A Follow-up Audit Report on
Selected Financial Processes at Sam Houston State University

November 6, 2012

Members of the Legislative Audit Committee:

Sam Houston State University (University) has fully or substantially implemented 18 (78 percent) of 23 recommendations that auditors issued to the University in *An Audit Report on Selected Financial Processes at Sam Houston State University* (State Auditor's Office Report No. 10-030, June 2010). (See text boxes for background information on the prior audit report and implementation status definitions).

Of the 18 recommendations fully or substantially implemented:

- The University fully or substantially implemented three recommendations related to updating its asset capitalization requirements, providing training to staff regarding asset capitalization requirements, and developing a risk-based approach to inventorying University assets.

- The University fully or substantially implemented three recommendations related to reviewing its investments and presenting investment information in the notes to its annual financial report.

- The University fully or substantially implemented two recommendations related to controls over reporting assets in its annual financial report.

- The University fully or substantially implemented five recommendations related to its management of grants.

- The University substantially implemented two recommendations related to the preparation of annual reports that describe (1) its indirect costs and (2) how its indirect costs support research activities.

- The University fully or substantially implemented three recommendations related to strengthening information technology controls.

Background Information

In June 2010, the State Auditor's Office issued *An Audit Report on Selected Financial Processes at Sam Houston State University* (State Auditor's Office Report No. 10-030). Auditors selected 23 of the 24 recommendations in that report for follow-up based on Sam Houston State University (University) management's original responses to the recommendations, the University's subsequent self-reported recommendation implementation status and implementation dates, and the level of risk.

Implementation Status Definitions

Fully Implemented – Successful development and use of a process, system, or policy to implement a prior recommendation.

Substantially Implemented – Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.

Incomplete/Ongoing – Ongoing development of a process, system, or policy to address a prior recommendation.

Not Implemented - Lack of a formal process, system, or policy to address a prior recommendation.

SAO Report No. 13-007

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While the University has made significant progress in implementing the prior audit recommendations, it should continue its efforts to improve controls related to its inventory of assets, processes related to cash, review of grant-related expenditures, and reviewing user access to automated systems. Specifically:

- The University should monitor to ensure that its departments have implemented adequate segregation of duties for its inventory process.

- The University should continue its efforts to improve controls over its cash processes and provide appropriate training to staff as it continues to implement a new application for processing cash receipts.

- The University should consistently verify that expenditures associated with grants are valid and that it has supporting documentation prior to paying for those expenditures.

- The University should document the results of its reviews of user access to key financial applications and ensure that all business units conduct periodic reviews of user access as required by its policies and procedures.

Auditors communicated other, less significant issues to the University's management separately in writing.

Table 1 provides additional details on the University's implementation of prior State Auditor's Office recommendations.

Table 1

No.	Recommendation	Implementation Status as Reported by the University	Implementation Status as Determined by Auditors	Auditor Comments
Status of Implementation of Prior Audit Recommendations				
Recommendations Regarding the University's Key Financial Processes				
1	The University should revise its policy to align with capitalization requirements in the *SPA Process User's Guide*.	Fully Implemented	Fully Implemented	The University has updated its policies and procedures for property to align with the capitalization requirements in the *SPA Process User's Guide*.
2	The University should provide training to staff to inform them of changes to the asset capitalization process.	Fully Implemented	Fully Implemented	University Property Department staff, who are responsible for the asset capitalization process at the University, are knowledgeable of the new asset capitalization process, and the University has provided appropriate training to inform staff of changes to the asset capitalization process.
3	The University should develop and implement an asset inventory process based on a risk assessment of all University assets.	Fully Implemented	Substantially Implemented	Although the University has developed an asset inventory process based on a risk assessment of all University assets, it does not document its implementation of that process. As a result, auditors were unable to determine whether departments that the University identified as the highest risk received a spot inventory. In addition, the University's inventory policy does not contain sufficient information on the risk factors the University uses to support its decisions regarding inventory.

