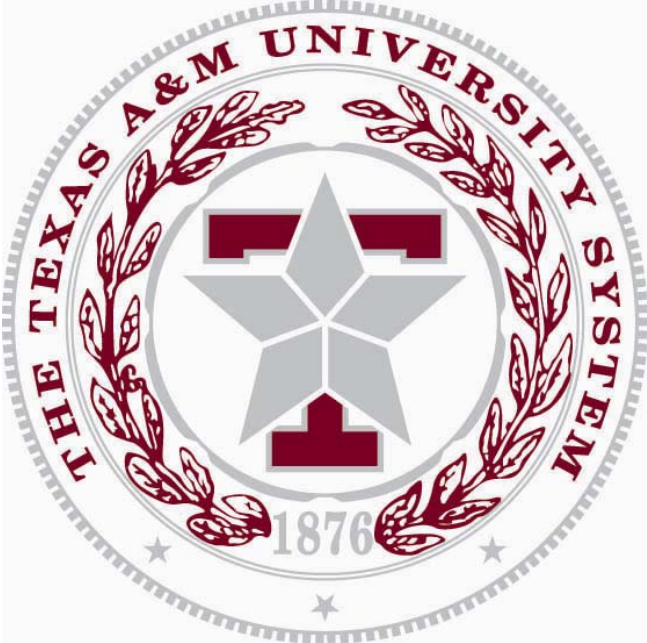


The Texas A&M University System Internal Audit Department

**THIRD QUARTER REPORT
FISCAL YEAR 2008**



July 21, 2008



The Texas A&M University System Internal Audit Department
Third Quarter Report
Fiscal Year 2008

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PROJECT SUMMARY

Overview

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Disregard of A&M System policies and procedures and the lack of effective oversight provided for the Texas Institute for Genomic Medicine public-private partnership (TIGM) has resulted in financial difficulties for the partnership. TIGM is a public-private partnership established in 2005 as the result of a \$50 million grant from the Texas Enterprise Fund. The A&M System did not implement sufficient governance processes to ensure the financial success of the partnership. The transfer of funds between the A&M System and TIGM and the construction of the College Station TIGM facility were not administered in accordance with System policy resulting in noncompliance with contractual provisions, limited research activity, delayed occupancy of the building and the need for significant additional financial support from the A&M System.

The State of Texas awarded the funds to the A&M System and a public biotechnology company to establish copies of mouse embryonic stem cell clone libraries and associated software in College Station at Texas A&M University (TAMU) and in Houston at the Institute for Biosciences and Technology (IBT). In return, the A&M System and the biotechnology company agreed to create at least 5,000 new employment positions in Texas by 2015. Based on the Texas Workforce Commission's industry reporting methodology, the A&M System has reported 4,957 jobs created over the last two years for its share of the employment positions.

In 2007, TIGM joined the International Knockout Mouse Consortium (IKMC) which was founded by the National Institutes of Health, The European Commission and Genome Canada. The goal of the consortium is to systematically knock out every protein-coding gene in the mouse genome by targeting genes in embryonic stem cells.

In May 2008, the A&M System Board of Regents approved the creation of the Texas Institute for Genomic Medicine as a joint institute of Texas A&M University and the A&M System Health Science Center (HSC). The A&M System committed \$1.2 million to fund expenses associated with the transition of the 501(c)3 organization to this institute.

Summary of Significant Results

Governance

The lack of effective oversight provided by A&M System leadership and poor planning have resulted in the declining financial condition of the TIGM partnership and the need for additional financial support totaling \$3.2 million from the A&M System.

Contract Administration

Many of the contractual provisions of agreements associated with the TIGM partnership do not align with those in other agreements, and some agreements were not executed in accordance with the System delegation of authority for review and approval of contracts. Additionally, the A&M System is not in compliance with several contract provisions, and has been involved in disagreements pertaining to use, ownership, and maintenance of the TIGM building and responsibility for contract performance.

Construction Management

It is unclear whether the construction management services that would typically be provided by the A&M System Facilities Planning and Construction Department (FP&C) were performed by parties contracted by TIGM. These services are designed to ensure quality facilities are obtained at the best value. TAMU Physical Plant has indicated a substantial punch list remains to be completed before the building can be occupied.

Summary of Management's Response

Management requested this review and appreciates the work of the audit team. We agree that the governance, contract administration and construction management were major weaknesses in the Texas Institute for Genomic Medicine Partnership. There has been a significant change in culture within The Texas A&M University System since the creation of TIGM. With that change, progress has already been made to help rectify the issues described in this report.

In May 2008, the A&M System Board of Regents approved the following minute order: "The Texas A&M Institute for Genomic Medicine, a joint TAMU and TAMHSC Institute is here by established, reporting to the Presidents of TAMU and TAMHSC. In addition, Available University Funds of up to \$800,000 for modifying and equipping the building and Special Mineral Funds of up to \$400,000 for the expenses associated with this transition are

appropriated to Texas A&M University.” The transfer of TIGM to the auspices of The Texas A&M University System will facilitate more effective management of these assets and will enhance their value to the academic, research and economic development engine of TAMU and TAMHSC.

Scope

Our review of the Texas Institute for Genomic Medicine partnership focused on the areas of governance, contract administration and compliance, and construction management. Activities and transactions related to these areas were reviewed for the period from July 2005 through March 2008. Fieldwork was conducted January through April 2008.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Governance

Observation

Poor risk assessment and planning, and the lack of a designated responsible official to oversee the TIGM partnership has resulted in noncompliance with contractual terms and declining financial condition.

Leadership

The A&M System did not designate an individual responsible for oversight of the TIGM public-private partnership to ensure the success of the initiative and compliance with contractual terms. Memos and emails were drafted by various employees of the Health Science Center, Texas A&M University and TIGM, including members of executive management of these institutions, that communicated concerns with the partnership including the lack of a business plan, the lack of a designated responsible individual, uncertainty of the partnership's alignment with existing institutional missions, and declining financial condition. It is not clear how, or if, any of these concerns were addressed during the first two years of the partnership.

The Collaboration and License agreement between the A&M System and the biotechnology company contained provisions for a joint management committee and project coordinators to be established including representation from the A&M System, TIGM, and the biotechnology company; however, these positions were never identified or utilized as intended, resulting in noncompliance with several contractual provisions.

Business/Contingency Planning

A business plan was requested "as soon as possible" by the TIGM Board of Directors in December 2005 and was discussed in several subsequent Board meetings as "under development." The business plan was reported as "under discussion" as late as June 2006. Two business plans were obtained by the auditors, dated November 2006 and December 2007, indicating the first formal plan was not drafted for a year after it was requested.

Interviews with A&M System Offices, TAMU and HSC employees indicate that a \$50 million NIH Knock Out Mouse Project (KOMP) grant proposal that was submitted in December 2005/January 2006 was essentially the business plan for the TIGM partnership and no

1. Governance (cont.)

contingency plans were considered. TIGM was notified in June 2006 that they did not receive the award.

The lack of business and contingency plans resulted in an inability to respond to the declining financial condition of TIGM. TIGM has not generated enough sales to be self-sustaining and experienced a decrease in net assets of \$1.5 million in fiscal year 2007. The A&M System paid \$1.9 million for utility infrastructure, another \$105,000 for payroll in 2008, and has committed \$1.2 million to fund expenses associated with the partnership's transition to a joint institute of TAMU and HSC.

TIGM Board Meeting Minutes

The TIGM Board meeting minutes did not provide sufficient detail to document significant discussions and decisions made by the Board members including budgets, personnel appointments, and results of grant proposals. As a result, there is not sufficient detail to provide evidence of actions taken by the TIGM Board of Directors. The primary purpose of board meeting minutes is to create an official record of the events that transpired during the meeting. They should be detailed enough so that a board member not in attendance can understand what occurred.

Recommendation

When the A&M System participates in future partnerships, an individual from the A&M System should be designated to provide leadership and oversight of the initiative to ensure achievement of goals and objectives. This individual should be responsible for keeping all partners engaged to fulfill their duties. A business plan should be developed and approved by the participating partnership members. Contingency plans should also be developed for future initiatives to ensure protection of A&M System resources.

When A&M System employees participate as members of governing boards, those employees should ensure that Board minutes provide sufficient detail and address areas listed in the agenda, even if the item is tabled. Critical issues such as budgets, results of large grant proposals, and appointment of personnel should particularly be addressed.

Management's Response

Management agrees with the recommendations for future partnerships.

1. Governance (cont.)

In May 2008, the A&M System Board of Regents approved the establishment of the Texas A&M Institute for Genomic Medicine, reporting to the presidents of Texas A&M University and the Health Science Center. The transfer of TIGM to the auspices of The Texas A&M University System will facilitate more effective management of these assets and will enhance their value to the academic, research and economic development engine of TAMU and TAMHSC.

The Executive Management of the A&M System Offices will ensure future partnerships have adequate oversight from administration. The development of a business plan, approved by the participating partnership members, will be required as well as contingency plans for future initiatives to ensure protection of the resources in the A&M System.

2. Contract Administration

Observation

Several provisions of contractual agreements associated with the TIGM public-private partnership were not complied with and in some cases, were not subject to the appropriate delegation of authority for approval in accordance with System policy.

The Economic Development agreement between the A&M System and the State of Texas granted \$10 million from the Texas Enterprise Fund to the A&M System to build a facility in College Station to house one copy of the mouse embryonic stem cell clone library and \$5 million to renovate existing space at the Institute for Biosciences and Technology (IBT) at the Health Science Center in Houston to house a second copy of the library.

Delegation of Authority

Interviews with A&M System Offices and TAMU employees and notes from construction planning meetings attended by these employees indicate that construction of the TIGM building in College Station needed to be completed by August 2006. In order to meet the desired completion date, funds for construction were transferred to TIGM and the building site was stated as being within the TAMU Research Park expansion area, to complete the building more quickly than it could be completed if managed by A&M System Facilities Planning & Construction (FP&C) and subject to A&M System Board of Regent's approval.

A memorandum of understanding between the A&M System and TIGM to transfer the state award totaling \$15 million to TIGM was executed by the A&M System Executive Vice Chancellor. According to the System Office of Budgets & Accounting, this agreement was executed under the delegation of authority for sponsored research contracts and the re-delegation of authority to the Executive Vice Chancellor from the Chancellor in his absence. The vouchers distributing the funds were processed as a sub-award as

2. Contract Administration
(cont.)

well. Since the majority of the funds were designated for construction, the classification of the transfer of funds as a sponsored research sub-award, in our opinion, is not appropriate.

System Policy 25.07 requires contracts involving stated or implied consideration exceeding \$300,000 to be submitted to the A&M System Board of Regents for approval. Sponsored research contracts and grants are excluded from this requirement.

Additionally, the TIGM building site is not located within the existing metes and bounds of the TAMU Research Park; therefore, the construction project should have been presented to the A&M System Board of Regents for approval. Construction cannot occur on Texas A&M University property without approval by the A&M System Board of Regents, except for the Research Park where the President of Texas A&M University has been delegated authority to execute leases with private parties. Although the site selected for the TIGM building is referred to in memorandums and correspondence as Research Park III, or Research Park expansion area, the original A&M System Board of Regents minutes approving the Research Park boundaries do not include the TIGM building site. Personal notes and emails from attendees at construction planning meetings indicate that several different people were to verify the inclusion of the site in the Research Park metes and bounds; however, no evidence was produced to support the site verification.

Despite the efforts to hasten construction of the TIGM building in College Station, so that it could be completed by August 2006, ground breaking for the facility was not completed until June 2006 and the building was not occupied as of the end of May 2008.

Contract Alignment/Performance

As a result of noncompliance with System policy and delegation of authority regarding review and approval of A&M System contracts, a number of the contractual agreements involving the TIGM public-private partnership have contractual provisions that are not aligned with those in other agreements. Additionally, the A&M System is not in compliance with several contract provisions, and has been involved in disagreements pertaining to use, ownership, and maintenance of the TIGM building and responsibility for contract performance.

Examples of contract alignment and noncompliance issues include the following:

- Annual economic impact reports (separate from annual compliance verifications) have not been prepared annually

2. Contract Administration
(cont.)

beginning in January 2006, and financial and operating covenants were never agreed upon as required by an Economic Development agreement between the State of Texas, the A&M System, and the biotechnology company. Additionally, the biotechnology company has not provided services at each location to install bioinformatics software, load databases, and train TIGM staff as provided in the Economic Development agreement.

- A joint management committee consisting of one senior manager and one technical staff from each party to the contract (the A&M System, TIGM and the biotechnology company) was never formed and project coordinators from these three entities were never assigned to manage the day-to-day collaboration efforts in accordance with the Collaboration and License Agreement between the biotechnology company and the A&M System.
- The ground lease executed between TAMU and TIGM contains several provisions that do not align with either the Economic Development agreement or the actual parties involved in oversight, funding, and maintenance of the building.

Recommendation

Executive management of the A&M System must establish and maintain a culture, management philosophy and operating style that encourages capitalizing on opportunities while ensuring proper planning, assessment of risks and development of metrics to measure success.

Future agreements should be subject to the delegation of authority for approval as required by System policy. A project manager or coordinator should be assigned to monitor performance of agreed-upon terms for A&M System contracts. System policy should be adhered to for construction site selection and delegation of authority for construction activity.

Management's Response

A&M System Offices Executive Management has transitioned significantly since the creation of TIGM and with that, so has the culture. We agree that for future partnerships, proper planning, assessment of risks and development of metrics to measure success must be followed.

Future agreements will adhere to System policy regarding delegation of authority and construction site selection. A project

2. Contract Administration
(cont.)

manager from the A&M System will be assigned to monitor performance of agreed-upon terms for contracts.

3. Construction Management

Observation

TIGM building construction was not managed by A&M System FP&C.

As of May 2008, Physical Plant at Texas A&M University has indicated a substantial punch list remains to be completed before the TIGM building can be occupied. It is unclear whether the construction management services that would typically be provided by A&M System FP&C were performed by the parties contracted by TIGM. These services typically include general inspection, specialty inspections such as mechanical and electrical, review of change order pricing, monitoring of labor rates, certificate of occupancy inspection, close-out review of contract documents and finances, and multiple levels of review of contractor applications for payment by inspectors, project managers and architects representing the A&M System.

System Policy 51.04, *Delegation of Authority for Construction Activity*, requires construction exceeding \$1 million to be managed by A&M System FP&C. Since the funds to pay for TIGM building construction were transferred by the A&M System to TIGM, FP&C did not manage the construction process.

Recommendation

Ensure proper oversight is provided for construction projects supported by the A&M System. Comply with System delegation of authority for construction activity unless an exception is granted by the A&M System Board of Regents.

Management's Response

Management agrees with the recommendation of proper oversight for A&M System construction projects by Facilities Planning and Construction. Delegations of authority for construction activity will be complied with, unless exceptions are granted by the A&M System Board of Regents.

BASIS OF REVIEW

Objective

The overall objective was to review and assess the A&M System's controls and processes related to the establishment and oversight of the Texas Institute for Genomic Medicine partnership to determine if the A&M System's resources have been used in an efficient and effective manner and in compliance with laws, policies and regulations.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System, and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

TIGM is a public-private partnership established in 2005 as the result of a \$50 million grant from the Texas Enterprise Fund. The State of Texas awarded the funds to the A&M System and a public biotechnology company to establish copies of mouse embryonic stem cell clone libraries and associated software in College Station at Texas A&M University and in Houston at the Institute for Biosciences and Technology. In return, the A&M System and the biotechnology company agreed to create at least 5,000 new employment positions in Texas by 2015.

In May 2008, the A&M System Board of Regents approved the creation of the Texas Institute for Genomic Medicine as a joint institute of Texas A&M University and the A&M System Health Science Center (HSC). The A&M System committed \$1.2 million to fund expenses associated with the transition of the 501(c)3 organization to this institute.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Amanda Dotson, CPA, Project Manager
Nora Miles, CPA
Kim Pekar, CPA

Contact Information

For questions regarding this review, contact Charlie Hrcir, Director.

E-Mail: chrncir@tamu.edu
Phone: (979) 458-7100
Fax: (979) 458-7111
Web Site: <http://www.tamus.edu/offices/iaudit/>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

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Mr. Charley Clark, Associate Vice President for University Risk and Compliance, Texas A&M University
Dr. Nancy W. Dickey, President, A&M System Health Science Center
Dr. Barry C. Nelson, Vice President for Finance and Administration, A&M System Health Science Center
Dr. David S. Carlson, Vice President for Research, A&M System Health Science Center
Dr. Richard H. Finnell, Executive Director and President, Texas Institute for Genomic Medicine
Mr. Ray Webb, Chief Operating Officer, Texas Institute for Genomic Medicine



PROJECT SUMMARY

Overview

The internal control environment of the Athletic Department at Texas A&M University – Corpus Christi is weak. Significant

improvement is required to establish a positive tone at the top and to affirm the University’s commitment to the National Collegiate Athletic Association’s

(NCAA) principle of institutional control and responsibility and the principle of rules compliance.

Weaknesses in the internal control environment of the Athletic Department were exhibited by NCAA rules compliance infractions that were not handled appropriately as well as by questionable transactions involving departmental senior management. As a result, the department and the University were placed at risk regarding its good standing with the NCAA and its reputation.

Our review indicated compliance activities within the Athletic Department, and between the Athletic Department and other University areas, that were inconsistent with written procedures. Under the current dual-reporting relationship of the Athletic Compliance Officer to the Athletic Director and to the Faculty Athletic Representative and Provost, the Faculty Athletic Representative and the Provost are a critical link to ensure that the Athletic Compliance Officer’s activities are sufficiently focused on NCAA rules compliance to be effective.

In addition, we performed procedures agreed to by management on the University’s Athletic Department Statement of Revenues and Expenses for the fiscal year ended August 31, 2007 to assist the University in complying with NCAA Constitution 6.2.3. Based on these procedures we determined that the Statement is materially accurate. For fiscal year 2007, the Athletic Department

Internal Control Environment

The internal control environment encompasses the tone of an organization, influencing the risk consciousness of its people, and is the basis for all other components of enterprise risk management, providing discipline and structure. Internal environment factors include an entity’s risk management philosophy; its risk appetite; oversight by the board of directors; the integrity, ethical values, and competence of the entity’s people; and the way management assigns authority and responsibility, and organizes and develops its people.

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expenditures were approximately \$6.2 million. (See Attachment for the Statement of Revenues and Expenses.)

Summary of Significant Results

Mishandling of NCAA Rules Compliance Infractions

The mishandling of NCAA rules infractions led to larger questions regarding the University's commitment to the NCAA principles of institutional control and rules compliance. A volleyball student-athlete who was ineligible to play in the fall of 2004 was discovered by the Athletic Department in the spring of 2005, but the incident was not self-reported to the NCAA, as required, until November of 2007. The self-report filed by the Athletic Department in the fall of 2007 omitted important facts that thereafter triggered an NCAA investigation surrounding the ineligible student-athlete, the circumstances leading to her ineligibility, and the Athletic Department's untimely self-report of the violation.

Questionable Practices Involving Athletic Department Senior Management

Questionable practices have weakened the internal control environment of the Athletic Department and sent the wrong message regarding acceptable behavior. Both the Athletic Director and the Athletic Compliance Officer were aware for a period of 14 months and 18 months, respectively, that an infraction regarding student-athlete eligibility had occurred and had not been self-reported to the NCAA. The internal control environment was further weakened by the Athletic Director's questionable testimony to the NCAA regarding the circumstances surrounding the self-reported compliance infraction, as well as by his improper use of University resources.

NCAA Rules Compliance Program Description Versus Actual Practices

The description of the University's NCAA rules compliance program, including the duties of the Athletic Compliance Officer, differs from the day-to-day conduct of the program. The majority of the Athletic Compliance Officer's effort is directed at the administration of assigned sports programs, while his Position Description and the Athletic Department Compliance Manual emphasize compliance responsibilities. To the extent that the Athletic Compliance Officer is focused on duties other than compliance, the risk of NCAA rules compliance infractions is elevated.

