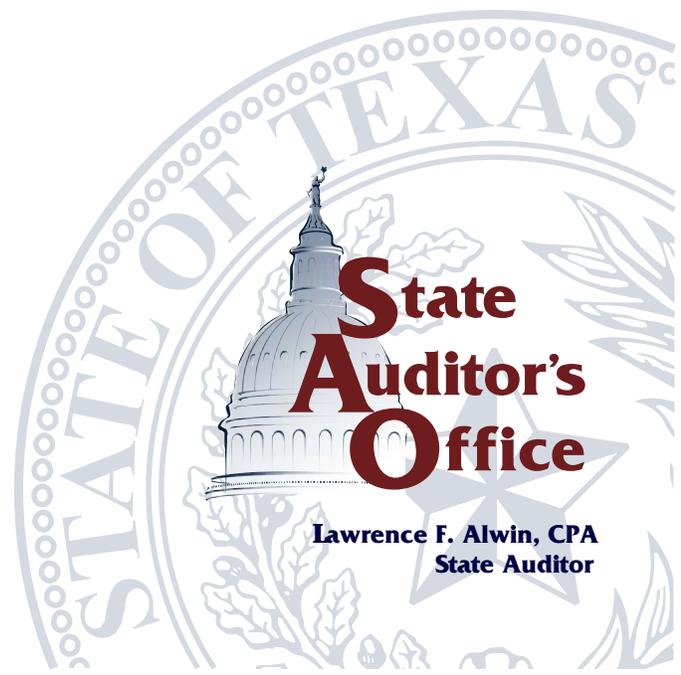


A Financial Review of

# Texas State University – San Marcos

October 2003

Report No. 04-008



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State Auditor

# Texas State University - San Marcos

## Overall Conclusion

Texas State University - San Marcos's (University) systems and procedures allow the University to report accurate and consistent financial statement information on a summary level to the Legislature, the Texas State University System, and University management. However, the University has failed to resolve a long-standing shortage in a bookstore cash account, despite recommendations from its Internal Audit Department to do so. Our Special Investigations Unit is presently investigating the situation and will issue a separate report. While the account is out of balance by more than \$310,000, it does not significantly affect the University's Annual Financial Report (AFR) because of the summarized nature of university AFRs. In addition, the University did not include contracts totaling \$52 million in its report to the Legislative Budget Board. The Legislative Budget Board provides entities' contracting information to the Legislature and the public.

### Texas State University - San Marcos

On September 1, 2003, the University's name changed from Southwest Texas State University to Texas State University - San Marcos.

The University generally uses state appropriations and local funds in accordance with applicable state laws and regulations, and it has adequate processes to manage its contracts and grants. However, University management does not ensure that its departments and divisions consistently follow University policies and procedures relating to procurement card purchases and contract and grant management. Specifically:

- Management does not enforce its internal policies relating to procurement card purchases. Our testing found that some procurement card users routinely split purchases between transactions to circumvent transaction limits. Splitting purchases creates a risk that the University will not comply with state purchasing laws and regulations. However, we found no evidence that these purchases violated any state laws or regulations.
- Management does not consistently ensure that the appropriate University offices approve and administer all research grants, which University policies require. Grants that are approved and administered by individual departments are not subject to the University's usual monitoring procedures. This situation creates a risk that grant provisions will not be in the University's best interest. For example, we found that indirect cost recovery provisions were not included in these grants, resulting in lost indirect cost revenues of \$191,572 during the grant periods. The lack of these provisions also creates a risk that the University will be financially responsible for expenditures that do not meet grant requirements.

The results the University reported for the key performance measures we reviewed were properly calculated and reasonably supported. The University reported in the Automated Budget and Evaluation System of Texas (ABEST) that it did not meet three of its seven key measures for fiscal year 2002.

Our audit also found that the University does not adequately protect its electronic data and computer hardware. Its password system lacks controls to reduce unauthorized access to computer workstations, and its data centers are not safeguarded from physical threats,



including environmental hazards. The University has not finalized its disaster recovery plan or tested it since 1999.

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

While the University needs to take action to safeguard its electronic data and computer hardware, the weaknesses we identified did not affect the accuracy of the financial data provided to the Legislature and the Texas State University System for fiscal year 2002. We found that the University's review process and manual controls for its AFR were sufficient to identify significant errors.

The University is implementing a new financial accounting and reporting system, which provides it the opportunity to take advantage of new technology to improve its accounting process. The University's contract for this system totals \$15 million. The University expects to implement the new system in the latter half of fiscal year 2004.

