

Key Points of Report

An Audit Report on Management Controls at Sul Ross State University

February 1998

Overall Conclusion

Opportunities exist for Sul Ross State University (University) to improve its management of student financial assistance, policy development, human resources, and construction. The area of student financial assistance is the most critical area for improvement. The University's Internal Audit Department effectively aids University management by identifying risks and providing assurance that the University's mission will be accomplished.

Key Facts and Findings

- Significant progress needs to be made to resolve long-standing critical problems with student financial assistance. While some student financial assistance problems identified by the Internal Audit Department and the State Auditor's Office have been corrected, others remain unresolved. Inadequate monitoring and oversight by the University and the Texas State University System have contributed to the lack of progress on financial assistance problems.

Over 65 percent of the students at the university receive an aggregate of over \$8 million in financial assistance. The failure to resolve financial assistance problems puts the federal financial assistance programs of the University at risk.

- The University needs to improve its University- and department-level policies and procedures, as well as human resource controls over performance appraisals, hiring practices, job descriptions, and training.
- The University needs to adhere to Texas State University System-level policies and procedures for project completion inspections for its construction projects.
- Effectiveness in the Internal Audit Department and Historically Underutilized Business (HUB) compliance are strengths of the University.

Contact:

Carol Noble, CISA, Audit Manager (512) 479-4700



Office of the State Auditor

Lawrence F. Alwin, CPA

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Executive Summary

Opportunities exist for Sul Ross State University (University) to improve its management of student financial assistance, policy development, human resources, and construction. The area of student financial assistance is the most critical area for improvement. The University's Internal Audit Department effectively aids University management in identifying risks and in providing assurance that the University's mission will be accomplished.

Increase Oversight to Resolve Continuing Critical Student Financial Assistance Problems

Significant progress needs to be made to resolve long-standing critical problems with student financial assistance. Over 65 percent of the students at the University receive an aggregate of over \$8 million in financial assistance. The failure to resolve financial assistance problems puts the federal financial assistance programs of the University at risk. The most probable risk is that of federally imposed "full reimbursement," which would require administrative efforts that could potentially impact the University's cash flow. In the worst case, lack of progress could result in suspension or termination of federal funds.

While some student financial assistance problems have been corrected, others remain unresolved. Since 1993, the Internal Audit Department has reported financial assistance problems to University management and the Board of Regents of the Texas State University System (TSUS) three times. In addition, the State Auditor's Office has twice identified problems with federal student financial assistance programs.

Inadequate monitoring and oversight by University management and TSUS have contributed to the lack of progress on the financial assistance problems. University management prepared corrective action plans in response to the prior audit reports, but did

not track or monitor progress to ensure timely action. The Board of Regents also did not take enough action to ensure that the University financial assistance problems were addressed quickly. Good management practice requires that all levels of management effectively monitor corrective action plans. Inadequate or slow progress necessitates more active involvement from higher management levels.

Revise University Policies and Procedures Regularly

The University does not regularly review and update the University-wide *Administrative Policy Manual* (Manual). The University also does not require departments to maintain current written policies and procedures.

Policies and procedures should be regularly reviewed and updated to incorporate changes in organizational policies as they occur. Without regular revision there is no assurance that organizational practices at all levels reflect the current direction and needs of the organization.

Improve Human Resource Controls

Improved performance appraisals, hiring practices, job descriptions, and training would enhance the University's management of its human resources. This is important because wage and salary expenditures, totaling \$12.9 million in fiscal year 1997, comprise the largest single use of University funds.

Sul Ross State University does not provide performance appraisals for most non-faculty employees. Appraisal systems can assist organizations in managing performance and fostering employee perceptions of legitimacy and fairness in human resource practices. The lack of performance appraisals impacts the effectiveness of other University human resource functions, including job descriptions, training and development, and compensation.

Executive Summary

The University does not ensure that departments adequately verify the education, experience, or other requirements for applicants hired. This increases the risk of hiring unqualified individuals.

The University does not have written job descriptions for all of the job positions defined in the University's pay plan. The lack of job descriptions for all positions weakens the University's ability to ensure that the appropriate applicants are selected and that employees are aware of their job requirements.

There are three areas for improvement in employee training and development. First, the University does not have a system to identify and prioritize training and development needs. Second, it does not have a training and development plan or budget to ensure resources are available and allocated to develop and maintain staff skills. Third, the University does not centrally monitor and coordinate training and development to ensure training needs are met and duplication is minimized.

Adhere to TSUS Project Completion Procedures for Construction Projects

Except for weaknesses noted in the project completion phase, Sul Ross State University adequately follows TSUS Board of Regents' Rules and Regulations for construction. The two weaknesses were the lack of complete documentation for a final inspection and the omission of a one-year warranty inspection.

These inspection weaknesses could compromise the University's ability to hold contractors accountable for the quality and completeness of construction projects. Unless corrected, the weaknesses could impact the current \$8 million University Student Center construction or the additional \$15 million of planned construction projects.

Internal Audit Function Identifies and Reports on Critical Risks of the University

The University's Internal Audit Department (Internal Audit) provides effective coverage of the University's management systems and identified risks. Internal Audit identifies and reduces risk through its evaluation of the organizational practices designed to safeguard assets and ensure efficient functioning of the organization.

