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An Audit Report on

**Financial and Operational  
Processes at Texas State  
University-San Marcos**

July 2013

Report No. 13-043



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## Overall Conclusion

Texas State University-San Marcos (University) has controls over its financial and operational processes; however, it should improve controls over areas such as financial reporting, capital and controlled asset processes, contract management, procurement card purchases, and information technology. Specifically:

- While the University has certain controls in place, it should improve controls over its financial reporting processes. The University's General Accounting Office does not coordinate with its Office of Sponsored Programs to verify that amounts reported for state and private grants in the University's annual financial report agree with actual grant activity managed by the Office of Sponsored Programs. In the sample of grants that auditors tested, the University overstated accounts receivable in total by \$843,278 and understated deferred revenue in total by \$570,511. It is important for the University to report actual grant activity so that revenue is recognized as it is earned.
- The University had controls over capital assets and inventory processes; however, it should improve controls over reporting and document retention. Auditors identified 1 item totaling \$26,371,933 that the University reported as construction in progress in its fiscal year 2012 annual financial report; however, the University should have reported that item as a capital asset. In addition, the University was unable to provide supporting documentation to substantiate 18 (42 percent) of 43 capital assets (for example land, buildings, or vehicles) tested and 1 (5 percent) of 21 controlled assets (for example computers or computer equipment) tested.
- The University had sufficient controls over its requisition and purchasing processes; however, it should strengthen its controls related to procurement cards. Six (40 percent) of 15 procurement card purchases tested were confirmed as being split purchases. University procedures state that single purchases must not be split into multiple transactions in order to keep each transaction under

### Background Information

Texas State University-San Marcos (University) had 34,225 students in the fall of 2012 and is organized academically into nine colleges: applied arts, business administration, education, fine arts and communication, health professions, liberal arts, science and engineering, general studies, and graduate studies. The University offers baccalaureate, master's, and doctoral degrees.

For fiscal year 2012, the University reported \$461,084,951 in operating expenses.

In January 2012, the Higher Education Coordinating Board classified the University as an emerging research university. According to the Higher Education Coordinating Board, emerging research universities "are educational, scientific, engineering, business, and cultural resource centers committed to teaching, research, and service."

This audit was conducted in accordance with Texas Government Code, Sections 2101.028, 321.0131, and 321.0132.

For more information regarding this report, please contact Verma Elliott, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

the University's maximum spending limits. University policy requires a waiver or prior approval be obtained to exceed maximum spending limits. By splitting purchases, the user is able to circumvent that approval process.

- The University had controls to prevent unauthorized modifications or use of data; however, it should strengthen its reviews of user access. While the University has automated controls in its accounting system to terminate access when users leave employment, the University does not otherwise conduct periodic reviews of user access and it does not have a comprehensive policy for user access reviews. Auditors identified users who were able to enter and process invoices through to payment using the University's American Express card, which increases the risk of payments not being used for intended purposes. Auditors did not identify any users who created and posted an invoice and posted a payment.

The University had sufficient controls in place to help ensure that:

- Grants and contracts processed through the Office of Sponsored Programs were authorized in accordance with the University's policies and procedures.
- Expenses were valid and sufficiently supported, and purchase orders and requisitions had appropriate approvals, had sufficient supporting documentation, and were for allowable goods and services.
- It correctly applied veteran program benefits awarded to students in accordance with the state and federal requirements.
- Its tuition and fee rates were in accordance with the Texas State University System Board of Regent's published rates and the Texas Education Code.

Auditors communicated other, less significant issues to the University in writing.

## ***Summary of Management's Response***

The University concurred with the findings in this report and agreed to implement the recommendations. The University's detailed management responses are presented immediately following each set of recommendations in the Detailed Results section of this report.

## ***Summary of Information Technology Review***

Auditors examined general and application controls by testing user access and user rights to the University's financial accounting, student information, donor database, and grants management systems. The University should strengthen its review of user role assignments in its accounting, student information, and donor database systems. Controls over the University's grant management system were

appropriate to ensure that user access and approvals were sufficient to prevent unauthorized alteration, loss, or improper use.

In addition, auditors relied on application and general controls reviews over key systems that the State Auditor's Office had previously performed. Those application and general controls reviews determined that controls related to the University's network and the database and application password settings for the accounting and student information systems were generally sufficient to prevent unauthorized alteration, loss, or improper use.

### ***Summary of Objective, Scope, and Methodology***

The objective of this audit was to evaluate selected financial processes to determine whether the University has implemented a system of financial and administrative internal controls, and consider whether:

- Accounting procedures and controls help ensure that the University prepares accurate, complete, reliable, and timely information.
- Security controls within the University's financial system help ensure that the University protects critical data from unauthorized alteration, loss, or improper use.
- Controls help the University ensure that it safeguards assets.
- The University complies with applicable laws and regulations.

The audit scope covered activities related to financial and reporting processes, grant management, capital and controlled assets, inventory, contracting, purchasing, procurement cards, accounts payable, tuition and fees, veteran program benefits, and the related information systems between September 1, 2011, and December 31, 2012.

The audit methodology included collecting information and documentation, analyzing and evaluating data, performing selected tests and other procedures, and conducting interviews with University staff and management.

Auditors assessed the reliability of financial accounting, student information, donor management, and grants management system data used in the audit by conducting a review of general and application controls over those key systems. Auditors also reviewed key system, procurement card, and contract data by (1) comparing data to other sources of data, (2) analyzing key data elements for completeness and reasonableness, and (3) interviewing University employees knowledgeable about the data. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

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# Detailed Results

Chapter 1

## ***The University Should Improve Controls Over Its Financial Processes***

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Texas State University–San Marcos (University) has certain controls in place over its financial and capital asset reporting processes. Specifically, the University had controls to ensure that journal entries were appropriate; reconciliations were performed; and assets were safeguarded and accurately recorded. However, the University should improve controls over its (1) reporting processes to help ensure that selected revenues, expenditures, assets, and liabilities are supported and free from material misstatement and (2) document retention to help ensure that supporting documentation for assets is maintained.

Chapter 1-A

### **While the University Has Certain Controls in Place, It Should Improve Controls Over Its Financial Reporting Processes**

The University should improve its controls to help ensure that selected revenues, expenditures, assets, and liabilities are supported and free from material misstatement. The University should clearly define and record its financial reporting processes to ensure that its annual financial report is compiled in a consistent manner and in accordance with state reporting requirements. In addition, the University’s General Accounting Office should coordinate with the University’s Office of Sponsored Programs to verify that amounts reported in the University’s annual financial report agree with actual grant activity.

The University had appropriate controls to ensure that grants and contracts processed through the University’s Office of Sponsored Programs were authorized in accordance with the University’s policies and procedures.

