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An Executive Summary of Management Controls at Texas A&M University System Research and Service Agencies

May 1996

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Key Points Of Report

An Executive Summary of Management Controls at Texas A&M University System Research and Service Agencies

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Overall Conclusion

The Texas A&M University System research and service agencies have taken significant steps to effectively accomplish their missions. However, management controls can be improved at seven of the eight research and service agencies. Recommendations to improve controls are most significant at the Agricultural Experiment Station, Agricultural Extension Service, Veterinary Medical Diagnostic Laboratory, Forest Service, and Engineering Experiment Station.

Key Facts And Findings

- The System Administrative and General Offices should review the effectiveness and efficiency of similar operations within the System. Such review may lead to improvements in efficiency and consolidation through reorganization. Potential cost savings opportunities through reorganization totaling over \$6 million in four years for the System were identified.
- Opportunities exist for the System to improve information systems used by persons with oversight authority. The accuracy and reliability of financial information can be improved and the use of performance information should be expanded.
- Controls over cash receipts and accounts receivable should be improved at four System agencies: Veterinary Medical Diagnostic Laboratory, Agricultural Extension Service, Engineering Extension Service, and Agricultural Experiment Station.
- Control weaknesses were noted at research and extension centers located outside of College Station in the following agencies: Agricultural Experiment Station, Agricultural Extension Service, Forest Service, and Veterinary Medical Diagnostic Laboratory.

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This management control audit was conducted in accordance with Government Code, § 321.0133.

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Management controls can be improved among seven of the eight research and service agencies of the Texas A&M University System (System).

Recommendations to improve controls are most significant at the Agricultural Experiment Station, Agricultural Extension Service, Veterinary Medical Diagnostic Laboratory, Forest Service, and Engineering Experiment Station. Detailed audit results for each agency have been included in a separate report (SAO Report No. 96-065). Appendix 3 provides a summary of the detailed audit results at each of the eight research and service agencies.

The research and service agencies have taken significant steps to effectively accomplish their missions. The Agricultural Experiment Station, Engineering Experiment Station, and Transportation Institute are recognized by peers and customers for producing quality scientific research. The Agricultural Extension Service has developed a planning system that provides the structure for an innovative and responsive service delivery system. The Engineering Extension Service has adopted a total quality management philosophy which can be seen throughout the agency's operations. The Forest Service has

sound controls in place to monitor and evaluate its major programs of forest management and fire control.

In order to continue enhancing current services, each research and service agency has the opportunity to improve some key management control systems. Figure 1 lists the research and service agencies sorted by relative risk and materiality of audit issues and recommendations. Management at all agencies has generally agreed to implement all recommendations, with one exception. The Texas Forest Service disagrees with the recommendation that it repay \$253,000 in federal reimbursements to the General Revenue Fund.

Overall, there is opportunity for the System Administrative and General Offices to enhance its oversight of the research and service agencies. Given the breadth of the System, it is very important to have systems in place to produce quality and timely information, to safeguard assets, and to manage personnel effectively. As such, the following areas require the most attention for improvement:

- System Administrative and General Offices Oversight of Research and Service Agencies Can Be Enhanced (See Section 1.)
- Management Information Systems Should Be Strengthened (See Section 2.)
- Controls Over Revenue and Accounts Receivable Should Be Improved at Four System Agencies (See Section 3.)
- The Agricultural Agencies Should Improve Controls at Research and

Figure 1
SAO Audit Results

<u>System Agencies Sorted by Relative Risk and Materiality of Audit Issues and Recommendations</u>	
	Number of Issues and Recommendations
Texas Agricultural Experiment Station	19
Texas Agricultural Extension Service	15
Texas Veterinary Medical Diagnostic Laboratory	10
Texas Forest Service	15
Texas Engineering Experiment Station	10
Texas Engineering Extension Service	11
Texas Transportation Institute	8
Texas Animal Damage Control Service	0

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Extension Centers Located Outside of College Station (See Section 4.)

- Human Resource Management Controls Can Be Improved (See Section 5.)

Section 1:

System Administrative and General Offices Oversight of Research and Service Agencies Can Be Enhanced

The System Administrative and General Offices should review the effectiveness and efficiency of similar operations within the System. Such review may lead to improvements in efficiency and cost savings opportunities through reorganization and consolidation. For example:

- The State Auditor's Office conservatively estimated potential cost savings of \$5.8 million in four years with the consolidation of all College Station printing operations.¹ Currently, there are at least four large System printing operations in the College Station area: Texas Engineering Extension Service, the Agricultural Communications Department,² the Agricultural Education

¹The estimate of cost savings was based on a methodology adopted by the Council on Competitive Government. The methodology was also used to evaluate and recommend the consolidation of 33 state print shops located in Travis County. Cost savings are based on avoidance of needed or planned purchases of new equipment and reduction in operating costs. It does not include the savings associated with the sale of surplus equipment or reduction in facility space.