Summary of Management's Response

Management appreciates the System Internal Audit Department's efforts to identify issues needing improvement and steps necessary to ensure that improvement is achieved. We are committed to satisfactorily addressing these issues, and all corrective actions will be implemented by January 31, 2009.

Scope

This review was performed to fulfill the NCAA requirements that each Division I member have its rules compliance program evaluated at least every four years by an authority outside the Athletic Department. Compliance areas are reviewed on a four-year rotating basis. This review focused on the compliance area of student-athlete eligibility and the fieldwork was conducted in March and April 2008. The audit period focused primarily on activities from September 2006 through February 2008, although some activities outside this time period were examined as necessary. This review was coordinated with the NCAA as part of the NCAA's inquiry into rules compliance infractions. The NCAA has not yet completed its inquiry.

The financial statement review focused on the athletic program's Statement of Revenues and Expenses for the fiscal year ended August 31, 2007. The review was performed according to NCAA agreed-upon procedures. The fieldwork for this portion of the review was conducted October 2007 through January 2008.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Mishandling of NCAA Rules Compliance Infractions

Observation

NCAA rules compliance infractions were not handled appropriately.

The mishandling of NCAA rules infractions led to larger questions regarding the University's commitment to the NCAA principles of institutional control and rules compliance. A volleyball student-athlete who was ineligible to play in the fall of 2004 was discovered by the Athletic Department in the spring of 2005, but the incident was not self-reported to the NCAA, as required, until November of 2007. Communication systems within the Athletic Department, and between the Athletic Department and other University areas, did not achieve an appropriate outcome of prompt and thorough self-investigation and reporting. Rules compliance education efforts did not extend to University departments with crucial links to the Athletics Department, such as Admissions and Records. The self-report filed by the Athletic Department in the fall of 2007 omitted important facts that thereafter triggered an NCAA investigation surrounding the ineligible student-athlete, the circumstances leading to her ineligibility, and the Athletic Department's untimely self-report of the violation.

Additional matters regarding self-reporting of compliance have been discovered. Initial results indicate that the weak rules compliance monitoring and self-reporting program are systemic issues preventing the University from demonstrating its commitment to the NCAA principle of institutional control and responsibility and the principle of rules compliance.

NCAA Principles

The Principle of Institutional Control and Responsibility

It is the responsibility of each member institution to control its intercollegiate athletics program in compliance with the rules and regulations of the Association.

The Principle of Rules Compliance

Each institution shall comply with all applicable rules and regulations of the Association in the conduct of its intercollegiate athletics programs. It shall monitor its programs to assure compliance and to identify and report to the Association instances in which compliance has not been achieved.

Recommendation

Strengthen Athletic Department channels of communication and assert strong institutional control and rules compliance. Ensure rigorous rules compliance by enhancing education efforts, monitoring rules compliance areas, and performing prompt and

1. Mishandling of NCAA Rules
Compliance Infractions
(cont.)

thorough investigations and self-reporting of rules compliance infractions.

Management's Response

The President appointed a special committee to begin reviewing compliance issues for the Athletic Department and recommend improvement plans for athletic operations. This began in May 2008 and is continuing until the Department is fully staffed with three additional positions and the Provost Office has assumed oversight duties. The committee is made up of senior administrators and the Faculty athletic representative. The committee has recommended several changes such as a new organizational structure and changes in duties of personnel. The committee has also recommended a report be used to help document and communicate violations or potential violations thereby ensuring control over handling of violations of compliance with NCAA rules. Senior administration will be part of the distribution on the report to ensure strong institutional oversight. Additionally, the President will request the Associate Athletic Director and Compliance Officer to make a semi-annual report to the President and senior administration on the progress that has been made in training, education and monitoring of compliance issues.

The Athletic Department channels of communication will be improved by creating a new organizational structure and changing reporting relationships.

A new position of Senior Academic Advising Coordinator has been created effective June 2008 to reduce the breadth of duties assigned to the Athletic Compliance Officer and to provide a segregation of duties related to sport oversight and eligibility of student-athletes. Additionally, a new position of Senior Academic Advisor will be added to the area to address issues of degree completion and assist with student academic success. This will result in a total of four staff positions dedicated to athlete academic success, doubling the resources associated with academic success.

The Associate Athletic Director for Academics and Compliance was terminated in May 2008. This position has been restructured to only be responsible for compliance and will have no oversight for athletic teams or academic success of athletes. Additionally a new position of Compliance Coordinator will be hired beginning July 2008 to assist with the oversight of compliance and to double the staff size for athletic compliance. Together these positions will conduct an evaluation of existing processes, forms and practices to determine an appropriate compliance program utilizing best practices from

1. Mishandling of NCAA Rules
Compliance Infractions
(cont.)

other NCAA institutions and from within the Southland Conference. This evaluation process will be completed by January 31, 2009.

Organizationally, both athletic academic success and compliance areas will report to the Provost or Provost Designee after all positions have been hired. These positions will report to the Provost or Provost Designee to assert strong institutional control and rules compliance. It is expected that all new positions created in this plan will be filled by September 1, 2008.

To ensure rigorous rules compliance, these new positions will be responsible for developing a monitoring system for training of all University personnel that have athletic-related duties in their job descriptions. This will be in place by October 2008. Additionally, training that can appropriately be placed online will be developed with the assistance of the Employee Training and Development personnel and all athletic-related forms will be placed online by January 2009 for ease of use by the Department.

To ensure rules compliance, all athletic staff that have not satisfied training requirements or completed necessary compliance materials in a timely manner will have all reimbursements suspended until they have satisfied compliance training and fulfill department compliance procedures. This will be effective beginning January 2009. The Associate Athletic Director and Compliance Officer will be required to approve all athletic personnel reimbursements to monitor this process. Additionally, any University personnel with athletic duties failing to complete training or submit materials in a timely manner as a requirement to ensure NCAA compliance will be reported to their supervisor through the Office of the Provost. Failure to satisfy the deficiency within 30 days after notice to their supervisor will be considered grounds for disciplinary action for the individual. This process will begin January 2009.

The Intercollegiate Athletic Council (IAC) will begin meeting in the fall of 2008 and will schedule two meetings per semester. The IAC will hear reports from newly formed subcommittees with one new subcommittee being an investigative committee. This will also strengthen the handling of compliance infractions.

2. Questionable Practices Regarding Athletic Department Senior Management

Observation

The internal control environment is weak because of questionable management practices.

Questionable practices have weakened the internal control environment of the Athletic Department and sent the wrong message regarding acceptable behavior, including:

2. Questionable Practices
Regarding Athletic
Department Senior
Management (cont.)

- The Athletic Director's improper use of University resources, including improper use of funds for travel and shipping charges as well as the use of telephone and computer resources for personal affairs.
- The Athletic Director and Athletic Compliance Officer's awareness for a period of 14 months and 18 months, respectively that an infraction regarding student-athlete eligibility had occurred and had not been self-reported to the NCAA.
- The Athletic Director's questionable testimony to the NCAA regarding the circumstances surrounding the self-reported compliance infraction submitted to the NCAA.

System Policy 18.02, Principles for Intercollegiate Athletics Participation, states, "The Board and Chancellor expect all intercollegiate athletics programs to operate under institutional control, with academic and financial integrity, and in full compliance with national association rules"

Recommendation

Develop effective Athletic Department governance that demonstrates an appropriate tone at the top through:

- Full, prompt, and accurate disclosure of NCAA rules compliance infractions.
- Actions that strictly adhere to University rules, NCAA rules, and System policy and that ensure the appropriate use of resources.

Management's Response

Full, prompt and accurate disclosure of NCAA rules compliance infractions will be improved by a new organizational structure. Additionally, the Faculty Athletic Representative (FAR) will create a subcommittee of the IAC that may be used to assist with investigations if necessary starting no later than October 2008. A new form will be devised and used to document compliance issues, the parties doing the investigation, the outcomes from the investigation and the actions taken by the University to address the issues. The form will be created in July 2008 and be used by the Compliance Officer starting August 2008 with a distribution to the Provost or Provost Designee and the FAR.

2. Questionable Practices
Regarding Athletic
Department Senior
Management (cont.)

The University has completed an additional investigation into the questionable use of University resources. The investigation information has resulted in the presentation of the information by the Campus Police Department to the local District Attorney for actions they deem necessary. The University was informed that the District Attorney will seek no action on the material presented. The University will seek restitution of \$951.68 from the Athletic Director for use of resources. Additional investigations are ongoing for the Athletic Department and therefore disciplinary actions up to termination may be deemed necessary once these investigations are completed.

3. NCAA Rules Compliance Program Description Versus Actual Practices

Observation

Written documentation of the University's NCAA rules compliance program differs from its actual practices.

The description of the University's NCAA rules compliance program, including the duties of the Athletic Compliance Officer, differs from the day-to-day conduct of the program. Both the Athletic Department Compliance Manual and senior University officials describe an NCAA rules compliance program that involves coordinated effort and ongoing communications between the Athletic Compliance Officer, the Faculty Athletic Representative, and the Provost. Further, the Athletic Compliance Officer's Position Description Questionnaire is predominantly NCAA rules compliance-oriented, whereas the Athletic Compliance Officer's actual job appears to be oriented towards sports administration activities.

The Athletic Department Compliance Manual (Manual) provides a description of individuals and groups that play a role in NCAA rules compliance oversight, including:

- The Faculty Athletics Representative (FAR) – “Be responsible, either directly or indirectly, for institutional compliance activities...”, and “Participate in institutional investigations of allegations of rules violations. All infraction reports must be reviewed by the Faculty Athletics Representative prior to their submission to the President.”
- The Assistant Athletic Director Compliance/Academics (Athletic Compliance Officer) – includes nine Athletic Compliance Officer responsibilities, with eight responsibilities being rules compliance-oriented and the remaining responsibility is “Perform other duties as may be assigned...”

3. NCAA Rules Compliance
Program Description
Versus Actual Practices
(cont.)

Our review indicated compliance activities within the Athletic Department, and between the Athletic Department and other University areas, that were inconsistent with the description provided in the Manual.

The Athletic Compliance Officer's effort devoted to NCAA rules compliance is inconsistent with the Athletic Compliance Officer's Position Description Questionnaire (PDQ). The Athletic Compliance Officer estimated that approximately 20% of his time is spent on NCAA rules-compliance activities, with the other 80% being spent on sports administration activities. The PDQ for the Athletic Compliance Officer, which has not been updated since 2006, indicates approximately 70% of the major duties and responsibilities are NCAA rules compliance-oriented.

Under the current dual-reporting relationship of the Athletic Compliance Officer to the Athletic Director and to the FAR/Provost, the FAR and Provost become a critical link to ensure that the Athletic Compliance Officer's activities are sufficiently focused on NCAA rules compliance to achieve appropriate rules compliance outcomes. To the extent that the Athletic Compliance Officer is focused on duties other than compliance, the risk of NCAA rules compliance infractions is elevated.

Recommendation

Consider the appropriateness of the non-NCAA rules compliance duties and responsibilities of the Athletic Compliance Officer. Ensure that the oversight provided by the Faculty Athletic Representative and the Provost includes an ongoing assessment of the adequacy of rules compliance oversight provided by the Athletic Compliance Officer.

Align the Athletic Compliance Officer's Position Description Questionnaire and other official documentation with the actual major duties and responsibilities of the position.

Management's Response

The job description for the Associate Athletic Director and Compliance Officer has been modified as of June 2008 to no longer contain duties related to sport oversight. Additionally, the job description has been modified to remove academic advising and admission liaison duties. There will be a new Compliance Coordinator to assist with compliance and administrative duties. As well the newly created position of Senior Academic Athletic Coordinator was created in June 2008 and will oversee the academic areas previously under the Associate Director and this will

3. NCAA Rules Compliance
Program Description
Versus Actual Practices
(cont.)

allow the Athletic Compliance Officer to focus on NCAA rules-compliance activities, providing a training program and maintaining updated forms and compliance manuals.

The position of Associate Athletic Director and Compliance Officer will report to the Provost or Provost Designee beginning with the completion of the hiring process which began in June 2008 and indirectly report to the Athletic Director. The Faculty Athletic Representative (FAR) will be involved in any compliance issues by use of new forms, IAC subcommittee reports and other processes described in above.

4. Updating NCAA Rules Compliance Guidance

Observation

The Athletic Department's NCAA Rules Compliance Manual is out of date.

The Athletic Department's NCAA Rules Compliance Manual (Manual) has not been reviewed and updated since January 2005. The stated purpose of the Manual is to help coaches, staff members and administrators so that they may more easily comply with the NCAA rules, regulations and interpretations. Frequent review and update of the Manual by the Athletic Compliance Officer is needed to educate and to promote an effective NCAA rules compliance program.

Recommendation

Update and periodically review the Athletic Department Compliance Manual to promote accurate NCAA rules compliance education efforts.

Management's Response

The Athletic Department NCAA Rules Compliance Manual will be updated by November 1, 2008. Additionally, many of the departmental forms will be placed online for use by the Department by January 31, 2009.

5. Evaluating Transcripts for International Student-Athletes

Observation

The admissions process for transfer student-athletes with prior attendance at international universities does not ensure NCAA rules compliance.

International student-athletes who transfer to the University are currently allowed to opt out of requesting transcript evaluation for transfer of foreign credits. NCAA eligibility criteria does not allow this option for international student-athletes. This factor contributed to a situation whereby a volleyball student-athlete

5. Evaluating Transcripts for International Student-Athletes (cont.)

competed during the 2005 season while academically ineligible. Admissions Office personnel were not knowledgeable of NCAA eligibility rules and their specific applicability to student-athletes who transfer to the University with prior attendance at a foreign university.

Recommendation

Evaluate transcripts from international institutions of higher education prior to determining a student-athlete's eligibility for intercollegiate athletics. Ensure that Admissions Office personnel are trained in applicable NCAA rules and that related job descriptions reflect NCAA rules compliance-related responsibilities.

Management's Response

The job descriptions of the Admissions Office will be updated to ensure that they reflect receiving or attending NCAA Rule Compliance training as a duty. Personnel must complete training in their first three months on the job and will be required to complete a renewal of this training on an annual basis or as necessary should there be significant changes to the rules related to admission duties. This change in the job descriptions will be done by July 30, 2008. The appropriate staff in Admissions will undergo training as necessary and be completed by January 31, 2009 as administered by the Associate Athletic Director and Compliance Officer.

Additionally, beginning in March 2008, the Admissions Office changed procedures related to international athlete's foreign transcript evaluation. All international athletes will have foreign transcripts reviewed for courses transferring and hours being credited towards degree completion and this will be part of the student record used for determining eligibility for intercollegiate athletics.

6. Strengthening Eligibility Monitoring

Observation

Student-athlete academic eligibility monitoring is not as strong when it is performed by Athletic Department personnel.

Student-athlete academic eligibility to practice and compete is monitored by the Athletic Compliance Officer who is a part of the Athletic Department. Assigning a person outside the Athletic Department to monitor eligibility, such as the Admissions Office, would promote more objective oversight that eligibility is determined correctly. Eligibility oversight performed from outside the Athletic Department is a practice recommended by the Southland Conference.

Recommendation

6. Strengthening Eligibility Monitoring (cont.)

Assign academic eligibility monitoring to an area outside of the Athletic Department to promote more objective oversight.

Management's Response

It will be the responsibility of the Associate Athletic Director and Compliance Officer to perform audits periodically during each semester to review athlete eligibility starting September 2008 and to produce a report on these audits no later than December 1, 2008. Also the Senior Athletic Academic Coordinator will be tracking degree completion during each semester for NCAA rules compliance.

These reports will be delivered to the Provost or Provost Designee with a copy to the Athletic Director and the Faculty Athletic Representative. These audits will happen each semester. Should any student be identified as not being eligible to compete or to practice, the Athletic Director and applicable coach will be notified immediately and an investigation process will be initiated by the appropriate process as determined by the Provost or Provost Designee.

7. Implementing Degree Audit Software

Observation

Oversight of student-athlete eligibility is hampered by degree audit software that has not been made operational.

Degree Navigator, a web-based degree audit system, has not been operational since the fiscal year 2008 change of student information systems from SIS+ to Banner. Without this tool, determining progress towards a degree for student-athletes (and all students), an NCAA rules compliance requirement, is a more manual and less efficient oversight process.

Degree Navigator was purchased in 2004 for \$100,000 and the University is currently paying \$24,500 for the annual maintenance fee.

Recommendation

Implement Degree Navigator or other degree audit software to promote more efficient oversight of NCAA rules compliance for student-athletes.

Management's Response

7. Implementing Degree
Audit Software (cont.)

The programming staff has completed the interface for the Degree Navigator software to work with the Banner student system as of June 2008. During the months of July and August, the system will be tested by each college's academic advisors for accuracy. It will be the responsibility of the new Senior Athletic Academic Coordinator to monitor that the athletes are meeting NCAA rules compliance for student-athlete progress towards a degree.

8. Identifying Student-Athlete Records to Promote Monitoring

Observation

Student-athletes are not consistently identified in student records which inhibits oversight.

An effective process is not in place to ensure that all student-athletes are identified in the student information system. Fifteen percent of women's basketball student-athletes selected for testing were not correctly identified in the student information system as student-athletes. Accurate identification of student-athletes in the student information system is necessary for an effective program of NCAA rules compliance oversight.

Recommendation

Accurately identify all student-athletes in the student information system.

Management's Response

Access to the appropriate screens in the student information system will be given to all the athletic academic advisors. There are currently two advisors that will have clear responsibilities for updating the screens in the Banner student system for their specific sport assignments. Once the student has been admitted, the advisor will enter the appropriate information in the student system. The Senior Athletic Academic Coordinator will request that a report be created to produce a list of athletes from the student system and review the report at the beginning of the semester for completeness compared to squad listings and will initiate the correction of any missing information if necessary. This will be in place by September 1, 2008.

BASIS OF REVIEW

Objective

The objective of this review was to assess the adequacy of the University's NCAA rules compliance program for selected compliance areas and to perform agreed-upon procedures related to the Athletic Department Statement of Revenues and Expenses for the fiscal year ended August 31, 2007 to assist the University in complying with NCAA Constitution 6.2.3.

Criteria

Our review was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; the Treadway Commission's Committee of Sponsoring Organization's Internal Control - Integrated Framework (COSO); the NCAA's Division I Constitution and Operating Bylaws and other sound administrative practices. The evaluation was performed in compliance with generally accepted government auditing standards and other criteria to conform with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Texas A&M University – Corpus Christi is a member of the National Collegiate Athletics Association and competes at the Division I level. In fiscal year 2007, the University sponsored fourteen varsity sports, which represent approximately 200 student-athletes. The sports are:

<u>Men's</u>	<u>Women's</u>
Basketball	Volleyball
Baseball	Basketball
Tennis	Softball
Indoor Track	Tennis
Outdoor Track	Golf
Cross Country	Indoor Track
	Outdoor Track
	Cross Country

The Athletics Department is supported by student-athletics fees and other direct institutional support, in addition to revenues generated by the program, such as ticket sales, other sales and services, gifts, and game guarantees. For fiscal year 2007, 58% of the athletics program was funded from student-athletics fees and direct institutional support while 42% was generated by the program.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Mark Poehl, CPA, Project Manager
Christy Journey
Susan McGrail, CIA

Contact Information

For questions regarding this review, contact Dick Dinan, Director.