Our audit work covered the following systems:

- College and University Financial System (CUFS) - The University uses CUFS as its primary accounting system.
- Student Accounts Receivable System (SARS) - The University uses SARS to record student billings for its 26,000 currently enrolled students. This information is exported in batches to CUFS.
- Payroll System - The University uses an internally developed payroll system to process all payroll transactions. Payroll transactions are exported in summary batches to the general ledger in CUFS.

We also reviewed the University's controls over access to its systems and equipment and its provisions for preventive maintenance, data backup, and disaster recovery.

# Detailed Results

## Chapter 1

### ***Does the University report accurate and consistent financial information?***

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Texas State University – San Marcos’s (University) systems and procedures allow the University to report accurate and consistent financial statement information at a summary level to the Legislature. We focused on financial information for fiscal year 2002 and the first two quarters of fiscal year 2003. Although our review was more limited than a financial statement opinion audit, we did not find significant inaccuracies or inconsistencies in the University’s primary financial reports.

However, University management has failed to resolve a long-standing shortage in a bookstore cash account. Because new reporting standards adopted by the Governmental Accounting Standards Board for fiscal year 2002 reduced the level of detail required in university financial statements, the shortage of approximately \$310,000 in the bookstore cash account does not significantly affect the University’s financial statements submitted to the Legislature. In addition, the University did not provide complete information regarding its contracting activity to the Legislative Budget Board.

#### Chapter 1-A

### **The University Provided Generally Accurate and Consistent Financial Statement Information to the Legislature and University Management**

The University’s Annual Financial Report (AFR) for fiscal year 2002 provided generally accurate and consistent financial statement information to the Legislature. The University prepared the AFR according to the guidance provided by the Comptroller of Public Accounts (Comptroller) and the Texas State University System (System). The information was consistent with revenue and expenditure information reported in the University’s accounting system and in monthly financial reports to University and System management. We validated the information in the accounting system through testing of payroll expenditures, non-payroll expenditures, journal entries, and revenues. Similarly, we determined that revenue estimates included in the University’s Legislative Appropriations Request (LAR) were reasonable. We found that the University properly reconciled its internal system transactions and its accounting system to the Uniform Statewide Accounting System (USAS) according to Comptroller guidelines.

The University is implementing a new financial system that will replace its current general ledger and payroll systems. Implementation is scheduled to take place in the latter half of fiscal year 2004. The new system gives the University an opportunity to address weaknesses in its current systems that require it to perform time-consuming manual reviews to ensure that information is complete and reliable. Specifically:

- User profiles in the current systems inappropriately allow several people to enter, authorize, correct, and post transactions.

- The current systems do not automatically reconcile batches of transactions that are sent from one system to the other. The University has to reconcile the batches manually to ensure that all the transactions are accounted for and processed accurately.
- When information from the payroll system is corrected, the ledger system does not document that someone approved the corrections. In addition, the systems do not ensure that corrections to payroll data in the general ledger system are also made in the payroll system.
- The current systems do not have adequate reporting and feedback mechanisms.

### Recommendation

The University should ensure that it addresses the weaknesses in its current general ledger and payroll systems as it implements its new financial system.

### Management's Response

*Management concurs. The new software is providing the University with the opportunity to address the items mentioned in the finding, as well to incorporate industry best-practices in other areas.*

Chapter 1-B

## The University Has Not Resolved a Long-Standing Shortage in a Bookstore Cash Account

The cash balance reported in the University's general ledger system for a bookstore cash account used for day-to-day change needs does not match the actual cash balance. As of August 31, 2002, the University's general ledger system reported a cash balance of \$411,576. However, the actual cash in the vault totaled \$101,075.

In 1998, the University's Internal Audit Department audited the bookstore's cash management practices and determined that they did not minimize the risk of loss. In a follow-up audit in 2000, Internal Audit found that the bookstore still had not fully documented its cash management procedures and had not mitigated the risk of losing additional cash. Internal Audit has conducted several cash counts since 2000 and has noted discrepancies in each.

The University hired a consultant in 2002 to review the problem, and after State Auditor's Office auditors arrived on campus, University management intensified its reconciliation efforts. Because of the possibility that the shortage is the result of fraud, we referred the case to the State Auditor's Office's Special Investigations Unit. The Special Investigations Unit is reviewing the situation and will disclose the results of its review at a later date.

