducted at least once every three years.

- Internal Audit does not have an established quality control process. Internal Audit is staffed by one full-time employee and one part-time student. As a result, there are fewer opportunities to have other auditors review audit work and ensure that findings are correct and sufficiently supported. However, for recurring audits and audits for which third parties provided the audit program and quality control functions, evidence collected appeared sufficient.
- Allocation of resources for Internal Audit should be reexamined. Excluding required projects, Internal Audit completed one risk-ranked project in fiscal year 1995 and two risk-ranked projects in fiscal year 1996. If Internal Audit completes two non-required, risk-ranked projects per year, it will take approximately 28 years to complete the audit plan. Additionally, Internal Audit's operating budget has been declining since 1992, and the department is housed in a building with no copier or fax machine. The following table shows the number of audit personnel at peer schools' internal audit departments. Analysis shows that peer schools have a minimum of two full-time employees in their internal audit departments.

Comparison of Internal Audit Departments at Peer Schools				
Peer Universities	Internal Audit Department Staff Size	Current Fund Revenues	Current Fund Expenses	Total Fiscal Year 1995 Headcount (Fall + Spring + Summer)
Texas Southern University	5	\$ 88,929,081	\$ 82,958,752	23,260
Southwest Texas State University	3	159,122,549	144,600,017	49,913
Texas State Technical College System	2	94,119,183	90,155,112	55,470
Texas Woman's University	2	86,571,665	77,090,625	26,164
Lamar University - Beaumont	2	75,836,673	69,585,237	21,028
Stephen F. Austin State University	2	98,841,085	92,058,598	29,652
Sam Houston State University	1	\$ 83,397,435	\$ 81,767,400	30,788

Recommendation:

To improve effectiveness of the Internal Audit Department, the following should be implemented:

- The Board should ensure that all audit reports and audit plans are reviewed each year. Additionally, Internal Audit should take proactive steps to ensure that the Board has approved its audit plans and reviewed its reports each year. Hiring and firing of directors of internal audit should have prior approval from the Board to ensure independence of the internal audit function.

- Management, with input from the Board, should evaluate the Internal Auditor annually as required by University policy.
- The Board and management should be involved in the risk assessment process. Explain in detail to the Board and management the risk-ranking process used and how projects were selected for the audit plan.
- The risk-ranking process used by Internal Audit should be reevaluated. As part of this process, Internal Audit should reassess the weights of the risk factors used and redefine auditable units in specific terms.
- Audits included in the annual audit plan should be selected based on assessed risk. When high-risk audits are not included in the plan, the reasons why these projects were excluded should be documented and management should be notified of the risk assumed by excluding these audits.
- A process should be established to systematically address adding special projects to the audit plan. The process should include a mechanism to determine the risk of the special project to the University and a mechanism to inform management of the changes and how these changes impact the risk management assumes.
- A systematic method of tracking direct and indirect audit hours should be developed.
- Supporting evidence should be better referenced to documented audit conclusions, and/or more convincing evidence should be obtained to support audit findings.
- Methods for instituting a quality control process should be considered. For example, the Internal Auditor could trade review services with someone else within the Texas State University System or could arrange to have an independent third party from within the University review her work.
- The Internal Audit Department should have a peer review as soon as possible.
- An improved risk assessment should be used to help Internal audit reevaluate the amount of resources it needs.

Management's Response:

- *The current practice for all Internal Audit Departments within the Texas State University System is:*

- *An annual meeting is held with the Chairman of the Finance Committee. The internal auditors' reports on prior years activities and current year audit plans are discussed.*
- *The annual reports on prior year activities and current year audit plans are then submitted to the full Board of Regents for approval.*
- *The annual reports and audit plans were submitted to the Board; however, the System's Director of Audits and Analysis inadvertently failed to prepare the Board agenda item seeking approval of the 1995 fiscal year audit reports and the 1996 fiscal year audit plans. This will not happen again.*
- *At each quarterly Board meeting, the Directors of Internal Audits submit a report that is included in the Agenda Book, of their activities for the previous quarter.*
- *In the future, decisions related to the hiring and firing of a Director of Internal Audit will include consultations with the Board's Finance Committee.*
- *The Director of Internal Audit will meet with the President monthly to discuss current activities, as well as problems or potential problems. This will provide the President an opportunity to maintain a continuous informal evaluation process of the Director. An annual, formal evaluation of the Director will be performed by the President based upon prior discussion with the Finance Committee Chairman. The results of the formal evaluation will be provided to the Committee Chairman for his/her acceptance.*
- *The Internal Auditor will provide Management with the various risk factors and seek their input as to the ranking of importance for the factors. After agreement has been reached as to the ranking of the risk factors, Management will be requested to apply the risk factors to the auditable units. The Internal Auditor will review the results of Management's observations and will use this information in developing the audit work plan. Prior to the annual meeting with the Finance Committee Chairman, the Director of Audits and Analysis will brief the Chairman as to the methodology used to arrive at the audit plan.*
- *The Director of Internal Audit will be required to attend one or more seminars on risk assessment as part of her continuing education process. The knowledge gained from this additional training and the involvement of Management in evaluating the risk factors should contribute to a much more acceptable risk ranking.*

We agree that auditable units have been too broadly defined. The Director has been instructed to redefine the units subject to evaluation at a lower level. The application of revised risk rankings to newly identified auditable units will produce an improved audit plan for the 1998 fiscal year.

- *The auditable units included in the annual audit plan will be those receiving the highest risk assessment. Any deviation from this rule will have the Board's and the President's approval.*
- *Proposed special projects will be subject to risk assessment analysis. If the project's estimated audit time fits into the audit plan, its risk assessment exceeds an approved audit, or a compelling reason exists for performing the audit, the Director of Internal Audit will submit the necessary documentation requesting written approval for the deviation from the Chairman of the Finance Committee and the President.*
- *The Director of Internal Audit will be required to attend one or more seminars on documentation and work paper development as part of her continuing education process. The Director of Audits and Analysis's review will also assist the Internal Auditor in the development of supporting documentation and work papers.*
- *Upon completion of audits, but prior to the release of reports for the 1997 fiscal year, all work papers will be reviewed by the System's Director of Audits and Analysis*
- *The Director has been instructed to submit weekly time reports and to submit monthly summaries comparing work performed to the budget time contained in the audit plan to the President. Monthly scheduled meeting between the President and the Director are being held.*
- *A peer review has been scheduled to begin on February 20, 1997.*
- *Management will ascertain if sufficient resources are being provided to the Internal Audit Department, based upon the overall needs of the University within its available funds.*

Section 2:

The University Has Not Performed Necessary Analyses or Used Key Information to Support Decisions Made in Some Auxiliary Enterprise Operations

Proper cost analyses have not been performed regarding building and operational funds for the \$3,010,000 18-hole golf course. At the February 1996 Board meeting, the Board authorized the hiring of a recreational golf facility designer to develop final plans and specifications for the golf course. Profitability and funding analyses for the golf course are inadequate and could leave the University short of funds. The University did not conduct an independent analysis, and the only analysis performed is the best-case scenario. The Board also approved a proposal in its November 1996

meeting for the University to construct a lake. The lake is part of a proposed recreational area. Yet, there are no plans detailing the cost or implementation of the recreational area.

Section 2-A:

Planning for the Profitability and Cost of the New Golf Course Is Inadequate

Profitability and funding analyses for the golf course are inadequate and could leave the University short of funds. Total project costs approved by the Board for the golf course was \$3,010,000. Funding is to be provided as follows:

Recreation Fee monies on hand	\$ 710,000
General Use Fee monies on hand	1,500,000
In-Kind Services and Gifts	<u>800,000</u>
Total	\$ 3, 010,000

Several important factors concerning the profits and funding of the golf course have not been properly considered or analyzed. For example:

- The University did not conduct an independent analysis on the profitability of the golf course. The only analysis was performed by the contractor who will be hired to design the golf course. The analysis projected the profits of the 18-hole golf course based on the playing of 35,000 rounds of golf during the first year. The analysis also projected that the number of rounds played at the golf course will increase in each of the next 10 years.

The only analysis performed appears to be a "best-case" scenario. The University could not produce an analysis depicting scenarios in which there were any less than 35,000 rounds of golf played during the first year. Because no worst-case scenario has been produced, the University has no idea how much it could lose if the golf course is unprofitable. In year one of the analysis, 34,108 rounds of golf must be played at the golf course to break even—the projected number of rounds played in the first year cannot be reduced by more than 892 rounds or the golf course will be unprofitable. Our analysis shows that if the projected number of rounds played in the first year is reduced by 5,000, the University will lose approximately \$82,000.

- The building of the golf course is dependent upon in-kind services and gifts. Commitments totaling \$800,000 for in-kind services and gifts have been made by officials of the City of Huntsville, Walker County, and the Texas Department of Criminal Justice to assist with the project. These commitments, however, are not firm and may or may not materialize. The University could not provide an analysis that determines whether the golf course can be built if the University does not receive some or all of these committed in-kind services and gifts.

- The Recreational Sports Department indicated that any losses from the golf course could be supported from the increases in recreational fees. However, there are no provisions in place to set aside the increases from the fees to support potential losses that may occur in the first few years of the golf course's existence.
- University management stated that if it does not receive the necessary in-kind services and gifts, it would build a 9-hole golf course with the possibility of expanding it to a 18-hole course at a later date. The University could not provide an analysis of the cost to build a 9-hole golf course or the amount of profits and expenses associated with running a 9-hole golf course. There was also no analysis of the costs associated with expanding a 9-hole course to an 18-hole course.

All of these analyses should be performed and important factors considered as soon as possible to enable management to make informed decisions concerning the golf course.

Recommendation:

Before any further progress is made on building the golf course, the following should be accomplished:

- Firm commitments in writing should be obtained from the City of Huntsville, Walker County, and the Texas Department of Criminal Justice. Also, the University should determine which of the in-kind services and gifts are necessary and what percentage the University must receive to build the golf course.
- Develop different, independent cost analyses for the 18-hole golf course based on differing numbers of rounds of golf being played. Determine if funds should be set aside for potential losses to the golf course, and if so, the amount of funds that should be reserved. Develop a worst-case scenario for the 18-hole golf course.
- Develop a cost analysis for building and running a 9-hole golf course. Develop several independent scenarios concerning the number of rounds played at the golf course. Develop a worst-case scenario for the 9-hole golf course.

Management's Response:

Firm commitments have been made in writing for in-kind services, a worst case scenario has been developed and funds have been identified for any potential financial

loss. It has been determined that it would be possible to construct the golf course without the in-kind services. A nine-hole golf course is not a consideration given the pros and cons when compared to an eighteen-hole course.

The above comments notwithstanding, Sam Houston State University has requested that the Texas Higher Education Coordinating Board defer consideration of the golf course project. The University intends to explore other options that might be available, such as leasing the land to a private golf course developer, which would transfer financial risk from the University.

Section 2-B:

Planning for the Lake and Kat Kountry Is Inadequate

Plans for development and use of the lake project were not developed. The lake is to be the centerpiece of a final development project called “Kat Kountry.” This project will include camp sites, an open pavilion, recreational areas, nature and hiking trails, overnight group accommodations, and meeting space. The planned development of this project spans 20 to 30 years. There are several factors that do not appear to have been adequately planned for this project. For example:

- The final project is supposed to take 20 to 30 years to develop. However, the University could not provide a plan for the development of Kat Kountry. The University has not prioritized in what order different features will be added to Kat Kountry or determined if they must be added in a specific order.
- The explanation to the Board stated that the recreational activities for the lake will include fishing, paddle boating, row boating, and canoeing. The University could not provide any cost analyses associated with these activities.
- Currently there is a state park close to the University. The park contains a lake and has facilities for camping, fishing, and other similar activities. It costs \$3 to enter the park. When the state park is taken into consideration, it is unclear what value the University’s recreational area would add, or whether it would be used. It is also unclear how this project ties to the University’s mission and goals.