Historically Underutilized Business (HUB) Program

The University's procedures for reporting HUB activity allowed the University to comply with statutory reporting requirements. Through marketing and outreach efforts by the Purchasing Department a good-faith effort to achieve HUB target numbers was made by the University.

Summary of Management's Responses

Management generally concurs with the findings and recommendations in this report. The responses indicate that corrective actions are already in progress.

Summary of Audit Objectives and Scope

The objectives of this audit were to evaluate the existing management control systems within Sul Ross State University and to identify opportunities for improvement. The scope included consideration of the University's management control systems.

Increase Oversight to Resolve Continuing Critical Student Financial Assistance Problems

Significant progress needs to be made to resolve long-standing critical problems with student financial assistance at Sul Ross State University (University). Over 65 percent of the students at the University receive an aggregate of over \$8 million in financial assistance. The failure to resolve financial assistance problems puts the federal financial assistance programs of the University at risk. The most probable risk is of federally imposed “full reimbursement,” which would require administrative efforts that could potentially impact the University’s cash flow. In the worst case, lack of progress could result in suspension or termination of federal funds.

Student Financial Assistance Problems

Issues in prior audit reports included:

- Incomplete and non-current policies and procedures
- Noncompliance in several federal financial assistance programs
- Lack of collections of state short-term loans
- Weakness in control environment in the Financial Assistance and Recruiting Department
- Lack of documentation and file maintenance of student aid files

Since 1993, the Internal Audit Department (Internal Audit) has reported financial assistance problems to University management and the Board of Regents of the Texas State University System (TSUS) three times. Some problems have been corrected, but the August 1997 Internal Audit report (released in November 1997) still details financial assistance problems. In addition, the State Auditor’s Office has identified problems with federal student financial assistance programs (SAO Report No. 97-332, March 1997). A recent follow-up review by the State Auditor’s Office identified some continuing problems.

Inadequate monitoring and oversight by TSUS and University management have contributed to the lack of progress on the financial assistance problems. University management prepared corrective action plans in response to the prior audit reports. However, the lack of required, timely written progress reports contributed to executive management not recognizing the lack of progress and the

need to adjust the plans. Having three new financial assistance directors within the past four years further indicated a need for increased executive management oversight.

The TSUS Board of Regents (Board) did not take enough action to ensure that University financial assistance problems were addressed quickly. Internal Audit reported the financial assistance issues to the Board in category 1 audits, the most severe category of audit report allowed by Board rules and regulations. However, we found insufficient documentation of Board action to emphasize the importance of timely resolution of the problems.

Good management practices require that all levels of management effectively monitor corrective action plans. Inadequate or slow progress necessitates more active involvement from higher management levels. Top management is ultimately responsible for the timely resolution of problems. Part of monitoring includes written progress reports to higher management on the current status of corrective actions and

time lines in the action plans. When appropriate, action plans should be adjusted to reflect realistic target dates for completion.

Substantial noncompliance could put the University's future federal financial assistance programs at risk. For example, noncompliance in the federal Perkins Loan program collection process demonstrates inability to administer this federal financial assistance program.

Federal regulations require the University to demonstrate the capability to administer all phases of federal financial assistance programs for continued participation in those programs.

As mentioned above, if problems are not resolved, the likelihood increases that the University would be subject to "full reimbursement." This would require additional administrative efforts by the University. The need to provide more complete documentation before obtaining the federal funds could impact the University's cash flow. A less probable risk, but within the purview of federal rules, is suspension or termination of selected or all federal financial assistance funding.

Recommendation:

We recommend that University management:

- Develop and implement a detailed formal plan of corrective action for the financial assistance problems.
- Prioritize the planned actions, identify the resources needed, and get executive management support and commitment for the resources needed.
- Monitor implementation of the plan on an ongoing basis by requiring regular written status reports to ensure effective and timely progress.

Category 1 Audit Report

One of the criteria for category 1 audits (reports) is the inclusion of any significant area of noncompliance with state or federal regulations or laws.

The Board's current rules and regulations only require the following reporting steps for category 1 audits (the most severe audits):

- All category 1 audits be immediately routed to the chairman of the Finance Committee who will then decide if the audit should be forwarded to the rest of the Board of Regents.
- Prior to each scheduled Board meeting a summary of internal audit reports by each internal auditor for the period will be forwarded to the system's director of finance for inclusion in finance committee's minutes. The summary of internal audit reports will include an evaluation of progress made on audit recommendations issued in the current year and this summary will become a part of the finance Committee's report to the full Board of Regents

Source: *Texas State University System Board of Regents's Rules and Regulations*

In addition, we recommend that the Board of Regents identify a more effective monitoring and oversight process to ensure more timely resolution of category 1 audit problems such as financial assistance. The Board should reevaluate its procedures for category 1 audits. We suggest the following changes:

- Require reporting for all category 1 audits to be routed to all members of the Board of Regents.

- Require Internal Audit's summary of audits to the Finance Committee of the Board to include a statement emphasizing the severity of the audit, along with a detailed status of corrective actions.