#### **Sponsored Programs**

Sponsored programs are activities that are sponsored, in whole or in part, by sources external to the University for which there is an expectation on the sponsor’s part for performance, deliverables, or outcome. The University awards sponsored programs through various mechanisms, including:

- **Grants** - A type of financial assistance awarded to an organization to conduct research or other programs as specified in an approved proposal. Grants often contain sub-awards (a specific version of a contract).
- **Contracts** - A legally binding arrangement or performance agreement for carrying out a specific service or procuring a product that entails specific obligations for both sponsor and recipient.

However, the University’s General Accounting Office does not coordinate with the Office of Sponsored Programs to verify that the amounts reported for state and private grants agree with actual grant activity.

The General Accounting Office performs the billing for all federal programs, which generally consists of an electronic draw. The Office of Sponsored Programs performs the billing for or otherwise monitors all non-federal grants (see text box for more information about sponsored programs). Invoices prepared by the Office of Sponsored Programs are not recorded in the University’s accounting system or

otherwise communicated to the General Accounting Office.

Under the University's current methodology, the University may record revenues that it has not yet earned. To record amounts due or payable at year end, the General Accounting Office reviews the expenditures and revenues posted to the general ledger by grant, and it records the difference as either accounts receivable or deferred revenue. While that methodology could work for grants for which all funds are paid in advance or expenditure reimbursement grants for which bills are submitted on a monthly basis, it does not work for all the various types of grants auditors identified. In the sample of grants tested, auditors noted a wide range of grant payment types, including advance payment, payment upon deliverable of a service or outcome, installment payment, fixed fee or fixed price payment, and grant payment based upon the lease of equipment or laboratory.

The receivables and deferrals reported in the University's fiscal year 2012 annual financial report did not materially agree to the amounts that the Office of Sponsored Programs billed for the sample of grants tested.

Auditors reviewed a sample of 183 grants in the Office of Sponsored Programs to determine whether the billing and related collection activities

materially agreed with the accounts receivable or deferred revenues reported on the University's fiscal year 2012 annual financial report (see text box for definitions). Auditors recalculated accounts receivable or deferred revenue for each grant based on actual grant activity documented by the Office of Sponsored Programs. Based on auditors' recalculations of the 183 grants:

#### Accounting Definitions

- **Deferred Revenue** - Prepaid revenue that was not earned by fiscal year-end or unearned revenue when cash or other assets are received prior to being earned.
- **Accounts Receivable** - An asset account reflecting amounts owed from private persons or organizations for goods and services furnished by a government.

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts (July 2012).

- Seventeen grants did not agree with auditors' recalculations for deferred revenue. Twelve of those grants overstated deferred revenue by \$258,581 (2,477 percent) and the remaining 5 grants understated deferred revenue by \$829,092 (87 percent), resulting in a net understatement of deferred revenue of \$570,511 (59 percent).

- Thirty grants did not agree with auditors' recalculation for accounts receivable. Ten of those grants overstated accounts receivable by \$1,066,812 (103 percent) and the remaining 20 grants understated accounts receivable by \$223,534 (10 percent), resulting in a net overstatement of accounts receivable of \$843,278 (26 percent).
- The University incorrectly classified 1 of the 30 grants as a receivable instead of deferred revenue because the University's General Accounting Office did not reconcile its calculations with the University's Office of Sponsored Programs grant activity. As a result, accounts receivable was overstated and deferred revenue was understated by \$494,105.

- The University reported one grant as a receivable even though the University had not billed the grantor since December 2008 and the last payment received from the grantor was in February 2009. In addition, auditors' calculations indicate that the amount the University reported was overstated by \$5,254 and, according to the Office of Sponsored Programs, the grantor has refused payment based on a disagreement over the contract terms. As a result, it is likely that grant is uncollectible and, therefore, should not be classified as a receivable. In addition, in fiscal years 2011 and 2012 the University re-recorded the 2008 revenues earned and expenditures incurred. The University should have recorded the revenue and expenditures only when they were earned and incurred, respectively, for that grant in fiscal year 2008. As a result, both revenues and expenditures for that grant and, therefore, the University's financial reports were overstated by \$721,758 at August 31, 2012.

The University had appropriate controls to ensure that grants and contracts processed through its Office of Sponsored Programs were authorized.

The Office of Sponsored Programs processes grants and contracts that support instruction or research activities. The University manages its grant and contract approval processes using an automated grant management system.

Auditors reviewed a sample of 34 grant and contract approvals to determine whether applicable approvals occurred in accordance with University policies and procedures. All 34 grants and contracts tested had the required approvals by the principal investigator (project director), department chair, and the college dean in the University's grant management system, in accordance with University policies and procedures.

Additionally, grants that contained executed contracts had the required approvals in accordance with University policies and procedures. Specifically, all 15 contracts tested and 5 sub-awards tested had the required approvals on the executed agreements, in accordance with University policies and procedures.

The University should ensure that its practices and methodologies produce accurate financial reports in accordance with all applicable rules and regulations.

The University should improve its controls to help ensure that selected revenues, expenditures, assets, and liabilities are supported and free from material misstatement, and it should clearly define and document its financial reporting processes to ensure that its annual financial reports are compiled in a consistent manner and in accordance with state reporting requirements.

The University's annual financial report was generally supported for the line items tested. Auditors selected 12 line items from the University's fiscal year 2012 annual financial report to determine whether the amounts reported were materially supported. Eleven of the 12 line items tested were materially



supported; however, auditors identified issues with certain line items that either caused misstatements or could cause misstatements in the future. Specifically:

- Nine (75 percent) of the 12 line items were materially supported.
- One line item was overstated by 11 percent because the General Accounting Office did not adequately coordinate its grants reporting with the Office of Sponsored Programs (as noted on page 1).
- Two line items were materially supported overall; however, both line items included components that individually had issues that were not material to the entire line item as a whole. For example:
  - ♦ While net assets as a whole were materially supported, amounts reported in the University's annual financial report as unrestricted and restricted net assets may be misleading. Specifically:

**Restricted Versus Unrestricted Assets**

Assets are considered restricted when constraints placed on the assets are either: (1) externally imposed by grantors, contributors or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. Therefore, if a grantor has placed restrictions on a portion of a grant, the amount reported as restricted should be in proportion to the grantor's stipulations.

Sources: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2012, and Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

- The University includes Higher Education Assistance funds in its unrestricted net asset calculations. As a result, unrestricted net assets were overstated and restricted net assets were understated, each by \$39,776,984. Higher Education Assistance funds are externally restricted by state law (Texas Constitution, Article 7, Section 17) and should be reported as restricted net assets.
- According to the University's procedures for compiling its annual financial report, the entire amount of a fund's revenue is classified as either restricted or unrestricted based on whether the majority of funds comes from internal (unrestricted) or external (restricted) sources. That does not comply with *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2012, or Paragraph 34 of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (see text box).

