



Lawrence F. Alwin, CPA
State Auditor

A Follow-Up Report on Rider 5: Texas Southern University Accountability Systems

June 26, 2002

Members of the Legislative Audit Committee:

Based on four monitoring projects we conducted as required by the 76th Legislature (see textbox), Texas Southern University (University) has made significant improvements since February 1999 in implementing and maintaining key management systems and controls. In this project, we identified areas for improvement in input control systems used to ensure the reliability of financial data as it is recorded in the University's accounting system. This letter reports the results of the fourth and final project in the series of monitoring projects mandated by the 76th Legislature.

Improving data preparation and classification and data entry controls would (1) help the University ensure that it records reliable information in its accounting system and (2) reduce the need to make corrections later in the accounting process. The following control weaknesses could affect accounting data reliability:

- We identified at least 37 unbalanced journal vouchers entered during fiscal year 2001. This raised concerns about the accuracy of the University's financial data because basic accounting rules dictate that all accounting transactions should balance. The University's verbal and written explanations of these unbalanced journal vouchers indicate that both user errors and automated system errors are possible factors that contributed to the creation of these transactions.
- The University was unable to account for 234 journal voucher numbers. The University did not provide supporting documentation for these vouchers. Journal voucher numbers that are unaccounted for raise potential concerns about the completeness of the information in the accounting system.
- More than 1,700 journal vouchers were in an automated suspense file. Approximately fifteen hundred of these vouchers were the result of a Banner system error that generated a small number of transactions repeatedly. The remaining vouchers appeared to be other suspense file items. Some of the journal vouchers had been in the suspense file since May 2001. Retaining a large number of items in a suspense file for an extended period increases the risk that discrepancies or transactions awaiting approval could be overlooked. This could have an impact on the accuracy or timeliness of the data in the accounting system.

History of Rider 5

Rider 5, page III-128, the General Appropriations Act (76th Legislature) required the Board of Regents of Texas Southern University to implement and maintain management and financial procedures and comprehensive internal oversight systems and controls, with an emphasis on including the following five areas:

- Finance and accounting
- Human resources
- Management information systems
- Planning and communications
- Student financial aid

The rider also required the State Auditor's Office to monitor the University's implementation and maintenance of these systems and controls. We completed four projects for the 2000-2001 biennium to fulfill that requirement.

In this final project we focused on the following:

- Finance and Accounting
 - Input controls used to ensure reliability of data as it is recorded in the accounting system
 - Systems used for monitoring financial information and taking corrective action when needed
- Human Resources
 - Implementation of outstanding audit recommendations from prior Rider 5 reports
- Planning and Communications
 - Management accountability systems used to mitigate risk and monitor achievement of University goals

Sources:

- General Appropriations Act (76th Legislature)
- SAO Report No. 01-027, April 2001
- SAO Report No. 01-003, September 2000

SAO Report No. 02-055

- Certain University staff have the ability to prepare and approve transaction documents and enter and verify the data in the automated accounting system without regular oversight to detect errors or irregularities. In addition, system maintenance staff also have access that allows them to change financial data. This increases the risk of unauthorized or unintentional changes to financial data.

We continue to work with the University to ensure the accuracy and completeness of its financial data. The focus of this project was to assess the input controls in place to ensure the reliability of that data. The accuracy and completeness of financial data will be an objective of a subsequent audit we plan to conduct at the University.

In addition to our findings regarding accounting system controls, we also found:

- University personnel generally followed informal procedures to perform basic ongoing monitoring of payroll, budget, accounts receivable, and accounts payable activities. The University's lack of documented policies and procedures for monitoring increases the risk that monitoring will not be performed consistently and thoroughly over time, especially as personnel change.
- The human resources department has implemented some of our prior recommendations, but it does not always maintain complete and orderly personnel files. The University is taking steps to implement a solution to this problem.
- The University's tools for ensuring management accountability are based on good practices. Executive management continues to use a system of departmental action plans and mid-year monitoring to hold departments accountable for achieving their goals. The University appears to be proceeding successfully in implementing an enhanced risk-assessment process. The University also has developed a viable accountability plan for its Office of Civil Rights funding for the 2002-2003 biennium.

