

A Financial Review of

Prairie View A&M University

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**State
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Office**

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Overall Conclusion

Weaknesses in Prairie View A&M University's (University) fundamental financial processes caused inaccuracies and inconsistencies in some of the information in its financial system for our review period of September 2001 through March 2003 and therefore make that information unreliable. Even though the financial system information cannot be relied on, the University's Annual Financial Report (AFR) and most of the other reports we reviewed are consistent with that information. Some examples of the weaknesses we found are that:

- Fiscal year 2002 AFR amounts for student accounts receivable and deferred revenue were overstated by \$2 million because the University does not routinely reconcile accounts receivable balances in its financial systems.
- Ineffective procedures for collecting accounts receivable have reduced the University's chances of collecting at least a portion of the \$4.2 million in past due or written-off accounts receivable we identified.
- Failure to clear reconciling items from bank reconciliations in a timely manner has caused more than 5,200 checks totaling approximately \$572,000 to remain outstanding for up to 12 years. Most of these checks represent the excess of scholarships, grants, and loans over students' final tuition and fee amounts charged by the University, and resolving them could result in an increase in reported cash available to the University and a decrease in expenses or an increase in revenues if the University is allowed to retain the funds.

Because of the weaknesses in the University's fundamental financial processes, we expanded our testing of financial processes in the other areas we reviewed.

We did not find any indication that the University spent state and local funds for inappropriate goods and services for the period we reviewed. However, we did find instances in which the University did not comply with state laws and regulations or its own policies and procedures related to prompt payment, adequate supporting documentation for expenditures, coding of expenditures, and competitive bidding for non-payroll expenditures.

While the University has effective controls over grant management, it does not have effective controls over goods and services contract management. Forty-five percent of the goods and services contracts we tested contained at least one error. Our overall assessment of the University's goods and services contract management is that it increases the risk that the University will make payments to vendors without the protection of fully executed contracts, will not be protected in any disagreements with vendors, or will execute contracts that are not in compliance with the law or are not in the University's best interest. We did not test the goods and services contracts administered by the University's Physical Plant Administration Department because of an ongoing investigation of that department by the Texas A&M University System's (TAMUS) Internal Audit Department. At the request of TAMUS, our Special Investigations Unit is now assisting in this investigation, the results of which will be reported at a later date.



The University did not correctly calculate the fiscal year 2002 results for four of the five performance measures we reviewed because it did not follow the Legislative Budget Board's (LBB) definitions in the Automated Budget and Evaluation System of Texas (ABEST). Although the results were incorrectly calculated, we found that the results accurately indicated whether or not the University met the performance measure targets. Our review of the University's performance measure initiatives showed that the University appears to be making diligent efforts to improve retention and graduation rates and to develop academic programs that help its students achieve a quality education.

Summary of Information Technology Review

Overall, the information technology systems we reviewed contain adequate controls for recording, processing, and using financial information. Although we identified issues that indicate areas for improvement in systems and processes for grants management and accounts payable, we did not find any indication that those system issues adversely affected the accuracy or consistency of the University's financial information for the period we reviewed. We reviewed three systems:

- Financial and Management Information System (FAMIS)
- Student Information System (SIS)
- Budget Payroll Personnel System (BPP)

Because the Texas A&M University System (TAMUS) administrative data center on the Texas A&M University campus houses the production computers that process and store information in FAMIS and BPP, we also evaluated the physical security controls over that facility to identify any control weaknesses that would compromise the University's ability to support its financial accounting and reporting functions. We identified issues regarding physical security and change management. See Chapter 5 for additional information.

Detailed Results

Chapter 1

Does Prairie View A&M University provide accurate and consistent financial information to legislative budget committees and University management?

Weaknesses in Prairie View A&M University's (University) fundamental financial processes caused inaccuracies and inconsistencies in some of the information in its financial system for our review period of September 2001 through March 2003 and therefore make that information unreliable. Even though the financial system information cannot be relied on, the University's Annual Financial Report (AFR) and most of the other reports we reviewed are consistent with that information. For example, some of the weaknesses we found are that the University does not routinely reconcile accounts receivable balances in its financial systems; follow effective procedures for reviewing, collecting, and writing off accounts receivable; or clear outstanding items from bank reconciliations in a timely manner.