²The Agricultural Communications Department and the Agricultural Education Department are Texas A&M University academic departments which are also part of the Texas Agricultural Extension Service.

Department, and Texas A&M University Graphics Art Center.

The System Chancellor will establish a task force to make recommendations on the feasibility of consolidating or out-sourcing printing operations in response to this audit finding. The task force will present a list of recommendations to the Chancellor no later than year end, 1996.

- The combining of accounting functions for the Agricultural Experiment Station and the Agricultural Extension Service has been considered by both agencies, but has not been implemented. A report on the alternatives and benefits of combining accounting functions has been prepared. The report does not provide a detailed analysis, but it does list the advantages and disadvantages of each alternative.

System management has stated that any future consolidation of service departments, such as the accounting functions for these agencies, will be reviewed by System Administrative and General Offices and approved by the Chancellor. A complete analysis will be performed to determine if consolidation is appropriate, and if it is in the best interest of the service departments' customers and all other affected entities.

- The Engineering Experiment Station's contract and grants administration function costs more than similar functions at two peer institutions. By consolidating five departments and simply reducing the number of directors and assistant directors, it appears that the Engineering Experiment Station could save up to \$375,000 per year. Management disagreed with some of our methodologies. Despite these

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disagreements, management has agreed to review consolidating the five departments.

Other opportunities for the System Administrative and General Offices to monitor and evaluate the activities of System agencies are discussed in this report. As stated above, System management has committed to reviewing future service department consolidations. System management has also stated that it will strengthen controls over the growth of service departments. The Chancellor will establish a task force which will provide recommendations for the creation and approval of all new service departments. The recommendations from this task force will be made available to the Chancellor no later than year end, 1996.

Section 2:

Management Information Systems Should Be Strengthened

Opportunities exist for the System to improve information systems used by persons with oversight authority. These control systems include the System's main accounting and financial information system; controls designed to detect and correct errors on components' annual financial statements, strategic plans, and budgets; and the System Internal Audit Department which produces audit reports. Improvement of these systems will also aid management by improving the accuracy and usefulness of management information.

Section 2-A:

The Accuracy and Reliability of Financial Information Can Be Improved

The users of System annual financial reports have not been provided accurate data with which to make informed decisions because five of the agencies' fiscal year 1994 and 1995

annual financial reports contained errors of omission and misclassification. Additionally, errors were noted with the cost accounting methods and profit/loss calculations for service department operations. For example:

- Misclassification of \$8.1 million was noted in the Agricultural Experiment Station's fiscal year 1994 reporting of institutional support expenditures, research expenditures, and public service expenditures. The Experiment Station has agreed to correct these reporting errors in its future financial reports.
- The Agricultural Extension Service incorrectly reported federal appropriations of \$4.3 million in fiscal year 1994, which overstated total assets. The Extension Service's correction of this error is reflected in its fiscal year 1995 annual financial report.
- The Engineering Experiment Station improperly consolidated 67 service department operations as two service divisions in its fiscal year 1995 annual financial report. These two service divisions had a combined fund balance of approximately \$2.2 million and revenue and expenditures over \$2.4 million. The Experiment Station has agreed to report service department operations at the appropriate level of detail.
- The Forest Service incorrectly classified restricted funds in the amount of \$325,650 in fiscal year 1995. The Forest Service has stated that it will seek guidance from the System Comptroller regarding the correct reporting of these funds.
- The Veterinary Medical Diagnostic Laboratory understated bad debt expense for fiscal years 1991-1995 by \$92,466, which effectively overstated revenue. In

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fiscal year 1995, the Laboratory reported \$77,591 of this expense. The Laboratory has agreed to report bad debt expense correctly in the future.

The System has not achieved its original objectives in the development and implementation of the Financial Accounting Management Information System (FAMIS). In addition, FAMIS is not meeting the needs of all users among the research and service agencies. A common complaint is that it is not user friendly. Other concerns relate to its reporting capabilities and the inability to meet project level accounting needs. This has led to the establishment of multiple systems which has further led to duplication and inefficiencies. Additionally, weaknesses were noted in the accounting data collection and reporting systems at individual agencies.