		Status of Implementation of Prior Audit Recommendations		
No.	Recommendation	Implementation Status as Reported by the University	Implementation Status as Determined by Auditors	Auditor Comments
4	The University should develop and implement procedures to ensure that staff who perform annual asset inventories do not have responsibility for the assets under review.	Fully Implemented	Incomplete/Ongoing	The University developed policies and procedures that require that staff who perform annual asset inventories do not have responsibility for the assets under review. However, the University does not monitor compliance with that requirement. None of the 14 departments that auditors tested could provide supporting documentation showing that they had implemented adequate segregation of duties over the inventory process.
5	The University should review its investments in the multi-strategy bond fund to ensure that it fully complies with statutory and Texas State University System policy requirements.	Fully Implemented	Fully Implemented	The University's investments in the multi-strategy bond fund comply with statutory and Texas State University System policy requirements.
6	The University should obtain a list of specific investment holdings from its investment firm.	Fully Implemented	Substantially Implemented	Auditors obtained from the University the *CommonFund Holdings by Security Type* report and verified that it contained totals by type of University investment. However, that report does not list the specific investments the University holds, and the University does not receive that level of detail in the statements it receives from its investment firm.
7	The University should ensure that the notes to its annual financial report accurately reflect the types of investments that the University holds.	Fully Implemented	Substantially Implemented	Although the notes to the University's fiscal year 2011 annual financial report accurately reflected the types of investments the University holds, the notes did not accurately reflect the valuation of the investment activities for three accounts. Specifically: • Equity investments were understated by $2,619,370.48. • Fixed income money market and bond mutual fund investments were overstated by $2,612,829.73. • Other commingled funds investments were overstated by $34,209.78.
8	The University should implement controls to ensure that it classifies restricted assets accurately and in accordance with [Governmental Accounting Standards Board] GASB definitions.	Fully Implemented	Substantially Implemented	The University developed a process to review its annual financial report; however, it does not document the results of that review. In addition, in its annual financial report for fiscal year 2011, the University overstated the amount of its "restricted: cash in bank" by $2,495,993.58 and understated its "current assets: cash in bank" by the same amount.
9	The University should not report negative cash balances as assets when funds are available to cover checks issued from the local banks for transfer to the State Treasury.	Fully Implemented	Fully Implemented	The University did not report negative cash balances as assets in its annual financial reports for fiscal years 2010 and 2011.

No.	Recommendation	Implementation Status as Reported by the University	Implementation Status as Determined by Auditors	Auditor Comments
Status of Implementation of Prior Audit Recommendations				
10	The University should provide training and oversight to ensure that departments comply with its cash deposit policy.	Substantially Implemented	Incomplete/Ongoing	The University continues to provide training and oversight to ensure that departments comply with its cash deposit policy. The University provided training to 9 (22 percent) of the 41 departments that the University identified as receiving cash during the period auditors tested.
11	The University should segregate the duties of receiving, recording, and depositing cash, as well as duties associated with performing cash-related financial reconciliations.	Substantially Implemented	Incomplete/Ongoing	The University is in the process of implementing a new application to assist with the segregation of duties over cash processing.
Recommendations Regarding the University's Management of Grants				
12	The University should initiate grants only after it receives required approvals.	Fully Implemented	Substantially Implemented	The University has a process regarding initiating grants after receiving the required approvals; however, it does not consistently follow that process. The University did not receive required approvals for 2 (13 percent) of 16 grants tested prior to the date the University had access to the grant funds. Auditors were unable to determine when those two grants, both of which began in fiscal year 2011, were approved because formal approval forms were not in the grant files. Auditors did not identify issues regarding approvals for the fiscal year 2012 grants tested.
13	The University should obtain all conflict of interest forms prior to approving grants.	Fully Implemented	Substantially Implemented	The University has a process regarding obtaining conflict of interest forms prior to approving grants; however, it does not consistently follow that process. For 3 (19 percent) of 16 grants tested, the University did not have the conflict of interest forms on file. Those three grants began in fiscal year 2011. Auditors did not identify issues regarding conflict of interest forms for the fiscal year 2012 grants tested.