E-Mail: D-Dinan@tamu.edu
Phone: (979) 458-7144
Fax: (979) 458-7111
Web Site: <http://www.tamus.edu/offices/iaudit/>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. Flavius Killebrew, President
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ATTACHMENT
Texas A&M University - Corpus Christi
Intercollegiate Athletic Department
Statement of Revenues and Expenses (unaudited)
For the Year Ended August 31, 2007

	MEN'S BASKETBALL	WOMEN'S BASKETBALL	OTHER SPORTS	NON- PROGRAM SPECIFIC	TOTAL
REVENUES					
Operating Revenues:					
Ticket Sales	248,913	103,310	48,122	0	400,345
Student Fees	516,684	473,878	1,462,316	0	2,452,878
Guarantees	145,000	42,500	13,265	0	200,765
Contributions	63,990	66,355	66,799	314,223	511,367
Direct Institutional Support	0	0	0	1,145,672	1,145,672
Indirect Facilities and Administrative Support	7,041	7,041	14,083	610,151	638,316
NCAA/Conference Distributions Including All Tournament Revenues	0	0	0	106,976	106,976
Program Sales, Concessions, Novelty Sales and Parking	1,686	941	39	0	2,666
Royalties, Advertisements and Sponsorships	0	0	13,565	567,426	580,991
Sports Camp Revenues	13,525	7,035	25,565	9,167	55,292
Endowment and Investment Income	0	0	0	1,258	1,258
Other	5,089	13,435	33,690	33,431	85,645
Total Operating Revenue	1,001,928	714,495	1,677,444	2,788,304	6,182,171
EXPENSES					
Operating Expenses:					
Athletics Student Aid	217,547	208,425	909,411	132,018	1,467,401
Guarantees	78,693	14,041	576	0	93,310
Coaching Salaries, Benefits, and Bonuses Paid by the University and Related Entities	293,582	201,875	420,149	0	915,606
Support Staff/Administrative Salaries, Benefits, and Bonuses Paid by the University and Related Entities	59,754	42,302	49,001	682,701	833,758
Severance Payments	0	0	0	0	0
Recruiting	94,163	30,782	45,712	0	170,657
Team Travel	142,360	106,304	319,679	0	568,343
Equipment, Uniforms, and Supplies	24,504	16,803	94,119	0	135,426
Game Expenses	146,788	134,767	33,772	18,641	333,968
Fund Raising, Marketing and Promotion	25,217	24,047	54,750	225,812	329,826
Sports Camp Expenses	2,400	2,440	12,204	7,642	24,686
Spirit Groups	0	0	0	25,708	25,708
Indirect Facilities and Administrative Support	7,041	7,041	14,083	610,151	638,316
Medical Expenses and Medical Insurance	6,951	27,859	93,716	34,992	163,518
Memberships and Dues	125	304	1,995	3,445	5,869
Other Operating Expenses	94,948	54,106	51,786	254,730	455,570
Total Operating Expenses	1,194,073	871,096	2,100,953	1,995,840	6,161,962
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSES	(192,145)	(156,601)	(423,509)	792,464	20,209

The accompanying notes are an integral part of this financial statement.

Notes to the Statement of Revenues and Expenses

1. Nature and Basis of Accounting and Reporting

The financial statement conforms to the National Collegiate Athletic Association (NCAA) Financial Audit Guidelines, dated September 4, 2007.

The financial statement accounts for the Texas A&M University – Corpus Christi Intercollegiate Athletics Program are maintained by the University Business Office. The Athletics Program is an auxiliary enterprise and, as a member of the Southland Conference, is responsible for competing on a national level.

The accompanying financial statement is presented in accordance with the accounting and financial reporting standards prescribed by the NCAA, the Governmental Accounting Standards Board, the principles of fund accounting, and is reported on the accrual basis.

The University financial statements will be incorporated into the statewide audit of the State of Texas for the fiscal year ended August 31, 2007, by the State Auditor's Office. Total operating revenues and expenditures reported by the University for the fiscal year ended August 31, 2007, were approximately \$64 million and \$114 million, respectively. Revenue from Legislative Appropriations, considered a non-operating source of revenue, was approximately \$50 million in fiscal year 2007.

2. Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The capitalization threshold for personal property is \$5,000. The capitalization threshold is \$100,000 for buildings/building improvements, facilities and other improvements, software developed for internal use, and leasehold improvements. Infrastructure has a capitalization threshold of \$500,000.

As required in GASB No. 34 and 35, the A&M System is required to depreciate capital assets. Depreciation is computed using the straight-line method over the estimated useful lives of assets; generally, 40 to 50 years for buildings, 20 to 25 years for infrastructure, and 5 to 7 years for equipment.

3. Contributions

No individual contributions of money, goods or services were received directly by the Athletics Program from an affiliated or outside organization, agency or individual that constituted 10 percent or more of all contributions received for intercollegiate athletics during the fiscal year ended August 31, 2007.

In December 2006, the University received a gift in the amount of \$856,800 designated for the construction of a baseball complex. In accordance with NCAA Agreed-Upon Procedures, this designated gift was not included in the financial statement.



PROJECT SUMMARY

Overview

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Significant weaknesses exist in the financial management services control systems at Texas A&M University at Galveston (TAMUG) resulting in a lack of fiscal accountability. Significant improvements are needed in controls and monitoring over reconciliations and student receivables to provide reasonable assurance that resources are used efficiently, effectively, and in compliance with applicable laws, policies, and regulations. Improvements are also needed in controls over temporary working funds, payment cards, corporate travel cards, cashiering, student information system access, and property management.

Overall responsibilities for financial management services provided for TAMUG are divided between personnel at Texas A&M University (TAMU) and TAMUG without an agreement in place to clearly define specific responsibilities. This has caused a lack of accountability and a weak fiscal control environment. In fiscal year 2007, TAMUG had approximately 1,650 students and an operating budget of \$42 million.

Summary of Significant Results

Fiscal Accountability

Financial management services control systems for TAMUG are weak. Fiscal management roles and responsibilities between TAMUG and TAMU are not clearly defined. The Director of TAMUG's Financial Management Services (FMS) reports directly to the Controller of TAMU's Division of Finance in College Station, not the Chief Executive Officer of TAMUG. Additionally, TAMUG and TAMU do not have a current, approved memorandum of agreement outlining the services that TAMU will provide for TAMUG. TAMU charges TAMUG approximately \$276,000 or 33% of TAMUG's Financial Management Services operating budget for these services. The lack of clearly defined responsibility between TAMUG and TAMU employees results in roles and responsibilities with conflicting loyalties and limits overall management accountability.

Reconciliations

Processes and procedures are not in place to ensure that fiscal accounts are reconciled and that reconciling items are cleared in a timely manner. Periodic reconciliations ensure that all related transactions between two records are complete and allow for the timely detection of errors or omissions. Due to the small staff at TAMUG, coordination of reconciliation responsibilities between personnel at TAMUG and TAMU is an important control to ensure that adequate segregation of duties and management oversight is maintained over TAMUG financial activities.

Student Receivables

A weak control environment over student receivables resulted in neglected collections and student emergency loan accounting errors that were undetected over a significant period of time. Outstanding student receivables were \$1.1 million at the end of December 2007. Although TAMUG has made progress in collection efforts and emergency loan information, significant control weaknesses have not been addressed. There is still a lack of segregation of duties, reconciliations, and an accounting system for student emergency loans. Until these controls are addressed, there is a high risk that errors, losses from uncollected accounts, and possible misappropriations may occur and go undetected.

Summary of Management's Response

Management appreciates the thorough review performed by the System Internal Audit Department of the Financial Management Services of Galveston. Implementation of the recommendations contained herein will enhance our financial operations. Efforts are currently underway to implement the audit report recommendations.

Scope

Our review of controls for Financial Management Services at TAMUG focused on reconciliations, accounts receivable, deposits, accounts payable, payroll, cashiering, compliance with laws and regulations and System policy. Transactions and activities related to these areas were reviewed for the period September 1, 2006 through December 31, 2007. Fieldwork was conducted primarily from December 2007 through February 2008.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Fiscal Accountability

Observation

Management roles and responsibilities between TAMUG and TAMU are not clearly defined which has led to a weak fiscal control environment.

The administrative relationships and reporting structures between TAMUG and TAMU do not provide for strong fiscal accountability. The budget for TAMUG's FMS is paid from the TAMUG operating budget, while the Director of TAMUG's FMS reports to the Controller of TAMU's Division of Finance, not the CEO of TAMUG. However, the Director of FMS is responsible for providing the CEO of TAMUG with financial reports and data for overall campus management decisions as well as financial services to support campus activities. Consequently, this current structure creates conflicting roles, responsibilities, and loyalties which limit overall fiscal management accountability.

TAMU provides various financial services to TAMUG. While TAMU charges for these services, it does not have a current signed memorandum of agreement that clearly outlines which services are provided. TAMUG pays approximately \$276,000 (33% of TAMUG's \$825,000 FMS budget) to TAMU without a current, written agreement that specifies what services are to be provided and defines the specific responsibilities of each of the parties involved. Without a current, written agreement approved by management, responsibilities are vague and accountability is difficult to assign. The resulting situation creates an environment of weak management oversight and monitoring controls over the financial services operations for TAMUG which increases the risks that resources are not used efficiently, effectively and in compliance with applicable laws, policies, and regulations.

Recommendation

Review the current administrative relationships and organizational structures related to financial services for TAMUG. Obtain an approved, written agreement between TAMUG and TAMU that clarifies the duties and responsibilities and provides clear management accountability.

Management's Response

1. Fiscal Accountability (cont.)

To strengthen the financial processes at TAMUG, the TAMU Controller's Office is changing the management structure of the business functions in Galveston. First, all transaction processing, financial reporting, payroll, student business functions and safeguarding of related assets will reside under the oversight of the Controller's Office. Second, the current director of FMS at Galveston will become a direct report to the CEO at Galveston and will concentrate on more strategic financial issues. Splitting these functions will provide clear management accountability and remove the conflicting loyalties caused by the current structure. The management changes will be fully implemented by November 30, 2008.

A written agreement between TAMU and TAMUG that clarifies the duties and responsibilities of each party and provides clear management accountability will be established. This agreement will be approved and in place by November 30, 2008.

2. Reconciliations

Observation

Improvements are needed to ensure that account reconciliations are performed and completed in a timely manner.

Processes and procedures are not in place to ensure that fiscal accounts are reconciled and that reconciling items are cleared in a timely manner. Reconciliation responsibilities are divided between TAMUG and TAMU personnel. Management had prepared a master list of TAMUG fiscal accounts to be reconciled; however, the list was incomplete. Responsibility for reconciling all accounts was not assigned and the reconciliations were not always performed.

A review of the November 2007 reconciliations for the accounts included on the master list revealed the following:

- Forty-two of 122 (34%) of the reconciliations reviewed had outstanding items older than 90 days. Twenty-eight of 122 (23%) reconciliations had items older than one year, with the oldest outstanding item dating back to May 2000.
- Nine of 167 (5.4%) fiscal accounts on the master list did not have reconciliations.
- There were five outstanding checks on one bank reconciliation that were at least three years old, which is older than the Texas unclaimed property law allows.

2. Reconciliations (cont.)

Periodic reconciliations ensure that all related transactions between two records are complete and allow for the timely detection of errors or omissions. Monitoring reconciliations needs to include procedures to ensure all reconciliations are completed and reconciling items are cleared in an appropriate timeframe. Outstanding items beyond a reasonable amount of time need to be reported to a supervisory level for resolution. Due to the small staff at TAMUG, coordination of reconciliation responsibilities between personnel at TAMUG and TAMU is an important control to ensure that adequate segregation of duties and management oversight is maintained over TAMUG financial activities.

Recommendation

Establish procedures, with clear lines of responsibility between TAMUG and TAMU that ensure TAMUG fiscal accounts are periodically reconciled and reconciling items are cleared in a timely manner.

Management's Response

Management understands the importance of the reconciliation function and is currently in the process of strengthening this process. This will be a two phased approach. The first phase will be for Texas A&M Financial Management Operations (FMO) to begin reconciling all accounts that are currently being reconciled by FMS Galveston. These reconciliations will be fully migrated by August 31, 2008. The second phase will be a review of all accounts designated as FMS Galveston responsibility and ensuring that the responsible department is appropriate. Once the review is performed, a master list of accounts reconciled will be maintained and reviewed by FMO and FMS Galveston on an annual basis. All accounts identified as the responsibility of Galveston FMS will be reconciled or reviewed by FMO. This phase will be completed by November 30, 2008.

To further monitor timeliness of reconciliations and outstanding items, FMO will develop a monthly report that details the number of items outstanding on each reconciliation, the age of those items, and the dollar amount. The report will be sent to the Director of FMS at Galveston and the Director of Accounting Services in FMO. Any items older than six months will be forwarded to the Associate Vice President for Finance and Controller at TAMU. This process will be in place by August 31, 2008.

3. Student Receivables

Observation

Neglected collections of student receivables and student emergency loan accounting errors were undetected over a significant period of time.

A weak control environment over student receivables resulted in neglected collections and student emergency loan accounting errors that were undetected over a significant period of time. The lack of segregation of duties, reconciliations, and an emergency loan accounting system create a weak control environment over student receivables increasing the risk that errors and losses will occur and not be detected in a timely manner. Our review of student receivables identified the following significant control weaknesses:

- Lack of Segregation of Duties – Individuals involved in maintaining spreadsheet records of student loans also have cashier duties. One individual approves student emergency loans, maintains promissory notes for loans, has update access to spreadsheet records for loans, and occasionally serves as backup cashier. Duties should be segregated among different people to reduce the risk of errors or inappropriate actions. For instance, responsibilities for authorizing transactions, recording them, and handling the related assets should not be completed by the same person.

Student Receivables
Annual student tuition and fee revenues collected through the student receivables processes are approximately \$11 million.

Outstanding student receivables at 12/31/07 were approximately \$1.1 million. These receivables are related to student charges from spring 2002 through fall 2007.

- Reconciliations Not Prepared – The Financial Accounting Management Information System (FAMIS) student emergency loan accounts are not reconciled to supporting records. Reconciliation of FAMIS emergency loan accounts would have revealed accounting errors and the number of outstanding emergency loans that were uncollected. Reconciliations are performed to identify discrepancies between two sets of records or two systems so that appropriate actions can be taken

Student Emergency Loans
Approximately \$450,000 in emergency loans are issued annually.

Known outstanding emergency loan receivables at 12/31/07 were approximately \$145,000. These receivables are related to loans issued from spring 2006 through fall 2007. Efforts are continuing to research any unrecorded loans issued during preceding semesters.

3. Student Receivables (cont.)

to resolve any outstanding items. Review procedures should be established to ensure that the reconciliations are prepared adequately and that management is aware of outstanding items that need attention.

- Manual Accounting System – Student emergency loan receivable records are currently being maintained on spreadsheets with a separate spreadsheet for each semester. A review of the fall 2007 spreadsheet revealed posting errors resulting in five incorrect balances and a column that did not total correctly. Interest due on outstanding accounts is manually calculated. Manual processes have a high inherent risk of errors. Accounting systems should be designed to effectively and efficiently provide accurate and timely information for management of business operations.

Until these controls are strengthened, there is a high risk that errors, losses from uncollected receivables, and possible misappropriations may occur and go undetected.

Recommendation

To ensure a strong control system over TAMUG student receivables:

- Segregate duties of authorization, record-keeping, and custody of related assets.
- Ensure that FAMIS student emergency loan accounts are reconciled and reconciliations are reviewed on a monthly basis.
- Establish and maintain accurate, comprehensive accounting records for student emergency loans.
- Coordinate collection and loan management services for the most efficient and effective use of resources.

Management's Response

In order to address the segregation of duties issues and realize operating efficiencies, effective August 31, 2008 duties associated with the loan process in Galveston will be performed as follows:

- *All Galveston emergency and other loans will be managed by TAMU Student Business Services, utilizing the College Station's Campus Loan Manager system.*

3. Student Receivables (cont.)

- *TAMU Department of Scholarships and Financial Aid will approve all Galveston emergency loans.*
- *TAMU Student Business Services (SBS) will receive and post loan payments to student loan accounts in the loan management system. (FMS Galveston will be able to receipt loan payments if a student insists on paying there; however, payments will be posted to loan accounts by SBS staff.)*
- *A separate group in SBS that reconciles TAMU loan accounts will prepare the reconciliations of the TAMUG emergency loan accounts.*
- *Reconciliations will be reviewed monthly by a supervisor in SBS.*

Written procedures will be drafted and in place that identify the roles and responsibilities of FMS Galveston, Student Business Services in College Station, and the Scholarships and Financial Aid Departments on both campuses.

4. Temporary Working Funds and Travel Advances

Observation

Processes are not in place to ensure temporary working funds and travel advances are collected and resolved in a timely manner.

Processes are not in place to consistently review and follow through to collect and resolve outstanding working funds and travel advances and ensure that outstanding items are cleared in a timely manner. We noted the following:

- Twelve of 25 (48%) outstanding temporary working funds, were more than 90 days past due. Total outstanding working funds were approximately \$29,000, of which \$19,430 were more than 90 days past due.
- Five of 43 (12%) outstanding travel advances were more than 90 days past the due date. One outstanding advance was greater than 365 days past due because of an accounting error that remained unresolved. Total outstanding travel advances were approximately \$35,000, of which \$3,286 were more than 90 days past due.

Timely review and monitoring of temporary working funds and travel advances reduce the risk that TAMUG funds may be lost. Supervisory oversight is necessary to ensure that procedures are performed consistently as expected.

Recommendation

4. Temporary Working Funds
and Travel Advances
(cont.)

Establish consistent, timely collection procedures for temporary working funds and travel advances that include notification to supervisors and management for items outstanding beyond a reasonable length of time.

Management's Response

Effective August 31, 2008, FMO will begin overseeing the administration and collection efforts of TAMUG's temporary working funds and travel advances. TAMUG will follow the same procedures as TAMU. Included in these procedures are steps that include notification to supervisors and management for items outstanding beyond a reasonable length of time.

5. Payment Card Program

Observation

TAMUG has not actively monitored all aspects of the payment card program.

Additional monitoring processes for the payment card program are needed to provide controls over card limits, unused cards, and cards not closed upon employee termination. We noted the following:

- Sixteen of 53 (30%) payment cards did not have purchase limits set for individual (single) transactions. Numerous payment cards had monthly purchase limits set at \$20,000 which was the default monthly credit limit; however, most cardholders did not have spending patterns that required limits of this amount. Management has not assessed the risk of the excessive limits, which increases the risk of losses to TAMUG.
- Six of 53 (11%) open payment card accounts had never been used. The cards were issued in December 2003 and still remained open in January 2008. These cards were assigned to departments that used other payment cards to obtain goods and services. Unnecessary cards increase the risk of misappropriation and abuse.
- Two payment cards assigned to one cardholder were not cancelled when the employee was terminated. The employee stated the cards were needed to provide payment for ongoing toll road charges for a University vehicle. There are more appropriate payment methods available for this type of travel charge. While no unauthorized charges were made, the potential for abuse existed. TAMU Rules require card

5. Payment Card Program
(cont.)

cancellation immediately when an employee leaves a department or is terminated. The cards were not closed as required.

Although post payment reviews of payment card receipts are performed monthly, payment card transaction data readily available through the payment card system is not analyzed for trends or identification of high risk activity. Data analysis provides information on departmental and cardholder purchasing patterns and potential compliance violations. Proactive and routine monitoring processes are efficient and effective ways to manage the risks associated with the payment card program, as well as provide timely and useful information for management decisions related to the program.

Recommendation

To strengthen controls over the TAMUG payment card program:

- Periodically review payment card limits and compare to card activity to set appropriate single and monthly transaction limits. Ensure that all cards have appropriate single and monthly transaction purchase limits.
- Review the list of unused cards and cancel as appropriate.
- Determine which departments have multiple cards and assess their need for the additional payment cards.
- Close all payment cards upon notice of termination, as required by the payment card rules.
- Convert payment for the employee toll road passes to a more appropriate method.
- Analyze payment card data for trends and high risk activities.