In response, System has stated that it has no plans for additional components to implement FAMIS except for the three institutions joining the Texas A&M University System in September 1996 (Baylor College of Dentistry, East Texas State University in Commerce, and East Texas State University in Texarkana). System management has further stated that it is committed to the development of a comprehensive management information system to complement both users of FAMIS and other accounting systems. A task force has been formed with representation from a number of member institutions to develop a scope of work and plan of action to be completed no later than August 31, 1996.

Section 2-B:

The Use of Performance Information Should Be Expanded

The overall planning process is generally effective for the System but monitoring and evaluation of System-wide goals and objectives needs improvement. At each

System agency, some type of performance monitoring exists to show that the agencies are producing high quality research, education, and other services. However, several agencies can improve their monitoring and evaluation of customer service. For example:

- The Agricultural Extension Service obtains customer feedback through informal means, but it does not conduct formal customer satisfaction surveys. Management has stated that the agency will review its current procedures for assessing customer satisfaction and seek additional avenues for clientele to provide feed back on program effectiveness and direction.
- The Forest Service is in the process of establishing a process to regularly survey customers and monitor their satisfaction. The targeted completion date is September 1, 1996.
- While the Engineering Experiment Station gives its customers a high quality research product, it should improve procedures to ensure the timeliness of project deliverables. Management has agreed to increase its efforts to produce timely deliverables and to collect data on researchers' timeliness in meeting project deadlines.
- As the Engineering Extension Service implements total quality management principles, it can improve its use of customer satisfaction data. Management plans to implement new methods of capturing and reviewing customer satisfaction by December 1996.

While the scope of this review did not include certification of reported performance measures, a lack of controls over reported performance measures was noted at the

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Agricultural Extension Service. This lack of controls affects the accuracy of performance measures which are reported to the Legislative Budget Board. The accuracy and reliability of performance measurement data is critical to effective decision-making. Management has agreed to review the agency performance reporting system.

Section 3:

Controls over Revenue and Accounts Receivable Should Be Improved at Four System Agencies

Controls over cash receipts and accounts receivable are weak at the following four System agencies: Veterinary Medical Diagnostic Laboratory, Agricultural Extension Service, Engineering Extension Service, and Agricultural Experiment Station.

Management at each of these agencies has indicated that it will take action to correct and improve control weaknesses. Revenues received in the form of tuition or sales and services of activities for the four agencies are shown in Figure 2.

- Financial control systems are significantly weak within the Veterinary Medical Diagnostic Laboratory. The most critical weaknesses are material weaknesses in its accounts receivable system, significant weaknesses in its cash receipting control system, and management override of existing informal policies and procedures. These factors caused the Laboratory to fail to collect the proper amount of revenue and to account for all revenue.
- Controls over the management of local monies and cash receipts at the Agricultural Extension Service are weak. In addition, management has not established sufficient controls to ensure

that accounts receivable are properly collected.

- Management of the Engineering Extension Service should strengthen controls over revenue collection. Cash receipt and accounting duties are not properly segregated. Adequate controls are not in place to ensure collection of all tuition revenue. Credit extension policies can be strengthened.
- There is inadequate segregation of duties and supervisory review of cash receipt functions at several research centers of the Agricultural Experiment Station. Proper controls over cash require segregation of cash handling and recording duties. Without adequate segregation of duties, proper supervisory review is even more important.

Some System agencies are not utilizing a cash receipt lockbox for incoming receipts. Some of the control weaknesses noted would be resolved with the implementation of lockboxes.

Figure 2
Fiscal Year 1995 Revenue from Tuition and Sales & Services of Activities

System Agency	Revenue
Engineering Extension Service	\$17,464,146
Agricultural Experiment Station	\$8,575,236
Veterinary Medical Diagnostic Laboratory	\$4,233,831
Agricultural Extension Service	\$2,085,292

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Section 4:

The Agricultural Agencies Should Improve Controls at Research and Extension Centers Located Outside of College Station

Control weaknesses were noted at service centers located outside of College Station in the following agencies: Texas Agricultural Experiment Station, Texas Agricultural Extension Service, Texas Forest Service, and Texas Veterinary Medical Diagnostic Laboratory. The establishment of research and extension centers among the agricultural agencies is appropriate to carry out each agency's mission. However, geographical dispersion can create breakdowns and inconsistencies in management controls.

Section 4-A:

Controls over Cash Disbursements Should Be Strengthened

Controls over cash disbursements should be improved at the Agricultural Experiment Station and the Agricultural Extension Service.

The following control weaknesses were identified at the Agricultural Experiment Station:

- Purchasing and bidding requirements were circumvented at the Lubbock Center.
- Expenditures appear to have been excessive at the Lubbock Center.
- Duplicate payment of vouchers has occurred.
- Project accounts can be overspent.