The attachment to this letter provides additional detail regarding our project. The University generally agrees with our recommendations. Its responses are included in the attachment. We appreciate the assistance and cooperation of the University throughout this project. If you have any questions, please contact Carol Noble, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

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Attachment

cc: Chair and members of the Texas Southern University Board of Regents
Dr. Priscilla D. Slade, President, Texas Southern University

Section 1:

Does the University Have Adequate Input Controls in the Areas of Budget, Payroll, and Journal Voucher Entries?

The University needs to improve processes to ensure that the information coded and entered into its automated accounting system is accurate, authorized, complete, and timely. To accomplish this task, the University needs to improve both manual and automated processes for coding and entering accounting data into its systems. It is particularly important that the University improve these processes as they relate to journal vouchers.

Our testing of selected transactions in the areas of payroll and budget did not detect any significant errors in the data entered into the accounting system. However, the nature of the problems we noted with journal vouchers and the fact that journal vouchers can affect all areas of financial activity increase the risk that information could be unreliable when it is recorded in the University's Banner accounting system.

Section 1-A:

The University Should Strengthen the Reliability of Its Journal Voucher Information

We found problems in the University's journal voucher process. Controls over journal vouchers are especially important because journal vouchers can be used to change any transaction class or account balance and, at the same time, bypass the normal transaction cycle and any related controls. In our testing and analysis of a randomly selected sample of transactions, we could not always conclude that journal vouchers had been properly justified, authorized, or entered.

What Are Journal Vouchers?

Journal vouchers are a type of accounting entry that is used to enter corrections, adjustments, and other items that do not normally occur as a result of receiving cash or spending money.

Journal vouchers are used to conduct activities such as:

- Posting interest earned on bank accounts or other investments
- Correcting errors detected through ongoing monitoring of accounting functions
- Allocating costs to user departments
- Adjusting budgets
- Recording amortization and depreciation

- We identified at least 37 unbalanced journal vouchers entered during fiscal year 2001. This raised concerns about the accuracy of the University's financial data because basic accounting rules dictate that all accounting transactions are to be balanced. Unbalanced transactions should be entered only as a last resort in extraordinary situations, and they should be approved individually by management. We found 31 journal vouchers dealing with various accounting corrections for which there were only debit or credit entries. We found another six journal vouchers for which debits and credits did not appear to balance. Individual credits and debits for these entries ranged from \$2 to \$4,379,249. The University's verbal and written explanations of these unbalanced journal vouchers indicate that both user errors and automated system errors are possible factors that contributed to the creation of these transactions.

- The University was unable to account for 234 journal voucher numbers. There was no audit trail for determining whether these journal vouchers had been prepared and, if so, what had happened to them. The University did not provide supporting documentation for these vouchers. In addition, no information for these journal vouchers was available in the automated accounting system. Journal voucher numbers that are unaccounted for raise concerns about the completeness of the information in the accounting system.
- More than 1,700 journal vouchers were in a suspense file awaiting either posting to the University's internal accounting system (Banner) or deletion. Approximately fifteen hundred of these vouchers were the result of a Banner system error that generated a small number of transactions repeatedly. The remaining vouchers appeared to be other suspense-file items. Some of the journal vouchers had been in the suspense file since May 2001. After we notified the University about this situation, the University deleted or processed most of these journal vouchers in January 2002. Retaining a large number of items in a suspense file for an extended period could have an impact on the accuracy or timeliness of the data in the accounting system.

The University's lack of formal policies and procedures for addressing items in suspense files can increase the risk of errors. Retaining transactions in a suspense file increases the time needed to regularly monitor the items in suspense. It also increases the opportunity for new discrepancies or transactions awaiting approval to be overlooked.
- The University's Banner accounting system allows both automatic and manual assignment of journal voucher numbers. The University does not have a formally documented policy regarding assignment of journal voucher numbers.

The issues above, particularly unaccounted for journal voucher numbers and unbalanced journal vouchers, increase the risk that incomplete or inaccurate data will be recorded in the accounting system. Because the scope of this project, which was dictated by the General Appropriations Act (76th Legislature), was focused on systems and controls, we did not assess the overall accuracy of the University's financial information. We continue to work with the University to address these issues. Providing assurance regarding completeness and accuracy of the University's financial information will be an objective of a subsequent audit we plan to conduct at the University.

Recommendations:

The University should:

- Maintain adequate support for all accounting transactions, including deleted records. The University needs to ensure that, if corrections are made prior to data entry, all changes are clearly documented and justified on the supporting documentation.