While the University has full discretion over the use of local funds, it is important that all funds be used to further the mission and goals of the University. Also, these analyses need to be performed so that management can make informed decisions.

Recommendation:

The University stated that this project was currently on hold. Before resuming activity on this project, the University should:

- Reexamine this project to determine how it fits with the mission and goals of the University. Also determine if there is a true need for a recreational area owned by the University.
- Develop a long-range plan with goals if a need for this project is established. The plan should detail what event (time or money) would prompt the University to add another part to Kat Kountry. The plan should include the estimated cost to develop each component of Kat Kountry, the estimated order in which components will be added, and any constraints faced when adding a component.

Management's Response:

Management concurs with these recommendations.

The development of the lake project for Kat Kountry could take several years to complete. Thus, the components of the project that are slated to occur in the future could change. The ability to address the university's current needs, while responding to future trends, will be a part of a long-term plan process.

Section 3:

Controls Over Budgeting and Budget Monitoring for Auxiliary Enterprises Should Be Strengthened

Budgeting for two Auxiliary Enterprises has not been realistic, causing expenditures to exceed revenues and creating deficit fund balances. Consequently, other fees are being used to subsidize these accounts. Also, a staff development account does not accurately reflect all the transactions occurring within the account, which is misleading to users of the operating budget.

Section 3-A:

Strengthen Budgetary Controls Over the University Day Care Center and Consider Alternatives to Improve Its Profitability

The Bearkitten Academy (Academy), a day care center for the children of University students and faculty, has been unable to operate within its budget. During fiscal year 1996, the University transferred approximately \$60,000 from parking fees and used an additional unauthorized \$23,000 in student services fees—above the \$23,000 that was authorized by the Student Service Fee Advisory Committee—to operate the Academy.

Student service fees, which could have been used to fund other student activities, and parking fees, which could have been used to build new or pave existing parking lots, were instead used to supplement the Academy's operations. Despite the infusion of

additional funds, the Academy ended fiscal year 1996 with a deficit fund balance of \$4,702.56. In March 1997, funds were transferred from the Unallocated Student Service Fee Fund Balance to cover the deficit.

Additionally, the Academy's fiscal year 1997 budget is not realistic. Based on current operations, the Academy will require an additional \$60,000 to \$90,000 beyond budgeted amounts as it did in fiscal year 1996. In fact, two months into fiscal year 1997 the Academy requested an additional \$62,779 in student service fees above the original \$31,140 allocation.

The Bearkitten Academy's income from its tuition, student service fees allocation, and parking fees transfer have been too low to support its operations. It incurs expenditures for fringe benefits that local day care centers do not provide. Start-up costs and leased space expenses were also not adequately budgeted.

The Education Department operates a similar pre-kindergarten program, "The Little Bearkat Center." In fiscal year 1993, the Ad Hoc Committee on Campus Child Care Facilities proposed combining the need for a campus day care center with need to provide a laboratory setting for University students studying early childhood education. The Committee's proposal included housing the facility where the Little Bearkat Center operates and employing a Director who would also be a half-time tenure-track faculty member. This proposal was not adopted, and the issue of a day care facility was referred to the Office of Student Services. In fiscal year 1995 the Bearkitten Academy began operations.

To improve accountability, realistic budgets should be established for each department. Departments should be expected to operate within budget parameters. Also, to ensure students are aware of the costs of student services, the Student Service Fee Advisory Committee should be advised and consulted prior to reallocating student service fees.

Recommendation:

- Establish a realistic budget for the Bearkitten Academy. Prior years' income and expenditures should be used as a basis for budget estimates. Reevaluate the financial viability of the Bearkitten Academy. Consider other options such as the one proposed by the Ad Hoc Committee on Campus Child Care Facilities to consolidate the Bearkitten Academy and The Little Bearkat Center.
- Establish rules and regulations for the allocation of student service fees and set thresholds for when approval of the Student Service Fee Advisory Committee is required for reallocations or increases in allocations from the student service fees.

Management's Response:

Realistic budgets for the Bearkitten Academy are being established and will include estimates of income and expenses appropriate for the resources available. Allocations of Student Service Fee income and fund balance will be made only with the approval of the University President, after being recommended by the Student Service Fee Advisory Committee. The University is continuing to look at other funding alternatives for the Bearkitten Academy, including grants and merging with other programs on campus.

Section 3-B:

Strengthen Budgetary Controls Over the Music Department's Twirling - Cheerleading Summer Camp Program

The Music Department's Twirling - Cheerleading Summer Camp Program (Summer Camp Program) has been unable to operate within a budget, which has contributed to its deficit fund balance of \$111,314.66 as of August 31, 1996. The Summer Camp Program has experienced financial management problems for at least the past five years. The Music Department spent more than the projected Summer Camp Program profits on general Music Department expenses (particularly scholarships) before the Summer Camp Program began operation. In fiscal year 1993, management and the Board agreed that the Music Department would pay off the deficit in increments of \$16,000 per year. The following shows the Music Department's progress toward reducing the deficit:

Year	Beginning Fund Balance	Revenues	Expenditures	Transfers	Ending Fund Balance	(Increase) Decrease in Deficit
1989	\$ 77,970.04	\$ 448,288.82	\$ 428,446.44	\$ (5.00)	\$ 97,807.42	\$ 19,837.38
1990	97,807.42	378,806.60	451,887.98	0.00	24,726.04	(73,081.38)
1991	24,726.04	439,489.15	452,624.11	(3,652.50)	7,938.58	(16,787.46)
1992	7,938.58	473,566.38	543,351.70	(6,178.23)	(68,024.97)	(75,963.55)
1993	(68,024.97)	488,602.33	563,930.64	60,500.00	(82,853.28)	(14,828.31)
1994	(82,853.28)	471,684.00	430,889.58	(363.70)	(42,422.56)	40,430.72
1995	(42,422.56)	227,325.35	335,722.45	24,685.66	(126,134.00)	(83,711.44)
1996	(126,134.00)	226,084.99	211,265.65	0.00	(111,314.66)	14,819.34

The Summer Camp Program's financial problems led the University to stop establishing a budget for the Summer Camp Program at the beginning of the fiscal year, which could be misleading to users of the operating budget. Budgeted Summer Camp Program revenues and expenditures appear in the initial operating budget as zero. Eight to nine months into the fiscal year, a budget is established for the upcoming Summer Camp Program and budget amendments are prepared.

Sound budgeting and budget monitoring begins with the establishment of realistic budgets at the beginning of the budget cycle. Management should routinely compare actual to budgeted income and expenditures throughout the operating cycle and take corrective action as appropriate.

Recommendation:

Establish a realistic budget for the Twirling - Cheerleading Summer Camp Program for inclusion in the operating budget. Income should not be budgeted beyond what the Music Department should reasonably expect to collect. Prior years' actual income and expenditures should be used as a basis for estimating. Budgeted expenditures should include provisions to repay the deficit.

Management's Response:

The fund balance for this account as of August 31, 1996, is (\$111,314.66). The deficit is reduced by \$14,819.34 for the 1996 fiscal year.

Scholarships for the 1997 fiscal year have been reduced to \$78,000, and the expectation is that the 1997 summer operations will result in at least the agreed deficit reduction of \$16,000. Budgeting and operations dramatically improved during the 1996 and 1997 fiscal years. The Music Department has "fine tuned" the 1997 camp season by canceling unproductive camps and creating new and creative camps that are expected to produce more revenue. The Fisher Tull Memorial Golf Tournament has become an annual fund raising event to assist with funds for music scholarships and debt repayment. It is the goal of the current Music Department administration to make a larger deficit reduction than the agreed \$16,000 at the conclusion of the 1997 summer camps.

Realistic budgets have been prepared for the past three years utilizing available data at the time of budget preparation. A realistic budget will be prepared for the 1997 programs. Income and expense budgets will be based upon what is reasonably expected, and will utilize prior years' actual as a basis for estimating.

The budget for the 1997 camp operation will be developed and implemented during the 1997 spring semester. The budget for the Music Department's scholarship support for the 1997 fiscal year was developed and implemented on September 1, 1996. This budgetary procedure has worked very well for the past two fiscal years, and this procedure is necessary to maintain control over these funds. To assist non-university readers of the University Budget, rather than using a \$0 figure in the printed budget, this item will be deleted.

Management has and will continue to place increased support and review of the actual income versus budget for this activity.

As of August 31, 1996, there were only two auxiliary account fund balances in deficit. One hundred fourteen other auxiliary accounts were in a favorable fund balance status at August 31, 1996, with a combined fund balance of \$9,736,998.27.

Section 3-C:

Strengthen Budgetary Controls Over the Finance and Operations Division's Staff Development Account

The budget for the Finance and Operations Division's staff development is misleading to users because it increased significantly and has been charged with items unrelated to development of staff. The account increased 181 percent during fiscal year 1996 (from \$6,000 to \$16,886) to cover actual expenditures. Forty percent of the items charged to this account are not related to staff development, including cellular phones, photocopier rental, and tires.

The Finance and Operation Division's staff development account is funded from interest on Auxiliary Fund time deposits. The account appears to be used for miscellaneous expenditures in addition to staff development. To avoid misclassification, expenditures should be charged against appropriate budgetary line items.

Recommendation:

To improve budgetary control, the University should charge the appropriate accounts for items not clearly tied to staff development such as photocopier rental, cellular phones, and tires. A realistic estimate of Divisional staff development costs should be budgeted at the beginning of the year and budget adjustments should be minimized.

Management's Response:

The account name for this account is changed to "Interest on Time Deposits - Auxiliaries." The account is being used for photocopier rental for one machine that provides service to the offices of University President, Vice President for Finance and Operations, Director of Business Services, and Executive Director for University Relations and Development. Two cellular phones, one for the University President and one for the Vice President for Finance and Operations, are being charged to this account. One set of four Goodyear radials tires were purchased for the former President's lease car during the third year of the lease. During the 1996 fiscal year a total of \$204,781.00 in interest income was earned and \$16,886.00 of this amount was expended from this account for university activities. Originally, over 26 years ago the account was utilized exclusively for staff development. Use of the account expanded over the years and the account title had not changed.

The budget for the 1997 fiscal year and future years, will include funds to minimize budget adjustments.

Section 4:

The University Should Improve Controls to Provide for the Safeguarding of State Assets

The University should improve controls in a variety of departments to ensure that assets are safeguarded. A \$5.8 million difference was identified for fiscal year 1995 between the amount reported in the University's *Annual Financial Report (AFR)* for property and equipment and the amount reported in the State Property Accounting System. The University had not reconciled this amount as of January 1997. However, the University recently produced a reconciliation worksheet identifying the needed adjustments to State Property Accounting system and the AFR.

The Purchasing, Correspondence Course, and Administrative Accounting departments had control weaknesses which were caused by lack of established policies and procedures, not enforcing existing policies and procedures, or circumvention of existing controls. Controls over the cash handling process in the Correspondence Course Department, travel advances, and cellular phone use should be improved to ensure that assets are not misused. In some cases, these controls weaknesses caused the University to lose funds.