Management's Response

To strengthen controls over the TAMUG payment card program, effective August 31, 2008, FMO will begin including Galveston payment cards in their monthly payment card analysis that is performed for TAMU. The following procedures will be included in this analysis:

- *Card activity will be reviewed to help assess appropriate single and monthly transaction limits on the cards.*

5. Payment Card Program
(cont.)

- *Any unused cards will be tracked and cancelled as appropriate after consultation with the cardholder. Payment card data will be reviewed monthly for trends and high risk activities.*

A review of departments that have multiple cards will be performed by Galveston FMS to ensure the need for multiple cards is warranted. The number of department cards will be adjusted as appropriate. This will be complete by August 31, 2008. As new payment card requests are received, Galveston FMS will review the department's current payment cards and assess a department's need for additional payment cards.

The following process has been established to ensure payment cards are canceled for terminated employees. Upon termination of an employee, the FMS Galveston Payroll Manager will notify the FMS Galveston Payment Card Administrator who will be responsible for closing any applicable payment cards.

6. Corporate Travel Charge Cards

Observation

Corporate travel charge card program was not monitored to ensure only necessary and approved cards were issued to current employees.

Approximately 70 current corporate travel charge cards and approximately 200 expired cards issued by the bank to employees were found stored in the safe. Some cards had been returned and accounts cancelled; however, the majority of the cards had never been picked up by employees. The corporate travel charge card program is not actively reviewed and monitored to ensure that the bank is only issuing cards to current employees that use travel cards or have an expected need to use travel cards. The corporate travel charge card manager has access to the bank program showing card status and activity to monitor cards on an on-going basis and reduce the risk that unnecessary cards are issued with the potential for unauthorized charges. If review and monitoring processes are in place to ensure that only needed cards are issued, the bank can send new cards directly to employees, which is a more efficient process.

Recommendation

Review corporate travel charge cards and determine if existing cards need to be distributed to employees or cancelled and destroyed. Establish procedures to ensure that the bank is reissuing only those cards actually needed and used by employees. Request the bank mail travel charge cards directly to the employee.

Management's Response

6. Corporate Travel Charge
Cards (cont.)

Galveston FMS has reviewed the existing cards and either distributed or cancelled and destroyed them. Effective November 30, 2008, travel card management will be moved under TAMU FMO who manages Texas A&M's travel card program. Included in the management of the card program is a review of card use along with a determination of whether or not the card is still needed. Also, all travel charge cards will be mailed directly to the employee.

7. Cashier Receipting System

Observation

Improvements are needed for manual receipts and backup cashier procedures.

The backup cashier who replaces the primary cashier during the lunch hour does not consistently log on to the cashier system to record deposits. The backup cashier records any collections in a manual receipt book. The receipts are pre-numbered, but the numbers are not tracked or monitored. When the cashier returns from lunch, she posts the transactions from the receipt book into the cash receipting system. While it may be more time consuming to have the backup cashier log on and post her collections to the system as they occur, the controls within the cash receipting system are circumvented when not used as intended.

Cash receipt books are also issued to departments when collecting funds for various events. Although the receipt books are tracked, the individual receipt numbers are not monitored to ensure that all receipt numbers and their related cash collections have been deposited.

Recommendation

Ensure that all collections are posted immediately in the cash receipting system and discontinue the use of manual receipt books for the backup cashier. Establish procedures to track and monitor manual receipt numbers.

Management's Response

The FMS Galveston backup cashier has been given access to the cash receipting system and now posts payments directly into the system. Manual receipts are no longer used by the backup cashier.

FMS Galveston has established a procedure to account for manual receipts issued by departments and reconcile those receipts to deposits.

8. Student Information Management System (SIMS) Access

Observation

Employees' access to the Student Information Management System was not updated to reflect current position duties.

Two employees of TAMUG's FMS had SIMS access accounts that were not related to current position responsibilities. One employee had an account for a department she worked in prior to her position in FMS. The other employee had an additional account that was no longer necessary for current position duties. In addition, several employees have accounts that are inactive and in need of review and update to reflect current position duties. The Texas Administrative Code and System policy require updates to, including termination of, a person's access as job responsibilities change.

Recommendation

Periodically review SIMS access for FMS employees and update as necessary to reflect current position responsibilities.

Management's Response

Galveston FMS will review SIMS access for FMS employees annually. The first review occurred in February 2008 and will continue annually in January thereafter. Additionally, Galveston FMS will utilize a checklist for processing employees upon transfer or termination that will address access to SIMS and other systems. The checklist will be in place by August 31, 2008.

9. Property/Fixed Assets

Observation

Improvements are needed to ensure all assets are permanently identified.

Four of 34 (12%) assets tested did not have inventory numbers permanently affixed to the property. The A&M System Equipment Management Manual states, "An inventory number is to be assigned and permanently affixed to each personal property item whether received by a central receiving office or directly by a department prior to the item being placed in use or released outside the initial receiving activity."

Recommendation

Enhance monitoring of TAMUG department asset inventory and tagging of equipment.

Management's Response

9. Property/Fixed Assets
(cont.)

Galveston FMS has developed a process whereby a form is sent out along with the inventory tag instructing the custodian of record to affix the tag to the item according to policy. Once this is completed, the custodian is to sign and return the form indicating the asset has been properly tagged. Galveston FMS will follow-up with departments monthly if a signed form has not been returned. This process has already been implemented.

10. Physical Security of Cashier Area

Observation

Cashier area is not physically secure.

Access to the cashier area is not secure. A half-door opening to the cashier area is kept locked; however, the handle is accessible by anyone reaching over the top of the half-door. The safe inside the cashier area is kept unlocked throughout the day. While it is not visible to people making payments at the cashier counter, the safe can be easily seen through the half-door by anyone walking into the TAMUG Department of Financial Management Services' business office. The half-door into the cashier area is on a main hallway within the FMS area. A&M System Regulation 21.01.02 states, "Each department or unit must provide an adequate and proper facility for securing funds."

Recommendation

Ensure that the cashier area and the safe are physically secure by limiting doorway access to only authorized personnel.

Management's Response

To restrict access to the cashiering area to authorized personnel, an electronic keypad locking system has been installed on the cashier entrance half-door and the handle on the inside of the door has been removed. Authorized personnel have been assigned a unique keypad code. The keypad system logs all activity. A switch has also been installed a sufficient distance from the door that unlocks the door from the inside when activated. To enhance security of the vault, the vault will remain closed during the day and an additional keypad has been installed on the vault door. Authorized personnel have been assigned a unique key pad code and the system logs all activity.

BASIS OF REVIEW

Objective

The overall objective was to determine whether the financial and management controls are in place over the University's financial management services' operations at Galveston to ensure that resources are used efficiently and effectively and in compliance with applicable laws, polices, and regulations.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Texas A&M University at Galveston is a branch campus of Texas A&M University in College Station, Texas. Degrees are offered under the name and authority of Texas A&M University in College Station. The Galveston campus houses one of six maritime academies in the nation. In 2007, the campus recorded over 1,650 students, with 75% of those majoring in science and engineering.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Sandy Ordner, CPA, Project Manager
Holly Blue, CPA
Chris Powell
Tracey Sadler, CIA

Contact Information

For questions regarding this review, contact Charlie Hrcir, Director.

E-Mail: chrncir@tamu.edu
Phone: (979) 458-7100
Fax: (979) 458-7111
Web Site: <http://www.tamus.edu/offices/iaudit/>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

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Galveston
Mr. Charley Clark, Associate Vice President for University Risk
and Compliance



PROJECT SUMMARY

Overview

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Overall, Athletic Department administration requires significant improvement at Tarleton State University. The control environment of the Athletic Department is weak, as evidenced by recurring audit and oversight issues. Revenue management over ticket sales and other areas needs to be strengthened to safeguard assets and comply with System regulations. Expenditures, including procurement card transactions, should be fully documented and

comply with University procedures. The University should develop alternatives to the current method of issuing large cash advances to Athletic Department personnel to pay for team travel expenses. Other areas of improvement needed include sports camp administration, financial statement considerations, and contract administration.

In addition, we performed procedures agreed to by management on the University's Athletic Department Statement of Revenues and Expenses for the fiscal year ended August 31, 2007 to assist the University in complying with NCAA Constitution 6.2.3. Based on these procedures we determined that the Statement is materially accurate. For fiscal year 2007, the Athletic Department expenditures were approximately \$4.2 million. (See Attachment for the Statement of Revenues and Expenses.)

Summary of Significant Results

Athletic Department Control Environment

The control environment of the Athletic Department requires strengthening. The control environment represents management's commitment to operate in a control-conscious manner. Evidence of control environment weaknesses includes:

- Prior audit recommendation from 2006 regarding revenue management which was not thoroughly followed by the Athletic Department.

- Continuing voucher errors despite special Division of Finance and Administration oversight performed since 2005.
- Significant weaknesses in other areas as noted in this report.

Revenue Management (prior audit recommendation)

Revenues received by the Athletic Department require stronger controls. The Athletic Department received over \$400,000 in fiscal year 2007 for sports camps, sales and concessions, ticket sales, contributions, and game guarantees. Weak revenue management increases the risk that Athletic Department funds are not appropriately safeguarded and accounted for completely.

Written procedures for revenue areas were not always available or were out-of-date. Among other controls, Athletic Department staff did not understand the necessity for establishing a chain of custody when transferring funds from one individual to another, or for promptly depositing funds.

Expenditure Documentation

Expenditure documentation needs to be improved. Without proper documentation, the risk increases that funds may not be spent in accordance with state, System, and University regulations.

Athletic Department expenditures, which were paid by procurement card, did not always contain proper documentation to determine the business nature of the purchase. This was generally because the request to purchase was not completed as required. Procurement card expenditures by the Athletic Department totaled \$85,882 for fiscal year 2007.

Athletic Department expenditures, which were paid on purchase and travel vouchers, require improvement to demonstrate compliance with established University purchasing and expenditure guidelines. Despite oversight by the Division of Finance and Administration since 2005, these expenditures continue to experience noncompliance, error, and re-work.

Cash Advances for Team Travel

The practice of issuing large cash advances to coaches or Athletic Department administrators for team travel should be evaluated by management. While some cash is necessary for unanticipated incidental expenses and emergency situations during team travel,

the payment of meal and hotel expenses by other means would reduce the risks associated with carrying excessive cash. Team travel expenses totaled \$313,252 for fiscal year 2007.

Sports Camp Administration

Sports camp administration requires improvement in managing revenue, expenditure, and NCAA rules compliance controls. Camp revenue has increased from \$105,000 in fiscal year 2004 to \$189,000 in fiscal year 2007. Important revenue controls, such as the reconciliation of camp attendees to camp deposits and the documentation of registration discounts, are not in place. No structured administrative and fiscal close-out process is performed. NCAA requirements for sports camps need further oversight and development to demonstrate compliance.

Summary of Management's Response

The Department of Athletics and the administration at Tarleton State University appreciates the comprehensive review conducted by the Texas A&M University System Internal Audit staff.

The University and the Athletics Department have identified ways to improve the control environment, revenue management, expenditure documentation, cash advances for team travel and sports camp administration. Contract administration areas and financial statement considerations are being reviewed and additional monitoring and reporting methods are being developed.

Tarleton State University is committed to addressing the recommendations received in this report. The Athletics Department has begun implementing many corrective measures and will continue to monitor and update its processes and procedures to meet all NCAA, Lone Star Conference, A&M System and Tarleton State University policies and procedures.

Scope

The System Internal Audit Department has completed a review of the University's internal controls over the athletics program. This review was performed in conjunction with the application of certain Agreed-Upon Procedures to the Statement of Revenues and Expenses for the University intercollegiate athletics program for the fiscal year ended August 31, 2007, in order assist the University in complying with the NCAA Bylaw 6.3.2. The audit fieldwork was primarily conducted in October 2007 through January 2008.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Athletic Department Control Environment

Observation

The control environment of the Athletic Department requires strengthening.

Weaknesses in the control environment over the Athletic Department place the University at risk of resources being used inappropriately. The control environment represents management's commitment to operate in a control-conscious manner. Evidence of control environment weaknesses includes:

- Prior audit recommendation from 2006 regarding revenue management not thoroughly followed by the Athletic Department (see textbox).
- Continuing expenditure documentation errors despite special Division of Finance and Administration oversight performed since 2005.
- Significant weaknesses in other areas as noted in this report.

**Fiscal Year 2006 First
Quarter Report – Review of
the NCAA Program Financial
Statement**

“Our review of athletic ticket sales and the related cash handling revealed several areas for improvement. Controls are needed in this area to reduce the risk of loss or misappropriation of funds.”

Despite a prior audit recommendation, semi-annual training, and written procedures specific to Athletic Department team and travel purchases, areas of weak control still exist.

The NCAA underscores the need for a strong control environment in its Constitution, Article 2, Principles for Conduct of Intercollegiate Athletics, Principle 2.16, The Principle Governing the Economy of Athletics Program Operation, which states, "Intercollegiate athletics programs shall be administered in keeping with prudent management and fiscal practices to assure the financial stability necessary for providing student-athletes with adequate opportunities for athletics competition as an integral part of a quality educational experience."

Recommendation

1. Athletic Department Control Environment (cont.)

Strengthen the control environment of the Athletic Department, including oversight and accountability systems. Re-evaluate training programs and re-train Athletic Department personnel to achieve appropriate outcomes. Implement audit recommendations to strengthen administrative processes and to solidify compliance with NCAA Article 2.

Management's Response

Measures have been taken to ensure compliance with the prior 2006 audit recommendations that were not fully implemented.

The Athletics Department has been meeting with all staff on a monthly basis to discuss and implement processes for improvement of compliance and control environment related issues.

The Athletics Department has worked with staff in the Office of the Vice President for Finance and Administration to update its procedures regarding revenue management, ticket sales, cash handling, concessions, trade-outs, and program sales.

Effective immediately, appropriate Athletics Department personnel will be required to take advantage of existing training opportunities at the University related to travel, purchasing procedures, and procurement card usage as offered by both the Business Services and Purchasing departments. Additional training sessions specific to athletics will be provided as required.

2. Revenue Management (prior audit recommendation)

Observation

Revenue management within the Athletic Department requires improvement.

Revenues received by the Athletic Department require stronger controls. The Athletic Department received funds in fiscal year 2007 for:

- Ticket Sales - \$75,000
- Game Guarantees - \$32,000
- Contributions - \$40,000
- Sales and Concessions - \$98,000
- Sports Camps - \$189,000

2. Revenue Management
(cont.)

Weak revenue management increases the risk that Athletic Department funds may not be safeguarded and accounted for completely.

Written procedures for ticket sales and other revenue areas were unavailable or out-of-date. Ticket sales documentation contained mathematical mistakes, and instances were noted where the same individual performed incompatible duties, such as accounting for tickets and also having access to ticket proceeds. Athletic Department staff were not knowledgeable of revenue controls such as acknowledgement of transfer of fund custody. Large deposits of game proceeds were not consistently made within one business day of the event, as required by System policy.

Inventory controls and Athletic Department oversight are not well established and have not been reduced to writing for concessions, novelty sales, and other fundraising activities. Undefined controls and oversight increases the risk that revenues from these operations are not maximized and safeguarded.

The valuation and collection process for goods and services received in exchange for Texan Club Memberships (Trade Outs) needs improvement in order for the University and the Texan Club to be assured that promised goods and services are actually received or provided. The Athletic Department was unable to provide supporting documentation for the collection of promised goods and services for 71% (five of seven) of Trade Outs selected for testing.

Revenue administration controls over sports camps are discussed further in observation #5.

Recommendation

Develop written procedures to cover all aspects of Athletic Department revenue management. Train the Athletic Department staff on revenue management procedures including accounting, safeguarding, and compliance requirements. Streamline operations to lessen administrative burdens where possible, such as automated ticketing processes and outsourced operations. Establish a tracking system to ensure collection of all Trade Out goods and services promised in exchange for Texan Club Memberships.

Management's Response

The procedures for cash handling, concessions, program sales, and ticket sales and reconciliations have been revised by the Department of Athletics and reviewed by Finance and Administration

2. Revenue Management
(cont.)

staff members. Each procedure notes the date of revision within the heading to indicate the latest document. As of February 29, 2008, novelty sales were outsourced to the University bookstore to increase novelty sale controls and reduce staff administrative burdens.

Effective immediately, appropriate Athletics Department personnel will be required to take advantage of existing training opportunities at the University related to travel, purchasing procedures, and procurement card usage as offered by both the Business Services and Purchasing departments. Additionally, Finance and Administration personnel will provide appropriate Athletics Department personnel with training specific to revenue management procedures.

With the use of technology, an e-ticket solution is being explored for implementation in the Athletics Department. The Request for Proposal (RFP) process was initiated and the successful vendor identified through the proposal review process. Pending contract negotiations, the new electronic ticketing process should be in place by the start of the fall 2008 semester. This new process will allow for better utilization of staff, provide streamlined reconciliation, easier and more in-depth reporting and enhance customer service to ticket patrons. Pre-game ticket sales will be conducted outside of the administrative office in the athletic ticket booth in Wisdom Gym. This will be staffed daily and the employee will utilize the new ticketing software.

A more comprehensive tracking system is currently being developed to ensure collection of Trade Out goods and services promised in exchange for Texan Club Memberships. As of August 31, 2008, the Assistant to the Athletics Director will monitor this activity with use of receipts showing amounts of Trade Outs. The receipts will be located in a binder with each Texan Club member application for easy review. The information will be forwarded to Business Services for recording purposes.

3. Expenditure Documentation

The Division of Finance and Administration has provided an expenditure guide to the Athletic Department, tailored to some of the Department's unique transaction types. Additionally, University-wide training has been provided, at least semi-annually, for expenditure areas of: travel, usage of historically underutilized businesses, and procurement card. Further guidance and training, specific to the Athletic Department, is necessary to underscore the importance of compliance and strong documentation and to address the following weaknesses in athletic expenditures.

3a. Procurement Card Transactions

Observation

Procurement card purchases require better documentation and oversight.

Athletic Department procurement card transaction documentation did not always contain adequate information to determine the business nature of the purchase. University procedures require the use of a Request to Purchase (RTP) for certain purchases to document the purchase justification. However, it is not clear, except for food and postage, exactly when RTPs are required. The RTP documentation is to contain the five W's, i.e. the who, what, when, where, and why of the purchase.

Our review of fiscal year 2008 procurement card transactions showed:

- Twenty-seven of 27 transactions with an attached RTP lacked one or more elements of required documentation. For example, one RTP had the description 'steaks for cookout,' which is insufficient to substantiate the business purpose of the expense.
- Three conference/meeting registrations requiring travel were not accompanied by the required travel request.
- Three of four procurement cardholders did not enter the reference number required on the procurement card log.
- One procurement cardholder signed their own procurement card log as preparer and reviewer.

Enhanced procurement card documentation is needed to clearly establish the business nature of certain expenditures.

Recommendation

Clarify the types of purchases requiring additional documentation of the business nature of the purchase, including acceptable methods for capturing this information to promote oversight. Comply with procurement card procedures including travel requests for conferences/meetings, documenting reference numbers on procurement card logs, and not having the same procurement cardholder prepare and review their own procurement card log.

Management's Response

3a. Procurement Card
Transactions (cont.)

The Athletics Department will comply with all University and A&M System policies regarding procurement card usage and documentation. Effective immediately, appropriate Athletics Department personnel will attend training as provided regarding procurement card usage and required documentation.

No cardholder will be allowed to sign as both the cardholder and the approver. In the absence of the supervisor, the next level supervisor will be involved in the approval process.

3b. Purchase and Travel Voucher Transactions

Observation

University expenditure guidelines were not followed for purchase and travel voucher transactions.