- Establish an accounting review process to ensure transactions are balanced prior to data entry.
- Resolve items in suspense files on a timely basis.
- Use the automated voucher numbering system within the Banner accounting system as a control function to accurately account for all journal vouchers.
- Develop a monitoring system for the journal voucher process to ensure that transactions are complete, accurate, and authorized.
- Develop formal documented policies and procedures to support these changes.

Management's Response:

- *We understand the importance of input controls in ensuring the accuracy of information in the University's accounting systems and will endeavor to enhance existing compensating controls based on SAO's recommendations. The University will review its current system in light of those recommendations and develop formal policies and procedures to ensure that adequate input controls are implemented.*
- *We are now following SAO recommendations to clear items in suspense in a timely manner. The suspense file items are now reviewed monthly. The majority of the 1700 journal entries in suspense were due to a computer glitch that occurred in Banner Release 4.1 and has been corrected with the new release 4.3, which was implemented in the last quarter.*
- *The University has controls to detect and correct errors in journal entries such as account reconciliation, management review of financial data on a monthly or more frequent basis, and periodic, independent, and thorough testing of financial data by our Office of Internal Audit's use of state-of-the-art auditing software. Subsequent to the end of audit fieldwork, we conducted additional research to resolve some of the unaccounted for journal vouchers. For those researched, we determined that they were invalid or not needed. Additionally, Internal Audit will begin performing a gap analysis to ensure all journal vouchers are accounted for.*

Section 1-B:

The University Should Enhance Separation of Duties For Payroll and Journal Voucher Transactions

We noted problems with separation of duties in the preparation and entry of accounting transactions. Certain University staff have the ability to prepare and approve transaction documents and enter and verify the data in the automated accounting system without regular oversight to detect errors or irregularities. While we did not note errors or irregularities in our test items, we did note that staff and managers perform functions that should be performed by separate people. This lack

of separation of duties increases the risk of unauthorized or unintentional changes to financial data.

We found a lack of documentation of separate review and approval in the preparation of transaction documentation. In 25 percent of the manually initiated journal vouchers we tested, the journal voucher documents did not have the approval signature of an

What is Separation of Duties?

The accounting transactions we reviewed at the University are typically recorded on paper documents and then entered into the automated Banner accounting system. In this situation, separation of duties means dividing accounting duties among different people to help ensure that errors and irregularities are prevented as data is recorded in the accounting system.

Separation of duties is critical at two points in this process:

- Preparation and approval of the paper documents should be performed by different people. One person should prepare the transaction, and a different person should approve the transaction by checking whether the entry is complete, balanced, mathematically accurate, appropriate, and justified.
- Data entry and verification of the paper document in the automated system should be performed by different people. The person verifying the data entry should ensure that the data entered matches the prepared and approved supporting documentation.

authorized individual who was different from the individual who prepared the transaction. Without adequate approval of each transaction document, there is an increased risk that the transactions entered in the accounting system could be incomplete, unbalanced, mathematically inaccurate, unnecessary, or inappropriate. As mentioned previously, this is important because journal vouchers can affect all accounting data.

With regard to data entry of the transactions, we found the following:

- Five University employees, ranging from staff to executive management, have the ability to enter and approve their own budget and journal voucher transactions. In verbal descriptions of their processes, University management indicated that these employees do not both enter and verify data into the automated system, even though they have that capability. However, in our testing, we found instances, mainly in budget adjustment transactions, in which this occurred.

- The payroll supervisor currently can perform payroll and human resource functions that should be segregated for proper control. This supervisor has the ability to enter or change job positions, salary rates, and information regarding new employees. Because the Payroll Office also verifies salary rates and issues payments to University staff, staff in this office should not have the ability to enter job positions, salary rates, or information regarding new employees. We did not find any significant errors or irregularities in the payroll data we sampled. However, this control weakness increases the risk that errors or irregularities could occur.

All three areas we reviewed (journal vouchers, budget, and payroll) lacked oversight controls to ensure that proper separation of duties was practiced consistently. When duties cannot be segregated properly (for example, because of a lack of personnel or for operating efficiency), there should be oversight that provides management with the ability to review exceptions to normal separation of duties. Establishing this oversight can be accomplished through management's spot-checking of transaction documents and review of automated system reports that detail transactions entered and verified by the same person.