The following control weaknesses were identified at the Agricultural Extension Service:

- Accounting and disbursement duties are not adequately segregated.
- Reconciliations are not done regularly or consistently.
- Disbursements are not made in a timely manner.

Management at both agencies has committed to correcting these conditions. The circumvention of purchasing and bidding requirements at the Lubbock Center was originally discovered by the Agricultural Experiment Station's internal auditor.

Section 4-B:

Policies and Procedures Should Be Consistently Applied

Centralized policies and procedures exist at each agency. Some research centers have developed their own procedures to supplement centralized procedures. However, control weaknesses were detected due to inadequate policies and procedures and inconsistent application of policies and procedures. For example:

- Centralized policies and procedures at the Agricultural Experiment Station are not adequate for accounts receivable, cash disbursements, purchasing, and inventory.
- The Agricultural Extension Service has not done a comprehensive update of agency policies and procedures since 1988. Additionally, Extension Service policies may not be distributed effectively.
- Inconsistencies have occurred during implementation of new policies at the Forest Service, which have been partially caused by the lack of detailed written guidelines. Additionally, management

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should ensure strict adherence to policies and procedures for Peace Officers.

- Financial-related policies and procedures are weak at the Veterinary Medical Diagnostic Laboratory.

Management at all affected agencies has agreed to make needed improvements.

Section 4-C:

Operational Planning Should Be Enhanced

Overall, strategic planning and budgeting at each agency is generally adequate. Most improvement can be realized at the level of operational planning. For example:

- The Forest Service has initiated changes to its overall planning process, but the process is not documented. Management has agreed to properly document and communicate policy changes in the future.
- The Agricultural Extension Service has developed a planning system through the use of local program councils that provides the structure for an innovative and responsive service delivery system. However, the Extension Service may not be fully utilizing the membership of the program. Management has stated that adherence to local program council membership and procedures will be stressed and monitored during regular scheduled compliance and performance reviews.
- Goals, objectives, and strategies of the Agricultural Experiment Station's research centers were not always clearly stated. Additionally, there was not always a clear link between the stated goals, objectives, and strategies. Management has stated that it will clarify its plan instructions. However, management considers its

current planning mechanism to be adequate.

Section 5:

Human Resource Management Controls Can Be Improved

All research and service agencies (with the exception of the Animal Damage Control Service) received recommendations to improve human resource management controls. At the eight research and service agencies, there are approximately 5,500 employees who received approximately \$167 million in salaries and wages during fiscal year 1995. Such high levels of investment make wise management of human resources essential.

Two areas that were consistently addressed at each of the System agencies were compliance with statewide goals for minority hiring and documentation of hiring decisions.

Section 5-A:

System Agencies Should Strengthen Efforts to Diversify Their Workforce

Most of the System agencies are not meeting statewide goals for minority hiring, particularly in management and professional positions. The Forest Service and the Transportation Institute require the most overall improvement. The percent of minority workforce reported to the Commission on Human Rights for each of the eight System agencies at the end of fiscal year 1995 is shown in Figure 3. The statewide goals in fiscal year 1995 for management positions was 13 percent and for professional positions was 14 percent.

The System agencies have made a commitment to diversify their workforce by defining goals and action plans which include

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Figure 3
 Minority Workforce as of August 31, 1995

System Agency	Overall Minority Workforce	Executive and Managerial	Faculty and Professional
Agricultural Experiment Station	17.77%	0.00%	6.20%
Agricultural Extension Service	24.12%	5.71%	10.31%
Forest Service	8.64%	0.00%	1.26%
Veterinary Medical Diagnostic Laboratory	10.32%	0.00%	4.17%
Animal Damage Control Service	10.12%	0.00%	9.52%
Engineering Experiment Station	11.46%	17.65%	9.01%
Engineering Extension Service	17.02%	11.54%	12.03%
Transportation Institute	8.42%	0.00%	3.26%

broadening recruiting efforts, offering internships to minorities, and reporting on results.

Section 5-B:
System Agencies Should Improve Documentation of Hiring Decisions

Hiring decisions are not adequately documented at the majority of the research and service agencies. Poor documentation places an agency at risk of discrimination charges. Additionally, there is less certainty that standard criteria and proper legal procedures are being followed.

- A form is available to document hiring decisions at the Agricultural Extension Service, but it is not effectively used.

- The Forest Service has little or no documentation to show why a person was selected for the job
- Applicant tracking logs are not consistently used at the Engineering Experiment Station.
- Documentation is fragmented and applicant tracking logs are not always completed at the Engineering Extension Service.
- Applicant tracking logs are not consistently used at the Transportation Institute.

