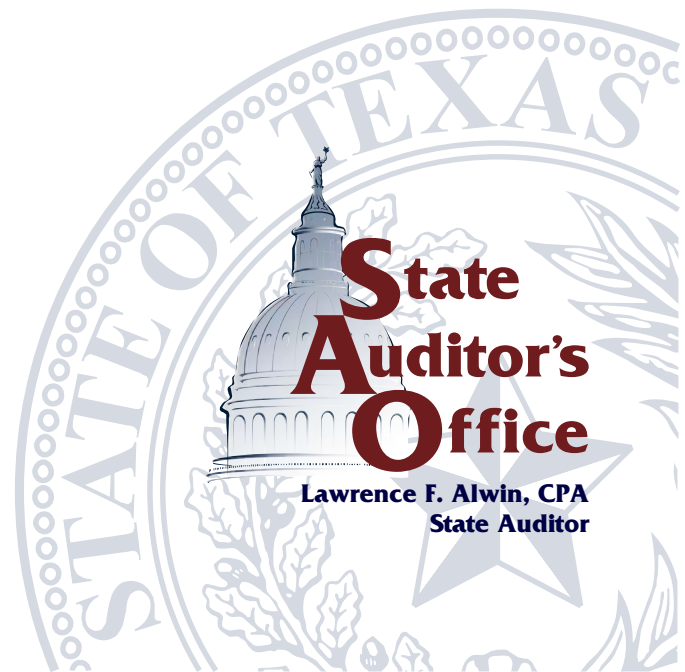


A Financial Review of

The University of Texas at San Antonio

February 2004
Report No. 04-020



The University of Texas at San Antonio

Overall Conclusion

The University of Texas at San Antonio (University) had systems and procedures in place to report accurate and consistent financial information in its fiscal year 2002 Annual Financial Report (AFR). It has benefited from knowledgeable and experienced financial management. However, inadequately documented procedures for preparing the AFR and incomplete supporting documentation for some amounts in the AFR create a risk of inaccurate or inconsistent reporting in the event of staff turnover or unexpected absences. Security and access control weaknesses in the University's information technology and systems also increase the risk of inaccuracy, inconsistency, and fraud in future financial transactions and information. The University's rapid growth and expansion, which are expected to continue through at least 2015, heighten the significance of these risks.

With the exception of noncompliance in the use of procurement cards, the University generally uses state and local funds in accordance with applicable state laws and regulations. Some employees used procurement cards to purchase items for the University, such as computers, cellular phones, and cameras, that are required to be purchased through the formal purchasing process instead of with a procurement card. We also noted that some employees split purchases between transactions to avoid exceeding the dollar transaction limit. Procurement card purchases made by 226 cardholders totaled \$1.4 million during the fiscal year.

The University adequately controls the establishment and execution of contracts. However, it is not able to generate a complete list of its current contract obligations without spending an inordinate amount of time and effort. As a result, it is not able to analyze its total current contract obligations or report completely on them to the Legislative Budget Board as required by law. We identified 120 contracts active during fiscal year 2003, totaling \$86.3 million, that were not reported to the Legislative Budget Board as required.

The University currently lacks adequate data for reporting on two key performance measures: the Percent of Baccalaureate Graduates Who Are First Generation College Graduates, and the Certification Rate of Teacher Education Graduates. These two measures are especially important for the University as it emerges as one of the State's

The University of Texas at San Antonio

The University has more than 100 degree programs, and it has eight new doctoral programs in development. It has been one of the State's fastest-growing public universities for the past decade. With more than 24,000 students enrolled in the fall of 2003, it is the third largest of the nine components in The University of Texas System. For fiscal year 2003, the University received \$32.9 million in sponsored research funds from federal, state, and private sources (a 20 percent increase from the previous year). It is progressing toward becoming nationally classified as a Doctoral/Research University-Intensive.

Fifty-nine percent of the University's students come from groups underrepresented in higher education, and many are first-generation college students. From 1997 to 2001, the proportion of Hispanic and Black students enrolled increased more rapidly than the statewide averages for those groups in other Texas public colleges and universities.

Sources: The University's Web site (<http://www.utsa.edu/about>), communications from Vice President for Student Affairs, and *Texas Public Universities Data and Performance Report*, Texas Higher Education Coordinating Board, May 2003.



largest public higher education institutions with a majority enrollment each year of historically underrepresented students.

Summary of Information Technology Review

Although the University's systems and procedures allowed it to provide accurate and consistent financial information in its fiscal year 2002 AFR, security and access control weaknesses in its information technology and systems could jeopardize the accuracy and consistency of future financial information.

Our tests of the University's central accounting system, *DEFINE, indicate that the control points authorizing the entry and required review and approval of financial data and transactions are reasonable and functioning appropriately. However, the University's informal processes for establishing electronic document-routing and approval sequences are no longer adequate given the University's growth and decentralization. These required electronic routing and approval sequences in *DEFINE ensure segregation of duties and review and approval of financial data and transaction entries by authorized people only. In addition, management is not required to periodically review, modify as needed, and reapprove routing sequences and authorizations for entry, review, and approval of electronic financial information.

We also noted the following weaknesses in the University's network security and access controls:

- A weakness in the University's network security increases the risk of unauthorized access to the University's financial and student information. The University informed the auditors of this weakness during fieldwork; however, as of December 2003, the University had not yet corrected it.
- The University has not enforced its adequate password requirements for access to its computer network and to its student information system, Banner. This also increases the risk of unauthorized entry, threatening data quality and creating a potential for fraud.
- Files of backed-up data are stored in non-fire-resistant cabinets, which increases the risk of loss of essential financial and student information.
- The University cannot ensure that it will be able to resume its operations in the event of a disaster because it has not tested its disaster recovery plan.

