

Table of Contents

An Audit Report on Management Controls at The University of Texas at Brownsville in Partnership With Texas Southmost College

August 1997

Key Points of Report

Combining Executive Management of the University and Texas Southmost College Raises Concerns About the Control Environment	1
Controls Over Human Resource Activities Should Be Improved	2
Appendix Objectives, Scope, and Methodology	5

Key Points of Report

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Overall Conclusion

Opportunities exist for The University of Texas at Brownsville (University) to improve aspects of its control systems to make them more efficient and effective. However, in general, the University has a system of management controls that provides management with reasonable assurance that the mission will be accomplished and goals will be met. The partnership with Texas Southmost College (College) appears to have worked well over the past years.

Key Facts and Findings

- Combining executive management at the University and the College raises concerns about the control environment and erodes the arm's-length relationship necessary to protect the interests of both entities. In January 1997, the President of the University and the Educational Partnership (Partnership) also assumed the role of President and Chief Operating Officer of the College.

Future enrollment growth and physical changes to the campus will generate a need for the University and the College to renegotiate the Partnership agreements. This new management environment could make it impossible for the University and the College to negotiate such agreements in a fair and impartial manner.

- Improving compliance with controls over human resource management could enhance the University's ability to accomplish its mission and goals.

Contact

Carol Smith, CPA, Audit Manager (512) 479-4700



Office of the State Auditor

Lawrence F. Alwin, CPA

This audit was conducted in accordance with Government Code, Section 321.0133.

Issues and Recommendations

Section 1:

OVERALL CONTROL ENVIRONMENT

Combining Executive Management of the University and Texas Southmost College Raises Concerns About the Control Environment

A change in the operating environment of The University of Texas at Brownsville (University) has raised concerns about the ability of the University to maintain its “arm’s-length” relationship with Texas Southmost College (College). The University has a unique operating environment resulting from a partnership agreement with Texas Southmost College. (See the text box for additional information on the operating partnership.)

Partnership Arrangement Between The University and Texas Southmost College

Effective September 1, 1992, The University of Texas at Brownsville and Texas Southmost College entered into an Educational Partnership Cooperation Contract. Essentially, the operating partnership (Partnership) allows the two institutions to have one infrastructure for delivering services (campus, staff, etc.) while maintaining separate legal and financial identities.

In this Partnership, the University leases buildings and equipment on campus from the College, making payments that are based on the market value of leased space. The College retains ownership of campus buildings.

The University teaches all of the College’s students and provides administrative, staff, and support services for both entities. The College pays the University for instruction and services, including tuition and specific student fees, designated appropriations and contract amounts, formula funding amounts, scholarships, and grants.

The Partnership is implemented by six interagency contracts. Control structures that maintain an arm’s-length relationship between the University and the College include the following:

- Partnership committees provide guidance and recommendations to both institutions.
- The College retains four employees who oversee the implementation of the Partnership agreement and safeguard its assets.
- The College obtains a certified financial audit each year, including an opinion on the federal grant money it has received.

In January 1997, the President of the University also assumed the new position of “The University of Texas at Brownsville/ Texas Southmost College President,” a position created by the College’s Board of Trustees. Because of this change, there is a risk that the arm’s-length relationship between the University and the College could begin to deteriorate. Prior to the change, the existence of separate chief operating officers was a control structure which helped ensure that policy, resource management, and operational decisions would adequately represent the interests of both the University and the College. Under the new arrangement, this control has been removed.

Without considerable care in structuring the responsibilities assigned to the individual by both the University and the College, the arm’s-length relationship could easily be compromised. Now, one individual will be responsible for making policy, resource management, and operational decisions for both institutions. For example, the same individual will now have a responsibility to obtain the lowest building lease for space leased from the College in order to get the best savings for the University. Simultaneously, this individual has a fiduciary responsibility to get the University to pay the highest rate in order to maximize revenue for the College. We found no indications that the University had reviewed and adjusted the responsibilities assigned to the President in order to ensure that its interests would not be compromised.

Our testing indicated that Partnership accounting transactions continued to maintain the arm’s-length relationship of the two institutions during fiscal years 1996 and 1997.

Issues and Recommendations

The full impact of this new management change on the control environment of the University has not been assessed. The University of Texas at Brownsville Internal Auditor was not aware of the change until our audit, and thus had made no risk assessment of this change upon the control environment of the University.