In addition to weaknesses in the separation of duties, we noted other minor problems that could be at least partially prevented by clearer guidance in the form of written procedures. The University has vendor-supplied documentation with general procedures for entering accounting data. However, for the three areas we reviewed, it did not have University-specific documented policies and procedures for the preparation, documentation, review, and approval of:

- Data entry processes for budget adjustments
- Salary budget book transactions for payroll
- Data entry for journal vouchers

While the payroll, budget, and accounting offices were able to verbally describe the processes in their respective areas, our testing of these descriptions revealed that staff do not always follow these processes.

Although we found no questionable transactions in the samples we tested, current processes at the University do not provide adequate assurance to prevent errors or unauthorized transactions from being entered into the accounting system.

Recommendations:

The University should:

- Ensure that accounting transactions are properly reviewed and approved by an authorized individual who is different from the person who prepared the transaction. This should occur prior to entry of accounting transaction data into the automated system.
- Ensure that an authorized individual who is different from the individual performing the data entry reviews for accuracy accounting entries entered into the Banner accounting system. Review should occur prior to the approval and release of entries for Banner processing.
- Monitor current data entry and authorization for appropriateness.
- Establish an oversight function to independently review exceptions to University policies and procedures.
- Develop formal, documented policies and procedures to support these changes. In addition, the University should strengthen and document current policies and procedures by including all types of processes associated with key budget, payroll, and journal voucher transactions in these policies and procedures.

Management's Response:

Implementing the recommendations made by the SAO will ensure that our policies and procedures are more consistently followed.

It is the University's policy that staff prepares vouchers and executive management approves them, whether they are in the budgeting or accounting departments. Utilizing auditing software, Internal Audit will provide additional oversight for exceptions via spot checks of required transactions for required approval.

As the SAO recommended, the payroll supervisor will no longer have the ability to enter or change human resource data.

Section 1-C:

The University Should Regularly Review and Restrict User Access to the Banner Accounting System

The University needs to regularly review and restrict user access to the Banner accounting system to protect the integrity of the automated data. This is especially important because the University relies on its Banner accounting system for financial decision-making.

During our review of Banner system access controls for budget, payroll, and journal voucher transactions, we noted that the University currently allows system maintenance staff, University staff members whose job duties have changed, and two terminated employees to have access to journal voucher transactions. In our limited testing for input controls, we did not detect any transactions entered by these specific individuals. Nevertheless, the inappropriate access is a risk to the integrity of the journal vouchers entered into the Banner system.

The level of access we reviewed was one of four levels the University uses to secure the Banner system. We did not determine whether the other access levels work effectively to adequately protect access to the data. However, weaknesses at any level should be corrected to ensure the integrity of the overall protection of the system.

Restricting the access of system maintenance staff helps ensure that these individuals do not have the ability to directly change actual accounting data. Restricting the access of staff and terminated employees will reduce the risk of unauthorized transactions and data errors. As mentioned in Section 1-B, the University needs an oversight function to detect possible errors when personnel must have extra access inconsistent with the typical separation of duties.

Recommendations:

The University should:

- Restrict system maintenance staff from having access to the production environment.
- Regularly review system access and restrict this access only to current employees who need the access to perform their normal duties.
- As part of employee termination procedures, establish processes that ensure terminated employees' access is deleted at all levels of security.

- Review other levels of system security for similar weaknesses in system access.

Management's Response:

After the SAO finished the fieldwork portion of the audit, the University developed a plan for reviewing user access to the Banner Accounting System on a quarterly basis. A report will be generated, listing user name, account, access, and type of access. Also, a confirmation will be sent to all department heads requesting a status update for users with access to the Banner Accounting System, confirming employment status and the level of banner access required. The supervisor or department head will obtain approvals, and based on the confirmation, access will be disabled or changed.

Our system has four levels of security designed to prevent unauthorized access. It was specifically designed this way to have adequate "backups" should one of the other three levels fail. For instance, one level of security does not allow the individual to "log on" without a valid user ID and password. We plan to review the other levels of security.

We recognize the importance of security controls, however; we accept the risk of maintenance staff's having access in order to ensure that we are able to respond immediately to problems during critical processing times. We have implemented controls to decrease the risks should maintenance staff alter data as follows:

- *All system maintenance staff members are bonded*
- *All transactions are identified to a specific user name and ID*
- *System staff do not have the ability to cut checks, process payrolls, or obtain funds in any way*
- *Monthly account reconciliation and management reviews of data for accuracy and "unusual" items are conducted*
- *Independent reviews of data by Internal Audit, through the use of auditing software, are periodically conducted*

Section 1-D:

Budget and Payroll Information for Selected Transactions Appears Reasonable

The budget and payroll transactions we tested appeared to have been recorded appropriately in the Banner accounting system. However, in a small percentage of items we tested, the supporting documentation was either not available or did not match the information recorded on the automated system.