Chapter 1-A

The University Does Not Routinely Reconcile the Financial System Balances for Student Accounts Receivable and Loans Receivable

The University does not routinely reconcile the accounts receivable balances in the Student Information System (SIS) and other financial systems to the accounts receivable balances in the Financial and Management Information System (FAMIS). For example, the balance in SIS for student accounts receivable for fiscal year 2002 was \$954,506, while the balance in FAMIS was \$3,347,810. During our review, the University determined that approximately \$2 million of the \$2.4 million difference stems from a July 1998 correcting entry that was made twice. This indicates that the issue has existed for approximately five years without being detected or corrected through reconciliation. Therefore, both student accounts receivable and deferred revenue amounts were overstated by approximately \$2 million in the AFRs for fiscal years 1998 through 2002. The University is still researching the cause of the remaining \$400,000 difference, which, if resolved, could result in adjustments to the fiscal year 2002 AFR amounts for student accounts receivable, tuition revenue, and cash.

What Are General and Subsidiary Ledgers?

The general ledger is a record of all the financial accounts for an entity. A subsidiary ledger shows the detail for each account in the general ledger. The account balances in the general ledger should equal the balances in the subsidiary ledger.

In addition, the University does not reconcile the receivables balance in the subsidiary ledger for Perkins Loans (student loans made with funds from the federal government and the University) to the general ledger balance for that account (see text box). A third party maintains the detailed subsidiary ledger for the loans. The subsidiary ledger showed two balances for the account, and prior to the completion of our review, the University could not determine which balance should be reconciled to the general ledger. For fiscal year 2002, the general ledger balance was

either \$304,297 less than or \$16,563 greater than the subsidiary ledger balance. Resolving the difference between the two ledgers could result in adjustments to the fiscal year 2002 AFR amounts for Perkins Loans receivables, tuition revenue, and cash.

Furthermore, neither the University nor the Texas A&M University System (TAMUS) performs reconciliations to ensure that payroll information accurately transfers from the Budget Payroll Personnel System (BPP) to FAMIS. BPP processes all of the University's payroll information, and the information automatically feeds from BPP to FAMIS. Although we found no indication that the lack of a reconciliation between these two systems adversely affected the University's financial information for the period we reviewed, failure to reconcile the systems increases the risks that the University could report inaccurate payroll information in its future financial reports and that inappropriate payroll transactions would not be detected.

In addition, the University does not reconcile the student fines in SIS to the student fines in the library's Voyager system. Therefore, the University cannot ensure that all library fines are posted to students' accounts in SIS and that the student receivables balances in SIS are accurate.

Recommendations

The University should:

- Determine the reasons for the differences between the subsidiary ledger and general ledger balances for student accounts receivable and loans receivable and make the appropriate adjustments to the ledger balances, the fiscal year 2002 AFR, and other relevant financial reports.
- Comply with TAMUS regulations, which require TAMUS universities to periodically reconcile their subsidiary ledgers to their general ledgers.

Management's Response

We agree that errors in the balances of student receivable and student loan accounts were not detected because the University was performing activity-to-activity reconciliations instead of balance-to-balance reconciliations. We have now identified the subsidiary balance from the third party which should be used for reconciling Perkins between the general ledger and the third party subsidiary ledger. We have identified approximately two million dollars of the differences in the balances between the Student Accounting System (SIS+) and the general ledger in the financial accounting and management information system (FAMIS) and posted the corrections to FAMIS. We will prepare reconciliations between the subsidiary ledger and the general ledger balances for these student receivable and loans receivable accounts beginning in November 2003. We will prepare formal reconciliations between BPP and FAMIS to ensure the continued accurate transfer from BPP to FAMIS beginning with November 2003 transactions.

The University Does Not Have Effective Procedures for Reviewing, Collecting, Reporting, and Writing Off Past Due Accounts Receivable

The University's procedures for reviewing, collecting, reporting, and writing off past due accounts receivable are ineffective.

Accounts Receivable Review. The University has not reviewed departmental receivables or Perkins Loans receivables to determine whether they will be collected or whether the allowance for doubtful accounts is adequate (see text box).

Doubtful accounts are those receivables balances that are not likely to be collected. Establishing an allowance for doubtful accounts helps to ensure that receivables balances are realistic and represent amounts that are likely to be collected.

Departmental receivables totaled \$2.9 million for fiscal year 2002, and approximately \$1.2 million of these receivables were more than one year past due as of August 31, 2002. Perkins Loans receivables totaled \$776,000 for that year, and approximately 80 percent of these receivables were more than eight months past due. Therefore, receivables and revenue amounts in the AFR may be overstated because the age of the receivables increases the potential that they will not all be collected.