Detailed Results

Chapter 1

Is the University providing accurate and consistent financial information, in compliance with applicable requirements, to its administration, the Board of Regents, and the Legislature?

The University of Texas at San Antonio (University) has systems and procedures in place to provide accurate and consistent financial information. The reported amounts for significant line items in the University's Annual Financial Report (AFR) for fiscal year 2002 materially reflect the information recorded in the University's central accounting system, *DEFINE, or in other available supporting documentation. The AFR complies with reporting requirements and is internally consistent. Information in the AFR is also reconcilable to the monthly financial reports submitted to The University of Texas System (UT System) and Board of Regents during fiscal year 2002.

However, the University relies heavily on staff members' unique, undocumented knowledge to prepare the AFR. Inadequately documented procedures and incomplete supporting documentation for some amounts in the AFR increase the risk of inaccurate or inconsistent reporting in the event of staff turnover or other unexpected absences. Security and access control weaknesses in the University's information technology and systems could also jeopardize the accuracy and consistency of future financial information.

We found that the University misreported to the Legislative Budget Board (LBB) the contracts that were active during fiscal year 2003. The reports submitted during fiscal years 2001, 2002, and 2003 omitted at least 120 contracts totaling \$86.2 million for fiscal year 2003 and included \$25.5 million in contracts that were reported twice. We discuss this in detail in Chapter 3.

Chapter 1-A

The University's Financial Reporting Relies Heavily on Undocumented Knowledge Unique to Individual Staff Members

The staff members who prepare financial reports appear knowledgeable and competent. However, the absence of documentation identifying the accounts and balances that make up various AFR line items increases the risk of inaccurate or inconsistent reporting in the event of staff turnover or other unforeseen absences. The University also lacks written procedures for preparing information for major financial reports and for maintaining adequate supporting documentation for the amounts reported. We did eventually trace all material line items to the information in *DEFINE and other available support, but the process was unnecessarily time consuming, both for this audit and for an employee needing to reconstruct the procedures for preparing future financial information.

In the case of Net Tuition and Fees, the only support readily available for some component amounts was spreadsheets prepared by the University. Without additional documentation from the student information system supporting the

amounts on the spreadsheet, we were unable to readily determine whether the spreadsheets had been compiled accurately. Specifically:

- The only available documentation supporting \$9.6 million in refunds to students and \$1.9 million in third-party payments for the spring and summer terms of 2002 was a client-prepared spreadsheet. The spreadsheet had been created using information from the University's student information system (Banner), but the supporting information had not been retained.
- The only documentation supporting \$3 million in remissions of tuition and fees was another spreadsheet. We were told that a University programmer had extracted the data from the student information system for the spreadsheet. However, there was no supporting data from the University's previous or current student information system for the spreadsheet amounts.

According to University management, the University had to rely on ad hoc reporting when compiling some information for the fiscal year 2002 AFR because the University had migrated from one student information system to Banner that year. Management has stated that since Banner was implemented, the University has had the capability to obtain needed information more easily and to generate better supporting documentation for student information.

We also noted instances in which documentation was not readily available to identify specific accounts and balances making up various amounts on the primary exhibits of the AFR, and there were no written procedures available showing how the amounts were calculated. For example:

- There was no documentation explaining how the \$74.8 million balance for Net Assets – Expendable – Capital Projects was calculated. We had to request the Accounting Director's assistance to re-create this balance.
- We also had to request the Accounting Director's assistance in identifying the components of the balance of \$101.8 million for Transfers between Components and System – Non-Mandatory as well as certain components of the prior year's Student Receivables, which were a factor in determining Proceeds Received from Students on the fiscal year 2002 Cash Flow Statement.
- Management could not readily identify the specific accounts and balances making up Instruction expenses, totaling \$61.6 million. These balances were obtained from reports generated by the automated report writer used for *DEFINE.
- Our verification of several scholarship and fellowship expense amounts used in computing Net Tuition and Fees was complicated and prolonged by the absence of a list of applicable accounts and balances and of written procedures for computing the amount reported.
- There was no readily available documentation identifying all the accounts and balances making up the total amount reported for Federal Sponsored Programs (\$32.3 million).

Recommendations

The University should:

- Develop sufficient supporting documentation for line items appearing in the AFR and for summary amounts reported in other financial reports. Supporting documentation should identify specific accounts and balances included in reported line items, and it should provide an audit trail sufficient to allow the testing of account balances, credit hours, or other relevant items of information against the original source of that information.
- Document the procedures its staff members use to prepare the AFR and other financial reports.
- Publish procedures and documentation requirements and include this information in staff training to ensure continuity and consistency of reported financial information over time.

Management's Response

The University concurs that while systems were in place to report accurate financial information in the fiscal year 2002 Annual Financial Report (AFR), because of the experienced and knowledgeable personnel involved in its preparation, improvements need to be made in the DEFINE financial reporting systems.

ANALYSIS

The primary issue involves the level of back up information provided by the University of Texas at Austin based DEFINE accounting and financial reporting system. To achieve the necessary level of documentation a request for program services will have to be submitted to the UT-Austin DEFINE programmers. The issue of procedures used by staff to prepare the AFR is, of course, a local issue. Changes will need to be implemented prior to the start of the next AFR work cycle (August 1, 2004).