		Status of Implementation of Prior Audit Recommendations		
No.	Recommendation	Implementation Status as Reported by the University	Implementation Status as Determined by Auditors	Auditor Comments
14	The University should verify that invoices associated with grants are for valid expenditures and include supporting documentation prior to paying grant-related invoices.	Fully Implemented	Incomplete/Ongoing	The University did not consistently ensure that expenditures associated with grants were valid and that it had supporting documentation prior to paying grant-related expenditures. Specifically: • For 2 (13 percent) of 15 payroll expenditures tested, the University did not have required time and effort reports. • For 1 (7 percent) of 15 payroll expenditures tested, the University did not have a grant agreement; therefore, auditors were unable to determine whether the expenditure was allowable. • For 1 (6 percent) of 16 non-payroll expenditures tested, the University did not have a grant agreement; therefore, auditors were unable to determine whether the expenditure was allowable.
15	The University should monitor grant budgets to prevent paying invoices in excess of the amounts budgeted for each expense category and each budget year.	Fully Implemented	Fully Implemented	The University has implemented a new financial system and is using a combination of online tools, hard-copy reports, and system functionality to monitor its grant funds.
16	The University should ensure that it consistently complies with its policy regarding the use of an indirect cost rate that is lower than the federally approved indirect cost rate.	Fully Implemented	Substantially Implemented	The University has a policy regarding the use of an indirect cost rate that is lower than the federally approved indirect cost rate (by obtaining and completing waivers). However, the University does not consistently comply with that policy. For 1 (9 percent) of 11 grants tested, the University did not have a copy of the written program guidelines stating the indirect cost rate limits or a completed indirect cost waiver form on file, as required by its policies and procedures. The error identified occurred in fiscal year 2011. Auditors did not identify similar errors for grants tested in fiscal year 2012.
17	The University should ensure that it uses the federally approved indirect cost rate or that it follows University policy regarding the use of a lower indirect cost rate.	Fully Implemented	Substantially Implemented	The University has a process to ensure that it uses the federally approved indirect cost rate or that it follows University policy regarding the use of a lower indirect cost rate. However, the University does not consistently follow that process. For 1 (11 percent) of 9 grants tested with indirect cost charges, the University did not use the correct indirect cost rate.

No.	Recommendation	Implementation Status as Reported by the University	Implementation Status as Determined by Auditors	Auditor Comments
Status of Implementation of Prior Audit Recommendations				
18	The University should comply with its policy to prepare an annual report describing how indirect cost funds were used.	Fully Implemented	Substantially Implemented	The University prepared an annual report for fiscal year 2011 that described how it used indirect cost funds. However, the University did not have evidence that it reviewed the information regarding how it used indirect cost funds to ensure that information was accurate and complete and that funds were used as intended.
19	The University should comply with its policy to prepare an annual report describing how recovered indirect cost funds were used to support research activities.	Fully Implemented	Substantially Implemented	The University prepared an annual report for fiscal year 2011 that described how it used indirect cost funds to support research activities. However, the University did not have evidence that it reviewed the information regarding how it used indirect cost funds to support research activities to ensure that information was accurate and complete and that funds were used as intended.
Recommendations Regarding the University's Information Technology					
20	The University should strengthen network password settings.	Fully Implemented	Fully Implemented	The University implemented a new system for secondary user authentication and resetting of passwords.
21	The University should perform a periodic review of user access to key financial applications.	Fully Implemented	Incomplete/Ongoing	The University has implemented a process to review user access to financial applications in its new financial system. However, it does not document those reviews. As a result, auditors were unable to determine whether the University conducted the reviews. In addition, the University does not ensure that all business units conduct periodic reviews of user access as required by its policies and procedures.
22	The University should ensure that its programmers do not have access to application code in the production environment.	Fully Implemented	Substantially Implemented	With one exception, the University ensures that programmers do not have access to application code in the production environment. The University asserted that the one exception was temporary due to a lack of staff.
23	The University should update its disaster recovery plan on a regular basis.	Fully Implemented	Fully Implemented	The University updated and approved its disaster recovery plan in January 2011 and in March 2012.