### Recommendations

The University should:

- Continue to pursue a resolution of the bookstore cash shortage.

- Address Internal Audit's recommendations to establish and implement cash receipt and reconciliation procedures in areas where cash is handled.
- Require strict adherence to cash management controls and routinely monitor cash balances.
- Take immediate action when problems are observed in the future.

### Management's Response

*Management sincerely appreciates the assistance of the State Auditor's Office, the University's Office of Internal Audit & Advisory Services, and the System Director of Internal Audit in attempting to resolve this issue.*

*Management concurs with the SAO's specific recommendations, as follows:*

- *Resolution of the shortage - We have been actively reviewing both accounting and bookstore records to determine the nature of the difference (i.e., whether it was the result of accounting errors or an actual shortage due to missing funds). Our plan is to complete this review and to consult with the SAO, TSUS Director of Internal Audit and the University's Internal Audit Office to determine a course of action. By August 31, 2004, the difference will be written off or appropriate legal action will be taken if warranted.*
- *Implement Internal Auditors' cash handling recommendations – University Policy and Procedures Statement 03.01.05, Cash Handling Procedures, was revised in August 2002. Not later than February 28, 2004, we will review the policy statement again to ensure all of Internal Audit's recommendations have been included and ensure that all cash handling areas are following the policy.*
- *Require strict adherence to controls and monitoring – A copy of the revised policy statement UPPS 03.01.05 will be distributed with a memo from the Vice President for Finance and Support Services to all departments handling cash to remind them of the importance of internal controls and of following all required procedures. Additionally, we will work with Internal Audit to structure a routine review by their office of all cash-handling operations. This will be accomplished by February 28, 2004.*
- *Immediate action - Management is committed to taking immediate action in situations such as this and has demonstrated that in other instances. This particular problem required that both accounting and bookstore records be reviewed in detail to first ensure that bookkeeping and/or reporting errors had not occurred. This was an extremely time-consuming process which involved the review of daily sales reports covering several fiscal years. We also contracted with forensic accountants from an internationally-recognized C.P.A. firm and, after working for several months, they could not identify the source of the problem. Management acknowledges that this situation has lasted over an extended period of time; but, we are committed to immediate action for any future problems that may occur.*

## The University Did Not Report Some Contracts to the Legislative Budget Board

The University did not report to the Legislative Budget Board (LBB) some current contracts that meet the reporting criteria, which is required by the Government Code (Chapter 2166, Section 2551; Chapter 2254, Section 006; and Chapter 2054, Section 008). As a result, decision makers did not have complete information with which to make planning and budgeting decisions. Also, not reporting as required increases the potential that any inappropriate or inefficient contracting decisions may be continued in the future.

The University should have reported the following contracts within 10 days as required by state statute but did not:

- Five construction contracts that totaled \$37,193,407. The associated projects included:
  - ♦ Renovating and improving the administrative building.
  - ♦ Repairing water damage at the College Inn (two contracts).
  - ♦ Constructing the Art/Technology/Physics Building.
  - ♦ Completing Phase II of code compliance at the College Inn.
- Two professional consulting services contracts totaling \$60,973. The contracts were for training and assistance for implementation of the new financial reporting model for public colleges and universities and professional accounting services.
- One contract for a major information system in the amount of \$15,073,699. The contract was for the implementation of the new Future Administrative System project. The University notified the LBB about this project but did not notify the LBB that the contract had been awarded.

After our auditors informed University management about the reporting errors, management reported the above contracts to the LBB.

We found that the University had inadequate policies and procedures for ensuring that contracts are properly reported.

### Recommendation

The University should establish and implement policies and procedures to ensure that it reports contracts to the LBB as required. The University should ensure that these policies and procedures include formal channels for communicating and tracking contracting activity for all University departments involved in contracting for goods or services.

### Management's Response

*Management appreciates the SAO pointing out the change in the law which broadened the reporting categories. Our previous procedures were geared to the requirement to report primarily construction and consulting contracts. The expanded reporting will be included in revised policies and procedures (which will be finalized by February 28, 2004).*

## ***Does the University use state appropriations and local funds in accordance with applicable state laws and regulations?***

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We found that the University uses state appropriations and local funds in accordance with applicable state laws and regulations. However, we observed that University management does not enforce its internal policies relating to procurement card purchases and that an inadequately secured Cashier's Office held large amounts of cash.