- ♦ Because the General Accounting Office does not coordinate the grant activity with the Office of Sponsored Programs (as noted on page 1), the University overstated one account that was a component of accounts receivable in its annual financial report by 7 percent at August 31, 2012.

The University should clearly define and record its financial reporting processes. The University has documented some of its procedures; however, that documentation does not sufficiently detail the processes the University uses to

compile financial information from its general ledger or depict how the review of its fiscal year 2012 annual financial report will occur. For example:

- As discussed above, the University's procedures for calculating restricted and unrestricted net assets with regard to restricted or partially restricted grants is not in accordance with state reporting requirements.
- Auditors identified several revenue transactions that appear to be external sales that were not reported on the University's August 31, 2012, Statement of Revenues, Expenditures, and Changes in Net Assets. Those transactions totaled \$159,306.
- While the University provided evidence that it reviewed its fiscal year 2012 annual financial report, the University does not have written procedures that define how those reviews should occur or what should be reviewed.

In addition, the University should periodically review its methodologies and current practices to verify that all methodologies continue to comply with all applicable requirements.

**While the University had appropriate controls to ensure that reconciliations were performed, auditors noted areas for improvement.**

The University had appropriate controls to ensure that (1) reconciliations were supported and performed, completed, and signed by the preparer and reviewer and (2) the University appropriately identified reconciling items. However, it did not have appropriate controls to ensure that all reconciling items were cleared in a timely manner. It is important to follow up on reconciling items as soon as possible to ensure that discrepancies are addressed. Unaddressed reconciling items increase the risk that information in the University's key systems is not accurate, complete, or correctly reported.

While the University appropriately identifies reconciling items, it does not monitor to ensure that responsible departments correct the reconciling items. For example:

- All three monthly bank reconciliations tested were completed in a timely manner, had evidence of review, and were adequately supported. However, outstanding reconciling items were not cleared in a timely manner. For example, one month's reconciliation had 71 outstanding items totaling \$13,407,455 in unresolved differences. Those items had been outstanding for between 92 days and 8.0 years.
- All three reconciliations tested between the University's donor management and accounting systems were completed in a timely manner, had evidence of review, and were adequately supported. However, outstanding reconciling items were not cleared in a timely manner. For

example, as of May 2013, there were 97 outstanding items totaling \$80,154 in unresolved differences. Those items had been outstanding for between 145 days and 1.6 years.

- All six of the various bond reconciliations tested were completed in a timely manner, had evidence of review and were adequately supported. In addition, all outstanding reconciling items were cleared in a timely manner.

The University had controls to ensure that journal entries were appropriate, supported, and approved.

All five adjusting journal entries and all three routine journal entries tested were adequately supported, appeared appropriate, had evidence of review, and had appropriate segregation of duties between the preparer and approver.

## Recommendations

The University should:

- Ensure that its General Accounting Office coordinates with the Office of Sponsored Programs to reconcile the amounts reported for state and private grants with actual grant activity.
- Clearly define and document its financial reporting processes and ensure that those processes are in compliance with state reporting requirements and include a detailed, documented review of its annual financial report.
- Monitor outstanding reconciling items to ensure that they are resolved in a timely manner.

## Management's Response

*The University should:*

- *Ensure that its General Accounting Office coordinates with the Office of Sponsored Programs to reconcile the amounts reported for state and private grants with actual grant activity.*

***Management Response and Corrective Action Plan:*** *Management concurs with the recommendation. The Office of Sponsored Programs and the General Accounting Office will develop procedures to ensure balance sheet accounts related to grant activity are fairly stated in the university's AFR.*

***Responsible Persons:*** *Director of Sponsored Programs and Director of Accounting.*

**Implementation Date:** October 31, 2013

- *Clearly define and document its financial reporting processes and ensure that those processes are in compliance with state reporting requirements and include a detailed, documented review of its annual financial report.*

**Management Response and Corrective Action Plan:** *Management concurs with the recommendation. Management believes financial reporting processes and the review of the annual financial report are clearly defined, documented, and in compliance with state reporting requirements, however; management will seek to strengthen the documentation.*

**Responsible Person:** *Director of Accounting.*

**Implementation Date:** October 31, 2014

- *Monitor outstanding reconciling items to ensure that they are resolved in a timely manner.*

**Management Response and Corrective Action Plan:** *Management concurs with the recommendation. The General Accounting Office, Student Business Services, and University Advancement will ensure reconciling items are cleared on a timely basis for the reconciliations for which each office is responsible.*

**Responsible Persons:** *Director of Accounting, Director of Student Business Services, and Director of Donor Services.*

**Implementation Date:** August 31, 2013

Chapter 1-B

## **The University Had Controls Over Capital Assets and Inventory Processes; However, It Should Improve Controls Over Reporting and Document Retention**

The University had appropriate controls to ensure that assets were safeguarded and accurately recorded. However, the University should improve controls over its reporting process and document retention so that supporting documentation for assets is maintained.

The University had appropriate controls to ensure that assets were safeguarded.

The University performs monthly inventory “spot checks” on a sample of departmental inventories. To perform the spot checks, the University’s Materials Management department selects a sample of items and physically verifies that those items are present and accounted for. All 30 spot checks

tested had documentation confirming that Materials Management performed and documented the spot checks and that University employees appropriately followed up on discrepancies identified.

#### Asset Types

According to the *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts (July 2012):

- **Construction in progress** is the status for substantially incomplete assets that are under construction. Those assets are capitalized to their appropriate capital asset category upon the earlier occurrence of (1) execution of substantial completion contract documents, (2) occupancy, or (3) when the assets are placed into service.
- **Capital assets** are defined by the State as assets with an initial cost meeting the thresholds (dollar values) established by the Office of the Comptroller of Public Accounts and with an estimated useful life in excess of one year. Examples of capital assets are land and buildings.
- **Controlled assets** are assets of the State that must be secured and tracked and whose value is less than the capitalization threshold. Examples of controlled assets are desktop computers and portable laptops.

In addition to the spot checks, the University also conducts an annual inventory on all items able to be inventoried to monitor the location and account for its assets. To perform the annual inventory, departments receive a complete list of all assets assigned to them. Departments are then required to account for all items on the list and return the signed inventory to Materials Management for review. All 26 annual inventory reports tested were signed by the appropriate department personnel, and changes were appropriately addressed and updated in the University's system.

Auditors located all 40 capital assets and 37 controlled assets tested and verified that all 77 were appropriately tagged and the descriptions matched those in the University's system (see text box for definitions of asset types).

**The University should improve controls over its reporting processes.**

To determine whether assets were accurately valued and reported in the appropriate period, auditors reviewed a sample of assets reported in the University's fiscal year 2012 annual financial report and accounting system as either (1) construction in

progress projects or (2) capital assets that were recently transferred from construction in progress.