Recommendations

The University should continue to strengthen key financial processes by:

- Documenting its risk-based approach to asset inventory management. In addition, it should update its policies and procedures to reflect the current process for determining which departments are selected for inventory review.

- Ensuring departments implement proper segregation of duties over the asset inventory process.

- Obtaining sufficient detail on its specific investments holdings from its investment firm.

- Ensuring that the notes to its annual financial report accurately reflect the valuation of all investments.

- Documenting the results of its review of its annual financial report.

- Ensuring that departments comply with its cash deposit policies.

- Ensuring that its new cash receipts application has sufficient controls to ensure proper segregation of duties over receiving, recording, and depositing cash.

The University should continue to improve controls over grants management by:

- Obtaining required grant approvals prior to accessing grant funds.

- Obtaining required conflict of interest forms prior to approving grants.

- Ensuring that expenditures associated with grants are valid and have supporting documentation prior to paying for those expenditures.

- Ensuring that its indirect cost calculations are accurate and that it consistently complies with its policy if it uses an indirect cost rate that is lower than the federally approved indirect cost rate.

- Ensuring that the information in its annual financial report describing how indirect cost funds were used and how they support research activities is accurate and complete.

The University should continue to strengthen information technology controls by:

- Documenting its reviews of user access to key financial applications.

- Confirming that all business units conduct periodic reviews of user access, as required in its policies and procedures.

- Ensuring that its programmers do not have access to application code in the production environment.

The University agreed with the above recommendations, and its management's responses are in the attachment to this letter.

Sincerely,

John Keel, CPA
State Auditor

Attachment

cc: Members of the Texas State University Board of Regents
            Mr. Charlie Amato, Chair
            Ms. Donna N. Williams, Vice Chair
            Dr. Jaime R. Garza
            Mr. Andrew Greenberg
            Mr. Kevin J. Lilly
            Mr. Ron Mitchell
            Mr. David Montagne
            Ms. Trisha Pollard
            Ms. Rossana Salazar
            Mr. William F. Scott
        Dr. Brian McCall, Chancellor, Texas State University System
        Dr. Dana L. Gibson, President, Sam Houston State University

Attachment

Section 1
Objective, Scope, and Methodology

Objective

The objective of this audit was to determine the implementation status of prior State Auditor's Office recommendations and evaluate whether management has taken corrective actions to address selected recommendations in *An Audit Report on Selected Financial Processes at Sam Houston State University* (State Auditor's Office Report No. 10-030, June 2010).

Scope

The scope of this audit included reviewing the implementation status of Sam Houston State University's (University) prior audit recommendations in *An Audit Report on Selected Financial Processes at Sam Houston State University* (State Auditor's Office Report No. 10-030, June 2010). Auditors considered information reported from September 1, 2010, through August 31, 2012.

Methodology

The audit methodology included identifying and collecting information on the implementation of the prior audit recommendations. To determine the implementation status of the recommendations, auditors conducted interviews, reviewed the University's policies and procedures, and performed selected tests and procedures.

Auditors assessed the reliability of University data associated with asset inventories, grant agreements, and grant expenditures by (1) reviewing query language used to pull data from the University's financial system, (2) analyzing key data elements for completeness and reasonableness, (3) interviewing University employees knowledgeable about the data, and (4) reviewing a prior State Auditor's Office report and working papers related to information technology. Auditors determined that the data was sufficiently reliable for the purpose of this audit.

To determine the implementation status of prior recommendations, auditors selected and tested purposive, non-representative samples. Specifically:

- Auditors selected 14 (10 percent) of the University's departments to test whether adequate segregation of duties over asset inventory management existed.

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- Auditors selected 20 percent of grants awarded to the University during fiscal years 2011 and 2012 to test for compliance with University policies and procedures and grant agreements.

- Auditors selected 20 percent of grants that required indirect cost waivers during fiscal years 2011 and 2012 to test for compliance with University policies and procedures.

- Auditors selected 31 grant expenditures from fiscal years 2011 and 2012 that had a high risk of noncompliance with grant requirements.

