Key Points of Report

An Audit Report on Management Controls at Lamar University - Beaumont

February 1998

Overall Conclusion

Lamar University - Beaumont's (University) poor fiscal controls, lack of and/or failure to follow established policies and procedures, inadequate planning, and insufficient oversight from executive management have resulted in a material weakness in fiscal management, weaknesses in information and resource management, and significant problems in several University operations. These deficiencies impact the University's ability to ensure its mission and goals will be accomplished, that University assets will be adequately safeguarded, and that University resources will be used effectively and efficiently. Management has indicated that it has begun corrective actions to address some of the findings in this report.

Key Facts and Findings

- Several of the issues noted in this report have been previously identified by our office. The repetitive nature of these issues indicates that the University's efforts to improve operations have been incomplete and have not sufficiently addressed the root causes of the problems.
- The University has ignored or circumvented various federal regulations, Texas State University System and University policies and procedures, and sound business practices. This places the University's federal funding for financial aid programs at risk and has resulted in the inefficient use of various resources.
- While University management has eliminated the deficit in Intercollegiate Athletics, combined operating deficits in Pledged Enterprises and the Montagne Center have grown by 30 percent since fiscal year 1993 to $2,050,288 as of August 31, 1997. Other University funds have been used to underwrite operations in these areas along with related bond obligations. Ineffective management of various service department operations has resulted in combined losses for fiscal year 1997 totaling $345,475 and cumulative fund balance deficits totaling $881,389.
- Problems continue to persist in the University's new information systems as a result of inadequate implementation programs, lack of adequate oversight, and failure to adequately maintain underlying data. As a result, the University's information systems do not always provide quality information in support of executive decision-making.

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This management control audit was conducted in accordance with Government Code, Section 321.0133.

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Executive Summary

At Lamar University - Beaumont (University) poor fiscal controls, lack of and/or failure to follow established policies and procedures, inadequate planning, and insufficient oversight from executive management have resulted in:

- A material weakness in fiscal management
- Weaknesses in information and resource management
- Significant problems in several University operations

Several of these problems have been previously identified by the State Auditor's Office. The repetitive nature of these issues indicates that the University's efforts to improve operations have been incomplete and have not sufficiently addressed the root causes of the problems.

These deficiencies impact the University's ability to ensure its mission and goals will be accomplished, that University assets will be adequately safeguarded, and that University resources will be used effectively and efficiently.

Management has indicated that it has begun corrective actions to address some of the findings in this report.

A Material Weakness Exists in the Overall Fiscal Management of the University

A material weakness exists in the overall fiscal management of the University. This weakness is further compounded by major deficiencies in policy, information, and resource management controls. Collectively, the significance of these deficiencies is as follows:

- They can result in material errors (unintentional mistakes) and/or irregularities (intentional improprieties) not being promptly detected in the normal course of business.
- They severely limit the University's ability to safeguard assets and maximize the effective use of resources.
- They degrade the quality of information available for executive decision-making.
- They may have a long-term, negative impact on student recruitment and retention.
- They may negatively impact the University's ability to achieve its mission and goals.

The University Has Demonstrated Ineffective Management of Cash and Fixed Assets

The University has evidenced ineffective management of University resources in the areas of cash and fixed assets. The ineffective management of these University assets was caused by the following:

- Failure to reconcile bank accounts, payroll withholding accounts, receivable accounts, and tuition submissions to the State Treasury in an accurate and timely manner
- Failure to adequately manage all University receivable accounts
- Failure to process gift checks to the University according to Texas State University System rules and regulations

- Failure to establish adequate oversight procedures for certain payments processed by the University
- Failure to coordinate federal drawdowns related to Department of Education (DOE) expenditures
- Failure to process financial aid awards on a timely basis
- Failure to adequately safeguard University fixed assets

Ineffective management of University resources has resulted in current control and operating problems, a risk of reduced federal funding for future financial aid programs, potential loss or misuse of University resources, and inadequate resources to ensure fulfillment of the University's mission and goals.

The University Should Improve Information Systems

In an April 1994 follow-up report (*Follow-Up on the Management Control Audit of the Lamar University System*, SAO Report No. 94-099), we noted that the University was placing a great deal of reliance on the potential of the new automated Financial Records System (FRS) to remedy longstanding problems involving the availability and accuracy of management information. With the advent of FRS and other new systems, information has generally become more readily available to users.

However, due to the manner in which implementation of these systems was conducted, the lack of detailed policies and procedures, the ineffectiveness or lack of adequate review procedures, and a general lack of control in the fiscal components that drive the information systems, problems continue to persist relating to the accuracy of information used to support decision-making.

Without accurate and timely information for executive decision-making, the University is at risk of making decisions that will not ensure accomplishment of its mission and goals or use University resources effectively and efficiently.

The University Should Improve Controls and Procedures Over Various University Operations

We identified the following five University operations in which improvements over controls and procedures are needed:

- Office of Student Financial Aid
- Auxiliary Enterprises (including Montagne Center, Housing, Energy Conservation, Food Services, and Subordinate Lien)
- Service Departments (Post Office, Print Shop, Quick Copy, and Supply Center)
- Human Resources
- Fiscal Office - Accounting and Financial Reporting

Causes include, but are not limited to the following:

- Failure to have or follow current, written policies and procedures
- Failure to use policies and procedures as control mechanisms
- Inadequate management of the financial aid processing function, along with failure to follow federal regulations

Executive Summary

- Failure to effectively manage certain auxiliary enterprises, service departments, and human resources
- Failure to adequately review annual financial reports before submission to applicable agencies and oversight bodies.

As a result, the University is at risk of the following:

- Reduced future financial aid program funding
- Continued decreasing student enrollment
- Continued operational losses from auxiliary enterprises, pledged enterprises, and service departments
- Future cash flow problems
- Not having enough qualified employees in critical areas of University operations to ensure fulfillment of its mission and goals
- Not having accurate and timely information with which to make good executive decisions

Summary of Management's Responses

Management does not believe that our overall conclusions are justified based on the detailed findings in this report. Management encourages the reader to read the entire report and reach his/her own conclusions.

Summary of Audit Objective and Scope

The objective of this audit was to evaluate the management control systems within Lamar University, including the areas of policy management, information management, and resource management.

The scope of this audit included consideration of the University's overall management control systems relating to the areas of policy management, information management, and resource management. The audit was planned as a follow-up to the March 1993 *Management Control Audit of the Lamar University System*, SAO Report No. 93-073. Due to the nature and extent of potential issues, we expanded this audit to cover additional areas not originally treated in the above referenced report.

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Section 1:

A Material Weakness Exists in the Overall Fiscal Management of the University

A material weakness exists in the overall fiscal management of Lamar University - Beaumont (University). This material weakness is due to poor fiscal controls, lack of and/or failure to follow established procedures or commonly accepted business practices, and inadequate planning. A material weakness can result in material errors (unintentional mistakes) and/or irregularities (intentional improprieties) not being promptly detected in the normal course of business.

Weaknesses in policy management, information management, and resource management further compound the problems in fiscal management. The significance of these weaknesses is as follows:

- They severely limit the University's ability to safeguard assets and maximize the effective use of available resources.
- They degrade the quality of information available for executive decision-making.
- They may have a long-term, negative impact on student recruitment and retention.
- They may negatively impact the University's ability to achieve its mission and goals.

The lack of adequate controls and procedures over the management of the University's resources has created current control and operating problems; it also creates (1) a risk of reduced federal funding for financial aid programs, (2) loss or misuse of University resources, and (3) inadequate resources to ensure fulfillment of the University's mission and goals. During the course of our audit, we identified ineffective management of University resources in the following areas:

- Cash involving:
    - Reconciliations
    - Receivables
    - Gift checks to the University
    - Questionable payments
- Fixed Assets

Specific details of each of the above-mentioned areas are outlined below.

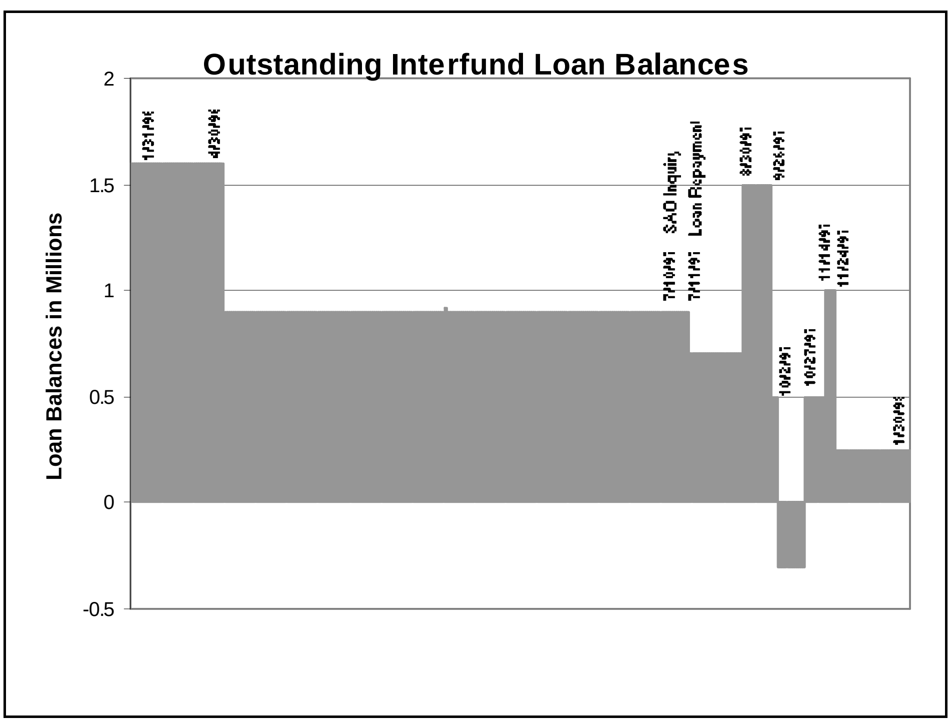
Section 1-A:

The University Has Demonstrated Ineffective Management of Cash

The University has demonstrated ineffective management of cash by failing to coordinate federal drawdowns with related expenditures and by failing to process federal financial aid awards on a timely basis. This has led to the long-term use of University funds to subsidize federal financial aid awards pending reimbursement from the Department of Education and to underwrite an excessive number of emergency loans to students awaiting processing of their financial aid packages. In using the University's funds for these purposes management has foregone opportunities to fund other needed activities or to earn interest on the monies used in this manner.

- Beginning with a loan of $1.6 million on January 31, 1996, the University's Designated Funds have been used to support expenditures from, and cover cash deficits in, the University's Department of Education (DOE) account on an ongoing basis. The initial loan in January 1996 was made in the absence of any specific plan for repayment, and with the exception of a 25-day period in October 1997, the Department of Education account has continually carried an outstanding loan balance due to Designated Funds for two years. The average outstanding balance during this period was $880,369. A graph depicting the history of the outstanding loan balance appears at Figure 1.

  University policy states that interfund loans are payable within one year. The initial loan in January 1996, however, continued to carry an outstanding balance for 19 months. Beginning with the end of fiscal year 1997 management has alternately "repaid" outstanding loans and issued "new" loans with the result that the University's DOE account has in substance carried a continuing obligation to Designated Funds for the two-year period cited above. We have observed "repayment" of loan balances from the



DOE account at times when the account carried a deficit cash balance, indicating that these were merely accounting transactions, and not true repayments.

Even with continued underwriting from Designated Funds, our reviews of the DOE account have identified deficit balances. For example:

- As of August 31, 1996, the DOE account carried a cash deficit of $1,124,312 despite an outstanding loan of $900,000 from Designated Funds.

- On November 14, 1997, the DOE account reflected a cash deficit of $442,116, an obligation to Designated Funds in the amount of $500,000, and a fund balance deficit with liabilities exceeding assets by $861,611. Later that day an additional loan of $500,000 was made to cover the cash deficit. Subsequent to this loan the account reflected an obligation to Designated Funds in the amount of $1 million.

- As of December 1, 1997, the account carried a cash deficit of $4,748 and an obligation to Designated Funds in the amount of $250,000. Total liabilities exceeded assets by $922,705.

- As of December 11, 1997, the account carried a cash deficit of $86,644 and an obligation to Designated Funds in the amount of $250,000. Total account liabilities exceeded assets by $684,837.

- As of January 30, 1998, the DOE account reflected an obligation to Designated Funds in the amount of $250,000 and a deficit fund balance. Liabilities exceeded total assets by $435,241. According to management, the deficit fund balance resulted from not having posted receivables relating to Spring 1998 awards.

• The failure to process students' financial aid in a timely manner has forced management to tie up University funds in the financing of an increasing number of emergency loans to students awaiting receipt of their aid. According to a report produced in July 1997, the University issued 3,035 emergency loans to 2,266 students (approximately 27 percent of the student body) during the previous 11 months. In many instances students received two and three loans during this period.

Due to the increasing demand for emergency loans, management placed a cap on them beginning with the Fall 1997 semester. Emergency loans were limited to an amount equal to 50 percent of a student's tuition and fees, the minimal amount sufficient to allow students to make a first payment and enroll under the installment payment plan. In capping emergency loans at this level, no provision was made for the cost of books, rent, food, or other living expenses the students' financial aid packages are intended to cover, with students left to make up the difference pending the receipt of their financial aid. According to correspondence from management, the backlog for processing students' aid packages was not eliminated until the end of the ninth week of classes.

A report obtained in October 1997 indicated that as of September 25, 1997, one month into the Fall 1997 semester, the University had already issued 1,506 loans totaling $652,378 to 1,441 students (nearly 18 percent of the student body). Again, some students had already received multiple loans by this time.

Both of the reports cited above indicated that all emergency loans were charged to the University's Texas Public Education Grant (TPEG) loan accounts. By law, a certain portion of the University's tuition collections are to be set aside to fund need-based grants and short-term emergency loans to students. Management has acknowledged that the University has awarded loans in excess of statutorily authorized limits based on the University's TPEG set asides from tuition collections.

