

OFFICE OF THE STATE AUDITOR

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LAWRENCE F. ALWIN, CPA
State Auditor

January 10, 1997

Dr. Konrad Eugster, Executive Director
Texas Veterinary Medical Diagnostic Laboratory
P.O. Drawer 3040
College Station, TX 77841-3040

Dear Dr. Eugster:

Per your request, we have completed the follow-up audit at the Texas Veterinary Medical Diagnostic Laboratory (TVMDL). The TVMDL has made significant progress in addressing issues and implementing recommendations from *An Audit Report on Management Controls at Texas A&M University System Research and Service Agencies*, (SAO Report No. 95-065, May 1996). While the material control weakness that existed in the management of accounts receivable has been corrected, the extension of credit to past-due accounts still needs to be improved.

During our review, it was apparent that significant achievements had been made in establishing and/or improving the controls in most areas identified in our prior report. These identified areas included the management of:

Accounts

Receivable: Improvements to controls include:

- Establishing credit limits on accounts
- Developing procedures for handling past due accounts
- Gathering complete information when establishing new accounts
- Proper documentation of pro-bono services

Weaknesses in the management of past-due accounts still exist. The following conditions were noted:

- Accounts that are past due more than 120 days are not consistently being blocked from having additional charges posted.
- Some accounts that have been blocked continue to have charges posted.
- Accounts with a balance of more than \$1,000 that are past due more than 120 days are not being referred to the Attorney General's Office for collection as required by TVMDL policy.

We recommend that TVMDL follow its policies and procedures regarding past-due accounts. Specific attention should be given to managing the blocking of past-due accounts from continuing to charge laboratory services.

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- Revenue:** Improvements to controls include:
- Developing new procedures for proper segregation of duties over cash receipting, depositing and reconciling
 - Documenting the revenue process with control logs, account adjustment forms, and reconciliations between TVMDL monthly deposits and the accounting reports maintained by the Texas A&M University Fiscal Office
 - Developing an accounts receivable control account to properly record total billings, payments, finance charges, and adjustments

With the development of these new initiatives, we have reminded management of the need to update its policies and procedures to reflect these changes. Management has assured us these updates will be made.

- Automation:** Improvements to controls include:
- Giving users read-only access to accounts
 - Restricting invalid log-ins to three times per day with an alert to the automation staff
 - Restricting computer access to new hires who have written authorization from their supervisor
 - Automatically logging Windows 95 users out of the system after 15 minutes of inactivity

We have concluded that management has addressed all of the recommendations from the prior audit report that it considers practical given the current computer system. As new systems are developed, management has indicated its intent to incorporate the changes not possible with the current system. The primary change that will be included in the new system is the addition of security features.

The objective of this audit was to follow-up on the recommendations made in *An Audit Report on Management Controls at Texas A&M University System Research and Service Agencies*, (SAO Report No. 95-065, May 1996). The scope of our work was limited to the issues identified in that report. The methodology used to gather sufficient information to make our assessments included interviews with TVMDL staff, review of policies and procedures and their implementation, test of revenue transactions, and a review of automation systems used to manage the accounts receivables.

Fieldwork was conducted from June 10, 1996, through July 18, 1996. The audit was performed in accordance with applicable professional standards, including Generally Accepted Government Auditing Standards and Generally Accepted Auditing Standards.

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I would like to thank you and your staff for the courteous assistance and cooperation during this audit; it is greatly appreciated. Please keep us informed of your progress in addressing the recommendation regarding the management of past-due accounts.

Sincerely,

Dick Dinan, CPA
Project Manager

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cc: Members of the Legislative Audit Committee
Texas A&M University System Board of Regents
Dr. Barry Thompson, Chancellor, Texas A&M University System
Mr. Frank Clark Sr., Director of Internal Audit, Texas A&M University System

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