### Chapter 2-A

#### **Some Users of University Procurement Cards Circumvent Policies**

Some users of University procurement cards circumvent the University's procurement card policies. Specifically, for 34 of the 66 expenditures we tested, cardholders split purchases into more than one transaction so that each transaction would be below the authorized transaction limit. During fiscal year 2002 and the first two quarters of fiscal year 2003, the University paid \$7,569,138 for procurement card purchases.

According to University policy, cardholders are not to use cards for purchases that exceed a pre-established limit. By splitting purchases so that they fall below the limit, cardholders may make purchases that exceed their departmental budgets. Splitting purchases also creates a risk that the University will not comply with state, System, and University policies and regulations designed to control and monitor purchasing activity. For example, bids may not be obtained for purchases exceeding bidding thresholds, and purchases may be made from vendors who are not eligible under state purchasing guidelines.

Although we did not find any inappropriate charges, we found that some cardholders used their cards to pay for gratuities at restaurants with non-state funds. While this practice is not permitted for state funds, it is not specifically prohibited by University policy for non-state funds. We did not note any instances where gratuities were paid with state funds.

In addition, while University policy requires that management review procurement card purchases monthly, we found that these reviews were not sufficiently detailed to identify existing problems. Also, the University's Internal Audit and Purchasing Departments identified problems with the use of procurement cards in a number of previous departmental audits. The problems we found through our audit reflect that University management is not taking sufficient action in addressing problems identified by Internal Audit or other departments.

#### **Recommendations**

The University should:

- Review existing procurement card policies and procedures and revise them if appropriate.

- Establish a policy to prohibit cardholders from splitting transactions and establish and enforce procedures to ensure that purchases are not split into multiple transactions.
- Ensure that transaction limits and credit limits for individual cards and accounts are appropriate.
- Inform all cardholders of current procurement card policies and procedures.
- Improve procedures for reviewing monthly billings.
- Require that purchases that circumvent University policies and procedures be communicated to an appropriate level of management.
- Consider rescinding procurement card privileges for cardholders who circumvent University policies and procedures.
- Ensure that departments address procurement card issues identified by the Internal Audit or Purchasing Departments.

#### Management's Response

*Management concurs. All of the above recommendations will be incorporated into revised policies which will be prepared not later than February 28, 2004.*

Chapter 2-B

#### The Cashier's Office Lacks Adequate Access Controls

Although the University has reduced the amount of funds kept in the Cashier's Office, access controls for the Cashier's Office are not adequate for a large University cashing operation. We communicated our specific concerns to management along with recommendations for improvement.

The University previously kept large amounts of funds because it provided cash to students when their Stafford Loan checks were larger than the amounts they owed the University. In the fall of 2003, the University began issuing checks to students rather than cash when their loan proceeds exceeded the amounts they owed. As a result, University management has reduced the amount of funds kept in the Cashier's Office to more closely meet its business requirements.

#### Recommendations

The University should:

- Ensure that the amount of funds held by the Cashier's Office does not exceed its current business requirements.
- Continue to implement stronger access controls in the Cashier's Office.

#### Management's Response

*Management concurs. Funds are kept to a minimum and stronger access controls have been undertaken.*

## ***Does the University have effective controls over contract and grant management?***

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Overall, the University has adequate processes to manage contracts and grants. However, management does not consistently ensure that the appropriate University offices approve and administer all grants, which University policies require. In addition, some University departments do not have documented policies and procedures for managing University contracts. As noted in Chapter 1, we also found that the University failed to report some contracts to the LBB as required, increasing the risk that the State will not have complete information for decision making.

### Chapter 3-A

#### **Not All Grants Are Approved and Administered by the Appropriate University Offices**

Management does not consistently ensure that the appropriate University offices approve and administer the University's research grants. University policy requires that the Office of Sponsored Programs approve all grants and that the Office of Grants and Contracts Administration administer all grants. These policies help ensure that grants are in the University's best interest, that the University can recover all allowable expenses, and that the University and the grantor meet their obligations.

The Office of Sponsored Programs was not involved in the award process for three grants. Not involving the Office of Sponsored Programs creates a risk that the grants will not contain the provisions necessary to protect the University's interest. For example, these three grants did not specify that the University could recover its indirect costs, resulting in lost indirect cost revenues of \$191,572.

We found one department that administers a grant itself rather than going through the Office of Grants and Contracts Administration. Because payments and reports for this grant are not subject to the University's usual monitoring procedures, the University risks incurring liabilities for expenditures that are not allowable under grant provisions or not in accordance with administrative requirements.