This could alert the Board to potential problems before they become a large drain on University resources.

In addition, the Board should review the reported status information and determine what action by the Board is needed to ensure timely progress.

University's Response:

In our opinion, management is making significant progress in addressing the financial assistance problems identified by previous internal and State audits. Specifically, a new Interim Director of Financial Assistance and Recruiting was assigned in December 1997 while the search for a new Director is in progress. The Interim Director has made substantial progress in making the personnel changes and establishing the procedures necessary to resolve identified problems. In addition, the seven issues identified in the State Audit (Report #97-332 previously mentioned) have been reduced to three in the State follow-up audit completed January 1998. Two of the issues were eliminated because of changes in federal regulations and two others were addressed by management through implemented procedures which resolved the identified problems. The three remaining findings have no questioned costs associated with them and are being addressed by management for immediate resolution.

The University has developed and is implementing a detailed formal plan of corrective action for the remaining financial assistance problems. Gantt Charts depicting the actions to be completed, milestones to be assessed, and time-lines for actions have been created and distributed to all responsible individuals and the State Auditor's Office. These charts detail the plan of corrective action to be taken for the following problem areas in Financial Assistance: short term loan collections, file maintenance, policies and procedures manual, and the Perkins Loan Program.

Expected completion dates for these areas are shown below:

| <u>Problem Area</u> | <u>Expected Completion Date</u> | <u>Review Date</u> |
|---------------------------------------|---------------------------------|--------------------------|
| <i>Short term loan collections</i> | <i>March 27, 1998</i> | <i>April 10, 1998</i> |
| <i>File maintenance</i> | <i>April 1, 1998</i> | <i>April 10, 1998</i> |
| <i>Policies and procedures manual</i> | <i>April 6, 1998</i> | <i>April 10, 1998</i> |
| <i>Perkins Loan Program</i> | <i>December 16, 1998</i> | <i>December 18, 1998</i> |

The Review Date is the date when the actions will be verified for completion by the Internal Auditor.

Each corrective action has been planned for accomplishment in a priority order designed to resolve the problem area in the most expeditious yet thorough manner possible. Additional needed resources have been identified as follows:

One additional full-time employee with responsibility for completing Perkins Loan cleanup. This employee will have no other responsibilities.

Two student workers to review all files. These employees will complete a check list showing status of each file. Any files missing items will be completed by a full-time employee.

Travel funds to send new worker to training with Academic Financial Services Association (AFSA) in Chicago, IL.

Additional maintenance and operations funds to publish the policy and procedures manual.

The funds for these needed resources have been identified and transferred to the Office of Recruiting and Financial Assistance. Each of these has executive management support and commitment.

Implementation of the plan is being monitored on an ongoing basis. The President has required a bi-weekly written report from the Director of Recruiting and Financial Assistance and the Dean of Admissions and Records to the Vice President for Academic and Student Affairs. The first of these reports has been issued.

A report summarizing these progress reports, and up-dated Gantt Charts, is required from the Vice President for Academic and Student Affairs to the President once per month. Completion of actions will be verified by the Internal Auditor.

Board of Regent's Response:

The Board of Regents for the Texas State University System is charged with and committed to setting the broad policy for the operations of its component institutions. Policies are established that meet legal requirements as well as good business practices, all the while providing an exceptional educational opportunity for the students. Upon the establishment of the policies, the Board does exercise its oversight responsibility to make certain the policies are adhered to.

In our opinion the Board did execute its oversight responsibility over the University and the student financial aid problems. What we failed to do was reduce to writing our expectations and evaluations of the results. In the future, working through the

System Administration staff, we will have this documentation with a clear delineation of expectations and results.

The last two Chairs of the Finance Committee have directed the System's Director of Audits and Analysis to automatically provide Category I audits to all Board members. Their directions have been followed. A revision to the Board's Rules and Regulations making the distribution to Board members a requirement will be presented to the Board for their approval.

Prior to the adoption of the revised Board policies, additional information will be included in the Board's quarterly agenda book. This information will emphasize the critical nature of Category I audits.

The Director of Audits and Analysis will prepare a Category I audit uniform quarterly reporting requirement format for the components' internal auditors. The requirements will include management's corrective action plans and expected time frame to rectify the problem(s). The component internal auditors will perform follow-up audits every six months until the problems identified in the original audit have been corrected. The university Presidents will be expected to provide the Board with a current status report at each quarterly Board meeting.

The Board will review the status reports from the Presidents and internal auditors. The results of the Board review and any action plans adopted will be documented in the Board minutes.

Section 2:

Revise University Policies and Procedures Regularly

The University does not regularly review and update the University-wide *Administrative Policy Manual* (Manual). The University also does not require departments to maintain current written policies and procedures. Both of these conditions increase the University's risk of legal liability as well as the risk of not achieving its goals.

Administrative Policy Manual

The *Administrative Policy Manual* provides guidance at a high level to help employees implement TSUS Board policy and Sul Ross State University executive management policy and comply with applicable laws and regulations.

Source: Sul Ross State University
Administrative Policy Manual

University management is not following its own policy for the regular review and revision of the Manual. In addition, management's failure to review and revise University-wide policies and procedures contributes to department heads not recognizing the importance of written policies and procedures at their level.