Recommendation:

Management should coordinate its drawdowns of federal funds from the Department of Education with related expenditures in order to minimize the need to support federal programs with University monies. Additionally, the Internal Audit Department should perform adequate follow-up work to assure the executive management team that the applicable departments are coordinating their efforts to minimize the use of University funds to support federal activities.

Management's Response:

Readers should note that the cash management problems noted above relate exclusively to the financial aid problems mentioned later in this report. As conditions in the Financial Aid Office continue to improve, these cash management problems will dissipate.

Management concurs with the recommendation, and as of this date, has substantially improved its performance in this area. On August 11, 1997, the Financial Aid Office was transferred to the Division of the Vice President for Finance and Operations. Timely reimbursement from the Department of Education was identified as a primary target for improvement. Through development and application of existing system resources, the balance of borrowing from the designated fund declined from $1,600,000 in January 1996 (cited in the above audit comment) to $250,000 in January of 1998. Management will request that Internal Audit add this area to its FY 99 audit plan for follow up.

Auditor's Follow-Up Comment:

Cash management issues at the University are not limited exclusively to the problems related to financial aid—the DOE account is used for other programs in addition to financial aid—nor are they limited to problems with the DOE account, although the issues noted above are among the most visible symptoms. As discussed in later sections of this report, management has not adequately accounted for cash, nor has management managed the University's receivables in such a manner so as to ensure the maximization of cash flow. We have also noted instances in which checks made payable to the University were handled inappropriately and instances in which University funds were used for questionable expenditures.

It should also be noted that although the University's DOE account currently only owes $250,000 to the University's Designated Funds, the account may also owe Lamar University Institute of Technology (LUIT) as much as $932,000. Therefore, it appears that the funding burden has simply been shifted to another source. If management were to pay LUIT the amount owed, Designated Funds or some other source would be required to assume the ongoing financial burden relating to the DOE account. Given this observation, and given the difficulties involved in attempting to determine the true financial position of the DOE account due to management's failure to post receivables and revenues timely, we are skeptical as to whether improvements in the Financial Aid Office will in themselves be sufficient to stabilize the DOE account's financial position.

Recommendation:

Management should improve the timeliness of its processing of student financial aid packages to eliminate the need for the wholesale issuance of emergency loans.

Management's Response:

Subsequent to the transfer of the Financial Aid Office referenced above, a primary emphasis was put on getting the automated processing software to function as intended so that aid could be processed on a timely basis. A consultant was hired to review and reset all the initial parameters, and the system became fully functional in October of 1997. As evidence of this ability to process aid on a more timely basis, short term or "emergency" loans have decreased from $652,000 and 1506 loans in the fall of 1997, to approximately $347,000 and 824 loans for the spring of 1998. Management considers this improvement the critical indicator of success in managing institutional funds, as well as overall efficiency in financial aid processing.

Auditor's Follow-Up Comment:

An increase or decrease in the number of emergency loans processed does not have any direct relation to key functions associated with financial aid processing, nor does it necessarily indicate effective management of institutional funds.

Various Reconciliations Were Not Timely or Complete, Nor Did They Contain Evidence of Supervisory Review

Fiscal year 1997 account reconciliations were not prepared on a timely basis; nor were they completely reconciled with no *unreconcilable* differences; nor was there evidence of adequate supervisory review. These reconciliations related to the following areas:

- Bank accounts
- Payroll withholding accounts
- Tuition deposits submitted to the State Treasury

Additionally, detailed, written procedures were not available for bank account reconciliations. Without detailed, written procedures; adequate supervisory review; or timely reconciliations of bank accounts, there is a greater risk that the following may occur:

- Errors and irregularities will not be detected in a timely manner.
- Appropriate adjustments to the accounting records will not be made promptly.
- The resulting accounting records and reports will be inaccurate.

Details of problems with the various reconciliations are outlined below:

- Bank Account Reconciliations

  The two major bank accounts for the University are bank account 75 (Current and Federal Funds Account) and bank account 95 (Payroll Account). Collectively, these two accounts had approximately $270 million in transactions processed through them in fiscal year 1997. For the two major bank accounts, we identified the following problems:

  - Bank Account 75

    - For 8 of 12 months this account reconciliation showed three large reconciling items totaling $2.1 million and numerous others that were not cleared.

    - For 7 of 12 months this account reconciliation showed negative reconciled balances ranging from $99,746 to $381,589.

- For 11 of 12 months this account reconciliation showed *unreconciled* differences ranging from $147 to $1,061.

- For 11 of 12 months this account reconciliation did not have any evidence of supervisory review.

- For 10 of 12 months this account reconciliation was not dated, as a result, the timeliness of the reconciliations could not be determined.

▸ Bank Account 95

- For 9 of 12 months this account reconciliation showed three large reconciling items totaling $2.1 million and numerous others that were not cleared.

- For 11 of 12 months this account reconciliation showed *unreconciled* differences ranging from $4,859 to $11,593

- For 11 of 12 months this account reconciliation did not have any evidence of supervisory review.

• Payroll Withholding Accounts

The University processes payrolls for all four Lamar University campuses. These payrolls totaled approximately $61 million for fiscal year 1997. The University does not require payroll withholding accounts to be reconciled. Without timely reconciliations of all payroll withholding accounts the University is at risk of the following:

- Fraud, theft, and/or misuse of University funds through undetected manipulations of the payroll systems

- Unintentional material payroll errors (resulting from normal payroll operations) going undetected

- Material errors in the University's accounting records not being detected and corrected in a timely manner.

- Material errors in payments to benefit providers and/or the Internal Revenue Service not being detected and corrected in a timely manner.

In direct relation to errors in payments to benefit providers, as of May 1997, the Employee Retirement System of Texas (ERS) has frozen $328,811 in overpayments. These overpayments have continued uncorrected since fiscal year 1996. Per management, the University is currently working with the Port Arthur, Orange, and LUIT campuses to resolve this situation as ERS will not release any funds until all Lamar University components are reconciled.

- <u>Tuition Deposits to the State Treasury</u>

  When comparing fiscal year 1997 tuition collections from Uniform Statewide Accounting System (USAS) records to the University's *Annual Financial Report* (AFR), it initially appeared the University was short $1.9 million in submissions to the State Treasury. This significant difference was later determined to be the result of incorrect appropriation years entered on the University's deposit vouchers for fall deferred tuition revenues.

  Timely and accurate reconciliations of the University's financial records to its USAS local fund account would have detected these errors. Inconsistent data does not allow for accurate decision-making by executive management. Additionally, inconsistent information like this makes it very difficult for external officials, who rely on USAS and AFR data, to perform oversight and evaluation functions effectively. According to management, the University has resolved this issue.

<u>Recommendation</u>:

All reconciliations should be completed on a monthly basis.

<u>Management's Response</u>:

Noted and addressed in the Human Resources section of this report, is the fact that a significant and essentially uncontrollable turnover in personnel was experienced by the Finance Office during 1996. This necessitated the hiring of accountants that were experienced in industry, but inexperienced in state higher education practices. Because of the needed learning curve, the office's productivity declined for 1996 to 1997. However, since the late spring of 1997, these individuals have become productive, and have aided in eliminating the Finance backlog.

Management agrees. Reconciliations have been prepared on a timely basis since the late spring of 1997.

<u>Auditor's Follow-Up Comment</u>:

Management's response does not address the timeliness of tuition deposit reconciliations or payroll withholding account reconciliations.

<u>Recommendation</u>:

All reconciliations should be completed to the extent that there are no *unreconciled* differences.

Management's Response:

Management agrees. The small but troublesome unreconciled balances have been eliminated in all FY 98 reconciliations.

Auditor's Follow-Up Comment:

We do not consider unreconciled and uninvestigated differences in the range of $10,000 to be a minor issue.

Recommendation:

All reconciling items should be researched and corrected on a timely basis.

Management's Response:

Management agrees. Reconciling items are current, and are now being cleared on a timely basis.

Recommendation:

All reconciliations should be signed and dated by the person completing the reconciliation, and they should be signed and dated by supervisory personnel after their review to provide documentation of supervisory review.

Management's Response:

Management agrees and is currently in compliance.

Recommendation:

Detailed, written procedures should be developed and communicated to the applicable employees responsible for the reconciliations.

Management's Response:

Management agrees. Detailed written procedures are currently under development and will be completed by the end of March, 1998.

Recommendation:

Backup personnel should be cross-trained to perform the reconciliations in the event that the primary person responsible for the reconciliations is not able to do so on a timely basis.

<u>Management's Response</u>:

Management agrees, and will develop a cross training program. Also, the Finance Office will be adding a Director of Accounting to its staff. This person will function as backup to all the accounting positions when needed.

<u>Recommendation</u>:

Internal Audit should perform follow-up work to assure the executive management team that reconciliations are timely, complete, and contain documentation of supervisory review and that the ERS problem has been corrected. Additionally, Internal Audit should verify that fiscal year 1998 tuition deposits to the State Treasury have been reconciled.

<u>Management's Response</u>:

Management will request that Internal Audit add this area to its FY 99 audit plan.

The University's Receivables Have Not Been Managed Effectively

The University has not effectively managed its receivables. As a result, the University has not maximized the collection of all available receivables, nor has it accurately valued receivable assets in the University's accounting records and AFRs. Additionally, the University has lost opportunity revenues associated with the untimely billings and collections of these receivables, and in some cases has suffered actual losses from the failure to obtain timely reimbursement for federal expenditures underwritten with University funds.

We are unable to attest to the true value of the University's receivable accounts due to the following:

- Approximately $1.7 million in student receivable accounts (48 percent of total student receivables) are over one year old, with $1.1 million of this amount four years old or older. Management has agreed that collection of these receivables is unlikely, and has represented that they were not included in the fiscal year 1997 AFR. According to management, these accounts have been kept on the books for reference in the event that students with delinquent accounts return to the University. However, there are other means of tracking delinquent accounts. Management's failure to write off these accounts has led to overstatement of the University's receivables balances, total assets, and related fund balances on its balance sheets for the years in which these receivables were included, and could provide users of its financial reports with a misleading picture of the University's true financial position.

- The Student Information System was found to contain approximately $478,000 in receivables that were not related to students and at least $256,000 that were found to be no longer valid.

- According to information provided by management in August 1997, at that time the University was carrying $536,582 in receivables on its books relating to Pell Grants awarded to students using University funds for which federal reimbursement had not been collected. Of this amount, $116,370 related to Pell Grants awarded prior to fiscal year 1997 for which the cutoff dates for reimbursement had passed. The remaining $420,212 related to fiscal year 1997 Pell Grant awards.

  At that time the University also carried another federal receivable totaling $160,782.23. There had been no activity in this account for over a year, and management indicated that it should be written off.

  We were later provided with documentation indicating that management had written off at least $452,857 in federal receivables in conjunction with the preparation of the fiscal year 1997 AFR. This represents a loss to the University resulting from the use of University funds to underwrite federal expenditures followed by the failure to obtain timely reimbursement for these expenditures.

- The University failed to prepare complete and timely reconciliations of all receivable accounts to the University's official accounting records (General Ledger) as a required monthly task. Without timely reconciliations of receivable accounts the University is at risk of the following:

  - Material errors and/or improprieties involving receivable accounts could occur and go undetected.

  - Unbooked receivables can and did occur, resulting in untimely collection of receivables and misstatements in the University's accounting records.

  - Untimely billings can and did occur, which again resulted in untimely collections of receivables.

  It is standard practice for agencies to prepare receivable account reconciliations on a monthly basis. In response to our requests, the University provided two copies of a reconciliation of its Billing Receivable (BR) accounts in its student information system to the corresponding Financial Records System accounts in the University's accounting records as of September 26, 1997. Through its continuing reconciliation process, management has reduced "unreconciled differences" from $308,439 to $21,448 as of December 10, 1997.

- Several receivable accounts had credit balances, some of which related to fiscal years 1995 and 1996.

- During conversion from the University's old Honeywell system to the new Financial Records System, the University failed to reconcile receivable data, apply appropriate testing, or run parallel systems during conversion in order to ensure the accuracy of data in the new system. For example, in one instance $144,000 in tuition receivables was carried over to the new system without sufficient support or reconciliation of accounts, and remained on the books at the time of our review. In another instance, student housing receivable accounts totaling $184,034 were "dumped" into the auxiliary/housing fund balance account at conversion, with the result that related revenues were not recognized for at least six months. We have not yet been provided support for the University's receivable balances at a level of detail sufficient to allow us to determine whether there may be other such balances currently on the University's books.

- Management failed to post receivables relating to the University's federal programs in a timely manner, resulting in misleading information in the accounting system. Management attributed a $682,000 fund balance deficit in the University's Department of Education account at October 31, 1997, to not having yet posted over $800,000 in federal receivables. These items appear not to have been posted to the account for another month after we brought the issue to management's attention. As a result, anyone not having additional knowledge would not be able to assess the true financial position of the account simply by a review of its recorded balances.

- The University failed to adjust its allowances for doubtful accounts periodically in order to accurately value receivable accounts in the University's accounting records. In fiscal years 1994 through 1996, the University used the same amounts in all of its allowances for doubtful accounts. As a result, AFRs for these years may not reflect accurate receivable balances for the applicable accounts.

Other examples of ineffective management of University receivables include the following:

- The University failed to prepare aging reports for all receivable accounts. We repeatedly requested copies of aging reports for all University receivable accounts. While many agencies prepare these on a monthly basis in conjunction with collection efforts and for management decision-making, the only aging reports with which we were provided related to student accounts in the Student Information System (SIS). The University did not provide aging reports for other receivables, including federal receivables which total over $1 million. By not using aging reports for all receivables on a periodic basis, the University is at risk of not collecting all funds due it on a timely basis. Additionally, the University may not be using effective cash management practices if it is not billing and receiving payments for all receivable accounts on a timely basis.

- In several instances the University did not bill the Lamar University Foundation (Foundation) on a timely basis. In early 1996, the University and the Foundation became involved in a dispute over alleged lost interest of $12,127 relating to the construction of an addition to the Dishman Art Gallery. The dispute was prompted by the issuance of an Internal Audit report stating that the University had lost interest due to the untimely transfer of private donations from the Foundation to the University for the project. Our review of related documents suggests that there was an understanding that the Foundation would make payment upon receipt of billings from the University, and that the University's Physical Plant did not bill the Foundation in a timely manner. Ultimately the Foundation requested a billing in July 1994. Upon receipt of this billing and supporting contractor invoices the following month, the Foundation transferred $307,902 to the University.