Purchase and travel voucher transactions did not consistently comply with University expenditure guidelines. Uncertainty exists with guidelines, specifically with travel expenditure documentation requirements, as evidenced by the inconsistent completion of a Request to Purchase (RTP). Our review of fiscal year 2007 and 2008 transactions showed:

- Six of 43 (14%) transactions did not contain the required RTP documentation.
- Twelve of 17 (71%) transactions were accompanied by RTP documentation when L-orders or invoice voucher preparation forms could have been utilized.
- Twenty-two of 37 (59%) transactions were not appropriately routed directly to Business Services.
- Five of 18 (28%) transactions were missing the required Purchase Order.
- Nine of 15 (60%) transactions involving food purchases did not contain the full justification of the business purpose (who, what, when, where, and why).

Other improvements to the purchasing process include the need to obtain and better document informal bids for airfare and utilization of state-contracted hotel rates for all Athletic Department travel, when economically advantageous. Such practices would better position the Athletic Department to demonstrate prudent use of funds in an operation that had \$4.2 million in total expenses for the fiscal year ending August 31, 2007.

**3b. Purchase and Travel
Voucher Transactions
(cont.)**

Athletic Department expenditures, paid on purchase and travel vouchers, have been given special oversight and review by the Division of Finance and Administration since 2005, specifically the Vice President for Finance and Administration. This arrangement was implemented in an attempt to provide more direct communication of purchasing requirements and supporting documentation needed. The intent was to reduce the time necessary to obtain appropriate documentation, streamline the payment process and ensure compliance with established University purchasing and expenditure guidelines.

Recommendation

Establish an accountability system which will enforce University expenditure guidelines. Clearly define requirements for travel expenditure documentation. Clarify and enhance purchasing practices to document the prudent use of funds.

Management's Response

An expenditure guideline specific to Athletics was developed and is being used. The guidelines will be updated and expanded to include revenues. The process to document and justify expenditures regarding hotel, airfare and team travel reservations is currently being reviewed and refined to include prudent use of funds. All airfare must be approved in writing by the Athletics Director or designee before the actual ticketing of the reservation.

All Athletics Department staff members involved in the reservation process ascertain and document if hotels and airlines are listed on the state contract list, and provide written documentation to Business Services and Purchasing as appropriate to meet state and A&M System travel requirements.

4. Cash Advances for Team Travel

Observation

Large cash advances for Athletic Department team travel result in unnecessary risk.

The practice of issuing large cash advances to coaches or Athletic Department administrators for team travel should be reevaluated by management. For the 15-month period ending December 2008, 25 advances exceeding \$2,000 were issued to the Athletic Department for handling team travel expenses incurred such as hotel, meals, and incidentals. In fiscal year 2007, three advances exceeded \$5,000 and two advances exceeded \$7,000 in fiscal year 2008.

4. Cash Advances for Team Travel (cont.)

While some cash is necessary for unanticipated incidental expenses and emergency situations during team travel, the payment of meal and hotel expenses by other means would reduce the risks associated with carrying excessive cash. Options employed by other System universities to minimize the use of cash include departmental travel credit cards and direct billing arrangements with hotels.

Recommendation

Devise alternative methods to reduce the use of cash needed to pay for expenses incurred for team travel.

Management's Response

The Athletics Department is working closely with Finance and Administration personnel to develop a more efficient and effective way to reduce cash advances for team travel, through the use of University travel cards issued through our current credit card provider, JP Morgan Chase. This new process will be effective with the start of the fall 2008 semester.

5. Sports Camp Administration

Observation

Revenue, expenditure and NCAA rules compliance controls over sports camps requires improvement.

Sports camp administration requires improvement in managing revenue, expenditure, and NCAA rules compliance. Camp revenue has increased from \$105,000 in fiscal year 2004 to \$189,000 in fiscal year 2007. Important revenue controls, such as the reconciliation of camp attendees to camp deposits and the documentation of registration discounts, are not in place. Without these controls, the Athletic Department is not assured that camp registration fees are being appropriately accounted for, and deposited timely and intact.

A closeout process for sports camps is not in use. Salary payments for a summer 2006 sports camp were made as late as March 2007. Delinquent payments provide an incomplete picture of how well the camp performed financially and distort the matching of camp revenue and camp expenditures.

Sports camps have certain NCAA rules compliance characteristics, such as the openness of the camp to all eligible attendees, the manner of student-athlete assistance, and the employment of area coaches. The current camp administrative

5. Sports Camp Administration
(cont.)

structure does not provide for documented oversight of NCAA rules compliance.

Recommendation

Improve sports camp revenue controls, especially the timely and documented reconciliation of camp attendees to camp registration deposits. Develop a process to account for camp expenditures in a timely manner, including wages earned by camp personnel. Ensure that the Athletics Compliance Officer is appropriately engaged in the camp administration process, and that oversight is documented.

Management's Response

A comprehensive camp and clinic procedure (approved by Finance and Administration) has been developed and was implemented in May 2008. Documentation includes oversight and approval from Athletics administration and other areas designated within Finance and Administration. The process includes a review of pre-camp information related to advertising, employees, fees, etc., and a review of post-camp documentation, including reconciliations completed by Athletics personnel.

6. Financial Statement Considerations

Observation

Athletic Department financial reporting improvements are needed.

The current method of compiling the NCAA-required Athletic Department Statement of Revenue and Expenses does not take advantage of automated reporting tools and does not promote ongoing monitoring of revenue and expense trends. Athletic Department accounts are too general, in some cases, to facilitate preparation of the financial statement with its prescribed line items of revenue and expense by sport. For example, the current account structure puts all ticket sales into a single subsidiary ledger account, thereby requiring a manual process to reclassify ticket sales by sport. The more manual the financial statement preparation process, the more difficult it becomes to compile the statement and to monitor Athletic Department revenues and expenses totaling over \$4 million in fiscal year 2007, in an ongoing manner.

The Financial Accounting Management Information System (FAMIS) has a feature called Support Account that provides an additional level of classification beneath a subsidiary ledger account. This feature has been successfully employed by another System university to provide the structure necessary to further automate financial statement preparation. The System Office of

6. Financial Statement
Considerations (cont.)

Budgets and Accounting has developed a similar electronically formatted NCAA financial statement that universities can use to automate the financial statement preparation process. To use this automated report, the University needs to tag the appropriate accounts in FAMIS that are to be included in this financial statement. This account tagging process requires that Support Accounts be used to capture the information at the appropriate level of granularity in order to compile the financial statement data by sport and in total, as required by the NCAA.

Recommendation

Evaluate the structure of Athletic Department accounts in FAMIS, to develop the ability to automate the preparation of the NCAA financial statement. This will allow management to monitor revenues and expenses with limited manual intervention.

Management's Response

Support accounts will be used where feasible to assist in automated report preparation and data compilation, including ticket, program, and concessions sales, game guarantees, facilities rental, promotional revenues, and expenses associated with these revenues. Scholarship expenditures will also be separated by support accounts. The use of support accounts will be utilized in fiscal year 2009.

7. Contract Administration

Observation

**Athletic Department
contract administration
requires strengthening.**

The Athletic Department's contracting for advertising and concession operations requires improvement. Several contracts were out-of-date, and contract terms were not being followed or were poorly defined. For example, an advertising contract had not been updated in six years though changes in advertisers and price had been made. Additionally, the University is providing continuing advertising in spite of late payments made by advertisers, sometimes up to a year late. While concession operation contracts describe revenue sharing, these contracts do not clearly define the responsibilities of all parties involved.

Recommendation

Improve contract administration processes. Ensure that all contracts are valid and improve oversight to allow for contract renegotiation prior to expiration.

Management's Response

7. Contract Administration
(cont.)

The University has a contract administration process in place for the routing, review, and approval of contracts/agreements. As such, the Athletics Department will refer to and route all contracts for review and approval in accordance with the President's Delegation of Authority for Contract Administration. The Athletics Department will maintain the billing cycles and responsibilities of all parties involved in the contract, and will maintain payment schedules to keep up with payments due within the billing cycles. The Director of Athletics will communicate with the parties involved to determine if contract privileges should be suspended or renegotiated, and will communicate the final determination with the University contract administrator.

BASIS OF REVIEW

Objective

The objective of the review was to evaluate the financial and management controls over the University's athletic program for the time period of September 2006 through December 2007.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System, the National Collegiate Athletic Association's Bylaws, and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Tarleton State University is a member of the National Collegiate Athletics Association and competes at the Division II level. In fiscal year 2007, the University sponsored twelve varsity sports. The sports are:

<u>Men's</u>	<u>Women's</u>
Football	Volleyball
Cross Country	Cross Country
Basketball	Basketball
Baseball	Softball
Track and Field	Tennis
	Golf
	Track and Field

In addition to revenues generated by the Athletic Department such as ticket sales, fundraising, and game guarantees, the Department is supported by student fees, auxiliary and designated revenues. Total Athletic Department revenues and expenditures for fiscal year 2007 were \$4.3 million and \$4.2 million, respectively.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Mark Poehl, CPA, Project Manager
Christy Journey
Susan McGrail, CIA

Contact Information

For questions regarding this review, contact Dick Dinan, Director.

E-Mail: D-Dinan@tamu.edu
Phone: (979) 458-7144
Fax: (979) 458-7111
Web Site: <http://www.tamus.edu/offices/iaudit/>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. Dennis McCabe, President
Mr. Jerry Graham, Vice President for Finance and Administration
Ms. Cynthia Carter, Assistant Vice President for Finance and Administration
Mr. Mike Tate, Assistant Vice President and Controller
Mr. Lonn Reisman, Athletic Director
Ms. Susan Burton, Associate Athletic Director
Mr. James Gibson, Assistant Athletic Director for Compliance

**ATTACHMENT
TARLETON STATE UNIVERSITY
STATEMENT OF REVENUES AND EXPENSES (unaudited)
INTERCOLLEGIATE ATHLETICS PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2007**

	Football	Men's Basketball	Women's Basketball	Other Sports	Non-Program Specific	Total
REVENUES						
Operating Revenues:						
Ticket Sales	40,555	15,902	15,902	3,314	0	75,673
Student Fees	525,400	139,640	111,618	373,871	445,038	1,595,567
Game Guarantees	27,500	0	4,398	0	0	31,898
Contributions	18,795	2,750	5,290	986	11,746	39,567
Direct Institutional Support	252,783	109,925	126,558	490,576	836,649	1,816,491
Indirect Facilities Support	0	0	0	0	131,295	131,295
NCAA/Conference Distributions	0	0	0	0	6,083	6,083
Radio Broadcasting	0	0	0	0	1,000	1,000
Sales and Concessions	554	1,358	6,480	10,704	78,565	97,661
Advertising and Sponsorships	15,147	2,933	4,758	23,939	188,284	235,061
Sports Camps	25,597	52,710	62,859	47,527	0	188,693
Other Revenues	69	0	40	6,350	36,079	42,538
Total Operating Revenues	906,400	325,218	337,903	957,267	1,734,739	4,261,527
EXPENSES						
Operating Expenditures:						
Athletic Aid	397,125	94,097	114,173	449,869	25,574	1,080,838
Game Guarantees	15,000	33,316	3,960	488	0	52,764
Coaching Salaries and Benefits	236,042	95,954	90,558	231,442	0	653,996
Support Staff Salaries and Benefits	10,227	3,089	9,470	9,811	625,444	658,041
Recruiting	21,847	3,552	3,105	8,431	13,685	50,620
Team Travel	94,011	35,544	41,190	129,393	0	300,138
Equipment, Uniforms and Supplies	41,729	20,925	14,292	50,442	76,256	203,644
Game Expenses	8,693	13,376	8,286	19,010	45,347	94,712
Fund Raising, Marketing and Promotion	14,661	6,270	3,080	5,318	132,325	161,654
Sports Camp Expenses	9,786	5,989	48,043	29,676	0	93,494
Direct Facilities, Maintenance and Rental	4,390	0	0	10,418	234,234	249,042
Spirit Groups	0	0	0	0	35,564	35,564
Indirect Facilities and Administrative Support	0	0	0	0	131,295	131,295
Medical Expenses	636	1,798	1,220	675	313,167	317,496
Memberships	0	0	115	350	11,170	11,635
Other Operating Expense	14,228	7,942	9,971	12,271	77,333	121,745
Total Operating Expenditures	868,375	321,852	347,463	957,594	1,721,394	4,216,678
Excess (Deficiency) of Revenues Over (under) Expenses	38,025	3,366	(9,560)	(327)	13,345	44,849

The accompanying notes are an integral part of this financial statement.

Notes to the Statement of Revenues and Expenses

1. Nature and Basis of Accounting and Reporting

The financial statement conforms to the National Collegiate Athletic Association (NCAA) Financial Audit Guidelines, dated September 4, 2007.

The financial statement accounts for the Tarleton State University Intercollegiate Athletics Program are maintained by the University Business Office. The Athletics Program is an auxiliary enterprise and, as a member of the Lone Star Conference, is responsible for promoting a competitive athletic program.

The accompanying financial statement is presented in accordance with the accounting and financial reporting standards prescribed by the NCAA, the Governmental Accounting Standards Board, the principles of fund accounting, and is reported on the accrual basis.

The University financial statements will be incorporated into the statewide audit of the State of Texas for the fiscal year ended August 31, 2007, by the State Auditor's Office. Total operating revenues and expenditures reported by the University for the fiscal year ended August 31, 2007, were approximately \$66 million and \$106 million, respectively. Revenue from Legislative Appropriations, considered a non-operating source of revenue, was approximately \$38 million in fiscal year 2007.

2. Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The capitalization threshold for personal property is \$5,000. The capitalization threshold is \$100,000 for buildings/building improvements, facilities and other improvements, software developed for internal use, and leasehold improvements. Infrastructure has a capitalization threshold of \$500,000.

As required in GASB No. 34 and 35, the A&M System is required to depreciate capital assets. Depreciation is computed using the straight-line method over the estimated useful lives of assets; generally, 40 to 50 years for buildings, 20 to 25 years for infrastructure, and 5 to 7 years for equipment.

3. Contributions

NCAA Financial Audit Guidelines specify that individual contributions of money, goods, or services received directly by an athletics program that exceed 10 percent of all contributions received by the athletics program receive footnote disclosure. Todd Gschwend (Embarq) met the footnote disclosure in his gift of \$10,000 to the athletic program during the fiscal year ended August 31, 2007.



PROJECT SUMMARY

Overview

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Overall, the Memorial Student Center (MSC) has yet to establish consistent, organization-wide procedures to govern its new format and operations. Its mission, strategic plan, goals and objectives are under development following the restructuring to include the University Center Complex (UCC) in September 2006 and Rudder Theater Complex (RTC) in July 2007. The interim organizational structure is diverse, complex, and challenging to manage in size and span of control.

Without an as yet defined timeline for strategic implementation, there is an increased risk that goals will not be met and operations will not be efficient and effective. New organization-wide procedures will be needed to ensure consistent management of student events. Student events are a significant part of the MSC's operations and without strong controls can result in risks to students and the University. Additional areas noted for improvement include revenue management, student employment, payment cards, and contract administration.

The MSC organization includes Performing Arts (OPAS), University Center, Student Programs, Retail Services and Guest Rooms, Accounting, Information Technology, Development, Communications, Box Office, Rudder Theater Complex, and a portion of the University Art Gallery operations. The organization has a student board and supports numerous student committees. Management of the MSC oversees a budget of approximately \$12 million and employs over 100 staff and 100 student workers.

Summary of Significant Results

Strategic and Financial Management

The mission, strategic plan, and goals and objectives for the MSC organization are currently under development. As a result, divisional goals, objectives, and performance measures have not yet been established for MSC operating units. The reorganization of the MSC has resulted in an organizational structure that is diverse, complex and challenging to manage. The lack of organization-wide operating procedures exacerbates the complexity. Without a defined strategy and clear operating

procedures, there is an increased risk that goals will not be met, operations will not be efficient and effective, and MSC management will not have complete information to hold divisions accountable for performance.

Student Events

Organization-wide procedures are not in place to effectively manage student events and ensure compliance with applicable University rules and standard administrative procedures. Inconsistent use of required documentation was noted in many student programs reviewed. As a result, management risks noncompliance with University rules and standard administrative procedures that are in place to ensure student safety during events and travel.

Summary of Management's Response

While management concurs the newly created department is diverse and complex in nature, we remain committed to the overall development and safety of the students at Texas A & M University. The new organizational structure provides a comprehensive student center that can meet the needs of our increasingly diverse student population while streamlining the department's administrative functions.

This audit was embraced by management and provided great insight at this important time in the life cycle of the organization. Efforts are underway to finalize the mission, strategic plan and goals of the organization. During this effort, consideration will be given to potential additional organizational changes that may be required to better serve the needs of the institution. Once the organization mission, organizational structure, strategic plan and goals are finalized; divisional goals, objectives and performance measures will be established. Management will also be refining and developing new organizational-wide procedures to ensure compliance with System policies, University rules and standard administrative procedures. Management concurs that consistent application of these revised and newly created procedures is necessary to effectively manage all divisions of the department. We are looking forward to the benefits resulting from the implementation of the audit recommendations provided in this report.

Scope

Our review of financial and management controls over the University's Memorial Student Center operations focused on strategic and financial management, student event management,

student employment, revenue management, contract administration, payment cards and charge accounts, working fund management, and travel advances. Activities and transactions related to these areas were reviewed for the period from September 1, 2006 through October 31, 2007. Audit fieldwork was conducted October 2007 through February 2008.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Strategic and Financial Management

Observation

Organization-wide and divisional mission, strategic plan, goals, objectives, and performance measures are under development.

The mission, strategic plan, and goals and objectives for the MSC organization are currently under development. As a result, divisional goals, objectives, and performance measures have not yet been established for MSC operating units. There is currently a variety of divisional missions ranging from student development to retail operations within the MSC organization and a wide range of informal performance targets currently in place.

Reorganization of the MSC to include the University Center Complex (UCC) and Rudder Theater Complex (RTC) has resulted in an organization that is complex and challenging to manage. Additionally, a portion of the University Art Gallery reports to the MSC Director according to a trust agreement. MSC Accounting performs varying levels of service for all divisions within the MSC as well as the University Art Gallery. Information Technology (IT) support is provided by MSC IT for some divisions and by the Division of Student Affairs IT group for others. The organization also has a student board and supports numerous student committees. A Senior Associate Director position is currently vacant.

Organization-wide operating procedures have not been developed to reflect the new organization as a whole; consequently, divisions within the MSC operate independently in many respects. Similarly, financial information used to manage divisions and monitor budget to actual performance ranges from no reports prepared to detailed manual reports which supplement financial data available in the MSC accounting system. MSC management is currently working on financial tools for the upcoming budget cycle. Methods used to gather customer satisfaction feedback range from no formal mechanism to recurring surveys as well.

Absence of goals, objectives, performance measures and customer feedback increases the risk that MSC executive management cannot hold individual divisions accountable for management of their operations. Without using financial tools to monitor operations, managers do not have complete information for effective decision-making. The objective of an organizational structure is to group and

1. Strategic and Financial
Management (cont.)

assign authority and responsibility for entity functions and tasks in a manner consistent with the entity's mission, goals, and objectives.

Recommendation

Establish a timeline by which to complete the organization's mission, strategic plan, and goals and objectives. Establish organization-wide procedures to provide consistent guidance for the organization as a whole and implement goals, objectives, and performance measures by which to evaluate divisional operations.

Consider restructuring the MSC organization based on the mission adopted to create cleaner, clearer reporting lines and reduce the complexity of the organization. This may include filling the Senior Associate Director position to aid in organization management.

Develop periodic financial reports and train managers on utilizing them to monitor operations. Review methods in place to measure customer satisfaction and determine applicability to divisions without such tools.

Management's Response

Efforts are underway to finalize a timeline to establish a new mission, strategic plan and goals/objectives and will be completed by August 31, 2008.

Timeline established by August 31, 2008.