ACTION ITEMS

- *Submission of requests for needed programming changes by UT Austin DEFINE programmers will be completed by April 1, 2004.*
- *Procedures for the preparation of the AFR along with related training documents will be completed and published by August 1, 2004.*

Information Technology Weaknesses Increase Risks of Inaccuracy, Inconsistency, and Fraud in Future Financial Management and Information

Weaknesses in the University's central accounting system (*DEFINE), computer network, and student information system (Banner) create a risk that future financial information could be inaccurate, inconsistent, or fraudulent. These weaknesses could also result in a loss of essential financial and student information. The University's review procedures and controls were sufficient to identify significant errors and to produce accurate and consistent high-level financial information in fiscal year 2002 and during the first three quarters of fiscal year 2003. However, weaknesses we identified in information technology must be addressed to ensure the quality of future information and the integrity of financial transactions.

Our tests of the controls in *DEFINE indicate that "electronic desk" control points authorizing the entry and required review and approval of financial data and transactions are reasonable and functioning appropriately (see text box). However, the current process of using conversations and informal e-mails has resulted in limited or nonexistent documentation supporting decisions about document-routing sequences and employee assignments to electronic desks. In addition, the University does not review document-routing sequences and electronic desk assignments on a regular basis to ensure they are up to date. For example, a deceased person was listed as an electronic office manager, and the wrong backup person was listed for another electronic office manager.

Electronic Desks

Electronic desks are hierarchies established within *DEFINE to allow designated people to create financial entries and transactions and other designated people to perform required reviews and approvals of the entries and transactions. A single employee may be authorized to perform several different types of transactions, but the same employee should not create and approve the same entry or transaction. This is a strong financial control system if applied adequately.

As the University continues to grow and decentralize, these weaknesses create a risk of losing an essential control over the entry and required review and approval of data by designated people only. Improved management of electronic desks will help the University ensure that (1) each entry and transaction is appropriately reviewed and approved and (2) only authorized people enter, review, and approve entries.

Additionally, deficiencies in the University's network security and network access controls prevent the University from adequately safeguarding its financial and student data. Specifically:

- The University conducted its own vulnerability scan and discovered a weakness in its network security but has yet to address this weakness, which increases the risk of an unauthorized person gaining access to University data.
- The University has adequate password security policies that meet industry standards, but it is currently not enforcing these policies for access to its computer network and to Banner.
- Essential financial and student data backup files are stored in non-fire-resistant cabinets at the computer center and backup site. There are plans to install a fire suppression system at the computer center, but there is no sprinkler system at either site. The University risks losing critical information.

- The University's information systems disaster recovery plan meets statutory requirements except for the requirement for annual testing of the plan (Texas Administrative Code, Section 202.6). The University's disaster recovery plan has not been tested.

Recommendations

The University should:

- Strengthen its system for authorizing and documenting electronic desk setup by documenting employees' initial assignments to desks; conducting ongoing, regular reviews and reapprovals of document-routing sequences and desk authorizations; and providing training to electronic office managers in their duties and responsibilities. The Division of Audits and Consulting Services should include electronic desks in its risk assessments for audit planning.
- Continue to assess network security risks and address any identified weaknesses within a reasonable timeframe.
- Enforce password requirements for network and Banner access.
- Store backup files in fireproof cabinets.
- Test its disaster recovery plan each year in accordance with state law.

Management's Response

The University concurs that a review of the UT-Austin based central accounting system, DEFINE, indicates that the control points authorizing the entry and required review and approval of financial data and transactions are reasonable and functioning appropriately. However, the University recognizes that improvements need to be made in access and network systems.

ANALYSIS

The current process for requesting DEFINE authorizations by departments has been working well for UTSA. However, recognizing that an institution must upgrade its systems and procedures to minimize future risk, improvements will be made in the DEFINE access control systems.

Concerning broader information technology issues, the majority of IT security issues listed in the UTSA IT security assessment have been addressed. A formal report indicating status and plans has been submitted to the UT System Chancellor's Office. The few remaining items on the assessment involve acquiring additional IT security equipment, and making appropriate security arrangements with outside contractors and vendors.

UTSA's current password standards conform to Texas password standards as established by DIR. However, recognizing the need to upgrade security in a constantly changing environment, UTSA will implement a "single sign on"

authentication system that will include features that allow the enforcement of current password policies, once the necessary negotiations are completed with the vendors of the proprietary systems.

ACTION ITEMS

- *Departments will be notified by March 1, 2004 that they will be required to review, on an annual basis, their DEFINE authorizations to make sure they are accurate.*
- *Implement process for departments requesting DEFINE access from the appropriate university officials by creating a DEFINE Access Request Form and using UTSA's Public Folders, effective June 1, 2004.*
- *As part of its annual information technology risk assessment process, the Office of Auditing and Consulting Services will include the issue of "electronic desk setup" to be completed by August 31, 2004.*
- *The few remaining items on UTSA's IT assessment will be completed by August 31, 2004.*
- *UTSA will implement a "single sign on" authentication system by December 31, 2004.*
- *Fireproof storage cabinets have been ordered for storage of backup files and will be installed by March 1, 2004.*
- *UTSA's IT disaster recovery plan test procedures are presently being finalized and, once approved by management, will be executed by March 31, 2004 and in the month of January in succeeding years.*

Chapter 2

Does the University use state appropriations and local funds in accordance with applicable state laws and regulations?