Auditors reviewed a sample of 10 assets that were reported as construction in progress in the University's fiscal year 2012 annual financial report and accounting system. One of the 10 (10 percent) assets for \$26,371,933 was incorrectly reported as construction in progress at August 31, 2012, in the University's fiscal year 2012 annual financial report. The substantial completion documentation for that asset shows it should have been transferred to and reported as a capital asset as of August 31, 2012. As a result, the University overstated construction in progress and understated capital assets in its fiscal year 2012 annual financial report, each by \$26,371,933. In addition, the University was unable to provide documentation supporting the values reported in the University's general ledger for 4 (20 percent) of the 20 construction in progress assets tested.

Auditors also reviewed two buildings that were capitalized during fiscal year 2012 from construction in progress to verify that they were accurately reported and valued. Both assets were transferred upon substantial completion and properly recorded as capital assets in the University's fiscal year 2012 annual financial report. In addition, supporting documentation of

both assets shows that the University accurately reported the value of both buildings upon completion.

The University should improve controls over document retention.

In addition to the lack of documentation discussed above for construction in progress assets that auditors tested, auditors noted additional instances in which the University was unable to provide documentation to support asset values. Specifically:

- Eighteen (42 percent) of the 43 capital assets and 1 (5 percent) of the 21 controlled assets tested lacked adequate documentation of the assets' reported value because the University did not retain the supporting documentation in accordance with the 4th edition of the *Texas State Records Retention Schedule* published by the Library and Archives Commission.
- The University does not comply with the Office of the Comptroller's *State Property Accounting Process User's Guide* (Guide) and Texas Government Code, Section 2101.015, for all depreciable assets. Sixteen of the 32 asset types listed in the University's system did not have useful lives (period of usefulness or length of service) that were fully in accordance with the Guide because of limitations in the University's system. While the Guide allows for deviations in depreciation, it requires that the methodology for the deviations be substantiated. The University was unable to provide documentation supporting its methodology for the deviations or that it had considered the effect that methodology would have over time on the fiscal year 2012 annual financial report.

### Recommendations

The University should:

- Capitalize constructed assets in a timely manner and in accordance with all applicable rules and regulations.
- Retain supporting documentation in accordance with *Texas State Records Retention Schedule*, Library and Archives Commission (4th Edition).
- Ensure that its depreciation methodology is documented and approved, and that it agrees with all applicable requirements.

## Management's Response

*The University should:*

- *Capitalize constructed assets in a timely manner and in accordance with all applicable rules and regulations.*

**Management Response and Corrective Action Plan:** *The current process will be reviewed to improve communications between Financial Reporting and Facilities to ensure projects are capitalized in the year they are substantially completed.*

**Responsible Persons:** *Director of Accounting, Director of Materials Management & Logistics, and Assistant Director of Facilities, Planning, & Design*

**Implementation Date:** *October 31, 2013*

- *Retain supporting documentation in accordance with Texas State Records Retention Schedule, Library and Archives Commission (4th Edition).*

**Management Response and Corrective Action Plan:** *Management concurs with the recommendation. Management is researching the feasibility of implementing a document imaging and scanning program to retain all supporting documentation in according with the records retention requirements.*

**Responsible Persons:** *Director of Accounting and Director of Materials Management & Logistics.*

**Implementation Date:** *February 28, 2014*

- *Ensure that its depreciation methodology is documented and approved, and agrees with all applicable requirements.*

**Management Response and Corrective Action Plan:** *Management concurs with the recommendation. Materials Management will obtain the appropriate documentation to support the University depreciation methodology.*

**Responsible Person:** *Director of Materials Management & Logistics.*

**Implementation Date:** *October 31, 2013*

## ***The University Had Controls in Place Over Its Requisition, Purchasing, and Accounts Payable Processes; However, It Lacked Sufficient Oversight Over Its Contracting Processes***

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While the University had certain controls over its requisition, purchasing, and accounts payable processes to ensure compliance with its policies and state law, it should improve its oversight and management of contracting activities and procurement card purchases.

The University had controls to ensure that purchase orders and requisitions had appropriate approvals, had sufficient supporting documentation, and were for allowable goods and services. However, the University should strengthen controls to ensure that its expenses are accurately coded, all required documentation is received and processed prior to payment, sufficient supporting documentation for purchases is maintained, and procurement card purchases are for allowable goods or services. Additionally, the University should strengthen its contracting processes by developing a comprehensive master list of contracts to help University management more effectively oversee contracting activities and improve the maintenance and retention of contract-related documents.

### Chapter 2-A

#### **The University Should Improve Its Oversight and Management of Contracting Activities**

The University had controls to ensure that contracts were procured in compliance with applicable requirements, and that oversight of contracts was sufficient to mitigate the risk of vendor noncompliance with contract requirements. However, auditors noted areas in which the University should strengthen its contracting processes. Those include developing a comprehensive master list of contracts to help management more effectively oversee contracting activities, improving documentation of various contracting activities, and improving the maintenance and retention of contract-related documents.



The University could not provide support for all selected contracts. The University should improve its documentation, and retention of documentation, related to its contracts and contract procurements. Seven of the 85 contracts auditors selected for testing were not adequately supported. Specifically:

#### Procurement Processes

Texas Government Code, Section 2155.063, requires that "except as otherwise provided by this subtitle, a purchase of or contract for goods or services shall, whenever possible, be accomplished through competitive bidding." Exceptions to the competitive process are as follows:

- **Professional and Consulting Services:** These are professional services that are licensed services defined by Texas Government Code, Section 2254.002. Those defined services may be procured on the basis of demonstrated competence and qualifications to perform the services for a fair and reasonable price.
- **Sole Source Procurements:** These are products or services that are available for purchase only through a specific identified vendor.

- The University was unable to provide the contract or any supporting documentation related to the procurement for one contract selected. As a result, auditors were not able to test the procurement or payments for that contract.
- The University provided limited information related to the procurement of three professional services contracts. Texas Government Code, Chapter 2254, outlines the requirements for procuring professional services (see text box). The University was able to provide the contracts, but it was unable to provide any documentation to support that those contracts were procured in accordance with Texas Government Code, Chapter 2254.
- While the University was able to provide the contracts for three additional contracts tested, it was unable to provide

any additional information related to the procurement, such as how the requests were solicited, how many responses were received, or how the selections were determined. As a result, auditors were unable to determine whether the University procured those three contracts in accordance with the Office of the Comptroller of Public Accounts' *State of Texas Procurement Manual* and University policies.