Section 4-A:

A \$5.8 Million Difference Was Identified Between the Amount Reported in the *Annual Financial Report* for Property and Equipment and the Amount Reported in the State Property Accounting System

There was a \$5.8 million difference in fiscal year 1995 and a \$3.7 million difference in fiscal year 1994 between the amount reported in the University's AFR for property and equipment and the amount reported in the State Property Accounting System. AFR items that are included in the property and equipment number include equipment, library books, museum and art collections, and livestock. State agencies and universities are required to reconcile their general ledger inventory balances to the supporting financial detail in the State Property Accounting (SPA) system. Periodic physical counts are conducted under the supervision of the Property Manager. However, there was no periodic reconciliation to the book value.

The University had not reconciled these assets as of January 1997. However, the University is currently in the process of reconciling the assets and has recently produced a reconciliation worksheet identifying the needed adjustments. The University is working with the Texas Comptroller of Public Accounts' office to

resolve the differences. Compensating adjustments to the SPA system and the AFR will be made.

Recommendation:

Perform periodic reconciliations between the physical count of property and equipment and the general ledger balances to improve controls over property and equipment.

Management's Response:

Sam Houston State University has prudent, reasonable, and adequate controls in place and is functioning to protect the value of its property assets. The University's administrators take their responsibility as stewards of the public's assets very seriously and manage property assets in a conservative manner consistent with Comptroller's requirements. Assets are controlled from the date of receipt on campus until final disposal. The Property Manager assures that assets are tagged upon receipt and maintains records of the assets in our administrative accounting system and in the Statewide Property Accounting (SPA) system operated by the Comptroller. Annual physical counts of the assets are performed, and discrepancies are resolved when found. Lost and stolen items are reported to the police, investigated, and reported to SPA.

The University's controls have been in place for many years and our property records are reconciled with our financial records. The current problem is in large part due to the implementation of the SPA system in the 1994 fiscal year. When SPA was implemented, the dollar threshold for capitalization of equipment was increased to \$1,000, and the concept of non-capitalized controlled items was introduced.

The University worked closely with the Comptroller's office to research the cause for the differences between the amount certified in the 1994 and 1995 fiscal years and the AFR. The basis for the amounts certified in those years were SPA reports. We learned that the differences can be explained by adjustments, corrections, and time period differences. SPA reports are compiled as of the date the program was run instead of the date shown on the report.

The University's assets records for equipment, library books, museum and art collection, and livestock have been compared to the Comptroller's SPA records for August 31, 1996, item for item and the two agree completely. The 1997 AFR will include adjustments of \$5,436,956.55 as a prior year's adjustment (addition) which was caused by reporting a deduction of equipment in the amount of \$4,887,082.48 in the fiscal year 1996 AFR. The Comptroller's office previously instructed the University to make this adjustment in the AFR to write off equipment items under \$1,000 in value but they now say that was in error. Also, a portion of the \$2,251,384.10 shown in the fiscal year 1996 AFR as not capitalized or controlled

should not have been shown as a deduction. The amount certified to the Comptroller as of December 13, 1996, is \$34,049,905.96.

The General Ledger agrees with the certified amount as a result of a journal voucher adjustment dated December 15, 1996, and the 1997 Annual Financial Report will be in agreement with future AFR's. Effective in the 1996 fiscal year, the University reconciled new equipment purchase transactions from the General Ledger to the Comptroller's SPA records on a monthly basis. This practice will continue.

Section 4-B:

Improve Segregation of Duties Over the Food Service Contract

The Director of Business services appears to have too much responsibility over the University's service contract, which could limit the University's ability to enter into contracts that are in its best interest. Although the Texas State University System (System) office reviews contracts issued by the University, the Director of Business Services is responsible for drafting the request for proposal (RFP), evaluating the bids, drafting the contract, recommending the contractor to the University and the Board, and monitoring the contract. Proper segregation of duties helps ensure that there is no undue influence or misuses of authority.

The University has had a contract with its current food service provider for approximately 9 years. The contract has not been rebid. The contract term ends in May 1997. Rebidding of contracts helps to ensure that the University is receiving the best service for the best price.

Recommendation:

The University should implement the following to improve controls relating to the food service contract:

- Ensure that there is adequate separation of duties for all auxiliary contracts. The Purchasing Department should be involved in the RFP and bidding process.
- Rebid the food service contract in May 1997 to ensure that the University is receiving the best services for the best price.

Management's Response:

- *Management believes there is adequate separation of duties, as the bidding and award process involve the Purchasing Department, the Director of Business Services, the Vice President for Finance and Operations, the President, and the Vice Chancellor/General Counsel of The Texas State*

University System. While the "same person" may be involved in a number of activities, the "same person's" activities are also being overseen by his superiors, both on and off campus, who clearly exercise independent judgment and initiative.

- *The current contract authorizes the University to extend the contract for a period not to exceed two years from the contract term of June 1, 1992, through May 31, 1997, under the same terms and conditions. The University at least annually compares costs of our program versus other schools.*

The University will continue to assess the current contract and thoroughly analyze the relative merits of extending the contract before making any decisions to exercise our option to extend it.

Section 4-C:

Strengthen Departmental Controls to Ensure Assets Are Safeguarded

Controls in the Purchasing, Correspondence Course, and Administrative Accounting departments should be improved to provide for the safekeeping of assets. These departments had control weaknesses which were caused by lack of established policies and procedures, not enforcing existing policies and procedures, or circumvention of existing controls. In some cases, these controls weaknesses caused the University to lose funds. The following control weaknesses were noted:

- Purchase orders over \$1,000 were not approved by the Director of the Purchasing Department as required by the University's *Administrative Policies and Procedures* manual. Without this approval process, the University risks executing purchases that do not comply with state statutes or University policy. This was a major factor that contributed to the current Music Department deficit related to the Twirling - Cheerleading Summer Camp Program discussed in Section 3-B. University policies stipulate that no employee other than the President, a Vice President, or an individual listed in the *Administrative Policies and Procedures* manual may obligate the University for supplies or equipment. Purchasers are not included in the list.

The Director of the Purchasing Department issued delegation letters to his purchasers dated September 1, 1996, based on his interpretation of powers vested in him by the General Services Commission (GSC). This delegation of authority is allowing the purchasers a great deal of freedom to make important decisions, including signing purchase orders over \$1,000, which may put the University at risk. However, the Director of Purchasing has not developed a review system to ensure that the purchasers are making purchases in accordance with General Services Commission regulations.

- The Correspondence Course Department should improve controls over cash received through the mail to reduce the risk of loss of University funds. The department handles \$3,000 to \$6,000 per day in checks. While the Correspondence Course Department appropriately deposits checks in the Cashier's Office daily, Correspondence Course Department personnel retrieve checks that are sent in with incomplete applications. These checks are sent back and forth from the Correspondence Course Department to the Cashier's Office until either the application is completed and the check is deposited or the check is refunded to the student. The transportation of checks back and forth puts the checks at risk of being misplaced. Assets of the University should be safeguarded to ensure that they are not lost.
- The Administrative Accounting Department should improve controls over travel advances. Travel advances totaling \$9,170 at 1996 fiscal year end were outstanding for at least three or more months in violation of University policy. The University is in effect extending employees credit when travel advances receivable are not collected in a timely manner, a violation of state statute and an indicator of the need for improved controls over cash.

According to University policy, travel vouchers and return advances are due 60 days after the last day of the approved travel. If they are not returned, the Administrative Accounting Department is authorized to deduct the amount due to the travel advance account from the claimant's net pay. However, these accounts are not regularly monitored by the University and the policy is not enforced.

- The Administrative Accounting Department should improve controls over cellular phones. Audit procedures identified \$37.85 of unreimbursed personal phone calls. The University was paying for one employee's air time, although the employee was paying for all long distance charges. Also, the University, a tax-exempt organization, is incorrectly paying taxes and various cellular phone charges on some bills. This happened because the University does not have policies and procedures on cellular phone use, does not analyze use, and does not maintain adequate records for all cellular phone accounts. There are approximately 16 cellular phones distributed throughout the University. This number does not include phone service given as gifts to the University.

We were not able to fully review unreimbursed personal use because the University does not possess adequate documentation. Although the University had bills for each phone each month, many of the bills did not contain detailed billing. We could not examine the majority of the local calls made by University personnel. The University indicated that personnel assigned the phone were responsible for monitoring their own phone bills. We found examples of personnel that were not monitoring their cellular phone bills.

The University may not have the most cost-effective cellular phone service plan available. Many of the departments are on a variety of cellular phone

plans. Also, cellular phones at the University have a variety of options, such as call waiting, call forwarding, and voice mail.

Recommendation:

The following controls should be implemented by the Director of the Purchasing Department, the Correspondence Course Department, and the Administrative Accounting Department to strengthen controls:

- The Director of the Purchasing Department should review changes to the procedures used by the Purchasing Department and obtain the approval from the President for the new policy. Policies and procedures should reflect the current practices in the Purchasing Department. The Director of the Purchasing Department should also develop review procedures for each of the delegated areas to ensure that the purchases are made in accordance with University policy, GSC rules, and the Texas Government Code.
- To improve controls over the cash handling processes in the Correspondence Course Department, the Department should not remove the checks from the Cashier's Office. If the application file is completed, then the Correspondence Course Department can direct the Cashier's Office to process the check; if the file is not completed, then the Correspondence Course Department should have the Cashier's Office mail the check back to the student.
- The University should better implement travel advance policies and procedures. The Administrative Accounting Department should enforce its policy and monitor its travel accounts to determine which advances are outstanding. Additionally, employees should not be allowed to receive a second travel advance until the travel voucher for the first advance has been submitted and the excess advance has been paid.
- Policies and procedures for the use of cellular phones should be developed. The policy should define how to justify the need for a cellular phone and what vendor should provide the service. The policy should provide guidance on hardware, accessories, and the plan a department should choose; it should also define the reimbursement and monitoring policies.
- All cellular phone bills should contain detail of all local and long distance calls.
- Cellular phone bills should be monitored to ensure the phones are used only for University business, and that if personal use occurs, the University is reimbursed for the cost even if the personal call falls within the free minutes provided by the plan.

Management's Response:

- *Sam Houston State University is in full compliance with procurement statute and the rules of the General Services Commission and has received findings of full compliance in each of its annual reviews conducted by the GSC. Prudent and effective controls are in place and functioning, which ensure that a responsive and responsible purchasing program is conducted. Every transaction, for any dollar amount, is reviewed and approved by a purchaser under the supervision of the Director of Purchasing and Stores. Due to the volume of transactions, it is impractical for one person to review and approve every transaction.*

The University will revise its Administrative Policies and Procedures to clarify that the Director of Purchasing and Stores is responsible for each and every purchase order issued by the University, but the authority to sign purchase orders has been delegated with expressly stated limits to purchasers within Purchasing and Stores and to department chairs and directors. The Director of Purchasing and Stores will continue to personally sign unusual or high dollar transactions.

To strengthen departmental controls, the Director of Purchasing and Stores will randomly select purchase orders for review on a regular basis to ensure compliance with University policy, GSC rules, and the Texas Government Code.