Policies and procedures should be regularly reviewed and updated to incorporate changes in laws, regulations, and higher level organizational policies as they occur. Without regular revision there is no assurance that organizational practices at all levels reflect the current direction and needs of the organization.

Recommendation:

We recommend that the University:

- Comply with its own policy for reviewing and revising the *Administrative Policy Manual*.
- Develop a review schedule for University-wide policies and procedures. The schedule should be prioritized so that critical policies and procedures are reviewed at least annually.
- Develop written policies and procedures for important administrative functions at the departmental level. Ensure that department-level policies and procedures align with University-wide policies and procedures, including annual review and updates.

Management's Response:

The University is presently publishing the latest version of its Administrative Policy Manual (APM) which includes all revisions resulting from changes in University policy, Board of Regents Rules and Regulations (BORR&R) and applicable State law since our last revision. Each policy in the manual will include a footnote that indicates the date of revision for the current policy and the title of the section or policy. As policies change between publication dates (every two to three years depending on the number of changes), new policies will be distributed to all custodians of the APM with appropriate revision dates and instructions to insert pages in the appropriate locations in the APM.

The Assistant to the President has been given responsibility for reviewing the APM at each occasion when University, System or State policies and laws change and drafting updates for appropriate portions to reflect changes. These drafts will be reviewed by the Executive Committee and when applicable, the Administrative Council. Once finalized, they will be incorporated into the APM and distributed for insertion into existing APM's or included in the publication of the new version. In addition, it will be the responsibility of the Assistant to the President to complete an annual review of the APM in September of each year and identify for review, policies that either have not been revised during the last 12 months or that should be modified to reflect current practice. The annual review will be documented in the form of a certificate page that will indicate the last major revision publication date and a history of annual reviews-to-date. This certificate page will be distributed to all APM custodians and be maintained as the last page of the APM.

The Assistant to the President has begun meeting with all department chairs and secretaries to develop an office policy and procedures manual for each office, academic and non-academic, on campus. The purpose of the initial meetings is to outline the format and discuss content for the office manuals to obtain a degree of

consistency among similar departments. The manuals will be maintained in an electronic format with printed copies available upon request.

In addition to administrative functions, the manual will include other items such as a calendar of recurring events, guidelines for functions such as purchasing, printing, general stores purchases, travel requests, etc. The manual will also include a brief position description for each departmental employee or employee group. With the implementation of the campus wide network (currently being installed), the manuals will be available on-line on the campus intra-net and will be reviewed annually by the Assistant to the President for consistency with other University policies and procedures, and by departmental secretaries for conformity with current practice in the department. Changes and modifications will be submitted through department chairs and supervisors before incorporation into the revised manual.

The target date for the completion of the departmental policy and procedure manuals is November, 1998. However, the calendar completion will require a full year to include all recurring activities.

Section 3:

Improve Human Resource Controls

Improved performance appraisals, training, job descriptions, analysis of human resource processes, and records maintenance would enhance the University's management controls over its human resources. This is important because human resource expenditures comprise the single largest use of the University's funds. Wage and salary expenditures totaled \$12.9 million in fiscal year 1997.

Section 3-A:

Implement a Performance Appraisal System

Sul Ross State University does not provide performance appraisals for "classified" employees and most "non-classified" employees.¹ There is a limited performance appraisal system for six employees reporting directly to the University President. The lack of performance appraisals impacts the effectiveness of other University human resource functions, including job descriptions, employee placement, training and development, compensation, and promotion.

Performance appraisal systems that link to other human resource management practices and systems provide the most benefit to an organization. Documented performance

¹ Employees at Sul Ross State University are not subject to the State Classification Plan and its classified job positions. As with most universities, Sul Ross State University has defined its own internal classified and non-classified job positions for non-faculty employees. In this report, the terms "classified" and "non-classified" refer to the University's internal job classification system for non-faculty employees.

can be used as one criterion for compensation and promotion decisions, as well as for the assignment of individuals to job positions appropriate for their performance level. Performance appraisals can also be reviewed to identify both individual and organizational training and development needs. Furthermore, appraisal systems can assist organizations in managing performance and fostering employee perceptions of legitimacy and fairness in human resource practices.

Specific criteria used to evaluate an employee should directly reflect the job responsibilities of that individual. Performance standards should be developed for each job responsibility and specific examples of performance should be provided.

For a performance appraisal process to work as designed appraisers must be trained. Training can help appraisers develop a common frame of reference for evaluating performance.

Recommendation:

We recommend that the University establish a policy requiring written performance appraisals for all employees. The performance appraisal system designed should include:

- A requirement for written performance appraisals at least annually
- Definitions of performance standards that directly reflect the job responsibilities of each position within the University

Prior to this step the University will need to create job descriptions for each classified and non-classified job position. (See Section 3-C.)

- Evaluation forms that record examples of the individual employee's performance compared to the predefined standards for that job position
- A requirement for periodic training of personnel who conduct performance appraisals

Management's Response:

Sul Ross State University has performance appraisals in place for faculty members. In addition, a limited appraisal system is in place for the President's six directly reporting individuals and in progress for the personnel reporting directly to these six.