Two employee files and three employee applications were missing from the 77 payroll files we tested. However, the University was able to provide alternative information that provided reasonable assurance that these five employees were valid employees. See Section 3 for a more detailed discussion regarding ensuring that the University maintains orderly and complete files.

Five of the 72 budget adjustment documents we tested did not match the corresponding budget adjustment information in the Banner system.

As recommended in Section 1-A, the University should maintain adequate support for all payroll files and budget adjustment transactions. We discussed with University management the following suggestions based on our testing:

- Document all changes to initial budget transfer requests.
- Include all relevant information (such as organization, fund, program, and account) on requests for all budget adjustments.
- Discuss incorrect budget adjustment requests with the departments directly affected to educate them on correct procedures.

Section 2:

Does the University Monitor Financial Activities and Take Corrective Action as Needed for Accounts Payable, Accounts Receivable, Budget, and Payroll?

University Monitoring Processes We Reviewed

Accounts Payable

- Check logs
- Accounts payable declining balances
- Accounts payable negative student accounts

Accounts Receivable

- Aging analysis report
- Student and employee receivables
- Outstanding accounts receivable balances
- Collection agency reports
- Travel advances

Budget

- Consolidated budget reports
- Monthly departmental budget activity reports

Payroll

- Employee new hires and pay salary increases
- Payroll error reports
- Annual payroll audit
- Nonstandard hours
- Employee terminations
- Sick/vacation leave

In general, the University follows informal monitoring procedures for financial activities in the areas of accounts receivable, accounts payable, budget, and payroll. University personnel described the procedures they used to monitor ongoing financial activities, and we reviewed and tested those procedures (see textbox) to determine whether the University consistently followed them. With minor exceptions, the University followed these procedures and took the corrective actions personnel described.

While we did not find significant errors in our testing, the need for formally documented procedures still exists. To help ensure the adequacy of future monitoring, documented procedures should include detailed information on what to monitor, the frequency of monitoring, and appropriate corrective action to take when needed. A lack of written procedures increases the risk that management's expectations for monitoring will not be clearly communicated and available for reference by both experienced and new personnel.

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This, in turn, increases the risk of inconsistent monitoring, which could have an impact on the timeliness and accuracy of ongoing financial decisions.

Recommendation:

The University should:

- Document policies and procedures for monitoring accounts payable, accounts receivable, budget, and payroll functions to ensure that appropriate monitoring occurs in a timely fashion.
- Assess monitoring in other financial areas; document and enhance policies and procedures as needed.

Management's Response:

The University actively monitors financial activities and takes corrective action as needed for accounts payable, accounts receivable, budget, and payroll. Although the business and finance department maintains a log of monitoring activities performed, we will formalize documented monitoring procedures in accordance with SAO recommendations.

Section 3:

Has the University Implemented Prior Audit Recommendations?

As Table 1 on the next page indicates, the University has implemented two of the three prior State Auditor's Office recommendations we reviewed. The University has not fully addressed our prior recommendation regarding human resources.

The University's Human Resources Department does not always ensure that its files are orderly, complete, and maintained. However, it appears that the University is taking steps to resolve this problem.

Specific examples from our testing include the following:

- The University was unable to account for 8 of the 20 (40 percent) vacancy postings associated with the files we tested. In addition, we found 4 job applications that were misfiled in the 20 vacancy posting files we reviewed.
- We were unable to determine from the documentation in the files whether five employees (25 percent of our sample) met all position qualification requirements. Two of these files, which were for University police employees hired as Telecommunication Specialists, did not include required Texas Law Enforcement Telecommunications System certifications from the Department of Public Safety. After further investigation, we found that both individuals had attended the required training and obtained certification.

- Seven files (35 percent of our sample) for positions with an education requirement did not contain transcripts to verify that the employees met the requirements.