Organizational-wide procedures will be updated and documented throughout the coming year to provide guidance and ensure compliance with applicable System policies, University rules and standard administrative procedures. Performance measures will also be created to assess the progress made toward the stated goals and objectives.

Implement by August 31, 2009.

In conjunction with finalizing the mission, strategic plan and goals/objectives, management will review the structure of the organization and give consideration to potential additional organizational changes that may be required to better serve the needs of the institution. Additionally, management intends to fill the Senior Associate Director position to aid in organization management. As with any complex organization, upper management will continue to delegate authority and responsibility to capable staff members in order to effectively perform its overall function.

1. Strategic and Financial Management (cont.)

Implement by November 30, 2008.

Management is reviewing the existing financial reporting system and working with Financial Management Operations (FMO) to develop additional financial reports to enhance managers' ability to monitor their operations. In addition, managers will be trained on the use of all current financial systems and updated as new tools become available.

Implement by November 30, 2008 with updates as necessary.

Management concurs that the level of customer satisfaction is directly related to the overall success of its operations. Surveys and other assessment tools will be reviewed and/or created to measure the level of customer satisfaction throughout the organization and across each customer base.

Implement by May 31, 2009.

2. Student Events

Observation

Organization-wide procedures are not in place to guide administration of MSC student events.

Organization-wide procedures are not consistent among MSC Student Programs to effectively administer student events. Inconsistent use of pre-event planning forms, Critical Incident Response Team (CIRT) registration, liability waivers/releases, and driver agreements was noted among Student Programs tested. Record retention periods followed by Student Program advisors are inconsistent and, in most cases, do not meet the period required by the A&M System's retention schedule.

Knowledge of required documentation for various types of student events has generally been taught through on-the-job-training. Without a more formal training program, management risks noncompliance with University rules and standard administrative procedures that are in place to ensure student safety during events and travel.

Recommendation

Develop organization-wide procedures to manage student events and consolidate guidelines into one manual with one employee responsible for procedures maintenance. Ensure procedures are consistent with applicable University rules and standard administrative procedures.

2. Students Events (cont.)

Train program advisors regularly on student event guidelines to ensure awareness of and consistency in all documentation required prior to the occurrence of student events.

Determine and adhere to the appropriate record retention period for student event documentation.

Management's Response

Student event guidelines are currently being reviewed and consolidated to ensure consistent application and adherence to applicable University rules and standard administrative procedures. The maintenance of these procedures and all pertinent forms will be the responsibility of one senior staff member.

Implement by August 31, 2008 with updates as necessary.

Management will train all advisors annually on current student event guidelines to ensure awareness of and consistency in all documentation required. Management will provide training to all advisors on the newly consolidated procedures. New advisors will receive training prior to their first student event. Additionally all advisors will receive training updates when any revisions are made to the procedures.

Implement by August 31, 2008 with updates as necessary.

Management is currently working with System General Counsel and the University Records Management Department to determine the appropriate record retention period for student event documentation.

Implement by August 31, 2008.

3. Revenue Management

Observation

There is a lack of organization-wide procedures for revenue management.

Organization-wide procedures are needed to improve revenue management controls in the following areas:

- Separation of duties is not adequate as the individual responsible for reconciling accounts also has authority to prepare and sign vouchers.
- Checks are received in four mailboxes; each checked by a separate division within the MSC.

3. Revenue Management
(cont.)

- Checks received are not consistently stamped 'For Deposit Only' upon receipt by all MSC divisions in accordance with System Regulation 21.01.02, Receipt, Custody, and Deposit of Revenues.
- Procedures are inconsistent throughout the MSC for backup key storage and rekeying of safes and vaults. System Regulation 21.01.02, Receipt, Custody, and Deposit of Revenues requires rekeying safes and vaults periodically and as employees terminate.
- Monitoring of accounts receivable is performed by multiple divisions within the organization and procedures for collections and write-offs of accounts are not documented.
- Documentation of analysis performed to establish pricing and fee structures is not available in all divisions to support rates charged for services and/or equipment and to determine whether costs are recovered.

Revenue management processes are decentralized, with each MSC division responsible for its own processes. Without organization-wide procedures for revenue management, the risk is increased that management is not in compliance with applicable regulations, rules and procedures. In addition, misappropriation could occur and remain undetected, collection on accounts may be inconsistent, or direct and indirect costs related to services provided may not be recovered.

Recommendation

Improve revenue management controls including the following:

- Separate duties within the accounting office between those with preparer and approver authority and those with reconciler duties.
- Reduce the number of mailboxes where checks can be received. Provide 'For Deposit Only' stamps to employees whose responsibilities include receiving checks and instruct them to restrictively endorse all checks immediately upon receipt.
- Develop organization-wide procedures for the management of safe and vault keys and combinations as well as for the collection and write-off of MSC-managed accounts receivable. Consolidate monitoring of accounts receivable to the extent possible to improve consistency.

3. Revenue Management
(cont.)

- Perform and document analysis of pricing and fee structures for all departments/programs that have revenue streams. Analysis should include consideration of current prices compared with local and national (if applicable) markets, direct and indirect costs to be recovered, and other potential sources of revenue. Analysis should be performed and reviewed annually.

Management's Response

Duties are now adequately segregated. The position responsible for reconciliations no longer has authority to sign vouchers in the electronic routing system.

Implemented March 2008.

Management is finalizing a new Events Management System which has redirected payments related to Hospitality and Events Services to the Financial Management Office. This has significantly reduced the number of checks received at one mailbox. In addition, management will review the number of mailboxes for opportunities to consolidate based on best business practices.

Implement by November 30, 2008.

As of April 2008, all employees whose responsibilities include receiving checks have been provided a "For Deposit Only" stamp and have been instructed to restrictively endorse all checks immediately upon receipt.

Implemented April 2008.

Organization-wide procedures for the management of safe and vault keys and combinations will be established.

Implement by August 31, 2008.

Accounts receivable collections, write-off and monitoring of MSC-managed accounts receivable will be reviewed by management to determine the feasibility of consolidation. All procedures will be documented to improve consistency.

Review by November 30, 2008; document and implement by May 31, 2009.

3. Revenue Management
(cont.)

Management will perform and document annual reviews of pricing and fee structures for all departments/programs that have revenue streams to ensure they are in line with current market rates.

Implement by February 28, 2009.

4. Student Employment

Observation

Job descriptions and performance evaluations are not prepared for student employees and required training is not timely.

The MSC does not utilize written position descriptions with specific job duties for student employees. University Rule 33.99.08.M1, Student Employment, states that hiring departments shall create and maintain job descriptions for student employee positions. In addition, performance evaluations are not completed on a regular basis to ensure position requirements, as stated in the job description, are being met.

Job descriptions and performance evaluations allow management to communicate expectations and provide feedback on performance, both of which can be valuable tools for developing student employees. The MSC employs over 100 students and views student employment as an important development opportunity. Human resources management has been decentralized until recently, with each MSC division responsible for its own student employment processes.

Required Ethics and Equal Employment Opportunity training was either not taken or not taken timely by almost half (14 of 30) of the student employees reviewed. University Rule 33.99.08.M1 places responsibility upon the hiring department to ensure these and other mandatory training requirements are complied with. Management has relied on automated reminders generated by the System-wide Trainraq system to ensure this training occurs. Lack of training increases the risk that students may engage in activities that do not comply with the System's ethics policy.

Recommendation

Develop job descriptions, including acknowledgment of access to confidential information as applicable, for all student employee positions to be signed upon hire by the employee and his/her supervisor and maintain the form in the employment file. Prepare performance evaluations for student employees to communicate expectations, evaluate performance, and provide feedback.

4. Student Employment
(cont.)

Monitor Ethics and Equal Employment Opportunity training to ensure they are taken by student employees within thirty (30) days of hire and biennially as applicable.

Management's Response

Management concurs that job descriptions and performance evaluations are necessary to provide feedback and track student development. Supervisors will create individual student worker job descriptions unique to their area and perform annual evaluations. Current student workers will be asked to sign a confidentiality statement at the beginning of the Fall 2008 semester and all newly hired student workers will be required to sign a statement prior to employment. All job descriptions, performance reviews and confidentiality statements will be maintained in the student's personnel file according to University rules.

Implement by February 28, 2009.

Management will establish procedures to monitor the required Ethics and Equal Employment Opportunity training for student employees to ensure compliance with University rules.

Implement by August 31, 2008.

5. Payment Cards/Charge Accounts

Observation

Payment card management should be improved to ensure efficiencies are realized and risks are reduced.

Over half of the monthly payment card statements for the MSC's 32 active cards totaled less than ten percent (10%) of the cards' monthly spending limits. Additionally, several cardholders have been assigned more than one payment card. Issuing multiple cards and setting excessive spending limits increases the risk that payment cards may be lost or stolen or that funds may be misappropriated. Transactions charged on one payment card can be re-allocated to appropriate accounts in the Pathway Net system. Management has not reviewed the number of cards or their spending limits since changes have been made to make the payment cards more flexible for cardholders.

Use of in-store charge accounts (approximately 179 active accounts) by MSC divisions and a large number of purchase vouchers (72% of nearly 3,000 vouchers) processed during the audit period for less than \$500 indicates the intended efficiencies of the payment card program may not be fully utilized. The level of payment card and in-store charge account use is the result of the

5. Payment Cards/Charge
Accounts (cont.)

decentralized management of MSC divisions. Increased use of the payment card could reduce risks associated with in-store charge accounts and increase efficiencies within the accounting department by reducing the number of small dollar purchase vouchers processed.

Controls are not in place in all MSC programs to reduce the risk of fraudulent use of gift cards. Gift cards are often purchased by MSC programs with the payment card and used as door prizes at MSC events. Gift card purchases are a fairly recent trend that management had not yet identified as a risk area across multiple MSC programs. However, gift cards have a high risk for misuse and misappropriation.

Recommendation

Review monthly payment card transaction limits to determine if they are appropriate for the current level of card use. Determine if the number of payment cards per cardholder can be reduced based on the ability to re-allocate charges in Pathway Net.

Eliminate or significantly reduce the number of in-store charge accounts and encourage use of payment cards in their place. Encourage payment card use to reduce the number of small dollar vouchers processed by MSC Accounting and increase efficiencies in the procurement area.

Implement an organization-wide receipt form that acknowledges the purpose of gift cards and by whom they are received. This form should be included in the monthly payment card reconciliation process.

Management's Response

Payment card limits will be reviewed and reduced where possible. The number of cards per person will be reduced to one per individual and Pathway net training made available to necessary staff members.

Implement by August 31, 2008.

Management will review in-store accounts and reduce or eliminate those that accept payment cards. In addition, management will continue to encourage the use of payments cards in all areas to increase efficiency and reduce the number of small dollar vouchers processed by MSC Accounting.

Complete review by August 31, 2008.

5. Payment Cards/Charge
Accounts (cont.)

A standardized gift card receipt form will be created and made available to all staff members. This form will be required to be included in the monthly payment card reconciliation process.

Implement by August 31, 2008.

6. Contract Administration

Observation

Agreements between third-party retailers for use of space in the MSC are not consistent.

Inconsistencies exist among agreements with third-party retail operations located in the MSC. Third-party retailers operating within the MSC include Barnes & Noble (Bookstore and Convenience Store operations), the United States Postal Service (Post Office operations), and TAMU Dining Services (12th Man Cafeteria, Hullabaloo Cafeteria, Rumours Deli, and University Club operations).

Contracts for use of MSC space are in place between the MSC and the US Postal Service and Barnes and Noble. An agreement or memorandum of understanding has not been established between the MSC and Dining Services. The MSC University Center receives rent payments from the US Postal Service; however, no revenues are received by any MSC divisions from Barnes & Noble or Dining Services. Agreements between these retailers and the MSC are negotiated by other University divisions and not by MSC management.

Inconsistencies among agreements with third-party retail operations could result in the potential loss of revenues and the inability to hold each party accountable for rights and responsibilities related to operations and maintenance of space used.

Recommendation

Ensure contracts or memorandums of understanding are in place between the MSC and retail operations outlining duties and responsibilities of each with regard to operations, maintenance, etc. Establish dialog between MSC management and the TAMU President's Office (the responsible party for contracts between the MSC and third-party retail operations) to determine if rent/lease payments for use of space should be received by the MSC.

Management's Response

Management of the MSC and University Center Complex, in unison with the University administration, will work to see that all retail

6. Contract Administration
(cont.)

operations external to the department have a current signed agreement outlining details, responsibilities and duties of each party.

Implement by November 30, 2008.

The management of the MSC is currently in dialogue with the TAMU President's Office and other administrative divisions of the University who are responsible for contracts with retail operations within the MSC. Dialogue will continue with these entities to determine if rent will be paid to the MSC from the various contracted entities.

Conclusion to be reached by November 30, 2008.

BASIS OF REVIEW

Objective

The overall objective was to review the financial and management controls over the University's Memorial Student Center operations to determine if resources are used efficiently and effectively and in compliance with applicable laws, policies, regulations, and rules.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Memorial Student Center is in a period of transition resulting from a restructuring to include the University Center Complex in September 2006 and Rudder Theater Complex in July 2007. Currently, the organization has a staff of over 100 full-time employees and 100 student workers. MSC management oversees a budget of approximately \$12 million. The MSC provides facilities, services, and programs for the University community and student development opportunities for Texas A&M students by focusing on nine areas of emphasis: performing arts, visual arts, major lectures, international travel and awareness, multicultural awareness, leadership training and student development, career guidance and counseling, community service, and high quality services and facilities. The Rudder Theater Complex houses three theaters as well as a 6,100 square foot exhibit hall available for use by the University and external community and also assists with outdoor events such as ground breaking ceremonies and athletic events.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Amanda Dotson, CPA, Project Manager
Madelyn Galloway
Joseph Mitchell
Kim Pekar, CPA

Contact Information

For questions regarding this review, contact Charlie Hrcir, Director.

E-Mail: C-Hrcir@tamu.edu
Phone: (979) 458-7100
Fax: (979) 458-7111
Web Site: <http://www.tamus.edu/offices/iaudit/>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. Elsa Murano, President
Dr. Russell Cross, Executive Vice President for Operations
Dr. Jerry R. Strawser, Interim Executive Vice President and Provost
Mr. Terry Pankratz, Vice President for Finance and Chief Financial Officer
Dr. Dean Bresciani, Vice President for Student Affairs
Mr. Tom Reber, Associate Vice President for Student Affairs
Dr. Kevin Jackson, Assistant Vice President for Student Affairs
Mr. Luke Altendorf, MSC Director
Mr. Charley Clark, University Risk and Compliance



PROJECT SUMMARY

Overview

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Tarleton State University generally has processes and procedures in place to direct University personnel in the effective administration of human resources; however, compliance by University departments needs improvement. Additional monitoring and

standardization of decentralized processes for faculty and staff hiring is needed to reduce the inconsistencies and lack of documentation noted in these areas at the department level. Opportunities for improvement were also noted in the areas of position description certification, termination out-processing, required training for faculty, and annual performance evaluations for faculty and staff.

In fiscal year 2007, the University began implementation of an electronic hiring and position management system, Tarleton Connection. In fiscal year 2008, the University plans to implement the electronic performance evaluation module of the system. Our review indicates that implementing and using these systems improves consistency of documentation and compliance with applicable laws, policies and regulations. It also provides opportunities for more efficient and effective monitoring of human resources processes.

Summary of Significant Results

Faculty and Staff Hiring Processes

Several hiring departments are not retaining adequate documentation to support faculty and staff hiring decisions. Additionally, the Faculty Handbook and University Rules and Procedures for Non-Faculty hiring have not been updated to reflect new processes in place since the implementation of Tarleton Connection. Without a monitoring process in place for decentralized human resources responsibilities, the University risks an inability to ensure that established procedures for identifying and hiring the best, qualified candidates are being followed and compliance with applicable laws, regulations, rules and procedures is achieved.

Summary of Management's Response

During the past year, the Department of Human Resources (HR) restructured several jobs within the department. The department moved from using a "specialist" type job to a "generalist" type job. The restructure and associated training created an environment where each HR representative could assist with any process or provide any information outside of a specialization (such as benefits, employment or leave). The restructure significantly improved the timeliness of our services to our customers and our ability to ensure that established procedures are being followed.

The review provided by System Internal Audit of Tarleton's processes gave Human Resources the opportunity to see the gaps that the processes still contained after the restructuring and it allowed HR to utilize this information to make immediate improvements, as set out in these processes. The auditors were very easy to work with and provided suggestions in helping us develop stronger practices.

Scope

The review of Tarleton State University human resources processes focused on the areas of faculty and staff hiring, faculty and staff annual performance evaluations, position descriptions, required training, workplace notices, merit increases, and termination processes for the period January 2007 through December 2007. Fieldwork was conducted in February and March 2008.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Faculty and Staff Hiring Processes

Observation

A monitoring program is needed to ensure adequate documentation of faculty and staff hiring decisions.

Neither the University's division of Academic Affairs nor the Office of Human Resources monitors for compliance with faculty or staff hiring procedures to ensure departments are held accountable for human resources management responsibilities. Although management has developed hiring procedures requiring certain documentation, hiring departments are not consistently retaining the documentation to support their hiring decisions. The results of our work indicate that procedures have not been effective in promoting compliance with policies, rules and regulations.

For the twenty newly hired staff positions and ten newly hired faculty positions selected for review, the following exceptions were noted:

- Departmental hiring files did not contain interview questions, notes or matrices to demonstrate consistent, objective evaluation of candidates for 80% of faculty new hires and 53% of staff new hires reviewed.
- Although the Office of Human Resources receives assurances from hiring departments that applicant references have been verified, 80% of hiring files for faculty new hires and 74% of hiring files for staff new hires did not contain evidence of reference verification.
- Verification of previous employment was not documented in departmental hiring files for 84% of staff new hires reviewed.
- Sixteen percent of staff positions reviewed were not posted with the Texas Workforce Commission as required by Texas Government Code and System regulation.
- Approval to fill a faculty position by the appropriate academic dean and Provost was not in place as required by the Faculty Handbook for either of two faculty new hires with dual responsibilities in athletics and instruction.

1. Faculty and Staff Hiring Processes (cont.)

- Position responsibilities were not included in Offer/Appointment letters as required by System Regulation 12.01, Academic Freedom, Responsibilities and Tenure for either of two faculty new hires with dual responsibilities in athletics and instruction.
- The Faculty Handbook and the University Rules and Procedures for non-faculty hiring have not been updated to remove obsolete processes or reflect current processes required since the implementation of Tarleton Connection.

Monitoring processes help to ensure that established procedures for identifying and hiring the best-qualified candidates are being followed and compliance with applicable laws, regulations, rules and procedures is achieved.

Without adequate records to support hiring decisions, departments may be unable to defend their selections if they are challenged. Adherence to hiring procedures ensures that documentation is available to demonstrate that the best, qualified candidate is selected without biased evaluation of knowledge, skills, education, abilities, and experience in accordance with System regulation and University procedures. Reference checks verify corroborative evidence of the applicant's expertise, accomplishments, and character and reduce the risk that management may not hire the best, qualified candidate for the position.

Recommendation

Implement a monitoring program to promote compliance with hiring procedures and ensure hiring supervisors are accountable for retaining appropriate documentation as required by University rules and procedures.

Ensure all staff vacancy notices are posted with the Texas Workforce Commission and any other required media.

Develop a process for appropriate approval of positions that require both athletic administration and instruction duties. Include all position responsibilities in the offer and appointment letters for these employees as well.

Update the Faculty Handbook, University Rule 33.99.01.T1.01, *Hiring Procedures for Non Faculty*, and any associated guidance and training, to incorporate hiring process changes that have occurred with the implementation of Tarleton Connection and remove any outdated procedures.