The University will implement a performance appraisal system for classified and unclassified employees with a target completion date of August 1999. To accomplish this goal the University has begun researching successful performance appraisal systems at other institutions and systems available commercially. It may be necessary to purchase an appraisal system and it will be necessary to hire at least one additional

staff member in the Personnel/Payroll Office to coordinate the performance appraisal system.

The performance appraisal system will include the following components:

Written performance appraisals conducted annually.

Performance standards that reflect the job responsibilities of each staff member within the University based on job descriptions.

Evaluation forms that record examples of the individual employee's performance compared to the standards for that position.

Periodic training of personnel who conduct performance appraisals.

Job description reviews at the time of performance appraisals.

Section 3-B:

Require Verification of Candidate Qualifications and Monitor the Screening Process by the Hiring Departments

The University does not ensure that individual departments adequately verify the education, experience, or other requirements for applicants hired. This increases the risk of hiring unqualified individuals. Hiring unqualified personnel can result in additional human resource costs for counseling and dismissing the unqualified employee and for recruiting a replacement employee.

Individual departments are responsible for screening applicants (conducting interviews, contacting references, verifying past employment, obtaining evidence of education or professional certification) using the Applicant Referral Evaluation and Selection Form. Audit testing of human resource hiring files found limited documentation of the results of this screening process.

Organizations should verify applicant information including, but not limited to, work and salary history, academic credentials, professional certifications and affiliations, and personal references.

Recommendation:

We recommend that the University:

- Require departments to verify necessary applicant information to include employment and personal references, education, and professional certifications or affiliations.

- Require departments to submit evidence that the verification of necessary information on the application form has been performed.

This information should be incorporated in the selection documentation maintained by the Personnel/Payroll Department.

- Assign the Personnel/Payroll Department to monitor the return of the completed applicant referral evaluation and selection forms from hiring departments.

Management's Response:

All applications for employment at Sul Ross State University are received and screened in the Personnel/Payroll Office before referral to the hiring departments. Only applicants who meet the minimum qualifications for the position are forwarded to the hiring departments. The University has an applicant referral evaluation and selection form to be used by the hiring department for all candidates interviewed and finally selected for hire.

The University will improve verification of candidate's qualifications and insure documentation of the process by the hiring department. The target implementation date for the improved procedures will be May, 1998.

The improved verification procedures will include:

A requirement that hiring departments verify and document necessary applicant information to include employment and personal references, education, professional certifications.

A form will be developed to serve as evidence that the verification was performed by the hiring department and the completed forms will be maintained in the Personnel/Payroll Office.

The Personnel/Payroll Office will insure the documentation is on file before the new employee may begin employment.

Section 3-C:

Develop Job Descriptions for All Positions

The University does not have written job descriptions for all of the job positions defined in the University's pay plan. No written job descriptions exist for 33 percent (15 out of 45 positions) of the non-classified job positions and 4 percent (3 out of 71 positions) of the classified job positions.

This lack of job descriptions for all positions weakens the University's ability to ensure that the appropriate applicants are selected for key positions. This is especially

important for non-classified administrative positions that require highly developed and specialized skills. In addition, the lack of job descriptions hampers the development of an effective performance appraisal system. (See Section 3-A.)

Job descriptions improve accountability by helping to ensure that employees and supervisors are aware of job requirements. Job descriptions also serve as foundations for hiring and evaluation processes by specifying job duties and responsibilities, as well as the knowledge, skills, and abilities required for competent performance of the job.

Recommendation:

We recommend that the University develop and review job descriptions for all staff, including both non-classified and classified positions.

Management's Response:

Sul Ross State University has maintained written job descriptions for the majority of classified and unclassified positions on file in the Personnel/Payroll Office. Job descriptions have been reviewed by employees and supervisors in each department on a periodic basis. Job specifications for classified and unclassified positions are reviewed by each individual in line of supervision including the administrative officers each time a job announcement is prepared when a position is vacated or created and hired.

The University will continue to develop and review job descriptions for all classified and unclassified positions. The target goal for completion of this process will be December, 1998.

Section 3-D:

Improve Training and Development Processes

There are areas for improvement in the training and development of University employees.

- The University does not have a system in place to identify and prioritize training and development needs of the University. Identifying those needs would help management plan appropriate staff training and development to maintain staff skills and qualifications.
- The University does not have a training and development plan or budget to ensure resources are available and allocated to develop and maintain staff skills.

- The University does not centrally monitor and coordinate training and development of its employees. This increases the risk of duplication in the University's decentralized approach to employee training and development.

The ongoing training and development of all employees plays a vital role in achieving efficiency and effectiveness. The training process begins with new employee orientation and continues throughout the employee's career with the University. Rapidly changing legal, technological, and sociological environments further dictate that employees receive ongoing training and development to obtain the knowledge and skills required for their changing assignments.

Recommendations:

We recommend that the University:

- Establish a system to identify and prioritize training and development needs for both the University and individual departments.
- Establish a training and development plan and budget. A budget should designate the amount of time and funds to be spent on the training and development program.
- Develop a system to monitor, coordinate, and evaluate training and development of all employees.

