

June 25, 1997

Mr. James Douglas, Esq., President  
Texas Southern University  
3100 Cleburne Avenue  
Houston, Texas 77004

Dear Mr. Douglas:

The condition of the financial records and the lack of coordination between computer systems contributes to a high risk that Texas Southern University (University) funds are not spent appropriately. In our cash review, various questionable costs and exceptions to appropriate operating procedures, which have had a negative effect on the University, were noted:

- The University allowed inappropriate expenditures, providing excessive reimbursement to an employee and permitting expenditures without sufficient support.
- The University had ineffective management of expenditures, paying for services that were not needed and overpaying one vendor, thus losing interest income on funds.
- The University retained financial aid money in excess of mandated time limits, withholding financial aid from students for an unwarranted period.

### **Inappropriate Expenditures**

Three out of 47 expenditures tested had inadequate support. These three expenditures totaled over \$23,000. The University is unable to provide supporting documentation to show that the expenditures were appropriate and that the correct amount was paid. (See attached table.)

In addition, the University inappropriately reimbursed a travel voucher of the former Senior Vice President for Administration, by \$736. There were several errors and inaccuracies that were unchecked. The former Vice President did not provide complete documentation of his expenditures, and he did not report the actual amount of expenditures. He also requested reimbursement for unallowable expenditures. This travel was undertaken as part of an ongoing relationship with a development foundation. The travel voucher was reviewed by the University's project director for this development effort. This individual should have noted and corrected these errors. There were other instances in which the former Vice President inappropriately requested reimbursement and disregarded University policy. Although he received a \$500 car allowance, he claimed personal car mileage on four separate travel vouchers, totaling \$42. (See attached table.) He circumvented University controls by receiving approval to travel on four separate travel vouchers after he had already returned from these trips.

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## **Ineffective Management of Expenditures**

The University has made decisions that have resulted in excessive expenditures. The University needed additional residence space during an 18-month period when dormitory renovations were taking place. A lease was negotiated with an apartment complex for 24 months, 6 months longer than the anticipated renovation period. The lease terms dictated a fixed payment of \$40,000 per month. Therefore, the University expended \$240,000 more than was necessary to accommodate students. In addition, enrollment and the number of residential students dropped during the period of the lease. Thus, the need for residential space declined over the period of the lease. (See attached table.)

The bookstore was overpaid by more than \$24,000 due to a problem in the accounting system. The problem was eventually detected and corrected; however, no attempt was made to collect the overpayment from the contractor who runs the bookstore. Once the problem was corrected, the expenditure records should have been reviewed and an effort made to collect funds that were incorrectly spent. (See attached table.)

## **Untimely Financial Aid Reimbursement**

During the time the University was able to draw down financial aid funds directly from the U.S. Department of Education, students were not reimbursed within the required three-day time limit following the University's receipt of those funds. Nor were students reimbursed within the required 14-day time limit following the first class day. For example, of the \$1.1 million owed students on November 25, 1995, over \$75,000 (220 warrants) was still outstanding two months later and over \$15,000 (42 warrants) was still outstanding one year later. Once warrants were printed, the Financial Aid Office and University Comptroller did not comply with written policy to notify students of the availability of funds. Late reimbursement puts a financial burden on the students and subjects the University to further penalties by the U.S. Department of Education.

Beginning in March 1996, the University was put on a reimbursement basis by the U.S. Department of Education. Remainder checks issued to students were tested for the period after March 1996. The University still has not issued remainder checks within the required three-day time limit. For example, the University received the 1996 Fall semester reimbursement during the 1997 Spring semester. The approximately \$62,000 remainder amount due to students on March 1, 1997, was not mailed to students until March 22, 1997. However, while not meeting the required time limit, the University does appear to be increasing the efficiency of the check issuance process with each submission for reimbursement to the U.S. Department of Education. A lack of communication and coordination between the Financial Aid Office, Bursar's Office, University Comptroller, Accounts Payable, and Grant Office appears to cause the time lag.

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Recommendation:

The University should properly review expenditures to ensure that all disbursements are appropriate and properly supported. The University should review its records for any other overpayments, such as to the bookstore, to ensure that any money that was overpaid is recovered. The University should ensure that students are reimbursed within the required time frame.

The lack of communication between computer systems and departments has contributed to the problems. The BANNER system should be implemented as soon as possible to bring all the finances under one system. In addition, the different departments need to work together to develop plans to coordinate their work and streamline their processes.

Texas Southern University's Response:

*The University appreciates the findings noted during the review of cash receipt and disbursement procedures. Although current policies procedures require adequate documentation prior to expenditure of funds, we are committed to continuous improvement of our internal control systems to further minimize irregularities and provide for timely and reliable reporting of accounting data.*

*The University has already taken action to address and prevent the reoccurrence of the findings in this report. The organizational structure has been realigned to include a Travel Management Office. All travel documents must be approved by this office for compliance with State and University policy prior to reimbursement.*

*A new financial accounting software system is currently being implemented. Upon completion in September 1998, the general ledger, accounts payable, purchasing, financial aid, admissions and registrar modules will be fully integrated. The system will allow for paperless execution of accounting transactions and on-line maintenance of all documentation including descriptions and approvals. Additionally, the Accounts Payable Supervisor was replaced in September 1996.*

*Also, the University has already implemented a manual system to allow for timely payment of financial aid reimbursements to students. The computerized system refunds all students that have been awarded financial aid. Because the University must comply with the reimbursement procedure for financial aid programs imposed by the Department of Education, it was necessary to prepare refund checks for only the student files that had been submitted and reimbursement funds that had been received.*