Because auditors did not use a statistical sample, findings cannot be generalized and may not represent the entire population of asset inventories, grants, and grant expenditures.

Information collected and reviewed included the following:

- *An Audit Report on Selected Financial Processes at Sam Houston State University* (State Auditor's Office Report No. 10-030, June 2010).

- The University's policies and procedures for finance and operations, property, investments, and grants management.

- The University's asset capitalization and cash receipts training materials.

- A list of University departments selected for spot inventories and a list of University departments that receive cash.

- Monthly statements, quarterly reports, and investment reports for University investment funds.

- University annual financial reports for fiscal years 2010 and 2011.

- Documents that the University used to monitor and reconcile key financial transactions it reported in its annual financial reports for fiscal years 2010 and 2011.

- Grants awarded to the University in fiscal years 2011 and 2012.

- University grant expenditure data from January 1, 2011, through July 31, 2012.

- Hard-copy files of selected University grant information, including grant agreements, waivers, conflict of interest forms, indirect cost rate agreements, budgets, and supporting documentation for grant expenditures.

- A University fiscal year 2011 internal report on distribution of recovered indirect costs.

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- Division of Information Technology Services Contingency Plan approvals for January 2011 and March 2012.

- Information that supported the University's implementation of information technology recommendations, including a list of users and/or groups with access to key financial applications, information regarding the production application server operating system, and screenshots showing implementation of password controls.

Procedures and tests conducted included the following:

- Interviewed management and personnel at the University.

- Reviewed policies and procedures for University property to determine whether they aligned with capitalization requirements and outlined a segregated approach to inventory, and determined whether individuals received training related to those policies and procedures.

- Reviewed the University's Property Department's updated internal policies and procedures for the risk assessment related to University assets and tested a sample of department's compliance with the policy.

- Reviewed the University's investments in the multi-strategy bond fund and verified its compliance with Texas State University System policy and the Public Funds Investment Act.

- Reviewed investments listed in the *CommonFund Holdings by Security Type* report as of August 31, 2011, to determine whether that report contained a list of specific investments the University held.

- Reviewed investment statements for investments the University reported in its fiscal year 2011 annual financial report to determine whether the University reported the types and valuations of investments it held accurately.

- Reviewed supporting schedules for restricted assets and traced them to the University's fiscal year 2011 annual financial report to determine whether the University reported restricted assets accurately.

- Reviewed University annual financial reports for fiscal years 2010 and 2011 and verified that the University did not report negative cash balances as assets.

- Reviewed cash receipts training documentation to determine the number of University departments that received training on new cash receipts policies and procedures.

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- Reviewed and tested selected University grant awards for required approvals and disclosure of conflicts of interest in accordance with University policies.

- Reviewed and tested selected University grant expenditures to determine whether the expenditures were valid and included supporting documentation.

- Reviewed and tested selected University grant indirect cost waivers for proper approvals, application of correct indirect cost rate, and compliance with University policy.

- Observed controls to monitor grant budgets in the University's new financial system and obtained screenshots of controls related to processing grant expenditures.

- Reviewed the *Report on Distribution of Recovered Indirect Cost* for compliance with University policy.

- Tested key information technology controls related to network security access, user access, and programmer access to the production environment.

- Reviewed documentation to support regular updates and reviews of the University's disaster recovery plan.

Criteria used included the following:

- *SPA Process User's Guide*, Office of the Comptroller of Public Accounts, June 2012.

- University policies and procedures including:

  - *Finance and Operations Procurement and Business Services Policy (FO-PUR-23).*

  - *Finance and Operations Cash Deposits and Receipts Policy (FO-10).*

  - *Academic Policy Statement 950818, Distribution of Recovered Indirect Cost Policy.*

  - *Research and Sponsored Programs and Research Administration Pre Award and Post Award.*

- The Texas State University System's investment policy.

- The Public Funds Investment Act (Texas Government Code, Chapter 2256).

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- Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments*.

- Office of Management and Budget Circular A-21.

- Selected fiscal year 2011 and 2012 University grant agreements.