For contracts with supporting documentation, the University has controls in place to ensure that its contracts are procured in accordance with its policies and state law. The University generally complied with University policy and state law regarding contract procurement. Because of the concerns discussed later in this chapter with the completeness of the contract lists provided, auditors can make conclusions about only the population of contracts provided. University management had controls in place to ensure that the 85 contracts tested were procured in accordance with policies and statute. It should be noted that not all procurement requirements apply to each contract tested. Specifically, for the 85 contracts tested:

- Seventy-one contracts were subject to specific procurement requirements for goods or services. Of those 71 contracts, 70 (99 percent) used an appropriate procurement methodology. The remaining contract was incorrectly procured as a professional service; however, the contract was for interior design, which is not considered a professional service under Texas Government Code, Chapter 2254.

- Thirty-two contracts were required to consider the use of historically underutilized businesses. For all 32 contracts, the University considered the use of historically underutilized businesses.
- Two contracts were for commodities or services that were available through Texas Industries for the Blind and Handicapped businesses; therefore, the University was required to consider purchasing those items from those businesses. For both of those contracts, the University considered purchasing items from Texas Industries for the Blind and Handicapped businesses.
- Sixty-four contracts were required to have certain written elements included in the final contract, such as hourly rate, total fee, or not-to-exceed amounts. All 64 contracts contained all required elements.
- Thirty-three contracts were subject to a required number of responses. For all 33 contracts, the University obtained the required number of responses.
- Seventy-eight contracts were subject to specific approvals, which are generally based upon the dollar amount of the contract. Of those 78 contracts, 77 (99 percent) were signed by authorized parties. The remaining contract was not signed by an authorized party, and the University was unable to provide support for the delegation of signature authority.
- Sixty-six contracts required that a purchase order be created in the University's accounting system prior to completing the contract. For those 66 contracts, 45 (68 percent) had one or more purchase orders that were dated after the dates the contracts were signed, which is not in accordance with University policy. University Purchasing Policy UPPS No. 05.02.02, Section 02.04(a), states that a "purchase order must be created prior to the commitment or obligation."
- Twenty contracts had amendments or change orders. For 19 (95 percent) of those 20 contracts, University management approved the amendments or change orders in writing. The remaining contract contained an unapproved amendment.
- Twenty-three contracts were sole source procurements and, therefore, did not undergo a competitive process. Of those 23 contracts, 21 (91 percent) were accompanied by a written justification as required. For the remaining two procurements, the University was unable to provide documentation to justify the sole source procurement.
- Thirty-one contracts had specific requirements for advertising, which are generally based upon the dollar amount of the contract. For 30 (97 percent) of those 31 contracts, the University advertised the solicitations and posted the contract awards as required. For the remaining contract,

University management was unable to provide documentation showing that it had advertised the related solicitation on the *Electronic State Business Daily* in accordance with the Office of the Comptroller of Public Accounts' *State of Texas Procurement Manual* and University policy.

The University has controls in place to ensure that oversight of payments is sufficient to mitigate the risk of vendor noncompliance with contract requirements. Auditors reviewed payments for 85 contracts and 10 warranties, license renewals, and service agreements to determine whether the expenditures were within the documented limitations.<sup>1</sup> For all payments tested, the University generally followed its policies and sufficiently mitigated the risk of vendor noncompliance. Specifically:

- For all 68 contracts, license renewals, and service agreements with established limitations, auditors did not identify any payments that exceeded those limitations.
- All 67 payments tested were approved by appropriate parties and had sufficient segregation of duties.
- All 7 advance payments tested were accompanied by an explanation of the necessity and proper public purpose of paying in advance, in accordance with the University's policy.

The University does not maintain a master list of contracts. Contracting at the University has historically been decentralized, and the University does not currently have a master list of existing contracts. Additionally, none of the University's systems has a field or centralized list to aid the University in identifying all contracts to which it is legally bound. Auditors were provided contract lists from different areas of the University's operations; however, auditors noted inconsistencies in the contracts included on each of the lists, and none of the lists appeared to be complete. For example, during testing, auditors identified four contracts that were not included on any of the lists provided. As a result of the lack of completeness of the contract lists provided, auditors can issue a conclusion only about the population of contracts included on those lists.

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<sup>1</sup> Not all procurements in auditors' sample had a payment.

## Recommendations

The University should:

- Strengthen controls to provide greater oversight for its contract procurement processes to ensure that all University policies and state laws are followed and appropriate supporting documentation is retained.
- Develop and maintain a complete and accurate record of all its binding contracts to ensure that it can adequately monitor contractual provisions for those contracts.

## Management's Response

**Management Response and Corrective Action Plan:** *Management concurs with the recommendations. A digital repository has been developed and populated with all contracts. Policies and procedures are being updated to ensure the repository is kept current and end user training is being developed.*

**Responsible person:** *Director of Purchasing*

**Implementation date:** *September 30, 2014*

Chapter 2-B

## The University Had Sufficient Controls Over Its Requisition and Purchasing Processes; However, It Should Strengthen Its Controls Related to Procurement Cards

The University had controls to ensure that purchase orders and requisitions had appropriate approvals, had sufficient supporting documentation, and were for allowable goods and services. However, the University should strengthen its controls over procurement cards to help ensure that (1) purchases made using the University-issued procurement cards are for allowable goods and services and have appropriate approvals and (2) it maintains all required documentation.

### Purchasing Systems

The University uses two automated systems to initiate and process purchase requisitions:

- The e-Procurement system is used to procure goods and services (such as general office supplies). Examples of vendor contracts contained in the e-Procurement system are State of Texas, purchasing cooperatives, and certain University contracts.
- The University's accounting system processes all other procurement transactions.

The University had controls over its e-Procurement purchasing process to ensure that proper approvals were obtained and purchases complied with all applicable requirements. The University uses two automated systems to initiate and process purchase requisitions (see text box). Auditors tested a sample of 36 purchases totaling \$1,218,677 initiated in the University's e-Procurement system from September 1, 2011, through December 31, 2012, to determine whether purchases were in compliance with University policy and state purchasing requirements, approved, and included

sufficient supporting documentation. Additionally, auditors tested 10 contracts for e-Procurement vendors to determine whether the University used the appropriate bid solicitation and selection methodology. The University made all purchases tested in compliance with associated vendor agreements and contracts. Specifically:

- For 35 (97 percent) of 36 e-Procurement purchases tested, the purchases complied with the provisions of the associated vendor contracts, such as provisions requiring that goods and services be covered by the contracts, that pricing be within agreed-upon levels, and that purchases be made within the contracts' effective periods. For the remaining purchase tested, the University did not have a copy of one of the associated vendor contracts; therefore, auditors were unable to determine whether the goods and services complied with the contract terms.
- All 36 e-Procurement transactions tested were valid and sufficiently supported and the University received and processed all required documentation prior to processing the payment.
- All 10 e-Procurement vendor contracts tested had valid contracts and purchases were processed within the contracts' effective periods.