Management's Response

1. Faculty and Staff Hiring Processes (cont.)

Tarleton State University has drafted a Standard Administrative Procedure (SAP) to replace the current University Rule 33.99.01.T1.01 and the Faculty Hiring Procedure as currently found in the Faculty Handbook. The new SAP incorporates a monitoring program to promote compliance through the development of hiring manager resources and training sessions. The SAP addresses faculty appointment letter content, as well as a routing requirement that will ensure joint appointments, such as those between Athletics and Academic Affairs, are approved through the chain of command of both hiring departments. The SAP will be completed and publicized to the University by the end of the fourth quarter of fiscal year 2008.

Human Resources is currently developing training materials and other job aids that will provide hiring managers with information related to the hiring procedures outlined in the SAP. This will be completed by end of the second quarter, fiscal year 2009.

Since the audit, Human Resources has updated its internal checklists and incorporated their use to monitor and ensure that each job vacancy is posted with the Texas Workforce Commission and other required media. The review of the hiring process increased our awareness of gaps in other areas and gave us the opportunity to make further improvements to our hiring process.

2. Position Description Certification

Observation

Improvements are needed to ensure certification of position descriptions by employees and supervisors upon hire and in conjunction with the annual performance evaluation process.

Position descriptions were in place, but had not been certified in Tarleton Connection by the employee and supervisor as required by A&M System regulation, in conjunction with the 2007 annual staff performance evaluation process for eleven of thirty (37%) staff selected for review. Position descriptions were not certified in Tarleton Connection by the employee for four of twenty (20%) staff new hires reviewed and not certified by the supervisor for six of twenty (30%) staff new hires reviewed as required by University hiring procedures.

The University implemented the position description management module of Tarleton Connection in August 2006. While position descriptions were entered into the automated system and approved, several employees and supervisors had not yet logged into the system to perform the required certifications in 2007.

2. Position Description Certification (cont.)

Certified position descriptions provide documentation of the employee's acknowledgement of their job requirements to ensure proper accountability, and ensure that job expectations are communicated and understood by both the employee and the supervisor.

Recommendation

Ensure position descriptions are certified by employees and supervisors as required during the annual performance evaluation and hiring processes.

Management's Response

Since the audit, Human Resources developed and implemented a written procedure to improve the monitoring of position description actions within Tarleton Connection. Additionally, Human Resources completed a review of all actions within the last 12 months and developed a notification process to ensure all position descriptions are certified.

Human Resources also completed its Annual Staff Evaluation period, which required an annual review of the position description by both the employee and the supervisor. As a result of the annual review process, notifications have been sent to all hiring managers who had incomplete position description certifications with a copy to their supervisor and vice president or equivalent. Responses have been monitored and reminders have also been sent when required. Copies of the notices and reminders are kept on file for audit purposes.

3. Termination Out-processing

Observation

Improvements to the University's termination clearance process are needed to ensure return of University property and timely termination of access to University information systems.

The University's termination clearance process requires improvement to ensure return of University property and timely removal of access to information systems. Exceptions identified included the following:

- Eight of twenty-six (31%) termination clearance forms reviewed included sections that were not completed, or contained notes from departments that employees had not cleared the department, or that keys in two cases, a procard in one case, or University identification cards in five cases remained outstanding.

3. Termination Out-processing
(cont.)

- Access to the University's Tarleton Connection system was not disabled within 30 days of termination for seven of sixteen (44%) employees with such access.
- Access to the Financial Accounting Management Information System (FAMIS) was not disabled within 30 days of termination for three of five (60%) employees with such access.

The risk is increased that terminated individuals may use University assets inappropriately or access systems and locations without authorization when the University's clearance process is not completed. Additionally, the risk is increased that terminated employees retain access to confidential information when access to information systems is not disabled in a timely manner.

Recommendation

Determine responsibility for following up on termination clearance checklist items that remain outstanding. Add termination of employee access to Tarleton Connection, FAMIS and any other confidential information systems to the exit interview and/or termination clearance checklists.

Management's Response

Since the audit, Human Resources incorporated the use of improved internal checklists to ensure each employee is out-processed completely. The checklist includes the deactivation of the Tarleton Connection account and ensures proper documentation is completed for each exit.

Human Resources is developing a university-wide SAP which would provide greater assurance that a terminated employee is properly "checked-out" of the University. This process will include documentation for the proper return of Tarleton property and disabling access to all network systems. Controls currently exist, but the newly enhanced process will be fully implemented by the end of the fourth quarter, fiscal year 2008.

4. Required Training-Faculty

Observation

Faculty compliance with state and A&M System-mandated training requirements needs improvement.

State and A&M System-mandated training is not completed within prescribed timeframes by University faculty as required with the following exceptions noted:

**4. Required Training-Faculty
(cont.)**

- Sixty-four of three hundred fifty-one (18%) University faculty have not completed Employment Discrimination and Sexual Harassment (EEO) training biennially as required by System Regulation 33.05.02.
- Sixty of three hundred fifty-one (17%) University faculty have not completed Ethics training biennially as required by System Regulation 33.05.02.
- One hundred thirteen of three hundred fifty-one (32%) University faculty have not completed Information Security Awareness training annually as required by the System Regulation 33.05.02.

Noncompliance with these training requirements increases the risk that employees do not understand the potential for state law violations and the consequences associated with such violations.

Recommendation

Enhance the current reminder notification process to include the next and successive levels of management on repeated reminder notices to ensure faculty complete the required training.

Management's Response

Since the audit, Human Resources improved and documented, through an internal procedure, the reminder notification process that includes notification of noncompliance to successive levels of management. For example, after 30 days of noncompliance, the department head is notified and after 60 days of noncompliance, the dean or vice president is notified. Copies of the notifications are retained in the personnel file for audit purposes.

5. Annual Performance Evaluations

Observation

Faculty evaluations should be consistent in criteria and documentation. Staff evaluations should include goal setting.

Faculty Evaluations

The content, structure and degree of supervisor input documented in annual faculty evaluations varied significantly among the seventeen departments reviewed. Formats reviewed ranged from undocumented verbal discussions and compilation of student surveys to listings of annual accomplishments and formal assessments of instruction, service, and specific goals and objectives. The requirements included in the Faculty Handbook

5. Annual Performance
Evaluations (cont.)

during the audit period did not provide sufficient guidance to supervisors to ensure faculty evaluations were documented and administered consistently across academic departments.

Staff Evaluations

Seven of thirty (23%) staff performance evaluations reviewed did not include employee goals and objectives. The instructions accompanying the evaluation indicate that objectives are an optional portion of the instrument.

Performance evaluations inform employees of the quality of their work, identify those areas needing improvement, set specific objectives for employees, and provide an opportunity to discuss career goals and the support needed to meet those goals. They also assist department heads and managers in evaluating their work force, identifying employee potential and establishing priorities for training, education, compensation, and reward. Completed, signed annual performance evaluations, including employee goals and objectives, and review of the current position descriptions provide the opportunity to ensure employee accountability is maintained and decrease the risk that employees not meeting performance expectations are retained without corrective actions.

Recommendation

Develop a procedure to ensure consistent documentation of annual faculty performance evaluations.

Require documentation of goals and objectives as part of the annual staff performance evaluation process and communicate the requirement clearly on both the evaluation form and the instructions to supervisors.

Management's Response

Academic Affairs and Human Resources will form an Ad Hoc committee to review and make recommendations for improvement to the faculty evaluation process including:

- *Development of a formal SAP.*
- *Development of standardized faculty evaluation forms.*
- *Development of training materials/instructions for conducting and/or completing faculty evaluation forms.*
- *Implementation of a faculty evaluation process in Tarleton Connection.*

5. Annual Performance
Evaluations (cont.)

Human Resources expects the SAP, forms and training to be in place prior to the next faculty evaluation cycle in the third quarter of fiscal year 2009.

In addition, Human Resources will require documentation of goals and objectives as a part of the annual staff performance evaluation process. The requirement will be documented in a formal SAP and will be clearly communicated prior to the next staff evaluation period in the third quarter of fiscal year 2009. (Note: The staff evaluation period was recently completed for fiscal year 2008).

BASIS OF REVIEW

Objective

The overall objective was to analyze the University's management processes for human resources to determine if strategic and operational results and outcomes are achieved in an efficient and effective manner and to determine compliance with laws, policies, regulations and University rules.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; Tarleton State University Rules; Tarleton State University's Faculty and Administrative Staff Handbook; Tarleton State University's Staff Handbook; federal and state laws; and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Human Resources Department has eight full-time employees that oversee the University's human resources functions including hiring, performance evaluations, benefits administration, compensation, and training.

In fiscal year 2007, the University began implementation of Tarleton Connection, an electronic hiring and position management system. In fiscal year 2008, the University plans to implement the electronic performance evaluation module of the system.

The University has over 900 faculty and staff. Combined salaries, wages and benefits for fiscal year 2007 totaled approximately \$62 million.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Amanda Dotson, CPA, Project Manager
Madelyn Galloway
Joseph Mitchell
Darwin Rydl, CPA

Contact Information

For questions regarding this review, contact Dick Dinan, Director.

E-Mail: D-Dinan@tamu.edu
Phone: (979) 458-7144
Fax: (979) 458-7111
Web Site: <http://www.tamus.edu/offices/iaudit/>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. Dennis P. McCabe, President
Dr. Brad Chilton, Interim Provost and Vice President for Academic
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Mr. Jerry W. Graham, Vice President for Finance and
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Ms. Cynthia A. Carter, Assistant Vice President for Finance and
Administration
Mr. Mike Tate, Assistant Vice President and Controller
Ms. Sandra Cox, Executive Director of Budgets
Ms. Angela Brown, Director of Human Resources



PROJECT SUMMARY

Overview

The Athletics Department has policies, procedures and various control systems to assist Prairie View A&M University in complying with National Collegiate Athletic Association (NCAA) regulations.

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Overall, these measures provide a foundation for the rules compliance program; however, further efforts are needed to ensure that control systems are operating as intended and demonstrate institutional control to the NCAA. For instance, needed improvements were noted during a review of the student-athlete eligibility and playing and

practice season rules compliance areas including more detailed monitoring of rules compliance processes and greater accountability for employees not adhering to rules compliance procedures such as attending required NCAA rules education training.

In addition, we performed procedures agreed to by management on the University’s Athletic Program Statement of Revenues and Expenses for the fiscal year ended August 31, 2007 to assist the University in complying with NCAA Constitution 6.2.3. Based on these procedures we determined that the Statement is materially accurate. For fiscal year 2007, the athletics program expenditures were approximately \$5.4 million. (See Attachment for the Statement of Revenues and Expenses)

Summary of Significant Results

Monitoring

Monitoring of playing and practice season logs does not give sufficient assurance that information reported on the logs is accurate. The logs are relied upon to a great extent for determining compliance with NCAA rules in this area. Without further “real time” monitoring and verification of this information there is a greater risk that noncompliance with NCAA rules may not be prevented and/or detected in this area.

NCAA Rules Education

NCAA rules education training is currently provided by the University Athletics Compliance Officer twice a year; however, attendance by athletic coaches is limited. Without adequate attendance there is a greater risk of noncompliance with NCAA rules. In addition, in the event that an NCAA rules violation occurs, the penalties and sanctions levied against the athletic program could be more severe.

Summary of Management's Response

Management appreciates the System Internal Audit Department's efforts to identify issues needing improvement and steps necessary to ensure that improvement is achieved. We are committed to satisfactorily addressing these issues.

Scope

This review was performed to fulfill the NCAA requirements that each Division I member have its rules compliance program evaluated at least every four years by an authority outside the Athletic Department. Compliance areas are reviewed on a four-year rotating basis. This review focused on the compliance areas of student-athlete eligibility and playing and practice seasons. The audit period focused primarily on activities from August 2006 through August 2007, although some activities outside this time period were examined as necessary.

The financial statement review focused on the athletic program's Statement of Revenues and Expenses for the fiscal year ended August 31, 2007. The review was performed according to NCAA agreed-upon procedures. The fieldwork for both portions of this review was conducted October 2007 through February 2008.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Monitoring

Observation

Monitoring of playing and practice season activities does not ensure that actual practice times reported are accurate.

Logs are used by the University's athletic program to capture information regarding playing and practice activities for each sport. The logs are signed by the respective coaches and reviewed by the Athletic Compliance Officer to confirm compliance with NCAA bylaws governing playing and practice seasons. However, there is no process in place for verifying that practice information on the logs is being accurately reported to give greater assurance that playing and practice season activities are occurring as intended and thus compliance with NCAA requirements is being achieved.

Recommendation

Implement additional "real time" monitoring activities for playing and practice season compliance such as periodically conducting onsite visits to verify the practice times for each sport. Additionally, perform spot checks of information on the playing and practice season logs by interviewing a sample of student-athletes in each sport to verify that actual practice activities reported are accurate and having them sign the logs to document this verification.

Ensure that similar levels of "real time" monitoring and spot checks are performed in all rules compliance areas as needed to provide increased assurance that control systems are operating as intended.

Management's Response

We agree with the recommendation and the University Compliance Office has already visited practices to help develop a standardized process for recording attendance. Both the Athletics Compliance Office and the University Compliance Office will continue to visit practices to perform spot checks. A log-in control system will be established by the Senior Athletics Compliance officer whereby student-athletes will be required to sign in for daily practices. This system will be implemented by September 15, 2008. These signed sheets will be examined on a test basis by the Athletics Compliance Office.

2. NCAA Rules Education

Observation

Attendance at required NCAA rules education training sessions is not adequate.

NCAA rules education training is offered to all athletic coaches and staff on two different occasions during the year by the Athletic Compliance Officer. However, it was determined that only eighteen of the thirty (60%) athletic staff members and coaches listed on the training rosters attended the full training provided at either one of the two sessions offered in fiscal year 2007. Five (17%) athletic staff members and coaches only attended part of a training session while seven (23%) did not attend either of the training sessions provided. The University NCAA Athletics Compliance Manual states that the Athletics Compliance Officer is responsible for conducting rules-education meetings at least twice each year and that all head and assistant coaches are required to attend. Without adequate attendance at rules education training sessions there is a greater risk of noncompliance with NCAA rules and bylaws. In addition, in the event that an NCAA rules violation occurs, the penalties and sanctions levied against the athletic program could be more severe.

Recommendation

Ensure that all coaches and athletic staff members who have NCAA rules compliance responsibilities, or the potential to affect NCAA rules compliance, receive adequate NCAA rules education and document this compliance effort. For instance, add an employee accountability loop to the current requirement for attendance at internally-provided NCAA rules education sessions by including this attendance as an appraisal area on the employee's annual performance evaluation.

Management's Response

A rules compliance education program is being developed which will include training and testing for all coaches, all Athletic Department personnel, and all institutional staff members with NCAA rules compliance responsibilities. The Athletic Director, senior staff, and head coaches will attend the regional NCAA training by June 15, 2008. The internal educational program which will incorporate the changes presented at the NCAA regional training and changes to our internal procedures will then be altered and implemented by September 15, 2008.

3. NCAA Rules Compliance Procedures

Observation

NCAA rules compliance procedures are not sufficiently detailed in some areas.

The University has developed and periodically updates NCAA rules compliance policies and procedures to provide guidance to the athletic program. Although these procedures provide good general guidance on rules compliance activities to be performed they could be further enhanced by including additional detail regarding monitoring activities and specific NCAA requirements to be followed. For instance, the procedures do not specifically list all the eligibility requirements to be reviewed during monitoring and certification of student-athletes. In addition, specific NCAA requirements related to playing and practice seasons, such as daily and weekly time limits and criteria for determining countable athletically-related activity, are not included.

Recommendation

Continue updating and enhancing current NCAA rules compliance policies and procedures by providing additional detail of monitoring activities performed including any forms or checklists used as well as the specific NCAA requirements to be followed in all compliance areas. For instance, in the student-athlete eligibility and playing and practice season areas:

- Include additional information and/or reference forms or checklists used which show the eligibility requirements being reviewed for each student.
- Add the daily and weekly time limits and criteria for determining countable athletically-related activity for playing and practice seasons.

Cross reference the procedures in the University NCAA Athletics Compliance Manual to the corresponding NCAA bylaws to better ensure all NCAA requirements are addressed. This will also facilitate easier updating of the procedures whenever NCAA rules are revised.

Management's Response

The Athletics Compliance Office is currently performing an annual update of the Athletics Compliance Manual to include additional detail of monitoring activities, additional information and/or reference forms or checklists, and additional criteria for determining compliance as specified by individual NCAA bylaws. In addition, the

3. NCAA Rules Compliance
Procedures (cont.)

*Manual will be cross referenced to the corresponding NCAA bylaws.
This update will be complete by July 31, 2008.*

BASIS OF REVIEW

Objective

The objective of this review was to review and assess the adequacy of the University's NCAA rules compliance program for selected compliance areas and to perform a review of the athletic program's financial statement for the fiscal year ended August 31, 2007, as required by the NCAA.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Prairie View A&M University participates in intercollegiate athletic competition as a Division I member of the National Collegiate Athletic Association, Division I-AA for football. In fiscal year 2007, the University's athletics program consisted of 18 intercollegiate athletic sports, representing approximately 360 student-athletes. They included:

Men's	Women's
Football	Basketball
Baseball	Volleyball
Basketball	Bowling
Cross Country	Cross Country
Tennis	Soccer
Golf	Golf
Track & Field – Indoor	Softball
Track & Field – Outdoor	Tennis
	Track & Field – Indoor
	Track & Field – Outdoor

The Athletics Department is supported by student athletics fees and supplemental transfers from the University, in addition to revenues generated by the program, such as ticket sales, other sales and services, gifts, and game guarantees. For fiscal year 2007, the athletics program was funded approximately 60% from student athletics fees and direct institutional support.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Brian Billington, CPA, Project Manager
Aliza Dirden, CIA
Deidra White, CPA

Contact Information

For questions regarding this review, contact Dick Dinan, Director.

E-Mail: D-Dinan@tamu.edu
Phone: (979) 458-7144
Fax: (979) 458-7111
Web Site: <http://www.tamus.edu/offices/iaudit/>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. George C. Wright, President
Ms. Mary Lee Hodge, Vice President for Business Affairs
Mr. Fred Washington, Vice President for Administration and
Auxiliary Services
Mr. LaRon Black, Director of Athletics Compliance
Mr. Max Wardrup, Director of Special Projects

ATTACHMENT
Prairie View A & M University
Intercollegiate Athletic Department
Statement of Revenues and Expenses (UNAUDITED)
For the Year Ended August 31, 2007

	MEN'S FOOTBALL	MEN'S BASKETBALL	WOMEN'S BASKETBALL	OTHER SPORTS	NON-PROGRAM SPECIFIC	TOTAL
REVENUES						
Operating Revenues:						
Ticket Sales	324,093	3,340	3,090	4,788	3,423	338,734
Student Fees	445,147	51,232	161,599	1,058,789	719,698	2,436,465
Guarantees	61,313	297,050	49,210	5,000	0	412,573
Contributions	4,550	0	0	23,270	65,820	93,640
Direct Institutional Support	16,023	7,516	3,025	81,569	532,086	640,219
Indirect Facilities and Administrative Support	122,096	28,779	25,501	124,619	167,874	468,869
NCAA/Conference Distributions Including All Tournament Revenues	0	0	0	2,907	311,353	314,260
Program Sales, Concessions, Novelty Sales and Parking	4,989	0	0	501	0	5,490
Royalties, Advertisements and Sponsorships	1,104	700	27,886	3,230	165,449	198,369
Sports Camp Revenues	0	0	0	0	5,270	5,270
Endowment and Investment Income	0	0	0	0	9,762	9,762
Other	550	32	4,267	5,071	93,121	103,041
Total Operating Revenue	979,865	388,649	274,578	1,309,744	2,073,856	5,026,692
EXPENSES						
Operating Expenses:						
Athletics Student Aid	436,720	51,232	36,959	586,723	0	1,111,634
Guarantees	30,000	0	0	0	0	30,000
Coaching Salaries, Benefits, and Bonuses Paid by the University and Related Entities	466,350	135,540	120,490	174,675	83,555	980,610
Support Staff/Administrative Salaries, Benefits, and Bonuses Paid by the University and Related Entities	16,165	7,542	3,027	110,192	708,361	845,287
Recruiting	2,460	7,499	10,204	13,656	0	33,819
Team Travel	70,908	39,395	74,961	213,201	0	398,465
Equipment, Uniforms, and Supplies	17,010	595	587	35,986	13,473	67,651
Game Expenses	76,463	6,600	14,700	25,683	0	123,446
Fund Raising, Marketing and Promotion	0	0	0	0	295	295
Sports Camp Expenses	0	0	0	0	5,010	5,010
Direct Facilities, Maintenance, and Rental	12,465	10,460	13,812	36,928	314,923	388,588
Spirit Groups	0	0	0	0	486,827	486,827
Indirect Facilities and Administrative Support	122,096	28,779	25,501	124,619	167,874	468,869
Medical Expenses and Medical Insurance	6,160	1,190	980	7,872	269,119	285,321
Memberships and Dues	0	0	0	1,000	2,175	3,175
Other Operating Expenses	0	0	11,369	0	126,441	137,810
Total Operating Expenses	1,256,797	288,832	312,590	1,330,535	2,178,053	5,366,807
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENSES	(276,932)	99,817	(38,012)	(20,791)	(104,197)	(340,115)

The accompanying notes are an integral part of the financial statements.