- Title 1, Texas Administrative Code, Chapter 202.

- *Best Practice Guide for Securing Active Directory Installations and Day-to-Day Operations*, Microsoft.

Project Information

Audit fieldwork was conducted from June 2012 through September 2012. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Stacey Williams, CGAP (Project Manager)

- Isaac Barajas (Assistant Project Manager)

- Kristina A. Aguilar

- Ishani Baxi, CIDA

- Jacqueline M. Gomez

- Laura Nienkerk, MAcy

- Michael Yokie, CISA

- Kristin Alexander, MBA, CFE, CIA (Quality Control Reviewer)

- Ralph McClendon, CISSP, CCP, CISA (Audit Manager)

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Recommendation #1:

The University should continue to strengthen key financial processes by:

- *Documenting its risk-based approach to asset inventory management. In addition, it should update its policies and procedures to reflect the current process for determining which departments are selected for inventory review.*

Management Response:

The University agrees with the recommendation and revised SHSU's Internal Policies and Procedures for Risk Assessment of University Assets to include the following: "As part of Property's Risk Assessment, Property will review each department's annual inventory." The Property Office developed an automated report to show each department's percentage of missing and stolen inventory and the dollar amount(s). From this report, Property can document the ten departments who disclose the highest percentage of inventory missing or stolen. Property will then conduct a spot audit on each of these departments documenting the results. The recommendation is considered implemented.

Contact: Property Coordinator

Recommendation #2:

The University should continue to strengthen key financial processes by:

- *Ensuring departments implement proper segregation of duties over the asset inventory process.*

Management Response:

The University agrees with the recommendation and now requires review and approval by both the person conducting the inventory and the Director or Custodian. This segregation is evidenced by dual signatures on the Annual Inventory Report. Instructions are included in the inventory packet stating that property inventories should be conducted by individuals (verifiers) who are not responsible for the property being inventoried or accounted for on a day-to-day basis. Property will be responsible for checking to ensure the Director or Custodian and Inventory Conductor are two separate individuals. The recommendation is considered implemented.

Contact: Property Coordinator

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Recommendation #3:

The University should continue to strengthen key financial processes by:

- *Obtaining sufficient detail on its specific investments holdings from its investment firm.*

Management Response:

The University agrees with the recommendation and hired a new investment consultant along with changing the investment firm managing investments in September 2012. Additionally, the University established an investment committee to oversee compliance with statutory and regulation requirements. The new firm will be able to provide the proper detail needed to the University to analyze specific investment holdings. The recommendation is considered implemented.

Contact: Vice President for Finance and Operations

Recommendation #4:

The University should continue to strengthen key financial processes by:

- *Ensuring that the notes to its annual financial report accurately reflect the valuation of all investments.*

Management Response:

The University agrees with the recommendation and added a verification process to the annual financial report preparation to ensure that notes match the investment activities. This process includes comparing the August 31st investment statements to the annual financial report before finalizing the report. The recommendation is considered implemented.

Contact: Controller

Recommendation #5:

The University should continue to strengthen key financial processes by:

- *Documenting the results of its review of its annual financial report.*

Management Response:

The University agrees with the recommendation and has multiple reviews that occur for the production of the annual financial report. This includes each person that prepares a part of the annual financial report submitting a final copy to the Associate Controller for Reporting. Once all the documents are consolidated into a draft report, the report is reviewed by multiple staff

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members that provide their corrections for review and integration into the final report. The recommendation is considered implemented.

Contact: Controller

<u>Recommendation #6:</u>

The University should continue to strengthen key financial processes by:

▪ *Ensuring that departments comply with its cash deposit policies.*

<u>*Management Response:*</u>

The University agrees with the recommendation and continues to identify and train departments that handle cash to ensure departments follow cash policies. The University provides formal training to departments and uses department deposit software that allows for departments to electronically record the receipt of cash. The amount can then be reconciled when the cash is received in the Bursar's Office. This system also allows the Bursar's Office to know if a department is retaining funds for extended periods of time. The recommendation is considered implemented.