The University had controls over the purchasing process in its accounting system to ensure that proper approvals were obtained and purchases complied with all applicable requirements. Auditors tested a sample of 42 active purchase requests totaling \$25,191,995 in the University's accounting system from September 1, 2011, through December 31, 2012. The University ensured that the purchases tested were in compliance with applicable procurement requirements, approved, and included sufficient and required supporting documentation. Specifically:

- All 42 purchase requests tested were made in accordance with University policies and procedures and had sufficient supporting documentation. However, 1 (2 percent) of the 42 purchase requests was unallowable for the funding source used to pay for the purchase.
- All 35 purchase requests tested that were required to follow the University's standard procurement process were appropriately supported and included documentation showing that the University used the proper bidding processes and provided written justification for single-source purchases.
- All 34 completed purchases tested were sufficiently supported by vendor invoices. The University received all other required documentation prior to payment for 33 (97 percent) of the 34 completed purchases tested. One completed purchase tested lacked evidence that the University received the goods.

The University should strengthen its controls over procurement cards to help ensure that purchases made using procurement cards are for allowable goods and services, have appropriate approvals, and have all required documentation. Procurement cards have limited purchasing authority. Card users may purchase non-restricted goods and services totaling \$1,000 or less. Purchases generally restricted for card use or purchases of more than \$1,000 must be approved in advance through a waiver form, according to University policy. The waiver forms must be approved by the appropriate account manager or account manager's supervisor and the University's Purchasing Office prior to a restricted purchase being made.

Procurement cards are issued to University departments based on need. During the audit period, the University had 960 active procurement card accounts.

The University's controls over procurement cards did not ensure that users always adhered to the maximum spending limits. University procedures state that single purchases made with procurement cards must not be split into multiple transactions to keep each transaction under the University's maximum spending limits. By splitting purchases, a user is able to circumvent the required waiver process. Auditors analyzed procurement card transactions occurring between September 1, 2011, and December 31, 2012, to identify potential split purchases by a cardholder. Auditors tested 15 potential split purchases and confirmed that 6 (40 percent) were split purchases.

In July 2012, the University's Purchasing Department implemented a process to review procurement card transactions on a monthly basis to identify potential split purchases and other potentially inappropriate or questionable transactions. As of December 2012, however, the University had not implemented a process to follow up and take corrective action on issues identified during those monthly reviews. The University did not follow up on 4 (67 percent) of the 6 split purchases discussed above. For the remaining two split purchases, the University determined that one split purchase transaction was credited back to the University in the subsequent month. The remaining purchase received approval after the transaction was completed because the University's Purchasing Department determined that purchase was necessary and card limitations would not allow the purchase otherwise.

The University generally had controls in place to ensure that its procurement card transactions were made in accordance with University policy; however, it should improve its controls to verify that transactions are for allowable goods and services. Auditors tested an additional 38 procurement card transactions totaling \$38,793 to determine whether purchases were made in accordance with the University's *Procurement Card Manual* and other applicable University purchasing policies.

All 38 procurement card transactions tested had sufficient supporting documentation and appeared to have been made by the cardholder or other individual specifically designated to use the card. However, 5 (13 percent) of the 38 procurement card transactions tested were for unallowable goods and services as defined by the University's *Procurement Card Manual*. Specifically:

- Three transactions totaling \$15,756 were prohibited purchases according to the *Procurement Card Manual*. Those purchases were for computer software license fees, alcohol, and pharmaceutical drugs. While two transactions (for pharmaceutical drugs and alcohol) received waivers approving the purchases, University policy states that waivers will not be issued on prohibited items.
- Two transactions totaling \$94 were for purchases that required waivers according to the *Procurement Card Manual*; however, the University could not provide waivers for auditor review.

The University did not consistently maintain required transaction logs and did not ensure those logs were approved as required by its policy. The University's policy requires all cardholders to maintain monthly transaction logs for their procurement cards. In addition, a department account manager or supervisor must approve those logs. However, for the transactions tested, the University did not follow its processes for documenting logs and approving procurement card expenditures. Specifically:

- The account manager or supervisor did not approve 5 (13 percent) of 38 transactions tested. For two of the five unapproved transactions, the University did not have a log or other documentation for the statement period; the remaining three transactions lacked approval.
- For 1 (3 percent) of 38 transactions tested, the log was not complete; however, the account manager or supervisor had approved that transaction.

## Recommendations

The University should:

- Strengthen controls to provide greater oversight of procurement card activity to help ensure that cardholders comply with University policies.
- Implement a process to follow up on potentially inappropriate, split, or otherwise questionable procurement card transactions identified by the Purchasing Department.

## Management's Response

**Management Response and Corrective Action Plan:** *Management concurs with the recommendations. The P-card Manual is being updated. Mandatory training will be offered for all cardholders and account managers. A disciplinary action process has been implemented to ensure compliance.*

**Responsible person:** *Director of Purchasing*

**Implementation date:** *September 30, 2013*

### Chapter 2-C

## The University Had Sufficient Controls Over Its Accounts Payable Processes; However, It Should Strengthen Controls Over the Coding of Expenses

The University has controls in place related to its accounts payable processes that generally ensure compliance with applicable requirements. However, the University should strengthen controls to ensure that expenses are accurately coded and all required documentation is received and processed prior to payment.

In addition to the purchasing processes discussed above, the University also allows certain payments to be processed without a purchase order. Those payments generally relate to instances in which faculty or staff have made purchases using their own personal funds and are seeking reimbursement. All 35 of that type of expenditure tested that were not subject to the purchasing processes discussed in Chapter 2-B had sufficient supporting documentation, were approved by appropriate management, and were for allowable goods and services for the funding sources being used.

However, the University did not always appropriately code, or label, the transactions that auditors tested (including those discussed in Chapter 2-B) within its accounting system. Specifically:

- Three (8 percent) of 36 e-Procurement transactions tested (see Chapter 2-B) were not coded to the correct object code in the University's accounting system. All three transactions included purchases of goods and services that fell under multiple object codes; however, the University used one object code (consumable supplies) for the entire purchase. For example, one of the three transactions included a purchase of tables that would be more appropriately labeled as expensed furniture, and one transaction included a purchase for computer memory that would be more appropriately labeled as computer parts and equipment.



- Eight (21 percent) of 38 procurement card transactions tested (see Chapter 2-B) were not coded to the correct object code in the University's accounting system. For example, one purchase coded as communication services was an annual fee for software that should have been coded as computer software/licenses. Another purchase coded as travel was for catering for a fund-raising event and should have been coded as food.

Incorrect categorization of expenses may result in expenses being misclassified on financial reports.

### Recommendation

The University should strengthen its controls to ensure that expenses are coded appropriately in its accounting system to help ensure it has a complete and accurate general ledger to produce reliable financial statements.