Accounts Receivable Collection and Write Off. The University does not have effective procedures for collecting and writing off past due receivables. The following weaknesses exist in the procedures related to student accounts receivable and departmental accounts receivable:

- **Student Accounts Receivable.** The University's efforts to collect past due student accounts receivable are limited. The University withdraws students' registrations in classes, places holds on the students' accounts in the financial system, and mails notices to the students. However, University staff members do not personally contact the students regarding the past due balances. In addition, the University has not referred any written-off student accounts receivable to a collection agency in at least two years.
- **Departmental Accounts Receivable.** The University's collection procedures for past due departmental receivables are limited to monthly billings and aging reports. University departments receive the aging reports but do not appear to be effectively reviewing the reports or collecting past due balances. In addition, there is no evidence that the University writes off departmental receivables after collection efforts have been exhausted.

While even the best collection efforts will not guarantee that all accounts receivable will be collected, the University's ineffective collection procedures have reduced its chances of collecting at least a portion of the \$4.2 million in written-off or past due receivables that we identified, including:

- ♦ \$1.2 million in student accounts receivable that have been written off since fiscal year 2000, some of which might have been collected with more effective collection efforts.

- ♦ \$1.5 million of departmental receivables that were more than two months past due as of August 31, 2002.
- ♦ An \$849,000 allowance for doubtful student accounts receivable for fiscal year 2002.
- ♦ \$624,000 in past due loans as of August 31, 2002.

Although we found weaknesses in the University's collection procedures for student receivables and departmental receivables, we found that the University's procedures for collecting grant and contract receivables and third party billings for student tuition, which are handled separately from departmental receivables, appear adequate.

Accounts Receivable Reporting. We also found that the University's annual delinquent obligations report to the Office of the Attorney General (OAG) does not include student accounts receivable that have been written off in prior years. Therefore, the report does not include all outstanding delinquent obligations as required by the Texas Administrative Code, Section 59.3.

Recommendations

The University should:

- Comply with TAMUS regulations, which require all fiscal offices to review past due accounts receivable annually to determine whether they will be collected or whether an adjustment to the allowance for doubtful accounts is required.
- Take appropriate and cost-effective actions to aggressively collect accounts receivable in accordance with Comptroller of Public Accounts (Comptroller) Accounting Policy Statement (APS) 027.
- Comply with its own administrative policy and write off the accounts receivable after exhausting all collection efforts.
- Report all outstanding delinquent obligations to the OAG as required by the Texas Administrative Code, Section 59.3.

Management's Response

Increased efforts to collect will include establishing a collections office for future receivables while also involving a collection agency as is currently described in our University Administrative Procedures (UAPs). We will ensure that write-offs occur as described in our UAPs. We will review the Texas Administrative Code, Section 59.3 and ensure compliance in our next annual report.

The University Does Not Clear Outstanding Items from Bank Reconciliations in a Timely Manner

The University prepares bank reconciliations accurately and within an appropriate time frame, but it does not clear outstanding items in a timely manner.

We found more than 5,200 outstanding checks, totaling approximately \$572,000, that were dated from 1990 through 2001. Resolving these checks could result in an increase in reported cash available to the University and a decrease in expenses or an increase in revenues if the University is allowed to retain the funds. Because most of the checks represent the excess of scholarships, grants, and loans over students' final tuition and fee amounts charged by the University, the University may be required to return the funds to sponsors of federally or state-funded financial aid programs and may be liable for interest on those funds.

In addition, we reviewed bank reconciliations for September 2001 through April 2003 and found 12 checks dated from 1999 to 2002 and totaling \$12,760 that either cleared the bank for amounts greater than the amounts recorded in the University's records or were never recorded. For example, we found that the University issued a check to a vendor for approximately \$9,200 in fiscal year 2002 to pay for travel expenses but recorded approximately half of the expense in fiscal year 2002 and the other half in fiscal year 2003. Failure to appropriately record all of the expense in fiscal year 2002 caused expenditures to be understated and cash to be overstated for that year. While the total amount of these checks is not significant, the failure to resolve outstanding items in a timely manner limits the effectiveness of the bank reconciliation process. It also increases the risk of fraud because unauthorized disbursements of funds could go undetected for long periods.

Recommendations

The University should:

- Research, resolve, and clear all reconciling items in a timely manner.
- Record all expenses in the proper periods and ensure that checks are recorded for the actual amounts.