#### **Recommendation**

University management should consistently enforce policies and procedures designed to ensure that the Office of Sponsored Programs approves and that the Office of Grants and Contracts Administration administers all grants.

#### **Management's Response**

*Management concurs. By December 31, 2003 a memo will be distributed to remind prospective and current principal investigators that all proposals must be processed through appropriate administrative offices.*

## Some University Divisions Lack Contract Management Procedures

Several University divisions manage University contracts for goods and services. While the University has formal policies for processing and approving contracts, not all divisions follow them. Several divisions' contracts did not include clauses allowing them to audit the contractors' records. To ensure that the University does not enter into unreasonable or detrimental agreements, it is essential that all contracts be carefully reviewed and approved before they are executed.

In addition, not all of the divisions have formally documented policies and procedures for managing and monitoring contracts. Such policies and procedures are needed at the department level because of the diversity in the types of contracts. For example, the division that administers the University's multi-million dollar food services contract had no written procedures for monitoring this complex contract.

To ensure that the vendors and the University meet their commitments and obligations, all divisions should manage and monitor contracts consistently and in accordance with University policies and any applicable state regulations. Without fully documented policies and procedures for all large vendor contracts, the risk is increased that the University may not receive all benefits to which it is entitled and may incur liabilities by failing to meet contract provisions.

### Recommendations

The University should:

- Ensure that its divisions follow University policies and procedures for the development and approval of all contracts.
- Require that each division that administers contracts develop and implement written contract management and monitoring procedures that adequately protect the interests of the University.

### Management's Response

*Management concurs that university policies and procedures should be followed when developing and approving contracts, as well as having written contract management and monitoring procedures. The current university policy (UPPS) for contracts will be revised to incorporate these recommendations and will be distributed appropriately. Target date for completing the revision is February 28, 2004 with approval and distribution to occur by April 30, 2004.*

## *Did the University report accurate performance measures results for fiscal year 2002?*

The results the University reported for the key measures we reviewed were properly calculated and reasonably supported. As reported in the Automated Budget and Evaluation System of Texas (ABEST), the University did not meet three of its seven key measures for fiscal year 2002. The University has policies and procedures for tracking and calculating the key measures it reports to ABEST. However, we noted during our audit that the University lacks written policies and procedures for tracking and reporting some of its internal measures.

Chapter 4-A

### **The University Did Not Meet Three of Seven Key Measures in Fiscal Year 2002**

According to the results the University submitted to ABEST, the University did not meet the targets for three of its seven key performance measures and exceeded the targets for two of the measures. An entity meets its target if its results are within 5 percent of the target. For the remaining two key measures, the University was within 5 percent of the target (see Table 1).

Table 1

The University's Performance Measure Results for Fiscal Year 2002			
Measure	Target	Actual	Variance
Performance Measures Not Met (results are more than 5 percent short of the target)			
Administrative Cost as a Percent of Total Expenditures	10.70%	12.10%	13.08%
Percent of Lower Division Courses Taught by Tenured Faculty	49.00%	40.50%	(17.35%)
Percent of Baccalaureate Graduates Who Are First Generation College Graduates	49.90%	45.80%	(8.22%)
Performance Measures Exceeded (results surpassed target by more than 5 percent)			
Dollar Value of External or Sponsored Research Funds	\$11,400,000	\$13,318,705	16.83%
Percent of First-time, Full-time, Degree seeking Freshmen Who Earn a Baccalaureate Degree Within Six Academic Years	42.90%	45.40%	5.83%
Performance Measures Met (results within 5 percent of target)			
Retention Rate of First-time, Full-time, Degree-seeking Freshmen Students after One Academic Year	73.60%	77.10%	4.76%
Certification Rate of Teacher Education Graduates	83.90%	86.30%	2.86%
Note: Unlike agencies, universities' expenditures and outcomes do not correlate to specific strategies but instead with their state appropriations for Educational and General State Support. Therefore, we looked at the University's performance measures for Educational and General State Support.			

Source: Data the University reported to ABEST

The University provided explanations and initiatives regarding the three unmet performance measures, which we did not verify, that appeared to be reasonable.

### Recommendation

The University should continue working on its initiatives to meet its performance measure targets in the future.