### Management's Response

*Management Response and Corrective Action Plan: Management concurs with the recommendation. Additional training will be scheduled starting in the fall to ensure that all end users have a clear understanding of the importance of using the correct general ledger codes.*

*Responsible person: Director of Purchasing*

*Implementation date: September 30, 2013*

## ***The University Had Controls to Help Ensure That Veteran Program Benefits and Student Tuition and Fees Comply With Applicable Laws and Regulations***

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The University had controls to ensure that veteran program benefits awarded to students were applied correctly and in accordance with applicable laws and regulations. Additionally, the University had controls to ensure that it charged tuition and fees in accordance with the published rates approved by the Texas State University System Board of Regents and in compliance with the Texas Education Code.

Chapter 3-A

### **The University Had Appropriate Controls Over Veteran Program Benefits**

The University had controls to ensure that veteran program benefits awarded to students were applied correctly and in accordance with applicable laws and regulations. Additionally, the University appropriately denied those benefits for some students.

#### **Programs**

**Hazlewood Programs:** The purpose of the Hazlewood Act, which encompasses the Hazlewood and Hazlewood Legacy programs, is to provide an education benefit to honorably discharged or separated Texas veterans and to eligible dependent children and spouses of Texas veterans.

**Chapter 33 - Post-9/11 GI Bill:** This is an education benefit program for individuals who served on active duty on or after September 11, 2001.

Auditors tested three programs (Hazlewood, Hazlewood Legacy, and Chapter 33 – Post-9/11 GI Bill; see text box for more information) that provided a tuition benefit to veteran students for the Fall 2011 through Fall 2012 semesters. Students must apply for those programs through the appropriate avenues. For federal GI programs, students apply through the U. S. Department of Veterans Affairs, which determines the students' eligibility. For Hazlewood programs, students apply through the

University's Office of Veterans Affairs. Students submit the required documentation for the GI and Hazlewood programs to the University's Office of Veterans Affairs, which determines whether the students are still qualified to receive program benefits based on each program's requirements.

**The University appropriately awarded veteran program benefits.**

The University had controls to ensure that the veteran program benefits awarded to students were applied correctly and in accordance with Texas Education Code, Chapter 54, and Title 38, United States Code, Chapter 33. Specifically, for all 30 awarded veteran program benefits tested, the students submitted the required documents to the University, the University determined that the students qualified for the veteran program, the University applied to the students' accounts the appropriate veteran program benefit amounts, and the University covered allowable tuition and fee types in accordance with applicable laws.

The University appropriately denied veteran program benefits.

Additionally, the University appropriately denied benefits for some students. Auditors identified one student who applied for a veteran program but did not receive benefits. That student submitted the required documents, at which point the University appropriately determined that the student had already exhausted available benefits and was not qualified to receive further benefits, and the University appropriately did not apply any benefit amount to the student's account.

Chapter 3-B

### **The University Had Appropriate Controls Over Tuition and Fees Charged to Students**

The University had controls to ensure that it charged tuition and fees in accordance with the published rates approved by the Texas State University System Board of Regents and in compliance with the Texas Education Code. Additionally, the University's student information system correctly calculated the tuition and fee amounts charged to students.

Auditors selected a sample of 30 tuition and fee rates in the University's student information system for the Fall 2011 through Fall 2012 semesters. All 30 tuition and fee rates tested were in accordance with the published rates as approved by the Texas State University System Board of Regents. In addition, all 26 applicable tuition and fee rates tested were in compliance with the Texas Education Code. The University's student information system also correctly calculated the tuition and fee amounts charged to students for all 25 applicable tuition and fee rates tested.

## ***The University Had Controls to Prevent Unauthorized Modifications or Use of Data; However, It Should Strengthen Its Reviews of User Access***

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The University has certain controls in place to prevent unauthorized changes to data or improper use of data; however, auditors identified areas in which the University should strengthen its controls. Generally, the University has controls in place to ensure that user access is appropriately restricted for its key systems and that automated edit checks are operating as intended. However, the University does not have comprehensive policies and processes for periodic reviews of user access to its key systems.

**The University does not conduct periodic reviews of user access to all key systems.**

The University has general policies that require University department heads to review and maintain user access. In addition, the policies require access to be removed or modified for separating employees or employees whose job duties have changed. However, the University's policies do not document a process for periodically reviewing existing accounts for validity as recommended by the Department of Information Resources. More defined policies and procedures could help the University ensure that access is reviewed periodically and that those reviews are documented and conducted in a consistent manner.

The University implemented a daily automated process to identify active user accounts in its accounting system associated with employees leaving the University. In addition, the University appropriately controlled access to its grant management system and conducted periodic reviews of student information system user accounts. However, the processes or reviews conducted by the University are ineffective because auditors' review of access to key systems noted the following:

- Three (4 percent) of 67 active user accounts reviewed that had access to the donor management system belonged to former employees.
- Eight (11 percent) of 73 users had inappropriate access to the tuition and fees tables in the University's student information system. The University removed the inappropriate access during the audit.

**The University should strengthen its reviews of user role assignments in its accounting system.**

To process transactions in the University's accounting system, users are assigned a hierarchy of roles that allows them to perform certain functions associated with their job duties. The University's accounting system will allow users with certain combined role assignments to create, process, and pay

for purchases. Therefore, it is important that the University implement and enforce adequate controls over user role assignments, including periodic reviews, to help ensure that all payments to vendors are authorized.

Auditors identified some inappropriate purchasing role assignments. Specifically, some users were able to create, process, and pay invoices. While no users had role assignments that allowed them to create, process, and pay invoices with a check or electronic draft, three users had role assignments that allowed them to create, process, and pay invoices using the University's American Express card.

While role assignments allowed those three users to create, process, and pay invoices using the University's American Express card, auditors did not identify any instances during the scope of the audit in which a user who created and posted an invoice also posted a payment. After auditors notified the University of the inappropriate role assignments, the University corrected two of the role assignments in February 2013 and corrected the third role assignment in May 2013.

Key edit checks were working as intended.

The University had key automated edit checks within its accounting system. Specifically, the accounting system contained automated approvals that were working as intended with regard to purchasing. In addition, the accounting system performs budget checks to ensure that sufficient budget is available for purchase requisitions, and payments are not allowed to be processed using funding sources with insufficient budget available.

### Recommendation

The University should update its policies to include a documented process for periodically reviewing existing accounts for validity and conduct periodic reviews of user access.

### Management's Response

**Management Response and Corrective Action Plan:** *Management concurs with the recommendation and will incorporate additional language in either the university's Information Security policy (UPPS No. 04.01.01) or its Identity and Access Management policy (UPPS No. 04.01.02), or perhaps both, as appropriate.*

**Responsible person:** *Special Assistant to the Vice President for Information Technology*

**Implementation date:** *December 15, 2013*

# Appendix

Appendix

## **Objective, Scope, and Methodology**

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### **Objective**

The objective of this audit was to evaluate selected financial processes to determine whether Texas State University–San Marcos (University) has implemented a system of financial and administrative internal controls, and consider whether:

- Accounting procedures and controls help ensure that the University prepares accurate, complete, reliable, and timely information.
- Security controls within the University’s financial system help ensure that the University protects critical data from unauthorized alteration, loss, or improper use.
- Controls help the University ensure that it safeguards assets.
- The University complies with applicable laws and regulations.