Management's Response

The University will continue to prepare bank reconciliations accurately and timely. Most of the outstanding items are outstanding checks and the University will review these items to determine those which meet the criteria for transfer to the State Comptroller as unclaimed property. We will complete this process by March 1, 2004. Due care will be exercised in the initial recording of checks and in clearing reconciling items in a timely manner.

The Accounts Payable Balance in the Fiscal Year 2002 AFR Is Incorrect

The University reported a sales tax payment as a part of accounts payable instead of as a sales tax prepayment in its fiscal year 2002 AFR. As a result, the accounts payable amount in the AFR was understated by \$248,000 (10 percent). The University recognized its error and acknowledged that it should have reported the amount differently.

Recommendation

The University should ensure that sales tax payments are properly classified and recorded in its financial statements.

Management's Response

We agree with the finding and have implemented the recommendation. Sales Tax Payable is reported accurately in the annual financial statement for fiscal year ended August 31, 2003. We are now submitting sales tax based on collections rather than assessments and this error should not occur again.

The University's Binding Encumbrance Report for Fiscal Year 2002 Includes Some Inaccuracies, and Other Financial Reports Contained Insignificant Inconsistencies

Encumbrance Report. The University did not comply with the Comptroller's requirements when reporting encumbrances for fiscal year 2002. Our testing showed the following:

Encumbrances are funds that agencies set aside based on commitments they make before the end of the reporting period for services or goods they will receive after the beginning of the next reporting period.

- Two purchase orders totaling \$50,347 did not legally obligate state funds. One of the purchase orders was for an encumbrance that already had an open purchase order. The other encumbrance was for a blanket purchase order (a purchase order for a specific dollar amount used to order goods from a vendor on a recurring basis), which does not obligate state funds unless additional goods will be received.
- One encumbrance for \$19,530 was for a service contract with service dates in fiscal year 1999 but was reported as a fiscal year 2002 encumbrance.
- Fourteen encumbrances had small residual amounts remaining on the corresponding purchase orders after the University paid the invoices.

Although the dollar amounts for these items are immaterial, the items do not legally obligate state funds and should not have been included in the encumbrance report.

Other Financial Reports. We noted some inconsistencies between the AFR and other financial reports, but we concluded that the inconsistencies were reasonable. The information was inconsistent because of differences in the way each report is used and differences in account groups, classifications, and reporting time periods.

Recommendation

The University should review the documentation used to prepare the binding encumbrance report to ensure that all reported encumbrances comply with the Comptroller's requirements and to ensure that small outstanding balances, contracts that are not applicable to the current fiscal year, and contracts that have been completed are not included in the year-end binding encumbrance report.

Management's Response

We agree with the finding. The procurement staff has received additional instruction in the operation of the new automated purchasing module and a review of all such documentation has been conducted in preparing reports for fiscal year ended August 31, 2003.

Does the University spend state appropriations and local funds in accordance with state laws?

We did not find any indication that the University spent state and local funds for inappropriate goods and services for the period we reviewed. However, we did find that the University did not always comply with state laws or its own policies and procedures related to prompt payment, adequate supporting documentation for expenditures, coding of expenditures, and competitive bidding for non-payroll expenditures. We also tested the University's payroll transactions and did not find any significant issues.

We found that the University used journal vouchers in an appropriate manner, made transfers in fiscal year 2002 that were within General Appropriations Act limitations, and did not lapse any funds in that year.

We also found that the University's expenditures for the Office of Civil Rights (OCR) Priority Plan (see Chapter 2-B) were reasonable for the period we reviewed.

Chapter 2-A

The University Did Not Always Comply with State Laws or Its Own Policies and Procedures for Non-Payroll Expenditures

The University's expenditure process, as it is intended to occur, appears reasonable and includes some adequate controls, but the process is not always followed as it was designed. Twenty-one percent of the expenditure transactions in our judgmental sample contained at least one error, and 12 percent of the transactions in our statistical sample contained at least one error. By projecting the results of the statistical sample, we estimate with 90 percent confidence that \$7.2 million of the University's non-payroll expenditures for the period we reviewed did not comply with one or more state laws or University policies and procedures.

We found four types of recurring errors:

- Supporting documentation was not always present or complete. Adequate supporting documentation is necessary to prevent unauthorized expenditures that could lead to misuse or misappropriation of state funds and cause the University's expenditures to be misstated in the financial records.
- Some expenditures were not processed in a timely manner and did not comply with the prompt payment law. Failure to comply with this law may result in the University's being required to pay vendors interest on late payments, therefore paying more for items than necessary.
- Some expenditures were recorded to incorrect object codes, which could lead to misstated financial statements and could cause the University to unknowingly exceed its budget and report incorrect amounts to University management, the Legislative Budget Board (LBB), and other oversight entities.