  The Foundation eventually made a payment to the University for the additional disputed amount; however, minutes from the Foundation's executive committee meeting of January 21, 1997, reflect the position that this was a contribution, and not a payment in satisfaction of an existing obligation. It appears to us that this dispute could have been avoided entirely had the University billed the Foundation in a timely manner.

  The University has also been late with other billings to the Foundation. At the same Foundation executive committee meeting in January 1997, the Foundation requested that the University's President facilitate the Fall 1996 semester's scholarship billing, after having already attempted to obtain assistance from the University's Finance Office. The University finally billed the Foundation for both Fall 1996 and Spring 1997 scholarships totaling $204,874 in March and April of 1997.

- The University failed to provide detailed written procedures for various job functions involving receivables. The absence of written procedures increases the risk that job functions will be performed inconsistently and with less quality and accountability by staff.

Recommendation:

Management should develop accurate and timely aging reports for all University receivables and use them to manage receivables more effectively. Management should consider writing off any receivables that appear to be uncollectible or that are over one year old. Management should write off all receivables which are no longer being reported.

Management's Response:

While management recognizes the need for improved procedures in this area, management does not agree that collection of student account receivables has been ineffective. The management of student accounts receivable is conducted through the Student Information System (SIS). SIS maintains highly reliable and accurate charge and payment records for each student enrolled in the University. Recent enrollment audits conducted by the State Auditor's Office, which test both student enrollment and billing information, were concluded without any need to expand the initial sample. Expansion of the initial sample size is required if error rates exceed acceptable levels. Management is confident that student billing and collection activities are performed timely, efficiently, and accurately. This is evidenced by a 99% collection rate during the period from Spring, 1995 through Summer of 1996.

Management understands the intent of this comment, but believes that the problem has not been correctly stated. In order to understand the nature of this issue, some historical perspective is needed. The old Honeywell system that Lamar used prior to September 1, 1994 was not an accrual system. Under this system, student receivables were recognized as revenue only when they were collected. In order to have accrual based accounting statements, at year end a review was made of all the outstanding student accounts. A determination was made as to what amount might be collectible, and the accounts receivable balance on the general ledger was either written up or written down as needed. When all the old outstanding student accounts, which totaled approximately $1.5 million, were converted to the new accrual system, the conversion team needed to find a way to move these items to SIS without impacting the general ledger. When these receivables were converted, they were debited and credited simultaneously to the same general ledger account, so that they would have no impact on the balance sheet. Since the conversion, student accounts have been handled on an accrual basis, which means that the revenue is recognized when the charge is put on the student's account. Year end adjustments to the student account receivables balances have gone through the appropriate write off process, and revenue has been reduced accordingly.

Thus, only those receivables that make up the balances that appear on the annual financial report at August 31, 1997 are still considered collectible. The remaining receivables on SIS have been written off, even though they continue to appear in SIS. Management retains these accounts in SIS so that returning students can promptly be advised of their outstanding debts. Deleting these receivables from SIS would result in a degradation of customer service, and might jeopardize the collection of these accounts from returning students. Management agrees that the subsidiary ledger maintained in SIS should balance to the general ledger. Management will develop a flag in SIS to identify written off accounts, so that they can be eliminated from management reports of outstanding receivables.

Management will also develop appropriate reporting procedures to monitor the aging of non-student receivables

Auditor's Follow-Up Comment:

Management contends that its collection of student accounts receivable has been effective. However, the analyses provided by management have been limited to tuition and fee collections. Tuition and fees are only one component of student receivables, and even management's claimed 99 percent rate of "collections" in this area has been underwritten in part by loans from other University funds.

Management's response did not address receivables related to student loans, the reported net amount of which totaled over $1.6 million at August 31 1997. From a review of the University's AFR for fiscal year 1997, it would appear that management has deemed $998,000 in student loans (nearly 38 percent of total student loans) uncollectible. It is our understanding that the University has been on provisional status with the Department of Education since the Summer of 1997 due to an unacceptably high default rate on its federal student loans.

We have already commented above on $1.7 million in student receivables which are likely not collectible. If, as management states, these receivables were not included in the University's AFR they would represent one more instance in which management's collection efforts relative to student receivables have not been effective.

Management's response did not address the collection of other receivables, including federal receivables which reportedly totaled over $1 million at August 31, 1997, and receivables from other components which reportedly totaled over $845,000 at August 31, 1997. As noted above, we have not seen any evidence that management has performed any aging analyses on these or other non-student receivables; moreover, although management has the capability to produce aging reports for student receivables we have seen no evidence that these are actually used by management to monitor and manage the collection process. We remain skeptical, as the only analyses of collectibility we have been provided to date appear to have been prepared in direct response to our inquiry; we have yet to see any analyses of collectibility prepared and used to manage during the period under review.

In response to the "conversion" of old, outstanding receivables from the old system to SIS, "debiting and crediting the same general ledger account simultaneously so that the accounts would have no impact on the general ledger" is not an acceptable method (per the National Association of College and University Business Offices [NACUBO] or generally accepted accounting principles [GAAP]) of recording these transactions. Additionally, management does not appear to understand that as long as these accounts appear in the subsidiary ledger (SIS), they are not “written off” from an accounting or auditing viewpoint.

Recommendation:

The University should reconcile all receivable accounts to the University’s official accounting records on a monthly basis. These reconciliations should be adequately documented with the preparer’s signature and date and should be reviewed by supervisory personnel. The person providing the supervisory review should document his or her review with a signature and date.

Management’s Response:

Management concurs. The changes in the system outlined above are acceptable and will be implemented in 1998.

Recommendation:

Copies of all reconciliations should be filed and available for review by management, Internal Audit, and oversight agencies.

Management’s Response:

Management concurs, and will comply as soon as the system changes referenced above have been implemented.

Recommendation:

All receivable credit balances should be researched and corrected as soon as possible. Additionally, all differences on the reconciliations should be researched, and corrections should be made to the applicable records on a timely basis.

Management’s Response:

Management concurs, and will research and take corrective action regarding these credit balances by August, 1998. Reconciliation differences will be researched as they occur, and corrections will be made on a timely basis.

Recommendation:

Management should ensure that all billings to the Foundation and other outside parties are submitted on a timely basis. This will minimize the extent to which University funds are used to underwrite related activities and minimize the possibility of future disputes.

Management's Response:

Management concurs. Billings to the Foundation for the fall semester will be made by November 1st in the future, and billings to the Foundation for the spring semester will be accomplished by March 1st. Other outside parties will be billed according to established agreements.

Recommendation:

All allowances for doubtful accounts should be adjusted annually to reflect the true collectibility of the applicable receivables.

Management's Response:

Management concurs. The allowance will be reviewed annually as part of the annual financial report preparation process.

Recommendation:

Detailed, written procedures should be developed and communicated to the employees responsible for reconciliations.

Management's Response:

Management concurs. Written procedures will be developed as soon as the system changes referenced above are implemented.

Management Handled Gift Checks Inappropriately

University management failed to monitor and enforce compliance with the Texas State University System (TSUS) rules and regulations regarding the handling of gift checks made payable to the University. Between February and May of 1997, 84 checks, made payable to the University and totaling $43,850, were endorsed and transmitted to the Foundation in the absence of either written approval by the donors or approval by the TSUS Board of Regents.

TSUS Rules and Regulations, Chapter IX, Section 4.2, states that

> No gift funds or property received by the System or a component institution may be remitted to a private support organization unless such transfer of funds is approved in writing by the donor and the Board of Regents.

Correspondence in October 1995 indicates that management was notified of this requirement; however, management has on multiple occasions endorsed gift checks made payable to the University and conveyed them to the Lamar University Foundation without obtaining the required approvals:

- On February 14, 1997, 78 checks totaling $37,200 were conveyed to the Foundation. The accompanying transmittal document indicates that all checks were endorsed for the University by the Bursar.

- In April 1997 three checks totaling $5,500 were conveyed to the Foundation. Copies of the checks indicate that they were endorsed for the University by the Assistant Vice President for Finance.

- In May 1997 three checks totaling $1,150 were conveyed to the Foundation. Copies of the checks indicate that they were endorsed for the University by an accountant in the Finance Office.

Management has provided copies of correspondence indicating that in some instances donors were notified after the fact that their gifts had been placed in the Foundation. However, such notification does not appear to satisfy TSUS requirements for the handling of gifts, and we have seen no evidence that University management ever took these transfers to the TSUS Board of Regents for approval, as required.

Recommendation:

Management should implement procedures to ensure that gifts to the University are handled in accordance with applicable TSUS rules and regulations and the written instructions of donors. Internal Audit should monitor the University's handling of gifts to ensure compliance. University management should confer with the TSUS Office and its Board of Regents to develop an appropriate remedy for the situations noted above.

Management's Response:

Management is currently returning any check which has not been made payable to the appropriate party (Lamar University or the Foundation) to the donor, and requesting a corrected check. The Foundation will return the funds in question to Lamar University. Management will request that Internal Audit include this audit area in its FY 99 audit plan.

Certain Payments Suggest a Need for More Oversight

During our work we identified four payments processed by the University (totaling $13,855) the nature and circumstances of which suggest a need for greater oversight of certain activities. Specific details of these payments are as follows:

- Two payments were related to outside activities associated with a Superintendent's Academy workshop in New York. In November 1996

$3,505 was paid to reimburse the Director of the Academy for the cost of play tickets for 47 people and a trip to the Empire State Building for 23 people.

In December 1996 $350 was paid to reimburse the Director for the cost of a tour guide while in New York. The document establishing the restricted account from which these payments were made states that funds will be expended for "activities, salaries, fees and supplies, equipment, etc. necessary to conduct conferences, workshops, and similar activities." We question the necessity of these activities to the conduct of the workshop in question. University management disagrees with our interpretation of the account description.

- Two other payments of $5,000 each were made to a company owned by the Head Basketball Coach for a third party's advertising expenses. In June 1994 a donor made a gift of $25,000 to the University. The gift and donation form for this gift stipulated that $20,000 of the gift was to be placed in an account to support the men's basketball program, with the remaining $5,000 to be placed in a restricted account established to reimburse the previous head basketball coach's personal expenses. Subsequently, in October 1994, a payment of $5,000 was made from a University account to the current Coach's company in payment of the donor's advertising expenses on the Coach's television show.

  In 1996 the donor made a second gift of $25,000 to the University. The gift and donation form accompanying this gift stipulated that $20,000 of the amount was to be placed in an account to support the men's basketball program, with the remaining $5,000 to be placed in an account to support the men's basketball camp. In September 1996, a second $5,000 payment was made from another University account to the Coach's company, again to pay for the donor's advertising expenses on the Coach's show.

  Neither of these $5,000 payments to the Coach's company involved University business. By approving these payments, management allowed the University to be used for the conduct of private business.

  Additionally, the second gift of $25,000 was received after the University became part of TSUS. As such, this gift was subject to approval by the Board. *TSUS Rules and Regulations*, Chapter III, paragraph 1.73, states that "A report on all gifts with a value of at least $5,000 (including gifts of cash and personal property) shall be submitted to the Board" for approval. We determined through discussion with TSUS officials that the second gift of $25,000 was not reported to the Board.

Management has a fiduciary responsibility to ensure that funds entrusted to its care are used only for intended purposes, and to ensure that financial transactions are handled as prescribed by the University's oversight body. Additionally, it is inappropriate to allow the University to be used for the conduct of business in which the University has no direct interest. Failure to adequately fulfill its fiduciary responsibilities may expose management to potential liability, and could lead to a reduction in future donations and gifts.

Recommendation:

Management should ensure that all payments processed by the University are for official University business, and that payments comply with the intent for which related accounts have been established.

Management's Response:

As indicated above, management does not agree with the State Auditor's interpretation of the stated purpose of the restricted account used to purchase the play and tour tickets. It was not our intention that the word "necessary" be interpreted as "essential". These team building activities are an important part of the Superintendent's Academy, as superintendents in general tend to be isolated in their positions, and lack contacts with whom they can share problems/solutions. Funds to purchase these tickets were generated by activities of the faculty member involved, and placed into the account for funding such expenditures. In the future, participants in the Academy will be personally responsible for the costs associated with these activities.

With regard to the payments to the basketball coach's company, Lamar University has a contract with KJAC-TV to produce this show. The show promotes Lamar University's basketball program.

Auditor's Follow-Up Comment:

We were provided invoices which indicate that the Head Basketball Coach's company billed the donor for the $5,000 payments cited above. From all appearances the University was not a party to these transactions.

Recommendation:

Management should comply with all TSUS rules and regulations governing gifts to the University.

Management's Response:

Management will review all donations to Athletics since the merger with the TSUS system to ensure that no other donations have been overlooked. A procedure currently exists for Athletics to report donations to Institutional Advancement, which prepares the report for the TSUS Board.

Section 1-B:

The University's Fixed Assets Have Not Been Managed Effectively

Ineffective management of the University's fixed assets resulted in the Internal Audit Department's (Internal Audit) inability to locate 15 percent of a sample of 170 personal property items. Internal Audit's report, issued in April 1997, noted that as of August 31, 1996, the carrying value of the University's property and equipment exceeded $32 million. (This work was performed at our request in preparation for this audit. Internal Audit appropriately obtained Board approval for this deviation from its annual audit plan.) Other related issues identified by Internal Audit include a failure to establish written policies or to enforce existing inventory policies designed to accurately account for and document true departmental inventories, and to safeguard University property from loss, theft, and abuse. Specifically:

- There were no procedures requiring departments to submit missing or stolen property reports to the Attorney General and State Auditor immediately in the event of fraud or theft, or where there is reasonable cause to believe that loss, destruction, or damage of personal property resulted from custodial negligence, as required by statute. Seventy percent of the information submitted was determined not to have been submitted in a timely manner. Reports were not filed for 44 percent of the stolen property per University records. According to these records, missing or stolen items included computers, printers, scanners, video cameras, televisions, typewriters, and a boat motor.