Management's Response:

Sul Ross State University has provided campus wide training coordinated by the Personnel/Payroll Office. This training has included initial orientation, safety, wellness, ethics, EEOC issues, and benefits including insurance and retirement. Specific training programs for all staff employees coordinated by the Personnel/Payroll Office have been Connections and Advanced Connections, with Partners training for student employees. Connections, Advanced Connections and Partners includes training in communications, teamwork, telephone skills, customer service, complaint resolution, and working with diverse populations. Connections and Advanced Connections represents twelve contact hours and six hours of outside study for each staff member. Partners represents four contact hours and two hours of outside study for each student employee.

Content specific training has been conducted within departments and often made available campus wide. Employees within various departments attend workshops provided by state agencies or professional organizations as needed to perform their specific jobs. Department specific training will be budgeted within departments, and individual training requirements and monitoring will be incorporated into the annual performance evaluations.

For the Personnel/Payroll Office to identify, prioritize, coordinate, monitor and evaluate all training for all staff campus wide it will be necessary to add at least an additional staff member. It may be possible to combine the responsibilities of performance appraisal coordination with training coordination. The target date for implementation will be May, 1999.

The University will establish a training program that will include:

A system to identify and prioritize training and development needs for both the University and individual departments.

A training and development plan and budget which will include the time and funds to be spent on the training and development program.

A system to monitor, coordinate and evaluate training and development of all employees.

Section 4:

Adhere to Texas State University System Project Completion Procedures for Construction Projects

Except for weaknesses noted in the project completion phase the University adequately follows *Texas State University System Board of Regents' Rules and Regulations* for construction. The inspection weaknesses noted in the project completion phase could compromise the University's ability to hold contractors accountable for the quality and completeness of construction projects.

Texas State University System Construction Rules and Regulations

TSUS procedures for new construction and remodeling or repair of existing facilities in the amount of \$100,000 or more are broken in the following six phases:

Phase I Project Creation
 Phase II Preliminary Plans Development
 Phase III Detail Design Plan Development
 Phase IV Pre-Construction
 Phase V Contract Administration
 Phase VI Project Completion

Source: *Texas State University System Board of Regents' Rules and Regulations*

The two weaknesses noted in Phase VI, Project Completion, of the 1996 Lawrence Hall renovation project (costing over \$3 million) were:

- Documentation showing that the Architect/Engineer, Construction Administrator, and the Director of Planning and Construction met for a final inspection as required by TSUS policy was lacking.
- The one-year warranty inspection was not done as required by TSUS policy.

Our review showed the University followed TSUS procedures for the first five phases of construction on the \$8 million University Student Center construction project. The University Student Center project is still in progress, so we could not review Phase VI, Project Completion. However, based on weaknesses noted in the renovation project, there is a risk that key procedures could be overlooked

on this project. These weaknesses could impact an additional \$15 million of planned construction projects.

Recommendations:

We recommend that the University improve adherence to TSUS's project completion procedures by:

- Documenting all required construction inspections
- Scheduling the required warranty inspection

We recommend that the University carefully follow project completion inspection procedures for Phase VI of the University Student Center construction project.

Management's Response:

For all future construction projects, including the University Student Center project currently underway, the University will document all required construction inspections and schedule the required warranty inspections. Detailed documentation regarding the construction and warranty inspections will be maintained in the University Physical Plant construction files. Confirmation of the required inspections will be maintained in the Vice President for Administrative Services construction files. The University will carefully follow TSUS project completion inspection procedures for Phase VI of the University Student Center construction project.

Recommendations will be made to the Board of Regents for changes to the inspection procedures for Phase VI of the TSUS Construction Rules and Regulations.

Section 5:

Include the Internal Audit Department in Automated Systems Development

**Software Purchase by Sul Ross State University
From Systems & Computer Technology
Corporation (SCT)**

SCT IA-Plus Series for Higher Education
Integrated Systems (costing \$969,070)

- Student Information System & Financial Aid System
- Financial Records System
- Human Resources System
- Alumni/Development System

Overall, the University followed adequate procedures and documented the needs analysis and feasibility study for IA-Plus, an integrated higher education automated information system. However, the University did not include the Internal Audit Department (Department) as a participant in the needs analysis and feasibility study. While no specific problems resulted, the lack of Internal Audit involvement increased the risk that the system chosen would not effectively address University needs.

Internal Audit's knowledge of individual departments and management controls within an organization can benefit the automated system development process. Internal Audit surveys the organizational environment when assessing risk and is aware of how each department contributes to the organization's mission. Internal Audit can use this knowledge to help determine if automated system designs meet the organization's information and processing requirements and control needs. Through the development, testing, and implementation phases, Internal Audit can continue to advise the organization about the adequacy of controls in the system.

Recommendations:

We recommend that the University modify current systems development procedures to include Internal Audit as a non-voting advisor in all phases of automated systems development.

Management's Response:

The Project Operating Plan document for the IA-Plus system has incorporated the SRSU Internal Auditor as Quality Reviewer for the project. As the project now moves from the installation/education phases to the implementation phase, this role will become increasingly important.