### Management's Response

*Management agrees to continue working on its initiatives to meet its performance targets. It would help this effort if additional guidance from the Legislative Budget Board could be provided regarding its intention for the projections reported biennially in the LAR. For example, it is our understanding that in the measure "Administrative Cost as a Percent of Total Expenditures" projected for the two years of the biennium for which funds are being requested, the denominator in this equation is the total amount being requested in the LAR. This includes the full amount of the Coordinating Board's recommended formulae as well as our full request for Special Items, etc. Since the numerator, the element of cost "Institutional Support," is mostly fixed, its percent of the total goes up when the denominator later reflects the lower level of appropriation. If our understanding is incorrect we will adjust our methodology of computing this in future LARs. If it is correct, this will be ongoing issue. The same holds true for several other performance measures as well.*

Chapter 4-B

## The University Does Not Maintain Documented Policies and Procedures for Some Performance Measures

The Office of Institutional Research (OIR) is responsible for reporting key performance measures in ABEST as well as for tracking and reporting other measures that the University uses to manage operations. Although OIR maintains written policies and procedures for reporting the ABEST performance measures that it calculates, it does not have written policies and procedures for some performance measures calculated by other University offices.

Written policies and procedures for each performance measure would ensure continuity, accuracy, and reliability of reported measure results from one year to the next. In the event of an unforeseen emergency, OIR or other staff would be able to calculate and report performance measure information in an accurate, reliable, and timely manner.

### Recommendations

The University should:

- Develop and maintain written policies and procedures for each performance measure the University tracks.
- Ensure that current policies and procedures accompany performance measure documentation and become part of a master file maintained in OIR.

## Management's Response

*We will comply with the SAO recommendation that documented procedures for calculating LBB performance measures be maintained centrally in the Office of Institutional Research by working with the Office of Internal Audit to collect these procedures from other offices that have a role in the calculation and submission of performance measures.*

## ***The University Does Not Adequately Safeguard Its Information Technology Resources***

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The University does not adequately safeguard its information technology resources. As a result, mission-critical data, such as student and financial information, is at risk for loss or manipulation. The University does not have adequate security for its computer network, applications, and computer centers. The University also lacks consistent policies and procedures for backing up electronic data and resuming computer operations in the event of a disaster.

Because we identified weaknesses in financial controls over cash accounts and security issues relating to the Cashier's Office, we expanded our audit work and found that the University performs manual verifications and reconciliations of transactions to help mitigate the overall risk to information in its general ledger system. The University had documentation to substantiate amounts reported in its financial system. We validated the information in the financial system through testing of payroll expenditures, non-payroll expenditures, journal entries, and revenues.

### Chapter 5-A

## **The University Does Not Adequately Limit Access to Its Network and Hardware**

**Network access.** The University's password structure does not make full use of the security that passwords can provide. Users of critical financial reporting systems are not required or prompted to change their passwords on a regular basis. For other systems and at the computer workstation level, the University does not have a set of uniform rules for creating, distributing, using, and terminating user passwords. Each division administrator creates his or her own rules. As a result, we found system administrators who set users' initial passwords using a formula that appears to be well known. In some cases, the system administrator provides a user's login ID and password to someone other than the user, such as an administrative assistant.

Because of these deficiencies in the University's password structure, the University may not be able to identify individuals who access the network inappropriately. Title 1, Section 202.7 of the Texas Administrative Code (TAC) requires state entities to establish rules for user authentication mechanisms such as passwords.

**Programmers' access.** Supervisors of University programmers have access to live production data, which means they can alter existing transactions or input new ones. The University maintains that this allows them to correct corrupted records as they occur without bringing systems down. However, it creates the risk that supervisors could insert fraudulent data or harmful code into the University's applications.

**Physical access.** The University lacks basic controls for protecting its data centers from unauthorized access and environmental hazards. For example, no one maintains a record of who visits the data centers. Some employees with keys to the computer room do not have job duties that require such access. Doors, including those to the vaults, are not always locked. Furthermore, the data centers' fire extinguishers have not been inspected or recharged since the early 1990s, and the fire suppression

system has not been tested or inspected in the last three years. Title 1, Sections 202.5 and 202.7 of the TAC require state entities to control access to mission-critical information resources facilities.

## Recommendations

The University should:

- Develop and implement a set of uniform rules for creating, distributing, using, and terminating users' passwords for all computer workstations that access its network. These rules should require system administrators to develop hard-to-guess initial passwords and to provide passwords to the users only. The rules for critical applications and workstations should also require users to change their passwords periodically.
- Rescind programmers' access to live production data.
- Develop, implement, and document controls, policies, and procedures for physically securing information technology resources and protecting them from environmental hazards. These controls should include, but should not be limited to, guidelines for providing employees access to the data centers based on the employees' job duties, securing the data centers, tracking visitors to the data centers, and ensuring that the data centers have operational fire protection.