Each agency's management has agreed to correct the conditions noted at its agency.

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Appendix 1:

Objective, Scope, and Methodology

The objective of the audit was to make an assessment of management processes and control systems within the eight research and service agencies of the Texas A&M University System. The scope of this audit included a review of the processes by which the agencies scan the environment and establish plans; organize themselves to meet those plans; identify and control the use of human, financial, and other resources; and report and evaluate the results of their performance.

The methodology used on this audit consisted of collecting information, performing audit tests and procedures, analyzing the information, and evaluating the information against pre-established criteria.

Information collected to accomplish our objectives included the following:

- Review of the Texas Education Code and other selected state statutes and regulations
- Review of management reports, policy and procedure manuals, Board rules and regulations, and other documents, memoranda, and publications of the agencies
- Interviews with Board members and management and staff of the agencies
- Physical inspection of agency facilities

Analytical techniques included:

- Comparison of agency goals and objectives with statutory responsibilities
- Control review
- Ratio and trend analysis of expenditures
- Cost/benefit analysis of selected operations
- Comparison of actual reports with legislative reporting requirements

Criteria used:

- *State Auditor's Office Methodology Manual*
- Applicable legislation
 - Texas Education Code
 - General Appropriations Act
- Other standard audit criteria established prior to and during fieldwork

Fieldwork was conducted from March 1995 through December 1995. The audit was conducted in accordance with generally accepted government auditing standards.

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The audit work was performed by the following members of the State Auditor's Office:

- Greg Adams, CPA (Project Manager)
- Jon Nelson, CISA (Co-Project Manager)
- Larry Vinyard, CPA, CIA (Quality Control Reviewer)
- Andrea Archer, JD
- Arthur Arispe
- Rob Bollinger, CPA
- Dana Brown
- Rachel Cohen, CPA
- Terry Holderman
- Scotty Killingsworth, CIA
- Various Other Auditors
- Catherine A. Smock, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Director)

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Appendix 2:

Background Information

The Texas A&M University System consists of eight research and service agencies and seven universities, all governed by a Board of Regents. The eight research and service agencies have a combined fiscal year 1996 budget of approximately \$322 million. (See Figure 4.)

The Agricultural Experiment Station, Agricultural Extension Service, Forest Service, Veterinary Medical Diagnostic Laboratory, and Animal Damage Control Service are a part of the System Agriculture Program. The Agriculture Program is focused on developing and providing statewide collaborative food, agricultural, and environmental science and technological activities.

The Engineering Experiment Station, Engineering Extension Service, and Transportation Institute are a part of the System Engineering Program. The Engineering Program is focused on developing and providing statewide engineering, transportation, and technology initiatives.

According to the System Strategic Plan for 1995-1999, research projects underway by System universities and research agencies total \$344 million. System employees teach seminars, workshops, and short courses to more than 3.5 million people annually as a part of the System's service mission.

Figure 4
Fiscal Year 1996 Budgets

Research and Service Agencies	Total All Funds	Net General Revenue Appropriation
Texas Agricultural Experiment Station	\$103,902,926	\$48,482,959
Texas Agricultural Extension Service	63,452,302	39,697,601
Texas Forest Service	19,109,813	13,248,998
Texas Veterinary Medical Diagnostic Laboratory	7,485,914	3,064,571
Texas Animal Damage Control Service	4,946,758	2,908,965
Texas Engineering Experiment Station	50,701,344	9,827,587
Texas Engineering Extension Service	45,254,484	5,437,424
Texas Transportation Institute	27,150,000	2,137,666
TOTALS	\$322,003,541	\$124,805,771

Source: Texas A&M University System Budget Office

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Appendix 3:

Summary of Audit Issues at the Eight Agencies

Audits of the eight research and service agencies of the Texas A&M University System were conducted during the course of this management control audit. This appendix contains a summary of audit issues identified and reported to management, the Chancellor, and the Board of Regents. SAO Report No. 96-065 is a publication of the detailed reports for each System agency, including management's written responses.

Texas Agricultural Experiment Station

What is our overall assessment of the Agricultural Experiment Station's management controls?

Weaknesses in key control systems expose the Texas Agricultural Experiment Station to the risk of ineffective and inefficient operations. Based on a review of three out of the 13 regional research centers, management controls are not consistently applied.

What is the Agricultural Experiment Station doing well?