- There were no procedures requiring University employees and students borrowing property to sign for it. Property on loan to employees or students was not always found to be supported by proper documentation, including one instance in which a camera valued at approximately $1,000 was loaned to a student. One department was found to routinely loan equipment to students without written documentation and authorization.

  The *State Property Accounting Policy and Procedures Manual* states that "property checked out to employees must be used for state purposes only." Additionally, TSUS policy prohibits the use of equipment belonging to it or its components by faculty in connection with outside remunerative activities; however, at the time of our review the University had no corresponding policy.

In addition, the following areas of noncompliance with existing policies and procedures were noted in Internal Audit's report:

- For the fiscal year ended August 31, 1996, 14 of 36 departments failed to return annual inventory certification sheets to property management in a timely manner. Four of the 36 departments turned in certification sheets but intentionally did not sign inventory forms as required. Additionally, 12 departments, acting on instructions from a vice president, failed to turn in annual inventory certification sheets or to sign inventory forms.

- Many instances of noncompliance were found with physical inventory requirements relating to the evaluation of the condition of property and the performance of physical inventory procedures by teams of at least two individuals.

- Of 534 surplus item deletions reviewed, 70 items (13 percent) were not supported by proper documentation and could not be traced to surplus sales. In the absence of adequate support for property deletions, management has no assurance that property items are not being written off and either kept for personal use or sold for personal gain.

The lack of adequate controls over fixed assets creates a risk that University assets may not be adequately safeguarded against loss, theft, and/or misuse.

Recommendation:

Management should review and evaluate its current policies, procedures, and monitoring mechanisms. It should make additions and revisions where necessary, in order to ensure compliance with State Property Accounting System policies and procedures and with TSUS rules and regulations regarding the safeguarding and accounting for property.

Management's Response:

A property management section has been added to the new Finance Policies and Procedures Manual, which will be issued in FY 98. During December of 1997 and January of 1998, all property custodians were required to attend training on state property reporting requirements. Management is already seeing results from these sessions, in the form of more timely reporting of property transfers. Management will focus more attention to having supervisors submit reports on a timely basis in the future.

Recommendation:

Property and equipment should be inventoried regularly. Property and equipment, property records, general ledger accounts, and the State Property Accounting System should be reconciled regularly. Timely and well-documented adjustments should be prepared based on the result of inventories and reconciliations. Property records should be maintained with sufficient care so as to allow property items to be readily located.

Management's Response:

The University has regularly conducted annual inventories, but, as Internal Audit noted in their report, departments have not always been timely or thorough in the completion of these inventories. All property custodians have *now been briefed on the importance of completing the annual inventory on a timely basis, and in a thorough manner. Management will require that all inventories be submitted on a timely basis. The Property Manager will report to management all departments not complying. The Assistant Vice President for Finance will oversee the annual reconciliation of the property records to the general ledger and the State Property Accounting System.*

Auditor's Follow-Up Comment:

While this is a positive response to the issue, it does not address the State Property Accounting System requirement that internal property records be reconciled to the State Property Accounting System on a quarterly, and not an annual, basis.

Recommendation:

Property items should only be loaned to employees or students for the conduct of legitimate University business, and only with appropriate authorization and adequate documentation.

Management's Response:

Forms and procedures for the loan of university equipment are included in the property manual referenced above. Property custodians have been briefed on the importance of observing these procedures.

Recommendation:

Surplus property deletions should be adequately documented and traceable to the ultimate disposition of these items. Lost or stolen property should be reported to the appropriate authorities immediately upon discovery.

Management's Response:

Forms and procedures for surplus property deletions and lost or stolen property are included in the property manual referenced above. Property custodians have been briefed on the importance of observing these procedures.

Recommendation:

Internal Audit should continue to monitor both the issues identified here and additional issues noted in its report until such time as all issues are satisfactorily addressed by management.

Management's Response:

Management will request that Internal Audit include this area for follow up in its FY 99 audit plan.

Section 2:

The University Should Improve Information Systems

In an April 1994 follow-up report (*Follow-Up on the Management Control Audit of the Lamar University System*, SAO Report No. 94-099), we noted that the University was placing a great deal of reliance on the potential of the new automated Financial Records System (FRS) to remedy longstanding problems involving the availability and accuracy of management information. With the advent of FRS and other new systems, information has generally become more readily available to users. However, due to the manner in which the implementation of these systems was conducted and the failure to adequately maintain accounts, problems continue to persist relating to the accuracy of information used to support decision-making.

In general, the University's information systems do not provide quality information in support of executive management decision-making. Root causes include the lack of detailed policies and procedures, ineffectiveness or lack of adequate review procedures, and a general lack of control in the fiscal components that drive the information systems. Key issues and impacts revealed during this audit are as follows:

- The University did not establish adequate guidelines for project management of its new system implementations and system upgrades as evidenced in the following:
  - Testing or parallel processing of new and old systems was not adequate to ensure the systems were working as intended as well as ensure the accuracy of the data.
  - Documented reconciliations of data from old to new systems, which would ensure the accuracy and completeness of data, were not performed in the following systems:
    - Financial Records System (FRS) - As noted in Section 1-A, account balances were dumped into the FRS during conversion from the old Honeywell system without adequate support.
    - Student Information System (SIS) - Upon receiving the first of several receivable aging analyses prepared at our request from the SIS, we noted a receivable in the amount of $256,068 listed as due from the Lamar University Foundation. Further investigation revealed that this was no longer a valid receivable. Management indicated that payment had been

received and recorded in the FRS, but this information had not been communicated to SIS.

Correspondence from the Assistant Vice President for Finance in October 1997 indicates that during the implementation of SIS management's primary concern was to see that transactions handled by the new system were being properly recorded. As a result, receivable balances were not reconciled between FRS and SIS, which would have identified problems with the interface between these systems. The same memo also indicates that SIS contains balances which were carried over in the conversion from the University's old Honeywell system, but which were not carried over to FRS.

We also noted numerous other receivables on the first aging analysis that were not true student receivables, including receivables from various University components, organizations, staff, and outside parties. Management indicated that this was the result of an attempt to use the SIS to track and manage additional receivables for which it was not designed. We noted a decrease of approximately $478,000 in receivables between the first and subsequent aging reports which resulted from management's removal of the majority of non-student receivable accounts in preparing the later reports.

- Human Resources System (HRS) - No reconciliations were performed in conjunction with implementation of the HRS, which went online on September 1, 1995, and related bank reconciliations were subsequently not performed until May of 1997. During this period, a problem with the feed between the two systems caused payroll expenses to become increasingly overstated, and cash balances increasingly understated, by approximately $10,000 per month. This accounting feed problem, combined with the failure to perform reconciliations, led to an overstatement of payroll expenses and a cash understatement of $212,373 in the University's balance sheet as of August 31, 1996. By the time the condition was corrected the variance had grown to $348,726.

  Management has indicated that it had been aware of the accounting feed problem since HRS came online in September 1995. However, in spite of this knowledge the problem was not addressed for almost two years, and management failed to take the necessary actions to reconcile and adjust related account balances for approximately 20 months in the interim.

- Additional problems with the SIS implementation were noted in our review of student financial aid awards. We noted numerous instances in which student account transaction screens reflected the posting of disbursements to students' accounts, but the corresponding award screens did not reflect these payments. Management indicated that this was the result of an interface problem between the Billings and Receivables (BR) and Financial Aid Management (FAM) modules of SIS; stating that FAM would "talk" to BR, but BR would not "talk" to FAM.

- An action plan was not developed to correct problems outlined above relating to the FRS and SIS systems.

- Inadequate controls over access to information systems in the following areas:

  - Too many people have data entry capabilities. Seventy-four individuals were found to have data entry access to FRS, although a team of three individuals is responsible for data entry. Of those 74 individuals, 14 had the ability to input journal entries, 14 had the ability to enter cash disbursements, 13 could issue cash receipts, 8 could enter bank transfers, and 14 could enter multiple encumbrances. Interviews with some of the users indicated that they did not enter these types of transactions as part of their job responsibilities and did not know that they had data entry capability for such transactions.

    Management has indicated that the University is working to automate its processes as much as possible, using as an example the use of on-line requisitioning. However, there is a difference between the entry of requisitions, which require additional approval, and the entry of transactions such as those noted above, which have a direct impact on the University's financial position upon entry. Data entry capabilities for this latter class of transactions should be adequately limited and controlled.

  - At the time our work began, users of the Human Resource System could access data for any of the four Lamar University campuses (Beaumont, Orange, Port Arthur, and Lamar University Institute of Technology.) There were no were no restrictions limiting users' access to information pertaining to their own campus. This issue had been reviewed by Internal Audit in May 1996; however, no recommendation was issued at that time due to management representations that action was being taken to address the condition. According to management correspondence, this issue was resolved as of October 29, 1997, 17 months after Internal Audit's review and 26 months after HRS was brought online.

- There is inadequate notification of employee terminations to the computer security coordinators. One terminated employee was found to have computer system access five months after termination.

Allowing individuals the capability to enter transactions outside their job responsibilities bypasses the input controls designed to ensure that only authorized transactions are entered into the University's information systems. Additionally, when terminated employees retain access to computer systems, there is a risk of losing vital information resulting from the actions of disgruntled employees. Given the lack of controls in other areas of the University, coupled with the lack of internal controls over information systems, these situations afford the highest opportunity for material improprieties to occur.

Recommendation:

The University should establish adequate guidelines for project management of all new system implementations and/or upgrade. The guidelines should include requirements for the following:

- Adequate testing and/or parallel processing of new and old systems to ensure the systems are working as intended and to ensure the accuracy of data

- Complete, accurate, timely, and documented reconciliations of data from old to new systems to ensure the accuracy of data being transferred

- Detailed and measurable parameters for project management of new systems and/or upgrades in order to accurately track the progress of implementation or upgrades and for accountability purposes

Management's Response:

Management agrees that all system implementations should follow EDP standard guidelines for project management. The Financial Records, Student Information and Human Resource systems were implemented utilizing strict project management guidelines specifically designed to ensure that each system not only worked as intended and provided accurate data, but also met the needs of the end user departments. Elaborate testing procedures were developed with work teams in the different user areas. Test cases were established, testing performed, and management in each user area deemed the test results satisfactory prior to our going live with the system. The results of these testing procedures were demonstrated in students being registered and billed promptly and accurately, payrolls being met on time, bills being paid on time, and a successful close of the financial records in August, 1995. Given the size of the conversion, the successes of the testing program far outweighed the problems associated with the HRS to FRS feed.

All automated conversions of data transferred from the old to the new system were tested, documented, and accurate. The two instances referred to in the audit (housing receivables and student receivable mentioned in Section 1-A), were cases in which data could not be automatically converted. Manual entry of the detail was required. While this process may have taken longer than ideal, all data was eventually entered accurately.

Auditor’s Follow-Up Comment:

The number of problems noted throughout our report dealing with information systems reflect the poor quality of implementation methods and procedures. Additionally, while management may have successfully closed financial records in August 1995, we have noted that the University’s financial records for fiscal year 1997 had not yet been closed as of the end of January 1998, five months after the end of the fiscal year and two months after submission of the University’s AFR.

Recommendation:

The University should develop detailed action plans to correct the above-mentioned problems with SIS and FRS.

Management’s Response:

All disbursements from the Financial Aid Management (FAM) to the Billing and Receivables (BRS) modules of SIS are correct. Awards are not always disbursed through the BRS module. Some financial aid, such as loan checks, are received by the University from a third party, and are either given to the student or placed directly into the student account. In these instances, the award screens are updated manually.

Auditor’s Follow-Up Comment:

Management’s response does not appear to address the recommendation.

Recommendation:

The University should develop detailed policies and procedures for management and operation of its information systems.

Management’s Response:

During implementation of the Financial Records, Student Information, and Human Resource systems, users developed detailed procedures as guides to using the systems. The Information Systems Division has detailed policies and procedures as to system enhancement, security, and documentation.

Recommendation:

The University should strengthen controls over access to information systems as follows:

- Limit the number of persons having data entry capabilities to only those needing such capabilities as an integral part of their job responsibilities.

- Ensure terminated employees are denied access to information systems.

Management's Response:

Management will review the access of each individual who has access to FRS, and limit the capabilities to only those required by the individual's job.

Management also agrees that terminated employees should be denied access to information systems. Human Resources has established a check out system whereby the System Administrator is notified when an employee is terminated. Additionally, a report can be produced that provides a list of people without current contracts that Human Resources can check to help determine when an employee should be taken off the system.

Recommendation:

Internal Audit should perform adequate testing to assure executive management that access to the four human resource databases is adequately segregated by campus.

Management's Response:

Management will request that Internal Audit include this area in its FY 99 audit plan.

Section 3:

The University Should Improve Controls and Procedures Over Various University Operations

The University fails to follow or does not have adequate, current written policies and procedures for many critical University operations. This degrades control over these respective areas and reduces continuity within an operation over time. Management's failure to use policies and procedures as control mechanisms weakens the overall control environment of the University.

Additionally, problems with budgeting, employee training and turnover, and timely and accurate financial information further compound the problems within various University operations. These problems were evidenced in the following areas:

- Office of Student Financial Aid

- Auxiliary Enterprises (including Student Housing, Food Service, Energy Conservation, and Montagne Center)

- Service Department Operations (Post Office, Print Shop, and Supply Center)

- Human Resources

- Fiscal Office - Financial Reporting

Details of the problems in these operations are outlined below.

Section 3-A:

Improvements Are Needed in the Operations of the Office Of Student Financial Aid

Improvements are needed in many areas of operation within the Office of Student Financial Aid (Financial Aid Office). The inadequate management of the financial aid processing function, along with violations of federal requirements, place the University's future federal student financial aid program funding, and the resulting revenues to the University, at risk. The University reported $12,963,598 in federal student financial assistance for fiscal year 1997.