- The University's administrative procedure for competitive bidding practices was not always followed. This procedure requires the University to obtain three bids for purchases greater than \$2,000 unless they are sole-source purchases, emergency purchases, or state contract or catalog purchases.

Recommendations

The University should:

- Maintain adequate supporting documentation for expenditures in accordance with TAMUS regulations and the Texas Administrative Code, Section 5.51.
- Comply with the prompt payment law set forth in the Texas Government Code, Section 2251.
- Ensure that expenditures are recorded to the correct object codes, as outlined in the Comptroller's Manual of Accounts, before approving expenditures.
- Comply with its administrative procedure regarding competitive bids to ensure that the University does not pay more than necessary for goods and services.

Management's Response

We agree that additional efforts should be made to ensure compliance with state and University requirements for processing payments. Management is now emphasizing and will continue to emphasize to all employees processing requests for payment the importance of following current statutes and written University procedures. Adequacy of documentation to support expenditures will be closely monitored and payments will not be made when documentation is inadequate. We project prompt payment interest expenditures for the current year to be at least 30% or approximately \$4,000 less than in fiscal year 2002. We will also emphasize the need to obtain and document proper approval when a purchasing situation dictates suspending any procedure.

Chapter 2-B

The University's Expenditures for the OCR Plan Were Reasonable

We reviewed the University's expenditures for the Office of Civil Rights (OCR) plan for September 2001 through March 2003 and found that the expenditures were reasonable. Most of the expenditures for the period we reviewed were for employee salaries and wages. In addition, information on OCR expenditures in the University's financial system was consistent with the University's OCR report to the LBB for December 2002.

The University has worked with the Texas Higher Education Coordinating Board, the Governor's Office, and the LBB to establish the OCR plan designed to strengthen the education of students at the University. The Legislature has made a multi-year commitment to appropriate funds for the University to implement the plan.

Does the University have effective controls over grant and contract management?

While the University has effective controls over grant management, it does not have effective controls over goods and services contract management. Forty-five percent of the 40 goods and services contracts we tested contained at least one error. We did not test the goods and services contracts administered by the University's Physical Plant Administration Department because of an ongoing investigation of that department by the Texas A&M University System's (TAMUS) Internal Audit Department. At the request of TAMUS, our Special Investigations Unit is now assisting in this investigation, the results of which will be reported at a later date.

We did not find any errors in the 43 grants we tested. Testing showed that the Office of Sponsored Programs (the office within the University that oversees grants) complies with federal and state regulations, adequately reviews the grants and related contracts, and maintains adequate documentation for grant awards. Also, the office appropriately uses the University's financial system to record contract and grant regulations, cost sharing information, budgets, and other information used to prepare required reports.

We noted the following issues for the goods and services contracts we reviewed:

- **Missing or Inappropriate Signatures.** Our review of contract files in the Contract Compliance Office (the office within the University that oversees contracts) showed that several contracts and contract addendums lacked a signature from either the vendor or the University. As a result, payments were made to vendors without the added protection of a fully executed contract signed by both parties.

Of the signed contracts, two were signed by someone other than the Vice President for Finance and Administration or the President. The contract files lacked documentation authorizing another party to sign these contracts. The University's administrative policy authorizes only the Vice President or the President to execute a contract, depending on the contract amount.

- **Missing Contract Provisions Designed to Protect the University's Interest.** Dispute resolution provisions were not present for several contracts. The TAMUS contract checklist requires the inclusion of this provision. Including a dispute resolution provision in all contracts will help to protect the University's interest in any disagreements with the vendors and increase the likelihood that the disagreements can be resolved in a timely and cost-effective manner.
- **Missing Contract Review Documentation.** Some contract files lacked documentation to prove that the Contract Compliance Officer reviewed the contracts. University policy indicates that the Vice President for Finance and Administration or his or her designee is responsible for ensuring that contracts go through the proper administrative channels and review processes.

We also found general weakness that affected the overall management of contracts, including:

- **Lack of a Contract Tracking System or Process.** The Contract Compliance Office does not have a system or process in place to track the number, dollar value, status, or physical location of goods and services contracts. Therefore, there is no assurance that the office or University management is aware of all the University's contracts or that all contracts are reported to the appropriate external oversight entities, such as the LBB. This increases the risk that the University will execute contracts that are not in compliance with law and University policies or are not in the University's best interest.
- **Lack of Comprehensive Contract Management Policies and Procedures.** The University has not formally documented its internal contracting process to outline the responsibilities of various University departments, the purchasing department, the Contract Compliance Officer, the Vice President of Finance and Administration, the President, TAMUS legal counsel, or the vendor. Without comprehensive policies and procedures, there is a risk that relevant University departments, management, and staff will not efficiently and effectively initiate, execute, and monitor the University's contracts.