The Agricultural Experiment Station has been effective in accomplishing its research mission as evidenced by the quality of its scientific research. Accomplishments of the Agricultural Experiment Station have been recognized in Texas A&M University System publications and the news media. In addition, a sample of clients cited general satisfaction with the quality of work produced by the Agricultural Experiment Station.

What important issues did we find at the Agricultural Experiment Station?

- Duplication and inefficiencies have resulted from the use of multiple accounting systems, including the System Financial Accounting and Management Information System (FAMIS), the Agricultural Experiment Station's Project Fund Management System, and locally developed reports and spreadsheets. The Agricultural Experiment Station should establish an efficient link between its Project Fund Management System and FAMIS.
- The Agricultural Experiment Station's Project Fund Management System has not been developed with adequate control features to prevent duplicate payments to vendors for the same item or to prevent overspending of accounts.
- Management control weaknesses were identified at the three regional research centers visited:

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- Centralized policies and procedures are not adequate for accounts receivable, cash disbursements, purchasing, and inventory. Some research centers have developed their own procedures to supplement centralized procedures which can lead to inconsistent application of policies and procedures and inadequate controls.
- Bidding requirements were circumvented at the Lubbock center. Expenditures for non-research items such as office furnishings appear to have been excessive at the Lubbock center.
- The Agricultural Experiment Station should review compensation rates and job descriptions. The Agricultural Experiment Station should also develop a plan to aggressively recruit female and minority job applicants for categories which have not met statewide goals.

Summary of Management's Response

The Agricultural Experiment Station generally agrees with the recommendations and has stated specific actions to be taken to correct and improve control weaknesses.

Texas Agricultural Extension Service

What is our overall assessment of the Agricultural Extension Service's management controls?

Information systems and financial control systems are generally weak within the Texas Agricultural Extension Service. Weaknesses in key control systems expose the Agricultural Extension Service to the risk of ineffective and inefficient operations.

What is the Agricultural Extension Service doing well?

The Agricultural Extension Service has developed a planning system through the use of local program councils that provides the structure for an innovative and responsive service delivery system. Once local input is received, it is used to implement statewide goals and initiatives. In addition, each county agent develops a detailed action plan that ties to the county's *Long-Range Extension Plan* and to statewide objectives. The action plans are negotiated annually between the county agents and the district directors and form the criteria against which the agents are evaluated each year.

What important issues did we find at the Agricultural Extension Service?

- The Agricultural Extension Service collects data that is not reliable because controls are not in place to ensure that the data is accurate. Accuracy of data in the County Extension Agent Monthly Reporting System is not sufficiently controlled.

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The lack of controls over reported data affects the accuracy of performance measures which are reported to the Legislative Budget Board.

- The Agricultural Extension Service may not be fully utilizing the membership of program councils in its planning process.
- The Agricultural Extension Service should address the following weaknesses in financial control systems.
 - Controls over the management of local monies and cash receipts are weak. In addition, management has not established sufficient controls to ensure that accounts receivable are properly collected.
 - Controls over the accounting, review, and authorization of disbursements are weak. In addition, disbursements are not made in a timely manner.
- The Agricultural Extension Service should strengthen its efforts to diversify and fully document its hiring decisions. Employee performance evaluations should be better controlled.

Summary of Management's Response

The Agricultural Extension Service generally agrees with the recommendations and has stated specific actions to be taken to correct and improve control weaknesses.

Texas Forest Service

What is our overall assessment of the Forest Service's management controls?

Weaknesses in key control systems expose the Texas Forest Service to the risk of ineffective and inefficient operations. The Forest Service should continue to focus on customer service in its systems of planning, performance measurement, and policy implementation. Additionally, improvements are needed with financial control systems, human resource management controls, and policies and procedures.

What is the Forest Service doing well?

The Forest Service has sound controls in place to monitor and evaluate its major programs of forest management and fire control. The Forest Service has demonstrated that programs are continually evaluated, and when necessary, changed to meet shifting priorities. It is in the process of changing its strategies and organization by providing leadership and education in forestry programs while reducing labor and equipment intensive programs.

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What important issues did we find at the Forest Service?