We concur with this recommendation and will ensure that Internal Audit is included in all future phases of automated systems development.

Section 6:

The Internal Audit Department Identifies and Reports on Critical Risks of the University

Internal Audit provides effective coverage of the University's management systems and identified risks. This increases the potential detection of noncompliance with federal and state laws, fiscal errors, irregularities, and fraud. Internal audits are an important management tool. They help identify and reduce risk through evaluation of the organizational practices designed to safeguard assets and ensure efficient functioning of the organization.

During fiscal year 1997 Internal Audit completed the majority of its planned audit work. The work in cash controls, investment policies, fixed assets, range animal science, criminal justices academy, and student housing all addressed previously identified significant risks.

- Internal Audit has continued to identify and report on the financial assistance deficiencies. Three Internal Audit category 1 reports in four years advised all levels of TSUS and University management of the continuing ineffective efforts to resolve financial assistance department problems.

- University management agreed to implement solutions to correct deficiencies identified in 11 other 1997 internal audit reports.

Management's Response:

Management will continue to utilize the Internal Audit function as a tool to identify risks and evaluate the processes and internal controls designed to safeguard assets and ensure the efficient operation of the University.

Section 7:

The University Made Good-Faith Efforts to Ensure Compliance With Statutory Requirements Over the Historically Underutilized Business (HUB) Program

The University's procedures for reporting HUB activity allowed the University to comply with statutory reporting requirements. Through marketing and outreach efforts by the Purchasing Department a good-faith effort to achieve HUB target numbers was made by the University.

Management's Response:

The University, through the Purchasing Department, will continue efforts to achieve HUB target numbers and comply with statutory reporting requirements.

Objectives, Scope and Methodology

Objectives

Our audit objectives were to evaluate the management control systems within Sul Ross State University, including its management of resources, and to identify opportunities for improvement. We evaluated whether the control systems are providing reasonable assurance that the University's goals and objectives will be accomplished. The audit evaluated control systems in place during fiscal years 1996 and 1997.

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 management control systems: policy management, information management and resource management.

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

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

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

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

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

- Processes used to select, train, and evaluate performance of University employees
- Investment policies and practices at the University

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

Methodology

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

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

The following criteria were used to evaluate the control systems:

- Statutory requirements
- University and TSUS policies and procedures
- General and specific criteria developed by the State Auditor's Office Inventory of Accountability Systems Project
- State Auditor's Office Project Procedures Manual
- Other standards and criteria developed through secondary research sources, both prior to and during fieldwork

Other Information

Fieldwork was conducted from September through November 1997. We did not verify or review the accuracy of the data provided by Sul Ross State University. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

No significant instances of noncompliance with these standards occurred.

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

- Stan Brumfield, CPA, MBA (Project Manager)
- Paul Liberto
- Carol Noble, CISA (Audit Manager)
- Craig Kinton, CPA (Audit Director)

Background Information

Mission Statement - Sul Ross State University's mission is to assure quality learning, scholarship, and public service for the people of West Texas. The University is committed to access of higher education for all West Texans and to efficiency in the use of scarce resources.

History - Sul Ross State University, located in Alpine in Brewster County, was created in 1917 by the 35th Legislature as Sul Ross State Normal School to train teachers. In 1923, the Legislature changed the name of the institution to Sul Ross State Teachers College and added advanced courses leading to baccalaureate degrees. The curriculum was broadened following World War II and the name changed to Sul Ross State College in 1949. In 1969, the Legislature changed the name of the institution to Sul Ross State University signifying full university status and an expanded mission in keeping with the role of a regional comprehensive university.

Operations - Sul Ross State University is one of five components of the Texas State University System. The University reported the following full time equivalents (FTE):

Table 1

| Fiscal Year 1996 | | |
|------------------|---------------|--------------|
| Campus | FTE Employees | FTE Students |
| Main | 96.73 | 2,281 |
| Rio Grande | 25 | 520 |
| Total | 121.73 | 2,801 |

The university is organized into two schools and one division: School of Arts and Science, School of Professional Studies, and Division of Range Animal Science.

Financial Information - The University reports revenues of \$35,086,478.50 and expenditures of \$28,560,446.75. The largest amount of revenue and expenses were in the Educational and General Fund. The University fund balance totaled \$220,656,851 for fiscal year 1997. Reported revenues, expenditures, and fund balances were distributed as shown in Figures 1, 2, and 3.