We are concerned that mingling responsibility for resource management decisions might eventually contribute to a situation where the resources of the University are commingled with the resources of the College. Then, there would be a risk that state education dollars would inadvertently be used to subsidize the

education of community college students.

Recommendation:

Even though the University and the College have a Partnership, the mission of a community college and state university are not the same. Good management policy would preclude the same individual from making resource management decisions for two institutions whose best economic interest may not always be identical. Thus, we believe that in the best interest of both institutions, Texas Southmost College should employ its own independent operating officer, who reports directly to the Board of Trustees.

If the same individual is to remain in the chief operating officer position of both partners, then the policies of the University should be changed to avoid any conflicts of interest. Also, a new interagency contract should be negotiated defining the duties that the University President will be providing to the College.

Management's Response:

The Board of Trustees of the Southmost Union Junior College District contracts with the Board of Regents of The University of Texas System to carry out the responsibilities of operating Texas Southmost College through the consolidated operating partnership. Thus, most of trustees' responsibilities may appropriately be delegated to the chief operating officer of the partnership who may also be considered the Texas Southmost College president. We do concur, however, that there are a few responsibilities, especially those associated with negotiating contract amendments between the partnership entities which should not be delegated to the partnership's chief operating officer. The added responsibilities to be assumed by the partnership as a result of the policy changes made by the Southmost Trustees will be

carefully reviewed and appropriate responsibilities accepted by contract amendment. Responsibilities which should not be assumed by the partnership or its chief operating officer will be identified by the Southmost Trustees and the Board of Regents of the University of Texas System in order that both boards clearly understand the need to handle those responsibilities outside the partnership.

It is anticipated that necessary changes will be incorporated into appropriate contracts before the end of February 1998.

Section 2: HUMAN RESOURCES

Controls Over Human Resource Activities Should Be Improved

Controls over human resource activities at the University should be improved. At the time of our audit, the University was not able to produce documentation to show that its performance appraisal and recruitment processes functioned as intended by management. In addition, we noted opportunities to improve the University's merit salary increase and training identification processes.

Issues and Recommendations

The University's performance appraisal process is not functioning as intended by management.

The University's *Handbook of Operating Procedures* requires the Human Resources Department (Human Resources) to retain employee performance appraisals in personnel files. However, in our test of ten personnel files, we found the following:

- Human Resources had only two performance appraisals on file (20 percent). These two appraisals were two years old. The University was able to produce three additional performance appraisals,

which were not in the personnel files.

- Human Resources was unable to produce performance appraisals for five of the files (50 percent).

In addition, we noted that performance appraisal forms were not used to help identify training needs. The evaluation form had a section on training and development needs, but Human Resources did not have a procedure to review employee evaluation forms to help develop an understanding of these needs.

Documentation was not available to determine whether the University's recruitment process is functioning as intended by management. In our test of ten files, we found that:

- Nine files (90 percent) did not contain documentation that candidates had been asked the same questions.
- Nine files (90 percent) did not contain documentation that questions were objective, job related, measurable, and consistently applied.
- Nine files (90 percent) did not contain documentation of answers to all questions.

The University's *Handbook of Operating Procedures* states that an interviewer shall ensure all of these criteria are followed.

Applications for exceptional merit salary increases were not validated by supervisors. The applications are reviewed by a committee, but the form the committee receives does not contain a statement from the employee's supervisors stating that the supervisor has reviewed the application and agrees with the facts on the application.

Recommendation:

The University should:

- Comply with the operating policy to retain all evaluations in the employees' personnel files and amend the employee evaluation form to include a signature and date block for both the supervisor and employee. Human Resources should review evaluations to ensure that they are being done, holding department managers responsible for timely completion and submission of the evaluations to Human Resources. In addition, Human Resources should continue to develop a formal process that would include the use of performance evaluation forms to help identify training and development needs of employees.
- Require that departments fully document that they are following the policies and procedures as they relate to the hiring and interviewing of applicants.
- Amend exceptional merit salary increase application forms to include a statement from the employees' supervisor confirming that the supervisor has reviewed the application and agrees with the facts on the application.

Issues and Recommendations

- Amend the Change of Memorandum of Employment form for a level 1 merit increase to include a statement signed by the supervisor that an annual evaluation had been completed for the employee.