### **Scope**

The scope of this audit covered activities related to the University’s financial and reporting processes, grant management, capital and controlled assets, inventory, contracting, purchasing, procurement cards, accounts payable, tuition and fees, veteran program benefits, and the related information systems between September 1, 2011, and December 31, 2012.

### **Methodology**

The audit methodology included collecting information and documentation, analyzing and evaluating data, performing selected tests and other procedures, and conducting interviews with University staff and management.

Auditors assessed the reliability of financial accounting, student information, donor management, and grants management system data used in the audit by conducting a review of general and application controls over those key systems. Auditors also reviewed key system, procurement card, and contract data by (1) comparing data to other sources of data, (2) analyzing key data elements for completeness and reasonableness, and (3) interviewing University employees knowledgeable about the data. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

Auditors assessed key transaction types and control activities related to the University's various financial and administrative processes. Sampling methodologies for each financial or administrative process tested are described below.

Auditors used non-statistical methods to select all samples for the following tests. As a result, the test results from the samples selected cannot be projected to the entire population. Auditors selected the following samples:

- **Financial Processes:** To test whether amounts reported for state and private grants agreed with actual grant activity, auditors selected a targeted sample of 183 non-federal grants. To test compliance with grant and contract approval processes, auditors selected a random sample of 31 grants and contracts, a targeted sample of 3 grants and contracts, and a random sample of 5 subcontracts. To test whether selected financial statement line items were supported, auditors selected a random sample of 12 line items. To test whether reconciliations were adequately performed, auditors selected a random sample of 8 reconciliations and a targeted sample of 4 reconciliations. To test whether journal vouchers were appropriate and had adequate segregation of duties, auditors selected a random sample of 5 adjusting journal entries and a targeted sample of 3 routine journal entries. To test whether assets were safeguarded and accurately reported, auditors selected a random sample of 74 assets and a targeted sample of 38 assets.
- **Purchasing and Contracting:** To test compliance with contract procurement requirements, auditors selected a random sample of 86 contracts, warranties, license renewals, and service agreements and a targeted sample of 9 contracts. To test whether purchases were approved and complied with requirements, auditors selected a random sample of 10 e-procurement vendors, a random sample of 30 e-procurement purchases, and a targeted sample of 6 e-procurement purchases; a random sample of 30 purchases and a targeted sample of 12 purchases; a random sample of 30 procurement card transactions and a targeted sample of 24 procurement card transactions; and a random sample of 30 expenditures and a targeted sample of 5 expenditures.

Auditors used representative samples for the following tests; therefore, the test results from the samples selected can be projected to the entire population. However, because auditors used non-statistical sampling methods, the precision of the projection cannot be calculated. Auditors selected the following samples:

- **Financial Processes:** To test whether assets were properly removed from the University's asset records, auditors selected a random sample of 30 asset disposals. To test whether assets were properly safeguarded, auditors

selected random samples of 30 annual inventory reports and 30 inventory spot checks.

- **Veteran Program Benefits:** To test whether veteran program benefits awarded to students were applied correctly, auditors selected a random sample of 30 students who received veteran program benefits and a random sample of 30 students who did not receive veteran program benefits.
- **Tuition and Fee:** To test whether tuition and fees were charged in accordance with published rates, auditors selected a random sample of 30 tuition and fee rates.

Information collected and reviewed included the following:

- The University's policies and procedures.
- Information regarding grant billing and related collection activities.
- Automated grant approvals and executed contracts.
- The University's annual financial report for fiscal year 2012, supporting documentation, and procedures.
- Data from the University's accounting, donor management, and grants management systems.
- Data from the University's Student Information System related to veteran tuition benefits and tuition and fee tables.
- Minutes of the Texas State University System Board of Regents meetings.
- University internal audit reports.
- University records, such as asset records, purchase requisitions and orders, invoices, procurement card logs, bank statements, reconciliations, contracts, student records, financial reporting supporting documentation and calculations, and accounting documents.

Procedures and tests conducted included the following:

- Reviewed grant files for billing and collection activity.
- Interviewed University management and staff.
- Tested documentation related to accounts payable, contracting, purchasing, procurement cards, assets, tuition and fees, veteran program benefits, grants management, and financial reporting to verify compliance with University policies and procedures and state laws and regulations.



- Conducted a physical inventory of University assets and compared the results with the information in the University's property records.
- Tested general and application controls for the University's network and key information systems.
- Reviewed supporting documentation for selected line items from the University's fiscal year 2012 annual financial report.

Criteria used included the following:

- Texas Constitution, Article 7, Section 17.
- Texas Government Code, Chapters 403, 2155, and 2254.
- *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Office of the Comptroller of Public Accounts, July 2012.
- *Texas State Records Retention Schedule*, Texas State Library and Archives Commission, 4th Edition.
- Texas Education Code, Chapter 51.
- Title 34, Texas Administrative Code, Chapter 20.
- Title 1, Texas Administrative Code, Chapter 202.
- University policies, procedures, manuals, contracts, and guidelines.
- Texas State University System policies related to constructed assets.
- *State Property Accounting Process User's Guide*, Office of the Comptroller of Public Accounts, June 1, 2004.
- *The State of Texas Procurement Manual*, Office of the Comptroller of Public Accounts, 2012.
- The University's published tuition and fee rates and definitions for academic years 2011-2012 and 2012-2013 as approved by the Texas State University System Board of Regents.
- Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.
- *Information System Security Policy Guidelines for Agencies and Universities*, Department of Information Resources, Revised April 2006.

## Project Information

Audit fieldwork was conducted from January 2013 through May 2013. 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:

- Mary Ann Wise, CPA, CFE (Project Manager)
- Jeannette Quiñonez, CPA (Assistant Project Manager)
- Scott Armstrong, CGAP
- Robert H. (Rob) Bollinger, CPA, CFE
- Mark A. Cavazos
- Steven M. Summers, CPA, CISA, CFE
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Verma L. Elliott, MBA, CPA, CIA, CGAP (Audit Manager)

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The Honorable Joe Straus III, Speaker of the House, Joint Chair  
The Honorable Thomas “Tommy” Williams, Senate Finance Committee  
The Honorable Jim Pitts, House Appropriations Committee  
The Honorable Harvey Hilderbran, House Ways and Means Committee

### **Office of the Governor**

The Honorable Rick Perry, Governor

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Dr. Denise M. Trauth, President



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