- *Checks with incomplete applications will be handled in one of two ways:*
 1. *If the Correspondence Office determines immediately that the prospective student is not eligible to take the course, the application and the student's check will be returned to the student the same day as received.*
 2. *If the check is to be held overnight or longer because of incomplete application, the check will be deposited in the University's local bank account and recorded in a suspense account that has been established specifically for this purpose.*

If it is determined the application remains incomplete for more than a reasonable time, the Correspondence Office will prepare a purchase voucher that will cause a refund to be made to the student by university check.

If application information becomes complete in a timely manner, the Correspondence Office will initiate a transfer of funds from the suspense account to the student's account in the fee receipt system.

These procedures were adopted and implemented in November, 1996.

- *As a result of this audit and work done by Administrative Accounting early in the 1997 fiscal year, improvements have been made:*
 - *In September, 1996, a notebook file was created to track travel advances. At any point the file can be accessed and it can be determined when the trip was taken, how much has been paid, and whether it is delinquent. This system has been a tremendous asset in reviewing outstanding travel advance balances and determining when to do payroll deductions. The Director of Accounting reviews the file on a regular basis to keep the account current.*
 - *A new travel advance policy has been developed which requires that anyone receiving a travel advance must be on the payroll of Sam Houston State University. The new policy also allows 30 days to clear an advance, rather than 60 days, before the payroll deduction will be made.*
- *Policies and procedures regarding the purchase and use of SHSU telephones, fax machines and cellular phones have been developed, approved, and implemented. We are currently utilizing the State contract for cellular phone purchases. This was implemented on January 29, 1997. Other plans will be examined, bid and a plan adopted by the University. It is estimated that the total cellular phones permitted, utilizing our adopted policy, will be less than thirty.*
- *Detailed billings have been requested for all future billings. Cellular phone use is being monitored and bills are being reviewed monthly. The one person has made full reimbursement of \$39.65 for use of the SHSU cellular phone during a two-year period. Another individual has reimbursed \$10.35 for air time for personal use. This person has also made arrangements for another phone for personal use to be paid by personal funds. The payment of taxes has ceased.*

Section 5:

Human Resource Controls Need Improvement

Improvements in the performance appraisal system, training activities, employee staffing and turnover analysis, job posting procedures, employee application questionnaire, and personnel file documentation would enhance the University's human resource management system.

Section 5-A:

Improve Human Resource Policy and Policy Implementation Regarding Performance Appraisals

The Human Resources Department has no way of ensuring that employee evaluations occur, take place in a timely manner, or are appropriately documented. Without timely, written evaluations, it becomes difficult for the University to reward good performance or correct poor performance.

Each department in the University is responsible for developing and implementing its own evaluation system. Current University policy states that evaluations should be performed annually. The policy also gives examples of possible evaluation systems including a verbal evaluation system and a system that uses punctuality and attendance as evaluation factors. Generally, evaluations should be written and include supporting documentation and evidence of feedback. The appraisal system should allow for a response from the employee verifying that the results of the appraisal have been communicated. Rating attendance as performance criteria could be inappropriate due to requirements promulgated under the Family and Medical Leave Act. Additionally, the policy does not outline procedures to ensure that employees are informed of the evaluation criteria before the evaluation occurs.

Evidence could not be obtained for evaluations of 5 of the 16 employees sampled. All five employees were administrative employees. The supervisors of the five employees stated that the evaluations were verbal. However, each of these employees received a merit increase the same as those employees who had documented performance appraisals. Performance evaluations should provide the foundation for future personnel actions. The General Appropriations Act states that merits may be granted to employees for productivity that is consistently above what is expected. To ensure that an employee is performing consistently above what is expected, some type of documentation should be maintained. Justification for the merit increases on the personnel action forms varied widely. Some of the forms contained memos justifying the merit while others stated a merit was granted for job performance.

Human Resources does not have procedures in place to ensure that all the evaluation confirmation letters have been received each year or that the evaluations were performed. Each year, Human Resources is to receive an evaluation confirmation letter signed by the employee and the supervisor for each employee. This letter is to signify that an evaluation has been completed. Human Resources does not check to ensure that the evaluations were actually performed. Documentation of any evaluations is kept at the departmental level.

Recommendation:

The following controls would strengthen the performance appraisal system:

- The performance appraisal policy should be reviewed to ensure that it suggests only appropriate evaluation systems. The policy should state that all appraisals must be documented. Also, the policy should direct supervisors to review evaluation criteria with employees before the evaluation occurs. Evaluation criteria used should reflect the essential job functions so that feedback is focused to provide meaningful, relevant feedback for that job.
- The Human Resources Department or Personnel Office should develop spot-check procedures to ensure that the evaluations are being performed and documented. Recent evaluations should accompany all pay actions.
- Supervisors should be trained on the importance of performance appraisals. Performance evaluations can be used to encourage good performance and to correct and discourage substandard performance.
- The Personnel Office should require that specific examples of exceptional performance be included in the justification section of the personnel action form.
- Human Resources or the Personnel Office should develop procedures to ensure that all evaluation confirmation letters have been received for each employee each year. To better control the process, the evaluation periods for the non-academic personnel could be staggered so that a certain number of departments would be due for evaluations each month.

Management's Response:

SHSU management has adopted a new performance appraisal policy and procedure that will accomplish the following:

- *Ensure that appropriate appraisal criteria is used, that criteria is reviewed with employees before the evaluation, and the appraisal is properly documented.*
- *The Human Resources Department will monitor the procedure to ensure that performance appraisals are being performed and documented in accordance with policy.*
- *Supervisory training will include the importance of performance appraisals to encourage good performance and to correct or discourage substandard performance.*
- *Ensure that justification on the payroll action form will include examples of exceptional performance.*

- *Ensure that appropriate evaluation documentation is created and accounted for on a timely basis.*

Section 5-B:

Improve Methods of Identifying Training Needs

Training at the University is decentralized, which could lead to duplication of training efforts and inefficient use of training resources. Each department has its own training budget. There are no short- or long-term training goals. The University's informal approach to determining training needs increases the risk that employees will not get the training needed to effectively meet University goals and increase their skills and productivity.

A centralized function to identify and prioritize training needs helps to ensure that employees are receiving proper training and that training dollars are being used in the most efficient manner possible. While staff members are allowed to take University classes and external training classes, training is not coordinated within the University. There are no mechanisms identified to determine the training needs of the University, nor is there anyone who identifies and prioritizes training needs.

The University has no way of knowing if the training paid for is effective in accomplishing expected results since training programs are not evaluated for effectiveness. Also, the University does not maintain transcripts of courses taken by employees.

Recommendation:

The training function at the University could be strengthened by implementing the following:

- Develop a training and development plan that is linked to University strategies. The plan should contain both short- and long-term goals.
- Establish a training and development budget. The budget should designate the amount of time and funds to be spent on the training and development program.
- Establish a means of identifying and prioritizing training and development needs. Training and development needs may be identified through performance evaluations, quality assurance processes, or goals and objectives.
- Develop a system to track internal and external training provided to staff. Ensure that the system is implemented, monitored, and tracked.

- Conduct post-training studies to determine the effectiveness of training classes attended by staff.

Management's Response:

SHSU management will improve methods of identifying training needs as follows:

- *Develop a training and development plan, with both short and long term goals, that are linked to the university's strategies.*
- *Establish a training and development budget that designates the amount of time and funds to be spent on training and development.*
- *Develop a means to identify and prioritize training and development needs based on goals and objectives, and information gained from performance appraisals.*
- *Setup a system to monitor internal and external training provided for staff.*
- *Follow-up on training to determine the effectiveness of training.*

Section 5-C:

Perform Staffing Analysis and Link Human Resource Planning to the University's Strategic Planning Process

Human Resources has not performed a centralized staffing analysis and is not involved in the strategic planning process. Currently, each department is responsible for its own staffing levels; however, the departments do not perform formal staffing analyses. Without a staffing analysis and involvement by Human Resources in the strategic planning process, the University risks being underemployed in some areas and over employed in others.

There should be a systematic process of determining the number of jobs needed and the skills mix required to meet current and anticipated needs. Managers should determine short- and long-term staffing needs in the context of the strategic plan and direction that has been set by the University. Human Resources plans should forecast the numbers and kinds of positions that need to be filled and include mechanisms for tracking and predicting tenure, turnover, and retirements. The University should monitor impacts due to separations, including turnover rates from voluntary retirement, medical or disability retirement, death, leave without pay, or resignation.

Impacts due to such changes as promotions, demotions, reclassifications, transfers, and changes in workers' skills should also be monitored. The University should monitor ongoing recruitment efforts, including related special policy programs.

Human Resources is not involved in the strategic planning process at the University. Human Resources planning should be done in conjunction with University strategic planning so that the two are integrated with the University's strategic objectives. The Human Resources planning process should include a periodic review of the strategic plan and should be congruent with University culture, values, and vision. Human Resources should monitor both internal and external operating environments and assess how changes and trends in technology, the economy, methodology, and other factors affect staffing plans, organizational structure, and skills mix.

Recommendation:

The Human Resources Department should conduct a staffing analysis for the University. Additionally, Human Resources planning should be integrated with University strategic planning.

Management's Response:

SHSU management will conduct a staffing analysis for the University and include Human Resource planning in the University strategic planning.

Section 5-D:

Post All Jobs Internally and/or Externally

Job postings are not always used to fill positions, which limits the University's pool of qualified candidates. Nine out of 199 positions filled in fiscal year 1996 were not posted. Currently, supervisors can request that certain jobs not be posted. The rationale is that posting certain jobs where someone has been already chosen for the position would mislead the applicants. All job vacancies should be communicated to ensure that there is a wide pool of quality applicants for available positions. Additionally, personnel for certain positions should not be chosen before the job is posted and the selection process has been completed. Because the University has many small departments that heavily depend on one job, it is very important that the most qualified applicant be hired.

Recommendation:

All jobs should be posted internally and/or externally. Decisions should not be made concerning hiring a particular employee until after the selection process has been completed.

Management's Response:

SHSU management has adopted policies and procedures which assure that all job openings are made public in compliance with EEOC regulations, and that hiring decisions are not made until the selection procedure is complete.

Section 5-E:

Remove a Ranking Question From the Employment Application Supplement

A question on the University Applicant Questionnaire should be removed because the question could provide personal information that should not be used to evaluate the applicant. The Applicant Questionnaire is required to be completed by all applicants seeking a job at the University. The appearance of using this information to make hiring decisions could leave the University open to a law suit. The question asks applicants to rank 10 factors in terms of importance. The factors include retirement plan, group insurance, vacation and holidays, pay, and others.

Recommendation:

The question should be removed from the Applicant Questionnaire. If the University feels that this information should be collected, ask employees after they have been hired.

Management's Response:

SHSU management has revisited the applicant questionnaire form and removed the ranking question.

Section 5-F:

Improve Controls Over Information Contained in Personnel Files

Twelve out of sixteen files reviewed contained inappropriate personal information for general uses such as photographs, workers' compensation records, and Equal Employment Opportunity status. Access to employees' personal information may be inappropriate for everyone eligible to view the file or copies of the file. This general access could give the appearance that personnel decisions were made based in part from the information contained in the files.

Recommendation:

Inappropriate information should not be stored in the personnel files. It should be removed and stored separately. If this is not practical, only appropriate information from the file should be printed and sent to the requesting party.

Management's Response:

SHSU management has implemented a procedure to remove inappropriate information from personnel files and to file it separately. All information requested from personnel files will be reviewed, and only appropriate information will be released.