There is also a risk that the University's existing contract management policies will not be consistently applied. For example, we found that the University does not consistently apply its administrative policy for competitive bidding. The University asserted that one contract was exempt from competitive bidding according to the Texas Government Code even though correspondence from the procurement office in the contract file indicated that a University department should have followed the competitive bidding policy. Consistent application of University policies will ensure that the University's interests are protected and that it receives the best value for goods and services.

Recommendations

We recommend that:

- The University ensure that all contracts and contract addendums are signed by authorized University staff and the vendor before paying the vendor.
- The Contract Compliance Officer ensure that the appropriate contract provisions, including those for dispute resolution, are included in the contract or contract addendums to protect the University and make vendors accountable for providing quality goods and services.
- The Contract Compliance Officer place in all the contract files the TAMUS checklist, documentation of a review of the previously approved contract form, correspondence from the TAMUS legal department, and other relevant documentation to attest to the occurrence of a formal review.

- The Contract Compliance Office create a system or process for tracking all contracts executed by the University. This will ensure that the University reports complete and accurate contract information to its Board of Regents, University management, and external oversight entities. It will also ensure that the Contract Compliance Officer has a way to document and monitor the contract population.
- The University develop policies and procedures outlining each party's responsibilities related to contracting.
- The University consistently apply its own policies, including its policy that requires bids for all purchases that exceed \$2,000.

Management's Response

Management is in the process of developing comprehensive written departmental procedures. These written procedures will prescribe due diligence to ensure contracts have the proper documented authorization, proper provisions to ensure protection of the University's interests, and documentation that the contract was properly reviewed. An electronic tracking system to monitor the contract population will be developed and implemented. The procedures will be formalized and the tracking system will be operational by March 1, 2004.

Did the University report accurate performance measure results for fiscal year 2002?

The University did not correctly calculate the fiscal year 2002 results for four of the five performance measures we reviewed because it did not follow the LBB's definitions in the Automated Budget and Evaluation System of Texas (ABEST). Although the University incorrectly calculated the results, we found that the reported results correctly indicated that the University did not meet its performance measure targets for three of the five measures we reviewed (see Table 1).

Our review of the University's performance measure initiatives showed that the University appears to be making diligent efforts to improve retention and graduation rates and to develop academic programs that help its students achieve a quality education.

Chapter 4-A

The University Correctly Calculated One Measure and Incorrectly Calculated Four Measures

The University correctly calculated the Amount Expended for Administrative Costs as a Percent of Operating Budget for fiscal year 2002 in accordance with ABEST definitions. The University appropriately sought clarification from TAMUS on the calculation methodology and appropriately excluded the results of service department operations and auxiliary enterprises from the calculation.

The University did not calculate four performance measures in accordance with the ABEST definitions. The University's results correctly showed that it did not meet the targets for two of these measures, and the reported results for two of the measures were not significantly different from the results we calculated using the ABEST definition. However, not following the definition creates a risk that future inaccuracies will be more significant.

Table 1 shows the performance measure targets, the University's reported results, and the results we calculated.

Table 1

| Fiscal Year 2002 Performance Measure Targets and Reported Performance | | | |
|---|--------|----------------------|---------------------|
| Measure | Target | Reported Performance | Auditor Calculation |
| Correctly Calculated | | | |
| Amount Expended for Administrative Costs as a Percent of Operating Budget | 10.00% | 13.00% | 13.00% |
| Incorrectly Calculated | | | |
| State Licensure Exam Pass Rate of Engineering Graduates | 65.00% | 66.00% | 75.00% |
| State Licensure Exam Pass Rate of Nursing Graduates | 93.00% | 90.00% | 84.00% |
| Retention Rate of First-time, Full-time, Degree-seeking Freshmen Students after One Academic Year | 70.00% | 69.78% | 70.30% |
| Percent of First-time, Full-time, Degree-seeking Freshmen Who Earn a Baccalaureate Degree within Six Academic Years | 32.00% | 33.60% | 34.60% |

Recommendations

The University should:

- Follow the ABEST definitions when calculating performance measure results.
- Consult with the LBB's performance measure analyst to ensure that it properly interprets all performance measure definitions.
- Review the performance measure calculations to ensure that the data is reliable and accurate.

