



Lawrence F. Alwin, CPA  
State Auditor

A Financial Review of  
**Midwestern State  
University**

November 21, 2001

Members of the Legislative Audit Committee:

The Legislature and other oversight bodies can rely on Midwestern State University's (University) financial information. This assurance is based on our review of the structure of the University's financial system and of financial processes in place as of August 2001. The financial system is the primary source of information for all financial reports. The structure of the University's financial system and its financial processes are designed to ensure that information is recorded accurately and consistently. In addition, the University is spending appropriated funds in accordance with limitations set forth in the General Appropriations Act and other applicable state laws and regulations. We can only provide limited assurance on the alignment between expenditures and outcomes because the University's expenditures and outcomes correlate with its appropriations for Educational and General State Support, not with specific strategies.

This financial review was an extension of work we conducted during fiscal year 2001 at the request of the Senate Finance Committee and the House Appropriations Committee. We reviewed the University's financial system and tested selected financial transactions that occurred between September 1, 1997 and May 31, 2001. The attachment to this letter contains additional detail on the results of our work.

We appreciate the University's cooperation and responsiveness during this project. The University agrees with our observations, and its responses are included in the attachment. If you have any questions, please contact Susan Riley, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA  
State Auditor

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Attachment

cc: Midwestern State University  
Chair and Members of the Midwestern State University Board of Regents  
Dr. Jesse Rogers, President

**Objectives, Scope, and Methodology**

The project objectives were to:

- Determine if the University's reporting processes enable it to provide legislative budget committees and University management with accurate and consistent financial information.
- Determine if the University is using appropriated funds in accordance with applicable state laws and regulations.
- Determine the relationship between funds expended and outcomes.

To achieve these objectives, we gained an understanding of controls over financial information and tested the controls and the accuracy of the financial information by reviewing financial reports, expenditures, revenues, transfers, lapses, and fund balances. We also examined the relationship between expenditures, key strategies, and expected outcomes for the strategies. We conducted fieldwork between July and August 2001 and tested transactions that occurred from September 1, 1997 through May 31, 2001.

This audit was conducted in accordance with generally accepted government auditing standards.

## **Do the University's reporting processes enable it to provide legislative budget committees and University management with accurate and consistent financial information?**

Midwestern State University (University) is providing accurate and consistent financial information to the Legislature, the University's Board of Regents, and University management. We noted several aspects of the University's financial operations that underscore this conclusion.

**The structure of the University's financial systems and its financial processes are designed to ensure that information is recorded accurately and consistently.**

The University's financial system is the primary source of reported financial information. Business office staff verify the accuracy of the system's information during daily processing. Information is corrected when errors are found. Staff access information from the system to manually prepare some of the financial reports. Other reports are automatically generated by the system. Staff ensure that information is correctly entered into financial reports.

**Information in the University's financial system is consistent with information in its legislative appropriations request.**

Legislative appropriations request (LAR) revenue estimates did not exceed actual revenues for 1998, 1999, and 2000. Comparison of LAR expenditure estimates to actual expenditures for 2000 showed that estimates for three strategies exceeded actual expenditures. However, the variances were reasonably explained.

We successfully traced a sample of LAR amounts to source documentation for 1999. This indicated that the University correctly reported these amounts in its LAR.

**Differences between information in the University's annual financial reports and operating budget were reasonably explained.**

The University's annual financial reports (AFRs) for 1998 and 1999 reported revenue of approximately \$719,000 and \$700,000, respectively, that was not reflected in the University's operating budget. Supporting documentation showed that this was revenue from a class action lawsuit and was to be spent for asbestos cleanup. University management specified that the amounts were not included in its operating budget because the outcome of the lawsuit and the settlement amount were uncertain. University management also stated that this revenue was not operating income because, according to the settlement agreement, it could only be spent for asbestos cleanup.

**Fluctuations in financial data were reasonably explained.**

Although the University experienced significant fund balance and revenue fluctuations during 1998, 1999, and 2000, each fluctuation was reasonably explained and supported by information in the University's financial system.

**The University conducts reconciliations to ensure that information in its internal accounting system is consistent with information in the Uniform Statewide Accounting System.**

The University reconciles its financial system to the Uniform Statewide Accounting System (USAS) each month. We successfully traced selected amounts from the August 2000 reconciliation to USAS and the University's financial system. This indicated that the University followed its reconciliation procedures and the amounts reconciled.

Section 2:

## **Is the University using appropriated funds in accordance with applicable state laws and regulations?**

The University is using appropriated funds in accordance with applicable state laws and regulations. Several facets of the University's budget and expenditure process support this assessment.