Section 6:

The University Should Improve Controls to Ensure It Meets Statutory Requirements

Improvements in complying with historically underutilized business (HUB) regulations, providing complete and accurate HUB data, and properly branding cattle would ensure that the University is able to fully comply with all statutory requirements.

Section 6-A:

Improve Support of the Historically Underutilized Business (HUB) Program and Improve the Accuracy of HUB Data Reported

While the Purchasing Department appears to be making a good-faith effort to support the HUB program, the Physical Plant has not been consistent in enforcing policies established for the HUB program. The University has two HUB programs, one operated by the Purchasing Department for projects under \$50,000, and the other operated by the Physical Plant for projects over \$50,000. Marketing and outreach are the heart of the HUB program, and they contribute to showing "good faith" when actual results fall short of the State's targets, as is the case with the University. Additionally, the process of capturing and reporting HUB data needs improvement to ensure accuracy. The following HUB-related weaknesses were noted:

- The Physical Plant should improve its marketing and outreach efforts. The Physical Plant has not provided contractors with referenced lists of certified HUBs. State statute dictates that the University show good faith by providing contractors with reference lists of certified HUBs for subcontracting.
- Physical Plant does not divide proposed requisitions. Personnel in the Physical Plant indicated that the University has a rule that only one contractor be used per job. State agencies and universities are required to show good

faith by dividing proposed requisitions into reasonable lots to allow more than one business to reasonably perform the work. This should be done in keeping with industry standards, competitive bid requirements, and assessing bond and insurance requirements.

- The University does not capture the expenditures made to HUB subcontractors and does not report this information to the General Services Commission (GSC). State statute dictates that the University report to GSC the total dollar amount of HUB subcontracting participation in all of the contracts for the purchase of goods, services, and public works payments.
- The HUB results for fiscal year 1996 in the Professional Services and Other Construction categories also are misclassified. Architectural and Engineering fees are included in the Other Construction category. However, these fees should be included in the Professional Services Category.

The GSC uses this data in its decision-making. Therefore, it is important for the data to be accurate and complete.

Recommendation:

To ensure that the Physical Plant is making a good-faith effort to support the HUB program and to improve the accuracy of data reported to the GSC, the University should implement the following:

- The HUB Coordinating Group should assume an oversight role over the program as soon as possible. Adequate monitoring tools should be developed and implemented in order to improve overall management of the HUB program.
- Communication between the Purchasing Department and the Physical Plant should be enhanced to ensure that each performs comparable HUB activities.
- A list of certified HUBs eligible for subcontracts should be developed and distributed to contractors.
- Modifications to all necessary systems should be made to ensure that subcontractor information is captured and reported to the GSC.
- Controls should be strengthened to ensure that expenditures are reported in the appropriate categories.

Management's Response:

- *Sam Houston State University fully supports the Historically Underutilized Business Program and is committed to making good faith efforts to assist historically underutilized businesses to participate in University purchases of goods and services and contract awards for construction. The University's HUB Coordinating Group will oversee the HUB program to assure that our best efforts are made. The processes of capturing, monitoring, and reporting HUB program data will be reviewed by the HUB Coordinating Group in conjunction with Computer Services and improved, where possible, to provide complete and accurate information.*

Sam Houston State University's Strategic Plan For the 1995-1999 Period, published in 1994, and Strategic Plan For the 1997-2001 Period, published in 1996, each contain a written plan for increasing the use of historically underutilized businesses. The current plan does contain the University's mission statement, goals to be met, and specific programs to be conducted by Purchasing and Stores. At the next revision, specific programs to be conducted by Physical Plant to encourage contractors to use historically underutilized businesses as partners, materials suppliers, and subcontractors will be added. Included in these specific programs will be improved HUB development assistance (marketing), procedures for splitting large projects into smaller lots, and identification of HUB subcontractors.

- *Communication between Purchasing and Physical Plant will be emphasized to improve HUB program performance.*
- *The University will develop lists of certified HUB contractors and sub-contractors and make these lists available to general contractors for construction projects.*
- *Sam Houston State University has been and continues to comply with reporting information regarding purchases of goods and services. Information regarding construction spending and subcontracting will be included in future reports.*
- *Expenditures for architects and engineers have previously been reported as part of the cost of a construction project. The University will code current and future expenditures for architects and engineers as professional services and will make end-of-year adjustments in our financial statement to reflect the cost as being part of the construction project.*

Section 6-B:

Register University Brand in Accordance with Statutory Requirements

The University brand is not registered with the Walker County Clerk in violation of state statute. State statute dictates that marking an unmarked animal with a non-recorded brand is illegal and offenders can be subject to a \$500 fine. All brands should be registered with the Walker County Clerk.

Additionally, policies and procedures need to be developed concerning the donation of livestock. There are special considerations concerning livestock that are not covered in the general policy on gifts to the University.

Recommendation:

The University should register its brand with the Walker County Clerk, and policies and procedures should be developed concerning the donation of livestock.

Management's Response:

Registering and filing of the SH brand with the County Clerk, Walker County (\$10 fee for 10 years) has been accomplished, and a schedule to refile is established with Sam Houston State University's Agriculture Department to assure the brand and mark's integrity.

Formal policies and procedures for accepting donated livestock have been developed, approved, and implemented.

Section 7:

Controls Over Electronic Data Processing (EDP) at the University Should Be Improved

Some processes are not in place to protect the University's investment in technology and to ensure that financial resources are used efficiently and effectively in system development. The following EDP-related management control weaknesses were noted:

- Application programmers have access to data and capabilities that allow them to destroy or make unauthorized changes to data. Such access allows programmers the ability to change everything from payroll data to grade point averages. Additionally, passwords are hard coded into some programs allowing programmers and operators who know the password easy access to data. These passwords are not routinely changed. In fact, some passwords have not been changed for years.

- Disaster recovery planning efforts are not comprehensive, which could jeopardize the restoration of automated systems in the event of a disaster. The disaster recovery plan has not been tested off site and does not detail the priority that programs will be brought on line. That is, the plan does not detail whether accounting programs, payroll programs, or transcripts will be brought on line first. Documentation, such as the disaster recovery plan itself, was not available at the back-up site, and vendors have not been contacted regarding the level of service each can provide in the event of a disaster.
- The University does not have a complete method for planning, guiding, and documenting the development of information systems, to ensure efficiency and effectiveness. Internal Audit has not been involved in reviews of the design and development of new or existing systems, which could provide independent evaluation of proposed controls in the system. A quality assurance function does not exist to assist in formulating systems and programming standards. Some user documentation either does not exist or needs improvement, making it difficult for new users to learn an application.

Management controls should be in place to ensure that data is protected against unauthorized changes or destruction. Information systems should be carefully planned and guided to ensure financial resources are used efficiently and effectively. Controls should be operating effectively to provide for the reliability of, and security over, the data being processed.

Recommendation:

To improve EDP controls, the University should implement the following:

- Reassess security. Access to production programs and data files should be granted only to those individuals who need it to perform their jobs. Ideally, only two people should have the ability to write and delete from the production data files and program directories. However, if this is not practical, employees should be controlled and monitored through the use of audit trails and alarms. Application programmers should not have access to production files and data.
- Improve disaster recovery planning efforts by testing the disaster recovery plan yearly, prioritizing application processing, locating critical documentation at the back-up facility, and contacting vendors regarding the level of support they will provide.
- Improve system design and development by:
 - Including Internal Audit in the review of the development of new or modifications to existing systems

- Requiring a quality assurance function to assist in formulating systems and programming standards by examining systems design documentation to ensure compliance with standards
- Providing for the development of user documentation

Management's Response:

- *Sam Houston State University maintains a staff of one programmer/analyst supervisor, and four programmer/analysts, one of which also performs the quality assurance function along with the programmer/analyst duties. Because of the small size of the staff, it is difficult to maintain the traditional division of responsibilities. Sam Houston State University is instituting a program to log all programmer/analyst accesses to production files and source programs. The passwords to which you refer are secondary security. An employee would already have had to enter the appropriate username and password to execute the program. SHSU will eliminate the hard coded passwords and build the per user protection into our security system.*
- *Sam Houston State University is in the process of equipping an offsite location (the new Telecom Center) that will house standby systems that will have current copies of all data files. The standby systems will be tested monthly after March 1, 1997, when the standby center will be completed. The standby systems will be fully functional and of equal capacity as the production systems so that no prioritizing of application processing is necessary. Vendors will be contacted as appropriate to determine the level of support that will be provided in the event of a disaster.*

Sam Houston State University will make available to Internal Audit all request for new systems and all modifications to existing programs. Internal Audit will be invited to participate to any extent with any request. Sam Houston State University will build a standard review requirement into the request system that must be satisfied prior to promotion of the program. User documentation is produced upon the request of the user department and to their specifications.

Section 8:

Strengthen Internal Controls Over Investments

The University has already taken corrective action to ensure proper segregation of duties over its investments so that no conflict of interests exists. Reasonable benchmarks should also be established to evaluate the performance of the University's investment portfolio. The benchmarks should be based on formal analysis of cash flows with input from the Board.

Section 8-A:

Strengthen Internal Controls Over Investments by Providing for Separation of Functions

The same University employees that are responsible for the acquisition and disposal of investments were also responsible for record keeping which could lead to misapplication of University funds. The Vice President for Finance and Operations is responsible for investing University funds. The Assistant to the Vice President for Finance and Operations is also authorized to initiate and dispose of investments under the direction of the Vice President.

Prior to our review, the Assistant to the Vice President for Finance and Operations maintained and reconciled the investment subsidiary ledger to the general ledger. The Assistant was also responsible for reconciling the subsidiary ledger to third-party confirmation statements including security custodian audits, TexPool and brokers' statements.

The University's investment policy requires reconciliations be reviewed on a regular basis by the Vice President for Finance and Operations and the Internal Auditor. However, there was no evidence to indicate that this review was actually occurring. Internal controls should be used to reduce or prevent errors and irregularities. Some of the more important internal controls over investments include control of collusion and separation of functions.

Recently, the University moved the reconciliation function to another department and the Internal Auditor began receiving copies.

Recommendation:

We commend management for its quick responses to our findings and encourage them to continue to look for ways to strengthen internal controls over investments.

Management's Response:

Effective with the August, 1996, reconciliations, an accountant (CPA) in the Sam Houston State University Business Office, who is not investment personnel, is providing this function. The VPFO will continue to review the reconciliations monthly. Internal Audit reviewed the Quarterly Investment Reports and monthly reconciliations as part of the 1996 annual review and will review all future monthly reconciliations. Internal Audit receives all monthly reconciliations of the investment subsidiary ledgers directly from the Business Office. This practice began with the August 1996, Reconciliation of Investments Report.

A detailed quarterly summary of all investment activities (purchases and sales) is provided to the Director of Finance of The Texas State University System. The VPFO provides a transmittal letter with each quarterly submission.

Section 8-B:

Communicate Expectations Regarding Ethics and Conflicts of Interest

The University did not require investment personnel to sign an ethics policy addressing conflict of interest issues and requiring annual financial disclosure of key employees. In the absence of a signed ethics and conflict of interest statement, key employees may be unknowingly engaging in unacceptable practices which put University funds at risk. Additionally, it may be difficult to terminate an employee engaging in questionable activities which are not clearly defined and properly communicated in an ethics policy.

The development and communication of an ethics policy and conflict of interest statement which defines acceptable relationships and unacceptable practices is part of a strong system of internal controls over investments.