Moreover, the threat to future federal funding, along with significant delays in processing many students' financial aid packages, may serve to frustrate management's attempts in the areas of student recruiting and retention as students choose to enroll elsewhere or to discontinue their educations. The result of fewer students is that the University also loses additional enrollment-based funding provided by the State. The University's enrollment has been declining since 1989, and Fall 1997 enrollment figures were down by approximately 4 percent relative to Fall 1996. Specific issues include:

- The University's Financial Aid Office has experienced significant turnover in the last two years. The situation has been worsened by a lack of adequate written procedures to guide staff members in fulfilling their responsibilities, along with the hiring of inexperienced staff during a crisis period in the absence of an established training program. All of these factors taken together increase the risk that Financial Aid Office operations will not function effectively and efficiently, along with the risk of inappropriate awards and noncompliance with applicable restrictions.

- The Financial Aid Office has experienced delays in information system implementation. Based on documents provided by management, it appears that implementation of the Packaging Aid Resource System (PARS) took approximately 20 months at the University, while it is our understanding that the same software was loaded and brought online at the Orange and Port Arthur campuses in significantly less time.

According to correspondence from management in September 1997, the University contracted with a consultant in February 1996 to provide various services including the implementation of PARS. However, correspondence dated November 4, 1997, from the Assistant Vice President for Finance indicates that management had just completed testing of PARS as of October 24. Our review of this correspondence indicates that it was not until this time that PARS had become fully functional.

- As noted elsewhere, we found instances of conflicting information between student transaction history screens and award screens in the Student Information System.

- At the time our work began in July 1997, management was unable to provide any reports or other information used to monitor and control Financial Aid Office operations on an ongoing basis, to support decision-making, and to hold staff members accountable for their performance.

- The Financial Aid Office has regularly failed to begin the processing for new financial aid award years as students' documents are received, leading to a backlog of work by the time processing has begun. These backlogs, coupled with problems with document control, have contributed to significant delays in the processing and award of students' aid packages and the likelihood that students meeting deadlines for submission of required information may not receive aid for which they qualify.

  We attempted to determine the extent of the processing backlog for the Fall 1997 semester; however, as recently as August 26, the second day of Fall semester classes, management was unable to provide us with an estimate of the number of students waiting for their aid to be processed. We received an initial estimate from management on September 9; according to the information provided, as of the beginning of the third week of classes approximately 2,500 students (or 30 percent of the student body) were still waiting for their aid to be processed.

  We have since received revised estimates regarding the backlog. However, management has employed different methodologies to arrive these counts, and at times the information received has been conflicting. As a result, we cannot state with certainty the extent of the backlog. We have noted previously in this report, however, that as of September 25, 1997, one month into the Fall semester, the University had issued emergency loans to 1,441 students (or nearly 18 percent of the student body) which may provide some indication of the extent of the problem.

  According to information provided by management, various steps have been taken to address the processing backlog. These include the hiring of additional staff and the reassignment of other staff, the addition of more computers, the development of management reports, implementation of a 12-hour work day for Financial Aid Office personnel pending elimination of the backlog, and obtaining additional support from a consultant and financial aid personnel from elsewhere in the Texas State University System. According to management, the Fall semester backlog was eliminated as of October 24, the end of the ninth week of classes.

- In testing the files of 31 student financial aid recipients for the Fall 1997 semester, and in an earlier review of fiscal year 1997 recipient files, we noted numerous instances in which documents were absent, misfiled, illegible, or incomplete. We also noted one instance in which information supplied by a student was not adequately verified.

  When testing for compliance with eligibility requirements, we noted two instances in which we believe Fall 1997 recipients received more federal aid than could be justified based on the documentation available at the time the awards were made and disbursed. In a report dated January 9, 1997, the Lamar University Foundation's external auditor also noted instances in which information supplied by the Financial Aid Office was insufficient to determine whether the recipients of scholarships funded by the Foundation had met eligibility requirements. Since that report was issued, the Foundation has begun requiring the University to certify that recipients meet scholarship criteria prior to the disbursement of funds.

  In 6 of the 31 instances we tested, aid was disbursed prior to obtaining signed award letters from students formally accepting the aid packages offered. In another four instances, student files contained no award letters.

  We found several areas of noncompliance with federal regulations governing the administration of student financial aid programs:

  - In conjunction with the fiscal year 1994 statewide financial and compliance audit, we previously noted that the University had withheld award proceeds from recipients of the *Federal Pell Grant* and *Federal Family Education Loan* programs having outstanding university obligations. We observed that this violated federal regulations and recommended that the practice cease, noting that the University had other alternatives for collecting outstanding obligations from students, such as restricting student registration, withholding students' grades, or referring students to a collection agency.

    At that time, management concurred with our recommendation, stating that the University's Bursar would be responsible for implementing new procedures by February 1995. However, correspondence received from the Bursar in November 1997 indicated that the University continues to withhold and apply students' Pell Grant proceeds in satisfaction of prior outstanding balances.

- In conjunction with the conversion to the University's current accounting system, beginning in fiscal year 1994 approximately 40 Perkins Loan accounts were consolidated into one account series, and have been continually accounted for in this manner, in violation of federal regulations. Management has indicated that this problem has been resolved.

- We also reviewed the University's annual Fiscal Operations Report and Application to Participate (FISAP) for fiscal year 1997, which was submitted to the Department of Education in support of the University's administration of its federal financial aid programs. As a result of the consolidation of Perkins Loan accounts noted above and other factors, we found the financial information in this report to be unsupported by the University's financial records, as required by federal regulations.

- Management failed to submit timely reports to the Department of Education (DOE) relating to its fiscal year 1996 Pell Grant awards. This was one factor leading to a long-running interfund loan from Designated Funds to the University's DOE account (discussed in Section 1-A), and also led the DOE to reduce the University's Pell Grant authorization by $1,058,438 as of February 27, 1996. The University's prior authorization was later reinstated after management provided DOE with justification for the disbursements it had made.

<u>Recommendation</u>:

Management should identify the essential knowledge, skills, and abilities necessary for Financial Aid Office staff members to perform their job responsibilities successfully. Management should consider these factors when advertising, screening, and hiring new employees, and when identifying training needs. Management should ensure that all Financial Aid Office staff members receive adequate training to allow them to perform their job responsibilities effectively.

<u>Management's Response</u>:

Management has prepared two plans to address the problems in the Financial Aid Office. The first of these plans, the short term plan, was prepared and presented to the TSUS Board of Regents on October 1, 1997. The objectives outlined in that plan are now substantially complete. A second long range plan was developed in November, and was presented to the TSUS Board at its December meeting. The ultimate goal of the long range plan is for the Financial Aid Office to be able to initiate the processing of financial aid for the 1998-99 academic year so that awards are processed within 30 days of the receipt of complete documentation. If successful, this will allow all students who have submitted timely aid requests to receive all appropriate aid ten days prior to the first class day in August, 1998 (the earliest day allowed by federal *regulations). Management believes that the Financial Aid Office is on track to achieve this goal in the fall of 1998.*

Since the audit, new employees in the Financial Aid Office (four Financial Aid Officers and two Administrative Technicians) have received 16 hours of intensive training from SIS, Inc., a professional consulting firm specializing in the operation of the SIS system. In addition, all employees in the Financial Aid Office have had 6 hours of customer service training from a local consulting firm. Management will continue to send these employees to Department of Education workshops as they become available.

Recommendation:

Management should develop written policies and procedures to guide Financial Aid Office staff in the performance of all critical job responsibilities.

Management's Response:

Written desk procedures will be completed by the end of 1998.

Recommendation:

Management should develop performance standards and goals against which to monitor the operations of the Financial Aid Office and the performance of its staff.

Management's Response:

Prior to the implementation of the PARS software, management had used an individual approach to monitor performance. Now that this software is fully operational, a team approach is more appropriate. A management report has been developed to assess the aid packaging status of all students who have applied for financial aid. The report is run daily, and is used to identify and to act on problems before they can accumulate. The Financial Aid Office is held accountable as a team for preventing problems with aid processing.

Recommendation:

Management should identify the information that is critical to monitor the performance of the Financial Aid Office against performance goals; to hold staff members accountable for their performance; and to ensure compliance with applicable statutes, rules, regulations, and other applicable restrictions. Management should then develop systems to capture and report this information in a timely manner and at an appropriate level of detail. Management should also develop and make regular use of management reports to ensure that aid is processed and awarded in a timely manner and in compliance with applicable restrictions. Work flow in the Financial Aid Office should be managed to allow new financial aid cycle processing to begin as student documents are received.

Management's Response:

As mentioned in an earlier Management Response, processing aid as soon as student documents are received, is a major goal for the fall of 1998. The other items mentioned above will require greater study and analysis. Internal Audit has this area on its schedule for FY 98, and the results of that audit will be used to identify specific training deficiencies that need to be addressed to insure compliance with federal regulations.

Recommendation:

Management should establish controls over documents in the Financial Aid Office sufficient to minimize the loss and misfiling of papers and resulting delays in processing students' aid packages.

Management's Response:

An Administrative Technician was assigned the responsibility of document control last August. All documents are logged into the computer upon receipt, and this individual is responsible for insuring that they are filed in the appropriate student file. Since this individual arrived and the backlog of unfiled documents was cleared, instances of complaints of missing documents from students have declined sharply.

Recommendation:

Management should ensure that financial aid is not awarded and disbursed in the absence of adequate, complete, legible documentation of students' eligibility and need. Aid should not be disbursed in the absence of signed documentation indicating formal acceptance of the aid awarded. Student loans should not be offered in the absence of completed loan applications. Management should exercise greater diligence in investigating and resolving conflicting information submitted by students.

Management's Response:

Management concurs and will comply.

Recommendation:

Management should comply with federal regulations prohibiting the withholding of Pell Grant proceeds for the payment of outstanding university obligations.

Management's Response:

After the 1994 state audit of financial aid, management discontinued the practice of withholding Pell Grant proceeds for the payment of outstanding university obligations. However, when SIS was implemented, the problem reoccurred. SIS is programmed not to apply the Pell Grant proceeds to prior semesters, but at the same time, the system does not refund the Pell Grant excess until the prior semesters have been cleared. SCT, the vendor of the SIS system, has received numerous complaints about this feature from its customers. Management will address this needed programming change through a request to the Texas Connection to have the program modified.

Auditor's Follow-Up Comment:

Management is responsible for ensuring compliance with federal regulations governing its student financial aid programs. We view the fact that management did not detect and address this problem during implementation as another indicator that adequate controls over system implementation are lacking.

Recommendation:

Management should submit all required reports to the Department of Education on a timely basis. Information included in these reports should tie or reconcile to the University's official records. Management should maintain its federal student financial aid accounts in compliance with applicable federal regulations. Management should adjust its accounting records to reverse the effects of having consolidated its Perkins Loan accounts and submit amended federal reports for the affected periods.

Management's Response:

The consolidated accounts have been separated out in accordance with federal requirements. The 1997 FISAP is supported by the University's records. Discrepancies noted by the state auditors were corrected in an amended FISAP, as allowed by the Department of Education. These changes were filed in December of 1997.

Auditor's Follow-Up Comment:

While management may have made the necessary corrections for the University's fiscal year 1997 FISAP report, we recommend that it also review and submit amended FISAP reports for fiscal years 1994 through 1996 as needed.

Recommendation:

Internal Audit should perform adequate testing to assure executive management that the Perkins Loan accounts have been accurately segregated per federal regulations.

> *Management's Response*:
>
> *Internal Audit has already scheduled an audit of the Financial Aid Office in its FY 98 program. Management will request that they verify the segregation of the Perkins loan accounts.*

Section 3-B:

The University Should Improve Management Over Auxiliary Operations

The University should improve management over the following auxiliary operations:

- Student Housing
- Food Service
- Montagne Center

By definition, auxiliary enterprise operations are supposed to either make a profit or at the very least, break even. Additionally, Designated and Auxiliary funds are the only major funding sources for which management has any significant discretion. Continued, significant losses in auxiliary operations reduce the University's flexibility with respect to funding decisions and could lead to serious cash flow problems in the future. Ineffective management over these operations has resulted in the following situations:

- Auxiliary fund balances are not sufficient to cover required reserves at August 31, 1997 per the University's fiscal year 1997 AFR.

- Pledged Enterprises has a reported accumulated deficit fund balance of $1.4 million. The University has often failed to generate sufficient revenue to meet debt payment requirements. According to the 1997 AFR, management used $372,000 in student service fees to cover debt service requirements in fiscal year 1997.

  See Table 1 for more detail on Pledged Enterprise Ending Fund Balances by year.

Table 1

Pledged Enterprise Ending Fund Balances Fiscal Years 1992 -1997						
	1992	**1993**	**1994**	**1995**	**1996**	**1997**
Housing	$(675,506)	$(1,040,540)	$ (855,501)	$ (723,510)	$ (697,446)	$ (630,794)
Energy Conservation	(75,507)	(205,124)	(325,024)	(450,124)	(409,314)	(691,564)
Food Services*					(3,585)	(38,725)
Subordinate Lien	(39,194)	(39,983)	(41,582)	(43,264)	(43,264)	(43,264)
Total Fund Balance	**$(790,207)**	**$(1,285,647)**	**$(1,222,107)**	**$(1,216,898)**	**$(1,153,609)**	**$(1,404,347)**

Source: Annual Financial Reports
*Not reported in AFR for fiscal years 1992 through 1995.

- Inclusive of the $372,000 mentioned above, over 81 percent of all fiscal year 1997 student service fees were expended for Athletics and Pledged Enterprise operations, thereby forgoing their use for other student needs.

- Deficits from Montagne Center operations continued to increase for five of the past six years, with an additional loss of $260,000 budgeted for fiscal year 1998. (See Table 2 below for details by year.)

Table 2

Montagne Center Financial Performance Fiscal Years 1992-1997						
	1992	**1993**	**1994**	**1995**	**1996**	**1997**
Budgeted Deficits*			$ (96,870)	$ (96,836)	$ (96,850)	$(260,103)
Net Income/Loss	$(187,145)	$ 26,517	(64,846)	(94,466)	(135,288)	(122,332)
Ending Fund Balance	$(320,382)	$(293,865)	$(357,947)	$(452,413)	$(587,701)	$(645,941)

Source: Annual Financial Reports, Budgets
*Not applicable for fiscal years 1992 and 1993.