Management's Response

The University has now reviewed the definitions, consulted with the LBB, and reviewed the measures in question. We agree that our initial calculations were off by one percent or less for two measures, less than two percent for a third, and nine percent for the fourth measure (three of four students instead of two of three students in the Engineering exam pass rate). Departmental procedures have been adjusted to ensure that clarifications of the definitions and methods of calculation are obtained, that reviews are documented, and that revised figures are reported to the LBB.

Chapter 4-B

The University Has Initiatives for Improving Retention and Graduation Rates

Our review of the University's performance measure initiatives showed that the University appears to be making diligent efforts to improve retention and graduation rates and to develop academic programs that help its students achieve a quality education. The University fosters an open-door policy that attracts a wide array of students. Its student body usually includes first-generation college students and students who have chosen the University based on affordability. Therefore, the University has developed and implemented academic and financial-related initiatives to help retain all students. The University recognizes that focusing on retention helps to increase graduation rates. It also recognizes that strong academic programs are essential to students' quality education and help to ensure the students' graduation and post-academic success.

Some of the University's initiatives for improving retention and graduation rates are as follows:

- The University created the University College to help provide a structured living environment for freshman students. This facility provides living space, counselors, and study halls. The University created the facility to help improve retention rates, improve the students' academic success, and increase graduation rates.

- The University's ACCESS program is a summer program that helps prepare freshman students for their first semester in college. The program is also open to freshmen who plan to attend other universities. It offers advisement in key academic skills, note and test taking skills, and other skills that will ensure students' success in college.
- The University's OCR plan provided funding for the University to add more undergraduate, graduate, and doctoral degree programs for key disciplines such as nursing, engineering, education, and juvenile justice. Through the OCR plan, the University also received new facilities to help it become more competitive in performing research, attracting quality students, awarding scholarships, and hiring tenured faculty.

The University Has Adequate Controls over Its Information Technology Resources, but There Is Room for Improvement

Overall, the information technology systems we reviewed contain adequate controls for recording, processing, and using financial information. Although we identified issues that indicate areas for improvement in systems and processes for grants management and accounts payable, we did not find any indication that those system issues adversely affected the accuracy or consistency of the University's financial information for the period we reviewed. We reviewed three systems:

- **Financial and Management Information System (FAMIS).** The University uses this system to track all financial activities, including those for budget, accounts receivable, accounts payable, payroll, and financial reporting. TAMUS maintains this system and administers its overall security, but the University is responsible for entering information into the system, reconciling financial information, and administering user access rights.
- **Student Information System (SIS).** This system tracks information for the more than 7,200 students enrolled at the University. The University uses SIS to record registration information, student fees and fines, and payments of those fees and fines. The University's information technology department administers security for this system.
- **Budget Payroll Personnel System (BPP).** BPP processes all payroll transactions for the University. For fiscal year 2002, payroll and payroll-related costs represented 61 percent of the University's total operating expenses. Payroll information automatically transfers from BPP to FAMIS. TAMUS maintains and administers the overall security for BPP, and the University enters information into the system and grants users access rights to it.

We identified the following issues regarding the University's information systems and processes:

- **FAMIS Grants Management Reporting Process Could Be Enhanced.** The University's Office of Sponsored Projects produces a list of overdue grant reports and other grant management reports that FAMIS does not provide. The staff must extract data from FAMIS and process the data separately to create the reports. We were unable to determine whether any other TAMUS components create reports to monitor grants and contracts in addition to those that FAMIS creates. However, the University's need for these supplemental reports may indicate that the FAMIS reporting process could be enhanced to better support grant management at the TAMUS components.
- **Grant Drawdown Reconciliations Are Not Performed.** Office of Sponsored Projects staff members do not reconcile the monthly total of grant drawdown requests to the drawdowns recorded in FAMIS. During the routine processing of new drawdown requests, staff members are likely to identify any drawdown requests that were not recorded in FAMIS or were

recorded incorrectly. However, reconciling monthly totals of drawdown requests to the financial system could help reduce the risk of staff entering incomplete or incorrect drawdown information into the system.