With the exception of noncompliance in the use of procurement cards, the University generally complies with applicable statutes, rules, and regulations in regard to its use of state and local funds. However, it does not have sufficient controls in place to prevent faculty and staff from using their procurement cards to purchase items that are explicitly prohibited by current state and University rules. In addition, the University should strengthen accounting procedures such as those designed to ensure prompt payments, accurate expenditure coding, and accurate physical inventories.

The University is addressing the risk of noncompliance with laws, rules, and regulations, which includes noncompliance in the uses of state and local funds. It has implemented an Institutional Compliance Program as set forth in the *UT System Action Plan to Enhance Institutional Compliance*. The UT System's plan asks components to assess risk and develop risk management plans for areas with a high inherent risk of noncompliance. Five of the 16 departments and divisions that the University identified as having high risk have completed their assessments and

management plans. As the remaining 11 complete their risk assessments and plans during fiscal year 2004, the University will be less vulnerable to noncompliance. The University will also be able to reduce its overall risk as it integrates risks in other areas, such as strategic planning, financial management, and operations, into its overall risk management.

Chapter 2-A

Procurement Card Users Are Not Complying with State or University Prohibitions in the Use of Their Cards

The University does not have sufficient controls in place to prevent faculty and staff from using their procurement cards to purchase items that are explicitly prohibited by current state and University rules (such as cameras, computers, and cellular phones). While these items are not inappropriate purchases for a University, they are considered controlled items and are not supposed to be purchased by procurement card.

The University's controls also do not prevent procurement card users from splitting procurement card purchases between two or more transactions to circumvent the dollar limits for procurement card transactions.

In a review of procurement card purchases made during the first three quarters of fiscal year 2003, a high percentage of the questionable purchases we selected appeared to be either purchases of prohibited items or split purchases. This was not a statistical sample, but the results of this review indicate a problem with noncompliance in at least these two prohibitions for purchases with a procurement card. In fiscal year 2003, 226 procurement card users purchased \$1.4 million worth of goods and services.

Recommendations

The University should:

- Strengthen training of procurement card holders regarding prohibitions against purchasing controlled items with the cards and against splitting transactions to avoid the dollar limit on purchases made with the cards.
- Implement standard review procedures to identify procurement card purchases of prohibited items and split purchases and impose appropriate sanctions on violators.

Management's Response

The University concurs that there is general compliance with applicable statutes, rules, and regulations in regard to its use of state and local funds. SAO recommendations concerning Procards have been addressed as follows.

ANALYSIS

The Procard Compliance Office was established November 2002 to manage the Procard Program. The objective of the Office is to monitor and report the activities of the Procard Program, recommend practices that enhance compliance efforts and identify technology to improve processes and ensure the effectiveness of the day-to-day operations.

For the period beginning December 2002 and ending August 2003, the Procard Compliance Office evaluated Procard transactions against an established set of performance parameters including but not limited to commodities or services considered restricted, purchases with flat or high dollar amounts, and purchases for personal or unauthorized use. Of the 8,100 transactions reviewed, 24 transactions were deemed to be in non-compliance.

In anticipation of a new bank supplier of procurement cards, in September 2003 the University adopted new Procard Guidelines to facilitate Cardholder compliance and also implemented a new automated Bank system for transaction monitoring and reporting. The Procard Compliance Office initiated these steps along with their ongoing efforts to:

- *Provide additional training prior to delivering new Procards using new guidelines*
- *Routinely meet with Procard users to promote compliance with new guidelines*
- *Coordinate with areas of the University Disbursement Office to identify and document purchases of controlled items*
- *Encourage Cardholders and others (reviewers, approvers, or department heads) to monitor transactions and perform self-audits*
- *Use the bank online data management system capabilities to enable a more comprehensive review of Procard activities*

The revised Procard Guidelines specifically prohibit the purchase of certain commodities and services, and the Use of the Procard is granted as a privilege and can be revoked for violating the Procard Guidelines or University policies and procedures. The aforementioned steps implement a training and monitoring program that effectively reduces the risk associated with Procard non-compliance.

ACTION ITEMS

Confirmed in writing to the Procard Compliance Officer that monitoring Procard purchases for controlled items and the splitting of transactions is part of his job responsibilities.

The University Can Strengthen Some of Its Accounting for the Uses of State and Local Funds

Tests of payroll and nonpayroll expenditures, inventory management and reporting, and journal vouchers indicate general compliance in the University's uses of state and local funds. Payroll expenditures for the first three quarters of fiscal year 2003 amounted to \$78.7 million, and nonpayroll expenditures for the same period were \$61.0 million. The University reported to the State Property Accounting system (SPA) approximately \$44.7 million as the current value of property and equipment for which it was responsible during the year. We did identify areas in which the University can strengthen some of its accounting procedures, which will also ensure more thorough compliance with applicable laws and regulations:

- **Nonpayroll expenditures.** Our test of a random sample of nonpayroll expenditures identified a small number of instances of noncompliance in prompt payment and accurate object coding during the first three quarters of fiscal year 2003.
- **Payroll expenditures.** The employee who reconciles payroll accounts does not sign or date the monthly reconciliations, and there was no evidence of a separate, higher-level review for accuracy and appropriateness. Additionally, the director of the Payroll Division creates and approves electronic multipayee payroll vouchers in *DEFINE. According to University policies, the same person should not create and approve financial data and transaction entries.

Because the director of the Payroll Division has not considered reconciling items to be material, she clears them only at the end of the fiscal year. To ensure accurate account balances in *DEFINE, reconciling items should be cleared monthly.