- Until fiscal year 1998, coaches' camps have never contributed financially to operations.

- The University did not provide action plans to correct the downward trends or plans to reduce or eliminate the deficits in Pledged Enterprises (Student Housing, Food Service, Energy Conservation, Subordinate Lien) or the Montagne Center.

Recommendation:

The University should develop detailed action plans to correct the downward fund balance trends and reduce the deficits in fund balances for the above-listed Pledged Enterprise and Auxiliary Enterprise operations.

Management's Response:

Readers should note the overall improvement in the state of the auxiliary fund since the last Management Control Audit. At the end of FY 93, the auxiliary fund was in deficit $1,782,159. By the end of FY 97, this deficit had been eliminated, and the auxiliary fund had a positive balance of $291,525. In addition, individual components of the auxiliary fund that were in deficit in FY 93 totaled $2,917,939. At the end of FY 97, that total had been reduced to $2,114,380.

Due to an oversight, the FY 97 annual financial report mistakenly stated that student activity fees had been used to cover the operating deficit in Pledged Enterprises. In reality, this deficit was covered by the fund balance in the health center.

The Pledged Enterprise group first exhibited a deficit in FY 88. This deficit continued to grow through FY 93, when it reached a total of $1,285,647. In fiscal years '94, '95, and '96, Pledged Enterprises made a profit which was contributed to the reduction of the fund balance deficit. The sudden increase in FY 97 was due to several factors. The first was the need for additional housing space for the Texas Academy for Leadership in the Humanities, which resulted in a decision to reopen Brooks-Shivers Hall. A substantial portion of the deficit was incurred to provide needed security equipment to reopen this hall, and to cover the additional utilities costs associated with the hall. Second, $110,000 of the deficit was due to the settlement of a dispute over the University apartments, which were returned to private hands. Management does not anticipate additions to the deficit from routine operations in future years.

The current state of the Pledged Enterprises fund is largely a result of financing decisions that were made in the 1970s when it appeared that the demand for on campus housing could do nothing but increase. As a result of these decisions, the current housing operations are struggling under debt payments that consume 19% of the total revenues at a time when the dormitories are in need of repair. Most of the existing furniture in the dormitories dates from when the buildings were built, and most of the roofs of these buildings will need to be replaced within the next decade. Debt service will decline by half in FY 99, and will be completed eliminated by 2010. However, elimination of the existing deficit will compete in future years with the pressing need for new furniture and new roofs on the existing buildings.

In short, the elimination of this fund balance deficit will be an exceedingly slow process, and will probably not be complete until 2010 when the debt is eliminated. Management has a draft of a plan to eliminate this deficit, and anticipates having a document for release by the end of FY 98.

The Montagne Center is another area that will not be susceptible to an easy solution. In 1996, management issued requests for proposal to move this arena under private management. The bidder selected by management believed that it could start making a profit for the university within five years of assuming control of the facility. However, the agreement was not consummated. In 1997, a new manager was hired for the facility, and he was given the charge of increasing use as much as possible while striving for cost containment. By the end of FY 98, management will re-assess the situation, and review the available alternatives.

Auditor's Follow-Up Comment:

Management's response does not address how it intends to correct the downward trends in the specific operations noted above. See Tables 1 and 2.

Recommendation:

Internal Audit should perform adequate follow-up work on these operations to assure the executive management team that its action plans are indeed resolving the operational losses and fund balance deficits from the above-mentioned enterprises.

Management's Response:

Management will request that Internal Audit include this area in its FY 99 Audit Plan.

Section 3-C:

The University Should Improve Management Over Service Department Operations

The University should improve management over the following Service Operations:

- Post Office
- Print Shop
- Quick Copy
- Supply Center

For fiscal year ending 1997, these four internal service department operations had combined losses totaling $345,475. Additionally, over the past four years, all service department operations have accumulated deficit fund balances totaling $881,389. This resulted in the University having to use other funds to cover these deficits.

According to *College and University Business Administration, 5th Edition* (National Association of College and University Business Officers, 1992),

> the rates charged by service department operations should reflect operating costs, which could include salaries, wages, employee benefits, costs of materials and supplies, operations and maintenance of the physical facilities occupied, provision for renewal and replacement of equipment, provision for debt service, and a share of institutional expense.

This implies that such operations should break even or make a profit. Moreover, by not fully allocating these costs to user departments, the true costs of those departments' operations are not accurately reflected in the information used to support management decisions.

Additionally, Designated Funds are one of the few funding sources for which management is allowed discretion with respect to use and to which management has recourse in the event of emergency situations. Continued, significant losses in service department operations reduces the University's flexibility with regards to funding decisions and could lead to serious cash flow problems in the future. (See Table 3 for service department fund balances.)

Table 3

Fund Balances
Fiscal Years 1994 - 1997

Service Departments	1994	1995	1996	1997
Post Office	(75,998)	(110,727)	(370,525)	(552,734)
Print Shop	(65,154)	(81,322)	(218,485)	(319,136)
Quick Copy	31,993	6,470	28,910	26,499
Supply Center	(23,533)	(150)	(7,336)	(36,018)
Total Fund Balance	(132,692)	(185,729)	(567,436)	(881,389)

The University did not provide action plans to correct these downward trends or plans to reduce or eliminate the deficits in service department operations.

Recommendation:

The University should develop detailed action plans to correct the downward fund balance trends, reduce the deficits in fund balances, and allow for "break-even" or profits in the three service department operations losing money.

Management's Response:

Management gave serious consideration to contracting out all printing work, and closing the Print Shop in April of 1997. All Print Shop users were surveyed regarding their use of the Print Shop, customer satisfaction with the Print Shop, and their desire to use outside printing companies. The University community, by a substantial margin, wished to see the Print Shop retained on campus. At that time, management made a conscious decision to underwrite the Print Shop to provide convenience to the campus community. Much of the increase in the Print Shop deficit was due to the decision to replace outdated equipment, and that decision was a direct result of this survey. However, management will conduct a thorough review of the other service departments, and will provide a plan by the start of the FY 99 budget year.

Auditor's Follow-Up Comment:

This problem can be largely solved simply by establishing rates sufficient to cover costs, correctly allocating costs to users, and billing users on a timely basis.

Recommendation:

Internal Audit should perform adequate follow-up work on these operations to assure the executive management team that its action plans are indeed resolving the operational losses and fund balance deficits from the above-mentioned enterprises.

Management's Response:

Management will request that Internal Audit add this area to its audit plan for FY 99.

Section 3-D:

Improvements Are Needed in the Management of the University's Human Resources

Improvements are needed in the management of the University's human resources in many areas. Failure to address these issues in a timely manner places the University at risk of the following:

- Not having enough qualified employees in critical areas of University operations to ensure fulfillment of the University's mission and goals
- Failure to comply with state, TSUS, and University statutes and policies governing human resource management

- Potential liability or conflicts resulting from participation in outside business activities in the absence of adequate, understood policies and guidelines

Specific human resource management deficiencies are as follows:

- Failure to develop staffing plans or detailed, comprehensive short- and long-term training needs - Management appears to have no long term staffing plan identifying the University's anticipated future human resource needs in terms of positions and the corresponding knowledge, skills, and abilities required. Analyses performed to date have largely focused on responding to declining enrollment and revenues. The information we were provided relating to future training needs covered only the 1997-1998 fiscal year.

- Timeliness of staff evaluations - University policy requires that staff performance appraisals be completed annually within the month of an employee's anniversary date. Upon completion, the forms are to be sent to the Human Resources Office, where they are filed in the employee's permanent personnel file. During our review of performance appraisals due between October 1996 and May 1997, we noted that 175 of the 263 appraisals due (66.5 percent) had not been turned in to the Human Resources Office. Another 31 appraisals (12 percent of the total due) were submitted late.

- Maintenance of employee personnel files - We attempted to review background information, such as college transcripts, resumes, and job applications, for nine key administrators at the University; however, such information was only readily available in one employee's personnel folder at the time of our initial inquiry. We were told that given the nature of the other employees' positions, such information would likely be in the possession of the applicable search committees. The University's *Search Committee Procedures Manual*, however, requires committee chairs to " . . . forward files, as well as all information related to the search, to the Director of Human Resources for storage. Material should be forwarded within ten days after the search closes . . . "

  We reviewed the Search Committee files for three of the employees' records and found that one of them had been purged of the requested information with the result that no applications, resumes, transcripts, or background check documentation, were available for review. The Texas State Records Retention Schedule, item 3.1.002, requires that document such as resumes, transcripts, and writing samples be maintained until after files are "closed, terminated, completed, expired, or settled," suggesting that files should not be purged for active employees.

  In addition to the compliance issues raised, the University should restrict such information to employees' personnel files as a matter of good business practice, to reduce the risk of disclosure of highly sensitive or confidential information to unauthorized parties.

- Failure to address issues repeatedly identified by Internal Audit relating to monitoring and enforcement of policy governing teaching overloads - Internal Audit has issued three reports (in February 1995, January 1996, and August 1997) citing noncompliance with policies governing the management of teaching overloads, particularly as they relate to prescribed limits to teaching loads and related compensation.

- Hiring of inexperienced staff in the absence of an established training program - In several situations, management has recognized that the University could not compete in the current job market in terms of hiring experienced individuals, and has instead opted to hire staff with less experience. These instances include:

  - Hiring four new financial aid officers - Correspondence dated October 10, 1997, from the Assistant Vice President for Finance described the new hires as “all entirely inexperienced in this work, and therefore in need of training.”

  - Hiring of new accountants in the Finance Office - Correspondence dated October 16, 1997, from the Assistant Vice President for Finance makes reference to the Finance Office’s hiring of “new accountants, totally inexperienced in Higher Ed,” and discusses difficulties experienced at the close of fiscal year 1996 “because the AFR and other state required reports had to be prepared largely by personnel totally inexperienced in their responsibilities.”

  We acknowledge that the University may find itself subject to financial constraints in its attempts to compete for the most qualified individuals for given positions. However, management has an obligation to ensure that critical functions are performed by individuals having knowledge, skills, and abilities commensurate with their responsibilities. In instances where management finds itself forced to hire inexperienced or relatively inexperienced staff, management must plan for and integrate adequate training with those new hires.

- Absence of standards of operation or performance measures for the Financial Aid Office, and the failure to use available information to monitor performance and hold staff accountable - Upon our initial inquiry management was unable to identify any reports used to monitor and control Financial Aid Office operations, and management was unable to identify any specific goals or standards relative to the ongoing performance of specific functions. The only outcome measures identified by management took the form of the total dollars awarded by the Financial Aid Office and the results of an annual student satisfaction survey.

- Absence of policies governing the administration of coaches’ camps (at the time our work began) - At the time we noted that coaches and assistant coaches earned income in addition to their University salaries while on state time and while using University facilities without compensation to the University. According to management, men's basketball and baseball conduct three- to four-week-long camps each year, while women's basketball and tennis average three to four days per year. Although it is not unusual for universities to allow coaches to conduct camps, it is imperative that such activities be carried out under clearly defined policies and procedures identifying the rights and obligations of the interested parties, particularly as they pertain to areas such as:

- Ownership of monies collected
- Responsibility for the payment of salaries, fringe benefits, insurance, facility usage, and other pertinent expenses
- Ensuring adequate medical supervision
- Compliance with contracts
- Compliance with hiring guidelines, NCAA legislation, and other applicable criteria

We were provided with a finalized copy of the University's new policy during a briefing in September 1997.

• <u>Absence of University procedures or mechanisms to ensure faculty compliance with policies on outside employment and conflicts of interest</u> - Although *TSUS Rules and Regulations* address issues of outside employment and conflicts of interest, at the time our work began the University had no such policies governing faculty nor any mechanism to ensure compliance on the part of faculty. In response to an Internal Audit report issued in June 1997, management adopted a formal mechanism under which all faculty are required to disclose external activities beginning with the Fall 1997 semester.

<u>Recommendation</u>:

Management should ensure that all hiring decisions are based on a thorough position analysis, and that screening and subsequent hiring decisions give sufficient consideration to whether prospective employees' knowledge, skills, and abilities sufficiently match a position's requirements. In areas where management anticipates a need to hire inexperienced staff due to the available market of prospective employees, there should be sufficient advance planning to ensure that new hires receive adequate training and supervision relative to their responsibilities. Preparation of critical reports and other crucial functions should only be performed by personnel having experience appropriate to the task.

Management's Response:

Management agrees that this is the preferable course of action, and will make every effort to comply with these recommendations in the future.

Recommendation:

Management should integrate planning for its future staffing needs into its other long-term planning for the University. To the extent possible, management should identify anticipated future staffing levels well in advance, along with the knowledge, skills, and abilities that will be needed in the future for employees to successfully perform their job responsibilities. This information should be incorporated into management's plans and curriculum for both training of new hires and the long-term development of current employees.

Management's Response:

Management will incorporate a plan for future staffing needs into its long term plan by the end of FY 99.

Recommendation:

Management should implement procedures to ensure that materials relating to the hiring of employees are forwarded to the Human Resources Office in a timely manner, and that adequate safeguards exist over employee information. Applications, resumes, transcripts, documentation of background checks, and other similar information supporting the hiring of individuals should be maintained in those employees' personnel files in the Human Resources Office. Personnel files should not be purged of such materials as long as employees maintain their active status.

Management's Response:

Management is in the process of assembling the missing documentation from the senior staff files examined in the audit. It appears that this issue is not a problem for routine searches, but is limited to the more senior positions in which a search committee is responsible for the recruitment. In the future, the Director of Human Resources will not approve the hire until the required documentation has been forwarded to the Human Resources Office by the search committee.

Recommendation:

Management should implement procedures to ensure compliance with all applicable state, TSUS, and University human resource policies, including those relating to the administration of faculty teaching loads, external activities, and the timely submission of staff performance appraisals. Information from employee performance appraisals should be considered in development of future training plans and curriculum.

