

Key Points of Report

Texas A&M University System 1994 Statewide Financial and Compliance Audit

February 1995

Overall Conclusion

Texas A&M University's account which is material to the statewide comprehensive annual financial report is reported accurately. Accurate financial statements are a tool for decision-making and analysis of operations. The System Administrative and General Offices have established a system to ensure compliance with bond covenants, and this system is working. The system ensures that bondholders' interests are protected. Bonds payable at August 31, 1994, were approximately \$650 million.

In addition, Texas A&M University at Galveston is generally complying with the federal regulations regarding its student financial assistance programs.

Key Facts And Findings

- We issued related reports in August 1994 (Report 94-139, *The Management Control Audit of the Texas A&M University Department of Food Services*) and January 1995 (Report 95-041, *A Review of Management Controls at Texas A&M University and the System Offices*). These reports contain findings which could affect Texas A&M and the System Office's operations.
- Texas A&M University at Galveston should improve controls over cash management and the preparation of federal financial reports. In addition, the University should separate the duties of processing and receiving loan checks and ensure compliance with required time frames for *Pell Grant* disbursements.

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Related Reports

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Federal Compliance Issues

Texas A&M University at Galveston

Federal Compliance Issue 1:

Improve Controls For Cash Management

The University does not have adequate controls over cash management. Cash management monitoring and accounting controls are not adequate to ensure timely federal reimbursement. This issue was originally communicated to management by Texas A&M University System Internal Audit in August 1992 (Report No. 921002). Inadequate controls may result in the loss of interest on the University's local funds and the loss of federal funds if not requested within program deadlines.

Although Department of Education expenditures for 1993-1994 were \$610,000, only two drawdowns totaling \$159,000 were made for reimbursement. This suggests that the University is using local funds to finance its federal programs. In addition, these two transactions were not recorded in the accounting records, but were found on the bank statements and federal reports. No documentation could be found supporting the amounts of the drawdowns.

The *General Appropriations Act [Art. V, sec. 22(1)(c)]* requires that state entities use federal funds to the maximum extent possible. In addition, cash receipts should be properly recorded in the accounting records to accurately reflect the University's cash position.

Recommendation: We recommend that the University's new fiscal officer (hired in August 1994) continue to improve controls over cash management.

- C Procedures for drawing funds should be developed in accordance with federal regulations and communicated to the appropriate personnel. These procedures should include a process for supervisory review and the recording of transactions in the accounting records.
- C Drawdowns should be made regularly to minimize the loss of interest on local funds and loss of federal reimbursement.
- C Drawdowns should be supported by actual expenditures related to the federal programs. Departments which use federal funds, including Student Financial Aid, are responsible for monitoring and communicating their cash needs to the appropriate fiscal personnel.

Management's Response: We acknowledge that the University should improve controls over Cash Management in its process for requesting federal funds. A new Fiscal Officer and Assistant Fiscal Officer were employed August 15 and 22 respectively to address these and other needed improvements in the TAMUG Fiscal Office.

Accounts in the general ledger have been set up for PELL, SEOG, and College Work Study for federal fiscal year 1 July 1994 through 30 June 1995. The budgets based on the Notice of Funding have been posted to the accounts. New accounts will be set up annually. A federal drawdown was made on August 31, 1994 based on expenditures in the subsidiary ledger accounts less the drawdowns already made for the year. Another drawdown was made on October 4, 1994. The drawdowns have been received and accounting transactions for both drawdowns have been recorded.

In the future, the Financial Aid Office will initiate and provide the necessary information needed to draw down federal funds on an as needed basis. The drawdown will be made within 5 working days from receipt of this information, after the information is reconciled to the accounting records.

Written procedures for the Fiscal Office will be prepared.

Federal Compliance Issue 2:

Improve Controls Over Federal Financial Reports

The University does not have adequate controls for the preparation of its federal financial reports. Reimbursements for federal expenditures may be delayed because of incomplete or inaccurate reports. This issue was previously communicated to management by Texas A&M University System Internal Audit in September 1994.

The amount of disbursements for the *Federal Pell Grant Program* (CFDA 84.063) reported on a Department of Education Federal Cash Transaction Report could not be traced to the accounting records. In addition, no reconciliations between the accounting records and the reports were prepared.

Office of Management and Budget Circular (OMB) A-110, Attachment G, requires the periodic submission of complete and accurate reports relating to federal programs to the federal sponsoring agency.

Recommendation: The University should improve the controls over its federal financial reports. Procedures for the preparation, review, and reconciliation of federal financial reports should be prepared in accordance with federal regulations and communicated to employees.

Management's Response: We acknowledge that improvements are needed in controls over the federal financial reports. Our new Fiscal Officer has prepared the Federal Cash Transaction Report (PMS272) for the period 1 April 1994 through 30 June 1994 based on accounting records and submitted the report by September 6, 1994.

Written procedures for the preparation, review, and reconciliation of federal financial reports will be prepared.

Federal Compliance Issue 3:

Financial Aid Office Should Not Receive Loan Proceeds From Lenders

The University's Student Financial Aid Office should not receive loan proceeds from the lenders of the *Federal Family Education Loan Program (CFDA 84.032)*. The office both processes the loan applications and receives the loan proceeds from the lenders. This increases the risk that personnel could process unauthorized loans and retain the loan proceeds when they are received. *Title 34 of the Code of Federal Regulations (CFR), Section 668.14(d)(1)-(2)*, requires an institution to ensure that its procedures for administering the student financial aid programs include an adequate system of internal checks and balances.

Recommendation: We recommend that the Student Financial Aid Office not receive loan checks. All loan checks should be delivered directly from the lenders to the Fiscal Office, which should continue disbursing these checks to borrowers.

Management's Response: *Arrangements are already in process to notify our vendors that all loan checks are to be sent to our Fiscal Office. The Fiscal Office will provide a list of names to the Financial Aid Office for additional processing. The Financial Aid Office will generate a check release form that will be provided to the Fiscal Office before the check can be released to the student.*

Federal Compliance Issue 4:

Disburse Pell Grant Payments At Prescribed Times

The University did not disburse all *Federal Pell Grant (CFDA 84.063)* payments according to federally prescribed time frames. Eighty percent (16 of 20) of payments tested were credited to the student accounts more than three weeks before the first day of classes. These payments occurred from five to seven days early.

Title 34 of the Code of Federal Regulations (CFR), Section 690.78, requires that student accounts be credited no earlier than three weeks before the first day of classes of a payment period.

Recommendation: The University should disburse *Federal Pell Grant* payments to students at prescribed times. Procedures should be implemented to ensure that the Student Financial Aid Office communicates the disbursement dates to the Fiscal Office.

Management's Response: *We acknowledge that Pell Grant payments can be applied to students' accounts no earlier than 20 days before the first day of classes of a payment period.*

Pell Grant payments will not be applied to student's accounts earlier than 20 days before the first day of classes in compliance with federal requirements.

Audit Scope

Our work, performed at Texas A&M University, included a review of the significant account which was material to the statewide annual financial report. We gained an understanding of the general control environment, cash disbursements, and payroll/personnel. In addition, current fund expenditures (\$438 million) were tested.

We also tested the System's bond-related disclosures in the annual financial report and verified compliance with significant bond covenants. Bonds payable at August 31, 1994, were approximately \$650 million.

We performed tests of the administrative controls and compliance requirements for the two major student financial aid programs at Texas A&M University at Galveston. In fiscal year 1994, the University disbursed \$1.6 million for its *Federal Family Education Loan* program and \$370,000 for its *Federal Pell Grant* program.