

OFFICE OF THE STATE AUDITOR

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State Auditor

January 22, 1997

Members of the Legislative Audit Committee:

Southwest Texas State University (University) management has taken a number of significant actions to address recommendations contained in *An Audit Report on Management Controls at Southwest Texas State University* (SAO Report No. 96-057, March 1996). During our follow-up review, we identified other actions management should consider to further improve specific processes or to more fully address the recommendations in the above report. These additional actions pertain to athletics, decision-making, and fixed assets and inventory issues. This follow-up report, requested by the House Interim Committee on Higher Education, Subcommittee on Fees and Oversight, summarizes the status of significant actions and our additional recommendations as of December 1996. Additional detail is available upon request.

At this point it is difficult to assess the long-term effectiveness of the actions management has taken. Several initiatives, such as those related to the strategic planning and human resources issues, will not be fully implemented until well into the next fiscal year. The acquisition of real estate, which would enable us to test adherence to the new related acquisition policy, has not occurred since the recent implementation of the policy. Meanwhile, management needs to continue the high level of commitment to its action plans.

We appreciate the cooperation of the University and all the individuals we contacted during our review. The State Auditor's Office will continue to monitor the University's progress against its plans and will provide assistance as necessary.

If you have any questions, please call me at (512) 479-4700.

Sincerely,

Pat Keith, CQA
Audit Manager

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cc: Dr. Jerome Supple, President, Southwest Texas State University
Mr. Lamar Urbanovsky, Chancellor, Texas State University System
Mr. Jerry Neef, CPA, Director of Audits and Analysis, Texas State University System
House Committee on Higher Education

SAO Report No. 97-033

Summary of Management's Actions

The actions of Southwest Texas State University's (University) management to address our recommendations include:

- Increased level of reporting to the Southwest Texas State University Board of Regents (Board) on the Athletic Department and former Aquarena Springs property operations
- Increased monitoring of budgets of the Athletic Department and the former Aquarena properties
- Modification or creation of relevant policies and procedures, most notably those related to athletics, budgeting, and real property acquisition
- Re-alignment of several departments to improve oversight
- Initial progress on strategic planning and quality assessment issues
- Initial progress on human resource issues
- Expressed commitment by management to enforce existing policies

The long-term effectiveness of the actions has yet to be determined. Several initiatives, such as those related to the strategic planning and human resources issues, will not be fully implemented until well into the next fiscal year. The acquisition of real estate, for example, which would enable us to test adherence to the new related acquisition policy, has not occurred since the recent implementation of the policy. The University needs to continue its high level of commitment to its action plans.

Corrective Actions by Management Control Area

An Audit Report on Management Controls at Southwest Texas State University (SAO Report No. 96-057, March 1996) identified several areas in which management control systems were deficient in design and/or implementation. The following sections highlight the University's corrective actions for each area.

Athletic Department

Management has improved oversight of the Athletic Department through increased reporting to the Board, increased monitoring of day-to-day activities, and strengthening of some budgetary controls. Specific actions include:

- *Increasing the reporting of Athletic Department activities to the Board of Regents* - The Athletic Department's annual budget will be presented to the Board for review and approval. Management will annually provide the

Board's Finance Committee a consolidated report of all auxiliary enterprise operations for the preceding year.

- *Including summary information in the budget document* - This information includes lists of the sources of the Athletic Department's funding and the expected level of funding from self-generated income, student service fees, and general fees.
- *Holding weekly organizational meetings between the Athletic Director and the Vice President for Student Affairs* - These weekly meetings are held in addition to their monthly budget meetings. Additional budget meetings are held every six weeks with the President. All Athletic Department budget change requests, hiring recommendations, and contracts must be reviewed and approved by the Vice President for Student Affairs.
- *Expressing commitment to apply University-wide budgeting controls to the Athletic Department* - These controls include policy changes to hold account managers accountable for adherence to their budgets.
- *Establishing additional controls over the issuance and use of cellular telephones* - Phones are issued based on documented need, and monthly phone charges undergo closer scrutiny to ensure the University pays for legitimate business use only.