> *Management's Response*:
>
> *With regard to overload activities, these must be disclosed on the form used to pay the individual. In addition, all Deans have been advised that overload in excess of 125% requires the approval of the Executive Vice President for Academic Affairs.*
>
> *With regard to timely evaluations, employees have now been through an annual evaluation under our new procedure. The second cycle of evaluations is currently underway. Management initially established the evaluation plan so that employees would be evaluated on the anniversary month of their employment. However, this has made it difficult to monitor compliance with the timely submission of evaluations. Management intends to covert in FY 99 to doing all evaluations in a single month. Management will require supervisors to submit evaluations on a timely basis in the future.*
>
> *With regard to knowledge of state, TSUS, and University policies, the university has a draft Human Resources Policies and Procedures Manual which has passed legal review. It will be issued in the near future.*
>
> Auditor's Follow-Up Comment:
>
> Management's response does not address the compliance component of this recommendation.

Recommendation:

Management should develop operational standards and performance measures for all critical areas of University operations. Management should identify those elements of information essential to the successful management of these critical areas and ensure that the University's information systems adequately capture that information and provide it to responsible employees in a timely manner and in an appropriate format. Management should also ensure that supervisory personnel have timely access to any information necessary to hold staff members accountable for their performance.

> *Management's Response*:
>
> *This is a complex long range project. Management will study the issue to see how operational and performance standards might best be incorporated into our strategic plan and our current evaluation system.*

Recommendation:

Management should review University human resources policies regularly in order to identify areas requiring additional attention, clarification, or revision, and to ensure that the University's policies and practices comply with applicable law, TSUS rules and regulations, and other external restrictions.

Management's Response:

The new Human Resources Policies and Procedures Manual has been reviewed by legal counsel at the System's Office, and will be issued in the near future. An updated Staff Handbook will follow. In addition, management will request that this area be included in Internal Audit's audit plan for FY 99.

Section 3-E:

Improvements Are Needed in the University's Fiscal Office With Regard to Accounting and Financial Reporting

Improvements are needed in Fiscal Office operations with regards to accounting and financial reporting. Inconsistent or incorrect data does not allow for accurate decision-making by executive management. Additionally, inconsistent or incorrect information makes it very difficult for external officials, who rely on USAS and AFR data, to perform oversight and evaluation functions effectively. We noted the following issues relating to accounting and financial reporting (some of these items have already been discussed in this report):

- Failure to close out the University's accounting records prior to submission of the University's AFR for fiscal year 1997 - Although management submitted its AFR to the Comptroller of Public Accounts in November 1997, management has continued to post significant adjustments to fiscal year 1997 accounts through January 1998. Although we consider this practice highly inappropriate, management represents that these entries do not have a material effect on its AFR.

- Lapsed benefit appropriations from prior periods in the University's accounting records - Management carried these benefits and continued to report them as assets for longer than prescribed by the Comptroller of Public Accounts annual financial reporting guidelines. When management finally completed a reconciliation relating to these balances, a prior period adjustment of $1,406,954 was required to write these balances off. These benefit related appropriations were not available for general purpose spending by the University.

- Failure to post receivables timely

- The continued carrying of many student receivables on the books which are likely not collectible

- Questionable valuations of receivable accounts and corresponding allowance accounts on the Balance Sheet

- Use of the same allowance amounts for receivable accounts on the Balance Sheet for several years

- Failure to perform various reconciliations to ensure the accuracy of accounting data

- Questionable valuations of cash due to untimely bank account reconciliations documenting “unreconciled differences” and large numbers and amounts of reconciling items

- Subschedules that do not tie to applicable Exhibits or schedules

- Unreconciled tuition amounts from USAS to internal accounting records

- Submission of prior year schedules in current year reports

- Incorrect and/or missing captions on schedules.

Recommendation:

Fiscal management should develop adequate reconciliation and review procedures to ensure that consistent and accurate information is presented in the University’s accounting records and financial reports.

Management’s Response:

Many of the above items were included elsewhere in this report. With regard to the carrying of uncollectible student receivables in the SIS system, management has agreed to identify the written off receivables, so that they can be eliminated from current management reports. With regard to bank reconciliations, they are now current, with no “unreconciled differences”. The errors that occurred in USAS regarding tuition were in FY 96. FY 97 is correctly stated. The lapsed benefit appropriations have been written off. Management is in the process of creating a checklist for the FY 98 annual financial report to ensure that the other problems mentioned above do not reoccur.

Auditor’s Follow-Up Comment:

As mentioned in an earlier follow-up comment, the University’s handling of uncollectible student receivables is not in accordance with NACUBO guidelines or generally accepted accounting principles. As such, we do not agree that they should be simply “eliminated from current management reports.” Additionally, contrary to management’s statements regarding tuition, observed differences in tuition per the University's 1996 and 1997 AFRs and USAS records still had not been corrected in USAS as of February 17, 1998.

Section 4:

Transactions Between the University and the Foundation Require More Oversight

In our March 1993 report (*Management Control Audit of the Lamar University System*, SAO Report No. 93-073) we noted questionable transactions initiated by Lamar University System representatives and paid through the Lamar University Foundation, and concluded that the Board of Regents needed to receive more information regarding gifts and expenditures made on the University's behalf. We also recommended that the Board of Regents and the Lamar University Foundation Board of Directors continue their efforts to establish their identities as fully separate entities, to strengthen fiduciary and administrative oversight over the Foundation's operations, and to continue efforts to formalize their operating relationship through a memorandum of understanding. Since our March 1993 report was issued, Lamar University has become a part of the Texas State University System.

In our current audit we noted transactions and conditions involving the University and the Foundation which suggest the need for more oversight by both the TSUS Board of Regents and the Lamar University Foundation Board of Directors. These include:

- The inappropriate handling of $43,850 in gift checks made payable to the University, discussed in detail in Section 1-A.

- The handling of the transfer of an art collection valued at $1.5 million and $41,708 in related funds from the Foundation to the University. Although University management had been made aware of the necessity of involving additional parties in the transfer agreement, as stipulated in the terms of the original gift to the Foundation, University management proceeded to obtain an agreement with the Foundation, to obtain TSUS Board approval for acceptance of the gift, and to pursue transfer of the funds in the absence of the required approval from those parties. The failure to adequately involve these individuals in the execution of the initial agreement, which was signed in March 1997, necessitated an additional later agreement.

- The failure of the University to bill the Foundation on a timely basis for construction projects and for scholarships funded by the Foundation, leading in one instance to a dispute over lost interest.

- An external auditor's finding of insufficient documentation to support the University's award of scholarships funded by the Foundation to certain recipients, which led the Foundation to begin requiring certification of recipient eligibility by the University prior to disbursing funds.

We also noted that while there is now an operating agreement between the University and the Foundation, it needs to be reviewed with respect to certain items. Although the operating agreement indicates otherwise, at the time of our review the Foundation had not actively participated in the solicitation of funds for approximately two years. The Foundation only managed assets and provided financial support for certain University activities. Additionally, in speaking with different parties we received conflicting information relating to the extent of services provided by University staff and the extent to which the University provides the Foundation with equipment, supplies, copy facilities, or other considerations.

The operating agreement specifies a termination date of January 13, 1997, with provisions for continuation. We noted that the agreement expressly provides for annual review and approval by the President of the University; however, no similar rights are expressly provided to the Foundation or its representatives. According to Foundation Board minutes, the need for an updated agreement was discussed in its meeting of July 8, 1997; to date, however, no draft agreement has been presented for the Foundation Board's review.

As noted in our previous report, both the Foundation's Board of Directors and the University's Board of Regents have unique and differing responsibilities for oversight of the Foundation's operations. We have noted in our current work, as previously, that the transactions cited above primarily involved University management's actions, or failures to act in an appropriate manner. Our review of matters involving the University and the Foundation suggest that more oversight is needed by both governing boards.

<u>Recommendation</u>:

Both the TSUS Board of Regents and the Lamar University Foundation Board of Directors should review and evaluate their current oversight activities as they relate to the relationship between the University and the Foundation. The TSUS Board of Regents should ensure that University management adequately fulfills its fiduciary responsibilities with respect to the handling of gifts and other transactions, and that management complies with applicable TSUS rules and regulations.

> *<u>Management's Response</u>*:
>
> *Management cannot respond, as this comment is directed at the Foundation and TSUS boards.*

<u>Recommendation</u>:

Our review indicates that University management has taken the active role in soliciting gifts, directing transactions, and initiating payments by the Foundation. Based on our review of the transactions noted above, as well as additional observations elsewhere in this report which reflect on management's fulfillment of its fiduciary responsibilities, we recommend that the Foundation Board take care to ensure that the Foundation is adequately protected from liability in transactions involving the two entities.

> <u>*Management's Response*</u>:
>
> *Management cannot respond, in that this comment is directed at the Foundation, over which management has not control.*

<u>Recommendation</u>:

We encourage both TSUS and the Lamar University Foundation to review their relationship in order to ensure the elimination of a less than arm's-length relationship either in appearance or in fact.

> <u>*Management's Response*</u>:
>
> *Management does not believe that any circumstances currently exist which would result in less than an arm's length relationship with the Foundation.*

<u>Recommendation</u>:

We encourage TSUS, Lamar University management, and the Lamar University Foundation to ensure the negotiation of a new operating agreement which (1) accurately reflects the working relationship between the University and the Foundation, (2) specifies the types of assistance each will provide the other and the terms and conditions under which such assistance will be provided, (3) provides for adequate oversight by each governing board, and (4) clearly defines the rights and obligations of each entity.

> <u>*Management's Response*</u>:
>
> *The relationship mentioned above is in a continuing process of change. For example, when the agreement was originally signed, the University was providing substantial support services to the Foundation. When a director was hired for the Foundation, these services essentially ceased. Now that the Foundation is restructuring, the University is once again providing support services to the Foundation. An updated agreement that permits this sort of flexibility will be negotiated in calendar year 1998.*

Section 5:

Formula Funding

Section 5-A:

The University Did Not Report "Mini-Semesters" Consistently for Funding Purposes

For approximately three years the University has offered three-week mini-semesters between the Fall and Spring regular semesters and between the Spring and first Summer session. In the years in which the University has reported to the State for funding purposes, these sessions have been reported in the University's enrollment figures and funded from appropriated dollars. In alternate years, however, the sessions have been conducted through the University's continuing education program. As a result, between the Spring of 1995 and the Summer of 1997 the University has continued to receive funding from appropriated dollars during the "non-count" years while collecting the full cost of the courses, in the amount of $354,480, from tuition and fees charged through continuing education.

Per the Texas Higher Education Coordinating Board, this practice has the following consequences:

- It subverts the formula funding system.
- It results in some students being charged approximately twice as much in tuition for the same classes in the absence of any apparent legislative authority.
- It thwarts the will of the Legislature by avoiding the set-aside of a portion of the tuition collected through continuing education for grants to low-income students.
- It may violate the University's obligations to its bondholders.

The University has acknowledged this situation and has committed to counting these mini-sessions consistently in the future.

Audit testing, which included performing tests of compliance with state laws and Texas Higher Education Coordinating Board (Coordinating Board) rules, did not identify any over- or under-funding of semester credit hours at at the University or other issues except as noted above.

Recommendation:

Internal Audit should perform adequate follow-up work in this area to assure the executive management team that this issue has been resolved.

Management's Response:

Management consulted with the Coordinating Board prior to the original implementation of this policy, and was verbally assured that this was not a violation of existing regulations. When questioned by the TSUS auditor as to the appropriateness of this policy, management promptly wrote to the Director of the Coordinating Board requesting clarification. Upon receipt of the letter mentioned above, management promptly ceased this activity.

Management will request that Internal Audit include this area in its audit plan for FY 99.

Section 5-B:

The University Identified Corrections to Semester Credit Hour Data Which Resulted in Over-Funding of $14,447

The University voluntarily identified and disclosed corrections (instances of noncompliance and unreported items) to the certified semester credit hour data reported to the Coordinating Board. The corrections would have decreased appropriations by $14,447 had they been reported prior to the certification of the data.

The types of corrections disclosed were (1) students reported who had not paid tuition by the official reporting date and (2) students inappropriately enrolled and reported who had not met Texas Academic Skills Program (TASP) requirements.

Table 4

Self-Reported Corrections by Attribute and Semester

Attribute	Summer	Fall	Spring	No. of Corrections	No. of Unique Students	(Over-) or Underfunding for all Attributes Resulting from Self Reported Corrections
TASP	($4,263.58)	($590.80)	($1,435.64)	15	6	($6,290.02)
Student Classification	$0.00	$0.00	$0.00	3	1	$0.00
Tuition Collection	$0.00	($2,375.00)	($5,781.93)	22	9	($8,156.93)
Class Size	$0.00	$0.00	$0.00	0	0	$0.00
TOTAL	($4,263.58)	($2,965.80)	($7,217.57)	40	16	($14,446.95)

Only those students who have paid or have made arrangements to pay tuition as of the official reporting date may be reported for formula funding purposes. Additionally, only those students who have passed the TASP standardized tests or who have taken remediation courses may be claimed for formula funding.

Recommendation:

- The University should report only those students who have paid or made arrangements to pay tuition as of the official reporting date.

- The University should report only those students meeting TASP requirements.

Management's Response:

Management agrees and will comply.

Section 5-C:

The University's Procedures for the Payment of Tuition and Fees on Installment Do Not Require Students to Sign the Documents Necessary to Sanction Students for Non-Payment

The University's procedures for the payment of tuition and fees on installment do not require students to sign a form acknowledging that non-payment can lead to sanctions. Texas Education Code Title 3, Section 54.007, states that no sanctions may be imposed upon a student who fails to make installment payments unless the student has signed a document containing certain specified language.

Without such documentation, the University cannot comply with legislative intent. If the University imposes sanctions against students for non-payment, then it has not complied with the statute. If the University does not impose sanctions, it receives state monies through the formula funding process for students who may not meet the financial obligations anticipated.

Recommendation:

We recommend that the University adopt procedures to ensure that students enrolling under the installment payment option have signed an acknowledgment that non-payment can lead to sanctions.

