



An Audit Report on

# **Financial Processes at Midwestern State University**

March 2020

Report No. 20-025



An Audit Report on

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SAO Report No. 20-025  
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## Overall Conclusion

Midwestern State University (University) established processes and related controls to help ensure that financial transactions were managed in accordance with applicable requirements. However, it should strengthen processes related to procurement card transactions, asset documentation, and financial system access requirements. Specifically:

- **Expenditures.** The University should strengthen its reviews to ensure that procurement card transactions are (1) reviewed and approved in accordance with its internal guidelines, (2) accurately recorded in its financial system, and (3) documented.
- **Assets.** The University established processes for managing assets, but it should improve those processes to ensure that it maintains documentation for those assets.
- **Budget Transfers.** The University had policies and processes in place to help ensure that budget requests were authorized and budget transfers were made in accordance with University policy.
- **Information Technology.** The University had automated processes and controls over its financial data to ensure that it administered financial transactions in accordance with applicable statutes, rules, and policies. However, it should improve access requirements for its financial system.

### Background Information

Midwestern State University (University) was established in 1922 in Wichita Falls as Wichita Falls Junior College. In 1975, the 64th Legislature changed the name to Midwestern State University. The University serves about 6,000 students and offers a variety of academic programs in liberal and fine arts, mathematics, sciences, business, and applied sciences.

For fiscal years 2018 and 2019, the University was appropriated \$29.0 million and \$29.1 million, respectively. The University was authorized to have 357.7 full-time equivalent employees for fiscal year 2019.

Sources: The University and the General Appropriations Act (85th Legislature).

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 University management.

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating <sup>a</sup>
1	The University Established Processes to Help Ensure That Expenditures Are Managed in Accordance with Applicable Requirements; However, It Should Strengthen Its Review Processes	Medium
2	The University Had Processes for Managing Assets; However, It Should Strengthen Related Controls to Help Ensure Assets are Recorded Accurately	Medium
3	The University Followed Its Process for Requesting and Approving Transfers	Low
4	The University Had Controls Over Automated Systems and Certain Information Technology Resources to Help Ensure the Reliability of Its Financial Data	Low

<sup>a</sup> A chapter 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 chapter 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 chapter 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 chapter 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 each chapter in this report, auditors made recommendations to address the issues identified during this audit. The University agreed with the recommendations in the report.

## ***Audit Objective and Scope***

The objective of this audit was to determine whether the University has processes and related controls to help ensure that it administers financial transactions in accordance with applicable requirements.

The scope of this audit covered selected University activities related to purchasing, procurement cards, budget transfers, capital assets, and information technology from September 1, 2017, through May 31, 2019.

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# Detailed Results

Chapter 1

## ***The University Established Processes to Help Ensure That Expenditures Are Managed in Accordance with Applicable Requirements; However, It Should Strengthen Its Review Processes***

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**Chapter 1  
Rating:  
Medium <sup>1</sup>**

While Midwestern State University (University) had established processes to ensure that expenditures were reviewed and approved, accurately recorded in its financial systems, and properly supported, it did not always follow those processes for procurement card transactions (see text box for more information on the University's expenditures).

In addition, the University had not established a documented review process to help ensure that procurement card transactions comply with applicable requirements.

**Non-Procurement Card Expenditures.** The University established sufficient processes and controls that helped ensure that non-procurement card expenditures were appropriate. For 55 (91.7 percent) of the 60 expenditures tested, the University (1) maintained documentation to support the purchase of that expenditure, (2) ensured that the expenditure was properly reviewed and approved, and (3) accurately recorded the expenditure amount in its financial system. The remaining 5 (8.3 percent) of 60 expenditures tested were either missing certain required documentation or were paid before the University created a purchase requisition or purchase order.

**Prompt Payment Act.** For 55 (93.2 percent) of the applicable 59 expenditures tested, the University paid vendors within 30 days as required by the Prompt Payment Act (Texas Government Code, Section 2251.021). The remaining 4 expenditures were paid for between 5 and 50 days late, accumulating a minimal amount of interest. Those payments were late because the purchasing department's receipt date was used to determine the payment date instead of the University's invoice receipt date.

### **Expenditure Data**

Between September 1, 2017, and May 31, 2019, the University had \$157.9 million in expenditures.

Of that amount, the University processed approximately 4,374 non-procurement card transactions totaling \$155.7 million. The majority of the purchases were related to supplies and materials, professional fees and services, and repairs and maintenance.

The remaining amount of approximately \$2.2 million were procurement card purchases. The University processed approximately 17,380 transactions for items such as medical supplies, chemicals for certain labs within the University, and other items to operate the University.

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<sup>1</sup> The risk related to the issues discussed in Chapter 1 is rated as Medium because 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.

**Procurement Card Purchases.** The University has established policies and procedures for its cardholders to follow to manage procurement card purchases; however, those policies and procedures are not always followed. Specifically, for 22 (36.7 percent) of 60 procurement card transactions tested, the cardholders did not (1) obtain the appropriate approvals before making purchases as required by the University's internal guidelines, (2) accurately record the expenditure amount in its financial system, or (3) maintain documentation to support the purchase of that expenditure.

In addition, the University has established a review process for procurement card purchases that consists of (1) an initial review by the cardholder's manager and (2) a review by the Purchasing Department. However, the University has not documented this process to provide guidance on how to perform the review. Having a documented review process can help ensure that procurement card purchases are consistently reviewed and comply with University requirements.

**Vendor Payments.** Texas Government Code, Section 403.055, prohibits payments to a vendor with outstanding liabilities to the State. However, the University did not have documentation showing that it verified that the vendor did not have an outstanding debt to the State for 18 (94.7 percent) of the 19 transactions that required this verification. Auditors verified that those vendors did not have outstanding liabilities to the State.

## **Recommendations**

The University should:

- Obtain and retain supporting documentation for its purchases.
- Establish a process to consistently document the date it initially receives goods, services, or invoices.
- Strengthen its reviews of procurement card transactions to ensure that purchases comply with requirements.

## **Management's Response**

*Management agrees with the recommendations and will:*

### **Non-Procurement Card Expenditures.**

- *Management has reviewed and updated the Accounts Payable and Procurement process to include the task of obtaining and retaining all necessary documentation required before making a purchase.*
- *From the 2012 State Audit, the Purchasing department has implemented an "after the fact" letter that is sent to the appropriate MSU Department and Vendor. This is for any invoice or purchase that occurred before the department created the purchase requisition and before Purchasing receives it to process the purchase order. Management will ensure that all supporting documentation is uploaded into BDM (electronic document imaging system and repository).*

### **Prompt Payment Act.**

- *Management will ensure that vendor payments comply with internal processes and coordinate with the Controller's Office to calculate payment due date and any required prompt pay interest.*
- *Management will review current payment procedures and updating the internal Purchasing Department Accounts Payable instructional guide for best practices to include any additional or missing dates in order to calculate prompt payment, and communicate the implementation of the changes to the campus community.*
- *Additionally, MSU Purchasing Accounts Payable will implement a web-based training course offered by the State Comptroller's Office on an annual basis as a best practice.*
- *In order to mitigate confusion regarding the date an invoice is received by the University, the Purchasing Office will update the billing address. Additionally, management will update the "Attention line" to reflect the "Purchasing Office" for all purchases made using a Purchase Order. This will ensure that invoices are sent to the Purchasing Office for handling. Finally, university buyers will confirm the updated billing address in the initial email when forwarding the purchase order to the vendor.*

### **Procurement Card Purchases.**

- *Management has been intentionally working to strengthen controls in the review and audit process of the PCard envelopes, proper delegation, and backup documentation.*

- *Management has established a new tracker document (file) with cardholder issues and disposition.*
- *Management will implement an instructional guide on how to perform the review and audit process internal for Purchasing Department use.*
- *Management will ensure compliance with university procedures that a vendor hold status has been checked for all purchases over \$500.*

*Responsible Person(s): Director of Purchasing and Contract Management*

*Target date for completion: August 31, 2020*



## ***The University Had Processes for Managing Assets; However, It Should Strengthen Related Controls to Help Ensure Assets are Recorded Accurately***

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**Chapter 2  
Rating:  
Medium<sup>2</sup>**

While the University established processes for managing assets using an internal inventory log to track the addition and removal of assets, it should improve that process to ensure that the log accurately reflects the value and location for those assets in the State Property Accounting System (SPA). Specifically:

**Active Assets.** The University did not always maintain documentation for the value of assets as recorded in SPA. A total of 37 (61.7 percent) of 60 assets tested did not have documentation such as invoices to support the asset's value as recorded in SPA. According to the University, it disposed of invoices after a three-year period instead of retaining those invoices for the life of the asset plus three years as required by the Office of the Comptroller of Public Accounts' *SPA Process User's Guide* and the *Texas State Records Retention Schedule*.

**Asset Disposals.** The University accurately recorded the disposition of most items within its inventory log and SPA. Eleven of the 12 (91.7 percent) disposed assets tested were consistently recorded in both the University's log and SPA. The remaining item was incorrectly recorded as disposed but was still in use.

According to the University, it performs monthly reconciliations among its internal inventory log, SPA, and its internal accounting system. However, that reconciliation process is not documented. In addition, that informal process does not include procedures for a supervisory review and approval of the results from that reconciliation. Having a documented reconciliation process and including a supervisory review and approval would help ensure that assets are consistently tracked and accurately recorded in the University's internal logs, SPA, and its financial systems.

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<sup>2</sup> The risk related to the issues discussed in Chapter 2 is rated as Medium because 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.

## Recommendations

The University should:

- Maintain supporting documentation for assets in accordance with the *SPA Process User's Guide* and the *Texas State Records Retention Schedule*.
- Document its reconciliation process for its internal inventory log, SPA, and its internal financial accounting system. This process should include a supervisory review and approval to help ensure that reconciliations are accurate and complete.

## Management's Response

*Management agrees with the recommendations and will:*

- *Implement procedures to ensure that supporting documentation related to capital assets is maintained in accordance with the SPA Process User's Guide and the Texas State Records Retention Schedule, and*
- *Implement a monthly property reconciliation process including supervisory review and approval to ensure capital assets records are accurate, complete and prepared in a timely manner.*

*Responsible Person(s): Assistant Controller and Controller*

*Target date for completion: August 31, 2020*

## The University Followed Its Process for Requesting and Approving Transfers

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**Chapter 3  
Rating:  
Low <sup>3</sup>**

The University had policies and processes in place to help ensure that budget requests are authorized appropriately and that budget transfers are performed according to policy. The purpose of the budget transfer is to allocate funds (1) between budget categories within the same account, or (2) from one account to another, or (3) for additional appropriations to the approved operating budget, or (4) from one account code to another within the same fund. The University's process includes both intrafund and interfund budget transfers (see text box).

**Intrafund budget transfers.** The University has implemented automated controls in its financial system to ensure that intrafund transfers are (1) restricted to appropriate account codes and (2) sufficiently funded.

**Interfund budget transfers.** Fifty (83.3 percent) of the 60 tested interfund budget transfers totaling \$26,207,072 and processed from September 1, 2017, through May 31, 2019, had documentation and approvals as required by the University's internal policies and procedures. While the remaining 10 interfund budget transfers were not always approved in accordance with internal procedures or did not always have complete information, they were made for purposes that aligned with the University's policy.

### Budget Transfers

- Intrafund budget transfers are internal departmental transfers between certain account codes.
- Interfund budget transfers can be (1) internal departmental transfers to change budget categories within the same account or (2) external departmental transfers from account to account or (3) transfers for additional appropriations.

Source: The University.

### Recommendation

The University should ensure that all budget transfers are approved and have the supporting documentation as required by its internal policies and procedures.

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<sup>3</sup> The risk related to the issues discussed in Chapter 3 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(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.

## **Management's Response**

*Management agrees that all budget transfers need appropriate approvals and documentation before processing based on internal policies and fiscal procedures. Management further acknowledges that these procedures need to reflect current operations and utilized technology on campus. The Director of Budget and Management and the Controller will ensure that these procedures are reviewed and updated as appropriate.*

*Staff have been reminded of the importance to visually double-check and confirm that all signatures, dates, dollar amounts, and other required documentation are complete for paper and electronic budget transfer requests. This will ensure that all budget transfers processed by the Business Office and Budget staff are approved and have the supporting documentation as required by internal policies and procedures.*

*Responsible Person(s): Director of Budget and Management, and Controller*

*Target date for completion: August 31, 2020*

## ***The University Had Controls Over Automated Systems and Certain Information Technology Resources to Help Ensure the Reliability of Its Financial Data***

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**Chapter 4  
Rating:  
Low <sup>4</sup>**

The University had appropriate automated processes and controls over its financial data to help ensure that it administered financial transactions in accordance with applicable statutes, rules, and policies. While the University established logical access controls over its financial system, it should improve its access requirements. To minimize security risks, auditors communicated details about certain issues directly to the University's management in writing.

In addition, the University performed an annual reconciliation between its internal accounting system and the Uniform Statewide Accounting System in accordance with its policy.

### **Recommendation**

The University should ensure that access to its systems is appropriately restricted.

### **Management's Response**

*Management agrees that the university should ensure that access to its systems is appropriately restricted. Accordingly, the Information Technology Department will implement necessary actions and changes to ensure systems are appropriately restricted.*

*Responsible Person(s): Chief Information Security Officer*

*Target date for completion: March 31, 2020*

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<sup>4</sup> The risk related to the issues discussed in Chapter 4 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(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.

# Appendices

Appendix 1

## **Objective, Scope, and Methodology**

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### **Objective**

The objective of this audit was to determine whether Midwestern State University (University) has processes and related controls to help ensure that it administers financial transactions in accordance with applicable requirements.

### **Scope**

The scope of this audit covered selected University activities related to purchasing, procurement cards, budget transfers, capital assets, and information technology from September 1, 2017, through May 31, 2019.

### **Methodology**

The audit methodology included interviewing University staff regarding financial, capital asset, and operational processes; collecting information and documentation; analyzing and testing transactions in the University's financial system; testing selected capital assets and disposals; reviewing access to and controls for key information systems; and analyzing and evaluating the results of audit tests.

### **Data Reliability and Completeness**

To determine the reliability, validity, and completeness of the University's financial data, auditors reviewed transaction data from the University's financial system (Banner) and its procurement card issuer's Web site CitiManager to test purchases and asset records, additions, and disposals. Auditors reviewed the University's reconciliation from Banner to (1) the Uniform Statewide Accounting System (USAS) for expenditures and to (2) the State Property Accounting System (SPA) for assets.

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

Auditors determined that the University's expenditure and asset data was sufficiently reliable for the purposes of this audit.

### **Sampling Methodology**

For non-procurement card expenditures, auditors selected a non-random sample of 60 transactions totaling \$17.1 million based on general ledger

description and dollar value to ensure coverage of the University's various types of purchases.

For procurement card expenditures, auditors selected a non-random sample of 60 transactions totaling \$40,984 to ensure coverage of high dollar transactions, cardholders who had a high volume of transactions, and transactions that may not comply with University policies based on the purchase descriptions in its financial system.

For capital assets with a total value of \$377.6 million, auditors selected a non-random sample of 60 active assets valued at \$6.9 million based on dollar value and asset description. In addition, of the University's \$2.9 million in total disposed assets, auditors selected a non-random sample of 12 disposed assets valued at a total of \$1.9 million based on dollar value and asset description.

For budget transfers, auditors selected a non-random sample of 60 transactions totaling \$26.2 million of \$159.5 million based on transfer type and dollar amount.

The sample items selected were generally not representative of the population; therefore, it would not be appropriate to project those test results to the population.

Information collected and reviewed included the following:

- The University's policies, procedures, and guidelines.
- The University's expenditure data from USAS, Banner, and CitiManager, as well as asset data from Banner and SPA.
- The University's documentation related to budget transfers, including budget entry forms and budget request forms.
- The University's documentation related to asset procurement and disposals.
- The University's internal inventory log used to track assets.
- User access data and supporting documentation related to application controls over the University's financial system and SPA.

Procedures and tests conducted included the following:

- Interviewed University staff to gain an understanding of financial and operational processes, including financial and administrative internal controls and the information systems that support those processes.

- Tested purchases to determine whether they were reviewed and approved, recorded accurately, and supported in accordance with University policy.
- Tested samples of budget transfers to determine whether they were reviewed and approved in accordance with University policies and procedures.
- Observed assets and tested for records to support asset additions and disposals.
- Tested general controls and user access over the University's financial system of record, Banner.

Criteria used included the following:

- University policies and procedures.
- Texas Government Code, Chapters 403, 2155, 2158, 2175, 2251, and 2254.
- Texas Administrative Code, Chapter 5.
- *State of Texas Procurement and Contract Management Guide*, version 1.1.
- Office of the Comptroller of Public Accounts' *SPA Process User's Guide*.
- *Texas State Records Retention Schedule*.

### **Project Information**

Audit fieldwork was conducted from June 2019 through January 2020. We conducted this performance audit in accordance with generally accepted government auditing standards.<sup>5</sup> 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 objective.

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

- Armando S. Sanchez, MBA (Project Manager)
- Brandy Corbin

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<sup>5</sup> United States Government Accountability Office's *Government Auditing Standards*, 2011 Revision.



- Douglas Jarnagan, MAcc
- Tyler Miller, MPSA
- Kelley Ngaide, CIA, CFE
- Quang Tran, CFE
- Minh Trang
- Ryan Walther
- Grace Yang, CPA
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Courtney Ambres-Wade, CFE, CGAP (Audit Manager)

## Issue Rating Classifications and Descriptions

Auditors used professional judgment 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 below 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 the 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 Dennis Bonnen, Speaker of the House, Joint Chair  
The Honorable Jane Nelson, Senate Finance Committee  
The Honorable Robert Nichols, Member, Texas Senate  
The Honorable Giovanni Capriglione, House Appropriations Committee  
The Honorable Dustin Burrows, House Ways and Means Committee

### **Office of the Governor**

The Honorable Greg Abbott, Governor

### **Midwestern State University**

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