

A Detailed Review of

Management Controls at Texas A&M University System Research and Service Agencies



Office of the State Auditor
Lawrence F. Alwin, CPA

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Texas A&M University System Research and Service Agencies

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Texas A&M University System Research and Service Agencies

Audits of the eight research and service agencies of the Texas A&M University System were conducted during the course of this management control audit. The objective of the audit was to make an assessment of management processes and control systems within the following agencies:

- Texas Agricultural Experiment Station
- Texas Agricultural Extension Service
- Texas Forest Service
- Texas Veterinary Medical Diagnostic Laboratory
- Texas Animal Damage Control Service
- Texas Engineering Experiment Station
- Texas Engineering Extension Service
- Texas Transportation Institute

The scope of this audit included a review of the processes by which the agencies scan the environment and establish plans; organize themselves to meet those plans; identify and control the use of human, financial, and other resources; and report and evaluate the results of their performance.

Report No. 96-064 is a publication of the executive summary for these reports.

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System Administrative and General Offices

Texas A&M University System

Overall Assessment

Although we did not audit the System Administration and General Offices, audit work conducted at the eight research and service agencies of the Texas A&M University System identified some conditions which can best be resolved by the System Administrative and General Offices. These conditions relate to the quality of information generated by the System and its components, the System's organizational efficiency, and compliance with state-mandated purchasing guidelines.

Section 1:

Management Should Continue to Strengthen Information Systems

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

Section 1-A:

The System Does Not Have a Comprehensive Management Information System

In 1987, the System recognized the need for a comprehensive management information system for all members of the Texas A&M University System. The System developed and implemented the Financial Accounting Management Information System (FAMIS) to fill this need. FAMIS was to be a fully integrated approach to financial and related information throughout the System, and more than just a general ledger system. However, FAMIS has not achieved the original objective or met all the needs of its users.

FAMIS will not be a fully integrated system because there is no administrative intent to require all agencies and institutions of the System to utilize FAMIS as their financial accounting system. The System had been making a concerted effort to implement FAMIS at all System components. The most recent implementation was at the Texas A&M Research Foundation where there are a large number of programming requests. There are three remaining components where FAMIS has not been implemented: Texas Engineering Experiment Station, Texas Engineering Extension Service, and West Texas A&M University.

FAMIS does not meet the information needs of System-level users, such as the Board of Regents and the System Administrative and General Offices, because it does not produce sufficient financial performance data. FAMIS is also not meeting the needs of agency-level users within the research and service agencies. A common complaint is that it is not user friendly. Other concerns are its reporting capabilities and the inability to meet project level accounting needs. There is a backlog of over 250 requests for system maintenance and enhancements, some of which date back to 1990 and 1991.

Recommendation:

System management should reevaluate the overall intent and purpose of FAMIS and how best to meet the management reporting needs of the Board and executive management. Consideration should be given to the depth of accounting functions that FAMIS will provide, including general ledger, project accounting, and management reporting. Alternative methods for meeting management reporting needs should be fully identified and evaluated. Decisions should be formally documented and communicated to all System parts.

Management Information System (MIS) personnel should continue to systematically address the backlog of programming requests. Implementation of FAMIS at other System components should continue to be delayed until 1) decisions are reached about the overall intent and purpose of FAMIS, and 2) the Research Foundation is effectively operating with FAMIS. Ongoing communication and interaction should occur between the MIS personnel and each component.

Management's Response:

The original implementation plan called for the Financial Accounting Management Information System (FAMIS) to meet the informational and processing needs for all levels of The Texas A&M University System (TAMUS). The base accounting system is in place and meets the basic accounting needs for the agencies and institutions who have matured as users of this system. This system is in use by fourteen agencies and institutions, as well as the Texas A&M Research Foundation, a non-TAMUS entity. In addition, three additional institutions will be incorporated effective September 1, 1996, as the Baylor College of Dentistry, East Texas State University in Commerce and East Texas State University in Texarkana join TAMUS. The base system is in place and no additional implementations are planned beyond September 1996.

The FAMIS support staff continues to respond to maintenance needs. Since September 1995, the staff has completed 219 service requests. During this same period, an additional 271 maintenance items were identified by various system users. Many of these additional items are the result of the implementation of FAMIS as the financial accounting system for the Texas A&M Research Foundation. Other maintenance

items are the result of legislation passed this last session that required system changes to meet reporting and processing requirements. Priority is given to processing requirements and maintenance requests that are mandated by law or policy changes and those that result in improved reporting and/or processing for all users of FAMIS. Additional support is given to assist in the implementation of the system by new users as well.

System management is committed to the development of a comprehensive management information system to complement both users of FAMIS and other accounting systems. A task force has been formed with representation from a number of Member institutions to develop a scope of work and plan of action to be completed no later than August 31, 1996.

Section 1-B:

Annual Financial Reports Contain Inaccurate Information

The users of the Texas A&M University System Annual Financial Report (AFR) have been provided some inaccurate data with which to make informed decisions. Some of the components' fiscal year 1994 and 1995 AFR's contain material errors of omission and misclassification. Additionally, errors were noted with the cost accounting methods and profit/loss calculations for service department operations. They included:

- not allocating all applicable direct and indirect costs to service department operations
- combining several different service operations into a group and reporting the operating results of the combined group of service departments

The System AFR presents a combined financial statement and distinct annual financial reports for each component. Each component's chief financial officer is responsible for the accuracy of the component's AFR. The System Controller's Office does a desk review of the component AFR's prior to the consolidation of all System component AFR's. However, a thorough review and verification of each component's annual financial report is not done.

Lack of specific financial reporting guidelines is one of the other contributing factors for these errors. The National Association of College and University Business Officers (NACUBO) *Financial Accounting and Reporting Manual for Higher Education* and the Comptroller of Public Accounts' *Annual Financial Reporting Requirements for Colleges and Universities* are authoritative sources of Generally Acceptable Accounting Principles which are applicable to System components. However, these sources' guidance in matters such as classification of expenses is often vague. System components sometimes take advantage of this vagueness to report financial data in a favorable light, rather than the most completely accurate manner. The System provides the *Texas A&M University System Instructions for Preparation of Annual*

Financial Reports, which includes limited additional financial reporting guidance to the components. However, no additional authoritative guidance on topics such as expenditure classification is provided. The following components had material errors in fiscal year 1994, fiscal year 1995, or both.

Figure 1
Texas Agricultural Experiment Station

Income/Expenditure Category	Error Description	Amount
R&G Research	Overstated	\$8.1 million
R&G Institutional Support	Understated	\$4.5 million
R&G Public Service	Understated	\$3.6 million

Texas Agricultural Experiment Station: Misclassification of funds were noted in the fiscal year 1994 reporting of institutional support expenditures, research expenditures, and

public service expenditures. The misclassification affected the reporting of \$8.1 million. The Experiment Station has agreed to correct these reporting errors in its future financial reports.

Texas Agricultural Extension Service: Federal appropriations of \$4.3 million were incorrectly reported on the Extension Service's fiscal year 1994 Balance Sheet, which overstated total assets. The Extension Service's correction of this error is reflected in its fiscal year 1995 annual financial report.

Figure 2
Texas Engineering Experiment Station

Income/Expenditure Category	Error Description	Amount	Percentage
Designated - Externally Funded Service Dept. Exps.	(1)	\$1,609,504	36%
Designated - Externally Funded Service Dept. Income	(1)	\$1,636,102	38%
Designated - Internally Funded Service Dept. Exps.	(1)	\$804,501	18%
Designated - Internally Funded Service Dept. Income	(1)	\$843,489	18%
Designated Service Department Income	Understated	\$369,427	7%
Restricted Revenues	Overstated	\$369,427	1.5%

Texas Engineering Experiment Station: The Experiment Station combined the results of 37 separate service operations as a single service division and 30 other service operations as another service division in the fiscal year 1995 annual financial report. These two service divisions had revenues and expenditures of over \$2.4 million.

(1) Management consolidated the results of many different service operations instead of correctly listing the results of each service operation separately.

Additionally, the Thermodynamics Research Center's income of \$369,000 was incorrectly reported as Restricted Funds instead of Designated Funds.

The Experiment Station has agreed to report service department operations at the appropriate level of detail and to correct the overstatement of Restricted Fund Revenues.

Figure 3
Texas Forest Service

Category	Error Description	Amount
Restricted Funds	Overstated	\$325,650
Unrestricted Current Funds	Understated	\$325,650

Texas Forest Service: Funds were incorrectly classified as restricted funds in the amount of \$325,650 in the fiscal year 1995 annual financial report. The Forest Service has stated that it will seek guidance from the System Comptroller regarding the correct reporting of these funds.

Figure 4
Texas Veterinary Medical Diagnostic Laboratory

Income/Expenditure Category	Error Description	Amount
Bad Debt Expense	Understated	\$92,466
Income	Overstated	\$92,466
A/R	Overstated	\$92,466
Total Assets	Overstated	\$92,466

Texas Veterinary Medical Diagnostic Laboratory: Bad debt expense for fiscal years 1991- 1995 was understated by \$92,466, which effectively overstated revenue. In 1995, the Laboratory reported \$77,591 of this expense. The Laboratory has agreed to report bad debt expense correctly in the future.

Recommendations:

The System should take steps to improve the accuracy and consistency of financial data reported by System components. These steps include:

- The System Controller should promulgate more specific reporting guidelines for System components, within Generally Acceptable Accounting Principles, through the *Texas A&M University System Instructions for Preparation of Annual Financial Reports*. Future instructions should include more detailed rules for reporting and classifying institutional support expenses, research expenditures, and service department operations than in the past. Topics which have caused some System parts reporting problems, such as federal

appropriations and the allocation of direct and indirect costs for service department operations, should be covered in detail.

- The System Controller's Office should require each System component to perform an analytical review of its financial report before submitting it for inclusion in the System Annual Financial Report. The analytical review should compare the current year financial statement to the previous year. The review should include explanations of all significant fluctuations between the two years. The System should define significance in terms of both percentage and dollar change. The System should examine the review for accuracy and reasonableness as part of its desk review of financial statements. The System should investigate explanations which do not appear both accurate and reasonable.
- The System Comptroller should notify the Board of Regents, the Chancellor, and the System Internal Auditor of the quality of financial reports produced by each System component. The System Internal Auditor should consider this information when developing its annual audit plans.

Management's Response:

- *The NACUBO Financial Accounting and Reporting Manual for Higher Education, Comptroller of Public Accounts' Annual Financial Reporting Requirements for Colleges and Universities, and the System Comptroller's Texas A&M University System Instructions for Preparation of Annual Financial Report each include specific definitions of the functional categories of expenditures, as well as specific examples of the types of activities to classify in each category. Application of these guidelines is the responsibility of the System parts, with assistance provided by the System Comptroller's Office. The System Comptroller's Office will continue to address and provide specific guidance in problem areas of which it is aware and promote consistency in the application of these guidelines.*

The System Comptroller's Office will develop specific reporting guidelines for the reporting of federal appropriations for the System parts that receive these appropriations. Since the reporting was corrected in the 1995 financial report, any future misstatements should be revealed through normal fluctuation procedures.

Policies and procedures regarding accounting for service departments will be further addressed as necessary in appropriate System regulations. Reporting guidelines regarding service departments will be further addressed in the Texas A&M University System Instructions for Preparation of Annual Financial Report.

- *The System Comptroller's Office will develop a set of analytic review procedures to be performed by each System part on its financial report, including fluctuation analysis procedures between the current and prior year financial statements. Documentation of the performance of such procedures will be required, including signatures by the System part's chief financial officer and explanation of all significant fluctuations. This documentation will be reviewed and examined by the System Comptroller's Office as part of normal desk review procedures. The System Comptroller's Office will predefine significance for determining which fluctuations require explanation.*
- *Errors detected in the financial reports of the System parts are communicated to the parts for correction during the System Comptroller's review process. These errors are again communicated to the System parts after the combined financial report is completed. The System Comptroller's Office will ensure that such errors are communicated to the System parts' chief financial officers. In addition, significant errors, which are not corrected by the System part, and the effect of these errors, will be communicated to the Chancellor, the Board of Regents and the System Internal Auditor by System management.*

Section 1-C:

System-Level Oversight of Strategic Plans Should Be Improved

The overall planning process is generally effective for the System, but monitoring and evaluation of System-wide goals and objectives needs improvement. In addition, the System's reporting requirements have created an inefficient reporting process for the parts' strategic plans.

The System utilizes a top-down, bottom-up approach in its strategic planning process. The process is top-down because the System sets broad goals for the components to build upon. The components then develop their own strategic plans that fit within the System's plan. The overall approach for developing the System's strategic plans is reasonable due to the diversity of the various components within the System. However, the System does not have any controls in place to ensure it is meeting its goals.

The System and its components develop two strategic plans. One plan is prepared to comply with legislative requirements; the other is prepared for internal use. These plans have significantly differing formats. Producing two reports in two differing formats requires a significant amount of work from System parts. The plan which is used internally also has more detail than the legislative plan. Some System parts must develop more than these two plans due to requirements of external parties such as the Federal Government. The Texas Agricultural Extension Service prepares five strategic plans. One of the Extension Service's plans is the plan required by the System, while another is a strategic plan with a different format required by the Agriculture Program.

Because of these inefficiencies, the Chancellor waived the requirement that System parts produce the fiscal year 1997-2000 internal use strategic plan.

Recommendation:

The System should formally and systematically monitor its progress toward System-wide goals and objectives. Additionally, the System should evaluate the need to prepare more than one strategic plan for the System and its components. If other internal plans are necessary, they should follow the format required for the legislatively-required strategic plan. Additional information should be added to this format to create strategic plans mandated by the System and its component units to ensure maximum efficiency.

Management's Response:

The biennial System mandated strategic planning process has been deferred in favor of the state mandated plans. The System is currently reviewing the possibility of merging several internal planning processes with the state requirement. The ongoing review will also consider how best to integrate more explicit performance measures into the goal-setting process.

Section 1-D:

System-Level Oversight of Budgets Should Be Improved

There is no System-level review of actual expenditures to budgets. Additionally, there is no central location where all budget revisions are reviewed. Thus, there is no mechanism for monitoring or reporting the cumulative effect of budget variances and budget revisions within the entire System. A 1984 policy is still in effect which provides guidance for budget and fiscal changes. Generally, it requires budget increases in excess of \$100,000 to be reported to the Board of Regents subsequent to approval by the agency director. Budget revisions less than \$100,000 are not reported.

Recommendation:

The System Budget Office should review and analyze actual expenditures compared to budgets on a System-wide level. Significant variances should be explained and reported to the Board of Regents. The System should also consider the aggregation of all budget revisions in the System Budget Office for analyzing and monitoring. While delegation of authority is appropriate, the System should reevaluate the \$100,000 threshold for approval and reporting of budget revisions for each individual System component.

Management's Response:

The Texas A&M University System is currently in the process of publishing the first draft of a management information report that will be provided to the Board of Regents on a quarterly basis. This management report, among other things, will compare the current operating budget information with actual expenditures. Explanations for any significant variances will be a standard requirement within this quarterly analysis. This report should clearly address budget changes throughout the fiscal year and enable a comprehensive comparison of actual expenditures to operating budgets.

Section 1-E:

System Internal Audit Should Enhance its Effective Planning and Risk Assessment Process

The System Internal Audit Department can improve its effectiveness by improving its already sound planning and risk assessment process. The Department's planning process does not sufficiently consider performance audits as an auditable unit. Most of the approximately 1,000 auditable units (i.e., potential audits) identified by the Department are examinations of financial data or financial internal controls.

The Department does consider some functional oriented audits such as human resources and information systems. However, the Department does not sufficiently consider performance management issues or policy management issues. Performance management controls ensure that agencies meet strategic goals through their programs and operations. Performance management issues include whether agencies produce services in alignment with their goals or whether agency customers are satisfied with these agency services. Policy management controls ensure the agency has identified what it should be doing and how it should be doing it. Policy management issues include developing effective action plans and budgets. Our audit found significant issues in both areas.

The Department's planning process has several favorable attributes. It utilizes appropriate risk factors to evaluate the System parts and auditable units. Department coverage of the System appears equitable since all System parts have received some audit coverage during the past four fiscal years. Coverage of the research and service agencies also appears equitable, given the Department's total available resources.

The planning process can be further augmented by improved scanning and monitoring of the media. News media stories often contain useful information that should be taken into account in an audit planning and risk assessment process.

Recommendation:

The Department should improve its planning and risk assessment process, and thus its overall effectiveness, by:

- more fully including all nonfinancial management control systems and the data they produce among their auditable units
- more effectively utilizing information provided by the news media in its planning and risk assessment process

Management's Response:

Risk analysis is a dynamic process. The methodology for determining risk must constantly be reevaluated to ensure that appropriate auditable units are assessed by appropriate risk factors. This re-assessment of risk to ensure that audit resources are directed at the highest perceived risk within The Texas A&M University System is part of a larger departmental program of continuous improvement and quality assurance. A guiding principle of this program is the recognition that the department has numerous constituents, each with a unique perspective of risk.

The current risk model employed, coupled with the broad definition of risk promoted by the department, results in an annual audit plan with several distinguishing characteristics. One of these characteristics is the recognition that the population of possible audits cannot be fully covered on a regular basis due to the availability of resources. The recommendation to consider more fully non-financial management control systems during the risk assessment process can be accomplished. Currently, performance related issues are considered during the preliminary stages of most audits as these issues relate to the operation, department, or unit being audited. Such consideration has resulted in numerous recommendations for improvement related to performance issues at the operation, department, or unit level. In the future, the risk analysis process will ensure that the appropriate emphasis is placed on performance-related issues for the auditable units as identified.

The other area of planning and risk analysis enhancement relates to more effectively utilizing information provided by the news media. The current risk analysis model employs a risk factor for the effect of media attention on the level of risk perceived to exist. The method by which this risk factor identifies and captures information pertaining to the news media will be reviewed, and appropriate effectiveness-enhancing changes will be made.

Section 2:

Management May Achieve Significant Cost Savings Through Reorganization

System components may achieve cost savings through reorganization if the System can ensure that reorganized components will receive the necessary level of service. Opportunities have been identified for potential cost savings by consolidating print shops and accounting offices. Other functions provided by more than one source, such as video/multimedia services and human resources services, could be the subject of other efficiency studies.

Besides consolidating existing operations, the System should institute controls to prevent creation of unneeded service departments. New service departments should provide necessary services which cannot be obtained more economically from other System components or the private sector.

Section 2-A:

Reorganizing Entities Must Continue to Receive the Same Quality Service

Although significant cost savings may be possible by consolidating some service departments, the System must be able to ensure that the consolidating parts will receive the necessary level of customer service. Historically, Texas A&M University has provided System-level service to System components. Members of agency management interviewed throughout the audit complained of poor service from University service departments causing them to form their own agency service departments. One common complaint was that University service departments took care of University departments at the expense of the components. Another concern was the component's inability to seek effective redress after receiving bad service from University service departments.

System components, especially those whose budgets are made up of significant amounts of money earned by selling research, instruction, and other services, are reliant on quality services to satisfy their customers and maintain their reputations. For example, the Texas Engineering Extension Service needs specialized manuals and other training materials. It also needs high quality brochures and flyers to market its services. Sometimes training materials are needed on one day's notice. In addition, persons editing Extension Service material need a specialized knowledge of the material they proofread. The Extension Service needs the level of quality, responsiveness, flexibility, expertise, and timeliness, that it currently receives from its print shop, to effectively meet its own needs and those of its customers. The Texas Transportation Institute also needs quality printing services to meet its customers' expectations. Sometimes these services are needed on short notice. The Institute has also started producing some reports on video to increase the likelihood that the results of its research will be applied. The Institute needs the quality of printing and video services it receives from its Communications Department.

In order for any consolidation to be effective, there must be a mechanism in place to ensure excellent customer service and high quality end-products. These mechanisms must be identified and designed with input from all affected components and departments, and they must be in place at the time of consolidation. These controls include:

- frequent and ongoing communication between the consolidated operation and all customers
- a performance measurement system to monitor and evaluate the effectiveness of the consolidated operation
- top management oversight and involvement
- remedies and alternatives for customers when service is not satisfactory

Section 2-B:

Reorganization of Printing Operations May Provide Cost Savings

The System should evaluate consolidation of all College Station printing operations. The State Auditor's Office conservatively estimated potential cost savings of \$5.8 million¹ over the first four years of a consolidation of four of the largest System printing operations in the College Station area. These components/departments, which have significant printing operations, including copying and graphics, are the Texas Engineering Extension Service, the Agricultural Communications Department, the Agricultural Education Department,² and Texas A&M University Graphics Art Center. This environment has produced higher costs from:

- loss of efficiencies from economies of scale and learning curves
- overhead costs which are allocated among fewer customers; therefore, each customer/job receives a larger allocation
- inability to obtain maximum volume discounts for paper and supplies

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

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

- up-front costs of expensive, duplicate equipment
- cost of idle equipment resulting from a finite number of available jobs spread among a larger number of operations
- increased number of administrative FTEs and associated salary costs to run and manage the different operations
- increased storage and space requirements, utility expenses, and maintenance costs

Section 2-C:

Consolidation of Accounting Functions for the Texas Agricultural Experiment Station and the Texas Agricultural Extension Service Should Be More Effectively Evaluated

The Agricultural Experiment Station and the Agricultural Extension Service have not performed a sufficiently comprehensive study on consolidating their accounting functions. A report on the alternatives and benefits of combining accounting functions has been prepared. However, the report does not provide a detailed analysis of potential consolidation options. Instead, the report lists the pros and cons of each alternative.

According to the United States Department of Agriculture, it is permissible to combine administrative functions of the Agricultural Experiment Station and the Agricultural Extension Service as long as funds remain distinct. In fact, several other states have combined the accounting functions for similar agencies or have consolidated the two agencies into one agency. According to personnel from some of these states, cost savings and improved communication have occurred.

- Prior to combining the business operations of agriculture at Kansas State University, a 67-page study was prepared to analyze and plan for it. The analysis includes procedures, positions, flow of paperwork, and other details about the combination of the two agencies. According to the author of the study, there was no cost analysis on paper, but the savings are apparent in the administrative level and in the centralization of many of the activities.
- The University of Illinois is in the process of merging the fiscal office. Some administrative downsizing is occurring, but the main purpose is to coordinate the procedures of the offices, especially at the department level.
- The University of Arizona has one business office in the college of agriculture which does all the accounting for the college and the two agencies.

- The University of Georgia combined its academic, experiment, and extension agencies. One business office was created to handle all transactions.

Section 2-D:

The System Should Require Components to Justify Creation of New Service Departments

System components have opened a variety of service departments. Some of these departments supply services which possibly could be outsourced either to other System components or the private sector. For instance, there are seven video/multimedia operations and six copier and printing operations in the College Station area. While some of these operations are necessary, other operations might be provided more efficiently as shown in Section 2-B. There are not adequate controls designed to ensure creation of only service departments which are necessary to the System as a whole.

Recommendations:

Before requiring System components to consolidate their service departments or coordinate efforts with other components' service departments, as described in Sections 2-B and 2-C, the System should:

- study the needs of the component and its customers
- make sure all necessary customer service controls are in place to meet those needs

System management should fully evaluate the cost/benefit of consolidation of all College Station printing operations. The System should also study the feasibility of eliminating or consolidating its printing operations outside of College Station. Privatization is another option which should be studied.

System management should encourage the Agricultural Experiment Station and the Agricultural Extension Service to expand their study of the combination of accounting functions to include a detailed cost/benefit analysis. The agencies may want to contact other states that have combined functions for similar agencies to gain additional information. Their study should describe the process by which a combination would be achieved and a time line to track the progress of the combination.

System policy should require that System management approve creation of all new service departments. Prior to approving any new service department, System management should require a formal business analysis including a cost/benefit analysis. The business analysis should also include goals and a mission for the new operation. This process should be documented and the documentation should include

the decision criteria; the alternatives considered; the methods, facts, data, and logic used to identify solutions; the solutions adopted; the plans for implementation; and the expected results. Beside looking at efficiency from the agency's perspective, the process should examine efficiencies from the System's perspective. Data in the analysis should be verified by the System Internal Audit Department.

Management's Response:

- *Any future consolidation of service departments will be reviewed by System Administrative and General Offices and approved by the Chancellor. A complete analysis will be performed to determine if consolidation is appropriate, and if it is in the best interest of the service departments' customers and all other affected entities.*
- *The Chancellor of the Texas A&M University System will establish a task force to make recommendations on the feasibility of consolidated or out-sourcing printing operations. A list of recommendations will be presented to the Chancellor no later than year end, 1996.*
- *The Chancellor will establish a task force and will be provided recommendations for the creation and approval of all new service departments. The recommendations from this task force will also be made available to the Chancellor no later than year end, 1996.*

Section 3:

The System Should Continue its Efforts to Comply with HUB Requirements

The System has demonstrated good faith efforts to meet statutory requirements for using historically underutilized businesses (HUB) in procurements. The System Facilities Planning and Construction Department handles large construction projects (new construction over \$300,000; remodeling and renovation over \$600,000) for all System components, and reported 24.4 percent of total expenditures spent on HUBs in fiscal year 1995. Each System component generally reports all other expenditures, including small construction projects, professional and consulting services, and commodities. Although none of the eight System research and service agencies reached the fiscal year 1995 statutory goal of 30 percent for using historically underutilized businesses (HUB) in procurement, each agency demonstrated good faith efforts to meet these requirements. The following HUB-related data was reported for fiscal year 1995.

Figure 5

Agency	Total Expenditures	Total Spent with Certified HUBs	Percent
Texas A&M University System	\$ 99,664,303	\$ 24,326,852	24.40%
Texas Agricultural Extension Service	\$ 5,653,442	\$ 950,670	16.81%
Texas Engineering Extension Service	\$ 1,774,149	\$ 202,855	11.43%
Texas Transportation Institute	\$ 3,939,189	\$ 310,161	7.87%
Texas Agricultural Experiment Station	\$ 16,750,103	\$ 867,879	5.18%
Texas Engineering Experiment Station	\$ 7,941,260	\$ 337,235	4.25%
Texas Forest Service	\$ 2,825,294	\$ 81,872	2.90%
Texas Animal Damage Control Service	\$ 121,936	\$ 3,049	2.50%
Texas Veterinary Medical Diagnostic Laboratory	\$ 2,063,496	\$ 42,312	2.05%

The Engineering Extension Service, Transportation Institute, Engineering Experiment Station, and Veterinary Medical Diagnostic Laboratory contract with the Texas A&M University Purchasing Office for purchases over \$1,000. While efforts undertaken by each of the eight research and service agencies were evaluated, activities of the University Purchasing Office were not.

The System Administrative and General Office has demonstrated a good faith effort to comply with HUB requirements through several activities, including:

- compiling a HUB Advocacy Program to make sure the System followed its commitment to increase HUB utilization. A System HUB team, including a HUB coordinator for each System member, was created to implement the program.
- handling all construction contracts within the System centrally. All bid invitations and professional services requests for proposals include HUB language. Compliance with HUB rules is one condition for awarding construction contracts.
- generating monthly HUB reports to help assess progress and participation

Recommendation:

The System and its components should continue the good faith efforts to comply with HUB requirements. These efforts should continually increase HUB participation and eventually result in compliance with statutory HUB participation requirements.

Management's Response:

The Texas A&M University System is proud of its efforts regarding the use of historically under-utilized businesses. We also appreciate the very positive comments from the State Auditor's Office in recognizing our efforts in this area. We take this responsibility seriously and will continue to aggressively pursue our inclusive commitment.

Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of management processes and control systems within the eight Texas A&M University System research and service agencies. Audit work conducted at the eight research and service agencies of the Texas A&M University System identified some conditions which can best be resolved by the System Administrative and General Offices. The scope of the work at the System Administrative and General Offices included consideration of:

- management information systems
- organizational efficiency
- compliance with state-mandated purchasing guidelines

System financial data was analyzed, and relevant reports and documentation were reviewed. Conventional audit procedures were applied to collect information, including interviews with management and staff of the System. Audit testing and analysis included control review, trend analysis of expenditures and performance statistics, and review of performance measures. Our work will not necessarily reveal all the System's internal control weaknesses.

Fieldwork was conducted from March 1995 to December 1995. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

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

- Greg Adams, CPA (Project Manager)
- Jon Nelson, CISA (Co-Project Manager)
- Larry Vinyard, CPA, CIA (Quality Control Reviewer)
- Terry Holderman (Team Leader)
- Rob Bollinger, CPA
- Dana Brown
- Rachel Cohen, CPA
- Dana Jung
- Catherine A. Smock, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Director)

Texas Agricultural Experiment Station

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Texas Agricultural Experiment Station

Texas A&M University System

Overall Assessment

The Texas Agricultural Experiment Station has been effective in accomplishing its research mission as evidenced by the quality of its scientific research. However, weaknesses in key control systems expose the Experiment Station to ineffective and inefficient operations. Based on a review of 3 of the 13 regional research centers, management controls are not consistently applied. The Experiment Station's ability to accomplish its mission is affected by its management control systems and processes at all organizational levels.

Section 1:

The Agency Conducts Quality Scientific Research

The Experiment Station excels in the quality of its work which is evidenced by its many accomplishments and the satisfaction of its customers. Accomplishments of the Experiment Station have been recognized in Texas A&M University System publications and the news media. One of those accomplishments was the Low Energy Precision Application Irrigation System. This irrigation system achieves at least 95 percent water application efficiency. Another Experiment Station achievement was the improved Texas Grano 1015Y Super Sweet onion. The 1015Y onion has contributed over \$100 million annually in new income to Texas. Hybrid sorghum developed by the Experiment Station has expanded use for sorghum and increased the value of production in Texas by more than \$1.5 billion. Experiment Station research has resulted in a more easily identified carrot which is high in beta carotene. Grain genetics research has been conducted to improve the size and quality of grain, and research has been conducted to reduce the effects of insects on crops.

As with any emerging technology, there is a risk that experiments will not always have positive outcomes. One example is the Boll Weevil Eradication Program where the application of ULV Malathion played a role in the reduction of natural enemies of the beet armyworm and other insect pests. This and other factors contributed to drastic reductions in cotton yield in the Lower Rio Grande Valley during the 1995 growing season.

Clients enjoy working with the Experiment Station. Of the six customers of Experiment Station research contacted, three felt that the quality of Experiment Station work was excellent. The other three felt that the quality of Experiment Station work was good. Customer surveys have not been conducted by the Experiment Station.

Recommendation:

The Experiment Station should continue to excel in the area of program quality by providing relevant, high-quality research for the State of Texas. Management should conduct customer surveys on a regular basis to ensure that client needs are being met and to ensure that the quality of research continues.

Management's Response:

We are pleased to hear the mission of the Texas Agricultural Experiment Station (TAES) is being fulfilled with a high level of satisfaction among the customers surveyed. TAES will develop a method of documenting customers satisfaction on service and support provided.

Section 2:

The Experiment Station Should Improve Its Accounting Information System

The existing accounting data collection and information system is not meeting the needs of management. Duplication and inefficiencies have resulted from the use of multiple systems, including the System Financial Accounting and Management Information System (FAMIS), the Experiment Station's project fund management system, and locally developed reports and spreadsheets. In addition, the project fund management system has not been developed with adequate control features to prevent duplicate payments to vendors for the same item or to prevent overspending of accounts. Weaknesses associated with controls are also discussed in Section 3.

The Experiment Station's project fund management system supports bookkeeping and management information needs at the department level. This centralized system provides consistent accounting methods for Experiment Station research centers. The system handles purchase orders, vouchers, appropriations and credits, transaction reports, and payroll.

Section 2-A:

FAMIS Does Not Meet Management's Needs

The use of two systems (FAMIS and the Experiment Station's project fund management system) causes duplicate data entry and time-consuming reconciliations. According to Experiment Station management, FAMIS does not process data at a project level, but its own system does. Information in the project fund management system must be re-keyed into FAMIS by personnel in College Station. Reconciliations of the two systems are conducted at the end of each month by the bookkeepers at each center and department. Between 60 and 90 accounts have to be reconciled each

month, at each center. It takes center bookkeepers approximately two days per month to perform the reconciliations.

Recommendation:

The Experiment Station should establish an efficient link between its project fund management system and FAMIS. The same data should only be entered once. The link could include a download of the initial data entered, which is then passed on to the other system. This linkage would save time spent by Experiment Station staff to re-key and reconcile data between the two systems.

Management's Response:

We have developed specifications for an electronic linkage between the project fund management system and FAMIS. Meetings with the programmers will be held within the next two weeks to begin the process of electronic routing and approval which will eliminate the printing of vouchers and transporting of documents to the fiscal office. This electronic linkage was first proposed and documented by TAES in March, 1993. At that time, the TAMUS FAMIS team planned to address departmental bookkeeping needs by enhancing FAMIS. Some improvements have been made, but a total departmental support system is not forecast in the near future for FAMIS.

Section 2-B:

The Experiment Station's Project Fund Management System Does Not Fully Meet the Needs of Research Centers

Reports from the project fund management system do not fully meet the management needs of some centers. For example, the Project Leader Report does not meet the needs of the Temple Center. The Temple Center is in the process of developing an Excel spreadsheet which will meet the needs of its project leaders. The Project Leader Report appears adequate for the Lubbock and Weslaco Centers. However, the Lubbock Center develops monthly hand-written reports and the Weslaco Center develops monthly Lotus spreadsheet reports to supplement existing reports. These processes require duplicate processing of bookkeeping system data, which is inefficient.

Recommendation:

Management should conduct a comprehensive review of its current accounting data collection and information system. User participation is critical to establishing an effective information system. Management should:

- determine what information it needs to function and operate on a daily basis
- determine whether current arrangements for obtaining information will meet future needs and consider possible alternatives
- establish a process for comparing the value of various types of information to the cost of obtaining it
- evaluate the usefulness of reports to both executive and program management

Management's Response:

Departments and Research Centers were polled during the development of the project fund management system in the early 1980's to obtain input on ease of use and practical report contents. We have always encouraged users to make suggestions on improvements during our annual administrative workshop and, in fact, have several enhancements pending which will be worked in as time permits with the programming resources allotted. We will also conduct a formal survey to ask units what they would like to see changed or added to make the automated system more useful. Our Senior Training Specialist is in contact daily with various units to help with problems and take suggestions on improvements.

Section 2-C:

Object Class Codes Are Not Consistently Used

Accounting object class codes are not consistently used throughout the Experiment Station. Administrative personnel involved in issuing purchase orders noted that object class codes are sometimes confusing and difficult to interpret. For example, it is not clear whether fertilizer should be classified as *chemicals and gases* or *farm, ranch, and nursery supplies*. Additionally, it is not clear whether a Vitus sanitary certificate for sending seed to a foreign country should be classified as *fees and other charges* or something else.

An analysis of purchases at the Lubbock Research Center showed that some of the same items had been classified under different object class codes. A lack of consistent use of object class codes distorts the data and does not provide reliable information for management. For example:

- Three separate purchases of framed prints were classified under three different object class codes: *other fees*, *photographic services*, and *office furnishings and equipment*.
- Three separate payments for tree pruning were classified as *other fees*, but a fourth purchase was classified as *maintenance and repair of grounds*.
- Payments for planting trees have been classified as *landscaping supplies* and *maintenance and repair of grounds*.

Recommendation:

Experiment Station management should develop comprehensive, clear definitions for object class codes and communicate those to research centers. Research center management should review vouchers to ensure that object class codes are consistently classified for the same types of items.

Management's Response:

Object class codes are now always definable by a description of item purchased. The use of the item will determine the most appropriate object class. Judgement calls are made every day by those closest to the end user of purchased goods and services. To help improve the quality of those object classes chosen, an alphabetical list of items purchased by our agency, with usual object classes, will be provided to each unit within the next month.

Section 3:

Control Weaknesses Were Identified at the Research Centers

Management control weaknesses were identified at the three regional research centers visited. Fiscal year 1995 research and general expenditures at the 13 regional research centers totaled approximately \$16.8 million. Since research centers receive a significant amount of funding, it is imperative that control weaknesses at research centers be addressed.

Section 3-A:

Purchasing and Bidding Requirements Were Circumvented at the Lubbock Center

Purchasing and bidding requirements were circumvented at the Lubbock Center during 1994 and 1995. There were several cases when purchases were split and bids were not obtained. Purchasing and bidding requirements are clearly stated by the Texas A&M University System and the Government Code. Purchases under \$1,000 do not require bids. Purchases between \$1,000 and \$5,000 require three verbal bids. Purchases over \$5,000 require five written bids and approval from the Experiment Station Purchasing Department in College Station. According to V.T.C.A., Government Code, § 2155.132 (f), a large purchase may not be divided into small lot purchases to meet prescribed dollar limits. The following instances were detected.

- In May 1994, furniture was ordered on the same day from the same vendor. The order was divided into five purchases, each less than \$1,000. The total amount of the five purchases was over \$3,000. Bids were not obtained.

- In June 1994, two lateral files were ordered on the same day from the same vendor. The order was divided into two purchases, each less than \$1,000. The total amount of the two purchases was approximately \$1,377. Bids were not obtained.
- In July 1994, carpet was ordered on the same day from the same vendor. The order was divided into two separate purchases: one for \$2,295, and the other for \$2,912. The total amount of the two purchases was \$5,207. Three verbal bids were obtained. At that time, purchases exceeding \$5,000 required three written bids.
- In July 1994, shrubbery and plants were ordered on the same day from two separate vendors. The two purchases were \$985 and \$62. Combined, these items exceeded the \$1,000 limit for purchases requiring bids. Bids were not obtained.
- In September 1994, office furniture was ordered on the same day from the same vendor. The order was divided into two purchases, each less than \$1,000. The total amount of the two purchases was approximately \$1,138. Bids were not obtained.
- In April 1995, two sets of trees to be used around the main building at the Center were ordered on the same day from two different vendors. One set of trees was purchased for \$575, and the other set was purchased for \$994, which totals \$1,569. Bids were not obtained.

In other cases, specifications for bids were written so restrictively that they may have favored a specific vendor. In April 1995, a specific brand of office furniture was specified for purchase when other brands of furniture would have been acceptable. Furthermore, other types of furniture may have been more economical. For example, one of the specified sofas was purchased at a cost of \$540, while Texas Department of Criminal Justice sofas can be purchased at a cost of \$296.

The Experiment Station Internal Auditor issued reports to the Director of the Experiment Station identifying most of the items where bidding and purchasing requirements were circumvented at the Lubbock Center. However, the results were not communicated to the Texas A&M University System Internal Audit Department.

Recommendation:

Management of the Lubbock Center should ensure that purchasing and bidding requirements are strictly followed. Purchases of related items should not be divided into small lot purchases. Bids should be obtained according to Texas A&M University System requirements. Management should closely monitor the bidding and purchasing practices of the Center to ensure that circumvention of bidding and

purchasing requirements does not occur again. The Experiment Station Internal Audit Department should continue to monitor the bidding and purchasing activities of all Centers and communicate audit results to the System Internal Audit Department.

Management's Response:

The Lubbock Center is being closely monitored for adherence to bidding and purchasing practices. The Resident Director has been informed, in writing, of the serious nature of these offenses and the need for strict adherence to the rules. The internal auditor for TAES originally discovered these practices through the use of a comprehensive audit program and will continue to monitor these areas at all units. The Texas A&M University System Auditor is being copied on all audit reports by the TAES Internal Auditor.

Section 3-B:

Expenditures Appear to Have Been Excessive at the Lubbock Center

Expenditures for certain types of procurements have been significantly higher at the Lubbock Center compared to three other large research centers. Expenditures for office furnishing and equipment increased significantly during 1994-1995. Expenditures for plants increased significantly during 1993, but then dropped to comparable levels during 1994-1995. Maintenance and repair for buildings and rental of tools and equipment increased significantly in 1995.

One example of questionable expenditures involved the purchase of lawn mowing equipment in May 1995 and the subsequent contract for weekly lawn maintenance during August, September, and October of 1995. A lawn mower was purchased for \$6,959. Then, a contractor was hired to provide weekly lawn maintenance, including lawn mowing, which cost the Center \$3,753.

See Figures 6 through 9 on the next page for a comparison of expenditures among four research centers.

Figure 6

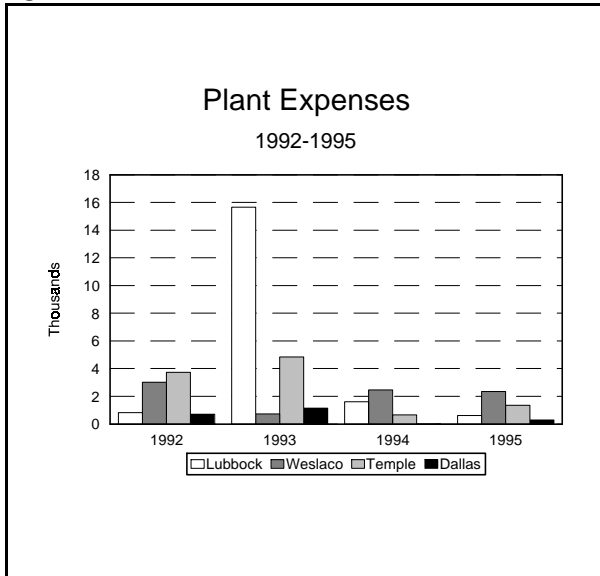


Figure 7

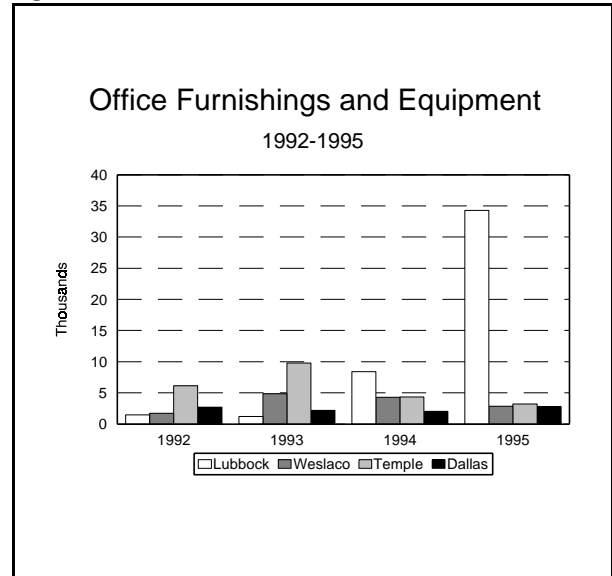


Figure 8

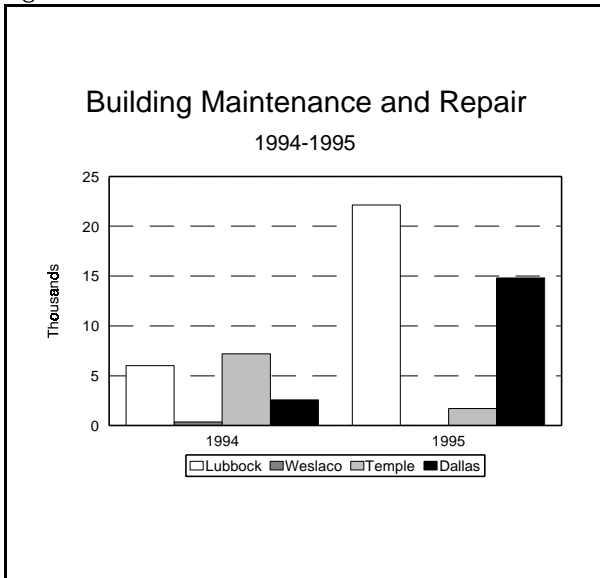
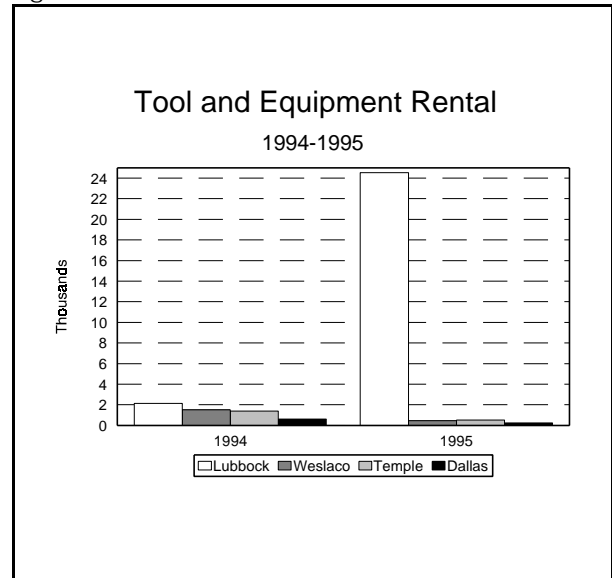


Figure 9



Recommendation:

Management of the Lubbock Center should closely monitor its expenditures for reasonableness and appropriateness. Experiment Station administration should compare expenditures among all centers on a regular basis. These comparisons will highlight significant differences in spending so that management can inquire about

unusual expenditures and prevent excessive spending. Differences in management practices across centers may also become apparent.

Management's Response:

We will continue to compare amount of budget appropriations and expenditures on a unit level basis across the agency. Expenses at the object class level will vary considerably across the units as various research emphasis is encountered from fruits/vegetables at Weslaco to cotton at Lubbock and geographic mapping at Temple. One explanation for the high level of office furnishings expense for Lubbock as compared to other centers was due to remodeling of facilities built in 1964 and replacement of original tile.

Section 3-C:

Duplicate Payment of Vouchers Has Occurred

Controls are inadequate at the research centers to prevent duplicate payment of vouchers. Duplicate payment has occurred when an invoice has been sent to more than one place. For example, a vendor may send an invoice to the fiscal office and to the employee who made the purchase. When the invoices are received at different times, duplicate payment can be made. There is sole reliance on manual controls to prevent duplication. While the occurrences are infrequent, human error has occurred. As a result, vendors have been paid twice for the same item. The project fund management system does not automatically compare Experiment Station vouchers and invoices to identify payment.

Recommendation:

The Experiment Station should implement adequate controls to prevent duplicate payment of vouchers. Ideally, a feature should be added to the project fund management system to automatically compare vouchers and invoices for vendor identification, invoice number, amount, and invoice date. If any two vouchers are identical, the system should prevent duplicate payment. Without this automated control, manual procedures should be improved to include frequent reconciliations and review. For example, vouchers and invoices should be reconciled to a purchase order register prior to payment. A tick mark on the register could be used to denote payment of the voucher.

Management's Response:

The official accounting system of record for TAES, FAMIS, does have a feature to check for duplication of invoice numbers by vendor. As a preliminary measure of control, we will plan to add this feature to the project management system.

Section 3-D:

Project Accounts Can Be Overspent

Controls should be improved over the issuance of purchase orders. Purchase orders are currently issued based on available funds in a category of a project account, not the overall project account balance. In other words, a project account category may have a positive fund balance, but the overall project account balance is negative, which in effect, zeroes out the positive categories. Thus, sufficient funds are not really available. While a monthly transaction report by project is generated, no exception report is produced to identify project accounts with a negative balance. Categories of a project account include salaries and wages, travel, supplies and materials, capital outlay, etc. According to management, only salaries and wages may have a negative balance.

Recommendation:

The issuance of purchase orders should require consideration of the total project account balance. This can be done by the fiscal office or a control feature could be added to the project fund management system which would prevent the issuance of a purchase order when the project account balance is negative. An exception report should be produced periodically and reviewed to ensure that expenditures are properly controlled.

Management's Response:

The project fund management system checks the appropriate budget category before issuing a purchase order. Due to the limited situations where a negative project balance can occur, this has not been a high priority enhancement to the system. We will however, review options to tighten the control over issuance of purchase orders in those limited situations. An exception report to include only those negative balances will be implemented as an additional management control tool.

Section 3-E:

Automated System Controls Vary Among Research Centers

There was variation in the quality of controls over the project fund management system at the three research centers visited. Such variation can affect the accuracy and reliability of data in the system. For example, there is a lack of segregation of duties between data input, verification, and correction at the Lubbock and Temple Centers. However, proper supervisory review will compensate for that. At the Weslaco Center, there is a lack of segregation of duties between data authorization and data input and correction. Furthermore, personnel have not been cross-trained in the use of the system at Weslaco. At the Lubbock and Temple Centers, manual procedures have not been developed for use in the event of a computer outage.

Recommendation:

Management should ensure that all departments and centers have adequate control features in the use of the project fund management system. Specifically, controls should include:

- proper segregation of duties between data authorization, input, verification, and correction
- adequate cross-training of personnel
- manual procedures for use in the event of a computer outage

Management's Response:

- *The TAES Internal Auditor will continue to monitor for proper segregation of duties at each location as a part of the audit program. If there are an insufficient number of employees to segregate all duties, additional controls are put in place to counter that weakness.*
- *Cross-training of personnel will continue to be encouraged at all locations. Sometimes there are not enough administrative personnel to have all areas cross-trained. As state appropriations have been reduced over the past several years, many units have reduced administrative personnel as a method to cushion the impact on direct research funding.*
- *We have experienced very few instances of computer outage lasting more than 2 to 4 hours over the past five years since converting to the mainframe. However, as a precautionary measure we will distribute procedures for manual processing of purchase orders and vouchers to all units within the next two months.*

Section 3-F:

Controls Over Cash Receipts and Working Funds Were Inconsistent

There is inadequate segregation of duties and supervisory review of cash receipt functions at several research centers. Proper controls over cash require segregation of cash handling and recording duties. Without adequate segregation of duties, proper supervisory review is even more important.

At the Lubbock Center, mail is opened by only one person. The same person prepares transmittal forms which are sent to College Station, and performs the reconciliation between the bookkeeping system and FAMIS. The Experiment Station Internal Auditor made a recommendation in December 1995 to improve controls in this area. At the Temple Center, the same person makes deposits and reconciles the working fund checkbook on a monthly basis.

At the Weslaco and Lubbock Centers, limited testing revealed no errors. However, it was noted that working fund reimbursement checks from College Station are not logged when received in the mail at either center. At the Temple Center, a few discrepancies were noted between the cash receipts log and remittance forms. Weaknesses in financial control systems expose the Experiment Station to unnecessary losses and inefficiencies.

Recommendation:

Duties over cash receipts in the research centers should be adequately segregated. Adequate segregation of duties should exist between cash receipts, deposits, recording, and reconciliations. Additionally, proper supervisory review should be conducted over cash handling and recording activities.

Management's Response:

Segregation of control over cash receipts will continue to be reviewed at each unit as a part of the internal auditor's audit program. Some locations have an insufficient number of administrative employees to totally separate all related duties; however, other controls and reviews are put in place to mitigate the weakness of some combined duties. These additional reviews are tested by the internal auditor for adequate control purposes.

Section 4:

Fiscal Policies and Procedures Should Be Improved

Centralized policies and procedures are not adequate for accounts receivable, cash disbursements, purchasing, and inventory. Some research centers have developed their

own procedures to supplement centralized procedures. However, this can lead to inconsistent application of policies and procedures and inadequate controls.

The Experiment Station has not established written procedures that specifically address the initial extension of credit, accounts receivable, billings, collection of past due receivables, and write-offs of receivables. The Texas A&M University System requires that each fiscal office establish and implement written procedures. Without specific instructions, there is a risk that guidelines will not be consistently and adequately enforced across all units. The Experiment Station has provided general guidance to all units.

Policies and procedures are not defined for cash disbursement. Standard procedures are defined for purchasing, but they are outdated. Purchasing requirements have changed substantially since 1989 when the procedures were written. Additionally, inventory procedures are outdated, but new procedures are currently being developed.

Recommendation:

The Experiment Station should conduct a comprehensive review of all fiscal policies and procedures and update them as needed. Specifically, the Experiment Station should:

- establish written procedures that specifically address the initial extension of credit, accounts receivable, billings, collection of past due receivables, and write-offs of receivables
- establish written procedures for cash disbursement, including the establishment of payment dates and payment methods to maximize disbursement float
- update purchasing procedures to reflect current requirements
- update inventory procedures

Management's Response:

A follow up to our original guidelines on extension of credit is in process which will provide more detailed instructions to the units. Even though updated purchasing, disbursement, and inventory guidelines were distributed to all units during the administrative workshop in November, 1995, these procedures are being included in the next TAES Handbook update. The TAES Handbook has not been updated recently due to new TAMUS policy underway which requires a consistent policy format for all institutions and agencies of the Texas A&M University System. The process of reorganizing the TAES Handbook has already begun. We also plan to have the handbook available on the Web in an electronic format which will make updates easier and available sooner to all users.

Section 5:

Improvements are Needed in Human Resource Management

The Experiment Station's workforce was approximately 1,834 at August 31, 1995. Approximately 56 percent of the Experiment Station's \$100 million in total fiscal year 1995 current fund expenditures were spent on employee salaries and wages. Since these figures represent such a large percentage of the Experiment Station's overall expenditures, management of human resources is critical for continued success. Management of the Human Resource Office is handled in-house by a full-time Director and a full-time Assistant Director.

Section 5-A:

Compensation Rates and Job Descriptions Should Be Reviewed

The Experiment Station does not have a salary schedule for Research Centers which are located away from College Station. Procedures are in place to determine salary and wage rates for individual job positions. However, market surveys have not been conducted by which to establish a salary schedule for each labor market. Additionally, the Experiment Station has not maintained current job descriptions for each budgeted position. Market surveys and job descriptions are two critical elements to the establishment of a compensation system.

Research Centers located away from College Station are not required to follow the Texas A&M University Classified Personnel Pay Plan. The Experiment Station's policy is to pay salaries and wages at a competitive rate within each labor market where it operates. The policy further states that the determination of individual salaries and wages will be dependent upon such factors as availability of funds, qualifications of employees, local or regional market conditions, internal equity, and performance. The Experiment Station uses a Position Analysis Questionnaire to record the duties and responsibilities of individual job positions.

Current job descriptions were not found for all positions reviewed, and in some cases, there was no documented evidence of a recent review. A sample of job descriptions were reviewed with the following results.

- Sixteen out of 120 job positions in Entomology lacked a current job description. Four of those positions were faculty and 12 were non-faculty.
- Forty-seven out of 168 job positions in Soil and Crop Sciences lacked a current job description; 42 of those positions were faculty, and 5 were non-faculty.
- Three Resident Director job positions were dated in the early 1980s.
- Two Research Center staff assistant positions were dated in the early 1980s.

Compensation should be based on current job duties and responsibilities. Job descriptions should describe and focus on the job itself and not any specific individual

who might fill the job. One center director stated that in order to determine compensation, they usually go by the salary of the previous employee for that job.

Recommendation:

The Experiment Station should establish a documented salary schedule for each labor market, consisting of salary groups with minimum and maximum rate ranges. Market surveys should be periodically conducted or obtained from external organizations, e.g., human resource associations or chambers of commerce. Additionally, all existing job descriptions should be reviewed and brought up-to-date. Job descriptions should be regularly reviewed with documented evidence of the review.

Management's Response:

We concur that a documented salary schedule for each labor market where we have employees is desirable. A survey of major competitors will be conducted at least every three years, or sooner where conditions such as frequent turnover exists. This data, in conjunction with other available salary data, will be used to establish pay rates for all positions at Experiment Station locations away from College Station.

We will follow-up with the departments, centers and other units to ensure the position analysis questionnaires (position descriptions) for each position are updated where applicable by the end of this fiscal year. Furthermore, the human resources office will work with the units as necessary to maintain the currency of position analysis questionnaires.

As stated in the response to performance evaluation recommendations, we have a framework in place to update job descriptions as part of the performance evaluation procedure and will supplement our efforts to ensure this is done by greater involvement by the human resources staff.

Generic job descriptions will be updated and reissued by the end of the calendar year and these descriptions will be reviewed every two years.

Section 5-B:

Statewide Goals For Minority Hiring Have Not Been Achieved

The Experiment Station is not meeting statewide goals for minority hiring in management and professional positions. At the end of fiscal year 1995, the Experiment Station had 27 employees in executive and managerial job positions and 871 in faculty and professional non-faculty positions.

Figure 10

Job Code	Fiscal Year 1995 Workforce			Statewide Goals			
	Total No.	Black	Hispanic	Female	Black	Hispanic	Female
1	27	0%	0%	0%	5%	8%	26%
2	871	1.72%	4.48%	32.84%	7%	7%	44%

Job Codes:

1 = Executive, Administrative and Managerial

2 = Faculty and Professional Non-faculty

During fiscal year 1994, 137 employees were hired in the category of faculty and professional non-faculty. Its 1995 goals for management and professional positions were:

- Executive/Administrative and Managerial: one female and one minority
- Faculty: one female and one minority
- Professional non-faculty: ten females and six minorities

Recommendation:

The Experiment Station should develop a plan to aggressively recruit female and minority job applicants for categories which have not met statewide goals. Management should set challenging goals and monitor progress toward those goals.

Management's Response:

We acknowledge that we have progress to make with respect to women and minority representation in our executive/administrative/managerial group as well as on our faculty and in our professional non-faculty group and we reaffirm our strong commitment to a diverse workforce. In this regard, the Experiment Station:

- *jointly funds 13 African American and Hispanic faculty who are administratively located with the College of Agriculture and Life Sciences at Texas A&M University in addition to the 10 Hispanic faculty members who are administratively located with the Experiment Station;*
- *hired 40 females in faculty and professional/non-faculty positions in calendar year 1995;*
- *currently employs 247 female employees in faculty and professional/non-faculty positions;*
- *increased to 36, the number of Hispanic employees in faculty and professional/non-faculty positions.*

Unfortunately, according to a report published by the National Science Foundation, less than 1% of all Ph.D. recipients in agricultural sciences are African American and less than 3% are Hispanic; therefore, we know that we must work diligently to increase the representation of minorities in the areas of science that are central to our mission. One strategy that we have adopted to meet this challenge is the TAES Minority Research Apprenticeship Program. This program targets minority high school students and offers them the opportunity to work with our scientists during the summer. Our goal is to interest more minority students in Agriculture and to encourage them to pursue advanced degrees in this field.

The 1995 goals for minority and female hiring were realistic based on the down-sizing that has occurred in the Experiment Station over the past several years and our expectation of low turnover in the executive and faculty categories. We met our goal of hiring one additional female faculty member and we were pleased that we were able to exceed our goal of hiring 10 females in the professional non-faculty category by hiring 39 females in this category during 1995. Given our 1995 success in the employment of women in the professional non-faculty category, we will increase our goal for this group in 1996.

Section 5-C:

Formal Evaluations of Training Programs Should Be Expanded

Evaluation forms are not consistently used to obtain immediate feedback about the relevance and effectiveness of employee training programs. Employees are not surveyed on the effectiveness of training programs after applying the new skills and knowledge on the job. The Human Resource Office obtains input from employees during the planning and development of training programs, such as the faculty orientation program and administrative workshops. However, there is a lack of information to evaluate the quality and effectiveness of training programs. This can lead to uncertainty about the effectiveness of training programs after the programs are conducted. For example:

- Accounting staff at three centers noted that accounting and bookkeeping training is inadequate for new staff. An update and refresher course is conducted annually for all staff accountants, but it does not provide enough information for a beginning staff accountant. A lack of adequate training for new staff accountants can lead to unnecessary errors and inefficiencies. The hands-on use of computers and video training tools were commended.
- Management training may be lacking for Research Center Directors. Two Research Center Directors said that their background and experience are as researchers and scientists, not administrators or managers. With decentralization of the centers, a lack of management training for the Directors increases the risk of inadequate management controls. A risk management

manual and training are available to administrators which address key human resource management functions.

Recommendation:

Training programs should be formally evaluated by obtaining feedback from participants. Employees should be queried after applying the new skills and knowledge on the job to determine the effectiveness of the program. Specifically, the Experiment Station should evaluate its accounting and management training. Mandatory training requirements should be considered.

Management's Response:

We concur that we should evaluate our accounting and management training and as a part thereof consider mandatory training requirements. Specifically, we will develop and utilize evaluation forms to obtain feedback about the relevance and effectiveness of future employee training programs.

It has been our experience that new accounting staff obtain more benefits from gaining some on-the-job experiences before being brought into the Fiscal Office for training session(s) with representatives from purchasing, travel and accounting. Additionally, we have a full time staff person committed to answering questions about the project fund management system. In the future, we will be more systematic in querying employees who have been through training to see if the skills and knowledge they acquire are beneficial.

We have also sponsored two scientists each year to participate in a national leadership development course sponsored by the Cooperative State Research, Education, and Extension Service of the U.S. Department of Agriculture. To date, we have promoted one of these individuals to an associate center director position and another to an associate agency director position.

Additionally, we initiated prior to the audit a study to identify external training programs for the heads and associate heads of our subject matter departments and research centers. As a result of comments contained in the audit report, a draft of a training program for new unit heads has been prepared and is under consideration that provides training from both internal and external sources.

In summary, we agree with the benefits of training, will evaluate it across the Station and will utilize survey instruments to obtain opinions on both its relevance and effectiveness.

Section 5-D:

Monitoring of Performance Evaluations Needs Improvement

Controls are not adequate to ensure that departments, centers, and stations submit reports to the Experiment Station Director showing the status of faculty evaluations. At September 1995, status reports existed for 27 out of 35 departments and centers. Furthermore, the Human Resources Office has no record of periodic reviews of performance evaluations to ensure that they are being conducted as required by Experiment Station standard procedures. Tests at the Lubbock, Temple, and Weslaco Centers showed that some evaluations are conducted in a timely manner, while others are not. Performance evaluations are to be conducted every year for each Experiment Station employee. Employee performance evaluations are important for the development and motivation of personnel. In addition, they provide important information for compensation decisions.

Recommendation:

Management should ensure that employee performance evaluations are conducted in a timely manner. Annual status reports should be submitted to the Director, as required by policy. The Human Resources Office should review records of performance evaluations to ensure that they are being conducted in a timely manner.

Management's Response:

We agree that it is a management responsibility to ensure that employee performance evaluations are conducted in a timely manner. To this end, our written procedures specify a time frame for the faculty and support staff evaluations and require that we be informed when the faculty evaluations are completed. Additionally, our internal audit staff audits this function with respect to support staff. Nonetheless, we concur we need to exercise more diligence in this area and will also ask our Human Resources staff in conjunction with their visits to centers and departments to review records of performance evaluation to ensure the evaluations are being conducted in a timely manner.

Section 5-E:

Procedures for Hiring Independent Contractors Should Be Clarified

Written standard procedures for hiring independent contractors do not require a review by the Human Resources Office before employment. This requirement has been stated in a written memorandum to all department heads and resident directors. However, it may not be clearly understood by everyone. The Experiment Station recently settled a related lawsuit where employees were misclassified as independent contractors. The final settlement was estimated to cost the Experiment Station about \$136,000. Thus, it

is important to ensure consistent and proper implementation of standard procedures when hiring independent contractors.

Recommendation:

Management should modify the standard procedure for independent contractors to ensure that the Human Resources Office is contacted prior to employment of any agricultural laborer as an independent contractor. Management should ensure that the policy is communicated and understood by all department heads and resident directors.

Management's Response:

We agree with the desirability of modifying our procedure for hiring independent contractors and have already done so. It now provides for the Human Resources staff to review and approve requests prior to the employment of an independent contractor. The procedure also provides additional guidance on the special procedures to be followed when employing an agricultural labor contractor. This procedure has been sent to be printed and distributed.

Section 6:

The Planning Process Is Generally Adequate

The Experiment Station's strategic planning process provides the basis for planning at the departmental and research center level. Generally, the planning process is adequate. However, formal risk assessments at the agency and unit levels are not documented during the planning process. Management was able to discuss perceived risks for the Experiment Station and its centers, but risks and contingency plans are not documented.

The quality of planning varies among the three research centers that were visited. The Lubbock and Temple Centers had up-to-date strategic plans. Furthermore, the Lubbock Center has placed a strong emphasis on the planning process and has used innovative approaches to planning. The Lubbock Center involved on-campus agricultural department heads and Texas Agricultural Extension Service staff in the planning process. Conversely, the Weslaco Center's strategic plan has not been updated since 1992, and it does not appear to be used on a regular basis.

Goals, objectives, and strategies of the research centers' plans were not always clearly stated. Additionally, there was not always a clear link between the stated goals, objectives, and strategies.

Recommendation:

A formal risk assessment, along with contingency plans, should be documented as a part of the strategic planning process. Strategic plans should be required at each research center. A review process should be in place to ensure that goals, objectives, and strategies are clearly defined and linked. The following definitions should be used in the establishment of goals, objectives, and strategies:

- Goals are the general ends toward which the Experiment Station should direct its efforts. Goals are both qualitative and quantitative. Goals are prioritized in the strategic planning process. Goals should challenge an entity, but should be realistic and attainable.
- Objectives are clear targets for specific action. Objectives set the direction for strategies and have a shorter time frame than goals. Objectives are specific, quantifiable, and time-based statements of accomplishment or outcome.
- Strategies are methods to achieve goals and objectives. Formulated from goals and objectives, strategies are the means for transforming inputs into outputs and outcomes with the best use of resources.

Management's Response:

The Texas Agricultural Experiment Station has had a complete planning process in effect for more than 12 years. Part of this process has and still requires that all units submit a planning document. This document includes:

- I Mission, Role, and Scope of the Unit*
- II Assessment of Progress versus Current Plan*
- III Environmental Assessment (including risk factors)*
- IV Long Term Goals*
- V Priority Programs*
- VI Programs for Redirection*
- VII Resource Requirements (personnel, physical, and financial)*

While contingency plans are not named specifically, it is to be a part of the environmental assessment and the resource requirement. TAES will ensure this is clearly identified in the plan instructions.

In summary, TAES has the procedures and plans in place to fulfill not only the needs and requirements of TAES, but also the Texas A&M University System and State Strategic Plans.

Section 7:

Management Should Ensure Protection of Fixed Assets

Equipment and livestock represented approximately 39 percent of the Experiment Station's total assets of \$168 million as of August 31, 1995. Because this represents such a significant portion of the Experiment Station's assets, it is imperative that proper controls exist to safeguard these assets from loss, theft, and unauthorized use.

Controls are not adequate to ensure the security and proper location of fixed asset items. A significant number of fixed assets were noted to be missing or stolen from various sources. The most recent Missing or Stolen Property Report for the Experiment Station identified over \$36,000 worth of property. A review of ten departmental and center inventory reports for fiscal year 1995 showed 202 items were missing or stolen. One item of electronic equipment worth \$1,060 was not found during a physical inspection of a sample of 22 fixed assets. In addition, 5 items in the sample of 22 were not in the location recorded by the property manager.

Inventory procedures have been lax. In the past, physical inventory forms have been filled out by each department, with no independent review by the property manager or another independent employee. It appears that departments have not fully complied with diligent inventory procedures. For example, 10- to 15-year old equipment was recorded in "new" condition. Old, non-usable items have remained on the inventory when they should be deleted. The property manager is implementing a new process to utilize an independent review of physical inventories.

Livestock inventory may not be properly controlled. In Temple, inventory counts of cattle have not been conducted. Additionally, livestock have not been properly marked. A properly applied, legally recorded brand is proof of ownership. It will increase the chances of recovering stray, missing, or stolen livestock and will serve as a deterrent to theft. The Experiment Station's standard procedures do not provide specific guidance for the marking of livestock in its possession. System regulations state that each System component is responsible for determining the method of marking livestock in its possession.

Recommendation:

The Experiment Station should ensure adequate protection of fixed assets. Management and staff should be informed of their responsibility in safeguarding and accounting for fixed asset items. Inventory activity should be adequately documented. Formal procedures should exist for notifying the property manager when an item is transferred to another location or user. Physical inventory of fixed assets should be conducted by persons who do not have custodial responsibility for the items. Standard procedures should clearly describe the method of marking (branding, tagging, etc.) livestock.

Management's Response:

Each year we remind all units by written communication of their responsibility in safeguarding and accounting for fixed assets. During our annual administrative workshop, it was announced that inventory counts should be performed by someone other than the custodian. In addition to the annual inventory count performed by each unit, the fiscal office conducts a separate complete inventory count every year at each location. We also perform unannounced spot checks of inventory. As of September 1995, every unit has the capability to update the location code electronically rather than sending in a form request. This should significantly improve the accuracy of location codes. Marking of livestock will be addressed specifically in the next handbook release which is underway at this time.

Section 8:

Current Fund Expenditures of \$8.1 Million Have Been Misclassified

Approximately \$8.1 million was misclassified in the Experiment Station's fiscal year 1994 current fund expenditures. This amount was over ten percent of Research and General expenditures as well as total unrestricted current funds. The Experiment Station has agreed to reclassify the monies from Research to Institutional Support or Public Service depending on the account.

Recommendation:

The \$8.1 million should be reclassified from Research to Institutional Support or Public Service depending on the account as agreed.

Management's Response:

Past interpretations of our expenses have concluded they were all in support of research and therefore coded as research. We do concur that a case can be made for showing a portion of our expenses related to institutional support or public service for annual financial reporting purposes. We plan to implement this change with the FY96 annual financial report.

Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of management processes and control systems within the Texas Agricultural Experiment Station. The scope of the audit included consideration of the Experiment Station's:

- strategic planning
- organizational structure
- management information systems
- human resource management
- financial control systems
- performance measures

Agency financial data was analyzed, and relevant reports and documentation were reviewed. Conventional audit procedures were applied to collect information, including interviews with management and staff of the Experiment Station and site visits to the research centers at Lubbock, Temple, and Weslaco. Audit testing and analysis included control review, trend analysis of expenditures and performance statistics, review of project and personnel files, and review of performance measures. No reportable conditions were found in the area of performance measures. Our work will not necessarily reveal all the Experiment Station's internal control weaknesses.

Fieldwork was conducted from August 1995 to November 1995. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

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

- Greg Adams, CPA (Project Manager)
- Jon Nelson, CISA (Co-Project Manager)
- Larry Vinyard, CPA, CIA (Quality Control Reviewer)
- Andrea Archer, JD (Team Leader)
- Scott Bertrand
- Rob Bollinger, CPA
- Dana Brown
- Curtis Caraway
- Nancy Davis
- Kenneth Dike, CPA
- Ash Hamid
- Victoria Harris
- Lucian Hughes
- Linda Mullins, CCP
- Kevin Todd, CMA
- Catherine A. Smock, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Director)

Texas Agricultural Extension Service

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Texas Agricultural Extension Service

Texas A&M University System

Overall Assessment

Information systems and financial control systems are generally weak within the Texas Agricultural Extension Service. The Extension Service's ability to accomplish its mission is affected by its management control systems and processes. Weaknesses in key control systems expose the Extension Service to ineffective and inefficient operations. The Extension Service is also exposed to an increased risk of fraud, abuse, and waste due to these weaknesses.

Section 1:

The Extension Service Should Ensure Accurate, Consistent, and Reliable Data

The Extension Service collects data that is not reliable because controls are not in place to ensure that the data is accurate. Inaccurate data can adversely affect key management functions, such as planning, monitoring, evaluating, and decision-making. Ultimately, inaccurate data can affect management's ability to achieve the goals and objectives of the Extension Service.

Section 1-A:

Accuracy of Data in the County Extension Agent Monthly Reporting System Is Not Sufficiently Controlled

Accuracy of data in the County Extension Agent Monthly Reporting System (CEAMRS) is not sufficiently controlled. Agents and specialists submit numbers of direct and indirect teaching contacts on a monthly basis for inclusion in the CEAMRS. District directors aggregate the data from their counties and send it to College Station, where the data from the 12 districts is aggregated into the statewide data base. This data is linked to planning documents and performance measures which are used by management and the Legislature.

Data elements in the report are not reported consistently. This limits the comparability and utility of the data. For example, in one county, a county extension agent reported having had three mentoring sessions with one person, and considered this three contacts. Another agent in the same county reported multiple mentoring sessions with the same person as being one contact. The Extension Service's written instructions for recording direct contacts do not explicitly address the treatment of multiple contacts with the same person. Although district directors may review the data for reasonableness, there is no formal quality control review which would identify inconsistencies in reported data elements.

Additionally, documented support for attendance figures reported as direct teaching exposures on the CEAMRS is not consistently available. Only two out of a sample of four counties were able to provide class sign-up lists that included client names and a way to reach them. A third county sent support for similar classes but was unable to provide support for the designated class requested. The fourth county could not provide the support.

Section 1-B:

Performance Measures Are Inaccurate

The lack of controls over data affects the accuracy of performance measures which are reported to the Legislative Budget Board. We identified measures whose accuracy was affected by the lack of controls. For example, one measure is the percent of targeted Texans reached. This measure is defined as the number of people reached by Extension Service programs divided by the total number of Texas households available for participation in health-related programs. The Extension Service only collects the total number of direct contacts, which is supposed to be the number of times a single individual is contacted by an Extension Service program. Since the Extension Service does not capture data on the number of people reached, the numerator is based on a formula used to convert the number of direct contacts to the number of people reached. Not only is the number of direct contacts unreliable, but management may not be collecting the right data. This may also be the case with the collection of the number of indirect teaching contacts which is not reported as a performance measure.

The target population (the denominator of the aforementioned performance measure) is not determined consistently from county to county. It is estimated by county extension agents based on census data. However, there is no control in place to ensure that county extension agents are making that determination consistently. One agent may define the target population as all people in the county while another agent may define the population as those people in the county who are likely to be interested in the program.

These data inaccuracies suggest that management may not be fully using the information generated from the data. Regular review and analysis of the data should reveal inaccuracies and inconsistencies. The Extension Service is making an effort to increase the use of the data collected. For the first time this year, agents were asked to estimate the number of contacts planned for the year. In July 1995, the Evaluation Division distributed a variance report to the District Directors that showed the differences between planned and actual number of contacts. District Directors were encouraged to use variance analysis to assess the degree to which the Extension Service is staying on its planned course of action. As the Evaluation Division's letter suggests, high variances may be indications of poor planning, reporting problems, or significant operational changes. For example, many of the counties met their annual planned number of contacts by the end of the first six months of the fiscal year.

Recommendations:

Management should conduct a comprehensive review of its current data collection and information system. Management should:

- determine what information it needs to function and operate on a daily basis
- determine whether current arrangements for obtaining information will meet future needs and consider possible alternatives
- establish a process for comparing the value of various types of information to the cost of obtaining it
- evaluate the usefulness of reports to both executive and program management

Within the current data collection system, data elements in the CEAMRS report should be specifically defined to ensure consistency of reporting. Documentation should be prepared and retained to support reported data. Performance data reported to the Legislative Budget Board must be based on supportable, certifiable data. Reported data should be formally reviewed for accuracy on an ongoing basis. The Extension Service should establish a methodology for reviewing this data at the district offices and at College Station. For example, assignments could be made at the district offices to compare the names on class sign-in sheets to the number of direct contacts reported. At College Station, the methodology could include a review of reports on a sample basis.

Management should use monthly reports to monitor its progress toward achieving goals and objectives of the Extension Service. Variance analysis is encouraged, along with a formal feedback mechanism to College Station.

Management's Response:

A review of the agency performance reporting system will be undertaken. This review will strengthen existing agency procedures to insure uniform definition of data elements reported, designation of appropriate documentation methods and establishment of a formal review of reported data in a uniform manner at both the county, district, and administrative level with follow-up on assessing impacts and causes for significant variances in reported data. In addition, the Federal GPRA system will require this agency to follow the Federal performance guidelines.

Section 2:

Service Delivery Should Ensure Local Participation and Customer Feedback

The Extension Service has developed a planning system through the use of local program councils that provides the structure for an innovative and responsive service delivery system. However, the Extension Service may not be fully utilizing the

membership of program councils. A sample of ten program council executive board members were contacted in two different counties to determine their level of participation and satisfaction with the planning process.

- Two out of three members contacted in Comal County were generally satisfied. The third member was not sure why she was listed as a board member.
- Five out of seven members contacted in Webb County were generally satisfied. Another member was not sure why she was listed as a board member and had never been to a board meeting. Another member spoke of communication problems and was dissatisfied with the overall process.

The program councils have limited membership and are expected to represent the views of those in the entire county. Without full participation of each and every member, the Extension Service cannot be assured of achieving its objectives.

Once local council input is received, it is used to implement statewide goals and initiatives. In addition, each county agent develops a detailed action plan that ties to the county's *Long Range Extension Plan* and to statewide objectives. This action plan clarifies anticipated coordination with other professionals and anticipated allocation of the professional's time.

In addition to local program councils, the Extension Service has a large customer base throughout the State. While the Extension Service does obtain customer feedback through informal means, the Extension Service does not conduct formal customer satisfaction surveys. Prior to 1994, the Extension Service used a survey instrument as a part of its Civil Rights Compliance and Program Review. The survey instrument was used to obtain general feedback from a sample of Extension Service users and program council members. However, this instrument was removed from the 1994 Extension Program and Compliance Review and is currently not in use.

One way to ensure that local needs are being met would be to obtain regular feedback from customers on how well the programming is meeting the needs of the community. Currently, it appears that many customers do not know who to contact for feedback or complaints. Only one out of a sample of eight residents, in two different counties who have participated in Extension Service programs, knew to address complaints and comments to the District Director. Several respondents referred to local authorities who have no formal relationship with the Extension Service.

Recommendations:

The Extension Service should ensure that local program councils are functioning as intended. A mechanism should be in place for systematically selecting members on local program councils and formally communicating their status. Each membership

list should be updated regularly and members should be surveyed on a regular basis to determine their level of participation and satisfaction.

Customers of Extension Service programs should be surveyed on a regular basis to obtain feedback on their satisfaction with services. In addition, the Extension Service should be more proactive in publicizing its role in the community. For example, sign-up sheets used to document attendance in classes could include an indication that the course is offered in conjunction with the Extension Service, and comments should be addressed to the District Director at a specific address or phone number.

Management's Response:

The agency will review its current procedures for assessing customer satisfaction and seek additional avenues for clientele to provide feed back on program effectiveness and direction. A review of program evaluations in counties will be emphasized to provide feed back on program impacts. Communication and information on educational programs will emphasize the agency participation and sign up sheets and other relevant materials will list the appropriate agency contact for comments or input about educational programs. Local program council membership and procedures have been developed. Adherence to these guidelines will be stressed and monitored during regular scheduled compliance and performance reviews.

Section 3:

Controls Over Revenue Should Be Improved

Controls over the management of local monies and cash receipts are weak. In addition, management has not established sufficient controls to ensure that accounts receivable are properly collected. Weaknesses in financial control systems expose the Extension Service to unnecessary losses.

Section 3-A:

Controls Are Inadequate Over Local 4-H Funds Which Are Being Managed by Extension Service Employees

Recent internal audits at three district offices noted a lack of adequate controls over local 4-H funds which are being managed by Extension Service employees. An informal arrangement is in place for each of these three district offices to support the local 4-H program by maintaining the 4-H program's bank account. In the management of this local bank account, Extension Service employees collect monies, make deposits, write checks, and reconcile the account. A single employee within a district office may carry out all of these activities, which is inadequate segregation of duties. In addition, in all three district offices, checks are pre-signed by a non-

Extension Service employee. This arrangement creates potential liabilities for the Extension Service and its employees in the event of errors and irregularities.

The balances in each of the three local bank accounts range from \$10,000 to \$21,000. It was also noted that Extension Service employee funds were deposited to the local accounts. This commingling of funds can create confusion and uncertainty about the ownership of the funds in the account.

Recommendation:

Internal audit recommendations to improve controls over local 4-H funds should be implemented immediately. The Extension Service should evaluate the current practice of managing local bank accounts for 4-H programs. Its decision should be formally documented and communicated to all district offices. If this practice is to continue, policies and procedures should be specifically documented to address proper controls, including adequate segregation of duties, record keeping, approval and authorization for disbursement, and account reconciliation. Employee funds should not be commingled with 4-H funds.

Management's Response:

The agency has already briefed all middle managers at the district level to emphasize the policy regarding the 4-H funds as well as the prohibition for agency personnel having any signature control over these private funds which belong to the citizens and youth involved in 4-H. The agency is in the process of developing a formal set of documented directives as to the educational program that the agency staff will provide to the 4-H club volunteer leadership on the proper practices that they should institute in exercising their fiduciary responsibility over the funds in question. No agency local funds will be deposited into these private sector bank accounts.

Section 3-B:

Collection of Local Monies by County Extension Agents Should Be Better Controlled

Internal controls over the collection of local monies by county extension agents are not sufficient. Six out of a sample of ten county extension agents said that they collect local monies from volunteers. These monies are not recorded or accounted for by the agents, nor are they properly secured. The Extension Service Fiscal Office procedures address the receipt of revenues on behalf of the Extension Service. However, they do not address the collection of local monies.

Recommendation:

The Extension Service should evaluate the current practice of collecting local monies. Its decision should be formally documented and communicated to all county extension agents. If this practice is to continue, policies and procedures should be specifically documented to address proper controls, including record keeping and security of funds.

Management's Response:

The agency will review the practice of county agents assisting 4-H volunteer leaders in the collection of registration fees and entry fees for local 4-H activities and competitions. The policy and guidelines for any activity in collection of funds on the local level will be documented and provided to all county extension agents. Procedures must be developed and concurrence will be sought from the System Internal Audit office. The agency must be in a position to help volunteer groups collect local funds if we are to follow the strong admonition if not mandate by the legislature to increase fee based programs.

Section 3-C:

Controls Over Cash Receipts in the Plant Lab Should Be Improved

Controls over cash receipts in the Plant Lab are not sufficient. There is a lack of control over the handling of mail receipts. Numerous people open specimens, some of which contain money. There is no requirement that specimens be opened in the presence of more than one person. In addition, a single individual has the authority to open samples, open other mail that includes payments, and log the receipt of checks. That same person also has access to the computer system where receipt of payments are logged and to the locked box where checks are stored before being transmitted to the fiscal office. Total reported transmittals for fiscal year 1995 were \$31,359. Although there was no indication of loss or theft, that risk exists without adequate segregation of duties.

Recommendation:

Written procedures should be developed for the handling of mail receipts. Procedures should require that specimens be opened in the presence of more than one person. Duties over cash receipts in the Plant Lab should be adequately segregated. Adequate segregation of duties should exist between cash receipts, deposits, recording, and reconciliations. Controls over cash receipts could be greatly enhanced by the implementation of a lock-box system, whereby customers send cash directly to a bank instead of to the Extension Service. This system would reduce the opportunities for irregularities without the need for adding staff.

Management's Response:

A study of the segregation of duties and staff patterns will be conducted in all labs managed by the agency. Appropriate job assignments will be documented and procedures developed to insure adequate internal controls on cash receipts. The agency is currently reviewing the use of a lock-box in handling certain cash receipts and will review their use with laboratory administrators and other relevant faculty and staff.

Section 3-D:

Controls Over Accounts Receivable Should Be Improved

New credit has been extended to customers with outstanding balances more than a year old. A review of the Aged Accounts Receivable report as of August 1995 revealed that new credit was extended to two customers with outstanding balances over one year past due. It appears that this report is not used to implement proper action in these cases. Additionally, when the Plant Lab receives a plant sample for analysis, it opens a new account with no attempt to determine whether the person sending in the sample has an outstanding balance. Consequently, the Plant Lab has extended additional credit to customers with a history of non-payment.

Furthermore, some customers who had at least five transactions written off in fiscal year 1995 were extended additional credit. Three out of four customers tested had current accounts. Two offenders had 19 and 12 transactions written off, worth \$285 and \$180, respectively. In addition, \$1,409 in receivables from the Texas Agricultural Experiment Station were approved for write-off in fiscal year 1995.

Anomalies in the Aged Accounts Receivable report are not resolved. For example, the report as of August 1995 indicates that the Extension Service owes \$29,123 to itself, some of which is more than one year delinquent. Also, the report contains negative balances of \$659, some of which are more than a year old. Including negative balances in accounts receivable understates the value of the receivables and does not recognize a potential liability in the event that these balances are overpayments.

Although the Lubbock Soil Lab closed on September 1, 1995, there was no plan in place at that time for handling the \$2,655 in receivables that were outstanding.

Recommendations:

Procedures should be implemented at the Fiscal Office and at the Labs for the initial extension of credit. They should include review of the customer's credit history with the Extension Service, consideration of deposits and credit limits, and documentation of decisions made to extend credit. There should be a block on extending additional services or credit to people with balances outstanding or balances recently written off.

Action should be taken to collect \$1,409 from the Texas Agricultural Experiment Station.

Accounts receivable reports should be reviewed and analyzed on an ongoing basis. Unusual results of analytical review should be investigated and resolved. Balances that the Extension Service owes to itself should be eliminated before financial reports are prepared. Negative receivable balances should be refunded within 90 days or by the end of the fiscal year. Procedures for handling outstanding accounts at the Lubbock Soil Lab should be developed and implemented.

Management's Response:

The agency is currently reviewing the existing accounts receivable system to determine the appropriate methods to review past due payments and to communicate the need to block additional extension of credit or service. Outstanding balances from all parties will be reviewed and resolved prior to year end close out. Procedures for the close out of the Lubbock Lab have been developed and are being implemented at this time.

Section 4:

Controls Over Disbursements Should Be Improved

Controls over the accounting, review, and authorization of disbursements are weak. In addition, disbursements are not made in a timely manner. Weaknesses in financial control systems expose the Extension Service to unnecessary losses and inefficiencies.

Section 4-A:

Accounting and Disbursement Duties Are Not Adequately Segregated

The Extension Service has not adequately segregated accounting and disbursement duties. The security coordinator for the Financial Accounting Management Information System (FAMIS) is responsible for accounting functions, archiving source documents, and resolving difficulties encountered by the departments in reconciling their records to FAMIS. An individual with these duties could set up a user identification code in FAMIS that has unlimited access (security coordinator duties). Using that code, the individual could enter fictitious transactions or alter actual transactions and disburse funds (accounting functions). The person could alter or destroy the source documents and would have access to them as custodian of source documents. In addition, if a department reconciled records and discovered an irregularity, the same person would be responsible for resolving the problem. There is no indication of errors or irregularities, but a risk of loss or theft exists without adequate segregation of duties.

Recommendation:

The accounting, review, and authorization of disbursements should be segregated. Security Coordinator duties should be assigned to someone with no access to the accounting records, and changes in profiles should occur only with a written change request. In addition, problems with departmental reconciliations should not be resolved by anyone with access to change accounting records. A recent resignation in the accounting department should provide the Extension Service with the opportunity to reallocate some of these responsibilities as the Department goes through the hiring process.

Management's Response:

A review is currently underway to assess the appropriate segregation of duties in the area of FAMIS access authorization. The current practice of requiring written approval for access and changes in profiles will be reviewed and strengthened if necessary. A study of the separation of duties regarding the departmental reconciliation help desk requirements will be reviewed and appropriate action take to insure internal controls are in place.

Section 4-B:

Reconciliations Are Not Done Regularly or Consistently

Reconciliations between internal departmental records and FAMIS statements are not done regularly or consistently. A sample of 17 department reconciliations were reviewed. Beginning and ending balances and cleared items were successfully traced to the FAMIS statements for only six of the departments. Several departments did not do any reconciliation or the reconciliation was incomplete. In one case, the reconciliation was performed exclusively by student workers, and no one in the department knew how to provide guidance to the students.

Reconciliations between departmental records and FAMIS statements are a primary control that ensure that all vouchers submitted by the departments have been paid by the Extension Service. When total segregation of duties is not always feasible, reconciliation of records is of greater importance as a compensating control to ensure that money has not disappeared between the departments and the central office.

Recommendation:

Reconciliations between departmental records and FAMIS should be done on a regular basis. Training on how to perform reconciliations and how to read FAMIS reports may be necessary for office managers and staff. Administration should consider

establishing standards for all departments to follow in order to make reconciliations more uniform.

Management's Response:

The agency will continue its emphasis on the timely completion of reconciliations of all accounts by departments and a review of such reconciliations will be a part of all internal audits. In addition, a continuation of ongoing training for departmental staff will include standards and a help line to call for questions and assistance.

Section 4-C:

Disbursements Should Be Made in a Timely Manner

Disbursements are not made within the period prescribed by Texas A&M University System policy. The Texas Agricultural Experiment Station's internal auditor reviewed timeliness of disbursement in five district offices. Average processing times varied from 16.9 working days to 29 working days. Texas A&M University System policy requires processing to take no longer than 10 working days.

Recommendation:

Internal audit findings related to timeliness of disbursements should be addressed, and the Extension Service should ensure that payments are made in a timely manner.

Management's Response:

The agency is documenting the processing time in the fiscal office and will perform an analysis to determine the cause of delays in processing. Additional methods will be reviewed to transmit payment requests for offices across the state to improve payment processing time. A staffing study in the accounts payable section will be initiated to determine if adequate staff are on hand to meet processing demands.

Section 5:

Human Resource Procedures Are Generally Adequate

The Extension Service had a workforce of 1,604 employees at August 31, 1995, involved in outreach educational activities at various locations throughout the State. Approximately 61 percent of the Extension Service's \$70.3 million in total 1995 current funds expenditures were spent on employees' salaries and wages. Since these figures represent such a large percentage of the Extension Service's overall expenditures, management of human resources is critical for continued success. While

human resource procedures are generally adequate, there are some opportunities for improvement.

Section 5-A:

The Extension Service Should Strengthen its Efforts to Diversify and Fully Document its Hiring Decisions

The Extension Service is not meeting all statewide goals for minority hiring. The Extension Service's management and professional workforce was approximately 89.8 percent white as of August 31, 1995. In a sample of 12 professionals hired in the last year and a half, all of the successful candidates were white, and all but one of the positions had minority applicants. While all of the successful candidates met minimum requirements for the job, documentation lacked specificity to show that the person hired was the best qualified candidate. The Extension Service has developed a form to be completed for all new hires, promotions, and transfers of professional positions. The form includes a place to document minority applicants and the reasons for their non-selection, but that section of the form was not consistently completed. Of the 11 positions for which there were minority applicants, only five listed a reason for not selecting a minority applicant. Poor documentation of the hiring process increases the risk of discrimination charges against the Extension Service.

Job applicants for County Extension Agent positions are rated by the Personnel Office and an Assistant Director before being sent to District Directors. The applicant rating form does not define objective criteria for the evaluation. While this process is not intended to eliminate applicants from consideration by the District Directors, the use of the rating codes may not be clearly understood by all. In addition, supervisors are not required to receive training on techniques for screening or interviewing job applicants.

Recommendations:

The Extension Service should strengthen its efforts to recruit and hire qualified minorities. The Extension Service should ensure complete documentation of all hiring decisions. Proper use of the application rating codes for County Extension Agent positions should be documented and communicated to all District Directors. To show that minority candidates are not inappropriately eliminated from consideration, the Extension Service should fully document the initial rating process so that the criteria are job-specific and objective. The Extension Service should provide training in interviewing techniques and screening to all people who are likely to be in the position of hiring.

Management's Response:

Those individuals who have expressed an interest in and who meet the basic requirements to be considered for County Extension Agent positions are reviewed by Human Resources and an Assistant Director. Criteria considered during this preliminary review are job specific and objective (i.e., the individual's educational qualifications, related work experience, demonstrated leadership skill/experience, reference reports, and the results of a preliminary interview.) This review does not constitute an evaluation of an applicant's qualifications for a specific position vacancy. It is simply a method to assist and collaborate with District Extension Directors in reviewing the qualifications of potential applicants.

In addition to the preliminary "rating", District Extension Directors are provided a summary of job-related information (educational qualifications, years of related work experience, and preliminary interview results) for all those individuals who meet the basic requirements to be considered for County Extension Agent positions.

The supervisors who do the majority of interviewing and applicant screening within the Extension Service have received training in these areas. These include District Extension Directors, County Extension Directors, Extension Agents-Expanded Nutrition Program, District Office Managers, and most Administrative Council members. Those who have not received this type of training include Associate Department Heads, Department Heads, Program Leaders, certain Specialist faculty, and some administrative support personnel.

Action Items:

- *The Extension Service will continue its efforts to diversify its management and professional work force through the Summer Internship Program, recruiting trips, and contacts at appropriate universities, broad distribution of position vacancy announcements, and employee development programs.*
- *The Extension Human Resources Office will be more aggressive in ensuring that hiring supervisors know what constitutes adequate documentation of the hiring decision. Updated hiring guidelines will be distributed to hiring supervisors within the current calendar year. In addition, "Applicant Flow Reports" will be more carefully reviewed by the Extension Human Resources Office to ensure completeness. Incomplete forms will be returned to the hiring supervisor for revision.*
- *Extension will review the initial rating form used for those who wish to be considered for County Agent positions. As potential improvements are identified, they will be incorporated into the form.*
- *District Extension Directors will be reminded of the purpose of the preliminary review of potential applicants. Specifically, they will be reminded*

that all applicants who apply for specific vacancies and who meet the basic requirements for those positions should be considered.

- *Managers and supervisors who have not received training in interviewing and applicant screening will be identified and will receive training by the end of 1996. A record of this training will be maintained by the appropriate unit head.*

Section 5-B:

Employee Performance Evaluations Should Be Better Controlled

Employee performance evaluations are generally performed on a timely basis and are consistently on file. In a sample of 28 employee files, there was only one instance of an evaluation which was not conducted within the past year. Eleven employees were student workers who had no evaluation on file, but the Extension Service does not require evaluations for student workers.

Evaluation forms vary among job positions. Some are very complex with definitions of expected outcomes. Others are very sparse with little definitions, relying more on the evaluator's judgment. Since supervisors are not required to receive training on the administration of performance appraisals, inconsistencies can arise. In addition, there is no monitoring by the Extension Service to determine who receives training.

Different evaluation forms were used for the same job title. For example, two employees are program aides in two different counties. One evaluation form was a one page assessment using four performance categories: quality of work, work habits, job knowledge, and behavior/relations with others. The other evaluation form used five performance categories which were broken into 18 more specific, job-related dimensions. Sample performance standards for each rating were on this form.

Employee performance evaluations are important for the development and motivation of personnel. In addition, evaluations provide important information for compensation decisions. The Extension Service has adequately documented personnel actions. In a sample of 22 personnel actions, 21 were adequately supported. (The unsupported action was the termination of a student worker who had worked for less than a year.) Personnel action forms are tracked individually, but there is no information system that would allow management to analyze actions or trends from an agency-wide perspective.

Recommendations:

The Extension Service should ensure that all employee performance evaluations are done on a timely basis and in a consistent manner. Performance evaluations should be consistent for the same job position. The Extension Service should require training in

performance appraisals for all managers and supervisors. Training is available through the Human Resource Department of Texas A&M University and other TAMU System components.

The Extension Service should consider the usefulness of an information system that would allow it to analyze trends in personnel actions on an agency-wide basis.

Management's Response:

The supervisors who do the majority of performance evaluations within the Extension Service have received training on conducting performance evaluations. These include District Extension Directors, County Extension Directors, Extension Agents-Expanded Nutrition Program and most Administrative Council members.

Those who may not have received this type of training include Associate Department Heads, Department Heads, Program Leaders, District Office Managers, and some administrative support personnel.

Action Items:

- *An index of current performance evaluation instruments and those positions that should be evaluated using each instrument will be compiled by the Extension Human Resources Office. This information will be provided to managers/supervisors to ensure that the appropriate evaluation instrument is used for each position.*
- *Supervisors will continue to be responsible for ensuring that performance evaluations are conducted on a timely basis and in a consistent manner.*
- *Managers and supervisors who have not received training in performance appraisals will be identified and will receive training by the end of 1996. A record of this training will be maintained by the appropriate unit head.*
- *The Extension Service will be a part of the BPP 2000 project to redesign/enhance the current System-wide HRIS. The updated Budget/Personnel/Payroll System will increase our ability to analyze employment related trends. The Extension HR Office will work with current BPP staff and other knowledgeable individuals to enhance our current HRIS capability through the use of relational databases and other productivity tools.*

Section 6:

Policies and Procedures Should Be Updated

The Extension Service has not done a comprehensive update of agency policies and procedures since 1988. In addition, the Extension Service does not have one person who is formally responsible for the review and update of policies and procedures for the entire agency.

Extension Service policies may not be distributed effectively. The distribution of Extension Service policies to ten county extension agents was tested, and seven agents were able to provide current copies of certain policies. Implementation of an online data base of policies and procedures is behind schedule.

Recommendation:

Extension Service policies and procedures should be updated after the Texas A&M University System policies are updated. The Extension Service should assign responsibility for reviewing and updating policies and procedures on a regular basis. In addition, the Extension Service should ensure that all current policies are distributed to all personnel in a timely manner.

Management's Response:

- *A review of Extension policies and procedures is currently underway. The target date for completion is August 31, 1996. This completion date is subject to change depending on when the Texas A&M University System policies are updated and distributed. The updated versions will be available to all faculty and staff via electronic access.*
- *The Texas A&M University System Policies (as they currently exist) are available to Extension Service employees via the Internet. Extension employees will be notified of this availability.*
- *By edict from the Board of Regents, the Texas A&M University System, the next iteration will be "Rules" rather than policies for the agency.*

Section 7:

An Error In Financial Reporting Has Been Corrected

The Extension Service has been incorrectly reporting a balance in federal appropriations for restricted funds, which overstated total assets. In fiscal year 1994, this amounted to \$4.3 million. Although the Extension Service has received a letter of credit for the funds, and the funds are available for draw, the Extension Service has not

taken custody of the funds and has not incurred any expenditures against those funds. According to the State Comptroller's reporting requirements, federal fund appropriations under the restricted fund group should not be included on Exhibit A until they are expended. Instead, this money should be disclosed in the notes to the financial statements in the same way that grants and contracts are disclosed, for which money has not been received or funds expended.

The Extension Service made a prior period adjustment to its fund balance on Exhibit B for fiscal year 1995 to remedy the error. In the future, the Extension Service will not report a balance in federal appropriations for restricted funds.

Section 8:

Record Keeping for Fixed Assets Should Be Improved

A test of 29 fixed assets in College Station and 11 items in two outlying counties was conducted to ensure their existence, security, proper tagging, and condition. Eleven out of the 29 items in College Station were not in the locations indicated in the records, but were eventually located. Two of the items had been transferred to other counties and the paperwork had not been completed. All items in the samples were properly tagged. Four of the 29 items were either not in current use or not usable. In the two outlying counties, all items were found but four were either not in current use or not usable.

In addition, a test was conducted of 11 fixed assets in College Station and eight fixed assets in Williamson County to determine that assets were recorded properly in the records. All College Station assets were traced to the records. In Williamson County, two items could not be traced to the records. These two items were old and not in working condition.

These findings are consistent with those of the internal auditor, who has been testing equipment inventory at the district offices since July 1995.

Recommendation:

Fixed asset records should be kept up-to-date. The transfer and disposal of fixed assets should be promptly recorded. Fixed assets which are no longer in use should be surplussed and removed from the records.

Management's Response:

The agency will communicate the need to follow appropriate procedures to identify unserviceable equipment and the timely processing of required documentation to remove such items from the inventory. The agency is implementing a spot inventory

check schedule throughout the agency to increase accuracy of inventory in departments and districts and to increase knowledge of inventory accountability and record keeping requirements among agency faculty and staff.

Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of management processes and control systems within the Texas Agricultural Extension Service. The scope of the audit included consideration of the Service's:

- strategic planning
- organizational structure
- management information systems
- human resource management
- financial control systems
- performance measures

Agency financial data was analyzed, and relevant reports and documentation were reviewed. Conventional audit procedures were applied to collect information, including interviews with management and staff of the Extension Service. Audit testing and analysis included control review, trend analysis of expenditures and performance statistics, review of project and personnel files, and review of performance measures. Our work will not necessarily reveal all the agency's internal control weaknesses.

Fieldwork was conducted from July 1995 to November 1995. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

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

- Greg Adams, CPA (Project Manager)
- Jon Nelson, CISA (Co-Project Manager)
- Larry Vinyard, CPA, CIA (Quality Control Reviewer)
- Rachel Cohen, CPA (Team Leader)
- Arthur Arispe
- Rob Bollinger, CPA
- Dana Brown
- Marcia Carlson
- Tony Claire
- Nancy Davis
- Whitney Hutson-Kutz, CPA
- Melody Lopez
- Linda Mullins, CCP
- Thomass Ng, CPA
- Marios Parpounas
- Sin Leng Wong
- Catherine A. Smock, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Director)

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Texas Forest Service

Texas A&M University System

Overall Assessment

The Texas Forest Service has sound controls in place to monitor and evaluate its major programs of forest management and fire control. However, weaknesses in key control systems expose the Forest Service to ineffective and inefficient operations. The Forest Service should continue to focus on customer service in its systems of planning, performance measurement, and policy implementation. Additionally, improvements are needed with financial control systems, human resource management controls, and policies and procedures.

Section 1:

The Forest Service Should Continue its Focus on Quality Service

The Forest Service has demonstrated that programs are continually evaluated, and when necessary, changed to meet shifting priorities. It is in the process of changing its strategies and organization by providing leadership and education in forestry programs while reducing labor and equipment intensive programs. According to management, this change has occurred because of limited resources and a large backlog of requests from forest landowners. In the Forest Service's Strategic Plan, it is noted that the Forest Service has been servicing only one to two percent of Texas forest landowners each year. As the Forest Service plans to service more of its customers by moving into a facilitating role, input and feedback from those customers is very important.

Section 1-A:

Improvements to Planning Should Continue

The Forest Service has initiated positive changes to its overall planning process but the process is not documented. In the past, strategic planning for the Forest Service was done predominantly by top management, and the planning process was not fully used to drive the operations of the Forest Service. According to management, a planning process at the county level was initiated during 1995. County plans are being prepared by personnel in the counties. These plans will be reviewed by district directors, department heads, and the Director's office. The county plans will be used to identify common areas throughout the State, to assign priorities, and to allocate resources. As the Forest Service changes its approach to providing services, this planning process will be very important.

Recommendation:

Management should fully document the planning process and communicate its expectations to all personnel. The planning process should include participation from

all levels of the organization and customers. The planning process itself should produce written strategic and operational plans that will be monitored on an ongoing basis. An effective operational plan should specify resources to be used, procedures and tasks to be performed, sequence of steps to be followed, individuals who will perform tasks, timetables, and designated performance measurements to gauge progress.

Management's Response:

Due to timing constraints at this point, a modified planning process will be implemented immediately to incorporate as much of the state auditor's recommendations as practical during the current year. Full implementation will be designed and operational by the following planning cycle.

Section 1-B:

Customer Satisfaction Should Be Formally Measured

Although the Forest Service does not now formally measure customer satisfaction, it has a committee in place which is developing an in-depth survey for all of its customers. A limited survey done by the State Auditor's Office of Forest Service customers provides the type of information that will be obtained from a formal survey. The telephone survey covered a random sample of 21 customers for whom the Forest Service reported it had done a Land Management Plan. Customers were generally satisfied with the Forest Service. Three of the customers were dissatisfied. Two of the customers expressed dissatisfaction about the timeliness of response and the third customer expressed dissatisfaction about the quality of work. Six of the 21 customers did not have documented Management Plans in their possession, but that did not appear to be important to those customers. Measuring and monitoring customer satisfaction will be crucial as the Forest Service changes directions.

Recommendation:

The Forest Service should continue to establish a process to regularly survey customers and monitor their satisfaction. Management of the agency should be built upon customer expectations and feedback.

Management's Response:

The point is well intended and expresses a direction that has already been determined by management as essential. An effective customer satisfaction feedback system has been under development for several months with a target completion date of September 1, 1996.

Section 1-C:

Policy Implementation Should Be Fully Documented

Inconsistencies have occurred during the implementation of some policies, which have been partially caused by the lack of detailed written guidelines. For example, the Forest Service has been implementing a work center concept. While there have been efforts by management to orally communicate implementation of this new concept, there have been limited written guidelines. This policy change affects where and how employees in the districts will get their work assignments, what vehicles they will be allowed to drive and when, and how they will be deployed for work assignments. The change also affects employee location when on stand-by for fire control duty. A sample of employees interviewed by the State Auditor's Office were aware of the changes, but they had not received written guidelines. Lack of clarity and understanding in new policy implementation provides an environment for confusion and inconsistent work flow.

Recommendation:

Significant policy changes should be fully documented and communicated to all employees from the onset. Management should fully document detailed guidelines for the implementation of the work center concept and distribute it to all employees.

Management's Response:

We agree with this recommendation and will properly document and communicate policy changes as suggested in the future. Specifically on the work center concept issue, we recognized the inconsistency and corrected that situation in August 1995. The work center concept will be fully operational throughout the Texas Forest Service on September 1, 1996.

Section 2:

Restricted Funds Are Materially Misstated

The Forest Service has not properly accounted for monies in the Cooperative Emergency Response Fund. Additionally, the Forest Service has incorrectly classified the Cooperative Emergency Response Fund and the Fire Safe Fund as restricted funds. These two funds comprised approximately \$325,650 of the Forest Service's \$2.6 million of restricted funds in fiscal year 1995.

Section 2-A:

The General Revenue Fund Should Be Reimbursed From the Cooperative Emergency Response Fund

The Forest Service has not reimbursed the General Revenue Fund from federal reimbursements for services originally paid out of the General Revenue Fund. The Cooperative Emergency Response Fund contains reimbursements from the U.S. Forest Service for use of Texas Forest Service firefighters during emergencies. The reimbursements are made up of employees' regular salaries, emergency pay, benefits, travel expenses, and other operating costs. A review of fiscal years 1994 and 1995 expenditures showed that regular salaries and benefits were paid from the General Revenue Fund. Although emergency pay, travel expenses, and other operating costs were paid from the Emergency Response Fund, the fund balance was accumulated from prior reimbursements that were received for expenditures paid from the General Revenue Fund. Article V, § 22 of the fiscal year 1994-95 General Appropriations Act states:

As applicable, federal reimbursements received for expenditures previously made or services performed on behalf of federal programs from state funds shall be credited by the Comptroller to the fund from which the expenditure was originally made. The credit shall be to the agency's current appropriation item or accounts from which the expenditures of like character were originally made and are hereby reappropriated.

While these federal reimbursements are reappropriated to the Forest Service, the funds should have been credited to the General Revenue Fund. Then, any monies not expended or encumbered at the end of the fiscal year will have lapsed. As of August 31, 1995, the Cooperative Emergency Response Fund had a balance of \$214,206. In addition, the account is owed \$50,000 from the Fire Safe Fund, making the total \$264,206.³ There is no indication that the Response Fund has been used for other purposes than to pay for emergency services.

Recommendation:

Management should reimburse \$50,000 from the Fire Safe Fund to the Cooperative Emergency Response Fund. Management should then reimburse the General Revenue Fund the total amount from the Cooperative Emergency Response Fund. Furthermore, federal reimbursements for emergency services in the future should be credited to the General Revenue Fund.

³\$100,000 was borrowed to set up the Fire Safe Fund, half of which has been returned. The Forest Service has documented the borrowing and the intent to repay the funds in response to an internal audit finding.

Management's Response:

First, the Cooperative Emergency Response Fund has already been reimbursed the full \$50,000 from the Fire Safe Fund.

Second, regarding the Cooperative Emergency Response Fund, the legalistic rigidity of this fiscal accusation of improperly managed funds is very disturbing and sets a very dangerous precedent for every Article III agency of high education. The legislature has repeatedly recognized the unique funding mechanisms associated with agencies of higher education and therefore deliberately established Article III, Section 2 provision to promote the maximum effectiveness of such available funds. This particular finding in a state management audit is especially troubling in that it challenges the financial management of Texas Forest Service funds that have withstood the financial accounting principles of years and decades of audits by those specializing in higher education fiscal auditing. Further, these findings are a departure from the positive expectations in government to finally empower agencies to cut bureaucracy and provide immediate and quality service, with less money, to the ever expanding population that demands and deserves more from government.

Stated findings acknowledge that federal reimbursements are reappropriated to the Texas Forest Service, but that any monies not expended or encumbered at the end of the fiscal year should lapse. State auditor findings describe Article V, Section 22 requirements of the 1994-95 General Appropriations Act, yet never acknowledge in writing the existence of Article III provisions specifically legislated for agencies of higher education like the Texas Forest Service.

Specifically, I refer you to Article III, Section 2 of the 74th Legislature which states that all balances in local funds (which includes federal fund reimbursements) at the end of fiscal year 1995 (ending August 31, 1995) are hereby reappropriated for the operation, maintenance and improvement of the respective state institution. The findings of state auditors verified that such reimbursements were reappropriated to the Texas Forest Service and also that we have closely maintained the integrity of these federal reimbursement funds strictly for the operation, maintenance and improvement of the statewide fire control programs of the Texas Forest Service. Such funds have greatly enhanced our abilities for rapid response to major emergencies around the state with the assurance that our employees would be paid soon after they return home instead of having to wait months for the federal reimbursement process.

So certain are we of the Legislative intent of this Article III provision, we have not dwelt upon the specific details of the amount of funds your auditors are proposing that we should refund to the state. However, the amount is grossly overstated. The only salaries paid from state funds are the first eight hours of each normal work day, less the proportional payment formula amount (or less about 20%). Federal assignments usually require our employees to work 7 days per week, 12-20 hours per day. All overtime is paid from the Cooperative Emergency Response Fund, not the General Revenue Fund. In addition, all travel costs and other out-of-pocket costs (not just

Forest Service vehicles) are paid from this account, not the General Revenue Fund. Without doing any specific analysis on the years in question, I can rather accurately estimate that less than 25-30% of the total expenses paid during an emergency response are initially paid from the General Revenue Fund. The remainder are paid from the Cooperative Emergency Response Fund and therefore, under any interpretation are not subject to reimbursement of the General Reserve Fund.

While reversion of these Cooperative Emergency Response Funds would significantly mean nothing to the General Revenue Fund of Texas, such reversion would critically damage the ability of the Texas Forest Service to rapidly respond to emergencies, and eliminate any incentive that our employees have to leave their families for extended periods of time and risk their lives when they cannot be paid for months until the federal reimbursement is received. This audit recommendation could basically wipe out a premier emergency service that has risen to the top of the Governor's Division of Emergency Management leadership team.

State Auditor's Follow-up Comment:

Federal fund reimbursements for emergency response services are not local funds. Furthermore, federal fund reimbursements for repayment of expenditures originally paid from the General Revenue Fund were used to establish the Cooperative Emergency Response Fund. Thus, Article III, Section 2, of the fiscal year 1994-95 General Appropriations Act does not apply to the funds kept in the Cooperative Emergency Response Fund. According to management, reference to previous financial audits of the Forest Service are audits conducted by the System Internal Audit Department, not the State Auditor. Finally, implementation of this recommendation will not hinder the Forest Service's ability to rapidly respond to emergencies or make appropriate compensation to employees since payment will still be made from general revenue appropriations.

Section 2-B:

The Cooperative Emergency Response Fund and The Fire Safe Fund Should Be Reclassified

The Cooperative Emergency Response Fund and the Fire Safe Fund are incorrectly classified as restricted funds. Misclassification of funds distorts information provided in the annual financial report, which is used to make decisions about the agency. A restricted fund is one whose purpose is restricted because an outside source has determined that the fund can only be used in a certain way. Neither of these funds have been restricted by an outside source.

The Cooperative Emergency Response Fund has been established by the Forest Service to separately account for federal reimbursements for emergency response services. After the Forest Service has credited the General Revenue Fund with the

proper amount, the funds remaining in the Cooperative Emergency Response Fund may be spent at the discretion of the Director of the Forest Service. The Fire Safe Fund has been established to manage funds for the buying and selling of firefighting goods to and from rural volunteer fire departments.

Recommendation:

The Cooperative Emergency Response Fund should be reclassified or eliminated. The monies in the Cooperative Emergency Response Fund should be placed in the fund from which expenditures for vehicles and related expenses were originally made. The Fire Safe Fund should be reclassified. The proper classification of funds will ensure that all users, including outside users, will receive accurate and meaningful information in the Forest Service's financial reports.

Management's Response:

We will seek specific guidance from the TAMUS Comptroller as to the proper classification of these accounts and implement accordingly.

Section 3:

The Cooperative Emergency Response Agreement With the U.S. Forest Service Should Be Updated

The Cooperative Emergency Response Agreement between the Texas Forest Service and the U.S. Forest Service has not been renewed in 15 years. The Annual Action Plan has not been reviewed or updated in six years. The signature of the current Forest Service Director is not on either document. Terms of the Agreement indicate that if no change is needed in the Agreement, a letter is to be signed by both parties to that effect. The Action Plan is supposed to be done on an annual basis. Inconsistent expectations can develop without regular review and update of these important documents.

Recommendation:

The Cooperative Emergency Response Agreement between the Texas Forest Service and the U.S. Forest Service and the Annual Action Plan should be formally renewed.

Management's Response:

This will be accomplished after May 31, 1996, when a new director of the Texas Forest Service is named.

Section 4:

Human Resource Management Should Be Improved

The Forest Service employs approximately 360 people involved in forestry activities at various locations throughout the state. Approximately 65 percent of the Forest Service's \$13.5 million in total 1995 expenditures were spent on employee salaries and wages. Since these figures represent such a large percentage of the Forest Service's overall expenditures, management of human resources is critical for continued success.

Section 4-A:

The Forest Service Should Develop a System for Analyzing Staffing Needs

There is no formal system in place to identify and meet staffing needs of the Forest Service. Management has staffed based on historical levels, and to some degree, the budget. The Forest Service is working on a plan that will be implemented at the local level to assist in the identification of human resource needs. Without a system to thoroughly analyze staffing needs, the Forest Service may not hire the right number of employees with appropriate knowledge and skills.

Recommendation:

The Forest Service should continue with its plans to develop a system for analyzing staffing needs on a recurring basis.

Management's Response:

Such a plan is currently under development and will be implemented by June 1, 1996.

Section 4-B:

The Forest Service Should Strengthen its Efforts to Diversify and Fully Document its Hiring Decisions

The Forest Service is not meeting statewide goals for minority hiring. The Forest Service's workforce was approximately 92 percent white as of December 1, 1995. The Forest Service does not appear to get many qualified minority applicants -- even for clerical positions. Every new hire since 1993 has been white. This includes 19 positions in 1995, 14 in 1994, and 20 in 1993. Management, as well as foresters in three district offices, described efforts to hire qualified minorities. However, insufficient documentation of the decision-making process does not allow verification.

There is a significant lack of documentation on hiring decisions. In nine files reviewed, there was little or no documentation to show why a person was selected for

the job. Poor documentation puts the Forest Service at risk of discrimination charges. In addition, there is no certainty that standard criteria and proper legal procedures are being followed.

Recommendation:

The Forest Service should strengthen its efforts to recruit and hire qualified minorities. The Forest Service should fully document the recruitment and hiring process for each and every job position. Documentation should clearly show why an applicant is selected for each job.

Management's Response:

A Texas Forest Service administrative team has been established to immediately address this issue and provide recommendations prior to June 1, 1996.

Section 4-C:

The Forest Service Should Identify Training Needs And Institute a Program of Cross-Training

The Forest Service does not have a comprehensive system in place to ensure that employee training needs have been identified or met. It has a committee working on a system, but at the time of the review by the State Auditor's Office, there was no estimated implementation date. The Forest Service currently has very little cross-training between some professional positions. Inadequate cross-training can create gaps and inefficiencies when someone leaves a critical position, which occurred with the position of computer systems manager. Good management practice requires assessing training and cross-training needs to ensure continued provision of quality programs and services.

Recommendation:

The Forest Service should continue to establish a system to identify training needs and ensure that training needs are met. Cross-training of key job positions should be addressed by management.

Management's Response:

Certainly we will complete efforts to identify training needs, provide essential training and track the results for each employee by June 1, 1996. We agree that cross-training is desirable. In a small agency where workload demand already far exceeds available

staffing, cross-training in every position is virtually impossible short of reducing programs and services while expediting cross-training functions. We will evaluate opportunities to at least cross-train in the most critical areas of each position.

Section 4-D:

Employee Performance Appraisals Should Be Conducted in a Timely Manner

A review of 16 employee personnel files revealed a lack of annual evaluations from date of hire to the present in six of those files. Although each employee had received an evaluation within the prior 15 months, that was the only one on file. Historically, there do not appear to be adequate controls to ensure that performance appraisals are done each and every year. In addition, there is no process in place to ensure that new employees are evaluated timely in accordance with agency policy. A review of eight new hires in 1995 revealed that only three had received completed performance evaluations on time. Clearly communicated expectations and feedback are necessary for an agency to accomplish its programs.

Recommendation:

Management should implement controls to ensure that employee performance evaluations are conducted in a timely manner.

Management's Response:

This recommendation will be implemented by June 1, 1996.

Section 5:

Policies and Procedures for Peace Officers Should Be Improved and Enforced

The Texas Education Code establishes that it is the responsibility of the Forest Service to enforce all laws pertaining to the protection of forests and woodlands in the State of Texas. In accordance with this directive, there is legislative authorization for the Forest Service to have Peace Officers. They must be certified by the Texas Commission on Law Enforcement Officer Standards and Education (TCLEOSE). The Forest Service currently has ten certified Peace Officers. Given the significance and sensitivity of law enforcement duties, management should ensure strict adherence to policies and procedures.

Section 5-A:

Policies Regarding Firearms Should Be Clarified and Enforced

The Forest Service has not ensured full compliance with TCLEOSE rules and Forest Service policies. Two out of the ten Peace Officers had not qualified on the firearms issued by the Forest Service. However, the two Peace Officers had qualified on personally owned firearms. The Forest Service allows Peace Officers to carry personally owned firearms, which is acceptable under TCLEOSE rules. According to TCLEOSE rules, a Peace Officer is required to qualify on all firearms that are carried in an official capacity. Without qualifying on state-issued firearms, a Peace Officer cannot carry that firearm or the Peace Officer risks suspension or revocation of license if using the firearm in an official capacity. In one case, the state-issued firearm was not in working condition. Issuing state-owned firearms which are not used by Peace Officers is an ineffective use of state resources. Additionally, there may be liability to the State if a Peace Officer discharges a firearm with which he has not qualified.

Recommendation:

The Forest Service should ensure that all Peace Officers comply with TCLEOSE rules and Forest Service policies. Peace Officers should qualify on all firearms issued by the Forest Service. All weapons should be kept in working condition. As necessary, management should document and distribute guidelines or instructions about the issuance of state-owned firearms, the use of state-owned and personally-owned firearms, and the proficiency requirements for those firearms.

Management's Response:

This recommendation will be completed by June 1, 1996.

Section 5-B:

Job Descriptions for Peace Officers Should Reflect Their Multiple Job Responsibilities

Except for the Chief Law Enforcement Officer, none of the Forest Service Peace Officers have written job descriptions reflecting their law enforcement responsibilities. Forest Service Peace Officers have duties and responsibilities that are defined as forest technicians, staff technicians, or district technicians. Job descriptions for these positions do not address law enforcement responsibilities. Without job descriptions that include all their responsibilities, employees may not have a clear idea of management's expectations nor can they be evaluated properly.

Recommendation:

The Forest Service should develop written job descriptions for Peace Officers which fully reflect their duties and responsibilities.

Management's Response:

This recommendation will be completed by June 1, 1996.

Section 5-C:

All Peace Officers Should Have a License and a Current Bond in Their Files

Personnel files of Peace Officers do not contain all required documentation.

- Only two out of ten files had copies of the Peace Officer's permanent license in them.
- None of the ten files had up-to-date copies of the Peace Officer's bond. All of the files had a copy of an old bond or reference to one.

The Texas Education Code requires Peace Officers to be certified by TCLEOSE, which is evidenced by a permanent license. In addition, the Texas Education Code requires each Peace Officer to execute a bond in the sum of \$5,000. The Forest Service requires annual renewal of each bond. The lack of a permanent license and an up-to-date bond is in violation of the Texas Education Code, TCLEOSE rules, and Forest Service policy.

Recommendation:

Management should ensure that the personnel files of each Peace Officer contain a copy of the officer's license and evidence of renewal of the employee's bond.

Management's Response:

This recommendation will be completed by June 1, 1996.

Section 6:

Automation Policies and Procedures Should Be Documented

Documentation of policies and procedures for automation resources has not been developed. Currently, one individual is responsible for network administration and support for the Forest Service. This occurred after the resignation of a key individual who was responsible for these duties. In order to avoid interruption in automation support and users' daily activities, policies and procedures should be documented.

Recommendations:

Automation policies and procedures should be developed and documented. They should address procedures for gaining access to the network, employees' use of state resources for private use, safeguarding of automated resources, and procedures for denying access when employees resign. The Forest Service should look at the Texas A&M University Computing and Information Systems procedures for guidance.

Management's Response:

This recommendation will be implemented by September 1, 1996.

Section 7:

Controls over Cash and Fixed Assets Are Adequate

Controls over cash receipts and disbursements are adequate. While overall controls are adequate for fixed assets, there are opportunities to improve inventory procedures. Specifically, there is a lack of consistency in the accounting for mobile unit radios, and inventory lists were not up to date. Equipment represented approximately 47 percent (\$11.2 million) of the Forest Service's total assets of \$23.9 million as of August 31, 1995. Because this represents such a significant portion of the Forest Service's total assets, it is imperative that proper controls exist to locate and safeguard these assets from loss, theft, and unauthorized use.

Recommendation:

All district and area offices should account for items that are susceptible to theft or loss, such as radios. Inventory lists should be kept up-to-date. The transfer and disposal of fixed assets should be promptly recorded.

Management's Response:

An administrative team has been established to review current inventory, accountability procedures and practices to determine any possible ways to improve current fixed asset accountability. Findings and applicable recommendations will be implemented by September 1, 1996.

Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of management processes and control systems within the Texas Forest Service. The scope of the audit included consideration of the Service's:

- strategic planning
- organizational structure
- management information systems
- human resource management
- financial control systems
- performance measures

Agency financial data was analyzed, and relevant reports and documentation were reviewed. Conventional audit procedures were applied to collect information, including interviews with management and staff of the Forest Service and a telephone survey of customers of the Forest Service. Audit testing and analysis included control review, trend analysis of expenditures and performance statistics, review of project and personnel files, and review of performance measures. Our work will not necessarily reveal all of the agency's internal control weaknesses.

Fieldwork was conducted from July 1995 to November 1995. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

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

- Greg Adams, CPA (Project Manager)
- Jon Nelson, CISA (Co-Project Manager)
- Larry Vinyard, CPA, CIA (Quality Control Reviewer)
- Rachel Cohen, CPA (Team Leader)
- Marcia Carlson (Team Leader)
- Scott Bertrand
- Rob Bollinger, CPA
- Nancy Davis
- Ash Hamid
- Melody Lopez
- Thomass Ng, CPA
- Marios Parpounas
- Sin Leng Wong
- Catherine A. Smock, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Director)

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Texas Veterinary Medical Diagnostic Laboratory

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Texas Veterinary Medical Diagnostic Laboratory

Texas A&M University System

Overall Assessment

Financial control systems are generally weak within the Texas Veterinary Medical Diagnostic Laboratory. Of most significance are weaknesses in the failure to collect the proper amount of revenue and to account for all revenue. The agency's ability to accomplish its mission is affected by its management control systems and processes. Weaknesses in financial control systems expose the agency to errors and illegal acts. Management should take immediate action to correct the weaknesses noted in this report.

Section 1:

Material Control Weaknesses Exist in The Management of Accounts Receivable

Management has not established sufficient controls to ensure that accounts receivable are properly collected. As of August 31, 1995, the agency reported over \$600,000 in accounts receivable. The agency has not complied with Texas A&M University System policy and state law in the management of accounts receivable. The agency has failed to establish written procedures that specifically address the initial extension of credit, accounts receivable, billings, collection of past due amounts, and write-off of receivables. Management routinely overrides its own informal policies and procedures.

Figure 11

Customer	Account Balance at 12/90	Account Balance as of 7/95	7/95 Balance Over 4 Months Past Due	No. Years Charges Exceeded Payments (1991 - 1995)
Customer A	\$ 776	\$ 6,809	\$ 6,463	5
Customer B	721	5,642	5,422	5
Customer C	1,205	7,530	6,606	5
Customer D	1,786	4,245	4,079	5
Customer E	319	11,869	10,276	5
Customer F	373	1,836	1,176	4
Customer G	165	1,908	1,471	4
Customer H	180	7,455	5,971	4
Total	\$ 5,524	\$ 47,294	\$ 41,464	

The agency's risk of financial loss is increased due to the conditions noted above. For example, eight customers' balances, in Figure 11, were allowed to increase an aggregate \$41,770 between December 1990 and July 1995. Although the agency collected some monies from these customers during this period,

charges by these customers almost always exceeded payments. Adherence to effective

written procedures would have prevented accumulation of these balances. Immediate action is needed to establish adequate controls over the agency's management of accounts receivable.

Section 1-A:

The Initial Extension of Credit Is Poorly Controlled

When a customer account is established, a credit application is not required. Pertinent information, such as telephone number and principal parties responsible for payment, is not always obtained from the customer. Neither deposits nor credit checks are required. For example, the agency had neither a contact person nor a phone number for an account with a balance of \$4,527 that was written off in July 1995.

New accounts are opened for customers who have had previous balances on old accounts written off or other credit problems. The agency does not consider appropriate factors when granting or denying credit. Such factors should include customer's payment and credit history. Documentation is not maintained to support decisions made to extend credit. Decisions to extend credit should be well documented and based on standards applied fairly to all applicants.

No policy exists to address the establishment of credit limits. There are several instances where accounts were allowed to accumulate large credit balances, which became past due. As of July 1995, 22 accounts had balances over \$1,000 and were past due for four months or more.

Recommendations:

Management should establish a formal written procedure for the initial extension of credit. It should include the use of a credit application form, review of the customer's credit history, consideration of deposits and credit limits, and documentation of decisions made to extend credit.

Management's Response:

The Texas Veterinary Medical Diagnostic Laboratory recognizes the value of requiring credit applications and deposits on new accounts, certain inherent limitations consistent with the practices of other diagnostic laboratories in the U.S. reduce the viability of these options. Since Texas Veterinary Medical Diagnostic Laboratory is committed to maximizing the control of State resources, two procedural enhancements will be implemented as of December 31, 1995.

First, before opening future new accounts, information regarding complete address, communication means and "account responsible person" will be obtained.

Second, Texas Veterinary Medical Diagnostic Laboratory will have a policy in place to limit credit. If the 30-day balance due is \$500 or the 60-day balance due is \$250 or if there is any balance at 60 days or more past due, no work will be performed except on a cash basis or if a statement regarding public health necessity on file. We will research new accounts to see if the clients involved have a prior payment history with Texas Veterinary Medical Diagnostic Laboratory. Those with bad prior payment histories will initially be limited to a cash basis.

We believe the strict adherence to the above described credit limits will limit Texas Veterinary Medical Diagnostic Laboratory's risk.

Section 1-B:

Controls Are Weak over the Establishment of Customer Accounts

There are inadequate controls over the assignment of account numbers, which can distort or lose a customer's credit history. Account numbers have been deleted for lack of activity, and account numbers have been reassigned from one customer to another. For example, an account previously assigned to an animal hospital had a balance of \$762 written off. Apparently, the owner died. The new owner was allowed to keep the same account number under a new name. Failing to establish a new account for the new owner distorted the credit history associated with that account number and the new customer.

Customers in bankruptcy automatically have new accounts established when a judgment is reached by the court. The customer's balance is transferred to a new account, thus zeroing out the old account. The customer's credit history, including any losses due to bankruptcy, is not considered in credit extension decisions.

A single customer can have multiple accounts, which makes it difficult to monitor the total activity for that customer. While one account may be in good standing, another account may be delinquent. For example, 14 customers who declared bankruptcy since 1990 had other accounts with the agency, in addition to the account that went bankrupt. In another case, a customer had ten accounts. At April 1991, the accounts combined had a balance of \$40,300. At August 31, 1995, the number of accounts had been reduced, but two of the accounts were past due four months or more: one with a balance of \$7,315 and the other with a balance of \$7,857. No payments have been received on the latter account since 1992.

Recommendations:

The integrity of each account history should be kept intact. Accounts with little activity should not be deleted but instead flagged and moved to an inactive file. New customers should receive new and unused account numbers. Account numbers should not be reassigned from one customer to another.

When a bankruptcy judgment is reached by the court, the customer's balance should not be transferred to a new account. All customer charges, adjustments, payments, and write-offs should be maintained on one account to reflect the true credit history of the customer.

The use of multiple accounts for a single customer should be discouraged. If they are necessary, then an aggregate credit limit should be established for all accounts, and accounts should be closely monitored.

Management's Response:

Effective 2/1/96, accounts with no activity in the previous two years will be moved to an inactive file. New customers will receive new account numbers. Account numbers will not be deleted.

In the case of a bankruptcy, the old account with all the history prior to bankruptcy will be kept. If a new account is established, this new account will be cross-referenced to the old one and vice versa so that a complete credit history on a given customer will always be available.

A new Texas Veterinary Medical Diagnostic Laboratory policy dealing with accounts in bankruptcy is to be implemented on 2/1/96. This new policy will restrict credit further, i.e. all charges must be paid within 30 days of work performed at Texas Veterinary Medical Diagnostic Laboratory.

There is considerable pressure on Texas Veterinary Medical Diagnostic Laboratory in a few cases to open different accounts for the same individual. Usually these involve large governmental/industry contracts a client has and wherein a separate accounting is necessary. The new software systems we have examined have third-party billing options and we hope to address this issue as we obtain the new software systems. At all times multiple accounts for the same individual will be closely monitored including aggregate credit limits.

Section 1-C:

Adjustments to Customer Accounts Are Not Adequately Documented or Approved

Adjustments ranging from \$12 to \$1,965 were found with documentation which did not contain adequate statements or explanations about the reasons for adjustments. Adjustments can be made for a write-off, a data entry error, or a dispute by the customer. The documentation also did not contain appropriate signatures of approval and authorization. In one instance, documentation was attached showing a department head was instructing the accounts receivable clerk to remove charges from his own

account. Without adequate documentation and proper approval, charges may be inappropriately removed and revenue not realized.

Recommendations:

Management should establish written procedures describing documentation requirements for adjustments. Adjustments to customer accounts should have supporting documentation which explains the reason for the adjustment and contains evidence of proper approval. All account adjustments should be supported by a properly completed journal voucher.

Management's Response:

A procedure to insure that all adjustments have written approval and proper supporting documentation was put in place October 12, 1995.

Section 1-D:

Procedures Are Inconsistently Applied to Past Due Accounts

At July 1995, 22 accounts had balances over \$1,000 and were past due for four months or more. The total outstanding amount past four months due was \$89,809. During the period from January 1991 to July 1995, payments were made on these accounts only 41 percent of the time. During this time period, finance charges were assessed sometimes, but not always. Some accounts were blocked from further activity while others were not. For example, the 22 accounts include the eight customer accounts discussed in Section 1. In July 1995, only one of these accounts had been blocked longer than three months. Four of the accounts were not blocked. Two of those accounts have never been blocked.

Figure 12

Customer	Date Account Blocked (As of 7/95)
Customer A	6/95
Customer B	5/95
Customer C	Not Currently Blocked
Customer D	12/92
Customer E	Has Never Been Blocked
Customer F	7/95
Customer G	Has Never Been Blocked
Customer H	Not Currently Blocked

Procedures for the notification of customers of past due amounts were inconsistently applied. Certified letters were not sent to 10 out of the 22 customers. However, certified letters were sent to other customers with past due balances under \$10.

Controls are frequently overridden by management. For example, while the automated system indicates the need for a collection letter, management has overridden this action by not sending the appropriate letter. Another control is blocking an

account to prevent a final report from being printed and released. However, this control can be overridden by releasing hand-written test results or verbal communication of test results. Specimens received for accounts that are blocked are still tested when they are received, at cost to the agency. Even though the labs receive a list of blocked accounts to prevent the release of results, the listing may be incomplete. Sixty-two blocked accounts were not included on the September 1995 list.

The process of blocking accounts has other weaknesses. Six of 96 accounts written off since 1991 are currently not blocked. Blocks can be put on, removed, and put on again at anytime without generating an automated audit trail. Account blocks are removed without documented justification for the removal. Eleven employees, nine of whom do not work in accounting, have the ability to block and unblock accounts. The ability to block accounts should be limited to employees who need such access to perform their job duties.

Appropriate action is not taken for customers involved in bankruptcy proceedings. The customer account is not immediately blocked nor are credit limits placed on the account. Fourteen customers who declared bankruptcy since 1990 had other accounts with the agency, in addition to the account that went bankrupt. Twelve of those accounts were not blocked. Two of the accounts incurred additional charges after write-off of previous balances.

Procedures are inconsistent in the way collection efforts are applied. For example, the agency is not reporting all delinquent accounts to the Office of Attorney General, as required by statute. A review of agency records revealed that only 14 of 96 accounts written off since 1991 had the correct documentation indicating referral to the Office of the Attorney General. However, a representative of the Office of Attorney General stated that 40 accounts had actually been referred for collection. State law requires state agencies to report delinquent and uncollected obligations to the Office of Attorney General for further collection.

Recommendations:

Procedures for the handling of past due accounts should be clearly documented and implemented in a consistent manner. The procedures should address the imposition of finance charges, the blocking of customer accounts, notification of customers with past due amounts, handling of customers involved in bankruptcy proceedings, and collection of past due receivables. Management override should seldom, if ever, occur. In cases when it is necessary, decisions should be documented.

The process of blocking accounts should be implemented consistently. The list of blocked accounts provided to the labs should be complete and include all accounts written off. All account block actions should have supporting documentation and an adequate audit trail. The number of employees who have the ability to block and

unblock accounts should be reduced to those who need to do so as part of their regular duties. Controls over blocking accounts should reside almost exclusively in the agency's accounting function.

Procedures should be developed to prevent additional charges from bankrupt customers, such as blocking the account or the imposition of a restrictive credit limit.

Collection efforts should be implemented and documented consistently. Procedures should be clearly documented to provide specific guidance on actions to be taken. The agency should report delinquent and uncollected obligations to the Office of Attorney General for further collection.

Management's Response:

Written procedures for handling past due accounts and credit limits, including documentation and approval requirements, are being implemented on 12/31/95. All clients are being informed as of 12/18/95 on every case submitted of the finance charge policy.

Because of our 12-year-old software program, management is required to override the automated system for sending collection letters. The most frequent reasons for this override are small \$ balances or partial payment. Accounts which have a modified payment plan on file do not receive collection letters. Intervention requirements necessitated by the current system will be documented and deviations will be approved by management.

We will modify our existing software system within the next six months to have audit trails for blocking and unblocking accounts, and alteration of the interest-exempt field. In the interim, steps are being taken to reduce the number of employees with the ability to set/remove blocks from accounts.

A new Texas Veterinary Medical Diagnostic Laboratory policy dealing with accounts in bankruptcy is to be implemented on 2/1/96. This new policy will restrict credit severely, i.e. all charges must be paid within 30 days of work performed at Texas Veterinary Medical Diagnostic Laboratory.

Effective December 31, 1995, all accounts with a 90-day past due amount and a total balance due of \$1,000 or more, except those from which Texas Veterinary Medical Diagnostic Laboratory has a signed promissory note/repayment plan, will be reported to the Attorney General's office. That office has instructed us not to submit accounts with balances of less than \$1,000 (see attached letter).

Section 1-E:

Inadequate Controls Exist over Management of *Pro Bono* Services

The agency has not established any written procedures regarding performance of *pro bono* services. On occasion, public health concerns require the agency to perform diagnostic tests for delinquent customers whom the agency should normally refuse to service. The agency also does some testing, for which it does not charge, while performing research. The agency does not have procedures to ensure it accounts for cost of this *pro bono* work or that such work is approved by authorized individuals. Failure to properly identify and account for *pro bono* services increases the risk that test work could be performed without charging or collecting the appropriate fees.

Recommendations:

The agency should establish written policies for performing *pro bono* test work. These policies should describe which conditions merit performance of *pro bono* work. The agency should also institute policies to ensure that *pro bono* work is approved by the appropriate persons. The agency should appropriately record *pro bono* services in its accounting system.

Management's Response:

Written procedures for pro bono work and the accounting thereof have been issued on 12/20/95. Pro bono work will continue to be accessioned as previously. Pro bono work can only be done with prior approval of K. Eugster, R. Sprowls (or L. Gayle in their absences). Pro bono accounting considerations will also be discussed with the System Comptroller.

Section 1-F:

Bad Debt Expense Has Been Understated for Fiscal Years 1991-1994

The agency has not reported write-offs for fiscal years 1991 through 1994. The State Auditor's Office identified \$92,466 in the write-off of 104 accounts for fiscal years 1991-1994. As a result, bad debt expense for the Texas A&M University System (System) has been understated for the last four years. Understating bad debt expense in the financial statements provides misleading information, regarding the agency's finances, to those with oversight authority over the agency. According to System policy, the System Comptroller and the Director of Administrative Reporting must be notified annually of the amount of write-offs.

Until the end of fiscal year 1995, the agency had not attempted to comply with instructions provided by the System's Fiscal Office on the reporting of accounts receivable written off. Then, the amount of write-offs eventually reported to the

System Fiscal Office was incomplete. The agency reported \$77,591 in the write-off of 96 accounts, which omitted eight accounts. Additionally, the documentation for the 96 accounts was poor. Supporting documentation is not currently required to support the reason for a write-off nor is it attached to adjusting worksheets. The adjusting worksheets are not dated or initialed by the preparer. There is no evidence that a review is conducted to ensure that the adjustments are correct.

Documented procedures do not exist for the handling of payments received on previously written-off accounts. One account was written off in fiscal year 1992 for \$1,162. Then, the amount was added back to the account when two small payments were received. The account was again written off in fiscal year 1995 for \$1,417.

Recommendations:

Management should comply with System policy by annually notifying the System Comptroller and the Director of Administrative Reporting of the amount of accounts receivable written off. Supporting documentation should be required to support the reason for a writeoff. Documentation should include evidence of proper authorization and review.

Management should establish written procedures for the handling of payments received on previously written off accounts.

Management's Response:

Effective immediately, the TAMUS Comptroller will be notified of write-offs on accounts receivable. Write-offs require prior approval of the Executive Director of Texas Veterinary Medical Diagnostic Laboratory.

Procedures for payments received on previously written-off accounts will be developed in cooperations with the TAMUS Comptroller.

Section 2:

Revenue Recording and Cash Receipting Practices Need to Be Strengthened

Revenue is not recognized and recorded as it is earned. Revenue is recorded only to the extent that payments are received and deposited. In recording credit sales, the agency charges individual customer accounts for each service rendered. However, there is no general ledger control account to record total sales and provide the related double-entry control. Thus, the amount of revenue reported in financial reports cannot be directly determined. It has to be indirectly calculated from deposit of cash receipts

and customer account information maintained in a single-entry accounting system. Estimated revenue from agency service fees in fiscal year 1995 was over \$4 million.

Weaknesses were also noted with cash receipt procedures:

- inadequate segregation of duties
- lack of documentation when cash and checks are transferred from one individual to another
- lack of documentation and approval of account reconciliation between the System financial accounting system (FAMIS) and agency records

A report has been issued by Texas A&M University System Internal Audit with more details on these issues.

Recommendation:

Management should recognize and record revenue as it is earned rather than as payments are received. A general ledger control account should be established to reconcile revenues with cash receipts and accounts receivable. Management should immediately address recommendations in the System Internal Audit Department Exit Conference Draft Report issued in November 1995.

Management's Response:

The weaknesses noted in the cash receipt procedure have been corrected. We have requested the System Comptroller's office to review our system including the issue of revenue recognition. Together we will design and implement an appropriate system.

Section 3:

The Agency Should Enhance Its Automation Access And Security Procedures

Policies and procedures are not adequate for automated systems, including customer and accounting systems. Weaknesses in access and security procedures expose the agency to errors and irregularities. Security policies for agency staff have not been developed in writing, and the agency does not follow Department of Information Resources standards and policies. In addition, the following weaknesses were noted in the access of automated systems:

- There is no written authorization from a new employee's supervisor or manager for system access. The Informatics Department has the authority to determine a new employee's access. This should be the responsibility of the employee's supervisor or manager.

- Agency applications have no “read-only” access. Staff who have access to applications have all or no access. Their access allows them to add or change records in an application’s data base. For example, a staff member who has access to the agency subsystem can add or change any records regardless of the agency that employee is in. Furthermore, there is no audit trail indicating who added or changed a transaction.
- Eleven employees have access to the customer menu which is used to establish customer accounts, update customer information, etc. This menu also allows blocking or unblocking a customer account.
- Charges are posted to a customer’s account at any time. During the month, before statement preparation, the finalized accessions (invoices) can be changed. Forty-one employees with access to the accession menu can change the charges and lab results during the month. On the billing date, invoices are posted to accounts receivable. After the posting, charges can only be adjusted by accounting personnel.
- The three full-time Informatics staff have access to all applications, system software, production programs, and data. The staff can access users’ passwords within the system libraries.
- There are few controls over passwords. The minimum number of characters required for a password is one character. Passwords are only required to be changed every six months. The system does not automatically log out users who are logged on but have not been using their terminals for a long period of time. There are no minimum number of attempts for logging on if staff members forget their password. Users are not assigned user identification codes so invalid access attempts cannot be traced to a person, only a terminal number.

Physical security controls are generally adequate. Controls are adequate for the primary computer room. Two areas were noted which need improvement:

- There is no listing of tapes backed up and kept off site. The two cabinets that the tapes are kept in are not fire proof, and one is not locked.
- The agency’s backup plan is outdated and does not include Local Area Network backup procedures.

Recommendations:

The agency should develop written security policies and distribute them to all staff. Standards and policies developed by the Department of Information Resources should

be reviewed and followed. In addition, access controls should be evaluated and revised in the following areas:

- Written authorization should be obtained from a new employee's supervisor or manager for system access.
- User access privileges should be modified to allow inquiry-only access and to limit edit capabilities to only those who absolutely need it. For example, blocking and unblocking a customer account should be restricted to accounting personnel only. In addition, access allowing changes to customer charges and lab results should be limited. Consideration should be given to increasing the frequency of posting invoices to accounts receivable.
- Audit trails should be created and retained for all changes to system data bases.
- Access privileges for Informatics staff should be re-evaluated.
- Controls over passwords should be improved.

The agency should prepare a listing of tapes backed up and kept off site. Backup tapes should be stored in a secure environment. Also, the agency should update its backup plan and include Local Area Network backup procedures.

Management's Response:

Written security procedures consistent with DIR standards are being updated and will be appropriately distributed. A modified accounting software system will be in place in approximately 6 months and will have appropriate features including access privileges, audit trails, and password controls.

Interim measures have been taken with respect to security of the current system. These measures include:

A form has been developed which will be used by any TVMDL employee needing access to information resources. This form covers all types of access, local and remote, and necessitates approval by the Executive Director.

Modification of VISTA software to prevent the alteration of charges and to restrict editing capabilities for case information to only those individuals with a specific need for this power. This enhancement coupled with the written authorization form will significantly tighten the security on all TVMDL data. Furthermore, access to the Accounting and Customer databases will be restricted to no more than two individuals (primary and a backup).

We are currently studying of the feasibility of adding audit trails for changes to a limited number of fields. The relational database system being used is REXCOM and is currently saturated. The present file structure and the hardware infrastructure will not easily support the addition of audit trails on all data items. Texas Veterinary Medical Diagnostic Laboratory is also actively pursuing a replacement for the VISTA system which will contain all necessary audit trail capabilities.

We plan to resolve the computer staff access to user password files with a replacement for the VISTA system. The REXCOM programming language is an eighties-vintage tool which does not provide a means of absolute encryption of fields. It is currently not possible to prevent computer staff from accessing user password files. However, this access is currently limited to only three career TVMDL employees. Change in password is required every 180 days, and system software will be modified to require a password length to at least eight characters with one non-alpha character. In addition, attempted (invalid) log-ins will be restricted to three times per day and will generate an alert to computer staff. Finally, users will be automatically logged out after 15 minutes of inactivity to prevent unauthorized use of unattended computers.

A listing of off-site back-up tapes is now kept. The tapes are in a secure environment. Back-up procedures including the Local Area Network are being updated. This will be accomplished by 1/15/96.

Section 4:

Other Financial-Related Policies and Procedures Should Be Improved

The agency follows Texas A&M University System policies and procedures, and the agency has limited supplementary policies and procedures. The agency contracts with Texas A&M University for financial and accounting support. Policies and procedures are available for most financial-related functions. However, as already noted in this report, the agency's policies are inadequate for the management of revenue and accounts receivable. In addition, the following areas were identified where improvement is needed:

- Documented procedures do not address the recording of invoices paid or the reconciliation of agency records to System transaction reports.
- Policies and procedures for consumable inventory are not formally documented. There is no single, unified inventory management policy which addresses such things as the monitoring of stock and reorder points. While there is a good understanding by the department heads of expected procedures, some of the department heads may not be informing the chief accountant of inventory variances or damage to inventory received from the manufacturer or supplier. The agency may not be receiving credit for these items if accounting is not properly informed. Approximately \$1 million was spent on consumable

inventory in fiscal year 1995. Consumable inventory includes office supplies, research supplies, chemicals and gases, and computer parts.

Recommendations:

- Documented procedures should be prepared to address the recording of invoices paid and the reconciliation of agency records to System transaction reports.
- Policies and procedures for consumable inventory should be formally documented to address such things as the monitoring of stock and reorder points and notifying the chief accountant of inventory variances and damage to inventory received.

Management's Response:

Procedures regarding recording of invoices and inventories have been documented.

Section 5:

Human Resource Management Controls Are Adequate

Generally, procedures are designed to effectively recruit and select employees, ensure that employees have the skills to do their job, evaluate employees' performance, and properly document personnel actions. Two areas were noted where improvements can be made.

Professional staff with a Degree in Veterinary Medicine do not fully understand continuing education requirements. The requirement to retain their licenses is 15 hours of continuing education per year. Staff are to report to the State Board of Veterinary Medical Examiners the number of continuing education hours taken each year. In addition, staff are not fully aware of an agency requirement to record all training via a Human Resource Development Record.

The agency is in the process of converting all of its job descriptions into the standard Texas A&M University System format. The job descriptions are being developed jointly by management and employees. As management proceeds with the process of defining job descriptions, it should be clearly linked to the employee performance appraisal process.

Recommendations:

Professional staff should be fully informed of continuing education requirements and agency requirements to record all training via a Human Resource Development Record.

As management proceeds with the process of defining job descriptions, it should be clearly linked to the employee performance appraisal process. Job dimensions and performance criteria should be clearly defined and communicated to all staff.

Management's Response:

All employees have again been reminded via a written memo (12/20/95) of the CE requirements. All employees are to keep in their files a Human Resource Development Record.

Updating of job descriptions will be completed by 3/1/96. Job descriptions will be a part of the annual evaluation process.

Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of management processes and control systems within the Texas Veterinary Medical Diagnostic Laboratory. The scope of the audit included consideration of the agency's:

- strategic planning
- organizational structure
- management information systems
- human resource management
- financial control systems
- performance measures

Agency financial data was analyzed, and relevant reports and documentation were reviewed. Conventional audit procedures were applied to collect information, including interviews with management and staff of the agency and a telephone survey of customers of the agency. Audit testing and analysis included control review, trend analysis of expenditures and performance statistics, review of project and personnel files, and review of performance measures. No reportable conditions were found in the areas of strategic planning, organizational structure, and performance measures. Our work will not necessarily reveal all the agency's internal control weaknesses.

Fieldwork was conducted in conjunction with Texas A&M University System Internal Audit from June 1995 to September 1995. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

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

- Greg Adams, CPA (Project Manager)
- Jon Nelson, CISA (Co-Project Manager)
- Larry Vinyard, CPA, CIA (Quality Control Reviewer)
- Gilberto Mendoza, CPA (Team Leader)
- Debi Weyer (Team Leader)
- Rob Bollinger, CPA
- Robin Key, CPA
- Melody Lopez
- Linda Mullins, CCP
- Sin Leng Wong
- Catherine A. Smock, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Director)

Texas Animal Damage Control Service

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Texas Animal Damage Control Service

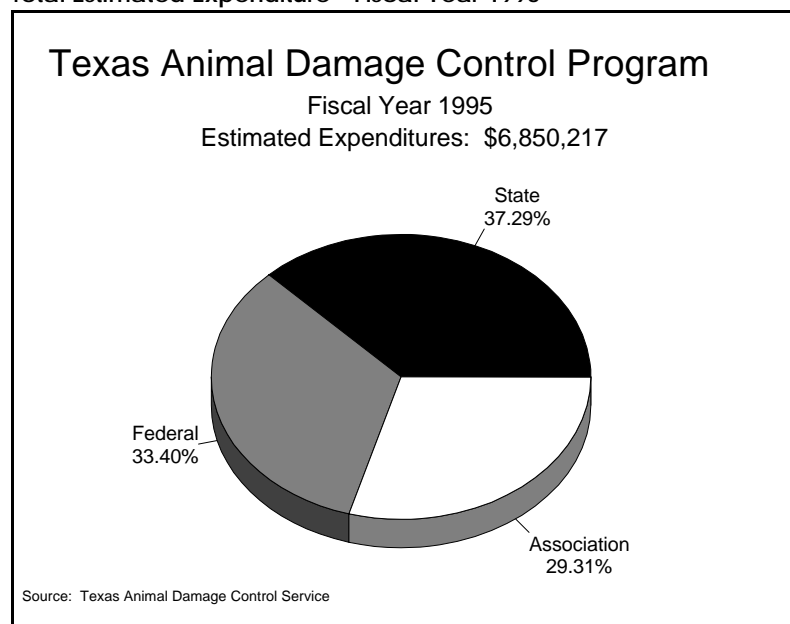
Texas A&M University System

Overall Management Controls Are Adequate

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

of the Service. The Director has overall program management responsibilities.

Figure 13
Total Estimated Expenditure - Fiscal Year 1995



Funding for the Texas Animal Damage Control Program consists of federal and private source monies leveraged by state-appropriated funds. Total estimated expenditures for fiscal year 1995 was \$6.85 million. See Figure 13.

The U.S. Department of Agriculture and the General Accounting Office have performed numerous reviews of the program over the past few years. An annual audit of the Association's financial report is done by an independent audit firm. We reviewed the following areas and did not have any significant findings to report.

- Information management - The Service uses a system developed by the Federal Government, which captures an extensive array of information.
- Human resource management - The Service follows policies and procedures developed by the Texas Agricultural Extension Service. Processes are in place to ensure that employees have the skills to do their job, know what their job is, are trained so that they can do their job effectively, and are evaluated on their performance.
- Cash and revenue management - Salaries and employee benefits comprise over 75 percent of state appropriations, and travel comprises over 13 percent.
- Fixed assets management - Fixed assets were valued at approximately \$577,000 at June 1994.

Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of management processes and control systems over state resources within the Texas Animal Damage Control Service. The scope of the audit included consideration of the Service's:

- strategic planning
- organizational structure
- management information systems
- human resource management
- financial control systems
- program evaluation process

Agency financial data was analyzed, and relevant reports and documentation were reviewed. Conventional audit procedures were applied to collect information, including interviews with management and staff of the agency and of the Texas Agricultural Extension Service. Audit testing and analysis included control review, trend analysis of expenditures, review of federal program evaluations, and review of the most recent independent audit of the Texas Animal Damage Control Association. This work will not necessarily reveal all internal control weaknesses at the agency.

Fieldwork was conducted from July 1995 to October 1995. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

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

- Greg Adams, CPA (Project Manager)
- Jon Nelson, CISA (Co-Project Manager)
- Larry Vinyard, CPA, CIA (Quality Control Reviewer)
- Gilberto Mendoza, CPA (Team Leader)
- Rob Bollinger, CPA
- Catherine A. Smock, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Director)

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Texas Engineering Experiment Station

Texas A&M University System

Overall Assessment

The Texas Engineering Experiment Station should improve some key management controls related to the quality of financial information, grant administration, and customer service. The Experiment Station's ability to accomplish its mission is affected by its management control systems and processes. Weaknesses in key control systems expose the Experiment Station to ineffective and inefficient operations.

Section 1:

Financial Reports Should Accurately Reflect Experiment Station Finances

The Experiment Station's annual financial report does not give readers an accurate and complete understanding of Experiment Station finances. Top level executives and Board members need useful, accurate, and timely information about overall financial performance. Otherwise, incorrect or inappropriate decisions may be made affecting the future performance of the Experiment Station.

The Experiment Station's account structure, which determines how data is summarized in the annual financial report, is not controlled by the Experiment Station's Controller. The initial account set-up and other changes to the Experiment Station's account structure are controlled by employees in the Project Administration Department. However, the Controller is responsible for the accuracy of the Experiment Station's accounting data and financial reports.

Section 1-A:

Service Department Operations Were Incorrectly Consolidated

The Experiment Station combined the results of 37 separate service operations into a single service division and 30 other service operations as another service division in the fiscal year 1995 annual financial report. This is not in compliance with the State Comptroller's financial reporting requirements for Designated Funds. Furthermore, consolidation of the service operations does not allow a reader to know the finances of individual service operations. These two service divisions had a combined fund balance of approximately \$2.2 million and revenue and expenditures over \$2.4 million. However, one of the service operations had losses over \$300,000, while two others had net incomes over \$100,000.

The Comptroller of Public Accounts' *Annual Financial Reporting Requirements for Colleges and Universities* presents an authoritative example of a financial statement with all designated fund activities broken out separately. In contrast to the Experiment

Station, Texas A&M University's financial statement presents this data properly, detailing the results of 69 designated fund operations.

Section 1-B:

The Thermodynamics Research Center's Finances Were Reported Incorrectly

The Thermodynamics Research Center's income of \$369,000 was incorrectly reported as Restricted Funds instead of Designated Funds in the fiscal year 1995 annual financial report. Thus, the Designated Funds service department income was understated by 7.2 percent.

Recommendations:

The Experiment Station should strengthen controls over its financial statement preparation and correct errors in its annual financial report. Specifically, the Experiment Station should:

- ensure that the Controller has approval authority for significant changes to the Experiment Station's account structure
- follow the Comptroller of Public Accounts' reporting requirements for Designated Funds and report the results of each active service operation separately
- report the Thermodynamics Research Center income as Designated Funds instead of Restricted Funds

Management's Response:

TEES will continue to strengthen its management controls over the Annual Financial Report. The Thermodynamics Research Center account was classified inappropriately and TEES initiated this correction in September of 1994. This office agrees it would be helpful to users of the Annual Financial Report to have all service departments reflected as line items on the statement. Of the ten (10) service divisions in TEES, only eight (8) currently are reflected separately on the Annual Financial Report. Efforts will be made to restructure the remaining service divisions into separate accounts. In regard to the inclusion of the Controller in any account structure modification, TEES will require an additional approving authority of the Comptroller as well as continue the current practice of requiring the signature of the Chief Financial Officer.

Section 2:

Management Can Achieve Salary Savings by Reorganizing the Contract and Grants Administration Function

The Experiment Station’s contract and grants administration function costs more than similar functions at two peer institutions. By consolidating five departments and reducing the number of directors and assistant directors, the Experiment Station could save up to \$375,000 per year.

The current organizational structure does not effectively group similar tasks within the same department or section. Instead, contract and grant administration is done by five separate departments and the Experiment Station’s Fiscal Office. An examination of current employee job descriptions revealed that these six departments duplicate some work.

Each of the five contract and grants departments are lead by a director who earns

between \$55,000 and \$72,120 per year.

All but one of the departments also have one assistant director earning between \$37,116 and \$52,577 per year. As seen in Figure 14, the Experiment Station has significantly higher salary expenses than two institutions, Texas Tech University and the University of Houston.

Additionally, the Experiment Station has a high number of management in relation to staff.

Management has stated that only \$573,000 in salary expense should be used in an analysis against other institutions. While

Figure 14

	Texas Engineering Experiment Station	Texas Tech University	The University of Houston
Management salaries	\$ 510,373	\$ 101,270	\$ 193,567
Number of managers	9	2	3
Staff salaries	\$ 746,211	\$ 274,552	\$ 528,931
Number of staff	26	12.65	22
Total salaries	\$ 1,256,584	\$ 375,822	\$ 722,498

Figure 15

	Texas Engineering Experiment Station	Texas Tech University	The University of Houston
Contract and grant revenue (in millions)	\$ 35	\$ 33	\$ 58
Contract and grant revenue per total salary	\$ 61	\$ 85	\$ 81
Research expenditures (in millions)	\$ 35	\$ 23	\$ 38
Research expenditures per total salary	\$ 61	\$ 58	\$ 52

no work was done to verify management's assertion, use of the \$573,000 figure reveals that the Experiment Station has the lowest return per total salary of the three institutions. (See Figure 15.) Texas Tech University and the University of Houston receive at least 30 percent more contract and grant revenue per salary dollar than the Experiment Station.

Recommendations:

The Experiment Station should examine its contract and grant administration to determine whether it is efficiently and economically run. Specifically, the Experiment Station should:

- Reorganize its contracts and grants administration function by combining like functions. One option would be to combine the five departments into a single department. The number of directors and assistant directors should be reduced. If the Experiment Station needs the same number of employees, replacing directors and assistant directors with supervisors and staff will still provide significant salary savings.
- Reevaluate its contract and grant administration activities. Management should determine whether all duties currently performed are necessary. Management should also reevaluate whether the level of activity at which these duties is performed is necessary.
- Study whether it can more economically outsource some functions to other Texas A&M University System parts or the private sector. For example, the Experiment Station currently spends \$119,785 per year for a Federal Compliance Department. The Texas A&M Research Foundation also monitors federal compliance. The Experiment Station should investigate whether it can receive the necessary level of service at a significantly lower price by outsourcing this service.
- Routinely study all areas of its organizational structure and salary structure to see if similar savings are possible. The Experiment Station should compare its operations to other Texas A&M University System parts and other similar institutions.

Management's Response:

TEES will review combining the Office of Proposal Development and Grant Writing, TEES Research Services, TEES Contracts and Grants, TEES Project Administration, and our internal compliance office. These entities are currently organized based on their functions and contributions in support to the mission of this agency. TEES will review this recommendation to see if the benefits of such a combination would exceed

the costs of forfeiting functionality and common mission. A study will be made to see if title changes are in order in these areas to reduce the number of Directors and Assistant Directors.

TEES will make every effort to be more efficient and effective. This agency has a statewide mission to enhance, develop, and administer research and joint collaborations with other institutions. The costs of program development, grants writing, collaboration building, funding opportunities dissemination, capabilities indexing and mapping are considered investments by TEES, investments in the research future of TEES and the State. TEES leverages its resources by investing in these activities in order to generate a large return of external funding. Current leveraging ratios show that the TEES investment is proving to be effective as TEES now produces \$70 million dollar volume based on a \$7 million investment to TEES of State dollars. Comparing the cost of state agency administration to an office of sponsored research located within a university is an “apples to oranges” comparison. Of the five departments classified by the audit staff as “contracts and grants administration,” only the Contracts and Grants Office, 40% of the Project Administration Office and 80% of the Research Services are assigned duties associated with traditional proposal preparation, contract negotiation, and sponsored project administration. Costs for duties associated with purchasing, legislative budget board reports, HUB reporting, administration of state appropriated dollars, short courses and conferences, and other agency duties are included in the TEES numbers and not in the numbers for the other institutions. The \$1.2 million in salaries within TEES should not appear on this report unless the salaries of Texas Tech University and the University of Houston are to be likewise adjusted to include central administrative duties such as purchasing, Legislative Budget Board reporting of institutional data, HUB reporting, and income services.

Salaries of TEES employees are currently benchmarked with UT, TAMU, and surveys provided by the College and University Personnel Association. Analyses of individual salaries show us to be in line with our peers. UT [The University of Texas at Austin] and TAMU [Texas A&M University] individual salaries exceed those of TEES equivalents.

<i>(UT)</i>	<i>Director of Sponsored Projects</i>	<i>\$77K</i>
<i>(UT)</i>	<i>Associate Director of Sponsored Project</i>	<i>\$69K</i>
<i>(A&M)</i>	<i>Director of Research Adm Services</i>	<i>\$80K</i>
<i>(A&M)</i>	<i>Director of Research Management</i>	<i>\$59K</i>
<i>(TEES)</i>	<i>Director of Research Services</i>	<i>\$70K</i>
<i>(TEES)</i>	<i>Director of Contracts and Grants</i>	<i>\$55K</i>
<i>(TEES)</i>	<i>Director of Projects Administration</i>	<i>\$64K</i>

TEES will continue to make every effort to compare salary data as published in the College and University Personnel Association for institutions of equivalent size and complexity.

TEES will study the possibility of outsourcing services such as federal compliance which serves as our agency internal audit. Previous studies have shown the Research Foundation to be considerably more expensive to the State than in-house services, but TEES will restudy this issue to see if benefit can now be realized from such an arrangement.

Auditor Follow-Up Comment:

Based on our analysis, we believe there are opportunities for cost savings in the Experiment Station's contract and grants administration function. We do not believe it is an "apples to oranges" comparison to compare the Experiment Station's contract and grants administration to an institution's office of sponsored research. We believe these two departments provide comparable services. We recognize that our analysis was limited to a high-level review of the Experiment Station's organizational efficiency and that there may be other factors that need to be considered and evaluated. For that reason, we have recommended that the Experiment Station perform a more thorough and detailed evaluation and study of its contract and grant administration function to determine whether it is operating as efficiently as possible.

Section 3:

Management Should Improve Customer Satisfaction

The Experiment Station gives its customers a high quality research product which has enabled it to grow in recent years.

- Eleven sponsors surveyed by the State Auditor's Office did not mention any problems with the quality of Experiment Station research. Six of the 11 sponsors specifically noted that research results ranged from good to excellent.
- The Experiment Station's reported grant revenues have grown from \$26.9 million in 1992 to \$32.4 million in 1995. The Experiment Station received \$14.0 million in support from 130 industries nationwide in fiscal year 1994.
- The Experiment Station is the lead agency for a \$4.8 million National Science Foundation Texas Alliance for Minority Participation Program which is designed to increase minority degrees in math, science, and engineering.

However, customer service deficiencies in some Experiment Station projects present a risk to future growth. The Experiment Station's mission is to perform engineering and technology-based research and development. The results of Experiment Station

research are to enhance the education and economic development in Texas and the nation. In fiscal year 1995, the Experiment Station reported that it had 1,895 research projects. Management should take steps to improve the Experiment Station's customer service to avoid loss of business or customers' withholding of funds.

Section 3-A:

Key Customers Are Dissatisfied

Although it appears the Experiment Station meets most deliverable deadlines, those instances in which deadlines are missed have caused sponsors to act against the Experiment Station. Sponsor actions include withholding payments and future grants until all deliverables are submitted. Nine of the 11 sponsors contacted during the survey performed by the State Auditor's Office indicated that they had no current problems with the timeliness of deliverables. However, two dissatisfied customers, the United States Department of Agriculture and NASA Lewis Research Center, stated they would withhold future business from the Experiment Station until overdue deliverables are submitted.

Section 3-B:

Researchers Are Not Held Accountable for Grant Compliance

The Experiment Station does not have adequate controls to hold researchers accountable for not fulfilling grant requirements. The Texas Higher Education Coordinating Board may not award future grants to certain Experiment Station researchers. The Coordinating Board has awarded multiple grants to the Experiment Station as part of its Advanced Research Program and Advanced Technology Program. However, the Experiment Station has a history of failing to satisfy reporting requirements. A July 1995 list of 27 Coordinating Board grant recipients who were ineligible to receive new grants showed that Experiment Station researchers made up the largest (11 of 27) number because of overdue reports from previous grants. The two research organizations with the next largest group of ineligible researchers had three ineligible researchers each.

The Experiment Station's Contracts and Grants Office, Project Administration Office, and Federal Compliance Office are responsible for monitoring compliance with grant provisions and available funding. Each of these offices produces records documenting instances of noncompliance, but almost none of these records is retained. The only records which are retained are those documenting late release of a project's final deliverable. Documentation which affects other projects' funding or projects which incurred funding deficits are not maintained. Furthermore, records which document ineffective staff performance are not used by management for performance appraisals. Performance appraisals are tools to improve employee performance and serve as a basis for employment actions.

Recommendations:

The Experiment Station should improve customer service and decrease the risk of future business loss. Controls should be in place to ensure the timely delivery of project results. Management should work with customers to resolve problems before customers withhold funding or future business.

Monitoring of grant compliance should be improved. The Experiment Station should monitor reporting requirements, compliance with grant provisions, and funding. Documentation should be prepared and retained to assist the monitoring function. Instances of noncompliance should be quickly resolved. This information should be further used to evaluate researchers' performance. Researchers who repeatedly fail to meet grant requirements should be held accountable and receive the appropriate employment action.

Reorganization of the contracts and grants function (as discussed in Section 2) should allow more effective monitoring of projects' grant compliance. Monitoring can be more effective because one department would be responsible for monitoring, instead of three.

Management's Response:

TEES will continue its efforts to improve the timeliness of report submissions to the THECB [Texas Higher Education Coordinating Board] as well as to other sponsors. TEES agrees that improvements can be made in monitoring report deliverables and in the enforcement of these requirements on researchers. TEES will make efforts to increase the aggressiveness of report collection in the Contracts and Grants Office to reduce the number of compliance issues after project completion. The current tracking system will be enhanced to collect data on the performance of the individual Principal Investigators in meeting deliverable commitments.

Section 4:

Improvements Are Needed in Human Resource Management

Approximately 52 percent of the Experiment Station's \$45.8 million in total 1995 current funds expenditures were spent on employee salaries and wages. Since these figures represent such a large percentage of the Experiment Station's overall expenditures, management of human resources is critical for continued success. The Experiment Station's workforce was approximately 400 at August 31, 1995, involved in conducting multi-disciplinary engineering research at various locations throughout the state.

Management of the Human Resource function is handled in-house by the Experiment Station's Personnel Services Office. In order for the Experiment Station to carry out

its mission effectively and efficiently there are several areas outlined below in which improvements should be made.

Section 4-A:

Applicant Tracking Logs Should Be Prepared for All Positions

A review of ten positions filled in fiscal year 1995 revealed that applicant tracking logs existed for only eight of the positions. The primary purpose of an applicant tracking log is to provide adequate support to document a hiring decision. Without adequate support, the Experiment Station may be unable to explain or defend its hiring decisions should it be challenged in a discrimination complaint. In addition, federal law mandates that hiring records be retained for a period of two years from the date of hire.

Recommendation:

Applicant tracking logs should be prepared for all positions for which the Experiment Station hires. These logs should document decisions made during the hiring process, including the criteria used to evaluate an applicant's experience and education. The logs should also document which applicants were selected for subsequent interviews and how the final hiring decision was made.

Management's Response:

TEES assumed the responsibility for employment services on March 1, 1995. A transmittal to all divisions established the new employment procedures which included completing an applicant tracking log for each vacancy. Prior to March 1, 1995, employment services were purchased from TAMU Human Resources office and the applicant tracking data was provided by that office. Of the two positions on which applicant tracking logs were not completed, one was filled prior to March 1, 1995 and one was filled a few months after that date.

TEES has implemented an automated system to track vacancy information including the applicant tracking logs. That system identifies any closed vacancy on which an applicant tracking log has not been received and will provide a report to facilitate follow up. In addition, the system generates an informational letter with each new vacancy. That letter, which is sent to the hiring supervisor, provides information on the employment procedures including the requirement to complete an applicant tracking log. A blank applicant tracking log form, preprinted with pertinent information from the specific vacancy, is attached to the letter.

Training on the applicant tracking log was conducted on August 2, 1995 to representatives from each TEES division. This training will be conducted annually.

Section 4-B:

Employee Performance Appraisal Timeliness Should Be Improved

As of June 1995, 30 percent of academic division employees and 20 percent of research center employees had not received timely annual performance appraisals. Experiment Station procedures require all employees to receive annual performance appraisals.

Recommendation:

Management should implement controls to ensure that all employees receive timely performance appraisals.

Management's Response:

On January 27, 1995, TEES distributed a memorandum to all divisions explaining the procedure for annual performance appraisals. That transmittal also included a new, more progressive appraisal instrument. That the memorandum and the new instrument was effective in not only publicizing the requirement for annual performance appraisals, but also for heightening awareness as to the need and usefulness of performance appraisals. Similar memoranda will be issued annually. The performance appraisal procedure calls for divisions to report to TEES Personnel Services when appraisals have been completed. Internal procedure also calls for TEES Personnel Services to identify any divisions not completing performance appraisals and to report those divisions to upper level administration. TEES Personnel Services has implemented an automated system to better track performance appraisals on employees.

Section 4-C:

The Experiment Station Should Continue Efforts To Diversify

The Experiment Station has made a commitment to diversify its workforce. The Experiment Station, as a whole, has met its 1995 Affirmative Action targets. However, it has not met targets for five job groups: executive and administrative officers, communications professional staff, Automated Data Processing professional staff, research professionals, and general skilled support technicians.

Recommendation:

The Experiment Station should continue its efforts to meet all goals of its Affirmative Action Plan.

Management's Response:

TEES will continue its efforts to diversify in the areas especially those indicated in the audit report.

Section 4-D:

Researchers Need Training in Using Experiment Station Financial Reports

Interviews with seven Experiment Station researchers revealed that some researchers need training in understanding project expenditure reports. Researchers' comments indicated a lack of understanding of the source and timing of report information. The researchers also complained that the reports, which contain important accounting information, are not user friendly. Researchers should be trained to effectively use all project management tools necessary to manage projects successfully.

Recommendation:

Management should train researchers to use all necessary reports effectively.

Management's Response:

TEES management will invest the time and effort in training researchers to use all necessary reports more effectively.

Section 5:

Management Should Ensure Protection of Fixed Assets

Interviews with three of the Experiment Station's 11 division heads revealed that inventory tags are not affixed onto equipment within the three days required by Experiment Station procedures. Equipment may not be tagged for one to three weeks. Tagging assets within the time frame required by the Experiment Station reduces the risk of theft or loss. Tagged assets are easier to identify if found or recovered.

Because equipment represents a significant portion of the Experiment Station's total assets, it is imperative that proper controls exist to locate and safeguard these assets from loss, theft, and unauthorized use. Equipment represented approximately 55 percent (37.4 million) of the Experiment Station's total assets of \$68.3 million as of August 31, 1995.

Recommendation:

Management should implement controls to ensure that all equipment is tagged within three days of arrival.

Management's Response:

The TEES Property Office will make efforts to implement controls to assure that equipment is tagged timely and in accordance with TEES procedures.

Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of management processes and control systems within the Texas Engineering Experiment Station. The scope of the audit included consideration of the agency's:

- strategic planning
- organizational structure
- management information systems
- human resource management
- financial control systems
- performance measures

Agency financial data was analyzed, and relevant reports and documentation were reviewed. Conventional audit procedures were applied to collect information, including interviews with management and staff of the agency. Audit testing and analysis included control review, trend analysis of expenditures and performance statistics, review of project and personnel files, and review of performance measures. No reportable conditions were found in the areas of strategic planning, cash, automation, and performance measures. Our work will not necessarily reveal all the agency's internal control weaknesses.

Fieldwork was conducted from May 1995 to December 1995. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

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

- Greg Adams, CPA (Project Manager)
- Jon Nelson, CISA (Co-Project Manager)
- Larry Vinyard, CPA, CIA (Quality Control Reviewer)
- Scotty Killingsworth, CIA (Team Leader)
- Terry Holderman (Team Leader)
- Arthur Arispe
- Rob Bollinger, CPA
- Curtis Caraway
- Tony Claire
- Lucian Hughes
- Shawnte Williams
- Catherine A. Smock, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Director)

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Texas Engineering Extension Service

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Texas Engineering Extension Service

Texas A&M University System

Overall Assessment

Overall, management controls are adequate at the Texas Engineering Extension Service. The Extension Service was created to provide vocational and technical training on an extension basis to the citizens of Texas. In 1994, the Extension Service conducted 5,899 classes in which 120,104 students were trained. During that same year, the Extension Service assisted 1,392 municipalities and state agencies and worked with more than 3,600 companies.

The Extension Service's ability to accomplish its mission is affected by its management control systems and processes. While management controls are generally adequate, there are some opportunities for improvement.

Section 1:

Management Should Continue Implementation Of Total Quality Management

The Extension Service's management has adopted a total quality management philosophy. Total quality is a strategy for managing the entire agency with customer expectations in mind. Management's total quality philosophy can be seen throughout the Extension Service's operations.

Section 1-A:

Course Development is a Cooperative Effort Between the Extension Service and its Customers

The Extension Service develops courses based on direct input from its customers. Its 13 divisions offer training in areas including construction equipment and public works and water and wastewater. Courses are primarily in the field of health and safety. The demand for these courses is mainly created by the Extension Service's customers' need to meet both federal and state regulatory requirements. Using direct customer input is beneficial to both the customer and the Extension Service. Customers receive custom-tailored training. The Extension Service receives customer input on industry-specific market data and curriculum development. Many times, the Extension Service receives donated assets for use as training aids. Occasionally, customers serve as guest instructors on a volunteer basis.

Section 1-B:

Management is Seeking Improvement by Continuously Analyzing Agency Operations

The Extension Service is committed to consistently meet or exceed both internal and external customer expectations. Management seeks to improve Extension Service performance by seeking more effective ways to monitor agency operations. Management has also developed a system of teamwork within the Extension Service to continuously seek ways to improve agency operations.

The Extension Service is continuously seeking ways to develop and use information to improve agency performance. Senior management is currently developing key measures to aid in evaluating agency performance on a monthly basis. Reports are being developed which include trends, graphs, ratios, and an analysis of division performance within regions.

The Extension Service has developed a new information system for its 13 autonomous divisions. The Extension Service brought its new Information Gathering and Reporting System (TIGRS) on line in September 1995. TIGRS captures class and student record information for all divisions and will provide additional market data. Information on TIGRS will help management monitor agency performance and make informed decisions.

Several efforts are underway to improve internal systems and address internal customer satisfaction. A partnership of upper management, division heads, division operations managers, regional center managers, and the staff accountant has recently performed reviews of internal processes. In addition, employee evaluations of Extension Service divisions are being conducted to assess the level of internal customer satisfaction.

Recommendations:

We recommend that the Extension Service continue to seek ways to improve its gathering and analysis of data to improve its ability to make informed management decisions. Management should continue its partnering efforts within the Extension Service to find ways to improve service delivery.

Management's Response:

The very nature of our business requires that we continuously seek new means and approaches to gather information associated with the management of our Agency. In September of 1995, we assigned personnel to the Deputy Agency Director to develop new methods of measuring performance. The outcome of this initiative will be a standardized program analysis method and reporting vehicle. To date, one analysis is

complete and four are in process. These reports are used by management to evaluate performance and determine corrective actions if warranted by the review information. Estimated implementation date: August 1996.

Section 1-C:

Most Students Are Satisfied with Extension Service Classes

An analysis of results of student course evaluations from 20 courses revealed that the Extension Service's students were generally satisfied with Extension Service courses. Approximately 87 percent of the students gave the courses and instructors above average ratings. No areas of high customer dissatisfaction were noted during the course evaluations.

Section 1-D:

Management Can Improve its Use of Customer Satisfaction Data

Management does not receive sufficient customer satisfaction information to make some decisions effectively. Making effective decisions based on customer satisfaction data is hampered because the Extension Service has no effective system to capture and analyze this data.

The Extension Service's management information systems focus on financial information and student/class information. However, the Extension Service does not comprehensively capture available customer satisfaction information. Currently, management monitors customer satisfaction by informal means and first-hand feedback. An internal Measuring Customer Satisfaction Team found that the Extension Service has few formal measuring systems for measuring customer satisfaction. The Extension Service currently receives student course evaluations for individual classes. However, the results of these surveys are not summarized and analyzed by executive management.

Management's total quality philosophy requires moving beyond financial measures to measure all processes that affect customer satisfaction. According to the Malcolm Baldrige National Quality Award criteria on customer satisfaction, an effective customer satisfaction measurement system is one that provides information about the relationship between customer ratings of services and their likely market behaviors. The fact that the Extension Service is primarily funded through self-generated income from courses makes having adequate management information systems to monitor customer satisfaction essential.

Recommendations:

Management should create a central source of competitive information on customer satisfaction broken down by services, customers, or market segments. Additionally there should be a centralized data base of customer satisfaction data accessible to all users. A customer satisfaction data base would enable management to effectively analyze data gathered. Analysis of both above and below average ratings could be built into the system. Key measurement standards across every division (for example, the effect of training on the customer's job) could be established for benchmarking. The Fire Protection and Transportation Training Divisions have begun to capture some student course evaluation results in data bases. Their initiatives should be built upon.

Management's Response:

The agency completed a year long study on the practice of effectively gathering and using customer satisfaction data. The Measuring Customer Satisfaction Team reviewed internal practices and benchmarked external industry initiatives and successes. The agency will use the information gathered from this project to develop and implement new methods of capturing and reviewing customer satisfaction. The feasibility of a centralized data base is being considered. Estimated implementation date: December 1996.

Section 2:

Management Should Improve Some Analytical Tools

Although management is consistently seeking new ways to evaluate the agency, management needs to improve some systems used to analyze agency performance.

Section 2-A:

The Extension Service's Financial System is Inadequate for Use As a Management Tool

The Extension Service's financial system is a batch system and is not as effective as an on-line, real-time system for use as a management tool. Reports from the system are on a monthly basis and are not user friendly. The system cannot do projections and trend analysis. The system also cannot currently calculate the cost of individual classes or the classes' profitability. The Extension Service's management has recognized the inadequacies and are implementing plans to upgrade the system. Planned upgrades include:

- a PC-based, Windows application that is user friendly
- real-time processing

- standard reports with the ability to set parameters
- a system of simple trend charts with established goals

Recommendation:

Management should continue with its planned upgrades to the financial information system in an expedient manner.

Management's Response:

TEEX recognized the need to upgrade its financial system, however due to the uncertainty of a FAMIS implementation date, investments in the TEEX financial system were deemed impractical. Due to rapid growth in operations, the agency is presently updating its information resource strategy and will use this information in conjunction with the results from the Internal Services Team financial process analysis to develop and implement the management information system upgrades. The project will consist of several phased improvements rather than a single upgrade, due to resource limitations. The entire process is expected to take two years to adequately analyze the present system, develop the design and performance parameters, design the system, install a pilot program for test and evaluation, and implement agency wide. In the meantime, several enhancements of the present system are being developed that will improve financial system performance until the new system is available. This project time line is heavily dependent on the availability of funding and skilled personnel. Estimated implementation date: December 1997.

Section 2-B:

Management Plans To Analyze Utilization of Regional Training Center Space

A formal system for ongoing space utilization analysis for the Extension Service's four training centers has not been established. One of the four training center managers contacted specifically stated that his center is not being used optimally. The training centers had expenditures ranging from \$172,000 - \$480,000 in fiscal year 1995. Management has identified the need for performing space utilization analysis. Management has plans to implement a Regional Extension Center Concept which has defined performance metrics including three space utility measures.

Recommendation:

Management should implement the Regional Extension Center Concept in a timely manner.

Management's Response:

We concur and are currently in process of implementing the Regional Extension Center Concept. Current efforts include the establishment of a Regional Center Advisory Board. This Board made their first presentation to division heads on December 8, 1995. Input was solicited on performance metrics, program development and Center operations support. A proposed set of metrics to measure performance will be developed from the information received from division heads and submitted to the Director for approval. We will continue our efforts to formalize the current plan. Estimated implementation date: June 1996.

Section 3:

Management Should Strengthen Controls Over Revenue Collection

The Extension Service needs to improve its controls over revenue collection because it is primarily funded through fees, contracts, and other income. More than 86 percent (\$28.8 million) of the Extension Service's \$33.4 million total fiscal year 1994 current fund revenues came from tuition revenues, grants, and contracts. Given its revenue sources, proper controls are essential to ensure that all revenue earned is collected and to reduce the risk of fraud/abuse associated with cash handling.

Section 3-A:

Cash Receipt And Accounting Duties Aren't Properly Segregated

The Extension Service has not instituted effective internal controls over cash receipts which increases the risk of fraud or abuse. The accounts receivable clerk opens all checks received in the mail at Extension Service headquarters. These checks are usually payments on accounts receivable. This same clerk also does all data entry to the general ledger. Proper controls over cash require segregation of cash handling and recording duties.

Recommendations:

Handling cash receipts and accounting for accounts receivable should be performed by at least two individuals. The Extension Service should consider a lock-box operation if proper segregation of duties is not possible due to staff size.

Management's Response:

The duties of handling cash receipts and accounting for accounts receivable have been segregated. A person independent of the accounting function now opens the mail. Compensating controls exist to lower risk. The Extension Service will obtain

information from the System bank to consider the use of a lock-box operation. The decision to implement will be based on cost-benefit.

Section 3-B:

Adequate Controls Are Not in Place to Ensure Collection of All Tuition Revenue

The Extension Service does not have adequate controls in place to ensure all tuition revenue is collected. In fiscal year 1995, the Extension Service collected \$17 million in tuition revenue. Certificates issued to customers for course completion are not prenumbered. Certificates are not reconciled to tuition revenue.

Prenumbered certificates serve as a control to ensure all revenue earned has been received. Prenumbering would also be a control to account for all certificates thereby eliminating the possibility of falsifying certificates. If course certificates are not issued, class rosters could serve as a control.

Recommendations:

The Extension Service should prenumber its course certificates. The prenumbered certificates and/or class rosters should be reconciled to the revenue received.

Management's Response:

Class rosters are currently reconciled to the revenue received. The agency will establish security over certificates through numeric controls. Estimated implementation date: September, 1996.

Section 3-C:

Credit Extension Policies Can Be Strengthened

Management's current credit policies increase the risk of not collecting all Extension Service revenue. Currently, the Extension Service extends additional credit to customers who have past due balances. The Extension Service also does not have a formal policy for credit management which requires consideration of payment histories or balances past due. System Policy APRM C.5 requires that consideration of credit abuse and previous payment history be factors considered when granting credit.

Recommendations:

Management should institute effective credit policies that also meet Texas A&M University System requirements. The Extension Service should require payment prior to rendering services for customers with bad credit records. This policy change will reduce the number of past due accounts and the staff resources required to collect payment.

Management's Response:

We concur. Efforts are underway to ensure consideration of past credit history when extending credit. The feasibility of interfacing the accounts receivable/invoicing system with the TEEX registration system will be considered. Until this computer system is fully implemented, TEEX will increase the level of monitoring in order to minimize the level of risk. Advance registration payments are encouraged. Estimated implementation date: December, 1997.

Section 4:

Management Controls Over Human Resources Should Be Improved

Because approximately 46 percent (\$12.9 million) of the Extension Service's \$27.9 million in total fiscal year 1994 current funds expenditures were spent on employee salaries and wages, effective human resource management controls are essential. The Extension Service has 406 instructors and support personnel conducting training programs through 13 divisions, 5 regional training centers, and 8 area offices. Classes are conducted across Texas and around the world. Since these figures represent such a large percentage of the Extension Service's overall expenditures, proper management of the entire human resources area is critical for continued success.

The Extension Service's human resource function is handled in-house by the Assistant Director of Human Resources and a limited support staff. Areas for improvement were identified, some of which are being addressed by management

Section 4-A:

The Extension Service Is Developing a Formal Training Program

The Extension Service does not have a formal training program for its own employees despite the fact that the Extension Service's primary function is providing training for the public and private sectors. A well-trained workforce is a necessity for any entity to carry out its mission efficiently and effectively. The Extension Service currently conducts new employee orientation, and there is some division-specific training. For the most part, employees must find their own training opportunities from outside sources.

The Extension Service's management has recognized the need to formalize a training program for employees. The Core Course and Professional Development Team conducted a survey to determine training needs. A formal training program is under development.

Recommendations:

Management should implement a formal training program with a budget sufficient to train all employees.

Management's Response:

The Agency is in the process of developing a formal employee training program through its Beyond Excellence initiatives. The basis for this program will be information gathered from the workforce over the last year by the Core Courses and Professional Development team. This process improvement team reviewed internal activity and benchmarked outside industry practices to develop recommendations for employee training. From the information gathered by the team, additional training will be formalized through Human Resources. Steps have already been made to add a training day in addition to New Employee Orientation. This training will be the Introduction to Total Quality Management. The Computer Services Team surveyed staff to determine computer training needs. The Deputy Director and Computer Systems Manager are working on a plan to address those computer training needs. Fiscal Workshops are conducted at least annually. Other programs are being reviewed. Estimated implementation date: December, 1997.

Section 4-B:

Management Should Improve Documentation of Hiring Decisions

The Extension Service's documentation of the recruitment and hiring process is fragmented with two separate files and is incomplete. The applicant log is not always completed. Without adequate support for its hiring decisions, the Extension Service may be unable to explain or defend its hiring decisions should it be challenged in a discrimination complaint.

Federal law (29 CFR 1602.49) mandates that hiring records be retained for a period of two years from the date of hire. These records should include all documentation which supports the decisions made during the interview process, including the criteria used to evaluate the applicant's experience and education. These records should also include documentation to support which applicants were selected for subsequent interviews and especially how the final hiring decision was made.

Recommendations:

The hiring process should be fully documented, including applicant logs, interview results, and criteria used to evaluate applicants. The Extension Service should maintain one file containing complete documentation of the recruitment and hiring process for each new position.

Management's Response:

Human resource staff implemented the recommendations made by the auditors during fieldwork. A new applicant log is now used for tracking purposes and one file is maintained for each position. Divisions are required to state reasons for not hiring applicants.

Section 4-C:

Management Is Not Documenting Progress Toward Achieving Affirmative Action Goals

The Extension Service is not achieving the hiring goals in its Affirmative Action Plan. The agency has recognized this problem area and has identified corrective action. However, progress toward achievement of corrective actions is not documented and could not be verified. The Extension Service Corrective Action Plan lists a summary of key activities and accomplishments in implementing the plan. A progress report is submitted to the Director quarterly. This quarterly report to the Director is currently not retained.

Recommendations:

The Extension Service should retain quarterly reports as evidence of corrective action initiated.

Management's Response:

Procedures have been established to retain a copy of the required report submitted to the Director.

Section 4-D:

Job Descriptions Are Not Current

Job descriptions are kept for each position. However, some job descriptions were not completely filled out, and some were not up to date. Job descriptions should be up to date, complete, and accurate for all positions within the agency.

Recommendations:

Management should update all job descriptions. Job descriptions should be updated as job duties change.

Management's Response:

The Assistant Agency Director for Human Resources has already taken steps to formalize the process of revising job descriptions. Job descriptions will now be revised at the same time as the annual employee evaluations are performed.

Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of management processes and control systems within the Texas Engineering Extension Service. The scope of the audit included consideration of the agency's:

- strategic planning
- organizational structure
- management information systems
- human resource management
- financial control systems
- performance measures

Agency financial data was analyzed, and relevant reports and documentation were reviewed. Conventional audit procedures were applied to collect information, including interviews with management and staff of the agency. Audit testing and analysis included control review, trend analysis of expenditures and performance statistics, review of project and personnel files, and review of performance measures. No reportable conditions were found in the areas of strategic planning, organizational structure, and performance measures. However, our work will not necessarily reveal all the agency's internal control weaknesses.

Fieldwork was conducted from June 1995 to November 1995. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

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

- Greg Adams, CPA (Project Manager)
- Jon Nelson, CISA (Co-Project Manager)
- Larry Vinyard, CPA, CIA (Quality Control Reviewer)
- Rob Bollinger, CPA
- Scotty Killingsworth, CIA (Team Leader)
- Robin Key, CPA (Team Leader)
- Dana Brown
- Curtis Caraway
- Tony Claire
- Kenneth Dike, CPA
- Ash Hamid
- Sin Leng Wong
- Catherine A. Smock, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Director)

Texas Transportation Institute

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Texas Transportation Institute

Texas A&M University System

Overall Assessment

Overall management controls are adequate at the Texas Transportation Institute. Currently, the Institute is financially sound. The Institute is the largest university-based transportation research agency in the United States. In 1994, the Institute had over \$20 million in grant and contract expenditures, which was almost two times more in research expenditures than the next largest university program. In addition, the Institute's contract expenditures have more than doubled in the past ten years.

The Institute's ability to accomplish its mission is affected by its management control systems and processes. While management controls are generally adequate, there are some opportunities for improvement.

Section 1:

Management Should Continue to Focus on Customer Service

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

Section 1-A:

The Agency Conducts Quality Scientific Research

Almost all customers contacted during the audit were satisfied with the quality of research performed for them by the Institute. Seven out of eight customers surveyed by the State Auditor's Office were very pleased with the research results received from the Institute. The customers included the TxDOT (which is the Institute's primary customer), the Federal Highway Administration, the Wyoming Department of Transportation, the United States Army Corps of Engineers, the Idaho Transportation Department, and three other governmental and private entities.

While customer satisfaction in the quality of research is high, the Institute should take actions to ensure continued success. Currently, the Institute does not send a letter of introduction to new customers nor does it periodically survey customers to determine their satisfaction with services. These actions are effective ways to maintain and improve customer service.

Recommendation:

Management should continue its efforts to provide quality research with a focus on customer service. Two ways to augment current activities would be for executive management to send letters of introduction to new clients and periodic customer satisfaction surveys to all customers.

Management's Response:

TTI concurs that providing high quality research with a focus on customer service is a key to the Institute's continued success. This is an ongoing process and one in which we continue to pursue new approaches. As an example, as part of our Continuous Improvement program, a process team is working with the Texas Department of Transportation to learn how our research services can be more responsive to TxDOT's needs.

TTI's director and other key administrators meet regularly, on both a formal and informal basis, with key sponsors to discuss the status of the research program and to ensure an understanding of and responsiveness to sponsor needs. In addition, Division Heads and Program Managers are responsible for assuring sponsor satisfaction on projects within their division or program.

The Institute is receptive to suggestions regarding the improvement of sponsor relationships. During FY 96, TTI will begin sending letters of introduction to all new sponsors. In addition, we will survey a sample of project directors (the sponsor representatives who directly oversee individual projects) to assess sponsor satisfaction with TTI's research program.

Section 1-B:

Timeliness of Deliverables Can Be Improved

While the Institute has been working to improve timeliness of deliverables, improvements can still be made. Six out of the eight customers surveyed were generally satisfied with the timeliness of deliverables. Deliverables include periodic status reports and final reports of research results. A Federal Highway Administration spokesperson complained that the Institute is often late with deliverables, and the Idaho Transportation Department was not satisfied with the timeliness of deliverables for two projects. However, the TxDOT representative noted that the Institute has shown considerable improvement from five years ago. The Institute submitted less than six percent of the fiscal year 1994 TxDOT projects after the due date. TxDOT projects are administered in-house while other projects are administered by the Texas A&M Research Foundation. The Institute's timeliness for projects administered by the Texas A&M Research Foundation is not as good as its record with TxDOT projects.

A sample of 20 projects administered by the Foundation revealed that six were delivered late for unacceptable reasons.

To assist in the monitoring of projects, improvements can be made in the documentation of project files. Documentation in project files was not always up-to-date and complete. A review of project files for TxDOT projects and projects sponsored through the Texas A&M Research Foundation showed that some deliverables were late, but in fact, were not. In many cases, the principal investigator made an agreement with the customer for extending deliverable deadlines but had not documented the agreement in the project file. In other cases, there were delays from the customers in confirming the receipt of deliverables.

Recommendation:

Management should continue its efforts to deliver 100 percent of research products on time. The Institute should keep documentation in its project files to support all agreed-upon changes to deliverable due dates and other pertinent events associated with its research projects, such as reasons for deliverable delays which were beyond its control, additional work requested by the sponsor, etc. This would significantly reduce paperwork and employees' time in resolving late deliverable questions.

Management's Response:

Timeliness of report submission is a reasonable expectation of a research sponsor. It is also very easy for the sponsor to determine and use as a measure of performance. As a result, TTI has placed great emphasis on improvement in this area and continues to do so. Division Heads are well aware that timely submission of reports is expected. In our meetings with sponsors, this is an area that we discuss frequently and seek their views on our performance.

TTI concurs with the State Auditors that this is an important issue. In FY 96, we will implement a TTI management database that will help us continue to improve in this area. This database will be accessible to all Principal Investigators, Program Managers, Division Heads, as well as TTI's administrative staff and will provide each with the ability to query and track the status of research projects. This will include information regarding deliverable requirements and deadlines. Our project files currently include documentation relative to all agreed-upon changes to deliverable due dates and we will continue to retain this information in the future.

Section 1-C:

Management Has Demonstrated a Proactive Approach to Important Issues

Management has been proactive in managing changes in its environment and dealing with problems. Some examples of management's proactive style include:

- Management monitors proposed changes in federal transportation policy and structure, as well as the activities of its primary sponsor, the Texas Department of Transportation (TxDOT). Recently, TxDOT has been placing emphasis on diversification of its research providers, which has increased competition for the Institute. Since the Institute relies heavily on external funding, management has focused on diversifying its funding base, seeking new federal, state, and private sources of funding. The Institute has been instrumental in bringing four national transportation centers to Texas. These centers involve joint ventures with The University of Texas at Austin, Texas Southern University, Prairie View A&M University, and Texas A&M International University. Two of the centers are funded with federal and state funds, and two other centers are funded with private monies.
- The Institute has recognized the need to develop a more diverse workforce by encouraging women and minorities to enter the field of transportation. It has addressed this issue by establishing regional divisions at Lamar University, Texas A&M University at Kingsville, Prairie View A&M University, and Texas Southern University. Additionally, management has designated 17 percent of the funds at the Intelligent Vehicle Highway Systems Research Center of Excellence for minority programs.
- When the Institute's management became aware of a problem concerning a contract with the Idaho Department of Transportation, it took a proactive approach by becoming immediately involved until a mutual resolution to the contract was obtained by both parties. To prevent future problems, management made changes to its organizational structure and management priorities and responsibilities.

Section 2:

Planning and Performance Measurement Can Be Improved

The Institute's strategic planning process is effective. However, the quality of operational planning varies from division to division. Most divisions do not prepare detailed operational plans. One exception is the Systems Planning division, which has a detailed, documented plan. There is no standard format nor content required for divisional operating plans. An effective operational plan should specify resources to be used, procedures and tasks to be performed, sequence of steps to be followed, individuals who will perform the tasks, timetables, and designated performance

measurements to gauge progress. It is imperative that these plans are well thought out, documented, and formalized to ensure that all research programs and divisions meet their research goals.

An extension of effective planning is the development of meaningful performance measures. The Institute's performance measures contain some useful information, but it is not the critical information used to run the agency. Management does not believe its current performance measures are the best indicators of agency performance. While creating meaningful performance measures for research programs is difficult, it is a necessary management tool.

Recommendations:

Management should require that all divisional operating plans be direct and formalized with a minimum level of detail and content. An effective operational plan should specify resources to be used, procedures and tasks to be performed, sequence of steps to be followed, individuals who will perform the tasks, timetables, and designated performance measurements to gauge progress.

Management should identify meaningful performance measures which provide an indication of the agency's performance. For example, measures could be defined to measure customer satisfaction in the quality and timeliness of services. (See Sections 1-A and 1-B.) Management should identify and consider performance measures used by similar entities. Furthermore, management should work closely with the Legislative Budget Board in this effort.

Management's Response:

TTI concurs that more emphasis on both operational and strategic planning is needed, and that the Institute's strategic plan should be a combination of "top down" guidance (agency goals, strategic objectives, performance measures) and "bottom up" input (divisional goals, objectives, performance measures). As a research agency which is highly dependent on external sponsors for the majority of its funding, all strategic plans and performance measures should maximize researcher flexibility and the ability to respond to new research opportunities.

General strategic planning direction comes from TTI's administrators. However, a Strategic Planning Process Team will be formed in FY 96 as part of the Continuous Improvement program. This team will be composed of researchers and senior administrative staff from TTI divisions and programs, and will be sponsored by the Associate Director for Planning and Resources. Among the team's proposed tasks will be a review of the agency's current plans (including division operational and strategic plans), and current State and System planning guidelines. The team's charge will be to develop planning guidelines for use by all divisions and units, and to create

a better understanding of the importance of planning among TTI staff and managers. Upon approval by management, the planning guidelines will be issued to all divisions and units of TTI.

In response to the second recommendation, TTI will identify meaningful performance measures and will seek approval from the Legislative Budget Board in March, 1996 for implementation in the next biennium.

Section 3:

Improvements Are Needed in Human Resource Management

Approximately 56 percent of the Institute's \$21.1 million in total 1994 current funds expenditures were spent on employee salaries and wages. Since these figures represent such a large percentage of the Institute's overall expenditures, management of human resources is critical for continued success. The Institute employs approximately 550 people, which includes over 250 graduate and undergraduate students, involved in conducting multi disciplinary transportation research at various locations throughout the State.

Management of the human resource function is handled in-house by a full-time Human Resource Officer and two support staff. In order for the Institute to carry out its mission effectively and efficiently and maintain its ranking as one of the premier transportation research agencies in the country, there are several areas in which improvements should be made.

Section 3-A:

Applicant Tracking Logs Should Be Prepared for All Positions

During a review of 21 professional positions filled in fiscal year 1995, applicant tracking logs existed for only 12 of the positions. The primary purpose of an applicant tracking log is to provide adequate support to document a hiring decision. Without adequate support, the Institute may be unable to explain or defend its hiring decisions should it be challenged in a discrimination complaint. In addition, federal law mandates that hiring records be retained for a period of two years from the date of hire.

Recommendation:

Applicant tracking logs should be prepared for all positions for which the Institute hires. These logs should document decisions made during the hiring process, including the criteria used to evaluate an applicant's experience and education. The logs should also document which applicants were selected for subsequent interviews and how the final hiring decision was made.

Management's Response:

Current TTI procedures require that applicant tracking logs be completed for all positions filled within the Institute. However, these procedures have not been enforced. We will review our current hiring procedures and make modifications as necessary to implement the recommendations given above. In order to ensure compliance, we will require that the applicant tracking logs be completed and submitted to TTI's Human Resources Office prior to any offer being made to a prospective employee.

Section 3-B:

Employee Training Should Be Improved

Currently, the Institute does not have a formal policy which requires all managers and supervisors to obtain the necessary training they need to carry out all their job duties effectively. We specifically noted that not all managers involved in the recruitment and selection process have had training in formal interviewing techniques. As a result, managers and supervisors may be asking inappropriate interview questions which increases the Institute's risk of applicants filing a discrimination lawsuit.

The Institute does not have a formal plan to ensure the continued professional development of its employees. A plan would help to ensure that engineers and non-engineers would maintain applicable professional certifications. Although the Institute has a training budget, training is determined on a project basis. Funds are primarily used by the professional staff for professional development and as a means of "networking" with other research professionals via seminars and conferences. Clerical and support staff do not have funds specifically earmarked for their professional development. A well-trained workforce is necessary for any entity to carry out its mission efficiently and effectively.

Recommendation:

The Institute should develop a formal training policy requiring all managers and supervisors to obtain the necessary training to carry out their job duties effectively. In addition, management should develop a formal training plan and budget which include all employees.

Management's Response:

We concur that a formal training program is needed with TTI. Although a number of TTI employees have taken advantage of training opportunities in the past, funding has been limited and availability has not been uniform throughout the Institute. This is one of the areas that has already been identified by current and former TTI employees

as needing improvement. In response to these concerns, we are already implementing a training program for two of TTI's largest divisions in FY 96 - the Transportation Systems Division and the Systems Planning Division (see attached letter dated November 17, 1995). It is envisioned that based on the pilot training program in FY 96, the program will be extended to include all TTI employees in FY 97.

Section 3-C:

The Institute Should Continue Efforts to Diversify

The Institute has made a commitment to diversify its staff through its recruiting program and procedures. The Institute's workforce was approximately 86 percent white from 1991 to 1994. The recruiting function is handled through the Institute's Human Resource Office with input coming from its program directors. The Institute's main focus of recruiting is through its research networks. It offers summer internships and other programs through various universities' engineering schools and engineering programs. To help ensure a more diverse applicant pool, the Institute has started recruiting at minority universities. The results of the Institute's diversification efforts should become evident within the next three years.

Section 3-D:

The Institute Should Continue To Develop An Effective Career Ladder

Management has noted that its research professionals want more guidance in their career development. An effective career ladder guides employee development and helps to determine the necessary skills for advancement. The Institute has formed a task force to look into a career ladder for professional and support staff. Final recommendations are due by July 31, 1996. The Institute should continue its efforts to develop an effective career ladder for its research professionals.

Section 4:

Management Should Ensure Protection of Fixed Assets

Because equipment represents a significant portion of the Institute's total assets, it is imperative that proper controls exist to locate and safeguard these assets from loss, theft, and unauthorized use. Equipment represented approximately 36 percent (\$9.1 million) of the Institute's total assets of \$25.6 million as of August 31, 1994.

During fiscal year 1995, the Institute reported \$19,156.70 of missing equipment. Records did not show the status of two equipment items which had been missing at least nine months. These two items were part of an 18-item sample of missing items. Additionally, 20 items out of a sample of 79 items (25 percent) were not in the locations listed on the Institute's fixed asset inventory records.

Recommendation:

The Institute should have sound controls over its fixed assets to ensure protection of these assets from loss, theft, and unauthorized use. The Institute should strengthen fixed asset record keeping procedures so that the status of equipment items is maintained accurately on its records. Also, when the agency determines that assets have been lost or stolen, it should continue to report the missing items to the University Police Department.

Management's Response:

We concur that protection of fixed assets is an essential element of TTI's fiduciary responsibilities. A complete review of our fixed asset record keeping procedures will be conducted to ensure that equipment items are accurately reflected on TTI's records. In addition, we will continue to report all lost or stolen items promptly to the University Police Department.

Objective, Scope, and Methodology

The objective of this audit was to evaluate the effectiveness of management processes and control systems within the Texas Transportation Institute. The scope of the audit included consideration of the Institute's:

- strategic planning
- organizational structure
- management information systems
- human resource management
- financial control systems
- performance measures

Agency financial data was analyzed, and relevant reports and documentation were reviewed. Conventional audit procedures were applied to collect information, including interviews with management and staff of the Institute and a telephone survey of eight customers of the Institute. Audit testing and analysis included control review, trend analysis of expenditures and performance statistics, review of project and personnel files, and review of performance measures. Our work will not necessarily reveal all the agency's internal control weaknesses.

Fieldwork was conducted from April 1995 to August 1995. The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

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

- Greg Adams, CPA (Project Manager)
- Jon Nelson, CISA (Co-Project Manager)
- Larry Vinyard, CPA, CIA (Quality Control Reviewer)
- Arthur Arispe
- Rob Bollinger, CPA
- Dana Brown
- Curtis Caraway
- Terry Holderman
- Scotty Killingsworth, CIA
- Shawnte Williams
- Catherine A. Smock, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Director)