- **Inventory management and reporting.** Some department and division inventory managers occasionally fail to report items that are located in their areas but not listed on their electronic records. Additionally, some managers are not recording new locations for property in their possession until they conduct their annual physical inventories. These two mistakes can result in an item being falsely reported to SPA as missing or stolen.

By University rules, ultimate responsibility and accountability for property and equipment reside with the head of the department or division that is on the record as being in possession of the item. Until department and division inventory managers have developed adequate controls, the University is using temporary staff to conduct audits of each unit's annual physical inventory to ensure accurate inventory accounting and reporting.

Recommendations

The University should:

- Continue its oversight to ensure prompt payment and correct coding of expenditures.

- Have a person at a higher level than the preparer review monthly payroll account reconciliations for accuracy and appropriateness.
- Modify the electronic routing in *DEFINE to require separate, higher-level approval of the multipayee payroll voucher created by the payroll director.
- Clear all reconciling items in the payroll accounts monthly.
- Revise inventory management guidance in its online Financial Management Operations Guide to more thoroughly describe procedures in recording annual physical inventory.
- Require inventory managers to scan or manually report any property or equipment that is in the unit's area but not on its printed record.
- Strengthen training of department inventory managers in (a) recording annual physical inventory and (b) maintaining accurate, current records of assignment and location of property and equipment in the unit's possession.

Management's Response

The University concurs that some accounting procedures can be strengthened to ensure more thorough compliance with applicable laws and regulations.

ANALYSIS

Payroll procedures have already been modified to require that the payroll account reconciliations will be prepared by staff and reviewed by the Payroll Director. A quarterly review will be conducted by the Associate Vice President for Financial Affairs. Electronic routing has been changed, and the multipayee payroll vouchers will now be created by a staff person with final approval by the payroll director. All reconciling items will be cleared monthly.

The Fiscal Management Operations Guide is currently being updated in its entirety, which includes amending the sections concerning disbursements and inventory. However, new inventory procedures are already in place including the requirement that departmental personnel manually record inventory items found, but not belonging to their department. These procedures are presented at the annual training of all inventory contacts. Such training is mandatory for all departmental units. After review of the current year departmental inventories, the University will determine high-risk areas that would need to have training each year. Most existing units with no problems would be required to attend training once every two years. All new inventory contacts would receive the training the year of their hire.

ACTION ITEMS

- *Policies and procedures have already been modified to address the SAO recommendations concerning payroll items.*
- *The Inventory portion of the Fiscal Management Operations Guide will be updated by March 31, 2004.*

Does the University have adequate controls over management of contracts and grants?

For the eight types of contracts we reviewed—authorized services, general services, maintenance, miscellaneous business services, construction, architectural and engineering services, sponsored programs, and sponsored subcontracts—divisions and departments appear to be using adequate procedures and controls to manage the contracts for which they are responsible. In addition, the approval procedures for establishing and executing a contract are thorough and appear to be consistently followed. We reviewed and tested contracts and grants management in all areas except athletics and revenue-generating activities such as food services and the bookstore. During fiscal year 2003, University divisions and departments established or managed an estimated \$62.2 million in contracts for goods and services.

Although contract management overall appears to be adequate, tests revealed inadequacies in contract documentation and weaknesses in some procedures. Additionally, the University was not able to provide us, nor were we able to compile with certainty, a complete list of the University's current contracts. As a result, the University has no efficient way to know what its current contractual obligations are. This situation prevents the University from conducting an overall analysis of current contract obligations, providing adequate documentation for internal and external reviews and audits, or reporting accurately or completely on contracts as needed or required by law.

Chapter 3-A

Overall, Departments and Divisions Could Benefit from Specific Improvements in Their Contract Management

Divisions and departments overall adequately establish, execute, and manage the contracts and grants for which they are responsible. Our tests of random samples of different types of contracts identified some issues with inadequate documentation and a few failures to follow procedures consistently.

The most frequent errors we encountered in testing were the result of inconsistent and inadequate documentation to support contract establishment, management, and closeout. Documentation and regular review of required documentation make up one of the strongest controls to ensure optimum and consistent practices in contract and grant management. We also found occasional errors that indicate that departments and divisions do not consistently follow procedures; however, these errors could be the result of departments' and divisions' failure to document the steps they follow. For example, a few contracts lacked the following documents:

- Justification for the use of a sole-source provider
- Evidence of required approvals for the contracts' establishment
- Approval for invoices and payments
- Evidence of allowability of authorized service agreements

- Documentation of timely and complete contract or grant closeout

Additionally, the University has not been able to implement KPMG LLP's 2002 audit recommendation that the Contracts and Grants Office request federal reimbursement only for expenses paid, not accrued. Implementation is necessary to comply with federal requirements. Target implementation date is December 2003.

Recommendations

The University should:

- Develop and implement consistent contract establishment, management, and closeout documentation and filing procedures and requirements for divisions and departments that establish and manage contracts.
- Strengthen training in the areas of identified weaknesses: sole-source justification, all required contract approval signatures, required payment approvals, allowability of authorized service agreements (ASA), timely approval of ASAs, and timely and adequate contract closeout.
- Complete the *DEFINE modifications necessary to allow requesting reimbursements for federal grant expenditures as expenses are paid, not accrued.

Management's Response

The University concurs that divisions and departments appear to be using adequate procedures and controls to manage the contracts for which they are responsible, and the approval procedures for establishing and executing a contract are thorough and appear to be consistently followed. However improvements need to be made in contract management control systems.