Management's Response:

From surveying other institutions around that state, it appears that a large number of institutions do not require such an agreement. Management discloses the consequences of defaulting on an installment agreement in its catalog and in the materials used each semester for registration. Management would suggest that it might be more efficient to request that the Legislature pursue a change in the law to make these sanctions legal for all students enrolled in an installment plan, rather than requiring the administrative burden necessary for hundreds of thousands of students across the state to *complete a new form each semester. Management will pursue this issue through TASSCUBO in hopes that an acceptable solution can be reached.*

Auditor's Follow-Up Comment:

Until the University is successful in obtaining a change in the law, we suggest that management take appropriate action to comply with current statute.

Section 5-D:

Program Field Coding and Data Bypass Errors Result in Under-Reporting

A data error in electronic class records caused six Spring semester courses that were eligible for formula funding not to reported to the Coordinating Board. A restrictive code in one data field caused the reporting program to bypass eligible student semester credit hours in six eligible classes. These classes contained 74 students taking 222 semester credit hours which would have resulted in a net increase in formula funding of $53,118.53 had they been reported prior to certification of the data.

Recommendation:

The University should establish edit checks to produce exception reports when official census count program files are run, and require that all errors be cleared before reporting data to the Coordinating Board.

Management's Response:

The University currently has an edit check system. This new error type has been added to this edit check system, so that it will not go undetected in the future.

Appendix 1:

Objective, Scope, and Methodology

Objective

Our audit objective was to evaluate the management control systems within Lamar University, including the areas of policy management, information management, and resource management. We evaluated whether control systems provide reasonable assurance that the University's goals and objectives will be accomplished. We also obtained and reviewed information regarding other potential issue areas identified in planning, and followed up on specific issues identified in a previous report issued in March 1993.

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 relating to the areas of policy management, information management, and resource 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 create, implement, evaluate, and revise University policies and procedures

Consideration of the University's information management systems included:

- Identifying the significant computer applications supported by the University

- Obtaining an understanding of the University’s policies and procedures relating to computer and system security

- Reviewing and evaluating individuals’ access capabilities for appropriateness in the context of their job responsibilities

- Reviewing application controls for the University’s new Financial Records System

- Following up on specific issues identified in a prior audit report

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

- Processes used to select, train, and evaluate University employees

- Processes used to manage and control the University’s cash and receivables

- Investment policies and practices at the University

- Processes used to ensure that inventory assets are safeguarded and adequately protected against waste and abuse

- Protection of computers and computer applications

A review of these areas revealed specific issues that were examined further.

Methodology

The audit methodology consisted of gaining an understanding of each control system. In select areas, tests were performed to determine whether control systems were operating as designed. Finally, 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 management, faculty, and staff. Written questionnaires and reviews of University documents were also used to gain an understanding of the control systems in place. Control system testing was conducted by comparing described to 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

- 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 May 1997 through October 1997. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

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

- Robert H. (Rob) Bollinger, CPA (Project Manager)
- Kevin Baker
- Linda Buford, CPA (Formula Funding)
- Kerre Eppinger
- Lewis Garrett
- Hector Gonzales, CPA
- Terry Holderman, MBA
- Michelle Jaubert-Esquivel, CPA (Project Manager, Formula Funding)
- Dana Jung
- Carmelita Lacar, Ph.D.
- Nancy Raabe
- James Stolp, CPA
- Tom Tharp, CISA
- Pat Keith, CQA (Audit Manager)
- Craig Kinton, CPA (Audit Director)

Appendix 2:

Background Information

Appendix 2.1:

University Profile

Mission Statement - Lamar University is a comprehensive senior public university dedicated to providing a learning environment of the highest quality. The University is an educational, scientific, engineering, business, and cultural resource center committed to the threefold mission of teaching, research, and service. The University is committed to providing students with a liberal education in the context of a global and multicultural environment and seeks partnerships with business, governmental, industrial, and other educational organizations to more efficiently accomplish its goals.

Instructional Mission - Lamar University emphasizes quality teaching, student access to faculty, and careful student counseling. The University creates a liberating educational experience for each student which expands knowledge, awakens new intellectual interests, examines values, develops talents, provides new skills, and prepares each student to assume an effective role as a citizen in a democracy.

The University's mission in graduate education is broad based at the master's level, and includes doctorates in engineering and deaf education. Other doctoral level educational opportunities for the region are enhanced through cooperative arrangements between Lamar University and other institutions of higher education. The University's mission in graduate education is characterized by an emphasis on professional fields of study.

With historical commitments to quality educational programs in engineering, business, the arts and sciences, health sciences, education, and the visual and performing arts, the University focuses its unique strengths on significant problems of contemporary interest as evidenced by its recent initiatives in environmental science and engineering, gifted education, and deaf education.

Lamar University is strongly committed to the continual enhancement of teaching/learning methodologies and their systematic assessment.

Research Mission - As a comprehensive, regional university with extensive educational programs, Lamar University's efforts are directed to both applied and basic research, scholarship and creative activities. Through its emphasis on the teacher-scholar model, the University encourages faculty members to be active in their respective disciplines, to involve both undergraduate and graduate students in research and creative pursuits, and to support the principle that research is inseparable from teaching.

Service Mission - The University's educational mission extends to all residents of the Southeast Texas area, and, in special cases, beyond the region. In recognition of that mission, the University provides a diverse outreach program including: credit and noncredit continuing education offerings responsive to the personal, career, and professional development needs of individuals in our region; specialized skills training and human resource development for business and industry on the Gulf Coast; and public service activities that respond to unique regional educational needs and cultural interests.

The University contributes to the cultural life of the region through cultural and artistic presentations and events utilizing the talents of faculty and students and visiting lecturers, artists, and performers.

Students, faculty, and staff are encouraged to be involved in civic, cultural, service, and professional activities. By such volunteer and consultative activities, members of the University demonstrate their citizenship within the larger community.

Appendix 2.2:

Financial Information

Lamar University reported total revenues and other additions of $89,700,338 and total expenditures and other deductions of $78,416,895 in fiscal year 1997. The University's reported fund balance totaled $176,726,698 as of August 31, 1997. See Figures 2, 3, and 4 for the distribution of reported revenues, expenditures, and fund balance for fiscal year 1997.

Figure 2

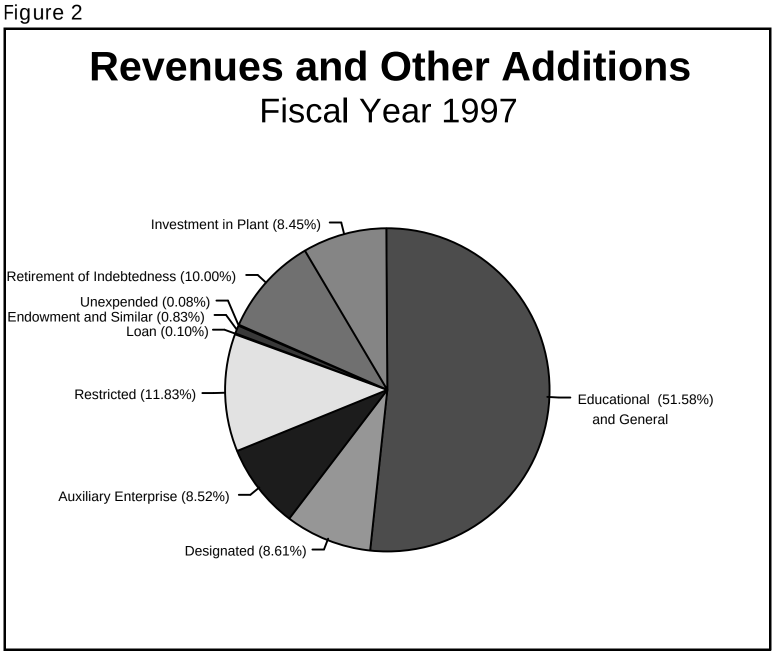


Figure 3

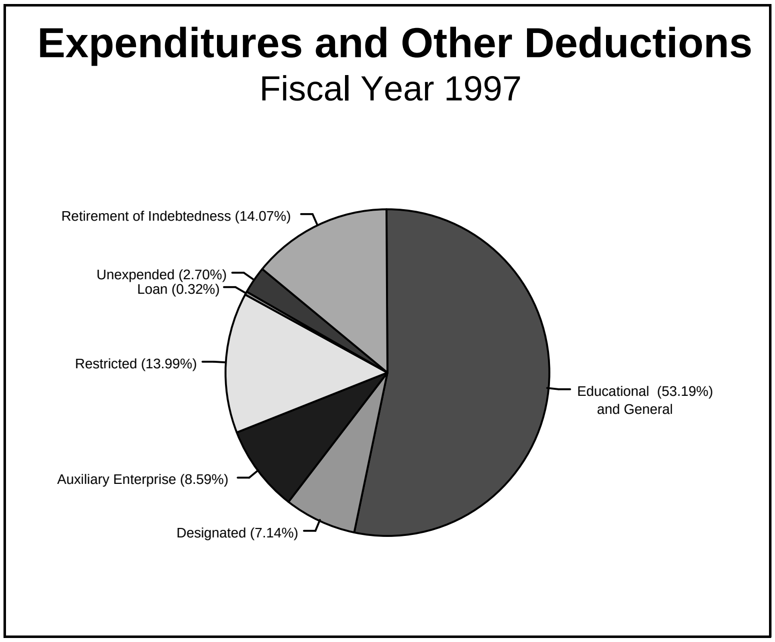
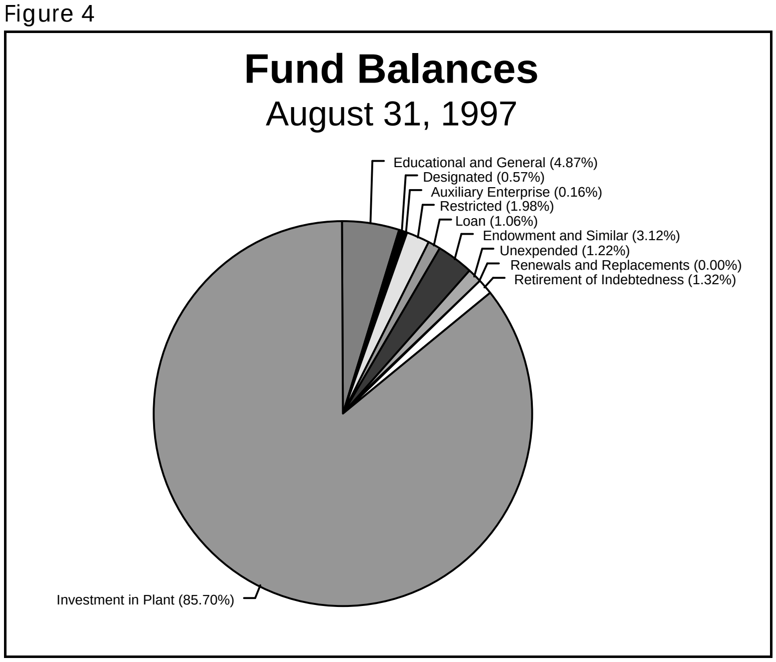


Figure 4



Appendix 3:

Formula Funding Objectives, Scope, and Methodology

Objectives

The primary objectives of a formula funding audit are to:

- Audit the accuracy of the variables in selected formulas used in calculating formula funding appropriations.
- Report differences between University records and data submitted by the University to the Coordinating Board.
- Determine the accuracy of fiscal year Educational and General revenues reported in the University's requests for legislative appropriations.

Scope

The scope of formula testing focuses on the accuracy of variables of selected funding formulas. Funding formulas are used to allocate appropriations to the University. There are four funding formulas, each driven by variable data reported by universities. Two formulas were selected for the audit: instruction and operations formula and teaching experience supplement. Statewide, these two formulas account for 78.40 percent of the $2.9 billion funding by formulas during the 1998-1999 biennium. At Lamar University these two formulas accounted for 76.93 percent of the $50,448,781 funding by formulas during the 1998-1999 biennium.

Semester credit hours is the only variable for each selected formula and is reported to the Coordinating Board in the CBM-004 Class Report and CBM-001 Student Report. All 35 universities receiving semester credit hour formula funding appropriations are subject to audit for compliance with state statutes, General Appropriations Act riders, and the Coordinating Board's rules and regulations. Audit procedures concentrate on testing accuracy of student classification, collection of tuition, compliance with the Texas Academic Skills Program (TASP) requirements, and class size reporting. Verifying these items allows the State Auditor's Office to attest to the accuracy of reported semester credit hours. Test work is concentrated on the base period semesters used to calculate funding for the 1998-1999 biennium which includes the Summer 1996, Fall 1996, and Spring 1997 sessions.

Methodology

The formula funding methodology includes:

- Using attribute sampling methodology to test the accuracy of the semester credit hours used in calculating appropriations

- Reviewing self-reported corrections provided by the University and calculating the dollar impact on appropriations.

- Reviewing the University's documentation supporting amounts included in its request for legislative appropriations.

University Self-Reported Corrections - Since the audit sample is drawn from certified data, and there is no other means for the universities to make corrections to enrollment data after the Coordinating Board certifies the data, universities are encouraged to self-report corrections prior to audit testing. This self-reporting process compensates for known exceptions in certified data. Dollar amounts based on the effective funding rate for the specific item reported increase or decrease any over- or under-funding from compliance testing.

Prior to any audit testing, Lamar University was encouraged to disclose any known instances of noncompliance in the enrollment data reports. Disclosing known instances of noncompliance is usually to the University's benefit. The dollar amount associated with each self-reported item is based on the appropriations the University received for reporting the semester credit hours. On the other hand, instances of noncompliance identified through audit sampling result in a greater dollar impact since they are projected to the entire population of appropriation dollars generated by semester credit hours.

Review of Educational and General Amounts - A review was conducted of the Educational and General revenue amounts in Schedule 1 of each university's request for legislative appropriations. This review consisted of analytical procedures and included tracing amounts to the University's annual financial reports, performing trend analyses of net tuition and indirect costs, and evaluating procedures for estimating revenues for future fiscal years.

Review of Teaching Experience Supplement Procedures - A review was conducted of the policies and procedures related to tracking and reporting Teacher Experience Supplement formula variables. This review consisted of interviews and analysis of written procedures.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards.