



An Audit Report on

Financial Processes at the Texas A&M Forest Service

November 2018

Report No. 19-009



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Overall Conclusion

The Texas A&M Forest Service (Forest Service) had processes and controls to ensure that it administered financial transactions in accordance with applicable statutes, rules, and Forest Service policies and procedures. Specifically, the Forest Service:

- Processed purchases in accordance with applicable requirements.
- Properly approved credit card limit increases.
- Appropriately accounted for, safeguarded, and recorded assets.
- Accurately recorded active fleet vehicle data in accordance with applicable statutes.
- Had appropriate automated processes and controls over its financial data.

However, the Forest Service should strengthen its processes and controls for reporting data related to disposed fleet vehicles and improve certain information technology controls.

Table 1 on the next page presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Auditors communicated other, less significant issues separately in writing to Forest Service management.

Background

Texas A&M Forest Service (Forest Service) conserves and protects the **state's** resources and lands.

The Forest Service is also one of the lead agencies for incident management in the state. From initial response to ongoing recovery, the agency strives to protect Texas from wildfires and other disasters.

For fiscal years 2017 and 2018, the Forest Service was appropriated \$68.7 million and \$61.5 million, respectively. The Forest Service was authorized to have 501 full-time equivalent employees for fiscal year 2018.

Sources: The Forest Service and the General Appropriations Acts (84th and 85th Legislatures).

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating ^a
1	The Forest Service Had Adequate Controls Over Its Purchasing Processes	Low
2-A	The Forest Service Had Processes and Controls to Ensure That Assets Were Appropriately Safeguarded and Documented	Low
2-B	The Forest Service Had Processes and Controls to Ensure That Most Fleet Vehicle Data Was Recorded Accurately and Completely; However, It Should Strengthen Its Processes for Reporting Data Related to Disposed Fleet Vehicles	Low
3	While the Forest Service Had Controls Over Automated Systems to Administer Financial Processes, It Should Improve Certain Information Technology Controls	Medium

^a A subchapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A subchapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A subchapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A subchapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Summary of Management's Response

At the end of some chapters in this report, auditors made recommendations to address the issues identified during this audit. The Forest Service agreed with the recommendations in this report.

Audit Objective and Scope

The objective of this audit was to determine whether the Texas A&M Forest Service has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and agency policies and procedures.

The scope of this audit covered the Forest Service's activities related to purchasing; asset management; fleet reporting; and information technology systems from September 1, 2016, through May 31, 2018.

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Detailed Results

Chapter 1

The Forest Service Had Adequate Controls Over Its Purchasing Processes

Chapter 1
Rating:
Low¹

Texas A&M Forest Service (Forest Service) had processes and related controls to help ensure that purchases were supported, approved, and processed in accordance with applicable statutes, rules, and Forest Service policies and procedures.

During the audit scope, the Forest Service had purchases totaling \$56,638,200. Auditors tested 99 purchase transactions from three types of purchases: (1) major purchases (non-credit card purchases of \$5,000 or more); (2) minor purchases (non-credit card purchases of less than \$5,000); and (3) credit card purchases (fuel, procurement, and travel card purchases). Auditors determined that transactions:

- Were supported by source documentation.
- Were made excluding sales tax, as required.
- Were properly approved by Forest Service staff according to its policies.
- Were purchases of allowable items.

Additionally, auditors tested controls related to credit cards and determined that:

- Credit cards exceeding the standard monthly limit were properly justified and approved by the appropriate Forest Service staff.
- Monthly credit card reconciliations were performed, and items that required reconciling were addressed.

¹ The risk related to the issues discussed in Chapter 1 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

The Forest Service Had Processes and Controls to Ensure That Assets Were Appropriately Safeguarded and Documented and That Most Fleet Vehicle Data Was Accurate; However, It Should Strengthen Its Data Reporting Processes for Disposed Fleet Vehicles

The Forest Service had processes and controls to ensure that assets were appropriately safeguarded and accurately documented in its Financial Accounting Management Information System (FAMIS) and that most vehicle fleet information was accurately recorded in the Texas Fleet Management System (TxFS). However, the Forest Service should strengthen its processes for recording data related to disposed fleet vehicles in TxFS.

Chapter 2-A

The Forest Service Had Processes and Controls to Ensure that Assets Were Appropriately Safeguarded and Documented

Chapter 2-A
Rating:
Low²

The Forest Service had processes and controls to help ensure that assets were (1) appropriately accounted for, (2) safeguarded, and (3) recorded accurately in FAMIS. The Forest Service also had support to demonstrate that it had conducted annual asset inventories in accordance with its policies and procedures. Specifically, for 78 assets tested, the Forest Service followed its policy and procedures for managing assets, and it accurately recorded data in FAMIS sufficient to identify all assets.

In addition, the Forest Service had processes and controls to ensure that it had properly accounted for its added and disposed non-fleet inventory assets. Furthermore, it had controls to monitor compliance with its asset management policies.

² The risk related to the issues discussed in Chapter 2-A is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

The Forest Service Had Processes and Controls to Ensure That Most Fleet Vehicle Data Was Reported Accurately and Completely; However, It Should Strengthen Its Processes for Reporting Data Related to Disposed Fleet Vehicles

Chapter 2-B
Rating:
Low³

The Forest Service had processes and controls to ensure that it had appropriate fleet vehicle statuses (road worthy and currently registered and inspected), followed TxFS reporting requirements, and accurately reported required data for active fleet vehicles.

The Forest Service also had support to demonstrate that it had conducted an annual fleet vehicle review in accordance with its policies and procedures.

However, the Forest Service should ensure that it accurately reports all required data in TxFS for its disposed vehicles (see text box for information on TxFS). For example, auditors identified 84 (95 percent) of 88 vehicles with disposal statuses that did not match in both FAMIS and TxFS. After the Forest Service was notified of the discrepancies, it asserted that the vehicle statuses in FAMIS were accurate and updated TxFS accordingly. Auditors verified that all 84 statuses had been changed in TxFS to reflect FAMIS.

In addition, the Forest Service did not have a process to reconcile TxFS data to FAMIS data. Texas Government Code, Section 2171.101, requires state agencies and institutions of higher education to enter vehicle data on a quarterly basis using TxFS.

Ensuring that it reports accurate and complete information in TxFS is important because the Office of the Comptroller of Public Accounts uses TxFS data to prepare its reports, such as the annual *State of the Fleet* report, to the Legislature. The Forest Service updated TxFS before the errors noted above affected the 2018 report.

Texas Fleet Management System (TxFS)

The Office of the Comptroller of Public Accounts (**Comptroller's Office**) is charged with the establishment and management of TxFS, the state vehicle reporting system, to assist agencies in managing their vehicle fleets.

The Comptroller's Office reports to the Legislature on the vehicle information that agencies submit and provides a list of the agencies that do not report complete vehicle information.

Source: **The Comptroller's Office.**

³ The risk related to the issues discussed in Chapter 2-B is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Recommendation

The Forest Service should develop and implement a process to reconcile fleet vehicle statuses in both FAMIS and TxFS and resolve any discrepancies.

Management's Response

We agree with the recommendations. As noted in the report, we reconciled the fleet vehicle statuses between FAMIS and TxFS for FY2018 and corrected the differences in TxFS. We have made this reconciliation part of our fleet reporting process.

Implementation Date: November 2018

Responsible Persons: Payroll & Support Services Department Head

While the Forest Service Had Controls Over Automated Systems to Administer Financial Processes, It Should Improve Certain Information Technology Controls

Chapter 3
Rating:
Medium⁴

The Forest Service had appropriate automated processes and controls over its financial data to ensure that it administered financial transactions in accordance with applicable statutes, rules, and Forest Service policies and procedures. For example:

- Key application controls in its financial system were operating effectively.
- The Forest Service had appropriately limited employee access to its financial system and to the state's fleet management system to current employees who hold positions commensurate with the access level they had been granted.

However, for certain types of transactions, system controls do not prevent the same person from entering and releasing payments in the financial system. The Forest Service should enforce segregation of duties either through system application controls or mitigating monitoring controls to ensure all purchase transactions are reviewed by staff who are not involved in the transactions. Ensuring that there is a segregation of duties or an effective monitoring control would help decrease the risk of inappropriate transactions being processed.

Recommendation

The Forest Service should implement application controls that enforce segregation of duties to ensure that individuals cannot both enter and release payments, or develop review controls to ensure that all purchase transactions have the requisite approvals.

⁴ The risk related to the issues discussed in Chapter 3 is rated as Medium because they present risks or results that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

Management's Response

We agree with the recommendations and have revised our review procedures to ensure all purchase transactions have the requisite approvals.

Implementation Date: November 2018

Responsible Persons: Budgets and Accounting Department Head

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Texas A&M Forest Service (Forest Service) has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and agency policies and procedures.

Scope

The scope of this audit covered the Forest Service's activities related to purchasing; asset management; fleet reporting; and information technology systems from September 1, 2016, through May 31, 2018.

Methodology

The audit methodology included collecting information and documentation; interviewing Forest Service staff regarding financial and operational processes; physically inspecting assets; testing documentation related to purchases and assets; reviewing access to and controls for key information systems; and analyzing and evaluating the results of audit tests.

Data Reliability and Completeness

Auditors used expenditure data from the Forest Service's financial system (FAMIS) to test purchases and asset records, additions, and disposals. Auditors compared data from FAMIS to the (1) Uniform Statewide Accounting System (USAS) for expenditure and asset data and (2) the Texas Fleet Management System (TxFS) for fleet vehicle data.

Auditors also tested logical access, key application controls, and selected general controls for FAMIS.

Based on the results of a review of the data and IT testing, auditors determined that expenditure and asset data from FAMIS was reliable for the purposes of this audit.

Sampling Methodology

Auditors selected nonstatistical samples of assets, fleet vehicles, and purchases primarily through random selection. In some cases, auditors selected additional samples of items for testing based on risk. The sample items were not necessarily representative of the population;

therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- The Forest Service's policies, procedures, and guidelines.
- The Forest Service's expenditure data from USAS and FAMIS and asset data from FAMIS and TxFs.
- The Forest Service's documentation related to asset procurement and disposal, including purchase orders and invoices.
- The Forest Service's asset addition and deletion forms, asset tags, and other supporting documentation for assets.
- User access data and supporting documentation related to application controls over the Forest Service's financial systems.

Procedures and tests conducted included the following:

- Interviewed Forest Service staff to identify financial and operational processes, including financial and administrative internal controls and the information systems that support those processes.
- Physically observed assets including fleet vehicles.
- Tested asset locations and supporting records for asset additions and disposals.
- Tested samples of purchases to determine compliance with the Forest Service's policies and procedures and state laws and regulations.
- Reviewed application controls and user access over the Forest Service's financial system of record, FAMIS.

Criteria used included the following:

- Forest Service policies and procedures and applicable Texas A&M University System policies and procedures.
- Texas Tax Code, Chapters 151 and 156.
- Texas Government Code, Chapters 2155 and 2171.
- *Texas State Vehicle Fleet Management Plan (2017)*.

Project Information

Audit fieldwork was conducted from June 2018 through October 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Jerod Heine, MBA (Project Manager)
- Adam K. Ryan (Assistant Project Manager)
- Taylor L. Huff
- Armando S. Sanchez, MBA
- Daniel Thu
- Richard Wyrick
- Ann E. Karnes, CPA (Quality Control Reviewer)
- James Timberlake, CIA, CFE (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Zerwas, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Texas A&M Forest Service

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Mr. Ervin Bryant, Student Regent

Mr. John Sharp, Chancellor, Texas A&M University System

Mr. Thomas G. Boggus, Director, Texas A&M Forest Service



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