ATTACHMENT
Notes to the Statement of Revenues and Expenses

1. Nature and Basis of Accounting and Reporting

The financial statement conforms to the National Collegiate Athletic Association (NCAA) Financial Audit Guidelines, dated September 4, 2007.

The financial statement accounts for the Prairie View A&M University Intercollegiate Athletics Program are maintained by the University's Fiscal Affairs Department. The operation is an auxiliary enterprise and is responsible for promoting a competitive intercollegiate athletic program.

The accompanying financial statement is presented in accordance with the accounting and financial reporting standards prescribed by the NCAA, the Governmental Accounting Standards Board, the principles of fund accounting, and is reported on the accrual basis.

The University financial statements will be incorporated into the statewide audit of the State of Texas for the fiscal year ended August 31, 2007, by the State Auditor's Office. Total operating revenues and expenditures reported by the University for the fiscal year ended August 31, 2007, were approximately \$86 million and \$139 million, respectively. Revenue from Legislative Appropriations, considered a non-operating source of revenue, was approximately \$61 million in fiscal year 2007.

2. Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The capitalization threshold for personal property is \$5,000. The capitalization threshold is \$100,000 for buildings/building improvements, facilities and other improvements, software developed for internal use, and leasehold improvements. Infrastructure has a capitalization threshold of \$500,000.

As required in GASB No. 34 and 35, the A&M System is required to depreciate capital assets. Depreciation is computed using the straight-line method over the estimated useful lives of the assets; generally, 40 to 50 years for buildings, 20 to 25 years for infrastructure, and 5 to 7 years for equipment.

3. Contributions

No individual contributions of money, goods or services were received directly by intercollegiate athletics from an affiliated or outside organization, agency or individual that constituted 10 percent or more of all contributions received for intercollegiate athletics during the fiscal year ended August 31, 2007.



PROJECT SUMMARY

The environmental health and safety program at Texas Engineering Extension Service (TEEX) provides reasonable assurance that the Agency's mission is accomplished in a safe and environmentally friendly manner, and in compliance with laws, policies and regulations. The program provides risk management strategies, including risk identification, mitigation, program coordination and periodic reporting. The program's mitigation strategies include comprehensive written procedures, employee training, incident data analysis and reporting. However, the program lacks a formal compliance monitoring process, an integral component of a safety program, which would reduce the risk of regulatory noncompliance. TEEX management has been responsive to the audit and has initiated actions in an effort to address the issues discussed in this report.

OBSERVATION, RECOMMENDATION, AND RESPONSE

Compliance Monitoring Program

Observation

The environmental health and safety program lacks formal compliance monitoring.

TEEX senior management provides good guidance through comprehensive written procedures, the work of a representative safety committee, periodic safety bulletins, annual employee safety training, and an incentive program. However, good guidance without a formal comprehensive agency-wide monitoring program to monitor individual divisions' compliance with TEEX rules does not ensure compliance. The noncompliance issues discussed in this report indicate the need for a formal compliance-monitoring program. These are discussed below:

(a) Annual Safety Refresher Training

There was no evidence of annual safety refresher training for 23% (7 out of 30) of the employees reviewed. In all seven cases the employees were absent on the day the training was

delivered and management could not provide evidence of alternative safety training arrangements for these absentees. TEEEX management indicated that refresher training is generally provided at the divisional annual meeting and that supervisors are responsible for bringing any absentee employees up-to-date with issues covered at the annual meeting, including refresher training. Management also indicated it is confident that these briefings occur but are not necessarily documented. The lack of documentary evidence indicates that TEEEX does not have a formal/documented process (e.g. a standardized form) for divisions to document makeup of annual safety training and a monitoring process to ensure the documentation is maintained. The annual safety refresher training is conducted by the Division Director. It is tailored to the needs of the division based on risk and accident history. Annual safety training not only serves as an important reminder of individual responsibilities, it also updates employees on any industry developments and how they affect the operational safety hazards that employees deal with on a day-to-day basis.

(b) Compliance with Course Prerequisites

Twenty-five percent (15 out of 60) of course participants reviewed did not meet the course prerequisites. This is due to TEEEX not having a current, formal process to document the verification of these prerequisites (such as a standardized form). In addition, TEEEX does not have a formal monitoring process to ensure divisions verify that course participants meet all prerequisites before course completion. These prerequisites are important safety standards that are set by relevant professional boards and/or TEEEX. Some of these prerequisites are critical mitigation strategy as they drastically reduce the risk that the participant does not complete the course safely. They include drug screens, respiratory exams, preparatory courses and specific certifications.

(c) Inspection of Fire-Burning Props

A review of the Brayton Fire Training Field prop inspection documentation could not find evidence that project safety analyses are being carried out weekly (every Friday), in accordance with the Fire Training Field rules. The review could not find evidence of project safety analyses for 33% (4 of the 12) of the fire-burning props for at least one of the two dates selected for each prop. The review sought evidence of project safety analyses for two dates for each prop for 12 fire-burning props for a total sample of 24 different prop dates.

Project safety analyses/inspections of props are critical in the early detection of safety issues with these fire-burning props, some of which are over 20 years old. TEEX management indicated that it could not provide the inspection documentary evidence for some of the dates selected because the documentation may have been prematurely destroyed. This could also be due to a lack of compliance monitoring to ensure inspections are performed, documented, and that the documentation is maintained in accordance with TEEX's data retention rules.

Recommendation

Develop and implement a formal, comprehensive environmental health and safety monitoring program to ensure the safety of operations and compliance with policies, regulations and rules. The monitoring program should document and track divisions' compliance with requirements. In addition, the program should require:

- Makeup of annual safety refresher training to be documented. To ensure consistency and adequacy of the documentation at each division, TEEX management may want to consider designing and implementing a standardized form to record the makeup of the training.
- Evidence of course prerequisites to be documented and maintained in TEEX's official files for each relevant student and course. To ensure consistency and adequacy of the documentation at each division, TEEX management may want to consider designing and implementing a standardized form to record the verification of course prerequisites.
- Documentary evidence of these and other mitigating activities to be maintained for a period in compliance with TEEX's data retention policy.

Management's Response

TEEX accepts the audit recommendations and will implement a formal, comprehensive environmental health and safety monitoring program to ensure the safety of operations and compliance with policies, regulations and rules by February 28, 2009. The monitoring program will be comprehensive and will document and track divisions' compliance with requirements. Some specific areas that will be included are:

- *Documentation of the completion of annual safety refresher training by employees.*
- *Documentation of compliance with course prerequisites for each relevant student and course.*
- *Documentation of mitigating activities to comply with TEEX data retention policies.*

The monitoring program will add additional assurance for continuation of the low incidence safety record that currently exists for the Agency.

BASIS OF REVIEW

Objective and Scope

The overall objective was to review and assess the Agency's controls and processes over environmental health and safety operations to ensure that they provide reasonable assurance that a safe environment exists for students, faculty, and staff. In addition, systems were evaluated to determine if the Agency is in compliance with relevant laws, policies, and regulations.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; TEEEX's Safety Manual; federal and state laws; and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

While the Agency Director is responsible for the program, the day-to-day environmental health and safety program operations are performed by the following:

- TEEEX's Divisional Directors who provide their division with the leadership and guidance that makes safety a priority;
- The TEEEX Senior Health, Safety and Planning Officer at headquarters who provides oversight and coordination of the safety aspects of the program;
- A designated safety officer at each division, responsible for incident data collection and submission;
- TEEEX instructors and technicians who perform most of the day-to-day safety-related duties;

- The rest of TEEEX's employees who assist in making safety a priority in their work environment; and,
- The Texas A&M Environmental Health and Safety Department which provides TEEEX with support in the areas of hazardous waste management and some safety inspections.

The TEEEX Senior Health, Safety and Planning Officer provides the divisions with guidance and support, analysis of divisional safety performance indicators such as accident rates, causes, severity of injuries, compensation costs, lost workdays and actions taken, and periodic reporting to senior management.

TEEX aims to develop a skilled and trained workforce that enhances public safety, security, and economic growth of the state and the nation through training, technical assistance, and emergency response. With approximately 600 employees and a budget of \$80 million for fiscal year 2007, TEEEX provided training and technical assistance to more than 204,000 people from all 50 states, five U.S. territories, the District of Columbia and 54 countries in over 8,300 deliveries.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Amanda Jenami, CPA, Project Manager
Lori Ellison
Katie Rannebarger

Contact Information

For questions regarding this review, contact Dick Dinan, Director.

E-Mail: D-Dinan@tamu.edu
Phone: (979) 458-7144
Fax: (979) 458-7111
Web Site: <http://www.tamus.edu/offices/iaudit/>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. G. Kemble Bennett, Vice Chancellor for Engineering, Dean of Engineering
Ms. Deena J. Wallace, Assistant Vice Chancellor for Administration and Legal Affairs
Mr. Gary Sera, Director, Texas Engineering Extension Service
Ms. Sue Shahan, Deputy Director, Texas Engineering Extension Service
Mr. Bill May, Associate Agency Director, Texas Engineering Extension Service
Mr. John Skrabanek, Associate Agency Director, Texas Engineering Extension Service
Mr. Charley Todd, Senior Health, Safety and Planning Officer, Texas Engineering Extension Service



PROJECT SUMMARY

Overall, the Texas A&M University System's \$2.8 billion in cash and investments were accurately reported in the fiscal year 2007 financial statements and accompanying notes. Annual and quarterly investment reports published and/or submitted to various governing bodies and the Texas A&M System Board of Regents as required by the General Appropriations Act were also determined to be accurate and timely. Additionally, controls over fund transfers and due diligence reviews of investment fund managers help provide assurance that cash and investment funds are adequately protected and properly managed in compliance with the System's investment policy.

BASIS OF REVIEW

Objective and Scope

The overall objective was to determine if cash and investments were accurately reported in the fiscal year 2007 financial statements and in the investment reports required by the General Appropriations Act. Our review focused on whether financial statement note presentations complied with the Comptroller's Annual Financial Reporting Requirements and with applicable Government Accounting Standards Board (GASB) pronouncements. Additionally, work was performed to determine if investment information was reported to the appropriate parties timely and accurately. Control processes for funds transfers and due diligence reviews of investment fund managers were also assessed to ensure funds are adequately protected and properly managed. Fieldwork was performed January through March, 2008.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; the Comptroller's July 2007 Reporting Requirements for Annual Financial Reports of State Agencies and Universities; applicable Government Accounting Standards Board (GASB)

pronouncements; the General Appropriations Act for the 80th Texas Legislature; the Treadway Commission's Committee of Sponsoring Organization's Internal Control - Integrated Framework (COSO); and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The mission of System Treasury Services is to provide customer-focused centralized financial services to the members of the Texas A&M University System through innovative, effective and efficient cash, debt, and investment management and assist in each member's long-term capital planning. In fulfilling this mission, Treasury Services is charged with the administration of over \$2 billion in deposits and investments.

Treasury Services provides support in investment activities by coordinating the efforts of various parties, including those of the investment consultant, the custodian bank, and the external fund managers. Each party is charged with particular responsibilities to provide assurance that investment objectives of the System are attained and the System investment policy is complied with. In addition, Treasury Services works closely with the System Office of Budgets and Accounting to have investment information accurately reflected in the System's annual financial report.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Brian Billington, CPA, Project Manager
Aliza Dirden, CIA
Deidra White, CPA

Contact Information

For questions regarding this review, contact Charlie Hrncir, Director.

E-Mail: chrncir@tamu.edu
Phone: (979) 458-7100
Fax: (979) 458-7111
Web Site: <http://www.tamus.edu/offices/iaudit/>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. Michael D. McKinney, Chancellor
Mr. Jay Kimbrough, Deputy Chancellor and General Counsel
Mr. Gregory R. Anderson, Associate Vice Chancellor and
Treasurer
Ms. B. J. Crain, Associate Vice Chancellor for Budgets and
Accounting



PROJECT SUMMARY

The Texas A&M University System Health Science Center (HSC) is in the process of implementing a systematic organization-wide Enterprise Risk and Opportunity Management (EROM) process which incorporates the facets of an effective risk management program as defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The EROM process is designed to identify opportunities and mitigate risks which could adversely affect the accomplishment of the institution's goals and objectives.

Strong support for EROM by executive management has driven adoption of the HSC's risk management philosophy by the institution's reporting units. Responsibility for the various components of the EROM process have been assigned, an organizational structure has been designed, resources have been dedicated, timelines have been developed, and training has been provided to HSC staff to ensure accountability and effective implementation.

Management has integrated the EROM process with its strategic planning, compact development, and budgeting processes to ensure alignment of objectives, performance measures, resource allocation, and selected responses to risks and opportunities identified.

Working committees (comprised of faculty, staff, and student representatives) within each HSC reporting unit are currently in the process of event identification, including quantitative assessments of risk, opportunity, impact and likelihood, specific to their operating environment. These committees are also developing risk responses and identifying mitigating control activities in conjunction with the risk assessment process. Risk assessment matrices completed by each working committee must be submitted to the EROM Steering Committee by June 2008. The Steering Committee will analyze and prioritize the results from an organization-wide perspective. Risks and opportunities with the greatest potential impact will be presented to the Executive Committee for review and approval prior to final submission of the organization-wide EROM assessment to the President in July 2008. Involvement of the critical reporting units and a cross-

section of HSC stakeholders in this process ensures that information and communication is effective within the institution.

HSC management has implemented tools to monitor achievement of objectives and performance measures on a quarterly basis. The results are communicated to executive management in a manner that emphasizes those areas that are not achieving targeted results and provides recommended actions to improve performance. Management plans to integrate risk response and control activities identified in the organization-wide risk assessment into the existing quarterly reporting process to ensure ongoing, effective evaluation of the EROM process.

BASIS OF REVIEW

Objective and Scope

The overall objective was to determine if the key elements of the Health Science Center's enterprise risk management processes are designed to identify and mitigate risks through the use of a systematic organization-wide approach. Our review focused on the components of enterprise risk management as defined by the Committee on Sponsoring Organizations of the Treadway Commission (COSO). These components include the institution's internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring processes. Activities and documentation related to these components were reviewed for the period from September 2007 through March 2008. Audit fieldwork was conducted March through April 2008.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We

believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The Texas A&M University System Health Science Center was formed in 1999 and employs approximately 1,750 employees at six academic units and four regional centers dispersed throughout Texas with headquarters located in College Station. The HSC is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools. The mission adopted by all HSC components is to advance the knowledge and technologies of its professions and to bring Texans the finest in health education, promotion and care. The HSC serves approximately 1,300 students with an annual budget exceeding \$145 million.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Amanda Dotson, CPA, Project Manager
Kim Pekar, CPA

Contact Information

For questions regarding this review, contact Charlie Hrcir, Director.

E-Mail: chrncir@tamu.edu
Phone: (979) 458-7100
Fax: (979) 458-7111
Web Site: <http://www.tamus.edu/offices/iaudit/>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. Nancy W. Dickey, President and Vice Chancellor for Health Affairs
Dr. Alicia M. Dorsey, Vice President for Communication and Program Development
Dr. Barry C. Nelson, Vice President for Finance and Administration



PROJECT SUMMARY

The enterprise risk management (ERM) program at West Texas A&M University provides reasonable assurance that significant events that could adversely affect the accomplishment of key goals are identified, appropriately evaluated and assigned appropriate mitigation and monitoring strategies in accordance with the University's risk appetite. While the ERM program is new and evolving, it offers an organization-wide process which is linked to the University's Strategic Plan. With more extensive, results-focused, data analysis monitoring activities, including periodic accountability reports to senior management, the current ERM process offers increased accountability for goal accomplishment.

With the involvement of executive management and representatives of faculty, staff and students from all disciplines, the University's risk identification process is fairly comprehensive. Risk identification occurs at both the macro and micro levels ensuring comprehensive coverage of all significant aspects of the University's business, including student enrollment, legislative funding, institutional reputation, faculty and staff recruitment, campus safety and security, adequacy of facilities, student activities, regulatory compliance, and information security. The University's involvement of the executive team, department heads and their staff and students in developing risk inventories ensures consideration of both strategic and operational perspectives while providing employees with some ownership of the process. This is critical in instilling the "everyone is a risk manager" concept. The University's risk evaluation process appropriately considers both the likelihood and the impact of the risk occurring.

University management has designed mitigation strategies and control activities appropriate to satisfy its moderate to low risk tolerance. Control activities include portable computing data encryption, employee cross-training, ethics training, information security awareness training, disaster recovery, policies and procedures, segregation of duties, employee screening, and increased marketing and branding.

The University's ERM process includes monitoring for unexpected conditions and changes in conditions at various levels of the organization through the use of activity and performance

reporting, and periodic operational reviews of control activity effectiveness in the fiscal, operational and information technology areas. The University has developed an extensive list of accountability measures for each division or area, with performance on these measures reported to management. The frequency of monitoring varies from daily (for network monitoring, backup, and campus crime), weekly (for student applications and registration counts), monthly (for financial reports and reconciliations) and annually (for reports on satisfaction surveys and divisional annual reports).

BASIS OF REVIEW

Objective and Scope

The overall objective was to review the West Texas A&M University's enterprise risk management processes and determine if the key elements of the process are designed to identify and mitigate risks through the use of a systematic, organization-wide approach. The review focused on the elements of risk identification, assessment and evaluation, response, and control and monitoring activities performed for the period September 2006 to March 2008. Fieldwork was conducted from April to May 2008.

Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

West Texas A&M University serves as "the principal academic and cultural center of a multi-state region and is a significant catalyst for economic development by expanding the frontiers of

knowledge through education, research, and consultation. Its faculty and staff prepare students for leadership roles both in their chosen careers and as citizens of the nation and the world.” The University seeks to be a first choice institution – first choice for students, for faculty and staff, and for employers and graduate schools.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Amanda Jenami, CPA, Project Manager
Lori Ellison

Contact Information

For questions regarding this review, contact Dick Dinan, Director.

E-Mail: D-Dinan@tamu.edu
Phone: (979) 458-7144
Fax: (979) 458-7111
Web Site: <http://www.tamus.edu/offices/iaudit/>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. J. Patrick O'Brien, President
Mr. Gary Barnes, Vice President for Business and Finance
Dr. Don D. Albrecht, Vice President for Student Affairs
Mr. Don Garcia, Vice President for Enrollment Management
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