Improvements Needed in Revenue Forecasting - In an effort to develop realistic budgets for Athletic Department operations, management intended to limit current year revenue projections to prior year actual revenues. This effort was not entirely successful. The current year football revenue projection exceeded the prior year actual revenue by 46 percent (projection - \$112,000, prior year actual - \$77,000). Also, the Athletic Marketing/Promotion revenue projection exceeded last year's actual revenues by 36 percent (projection - \$205,000, prior year actual - \$151,000). Sufficient support does not exist for the increases in expected revenues. Any resulting shortfalls in revenues will require funding from other sources or decreases in planned expenditures in order to avoid deficits. Management is aware of the situation and has reiterated its commitment to develop more realistic budgets in the next budget cycle.

Decision-Making

Management has taken definitive actions to strengthen control of the operations associated with the former Aquarena Springs theme park. Actions include:

- *Aligning operations to reflect the University's intended use* - The former park property is now used for and reports to Continuing Education. The golf course is now a part of the student Recreational Sports program. Finally, the Inn and Peppers Restaurant are components of the Auxiliary Services Department. The Board ceased theme park operations and implemented the changes in March 1996 in order to shift emphasis of the Aquarena Springs property to educational and general use.

- *Preparing monthly budget-to-actual reports* - These reports include explanations for significant variances from the budget. They are prepared by each operation's account manager and submitted to the Office of the Vice President for Finance. There, the reports are consolidated into a single set of summary reports. The summary reports are submitted monthly to the President's Office for review and discussion. Finally, the reports are forwarded to individual Board members.
- *Holding budget managers accountable for their budgets* - Executive management has expressed a commitment to do this.
- *Developing budgets* - This is done by those most closely associated with the operations in order to improve the quality of the budgets.
- *Using conservative revenue and expense projections in the budgets*

Improvements Needed in Monthly Budget-to-Actual Reports - The explanations for the variances noted in the October 1996 monthly budget-to-actual reports did not contain sufficient cause and effect information and lacked planned corrective action for significant variances. The information is important for understanding the significance of the variance(s) and appropriateness of planned corrective action. Management has indicated a willingness to improve the quality of the variance explanations and has revised the October 1996 reports to include corrective action plans.

Policy and Performance Management

The University has initiated steps to address weaknesses in the strategic planning process. Many of the substantive changes, however, are long-term and will require the passage of time in order to determine their effectiveness. Actions include:

- *Improving quality and consistency of strategic plans* - Workshops are being planned to instruct faculty and staff on developing quality strategic plans that are more consistent in form and content at all levels.
- *Planning the establishment of a University-wide monitoring system to measure progress against strategies, goals, and objectives* - The system will require that each department report how well it has met the goals, objectives, and strategies in its strategic plan. Each division will compile all its departmental reports into a single division report. Finally, the five division reports will be used to produce a report that outlines progress toward accomplishing institutional goals and objectives. Reports at all levels are to contain similar information and be in a consistent format. The Southwest Texas Quality Initiative will provide instruction on the use of benchmarks to set targets and monitor progress towards the achievement of goals.

- *Making a commitment to institute a quality planning and assessment process for each program, department, and division* - Responsibility will be assigned to appropriate levels of management to develop relevant policies and procedures to guide the quality and assessment process.

Key to the success of the initiative is the improvement of the *Strategic Planning Guide*. This document will be instrumental in ensuring the consistency in form and content in the strategic plans at all levels. It will include institutional goals and measures, a monitoring system, quality tools for retreats, etc., a planning and budget calendar, an environmental scan, and trend data. Plans are for the *Strategic Planning Guide* to be complete by Spring 1997. It appears the University is committing significant time and effort towards this effort.

The University has also addressed our recommendations to systematically review *University Policy and Procedure Statements* (UPPS). Management has developed a schedule to systematically review not only current UPPSs, but also the backlog of delinquent UPPSs, which numbered 71 at the end of October 1996. The University needs to mount and maintain a concerted effort to keep up with the delinquent category if it is to meet its May 1998 target date.

Internal Audit

The University realigned the Office of Internal Audit and Advisory Services to report directly to the University President. Under this structure, the President is responsible for evaluating and initiating pay actions for the Internal Audit Director. The Office of Internal Audit and Advisory Services developed monitoring tools to identify significant variances from, or adjustments to, the annual Internal Audit Plan. The Director will report formally on progress against the Audit Plan at least quarterly to the President and indirectly to the Board's Finance Committee through the Texas State University System Director of Audits and Analysis. More frequent reporting will be required if actual hours exceed budgeted hours on an audit by 25 percent or adjustments to budgeted hours for an audit exceed 25 percent of the most recent quarterly report. Requests to the Board for adjustments to the Audit Plan will include appropriate explanation and justification.