Management's Response:

- *We agree with of this recommendation. Human Resources will work with the Division Vice Presidents to insure that all Staff Review and Development Forms (Performance Reviews) will be maintained in the personnel record. This will be accomplished by sending a list of employees for whom a form has not been received to all department Directors with a copy to the Division Vice President within 10 days of the due date published in the staff calendar. The responsibility for compliance will then rest with the Division Vice President. The Staff Review and Development Form will be amended to include a signature block for the supervisor and the employee.*

We agree with the recommendation to use the Staff Review and Development Form as one of the sources for determining training and development needs. The sole purpose of this section is to encourage employees to have a plan by which they will: (1) identify areas of performance that could be improved or expanded by acquiring additional skills, knowledge or abilities, (2) continue their education in order to move up a career ladder and (3) enlist the support of the supervisor in designing and following the plan. The Human Resource Development Manager will document the use of campus wide surveys, individual department and employee consulting, bench marking, UT

System data and random review of individual employee development plans to continue to develop formal training programs.

- *We agree that departments should document that they follow the applicant selection process and operating procedures. To insure this the title of the Applicant Selection Process form will be changed to "Helpful Suggestions For Search Committees." The items that are required in the search committee report will be clearly labeled as "required." The Non-discrimination form will be amended to include the following statement: I hereby certify that all applicants were screened for this position without regard to race, color, religion, sex, national origin or handicap as mandated by Title VII for the Civil Rights Act of 1964, administered by the Equal Employment Opportunity Commission (EEOC), Executive Order 11246, The Americans with Disabilities Act, our Affirmative Action Plan, the Texas Equal Opportunity Plan and the hiring policies of The University of Texas at Brownsville.*
- *We agree with the recommendation that a statement attesting to the authenticity of the employees statements along with a signature line be added to the merit application, with the next merit cycle beginning January 1998.*
- *We agree with the recommendation that a statement confirming completion of the Review and Development process will be included on the Change of Memorandum Forms for merit increases. Forms will be changed prior to their next use for merit increases.*

Appendix

Objectives, Scope, and Methodology

Objectives

Our audit objectives were to evaluate the management control systems within The University of Texas at Brownsville, including its management of resources, and to identify strengths and opportunities for improvement. We evaluated whether the control systems were providing reasonable assurance that the University's goals and objectives would be accomplished. The audit evaluated control systems in place during fiscal year 1997.

Management controls are policies, procedures, and processes used to carry out an organization's objectives. They should provide reasonable assurance that:

- Goals are met.
- Assets are safeguarded and efficiently used.
- Reliable data is reported.
- Laws and regulations are complied with.

Management controls, no matter how well designed and implemented, can only provide reasonable assurance that objectives will be achieved. Breakdowns can occur because of human failure, circumvention of control by collusion, and the ability of management to override control systems.

Scope

The scope of this audit included consideration of the University's management control systems: policy management, resource management, and performance management. In addition, management controls over the Partnership between The University of Texas at Brownsville and Texas Southmost College, a statutory entity created to educate the students of the Brownsville area, were reviewed.

Consideration of the University's policy management systems included a review of:

- Processes used to evaluate and implement changes to the University's structure
- Processes used to create, implement, evaluate, and revise University policies and procedures

Consideration of the University's resource management systems included a review of:

- Processes used to select, train, and evaluate performance of University employees
- Processes used to control the University's cash
- Revenue identification and collection processes

A review of each of the control areas revealed some specific issues that were examined further.

Methodology

The audit methodology consisted of gaining an understanding of each control system. In select areas, tests were then performed to determine if the control systems were operating as described. Finally, the results were evaluated against established criteria to determine the adequacy of the system and to identify opportunities for improvement.

An understanding of the control systems was gained through interviews with the University President, Vice Presidents, management, and staff. Written questionnaires and reviews of documents from the University and The University of Texas System were also used to gain an understanding of the control systems in place. Control system testing was conducted by comparing the described and

Appendix

actual processes. The testing methods primarily consisted of document analysis, process and resource observation, and employee interviews.

The following criteria were used to evaluate the control systems:

- Statutory requirements
- The University of Texas at Brownsville's *Handbook of Operating Procedures*
- General and specific criteria developed by the State Auditor's Office Inventory of Accountability Systems Project
- State Auditor's Office Project Procedures Manual
- Other standards and criteria developed through secondary research sources, both prior to and during fieldwork

Fieldwork was conducted from June 1997 through July 1997. We did not verify or review the accuracy of the data provided by The University of Texas at Brownsville. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

No significant instances of noncompliance with these standards occurred.

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

- Stan Brumfield, CPA, MBA (Project Manager)
- Paul Liberto
- Carol Smith, CPA (Audit Manager)
- Craig Kinton, CPA (Audit Director)