The University recently issued ethical guidelines and required investment personnel to complete disclosure statements.

Recommendation:

We commend management for its quick responses to our findings and encourage them to continue to look for ways to strengthen internal controls over investments.

Management's Response:

The Vice President for Finance and Operations developed on September 5, 1996, an additional policy entitled "Ethics and Policies of Conflict of Interest". The University President and the Texas State University system General Counsel approved these policies and procedures. Disclosure statements for the 1996 fiscal year were prepared and approved by the University.

Section 8-C:

Set Reasonable Benchmarks to Evaluate the Performance of the University's Investment Portfolio Based on Analysis of Cash Flows

The Vice President for Finance and Operations, the University's investment officer, recommended a benchmark rate of 95 percent of the yield on one-year U.S. Treasury

Bills to be used to evaluate the performance of its investment portfolio. This is a short-term rate that may not be appropriate for the University's longer-term portfolio. Also, a comparison of the University's investment performance to its benchmark rate is not reported to the Board. At the end of fiscal year 1996, the market value of the University's portfolio was \$43.5 million.

No formal cash flow projections are performed by the University to help identify its cash flow needs. The Vice President for Finance and Operations relies instead on a "Daily Cash Report" and his own experience based on historical trends to invest funds.

If benchmarks are set too low, the University could be missing out on opportunities to increase its investment earnings. The portfolio may be performing above established benchmarks but under-performing the market. Conversely, if benchmarks are set unrealistically high, decision makers may be encouraging investment officers to take inappropriate risks with University funds. Also, when benchmarks are not reported to the Board of Regents, the Board is unable to effectively evaluate the performance of their investment officers. Without formal cash flow analysis, University management and the Board are unable to make an informed judgement regarding the investment of cash to ensure optimal resource use.

Performance measures are an important control that allows decision makers to evaluate how well funds are being managed. Benchmarks can provide a framework for the Board's expectations regarding anticipated returns and acceptable risk. Deviations from benchmarks could indicate that the investment manager is accepting too little or too much risk.

University and System policy require quarterly projections of cash flow to be submitted to the President and the System Director of Finance. Formal analyses of cash flow projections help ensure that excess University funds are invested to maximize returns while ensuring its cash flow needs are met. Some cushion for emergencies should be in place.

Recommendation:

The Board of Regents, the President and the Vice President for Finance and Operations should work together to establish realistic benchmarks for the University's investment portfolio. Established benchmarks should be reported to the Board as part of the quarterly investment performance report. Finally, the University should follow its policy and prepare formal cash flow projections. Investment decisions should be based on current cash flow projections.

Management's Response:

The SHSU Vice President for Finance and Operations is working with The Texas State University System Director of Finance to develop a format for preparing quarterly

cash flow projections to be presented to the Finance Committee of The Texas State University System Board of Regents. It is planned that this procedure will be implemented immediately upon agreement of the format of the report.

Section 9:

Strengthen Controls Over Facility Master Planning

The University does not routinely fund deferred maintenance projects based on the master plan it submits to the Higher Education Coordinating Board (Coordinating Board). Consequently, some projects are carried on the master plan for years without funding while others are funded that never appear on the plan. The University may be exposing itself to liability (1) by improperly identifying some deferred maintenance items as non-critical when they should be considered critical and (2) by not adequately planning for Auxiliary Enterprise-related deferred maintenance.

Section 9-A:

Use Master Plan to Determine Which Projects to Fund

Sixty percent of the dollars the University spent on deferred maintenance over a three-year period from fiscal year 1994 through 1996 were for projects that did not appear on its master plan. Currently at \$18.9 million, deferred maintenance and major repair and renovation at the University has been increasing. When lower priority projects receive funding over other more critical projects, plant assets may be susceptible to deterioration and waste.

Management overrides the master plan by instructing the Physical Plant to begin a project which is not on the plan. It is not always clear how projects are selected for funding. Since there is no internal system that tracks the status of items on the master plan, management may not always be aware of the status of planned projects.

The Higher Education Coordinating Board requires annual updates of the five-year campus master plan. The plan consists of four parts:

- MP-1 is a prioritized list for new construction in excess of \$300,000 and repair and rehabilitation projects in excess of \$600,000. Any project, whether education and general or Auxiliary Enterprise related, that is to be submitted to the Coordinating Board for formula funding purposes or for approval must be included in this report.
- MP-2 is a list of deferred maintenance items costing more than \$10,000 identified as critical or noncritical. Only education and general projects are to be included.

- MP-3 is the institution's plan to address deferred maintenance and demolition projects by year. Only education and general projects are to be included.
- MP-4 is a list of actual expenditures for deferred maintenance and demolition for the previous fiscal year. Only education and general projects are to be included.

Recommendation:

The University should improve its facility master planning efforts by:

- Developing an internal tracking system that keeps management informed of the status of deferred maintenance items
- Setting guidelines that limit management's ability to override the master plan
- Implementing a realistic plan to reduce accumulated deferred maintenance and major repairs and renovations

Management's Response:

Over the three-year period of 1994 through 1996, over forty projects in excess of \$2 million annually (\$5 million in Fiscal Year 1995) were completed across the University, including auxiliary areas. A productive 1997 fiscal year and a successful year of project execution should produce a 36 % decrease in current deferred maintenance backlog.

The University will do its best to accomplish all planned projects, and will develop a twelve-month moving plan. Unplanned projects are generally a result of mission changes scheduled after the plan submittal, or are unscheduled maintenance and repairs required to keep the campus operating. The mission changes nearly always result in renovation and repair projects which address the deferred maintenance issue, even though they are unplanned opportunities. Most projects are being funded, but final completion may carry them into future years. Our decisions are always made in the best interest of the mission of the University. Management understands the planning process can be improved, and will take these program observations and incorporate them into the plan update and execution process.

Section 9-B:

Reevaluate the Type of Deferred Maintenance, and Formalize Auxiliary Enterprise Deferred Maintenance Planning

The University could be exposed to liability from instances where deferred maintenance projects are misclassified and are not addressed in a timely manner.

Critical deferred maintenance, as defined by the Coordinating Board, are accumulated deferred maintenance projects that place facilities, occupants, or the institution's mission at risk.

The University may be improperly identifying some deferred maintenance projects as non-critical when they should be considered critical. For example, projects identified by the University's Safety Officer as security-, life safety-, and regulatory-related are not considered critical on the master plan.

The University also does not have a formal process for ensuring that critical, Auxiliary Enterprise, deferred-maintenance projects receive funding over other projects which could delay badly needed maintenance. Funding for these projects is left to the discretion of individual department heads subject to the availability of funds.

Auxiliary Enterprise, deferred-maintenance projects are not required to be reported to the Coordinating Board. Good business practices dictate that a planning process be used for the University's Auxiliary Enterprise, deferred-maintenance needs similar to that used for education and general projects.

Recommendation:

Strengthen deferred maintenance planning by:

- Reevaluating the classification of security, life safety, and regulatory projects to determine whether they should be classified as critical deferred maintenance
- Formalizing deferred-maintenance planning for Auxiliary Enterprises
- Developing guidelines to ensure that critical, Auxiliary Enterprise, deferred-maintenance projects take priority over funding for other projects

Management's Response:

Management desires to complete critical projects as they arise to prevent them from becoming part of the deferred maintenance. During the review of the planning process, Management will look closely at how it evaluates the risk of any one project. Management will also strive for total agreement on the critical/non-critical issues among all those associated with each project.

SHSU is conducting annual appraisals of the housing and food service needs with input from the staffs of Residence Life operations and Physical Plant maintenance. The Vice President for Finance and Operations; the Director of Business Services, who is responsible for funding housing and food service projects; and the Physical Plant Director prioritize current needs and fund them to the level possible. The

University is executing the needs of other auxiliaries as they are identified and funded. Elements of prioritizing and funding other auxiliary enterprise projects can and will be improved. Management is working with the appropriate staff members to improve this aspect and will implement the improvements during the 1997 fiscal year.

A "Maintenance, Renovation and Construction" (MRC) is continuously maintained and is reviewed monthly by the Physical Plant staff for progress. The MRC contains all of the elements of the E&G plan submitted to The Higher Education Coordinating Board, as well as auxiliary operations. Significant details are discussed with the administration on a regular basis. Management will follow-up with improving the reviews on a quarterly basis with administration and key university officials.

Section 10:

Improve the Strategic Planning Process and Enhance the Communication and Review of Policies and Procedures

The strategic planning process can be improved by developing a comprehensive system of planning and by better monitoring plan accomplishments. Improvements in communication and review of policies and procedures would enhance the University's management process.

Section 10-A:

Enhance Strategic Planning at the University

There is no consistent method of strategic planning at the University. As a result, strategic planning is haphazard and uncoordinated. There is no requirement for the University, division, and department strategic plans to link together. Without these links, the University can not be sure that the departments and divisions are accomplishing goals congruent with University goals. Two of the three divisions at the University have not developed strategic plans. These divisions use the strategies in the University strategic plan for direction. However, the University strategies are too broad for any one division or department to accomplish. The quality of the division and department strategic plans reviewed varied. Some did not have strategies and others were more operational than strategic.

All departments and divisions are not participating in the strategic planning process; therefore, strategic planning may not be an effective tool to direct University activities. As of the end of fiscal year 1996, 21 of 80 total departments at the University had completed their first Institutional Effectiveness report. Strategic planning at the University is integrated with the Institutional Effectiveness initiative. Strategic plans are developed as the first part of the process. Of those 21 departments, 10 departments have continually submitted updates to their reports. Only 2 of the 10 departments submitted updates for fiscal year 1996. Twenty-six departments are in the process of completing their first report. Thirty-three departments have not begun the process of

developing an Institutional Effectiveness report; therefore, they have not developed a strategic plan.

Additionally, full participation in a comprehensive process of strategic planning will be important when the University has its next Southern Association of Colleges and Universities (Southern Association) visit in 1998. A letter from the Southern Association to the University states:

your institution must be prepared to provide documentation regarding its institutional effectiveness as well as its planning and evaluation processes and procedures at the time of the next accreditation Committee visit, or upon further requests for information by the Commission.

Recommendation:

We recommend the following procedures be implemented to strengthen the strategic planning process:

- All divisions and departments within the University should be required to participate in the Institutional Effectiveness program, thereby producing a strategic plan. This plan will help direct division and department operations.
- Department strategic plans should link to the division strategic plans. Division strategic plans should link to the University strategic plan. This will ensure that the departments and divisions are working to accomplish University goals, objectives, and strategies.
- The University should train personnel on why strategic planning is important and how to develop quality strategic plans.

Management's Response:

- *Beginning in the fall of 1996, all remaining divisions and departments not previously included were "drafted" into the Institutional Effectiveness program. While this change immediately introduced units into the process, the basic plan has been in place for several years. From the beginning, it was planned that various departments would be "phased in" rather than attempting to include all organizational units at one time as the process was initiated.*
- *Management concurs with these recommendations. During the fall of 1996, multiple workshops were provided for all units newly phased into the Institutional Effectiveness process. The focus of the workshops was*

establishing unit goals and objectives and building those within the context of University goals and objectives.