Human Resources

Management has documented plans to enhance the human resources management system. Initiatives include:

- *Implementing a training program for departmental timekeepers* - The program covers federal and state regulations governing FLSA overtime, as well as state compensatory time and the calculation of leave balances.
- *Making improvements to the automated timekeeping system* - This will ensure state compensatory time is taken off within the 12-month limitation.

- *Planning to periodically audit up to four departments per month* - This action will detect and correct any timekeeping errors.
- *Strengthening University policy on compensation in excess of base pay* - Changes make the Budget Office responsible for identifying and reporting compensation in excess of base pay and the Grants Administration Office responsible for monitoring compliance with appropriate grant guidelines.
- *Continuing the ongoing major efforts to update all staff job descriptions by June 1997* - The information acquired during this process should provide data for a new staff evaluation system projected to be in effect by January 1998. Plans are for the new system to include specific job expectations, with weights and ratings for each. The revised performance policy statement requires annual staff evaluations. Training sessions are planned during 1997 on the new evaluation system.
- *Strengthening of recruitment and selection processes* - Actions include establishing guidelines for verification of applicant education, employment history, and professional certification, and for ensuring that individuals are not hired at a salary higher than the salary at which the job was posted.

Fixed Assets and Inventory

Fixed Assets - Management has taken some action to strengthen controls to ensure fixed assets will be properly safeguarded. For example, the Materials Management section has begun unannounced test counts of the various individual departments' fixed assets and has presented the results of the counts to management for the first quarter of this fiscal year. However, the departments are not chosen on a risk-based system to ensure the riskiest departments are tested first and more frequently. Also, detailed written procedures have not been formalized.

Supplies Inventories - Management made improvements to strengthen controls over inventories at the Physical Plant. Funds have been allocated for a new inventory tracking system scheduled for full implementation by January 1998. Written procedures were developed for test counts of the Physical Plant's perpetual inventories.

For the Print Shop, Central Supply, and Duplicating Services departments, the Office of Internal Audit and Advisory Services has allocated resources to observe their inventory counts. This is essential since the proper segregation of custodial duties is not possible due to the small staff sizes in those departments.

Improvements Needed in Fixed Assets Controls - Management needs to complete the detailed written procedures covering the risk-based selection, testing, and reporting of the test counts. Also, management should require and use a reporting format that includes counts planned, counts actually performed, significant test exceptions, and corrective action already taken.

Construction

Management took action to improve the construction plan development process by including the following elements, among others, into the process:

- Project planning is divided into distinct phases which have been integrated into the standard architect-engineer/owner agreement.
- The architect-engineer shall arrange for detailed cost estimates at various phases of contract document preparation. An outside entity shall prepare the estimates for projects estimated to cost over \$5 million.
- The University retains ownership of project documents produced under the contract.
- Prospective architectural firms must furnish information on how close actual project costs came to their final construction estimates on projects designed and bid on over the last three years.
- The architect-engineer/owner agreement requires the architect-engineer to carry professional liability and errors and omissions insurance.

Contracting

The University has strengthened its policy and procedure statement on contracted services (including consultants, speakers, and other services) to ensure consulting contract payments bear a direct relation to the fair value of services performed.

Strengths include:

- Relevant contract and payment documents should disclose costs of materials, travel, lodging, and other relevant expenses of the contracting party.
- Vouchers submitted for payment approval must be accompanied by documentation that shows how the value of the services was determined.

However, during our review we noted the University experienced problems related to a request for proposal (RFP) and subsequent bid selection for repairs on equipment at the co-generation plant. A problem with the original bids caused the University to schedule a re-bid of the repairs in January 1997, almost three months after the original bids were rejected. This delay will cost the University \$180,000, based on management's estimates that each month's delay costs the University \$60,000 in missed utility cost savings. The equipment has been inoperable since late July 1996. The University received two bids on the project, neither which conformed to the bid specifications. Although management took corrective action to improve the handling of the second bid, management should examine established bidding procedures for similar projects to prevent a recurrence.