ANALYSIS

The University has successfully managed its contracts using a system of internal controls implemented through centralized operations combined with the delegation of certain management activities to individual institutional departments responsible for specific contracts. However, given the significant growth in the institutions enrollment and resources combined with the increasing complexity of its operations, a fresh look needs to be taken at these management systems.

UTSA has initiated a quality-based process review, using a team approach, of the contract management system to determine what steps need to be taken to improve internal controls.

ACTION ITEMS

- *The quality-based process review of the contract management systems will be completed by July 1, 2004.*

The University Is Effectively Not Able to Provide a Report of All Current Contractual Obligations

Audit tests revealed that the University has thorough review and approval procedures for the establishment and execution of contracts, including final approval by the vice presidents for Research and Business Affairs. After execution, contract management is decentralized. However, although all University expenditures are accounted for in *DEFINE, it is not possible to generate a report of all active contracts through *DEFINE or in any other way without an inordinate amount of time and effort. Departments and divisions use different methods to track contracts, none of which link to the University's central accounting system (*DEFINE), except for sponsored program contracts.

From lists of contracts active during fiscal year 2003 provided us by the University, we compiled a master list of 1,442 contracts, amounting to a total of \$54.5 million for which the University was obligated, accountable, or both during the year. However, statistical analysis of contract expenditures suggest the existence of as many as 517 additional contracts that the University managed during the year, for a total of 1,959 contracts and \$62.2 million.

Not knowing all of its contractual obligations prevents the University from being able to conduct an overall analysis of current obligations and requirements, provide information for internal and external review and audit, or report on contracts as needed or required. This inability also leaves the University vulnerable in regard to risks of inefficiency and fraud during contract fulfillment.

Recommendation

University administration should consider the value of centrally tracking, either through the central accounting system, a standardized and indexed filing system, or a regularly updated database, the University's current contractual obligations, with a unique designation for each contract to avoid duplication and increase efficiency. This would allow central administration to track and monitor contracts during fulfillment, especially those considered to be high risk. This would also allow the University to evaluate its current obligations and report on them accurately and completely.

Management's Response

The University concurs that thorough review and approval procedures for the establishment and execution of contracts are in place, but improvements need to be made in contract management control systems.

ANALYSIS

The University has initiated a quality-based process review, using a team approach, of the contract management systems to determine what steps need to be taken to improve internal control given the changing environment. This review will also evaluate the value of centralized tracking, either through the central accounting

system, a standardized and indexed filing system, or a regularly updated database for institutional contracts.

ACTION ITEMS

- *The quality-based process review of the contract management systems will be completed by July 1, 2004.*

Chapter 3-C

The University Is Significantly Misreporting Contracts to the Legislative Budget Board

The University's inability to track contracts also prevents it from ensuring that it reports complete and accurate information about contracts to the Legislative Budget Board (LBB). The Texas Government Code requires entities to report information on certain types of contracts over a threshold dollar amount as they are established. The LBB publishes the reported information in *Budget and Performance Assessments: State Agencies and Institutions* for use by the Legislature during legislative hearings and in budget planning. Based on the contract information that the University provided us for this audit, we identified 120 contracts totaling \$86.3 million that were active during fiscal year 2003 and eligible to be reported that the University did not report.

- Of the 1,442 contracts in the master list we compiled, 95 eligible contracts totaling \$9.1 million could not be located in the University's reports to the LBB for fiscal years 2001, 2002, or 2003.
- The University's reports to the LBB also did not include 25 construction contracts totaling \$77.2 million. Although the UT System established and/or managed these contracts on behalf of the University, the University is responsible for reporting the contracts to the LBB.

Also in its reports to the LBB for fiscal years 2001, 2002, and 2003, the University reported five contracts twice, which caused the reports to be overstated by \$25.5 million for all three reporting years.

The 78th Legislature modified the reporting requirements for the 2004–2005 biennium. Table 1 shows the differing reporting requirements for the 2002–2003 biennium and the 2004–2005 biennium.

Table 1

Contract Reporting Requirements for the 2002-2003 Biennium and the 2004-2005 Biennium
For the 2002-2003 biennium, based on its interpretation of statute and rules, LBB told state agencies that they must report, regardless of funding source:
<ol style="list-style-type: none"> 1. All construction contracts for \$14,000 or more (Government Code 2166.2551). 2. All professional contracts for \$14,000 or more (Government Code 2254.006). 3. All consulting contracts for \$14,000 or more (Government Code 2254.0301). 4. All major information systems (MIS) contracts for \$100,000 or more (Government Code 2054.008). <p>In a letter dated December 31, 2001, LBB added an "other" category consisting of all contracts for \$14,000 or more other than those addressed in 1-3 above, regardless of funding source. LBB interpretation requires reporting all MIS contracts for \$14,000-\$99,999, regardless of funding source, as "other."</p>
For the 2004-2005 biennium, items 1-4 above remain unchanged. The General Appropriations Act (78th Legislature, Article IX, Section 7.05, page IX-55) modified the "other" category established by the LBB:
<ul style="list-style-type: none"> ▪ The threshold for reporting "other" contracts is now \$50,000 rather than \$14,000. ▪ The "other" category applies only to contracts funded in whole or part with state appropriations. ▪ "Contract" is defined as "not a purchase order, interagency contract, or a contract paid only with funds not appropriated by this Act." <p>LBB interpretation requires agencies to report in the "other" category any MIS contracts that are (1) valued between \$50,000 and \$99,999 and (2) funded in whole or part with state funds.</p>

Sources: Texas Government Code, General Appropriations Act (78th Legislature), and the Legislative Budget Board

Recommendation

University administration and contracts and grants managing divisions and departments should improve training and oversight of contract managers to ensure compliance with state reporting requirements.