Contact: Controller

<u>Recommendation #7:</u>

The University should continue to strengthen key financial processes by:

▪ *Ensuring that its new cash receipts application has sufficient controls to ensure proper segregation of duties over receiving, recording, and depositing cash.*

<u>*Management Response:*</u>

The University agrees with the recommendation and implemented a department deposit system that segregates duties over cash. This system allows for the person receiving the cash to document the receipt, and for that receipt to be verified by a second staff member before the cash is delivered to the Bursar's Office. When the cash is delivered to the Bursar's Office, cash is deposited after reconciling the receipts and system records to the cash brought for deposit. The recommendation is considered implemented.

Contact: Controller

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Recommendation #8:

The University should continue to improve controls over grants management by:

▪ *Obtaining required grant approvals prior to accessing grant funds.*

Management Response:

The University corrected all processes in 2012. From the SAO follow-up audit, the SAO did not find any missing approvals in 2012. The recommendation is considered implemented.

Contact: Controller

Recommendation #9:

The University should continue to improve controls over grants management by:

▪ *Obtaining required conflict of interest forms prior to approving grants.*

Management Response:

The University corrected all processes in 2012. From the SAO follow-up audit, the SAO did not find any missing conflict of interest forms in 2012. The recommendation is considered implemented.

Contact: Controller

Recommendation #10:

The University should continue to improve controls over grants management by:

▪ *Ensuring that expenditures associated with grants are valid and have supporting documentation prior to paying for those expenditures.*

Management Response:

The University agrees with the recommendation and reviews every expenditure on all grants of the University. The recommendation is considered implemented.

Contact: Controller

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Recommendation #11:

The University should continue to improve controls over grants management by:

- *Ensuring that its indirect cost calculations are accurate and that it consistently complies with its policy if it uses an indirect cost rate that is lower than the federally approved indirect cost rate.*

Management Response:

The University corrected all processes in 2012. From the SAO follow-up audit, the SAO did not find any incorrect use of indirect cost rates in 2012. The recommendation is considered implemented.

Contact: Controller

Recommendation #12:

The University should continue to improve controls over grants management by:

- *Ensuring that the information in its annual financial report describing how indirect cost funds were used and how they support research activities is accurate and complete.*

Management Response:

The University agrees with the recommendation and will review its processes and policies to determine the best practice for oversight of indirect cost recovery. The review will occur and a new process or policy will be implemented prior to August 31, 2013.

Contact: Associate Vice President for Research & Sponsored Programs

Recommendation #13:

The University should continue to strengthen information technology controls by:

- *Documenting its reviews of user access to key financial applications.*

Management Response:

The University agrees with the recommendation and now IT documents requests for changes to ERP system access including Banner Finance via the SHSU Work Order system. The history of these requests document regular changes are occurring to the levels of access within the ERP System. In October, IT management requested a review of ERP access in conjunction

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with Cyber Security Awareness month. Responses to this process are being recorded for documented as backup. This process will occur annually. The recommendation is considered implemented.

Contact: Director of Enterprise Services

Recommendation #14:

The University should continue to strengthen information technology controls by:

- ▪ *Confirming that all business units conduct periodic reviews of user access, as required in its policies and procedures.*

Management Response:

The University agrees with the recommendation and now IT documents requests for changes to ERP system access including Banner Finance via the SHSU Work Order system. The history of these requests document regular changes are occurring to the levels of access within the ERP System. In October, IT management requested a review of ERP access in conjunction with Cyber Security Awareness month. Responses to this process are being recorded for documented as backup. This process will occur annually. The recommendation is considered implemented.

Contact: Director of Enterprise Services

Recommendation #15:

The University should continue to strengthen information technology controls by:

- ▪ *Ensuring that its programmers do not have access to application code in the production environment.*

Management Response:

The University agrees with the recommendation. As a general rule, programmers/analysts do not have modify access to production code. In this instance, a staff member transitioned from a DBA role to an analyst role. Currently, he may serve as a backup for the remaining DBAs in an emergency situation until we have hired a replacement. The recommendation is considered implemented.

Contact: Director of Enterprise Services

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