- The Forest Service should continue to focus on customer service in its systems of planning, performance measurement, and policy implementation. As the Forest Service plans to service more of its customers by moving into a facilitating role, input and feedback from those customers is very important.
- The Forest Service has not properly accounted for monies in the Cooperative Emergency Response Fund. Additionally, the Forest Service has incorrectly classified the Cooperative Emergency Response Fund and the Fire Safe Fund as restricted funds. These two funds totaled approximately \$325,650 of the Forest Service's \$2.6 million of restricted funds in fiscal year 1995.
- The Forest Service should reimburse the General Revenue Fund \$252,845 from federal reimbursements which are in the Cooperative Emergency Response Fund. While these federal reimbursements are reappropriated to the Forest Service, the funds should have been credited to the General Revenue Fund. Then, any monies not expended or encumbered at the end of the fiscal year will have lapsed. There is no indication that the Response Fund has been used for other purposes than to pay for emergency services.
- The Forest Service should develop a system for analyzing staffing needs and strengthen its efforts to diversify its workforce.
- The Forest Service currently has ten certified Peace Officers to enforce all laws pertaining to the protection of forests and woodlands in the State of Texas. Given the significance and sensitivity of law enforcement duties, management should ensure strict adherence to policies and procedures for Peace Officers.
 - Policies regarding firearms should be clarified and enforced.
 - Job descriptions for Peace Officers should reflect their multiple job responsibilities.
 - All Peace Officers should have a license and a current bond in their files.

Summary of Management's Response

The Forest Service generally agrees with the recommendations, with one exception, and has stated specific actions to be taken to correct and improve control weaknesses. The Forest Service disagrees with the recommendation to reimburse the balance of the Cooperative Emergency Response Fund to the General Revenue Fund.

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Texas Veterinary Medical Diagnostic Laboratory

What is our overall assessment of the Diagnostic Laboratory's management controls?

Financial control systems are generally weak within the Texas Veterinary Medical Diagnostic Laboratory. Of most significance are weaknesses in the failure to collect the proper amount of revenue and to account for all revenue.

What is the Diagnostic Laboratory doing well?

Generally, procedures are designed to effectively recruit and select employees, ensure that employees have the skills to do their job, evaluate employees' performance, and properly document personnel actions.

What important issues did we find at the Diagnostic Laboratory?

- Management has not established sufficient controls to ensure that accounts receivable are properly collected. As of August 31, 1995, the agency reported over \$600,000 in accounts receivable. The agency has not complied with System policy and state law in the management of accounts receivable. The agency has failed to establish written procedures that specifically address the initial extension of credit, accounts receivable, billings, collection of past due amounts, and write-off of receivables. Management routinely overrides its own informal policies and procedures.
- Revenue is not recognized and recorded as it is earned. Revenue is recorded only to the extent that payments are received and deposited. In recording credit sales, the agency charges individual customer accounts for each service rendered. However, there is no general ledger control account to record total sales and provide the related double-entry control. Thus, the amount of revenue reported in financial reports cannot be directly determined. It has to be indirectly calculated from the deposit of cash receipts and customer account information maintained in a single-entry accounting system. Estimated revenue from agency service fees in fiscal year 1995 was over \$4 million.
- Weaknesses in access and security procedures for the agency's automated systems, including customer and accounting systems, expose the agency to errors and irregularities. Security policies for agency staff have not been developed in writing, and the agency does not follow Department of Information Resources standards and policies.

Summary of Management's Response

The Veterinary Medical Diagnostic Laboratory generally agrees with the recommendations and has stated specific actions to be taken to correct and improve control weaknesses.

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Texas Animal Damage Control Service

What is our overall assessment of the Animal Damage Control Service's management controls?

The management control systems and processes of the Texas Animal Damage Control Service are generally adequate. The Service's activities are conducted in collaboration with the United States Department of Agriculture's Animal and Plant Health Inspection Service and a private non-profit organization called the Texas Animal Damage Control Association. These entities operate under the terms of a Memorandum of Understanding which designates a federal employee as the Director of the Service. The Director has overall program management responsibilities.

What is the Animal Damage Control Service doing well?

We reviewed the following areas and did not have any significant findings to report.

- Information management - The Service uses a system developed by the Federal Government, which captures an extensive array of information.
- Human resource management - Processes are in place to ensure that employees have the skills to do their job, know what their job is, are trained so that they can do their job effectively, and are evaluated on their performance.
- Cash and revenue management
- Fixed assets management

What important issues did we find at the Animal Damage Control Service?

There were no significant findings to report.

Texas Engineering Experiment Station

What is our overall assessment of the Engineering Experiment Station's management controls?

The Texas Engineering Experiment Station should improve some key management controls related to the quality of financial information, grant administration, and customer service. Weaknesses in key control systems expose the Experiment Station to the risk of ineffective and inefficient operations.

Appendices

What is the Engineering Experiment Station doing well?

The Engineering Experiment Station performs quality scientific research as evidenced by several factors, including growth of Grant Revenues from \$26.9 million in 1992 to \$32.4 million in 1995. In addition, 11 sponsors surveyed by the State Auditor's Office did not mention any problem with the quality of Engineering Experiment Station research. Six of the 11 sponsors specifically noted that research results ranged from good to excellent.