- *Additional workshops will be presented to assist units with development of instruments and procedures to assess effectiveness. For several years, the Institutional Effectiveness Committee has also worked to achieve an understanding of why strategic planning is important and how to develop quality strategic plans which are vertically linked. In addition, a statement from the Office of the President stressing the importance of the Institutional Effectiveness program has been sent to all university administrators.*

Section 10-B:

Improve Efforts to Measure Progress Against Goals, Objectives, and Strategies

Monitoring the progress toward achievement of the strategic plan goals, objectives, and strategies is inconsistent at the division and department levels, which could make it difficult for the University to determine if it is accomplishing its goals and objectives. While there are departments that have a formal assessment procedure in place, other departments only monitor informally. Since 59 of the 80 departments are either in the process of developing their first Institutional Effectiveness report with goals and strategies or have not begun the process, there are a significant number of departments that do not monitor progress toward accomplishment of strategies.

The University produces an annual assessment of goals and strategies; however, it should improve the process used to monitor its strategies. The University Standing Committee for Strategic Planning (SCSP) is responsible for monitoring University strategies. Each committee member is responsible for following up on particular strategies. Members make oral inquiries as to whether a strategy was accomplished. They also decide how much, if any, documentation is needed to satisfy themselves that progress has been made on the strategies. Therefore, the amount of work performed to consider a strategy completed is inconsistent.

Performance measures used for tracking progress toward goals, objectives, and strategies have not been developed by most departments and divisions. The University only tracks the measures that are reported to the Legislative Budget Board (LBB), but does not use these measures to monitor University progress toward accomplishing the goals, objectives, and strategies in the strategic plan.

Two performance measures were certified with a qualification. (See Appendix 3 for certification table.) There was a qualification issued because there was no documented review of data before it was entered into the Automated Budget and Evaluation System of Texas (ABEST). The department responsible stated that it could not print from ABEST. However, another department in the University stated that it could print from the ABEST system. Better communication is needed between these two departments.

To achieve the greatest effectiveness, the University's strategic and operational plans should specify deadlines, timetables, schedules, progress checkpoints, and designated performance measurement to gauge progress and verify goal attainment.

Recommendation:

The University should institute a comprehensive monitoring and assessment system to review its strategic plan. For example:

- Measures should be developed to track progress toward achieving goals, objectives, and strategies.
- Each department should produce an assessment. The assessment should state how well the department met every goal, objective, and strategy in the strategic plan.
- The divisions should incorporate the results of department assessments (accomplished or not) into the division plan and produce a report summarizing the results of the division, with department plans as backup.
- The University should produce its assessment based on division results. Division plans should be used to assess whether or not University goals, objectives, and strategies have been accomplished.

Management's Response:

Management agrees with these recommendations. The University is in the process of implementing the plan as described in the recommendation.

Section 10-C:

Improve Communication and Review of Policies and Procedures

Currently, only the heads of the departments receive printed copies of the policies and procedures. If personnel do not have access to policies, the University cannot expect personnel to follow them. Staff members are expected to download the policies and procedures from the University's computer system. Two randomly sampled employees were not able to access the policies and procedures from the University's computer system. Policies and procedures are the rules that govern the University's operations.

Policies and procedures at the University also do not have a review cycle. Without regular review and revision cycles, employees could be implementing policies and procedures that are not the current practices of the University, not in line with the

University's strategic plan, or not in compliance with new or changed laws and regulations.

Administrative policies and procedures are not signed by the President as required. All other policies and procedures, such as Student Services procedures and the *Academic Handbook*, are signed by the President.

Recommendation:

To improve the process of communicating and reviewing policies and procedures at the University, we recommend the following:

- Train personnel on how to access policies and procedures within the University's computer system. The University could also provide a quick reference sheet that tells personnel how to access common elements of the system, especially policies and procedures.
- The University should develop a review and revision schedule for each policy and procedure. If needed, department policies and procedures should also have review cycles. The policies should be prioritized so that critical policies are reviewed frequently, and those that are not as critical can have longer review cycles. Currently, the University has developed a committee to develop review and revision cycles for the policies and procedures.
- All administrative policies should be signed by the President.

Management's Response:

- *Policies and procedures are already in the University's computer system and are available to all faculty and staff, either through the computer system, or with hard copies in each department. Computer Services has published and sent to all faculty and staff information about available programs and how to access those programs of information. In addition, training seminars for accessing information and using computers and terminals are provided as follows:*
 - *Departments request training for the entire department.*
 - *As programmer/analysts create new systems, they meet with the users to provide the requisite training.*
 - *All the brochures give the phone number and username for the HELPDESK. Whenever specific immediate assistance is needed, users may contact the HELPDESK to receive phone support in order*

to complete their tasks. The HELPDESK is staffed 24 hours a day, with the exception of Sunday morning from midnight to 8:00 a.m.

- Training is available on a one-on-one basis from the Computer services Department. Any faculty or staff member may request one-on-one training in their office on their computer equipment.
- An introduction to the availability of the computer system is made each semester for the incoming faculty in the College of Arts and Sciences. In the past, this introduction has also been provided in the College of Education and Applied Science and the College of Criminal Justice. The Human Resources Department now invites a Computer Services Representative to the Orientation session for new employees.
- During the past October and November, a User Services Technician position was filled and two additional Technicians were employed. With this new staff now trained, we are starting daily training sessions for faculty, staff, and students from 4:00 to 5:00 pm on Monday through Friday.

The Computer Services Department will add an "Administrative Policies and Procedures" brochure to the list of on-line pamphlets now being provided to the users.

- Management concurs with this recommendation and has already established a committee to oversee the process of reviewing the policies and procedures. In addition, a new, standardized format for each policy statement will be used, and each policy statement will contain the signature of the President.

Issue for Further Study:

Review Organizational Structure of the Academic Affairs Department

The organizational structure of the Academic Affairs Department should be reviewed. Currently the Vice President for Academic Affairs has 10 people reporting to him. Six of these represent large functions in the University. Several of the entities reporting to the Vice President for Academic Affairs could report to Associate Vice Presidents to allow the Vice President more time to devote to his larger activities. The current Vice President for Academic Affairs is planning to retire, and the University is currently trying to fill this position. The Vice President stated that he would not change the structure, but would leave this for the new Vice President to do.

Recommendation:

The University should review organizational structure of the Academic Affairs Department. Several entities that currently report directly to the Vice President could report to an Associate Vice President.

Management's Response:

The current position of Vice President for Academic Affairs was, until a few months ago, the position of Vice President for Academic Affairs and Student Services, which also included Athletics. During the summer of 1996 the position was split, giving the Student Services functions, including Athletics, to a separate Vice President for Student Services. Thus, the Division of Academic Affairs was relieved of two major functions. In addition, the Department of Undergraduate Admissions and the Department of Extended Learning were reassigned from reporting directly to the Vice President to reporting to an Associate Vice President. However, Management concurs that the current span of administration is still too broad. The current Vice President for Academic Affairs plans to retire as soon as a replacement can be found, and a search for that replacement has been underway since the summer of 1996. It is anticipated that the new Vice President will be in place by the summer of 1997, and the decision of how to reorganize the Office of Vice President for Academic Affairs will be left to the discretion of that new appointee.

Objective, Scope, and Methodology

Objective

Our audit objectives were to evaluate the management control systems within Sam Houston State University, including its management of resources and to identify strengths and opportunities for improvement. We evaluated whether the control systems are providing reasonable assurance that the University's goals and objectives will be accomplished. The audit evaluated control systems in place during fiscal year 1996.

Management controls are policies, procedures, and processes, used to carry out an organization's objectives. They should provide reasonable assurance that:

- Goals are met
- Assets are safeguarded and efficiently used
- Reliable data is reported
- Laws and regulations are complied with

Management controls, no matter how well designed and implemented, can only provide reasonable assurance that objectives will be achieved. Breakdowns can occur because of human failure, circumvention of control by collusion, and the ability of management to override control systems.

Scope

The scope of this audit included consideration of the University's overall management control systems: policy management, information management, resource management, and performance management.

Consideration of the University's policy management systems included a review of:

- Processes used to create, monitor, and evaluate University strategic and operating plans
- Processes used to create, monitor, and revise University budgets
- Processes used to evaluate and implement changes to the organization's structure
- Processes used to create, implement, evaluate, and revise University policies and procedures

Consideration of the University's information management systems included a review of:

- Processes for identifying, collecting, classifying, evaluating, maintaining, and updating information
- Existing management reports
- Timeliness, accuracy, and availability of information

Consideration of the University's resource management systems included a review of:

- Processes used to select, train, evaluate performance, and compensate University employees
- Processes used to control the University's cash
- Investment policies and practices at the University
- Processes used to ensure proper acquisition, storage, security, and management of inventory assets
- Processes used to ensure that fixed assets and infrastructure are economically purchased and used and adequately protected against waste and abuse
- Revenue identification and collection processes
- Maintenance and protection of computers and computer applications

Consideration of the University's performance management system included a review of:

- Processes used to develop, track, and use performance measures
- Processes used to evaluate programs and to ensure quality products and services

A review of each of the control areas revealed some specific issues that were examined further.

Methodology

The audit methodology consisted of gaining an understanding of each control system. In select areas, tests were then performed to determine if the control systems were operating as described. Finally, the results were evaluated against established criteria

to determine the adequacy of the system and to identify opportunities for improvement.

An understanding of the control systems was gained through interviews with the University President, Vice Presidents, management, and staff. Written questionnaires and reviews of University and System documents were also used to gain an understanding of the control systems in place. Control system testing was conducted by comparing the described and actual processes. The testing methods primarily consisted of document analysis, process and resource observation, and employee interviews.

The following criteria were used to evaluate the control systems:

- Statutory requirements
- System rules
- Sam Houston State University policies and procedures
- General and specific criteria developed by the State Auditor's Office Inventory of Accountability Systems Project
- State Auditor's Office Project Manual System: The Methodology
- State Auditor's Office Project Manual System: The HUB
- Other standards and criteria developed through secondary research sources, both prior to and during fieldwork

Fieldwork was conducted from August 1996 through November 1996. We did not verify or review the accuracy of the data provided by Sam Houston State University. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

No significant instances of noncompliance with these standards occurred.

The following members of the State Auditor's Staff performed the audit work:

- Verma Elliott (Project Manager)
- Rachel Carmona
- William D. Hastings, CPA
- Nancy Raabe
- Errol Williams, CPA
- Sin-Leng Wong, CPA, CIA
- Pat Keith, CQA (Audit Manager)
- Craig Kinton, CPA (Audit Director)

Background Information

Appendix 2.1:

University Profile

Mission

Sam Houston State University's mission is to be a multi-purpose state university that exists to meet the needs of a civilized community by providing to the community educational opportunities and resources of the highest quality. The University has evolved into a federation of colleges and programs which provide a climate of intellectual freedom with academic programs to enable its students to become informed, thoughtful, and productive citizens with the skills necessary to evaluate issues critically and to appreciate the cultural and aesthetic values of life.

History

Sam Houston Normal Institute was created by the Texas Legislature in 1879 to train teachers for the public schools of Texas. A name change to Sam Houston State Teachers College occurred in 1923. Two years later, the college was admitted to membership in the Southern Association of Colleges and Schools as an accredited institution of higher learning. Over the years, the institution broadened the scope of the curriculum offered from its sole emphasis on teacher training to emphases on preparation in a variety of fields. In 1969, the Legislature changed the institution's name to Sam Houston State University to reflect these changes.

Operations

Sam Houston State University in Huntsville is one of five components of the Texas State University System. The University reports that it employs 530 faculty members with an enrollment of 12,564 students (Fall 1996). The University is organized academically into four colleges: Arts and Sciences, Education and Applied Sciences, Business Administration, and Criminal Justice.