Table 1

Status of Follow-Up Reviews of Three Prior State Auditor's Office Recommendations		
Prior Recommendation	Status	Auditor Comment/Results from this Audit
Amend the two facilities contracts that need appropriate legal clauses and specific deliverables.	Implemented	The University amended the two contracts.
Assess contract administration policies and procedures, establish formal processes as needed, and ensure that those processes are followed on all University contracts.	Implemented	The University has assessed and improved its policies and procedures for contract establishment. Area for future improvement: The University should assess its procedures and expectations for monitoring contractors' performance, selecting contractors, and determining reasonable contract costs. These three phases of contract administration, together with the contract establishment phase, establish a foundation for good contract management. We offered statewide suggestions for all phases of university contract administration in a recent report, <i>An Audit Report on University Contract Administration</i> , SAO Report No. 02-026, March 2002.
Improve human resource systems: <ul style="list-style-type: none"> • Ensure that personnel files are orderly, complete, and maintained. 	In Progress In Progress	See detailed discussion in Section 3.
<ul style="list-style-type: none"> • Ensure that external postings are reported to the Texas Workforce Commission as required by Texas statute. 	Implemented	The University is consistently posting job vacancies with the Texas Workforce Commission.
<ul style="list-style-type: none"> • Complete a university-wide assessment of staff training needs, and ensure that staff are adequately trained. 	In Progress	While the University provided us with a training calendar, no information was provided to verify that the training on the calendar was based on the analysis of a recent staff-training-needs survey.

Maintaining complete documentation on personnel matters is crucial to ensuring that personnel actions such as hiring and salary increases are properly justified, documented, and approved. Not having written policies and procedures providing guidance about the filing and retention of personnel documents increases the risk that files will not be properly maintained.

The University hired a new Human Resources Director in August 2001. During our project, the Human Resources Director took steps to identify problems with the files. The results of the Human Resources Director's review of 150 files were consistent with the results of our audit testing.

Recommendations:

The University should:

- Ensure that its recruitment and selection policies and procedures include steps to ensure that orderly, complete personnel files are created and maintained. The University's use of a file checklist to help guide this is a workable approach.
- Continue the use of the file checklist when new employees are hired and when existing files are reviewed for completeness.
- Establish oversight to ensure that policies and procedures are being followed.

Management's Response:

The University will implement all prior recommendations by August 31, 2002.

Section 4:

Is the University Maintaining an Adequate System to Mitigate Risk and Monitor Achievement of Its Goals?

Overall, the tools the University uses to identify and mitigate risks that would affect the achievement of its goals are based on good practices. We reviewed three management accountability tools the University uses to communicate and track achievement of its goals: departmental action plans, the COSO-based risk assessment process, and the Office of Civil Rights (OCR) Priority Plan. We provided management with minor suggestions for refinements that could further enhance existing tools.

Continued Use of Departmental Action Plans Helps Track and Monitor University Actions Toward Goal Achievement

The University uses a system of annual action plans created by the departments (departmental action plans) to monitor progress toward achievement of University goals.

Overall, the departmental action plan process appears to be a useful tool for planning, communicating, and monitoring departmental progress in achieving goals. Internal users can track the progress of departmental action plans through mid-year status reports, the annual University Executive Retreat, and the annual outcome report. The mid-year status report clearly addresses progress and disposition of each action item. If an action item is no longer applicable, an explanation is documented in the mid-year status report.

At year-end, departments produce an annual outcome report and new departmental action plans for the upcoming year. Departments discuss action items not carried forward to the next year's plan at the annual University Executive Retreat, but this

information is not always documented in the same format as the mid-year status reports described above.

What is COSO?

Developed by the Committee of Sponsoring Organizations of the Treadway Commission, the COSO approach to ensuring management accountability involves operating management taking an active role in:

- The identification of risk to ensure achievement of organizational goals
- Planning for and implementing action to mitigate the highest prioritized risks

Source: Internal Control Concepts & Applications (COSO), Institute for Internal Auditors, 1992

While the annual outcome report provides useful information at a high level, it does not consistently document the disposition of detailed action items that will not be carried forward to the next year's plan. Requiring the annual outcome report to include the more detailed information that is included in the mid-year status report would provide a clearer explanation for goals not carried forward to the new year.

The University is Actively Managing Implementation of Its New Risk Assessment Process

Office of Civil Rights (OCR) Funding

In the General Appropriations Act, the 77th Legislature appropriated the University \$12.5 million in OCR funds for each year of the 2002-2003 biennium. These funds are to be used to comply with Texas' commitment to the U.S. Office of Civil Rights' (OCR) Priority Plan for the University.