Figure 1

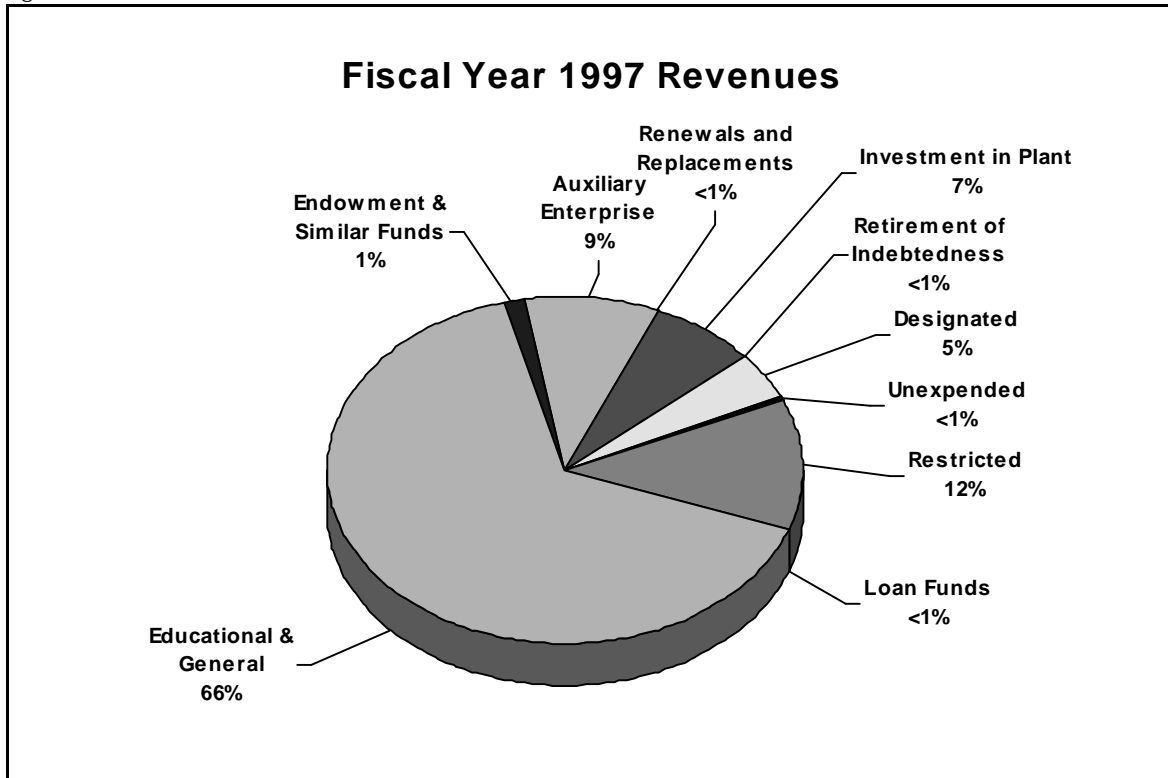


Figure 2

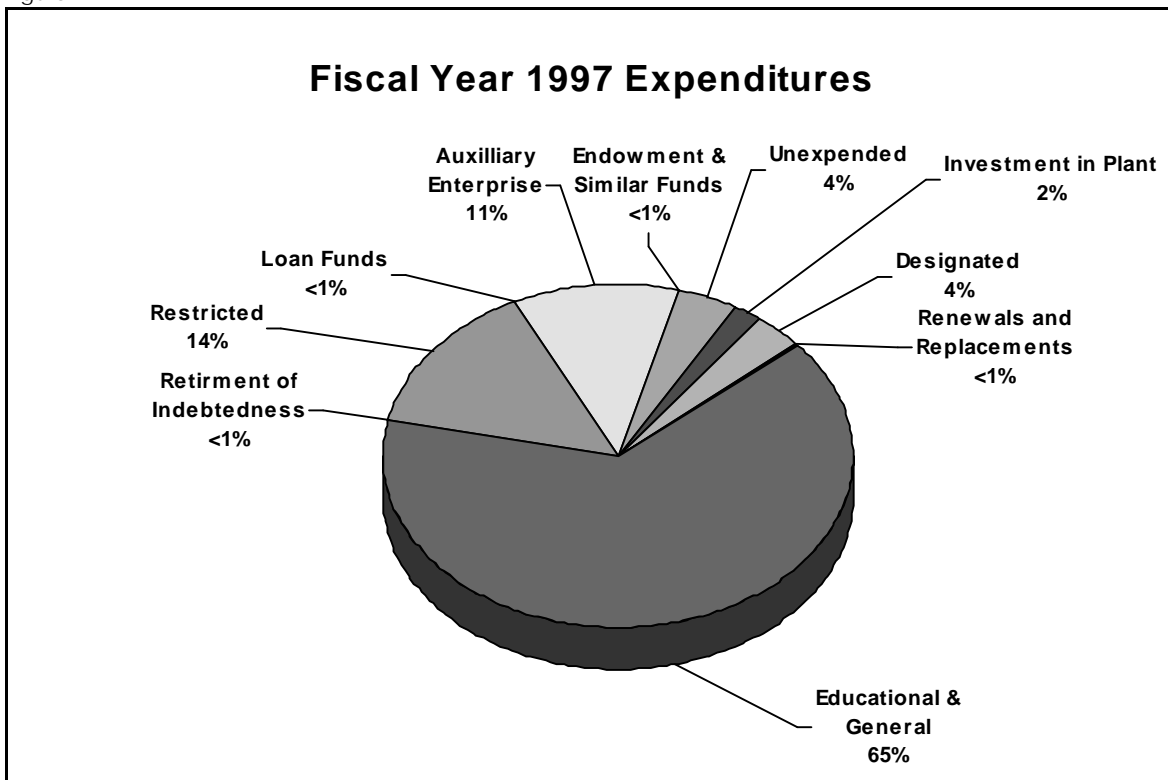


Figure 3