## Management's Response

***Network Access.** UPPS 04.01.01: Security of Texas State Information Resources, section 08.10 stipulates that all systems which use passwords for authentication shall conform to the federal standard on password usage contained in the Federal Information Standard Publication 112 (FIPS PUB 12). Users are required to change their initial passwords upon their initial login. Also, users are required to change their password every 90 days. We believe the formula described in the UPPS is sufficiently difficult to compromise.*

*We stopped enforcing the 90-days password change policy when the problems associated with synchronizing passwords across multiple security domains became unmanageable. We will re-implement the policy. The Director of Computing Resources has been assigned this responsibility to be completed by January 2004.*

*Technology Resources staff will also work with the departmental systems administrators to insure compliance with the UPPS and utilize the centrally administered security domain server to enforce network access security. This responsibility has been assigned to the Director of Computing Resources to be completed by March 2004.*

***Programmers' Access.** Only a limited number of ISS supervisory staff have write access to production data. This access is used to facilitate data repair to (sets of) individual records damaged by hardware failure, program error, or user error, etc. Such repair allows for rapid restoration of applications and services in time sensitive systems; i.e., registration, payroll, admissions, billing and receipting, financial aid, etc. This approach is especially effective for restoring services outside of normal*

*business hours, because it requires fewer staff resources to execute and can be accomplished by staff from remote locations.*

*The alternative to such individualized data repair is restoration of (sets of) entire tables from nightly backup tapes. The latter approach to recovery negatively impacts a far greater number of users and customers for a much longer period of time (hours to days). It means the loss of all work in the affected tables since the backup was created, including the work by self-service users like students who are registering or paying their bills on-line. The data restoration process normally takes several hours to accomplish and requires numerous staff to coordinate and complete, which is downtime for users of the restored tables and others who may be indirectly impacted.*

*Management agrees that access to the production data should be restricted. Given the limited resources currently available, we believe that the benefits afforded the University through limited access to production data outweighs the risk arising from that access, and thus we recommend no changes to present practice.*

*Management will implement procedures to log changes made to production data by the restricted set of ISS supervisory staff authorized to make such changes. In addition, we will also explore the feasibility and efficacy of other types of compensating controls as we move into the new SAP environment for Finance and Human Resources.*

**Physical Access.** *Management agrees that current documentation is inadequate and concurs with the recommendation. Management is taking action to correct this item. The Director of Technology Resources Operations has been assigned this responsibility to be completed by January 2004.*

Chapter 5-B

## **The University Lacks Policies and Procedures to Guide Some Areas of Its Information Technology Operations**

**Disaster recovery plan.** The University's disaster recovery plan has been in draft form since 1996 and has not been tested since 1999. The draft does not reflect the University's current operating system and software. Without a current, tested disaster recovery plan, the University may not be able to resume operations in the event of a disaster. In addition, the TAC (Title 1, Section 202.6) requires state entities to maintain a current disaster recovery plan and test it annually.

The University has two equivalent computer sites that process the same data at the same time. The University maintains that because of this, recovering from small system outages serves as an adequate test of its disaster recovery plan. However, without actually bringing the systems down according to protocols in the plan and testing the ability to regain operations at the alternative site in a controlled environment, there can be no real assurance that the disaster recovery plan will work.

**Data backup.** While the University backs up its mission-critical data, it does not deliver backup tapes directly to the data centers for placement in the vaults. No one tracks the tapes or logs them in once they reach the vault, and the vaults are not climate controlled or always locked. It is the University's perspective that tape backups are not a necessity because of the redundancy built into operations at their

two computer sites. Nevertheless, TAC (Title 1, Sections 202.6 and 202.7) requires state entities to back up mission-critical data on a scheduled basis and store the backed-up data offsite in a secure, environmentally safe facility. The TAC also requires entities to have a policy that establishes rules for backing up and storing data.

**Preventive maintenance.** The University's information technology department does not perform routine preventive maintenance on the University systems. In addition, there are no documented procedures for routine operations such as performing preventive maintenance, tracking equipment problems, and training employees on how to respond to equipment problems. The University relies on the diagnostic programs it runs on a continuous basis and on a vendor that provides maintenance services. However, regularly scheduled preventive maintenance reduces equipment failures, while keeping records of failures helps identify problematic equipment.