Appendix 2.2:

Financial Information

The University reports revenues of \$102,419,162 and expenditures of \$100,152,579 for fiscal year 1996. The largest amount of revenue and expenses were in the Education and General fund. The University's fund balance totaled \$220,656,851 for fiscal year 1996. The largest fund balance was in Investment in Plant and the smallest fund balance was in the Renewals and Replacements. Reported revenues, expenditures, and fund balances were distributed as follows:

Figure 1

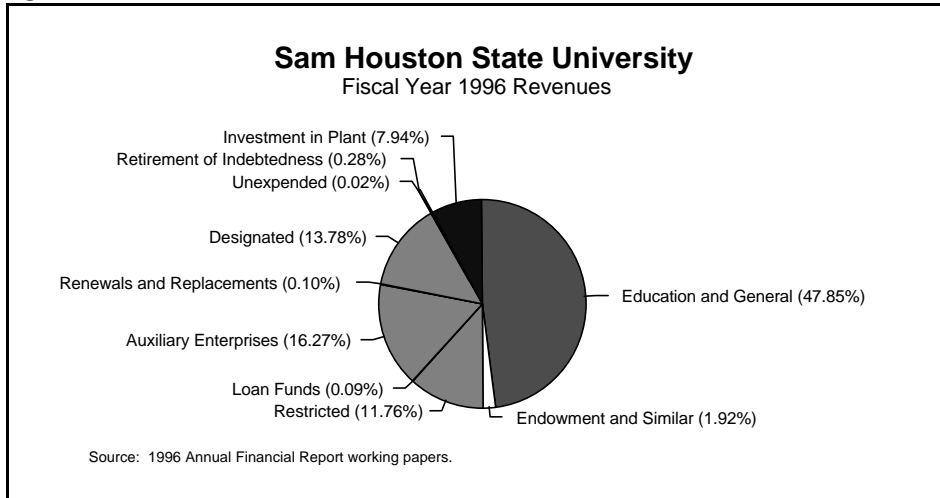


Figure 2

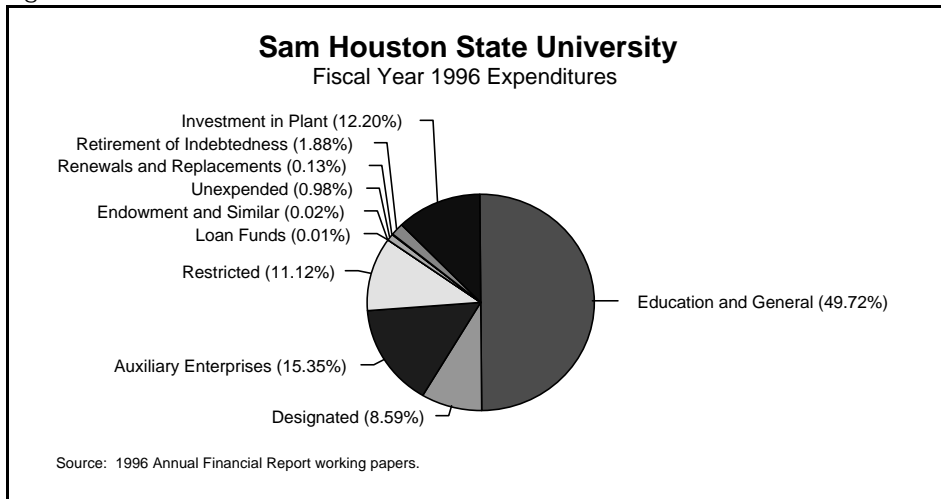
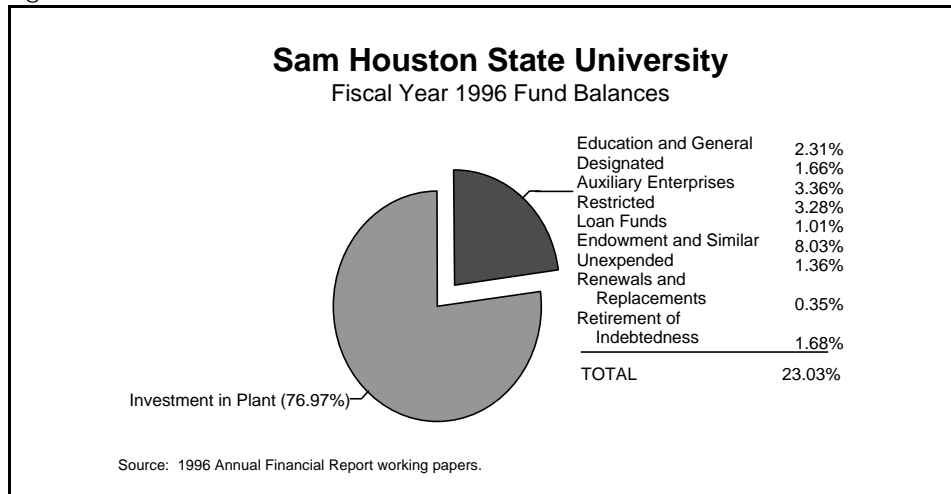


Figure 3



Supplemental Information

Results of Performance Measures Review

Both of the performance measures reviewed at Sam Houston State University were determined to be reliable. Each measure was “Certified With Qualifications,” meaning reported performance is accurate but controls could be improved. The improvements are discussed in the comments section of the table below:

Results of Performance Measures Review									
Related Objective or Strategy ¹	Description of Measure ¹	How Classified	Results Reported ²	Certification Results*					Comments
				C	CQ	FPC	I	NA	
1.A	Percent of first-time, full-time, degree-seeking freshmen who earn a baccalaureate degree within six academic years	Outcome	35.30		X				Final review of information before it is submitted to ABEST is done verbally, the review is not documented.
1.A	Retention rate of TASP students requiring remediation education after one academic year	Outcome	52.40		X				Final review of information before it is submitted to ABEST is done verbally, the review is not documented.

Sources:

¹ General Appropriations Act, 74th Legislature, R.S.

² Outcomes are reported for fiscal year 1995.

All numbers are from ABEST II -

Automated Budget and Evaluation System of Texas.

* **Key for Certification Results**

C - Certified

CQ - Certified With Qualifications

FPC - Factors Prevented Certification

I - Inaccurate

N/A - Not applicable

Audit Review

Review of Internal Audit Projects

All audit projects conducted during fiscal years 1995 and 1996 were reviewed. The projects are broken into recurring audits and other audit projects. These projects all had similar problems: insufficient evidence collected, inadequate documentation to support conclusions, and poor working paper techniques. The following is a detailed examination of the audits conducted by the Internal Audit Department.

Audit Projects		
Audit	Comment	Applicable Standards
Review of Criminal Justice Center	<ol style="list-style-type: none"> 1. The audit report stated "controls are strong" in the Criminal Justice Center Business Accounting Office (CJCBAO). However, an employee in the CJCBAO stated that her own judgement was used for tagging equipment under \$1,000. The General Services Commission notes that certain items under \$1,000 must be tagged. Working papers did not indicate that the employee was using these guidelines. 2. Many working papers are misleading and do not always allow an experienced auditor who has no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant conclusions and judgements. 3. Most working papers did not contain a heading, list the source of the information, contain the initials and date of the preparer, explain symbols and tick marks, or contain proper cross references. 	<p>Standards from the <i>Standards for the Professional Practice of Internal Auditing</i>:</p> <p>Standard 420 - Internal auditors should collect, analyze, interpret, and document information to support audit results.</p> <ul style="list-style-type: none"> .1 Information should be collected on all matters related to the audit objectives and scope of work. .2 Information should be sufficient, competent, relevant and useful to provide a sound basis for audit findings and recommendations. .5 . . . These [working] papers should record the information obtained and the analyses made and should support the bases for the findings and recommendations reported. .5(l) The following are typical audit working paper preparation techniques: <ul style="list-style-type: none"> - Each audit working paper should contain a heading. - Each audit working paper should be signed (or initialed) and dated by the internal auditor. - Each audit working paper should contain an index or reference number. - Audit verification symbols should be explained. - Sources of data should be clearly identified. .5(c) Audit working papers should be complete and include support for audit conclusions reached <p>Standard from the <i>Government Auditing Standards</i>:</p> <p>Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant conclusions and judgements.</p>

Audit Projects		
Audit	Comment	Applicable Standards
University-Wide Review of Cash Handling /Receipting Procedures	<ol style="list-style-type: none"> 1. This audit, started April 1996, is not yet complete. As of November 1996, Internal Audit did not know when or what kind of report would be issued. Additionally, one of the questionnaires sent out has not been received. The Internal Audit department stated that this was an ongoing project. 2. Most working papers did not contain a heading, list the source of the information, contain the initials and date of the preparer, explain symbols and tick marks, contain proper cross references. 	<p>Standards from the <i>Standards for the Professional Practice of Internal Auditing</i>:</p> <p>Standard 410 - Internal Auditors should plan each audit.</p> <p>.2(b) Other requirements of the audit, such as the audit period covered and estimated completion dates, should be determined. The final audit report format should be considered, since proper planning at this stage facilitates writing the final audit report.</p> <p>Standard 420 - "Internal auditors should collect, analyze, interpret, and document information to support audit results.</p>

Recurring Audits

During fiscal years 1995 and 1996, Internal Audit performed three recurring audits. They were:

- Review of Student Registration
- Assistance With NCAA-Required Annual Athletics Audit
- Review of Bond Covenant Compliance

For the Review of Student Registration audit, information was not in the file to explain how Internal Audit determined the normal registration time. Working paper techniques need improvement.

It appears that adequate evidence was obtained and documented to support conclusions made in the Assistance With NCAA-Required Annual Athletics and the Review of Bond Covenant Compliance audits. However, working paper techniques need improvement.

Review of Special Projects

The table below lists the common problems found with the projects conducted by Internal Audit. Each project was reviewed. Special projects are unplanned work performed at the request of others or as circumstances arise. These projects are not typically included in the audit plan. Following the table are all of the special projects conducted by Internal Audit for fiscal years 1995 and 1996.

Issue	Projects With This Issue
File contains no written letter or memo detailing the conclusions reached during the investigation	G
File contains no working papers to explain what work was accomplished and the audit conclusions reached.	A, C, H, B
All necessary audit work was not conducted to ensure that state funds had not been misappropriated.	E, L
Adequate evidence appeared to be gathered; however, working papers were difficult to understand.	D
Review is not completed.	K
Adequate evidence was gathered and appropriate documentation was available.	M

Note: Projects F, I, and J were special projects for which Internal Audit provided information or assistance to the State Auditor's Office

Letter	Special Project Number	Project Name
A	SP95-01	Review of Museum Store Cash Receipting Procedures
B	SP95-02	Review of Application Fee Receipting Procedures
C	SP95-03	Review of Deposit Procedures at Recreational Sports
D	SP95-03	Review of Possible Conflicts of Interest
E	SP96-03	Review of handling of cheerleader monies
F	SP96-04	Formula Funding - assist State Auditor's Office
G	SP96-05	Review of Library Science Student Association Account
H	SP96-06	Observation of Warehouse Inventory
I	no project #	State Property Accounting System (SPA) - assist State Auditor's Office
J	no project #	Workers' Compensation - assist State Auditor's Office
K	no project #	Summer Camps (not completed)
L	no project #	Theater Arts - Review of Income Accounts
M	no project #	Review Public Communication employee