**University expenditures are reasonable and appropriate.**

A review of University expenditures for 1998 through 2001 showed that the University is spending the majority of its appropriated funds for faculty and staff salaries and benefits. Testing of a targeted sample of \$3.2 million in expenditures, other than those for salaries and benefits, showed that the University is spending the remainder of appropriated funds for appropriate goods and services in accordance with applicable state laws and regulations.

Expenditures for 1998, 1999, and 2000 were within the limitations established by appropriation restrictions. The Board of Regents spent below the allowable limit of \$25,000 in each of the three years reviewed, and the University spent less than one-third of its appropriations in the fourth quarter of each year reviewed.

Although the University experienced three significant expenditure fluctuations between 2000 and 2001, there were reasonable explanations and support for each fluctuation.

**The University develops and adheres to reasonable budgets.**

The University bases its annual operating budget on historical data and departmental funding requests. University management and the University's Board of Regents approve the annual operating budget. The University's financial system contains edit checks to ensure adherence to the operating budget. These edit checks verify the availability of funds before purchase requisitions are approved.

**Financial information in the University's operating budget is consistent with its LAR and the General Appropriations Act.**

Financial information in the University's operating budgets for 1998 through 2001 is consistent with the University's LAR and the General Appropriations Act. This

indicates that the University is properly including appropriated funds in its operating budget and LAR.

**Encumbrances are reasonable and are paid within a reasonable amount of time.**

At the end of each year, the University reviews the validity of encumbrances (financial obligations for which funds are reserved). Each encumbrance is reviewed to ensure that it has not already been paid, that it has a valid purchase order and/or contract, and that it is due to a specific vendor. The University also reviews prior year encumbrances to ensure that they were paid in the current year. A review of encumbrance reports and financial data for 1998, 1999, and 2000 indicated that the University properly clears encumbrances and maintains appropriate documentation to support encumbrances and corresponding payments.

**The University maintains appropriate levels of appropriation transfers and unexpended balance transfers.**

The University made one net transfer out of an appropriation item from 1998 through 2001. This transfer was well below the limit of 25 percent of the appropriation set forth in the General Appropriations Act. The University does not have unexpended balance authority and therefore did not transfer unexpended balances from its original appropriations.

**The University does not lapse appropriations.**

A review of the University's financial data and supporting documentation for 1998, 1999, and 2000 showed that the University did not lapse appropriated funds in any of those years.

Section 3:

### **Is there alignment between funds expended and outcomes?**

It is difficult to determine the relationship between expenditures and outcomes. We are giving limited assurance on the alignment between expenditures and specific strategies because the University's expenditures and outcomes do not correlate with specific strategies. Instead, the University's expenditures and outcomes correlate with its state appropriations for Educational and General State Support. We noted that the University is expending funds appropriated for Educational and General State Support in accordance with applicable state laws and regulations and that the University is not significantly overspending or underspending appropriated funds.

The University is also working to improve performance for two key measures by expending funds to serve students through its Academic Support Center, which it created in the Fall of 1999. The Center's services are geared toward improving retention and graduation rates.

## Management's Response



### MIDWESTERN STATE UNIVERSITY

Office of the President  
3410 Taft Boulevard Wichita Falls, Texas 76308-2099  
Office: 940-397-4211 Fax: 940-397-4010

November 6, 2001

Mr. Lawrence F. Alwin, CPA  
State Auditor  
P. O. Box 12067  
Austin, Texas 78711-2067

Dear Mr. Alwin:

Thank you providing us an opportunity to respond to the initial report of findings based on your review of the financial system and processes of Midwestern State University that took place in August 2001. We are gratified by the results of the review that confirm the soundness of our operations and ensure that financial data are recorded accurately and consistently.

In the matter of the university's Annual Financial Reports and operating budgets, with regard to a class action lawsuit related to asbestos, we would note that the university elected to limit use of those funds to asbestos related matters on campus. Management's decision was based on the need to address asbestos abatement and removal as we continue to upgrade our physical facilities.

We appreciate the work of your review team and the many hours they invested in conducting the review. I hope you will extend to them our gratitude for all of their efforts.

Please be assured that we intend to continue our practice of being good stewards of the resources the Texas Legislature provides us to offer quality educational opportunities for our students. We look forward to working with your office in the future.

Sincerely,

A handwritten signature in black ink, appearing to read "Jesse W. Rogers".

Jesse W. Rogers  
Interim President

cc: Dr. John Alexander, Vice President for Business Affairs  
Ms. Paula Allard, Internal Auditor  
Ms. Gail Ferguson, Controller

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ATTACHMENT