Management's Response

The University concurs that contract reporting requirements need to be clarified.

ANALYSIS

The reporting issue breaks down into two distinct components. The first relates to the \$9.1 million in contracts not reported over three fiscal years. This does not represent a procedural issue, but instead represents a difference in the interpretation of the original reporting requirement. The University reported contracts consistent with its own best judgment after seeking appropriate guidance from sources external to the University. The issue has to some extent been rendered moot with the passage of new state law effective September 1, 2003. However, the new law contains ambiguities that need to be clarified. Once the ambiguities in the language of the new law are resolved by the appropriate entities, the University will submit its reports consistent with the new requirements.

The second issue relates to the reporting of \$77.2 million in construction contracts executed and managed by the University of Texas System through the Office of Facilities Planning and Construction (OFPC). While the University feels reports should be submitted by the entity responsible for the contracts, pending clarification

of this issue, an amended report including contracts managed by OFPC will be submitted to the Legislative Budget Board.

ACTION PLAN

- *A request for clarification of the new reporting requirements will be submitted by February 14, 2004.*
- *An amended report will be submitted to the Legislative Budget Board that includes the three active construction projects managed by the UT System Office of Facilities Planning and Construction for UTSA by January 23, 2004.*

Chapter 4

Is the University able to report reliable performance measures for the percent of first-generation college graduates and for the teacher certification rate of its education graduates?

The University reported partial or unreliable results for two key performance measures:

- Percent of Baccalaureate Graduates Who Are First Generation College Graduates, which measures the University's success in recruiting first-generation college students and supporting them through graduation
- Certification Rate of Teacher Education Graduates, which measures the University's success in preparing students to become certified teachers

Progress in these two areas ranks high in the State's priorities for the services institutions of higher education provide and for the populations they serve. These two performance areas are also of heightened significance to the University. Its rapid enrollment growth is projected to continue through 2015, with 41,000 students expected in that year. Each year it enrolls one of the largest proportions of historically underrepresented students among higher education institutions statewide. The graduation of these students and the entry of a significant number of them into the teaching profession benefit and enrich the entire state. University management, the Legislative Budget Board, and the Legislature need reliable measures in these two performance areas, as well as in other key performance criteria, to make important decisions with long-term effects for the State. Information about the University's success in these areas is also important to potential students and their families.

Currently, the staff members who calculate these two measures use partial or unreliable data, manual data collection, and manual calculations. In addition, the University lacks written procedures for calculating the measures and a process for reviewing the results to ensure consistency and accuracy.

Percent of Baccalaureate Graduates Who Are First Generation College Graduates

Measure Definition: Percentage of graduating baccalaureate students whose parents did not graduate from college. Parents are defined as birth parents, adoptive parents, or legal guardians.

The University relied on surveys completed by graduating seniors to identify the number of graduates who were first-generation college graduates, but the survey methodology did not produce complete or reliable information. As a result, the University calculated only a partial and incomplete estimate of the percentage of first-generation graduates to report a performance measure of 56 percent for fiscal year 2002. The Office of Institutional Effectiveness attributes the error to the following conditions:

- The office gathered 16 months of graduates' surveys in a 12-month reporting period.
- Many of the surveys that were returned were not counted because they were not attributable to the applicable graduating classes for the 2002 reporting period.
- A total of 1,731 surveys were attributable to the 2,637 students from the applicable graduating classes.
- A small percentage of graduating students did not respond to the first-generation question or responded that they did not know.
- Some students may have failed to graduate when expected and then submitted an additional survey when reapplying for graduation.

Furthermore, the University did not word the survey question as instructed by the LBB. The question structure potentially dissuaded students raised by legal guardians other than their mothers and/or fathers from responding to the question. It was not possible to recalculate this measure for a more accurate number.

Certification Rate of Teacher Education Graduates

Measure definition: The percentage of the institution's undergraduate teacher education program graduates who become certified to teach by the State Board for Educator Certification within the fiscal year following the year of graduation from the program.

Because the University does not currently maintain a database of graduates of its education program, staff members rely on different pieces of information, including a former student advisor's recognition of student names, to identify graduates for the calculation of this performance measure. Moreover, there are no written procedures to ensure consistent, complete data collection from the various sources. Because the data is inadequate, we did not attempt to recalculate this measure.

Recommendations

For the Percent of Baccalaureate Graduates Who Are First Generation College Graduates, the University should:

- Explore methods of automating the data collection process, such as entering the data into the student information system during the enrollment and registration process and then again at graduation to allow an additional control.

- If it continues to use surveys to collect the information, design and administer the surveys to ensure a high response rate, a high survey completion rate, and the ability to link surveys to specific students in the applicable graduating classes.
- Restructure the question to include legal guardians as well as parents.
- Develop written procedures to govern the collection and processing of the data and calculation of the measure, and include a review of the calculated measure for accuracy and consistency.

For the Certification Rate of Teacher Education Graduates, the University should:

- Consolidate data required to identify students in the teacher education program. The University is working to automate the process, but the system is in the developmental stage. Although University officials believe the database will be available for use during 2004, the measure requires access to two years of historical data.
- Develop written procedures to govern the collection and processing of the data and calculation of the measure, and include a review of the calculated measure for accuracy and consistency.