*The lease contract with the apartment complex ended December 1996. Although representatives of the complex had begun talks with some University officials to extend the contract time period, the Interim Senior Vice President for Administration terminated all negotiations in October 1996.*

*All overpayments to the Bookstore have been refunded to the University. The overpayments were caused by duplication of student social security numbers. The system has been corrected to prevent duplication of numbers in the future.*

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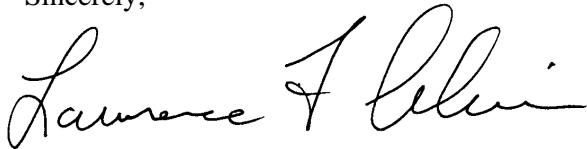
*Again, the University appreciates the efforts of the State Auditor's Office. We look forward to working in partnership with your office to further improve internal control, compliance and accountability systems.*

## Objective and Scope

The State Auditor's Office conducted a cash review to determine the effect of management controls over expenditures and revenues on the financial position of Texas Southern University. The exceptions reported are only from a sample and no projection to the population is being made. A small sample (47 out of 28,211 or .2 percent) of expenditures was chosen for review. The review was conducted in accordance with generally accepted auditing standards and government auditing standards.

If you have any questions, please feel free to contact Eric B. Corzine, the project manager, or Catherine A. Smock, CPA, the audit manager, at (512) 479-4700. Thank you for the cooperation of you and your staff during the review.

Sincerely,



Lawrence F. Alwin, CPA  
State Auditor

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cc: Texas Southern University Board of Regents  
The Honorable George W. Bush, Governor  
The Honorable Bob Bullock, Lieutenant Governor  
The Honorable James E. "Pete" Laney, Speaker of the House  
The Honorable Bill Ratliff, Chair, Senate Finance Committee  
The Honorable Kenneth Armbrister, Chair, Senate State Affairs Committee  
The Honorable Robert Junell, Chair, House Appropriations Committee  
The Honorable Tom Craddick, Chair, House Ways and Means Committee  
The Honorable Garnett Coleman  
The Honorable Harold Dutton, Jr.  
The Honorable Al Edwards  
The Honorable Rodney Ellis  
The Honorable Sylvester Turner  
The Honorable Ron Wilson

## Summary of Inappropriate and Ineffective Expenditures

Fiscal Year	Check Number	Paid To	Description of Finding	Dollar Amount Associated With Finding
<b>INAPPROPRIATE EXPENDITURES</b>				
<b>South African Trip</b>				
1996	318166	Former Senior Vice President for Administration	The former Senior Vice President for Administration claimed a business meeting at Leipoldt's Restaurant in South Africa (which consisted of four buffets, four coffees, four open beverages, and what appeared to be a bottle of wine) for \$308.55, when the total was actually 308.55 rand (R), the South African currency. The average of the exchanges rates from July 8, 1996, to July 12, 1996, was 1R to \$.22, so he should have claimed \$70.87. He claimed \$237.68 more than the actual expense. In addition, wine and beverages are not allowable according to federal regulations.	\$ 308.55
1996	318166	Former Senior Vice President for Administration	The former Senior Vice President for Administration only provided support for three nights he stayed at a hotel in South Africa, yet he claimed lodging for seven nights. According to the project director for this expedition, the lodging and food costs for the last four nights had been paid for ahead of time. Therefore, the former Vice President should not have claimed meals and lodging for the last four nights. Unallowable lodging for four nights at \$80 per night totals \$320. Unallowable meals for three days at \$38 per day totals \$108.	428.00
<b>Total South African Trip</b>				<b>\$ 736.55</b>
1996	318166	Former Senior Vice President for Administration	The former Senior Vice President for Administration received a \$500 car allowance, but also claimed personal car mileage on this voucher of 44 miles. He also claimed personal car mileage on three other travel vouchers of 32 miles, 32 miles, and 44 miles for a grand total of 152 miles (152 X .28 = \$42.56). The travel voucher numbers are LT00437, LT00438, and LT00620.	\$ 42.56
1996	298234	Springer Huddleston Insurance	Supporting documentation and purchase order did not match payment.	16,000.00
1996	303071	The Copeland Companies	Supporting documentation could not be provided.	4,689.62
1996	312872	An individual	Incomplete supporting documentation was provided.	2,520.00
<b>TOTAL INAPPROPRIATE EXPENDITURES</b>				<b>\$ 23,988.73</b>

## Summary of Inappropriate and Ineffective Expenditures

Fiscal Year	Check Number	Paid To	Description of Finding	Dollar Amount Associated With Finding
<b>INEFFECTIVE MANAGEMENT OF EXPENDITURES</b>				
1996	309524	Richfield Manor Apartments	This payment is associated with a lease agreement with Richfield Manor Apartments to furnish temporary housing for about 200 students while the dormitories were renovated. The renovations were scheduled to take place over an 18-month time period. However, the lease agreement was for two years. The University paid \$40,000 per month for the lease. Had the lease been for 18 months, instead of two years, the University would have saved \$240,000 (6 x \$40,000).	\$ 240,000.00
1996	299739	Texas Southern University - Bookstore	Students receiving financial aid have purchased books and supplies at the bookstore using a waiver given to them by the University in lieu of cash. The University subsequently reimburses the bookstore. The voucher associated with this payment, dated December 1995, was for \$485,300.44. However, the support for the voucher indicates the payment should have been for \$460,963.51. The bookstore was overpaid by \$24,336.93. The accounting system was double-counting students who changed their social security number or name during the semester. The error in the system was corrected but no effort was made to recoup the overpayment.	24,336.93
<b>TOTAL INEFFECTIVE MANAGEMENT OF EXPENDITURES</b>				<b>\$ 264,336.93</b>