Rider 6, page III-132, of the General Appropriations Act (77th Legislature) instructed the University to work with the Governor's Office, the Higher Education Coordinating Board, and the Legislative Budget Board to establish a detailed plan to accomplish the goals of the OCR Priority Plan. The University also must semi-annually report its progress to these entities.

The 17 items in the OCR Priority Plan include:

- Compliance with State Auditor's Office requirements
- Academic Planning
- Development Office
- Facilities Planning
- Information Technology
- Human Resources
- Student Enrollment
- Summer and First-Year Student Support Program
- Basic Skills Program
- Honors and Institutional Scholarships
- Enhancement of Law, Pharmacy, Business and Educator Preparation Programs
- MA/Ph.D. Urban Planning and Environmental Policy
- MS Health Care Administration
- MA Social Work
- Four Endowed Chairs
- Re-establishment of School of Public Affairs
- Child Care Center

To further enhance its management accountability system, the University is implementing a risk assessment process based on "COSO" concepts (see text box). The University has identified and taken steps to mitigate potential risks to the successful implementation of its COSO-based plan. This is important because various organizations have attempted to implement COSO concepts and failed; the University previously tried to implement COSO concepts in the mid-1990s.

The University is currently in its final phase of COSO implementation, which is estimated to be complete by November 2002. Our review of the University's COSO implementation plan and actions thus far indicates that the University has communicated the intended purpose of its COSO process to involved personnel and that the University has monitored and adjusted its implementation plan as needed.

The integration of the COSO risk assessment process with the existing departmental action plans (which outline actions to mitigate identified risk) is key to the University's overall management accountability system. To ensure this is implemented, we suggest that the University add a step to its implementation plan explicitly instructing departments to integrate risks identified through the COSO process into their departmental action plans.

The University Has Developed a Viable Accountability Plan for Office of Civil Rights Funding

In addition to the two accountability tools discussed above, the University has developed detailed action plans and budgets for each of the 17 items in its Office of Civil Rights (OCR) Priority Plan (see textbox for additional information).

For each item in the OCR Priority Plan, the University's action plans identify objectives, action steps, individuals responsible, expected costs, and time frames to achieve those goals. The University has assigned each OCR Priority Plan item a unique code in the accounting system so that the University can separately track and report expenditures for each item.

The groundwork for this plan has been established. The University will be working in conjunction with the Higher Education Coordinating Board, the Governor's Office, and the Legislative Budget Board to measure, monitor, and report progress toward meeting the goals and benchmarks for the plan. The University also has developed internal, additional benchmarks and performance measures to assist it in monitoring this plan.

Objective, Scope, and Methodology

The overall objective of this project was to review the University's implementation and maintenance of accountability systems in the areas of finance and accounting, human resources, and planning and communications.

This is the final project in a series of four monitoring projects of the University's implementation and maintenance of key accountability systems and controls required by Rider 5, Article III-128, of the General Appropriations Act (76th Legislature).

For each monitoring period specified by the General Appropriations Act, we used a risk assessment process to determine the scope of the issues we reviewed. Our risk assessment considered both historical problem areas and current areas of risk. To minimize duplication of work, we further limited the scope of these projects by considering other oversight efforts and University internal audit work.

Our methodology included conducting analyses, tests, and interviews, and reviewing reports and other pertinent documents regarding the University's accountability systems and key areas of risk.

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

Management's Response



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June 18, 2002

Mr. Lawrence F. Alwin, CPA
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Dear Mr. Alwin:

We appreciate the State Auditor's acknowledgement of the continued progress Texas Southern University has made towards improving its accountability systems and controls. Enclosed is management's response to the State Auditor's final report on Rider 5: Texas Southern University Accountability Systems. As noted in the report, we have accomplished the following milestones for improving systems and controls:

- We have implemented a risk management plan to mitigate potential risks to the University via successful implementation of a COSO-based plan.
- We have been able to successfully track and monitor departmental progress in achieving goals through the use of departmental action plans.
- We have developed a viable accountability plan for Office of Civil Rights funding.

In regard to the issues noted in the report, the University plans to implement all of the recommendations. We respectfully acknowledge the assistance from the State Auditor's Office and will continue to make the necessary improvements. If you have any questions, or require additional information, please call me at (713) 313-7035.

Sincerely,

A handwritten signature in cursive script, appearing to read "Priscilla Slade".

Priscilla Slade, Ph.D.
President

ATTACHMENT