Management's Response

The University concurs that improved data collection methods need to be used to address concerns relative to two performance measures.

Percent of Baccalaureate Graduates Who Are First Generation College Graduates

ANALYSIS

The University could automate the process of collecting the First Generation College Graduates information at the time of application for admission. However, the Common Application Form used across the state for entering freshmen would have to be revised in order for the question to conform to the stipulations of the Legislative Budget Board definition. The Transfer Student Application form would have to be revised as well to include this item, which it does not presently contain.

Students graduating in the 01-02 year withheld their ID Number on the Graduate Student Survey (GSS) as the law entitles them, which resulted in incomplete data collection of their parents' education level. To avoid this problem in the future, the University will insert the single question into the Application for Graduation. This procedure would ensure a greater than 99% response rate, a high completion rate and the ability to link responses to specific students in the applicable graduating class.

ACTION PLAN

- *A single question will be inserted into the Application for Graduation with completion targeted for May 31, 2004.*

- *The Graduating Student Survey (GSS) now includes the reference to the students' legal guardian as well as his/her parents so that the item conforms to the stipulations of the LBB. Students who expect to graduate in spring of 2004 are already completing this new form.*
- *The Office of Institutional Effectiveness will document the current process with greater specification by April 30, 2004.*

Certification Rate of Teacher Education Graduates

ANALYSIS

The process does include the retention of the file of students in the Teacher Certification Program, which is submitted to the Office of Institutional Effectiveness (OIE) by the UTSA Teacher Certification Office. OIE also retains the official list of graduates (CBM009), which is compared to the list of students submitted by the Teacher Certification Office to identify the list of candidates. This list of candidates is then compared against the list of certified teachers supplied by the TEA in order to calculate the percent certified. However the process needs to be improved so that the data can be automatically linked or downloaded to Banner in order for users to access the same set of information.

ACTION PLAN

- *The campus Teacher Certification Office will fully implement a "Filemaker" database or comparable program by November 1, 2004.*
- *The Office of Institutional Effectiveness will document the current process with greater specification by April 30, 2004.*

Other Information

Objectives, Scope, and Methodology

Objectives

The project objectives were to:

- Determine whether The University of Texas at San Antonio (San Antonio) provides accurate and consistent financial information, in compliance with applicable requirements, to its administration, the Board of Regents, and the Legislature.
- Determine whether the University is using state appropriations and local funds in accordance with applicable state laws and regulations.
- Determine whether the University has effective controls over management of contracts and grants.
- Determine whether the University is reporting reliable performance measures.

Scope

The scope of this review included the University's mainframe electronic financial accounting system, *DEFINE; electronic records and supporting hard copy documentation and schedules for expenditures, payroll, inventory, journal vouchers, and contracts and grants for the first three quarters of fiscal year 2003; the Annual Financial Report (AFR) and monthly operating reports for fiscal year 2002 and their supporting electronic and hard copy documentation and schedules; and performance measures reported for fiscal year 2002.

Methodology

To achieve these objectives, we reviewed information systems used to collect and report financial and performance information and obtained financial transactions for fiscal year 2002 and for the first three quarters of fiscal year 2003 by electronic file transfer from *DEFINE. We interviewed managers and identified existing procedures and controls governing the management of appropriations, revenues, and cash; purchasing and encumbrances; payroll and nonpayroll expenditures; transfers, lapses, and journal vouchers; property and equipment management; contracts and grants management; performance measure calculations; and the preparation of monthly operating reports and the AFR. We tested payroll and nonpayroll expenditures, inventory, journal vouchers, and contracts and grants for the first three quarters of fiscal year 2003. We tied material balances from the fiscal year 2002 Annual Financial Report to the information in *DEFINE and other available documentation. We reviewed information in the AFR and the monthly financial reports submitted to The University of Texas System for consistency for selected items.

Project Information

We conducted fieldwork from October to December 2003. This audit was conducted in accordance with generally accepted government auditing standards applicable to performance audits. The following members of the State Auditor's staff conducted this audit:

- Virginia Carmichael, Ph.D., MPAffairs (Project Manager)
- Rob Bollinger, CPA (Assistant Project Manager)
- Scott Boston, MPAff
- Vicki Durham, MBA
- Michelle Feller
- Dorvin Handrick, CISA, CDP
- Carmelita Lacar, Ph.D., MBA
- Sarah Slaughter, CPA
- James Timberlake
- Chuck Dunlap, CPA (Quality Control Reviewer)
- Carol Smith, CPA (Audit Manager)
- Frank N. Vito, CPA (Audit Director)

Distribution Information

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas "Tommy" Williams, Member, Texas Senate
The Honorable Talmadge Heflin, House Appropriations Committee
The Honorable Ron Wilson, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

The University of Texas System

Mr. Charles Miller, Chairman, Board of Regents
Ms. Rita C. Clements, Vice-Chairman
Mr. Woody L. Hunt, Vice-Chairman
Mr. John W. Barnhill, Jr., Regent
Mr. H. Scott Caven, Jr., Regent

Dr. Judith L. Craven, M.P.H., Regent
Mr. Robert A. Estrada, Regent
Mr. James Richard Huffines, Regent
The Honorable Cyndi Taylor Krier, Regent
Mr. Mark Yudof, Chancellor

The University of Texas at San Antonio

Dr. Ricardo Romo, President



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: www.sao.state.tx.us.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact Production Services at (512) 936-9880 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.