## Recommendations

The University should:

- Update its disaster recovery plan, have it approved by management, and review the approved plan on a regular basis to ensure that it reflects the University's current operating system and software.
- The University should test the disaster recovery plan at least annually in accordance with TAC, Title 1, Section 202.6.
- Develop, document, and implement policies and procedures for backing up data, transporting the tapes, and securing them in a climate-controlled vault.
- Develop, document, and implement policies and procedures for routine information systems operations. These policies and procedures should include, but not be limited to, performing routine maintenance on computer equipment, tracking equipment problems, and training employees on how to respond to computer problems.

## Management's Response:

**Disaster recovery plan.** *Management agrees that the disaster recovery plan needs to be updated and tested. Management will also commit to logging data center data recovery incidents to monitor and validate the efficacy of Texas State's disaster recovery model.*

*The Assistant Vice President for Technology Resources has been assigned this responsibility to be completed by August 2004.*

**Data backup.** *For the centrally administered systems, backup tapes are currently secured in an access and climate-controlled area. If departmental server backup tapes exist that should be stored in a climate controlled environment, we can provide such storage in one of the existing centers. Management agrees that documentation of policies and procedures needs to be reviewed and updated.*

*The Director of Technology Resources Operations has been assigned this responsibility to be completed by January 2004.*

***Preventive Maintenance.** Management believes that preventive maintenance is provided. Today's technology has built-in redundancy and software that dynamically runs diagnostics that report potential problems before they fail. Therefore, preventive maintenance is constantly occurring, and corrective maintenance is performed on most failures without systems being down. This is routinely performed on disk drives, memory, and various interfaces. Most systems have multiple processors that can be replaced without taking systems down.*

*We have vendor maintenance and support contracts on the mission critical systems, and we adhere to maintenance recommendations provided by the vendor. The vendor has the ability to monitor potential problems remotely without performing costly preventive maintenance diagnostics that might require stand-alone access to the system and create downtime for users.*

*The vendor keeps records of all failures of these systems in a database, and the information is made available to Texas State staff upon request. For desktop workstations, peripherals, and other equipment that is supported by our internal repair facility, we maintain a database containing records of all repairs performed. We also offer periodic workshops on trouble shooting computer problems, which are open to all faculty and staff.*

# *Other Information*

## *Objectives, Scope, and Methodology*

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### Objectives

The project objectives were to answer the following questions:

- Does Texas State University – San Marcos (University) provide legislative budget committees and University management with accurate and consistent financial information?
- Does the University use state appropriations and local funds in accordance with applicable laws and regulations?
- Does the University have effective controls over contract and grant management?
- Did the University report accurate performance measure results for fiscal year 2002?

We also reviewed the University's safeguards over the information technology resources associated with the areas covered by our objectives.

### Scope

The scope of this review included the University's accounting records and transactions, contracts and grants, and journal vouchers for fiscal 2002 and the first two quarters of fiscal 2003, as well as performance measure results reported for 2002.

### Methodology

To achieve these objectives, we:

- Reviewed information systems used to collect and report financial and performance measure information.
- Reviewed the University's fiscal year 2002 Annual Financial Report, Legislative Appropriations Request, and monthly operating reports used by University management.
- Tested expenditures, contracts, and grants for fiscal year 2002 and the first two quarters of fiscal year 2003.
- Reviewed the accuracy of selected performance measures.
- Interviewed University managers and staff.
- Reviewed policies and procedures.
- Followed up on prior audit issues.

## Project Information

We conducted fieldwork between May and September 2003. This review was conducted in accordance with standards applicable to performance audits contained in generally accepted government auditing standards.

The following members of the State Auditor's Staff conducted the review:

- Michael C. Apperley, CPA (Project Manager)
- Dana Musgrave, MBA (Assistant Project Manager)
- Agnes Barnes, CPA (Assistant Project Manager)
- Rodney Almarez, MBA, CPA, CISA
- David Dowden
- Jodi Edgar
- Michelle Feller
- Joe Fralin, MBA
- Michael Gieringer
- Natasha Kelly, MBA
- Melissa Larson, CISA, CIA
- Steve Sizemore, CIA, CISA, CGAP
- Sarah Slaughter
- Chuck Dunlap, CPA (Quality Control Reviewer)
- Ron Franke, MBA (Audit Manager)
- Frank N. Vito, CPA (Audit Director)

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Dr. Denise M. Trauth, President



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