What important issues did we find at the Engineering Experiment Station?

- The Engineering Experiment Station's annual financial report does not accurately reflect key elements of the Experiment Station's financial condition. The Experiment Station combined the results of 37 separate service operations as a single service division and 30 other service operations as another service division in the fiscal year 1995 annual financial report. This is not in compliance with the State Comptroller's financial reporting requirements for Designated Funds. These two service divisions had a combined fund balance of \$2.2 million, expenditures over \$2.4 million, and revenues over \$2.6 million.
- The Engineering Experiment Station's contract and grants administration function costs more than similar functions at two peer institutions. By consolidating five departments and simply reducing the number of directors and assistant directors, the Engineering Experiment Station could save up to \$375,000 per year.
- The Engineering Experiment Station gives its customers a high quality research product which has enabled it to grow in recent years. However, customer service deficiencies in some projects present a risk to future growth. Management should take steps to improve the Engineering Experiment Station's customer service to avoid future loss of business or customers' withholding of funds.

Summary of Management's Response

The Engineering Experiment Station generally agrees with the recommendations, with one exception, and has stated specific actions to be taken to correct and improve control weaknesses. The Engineering Experiment Station disagrees with the comparison of certain contract and grants costs among two peer institutions.

Texas Engineering Extension Service

What is our overall assessment of the Engineering Extension Service's management controls?

Overall management controls are adequate at the Texas Engineering Extension Service. However, there are some opportunities for improvement.

Appendices

What is the Engineering Extension Service doing well?

The Engineering Extension Service's management has adopted a total quality management philosophy which can be seen throughout the agency's operations. The Engineering Extension Service is committed to consistently meeting or exceeding both internal and external customer expectations. The Engineering Extension Service develops courses based on direct input from its customers. An analysis of the results of student course evaluations from 20 courses revealed that students were generally satisfied with Engineering Extension Service courses.

What important issues did we find at the Engineering Extension Service?

- The Engineering Extension Service's management information systems focus on financial information and student/class information. However, the Engineering Extension Service does not comprehensively capture available customer satisfaction information. Additionally:
 - The Engineering Extension Service's financial system is inadequate for use as a management tool.
 - A formal system for ongoing space utilization analysis for the Extension Service's four training centers has not been established.
- The Engineering Extension Service needs to improve its controls over revenue collection. Approximately 85 percent (\$30.3 million) of its \$35.6 million in total fiscal year 1995 current fund revenues came from tuition, grants, and contracts. Specifically:
 - Cash receipt and accounting duties are not properly segregated.
 - Adequate controls are not in place to ensure collection of all tuition revenue.
 - Credit extension policies can be strengthened.

Summary of Management's Response

The Engineering Extension Service generally agrees with the recommendations and has stated specific actions to be taken to correct and improve control weaknesses.

Texas Transportation Institute

What is our overall assessment of the Transportation Institute's management controls?

Overall management controls are adequate at the Texas Transportation Institute. Currently, the Transportation Institute is financially sound. While management controls are generally adequate, there are some opportunities for improvement.

Appendices

What is the Transportation Institute doing well?

The Transportation Institute is peer-ranked as one of the premier university transportation programs in the United States. To conduct research effectively, it partners with other universities and governmental bodies, such as the Texas Department of Transportation. The Transportation Institute also works closely with private industry to ensure relevance in its problem-solving approach to complex transportation issues.

What important issues did we find at the Transportation Institute?

- While customer satisfaction in the quality of research is high, the Transportation Institute should take actions to ensure continued success. Currently, it does not send a letter of introduction to new customers nor does it periodically survey customers to determine their satisfaction with services. These actions are effective ways to maintain and improve customer service. Also, the Transportation Institute should continue to work on the timeliness of its deliverables.
- The Transportation Institute's strategic planning process is effective. However, the quality of operational planning varies from division to division. Most divisions do not prepare detailed operational plans. An extension of effective planning is the development of meaningful performance measures. The Transportation Institute's performance measures contain some useful information, but it is not the critical information used to run the agency. Management does not believe its current performance measures are the best indicators of agency performance. While creating meaningful performance measures for research programs is difficult, it is a necessary management tool.
- The Transportation Institute should address the following human resource management controls:
 - Applicant tracking logs should be prepared for all positions.
 - Employee training should be improved.
 - The Institute should continue efforts to diversify its workforce.
 - An effective career ladder should be developed.

Summary of Management's Response

The Transportation Institute generally agrees with the recommendations and has stated specific actions to be taken to correct and improve control weaknesses.