- **Purchase Orders Were Assigned to the Wrong Fiscal Year.** When testing purchase orders and payment vouchers, we found that the University assigned fiscal year 2003 purchase order numbers to three purchase orders that were for fiscal year 2002 expenses or encumbrances. Although the date of the transaction, and not the purchase order number, determines the appropriate fiscal year, using the wrong purchase order number makes it appear that the University is recording expenses and encumbrances in the wrong fiscal year. This limits the effectiveness of using sequenced document numbers and makes it more difficult to determine the appropriate fiscal year for transactions and to report accurate financial information.

We visited the Texas A&M University administrative data center to evaluate the physical security controls over the facility and to identify any control weaknesses that would compromise the University's ability to support its financial accounting and reporting functions. The data center, located on the Texas A&M University campus, houses the production computers that process and store information in FAMIS and BPP for all TAMUS components. We identified the following issues during our visit:

- **Physical Security.** The Texas A&M University off-site backup tape storage facility is immediately adjacent to the administrative data center. Therefore, there is a risk that both the backup tapes and the data center could be destroyed in a single disaster and significantly affect all TAMUS components that rely on the data center.

In addition, the off-site backup tape storage facility is located on the first floor and has a window that leads to the outside. An unauthorized person could easily break or open the window to access the facility.

The off-site backup tape storage facility is located in a building that contains biology laboratories, which may contain flammable chemicals. The facility's fire extinguisher may be inadequate because its label indicates that it is for gas, oil, and electrical fires only.

- **Change Management.** TAMUS does not have a formal process for prioritizing FAMIS and BPP system change requests. This process occurs informally; however, the lack of a formal process increases the risk that information technology personnel and resources will not be allocated to address the most important problems or enhancements for the FAMIS and BPP systems. The need for this process is particularly important because TAMUS must balance the needs and requests of all the components it supports.

Recommendations

The University should:

- Reconcile the monthly total of drawdown requests to the drawdowns recorded in FAMIS.
- Use sequential purchase order numbers that correspond to the fiscal year in which they are created.
- Re-evaluate the FAMIS reporting process and consider ways to make the system produce all necessary reports.
- Consider ways to improve the physical security of the off-site backup tape storage facility, including moving the tapes to a location more distant from the administrative data center, securing possible entry points, and obtaining fire extinguishers rated for the types of fires that might occur in the building.
- Establish a formal process for prioritizing FAMIS and BPP system change requests.

Management's Response

While no drawdown exceptions have been noted, the University agrees with the recommendation to perform a formal reconciliation of drawdown requests to drawdowns recorded in FAMIS. We have developed a formal reconciliation form and will begin preparing the formal reconciliation this month. We have also provided additional training in the newly installed purchasing module for fiscal office employees in order for them to review year-end purchases and make manual adjustments to the year assigned to purchasing orders. This will reduce the risk of recording any expenses in the wrong fiscal year.

The University will re-evaluate the FAMIS reporting process and make the appropriate requests to the FAMIS team for necessary reports. The Texas A&M University data center is currently in the process of evaluating physical security issues and will take all cost-effective actions necessary to address security issues. A formal process for prioritizing FAMIS and BPP system change requests has been developed by TAMUS and will be fully implemented by December 31, 2003.

Appendix

Objectives, Scope, and Methodology

Objectives

The project objectives were to determine whether Prairie View A&M University (University):

- Provides accurate and consistent financial information to legislative budget committees and University management.
- Spends state appropriations and local funds in accordance with state laws and regulations.
- Has effective controls over grant and contract management.
- Reports accurate performance measure results.
- We also reviewed the University's controls over the information technology resources associated with the areas covered by our objectives.

Scope

The scope of this review included the University's accounting records and transactions and its contracts and grants for September 2001 through March 2003, as well as performance measure results reported for 2002.

Methodology

- To achieve these objectives, we:
- Reviewed information systems used to collect and report financial and performance measure information.
- Reviewed the University's fiscal year 2002 Annual Financial Report, operating budget, fiscal activities report to the Texas Higher Education Coordinating Board, and quarterly operating reports used by Texas A&M University System (TAMUS) executive management.
- Tested expenditures, contracts, and grants for September 2001 through March 2003.
- Reviewed the accuracy of selected performance measures.
- Interviewed University managers and staff.
- Reviewed University and TAMUS policies and procedures.

Project Information

We conducted fieldwork between May and September 2003. This review was conducted in accordance with standards applicable to performance audits contained in generally accepted government auditing standards.

The following members of the State Auditor's staff conducted the review:

- Sharon Brantley (Project Manager)
- Jacqueline Shelby (Assistant Project Manager)
- Michael Clayton, CPA
- Dean Duan, CISA
- Jenay Oliphant
- Mary Stauffer, MAcct
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