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An Audit Report on Management Controls at Prairie View A&M University

January 1998

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Key Points of Report

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Overall Conclusion

Several opportunities exist for Prairie View A&M University's (University) management to improve aspects of policy development and implementation; the management of personnel, revenues, and expenditures; and the accuracy and usefulness of data and performance information.

Key Facts and Findings

- Some University activities associated with developing and implementing University policy are insufficient. Several key University policies and procedures are not complete.
- Some personnel practices, such as not maintaining complete central files, do not comply with University policies and state regulations. Additionally, management's use of long-term interim management positions may not result in the best University personnel selection decisions or promote operational effectiveness.
- Some practices regarding the management of financial resources do not ensure the University is receiving the optimum dollars available and the best value for its expenditures. Tuition installment payment plan agreements do not require student signatures.
- The management of information at Prairie View A&M University does not ensure that some key data needed to evaluate operations and activities is reliable. University management identified extensive corrections needed to student data officially reported for formula funding consideration.
- While the assessment of academic performance is strong, management's system for the evaluation of non-academic performance information is not sufficient to determine if operations are effective or efficient in achieving established goals and objectives.

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This audit was conducted in accordance with Government Code, Sections 321.0132 and .0133.

Executive Summary

Several opportunities exist for Prairie View A&M University's management to improve aspects of policy development and implementation; the management of personnel, revenues, and expenditures; and the accuracy and usefulness of organizational data and performance information.

Strengthen the Development and Implementation of University Policy to Better Ensure That Operations Will Meet Established Goals

Some Prairie View A&M University activities associated with developing and implementing policy are insufficient:

- Policy Development - Several key University policies and procedures are undocumented. Others are incomplete. For example, University contracting procedures only address the purchasing function and do not cover activities associated with amending contracts.
- Policy Implementation - Some personnel practices, such as not maintaining complete central files, do not comply with University policies and state regulations. Additionally, the University's practice of staffing management positions with interim personnel for long periods of time may not ensure that the best personnel are in those positions. This practice will have a direct impact on the effectiveness and efficiency of University operations.

Improve the Management of University Resources to Ensure That Revenues and Purchases Comply With Regulations and Are Safeguarded From Loss

Some practices regarding the management of financial resources do not ensure the University is receiving the optimum dollars available and the best value for its expenditures.

- Subsequent to our request for self-reported corrections, the University appears compliant with formula funding guidelines. University management identified more than \$521,700 in over-funding received due to corrections needed in officially reported student data.
- Accounting practices regarding installment payment obligations do not require a signature by the student and thus there is not adequate assurance the obligations will be paid. Also, non-payment sanctions currently imposed by the University may not be permissible under the Texas Education Code.
- During Summer 1996, Fall 1996, and Spring 1997, many financial aid receivables were posted as credits to student accounts prior to the award being made by the University and accepted by the students. During the compilation of self-reported corrections to student data considered for formula funding purposes, University management detected that 204 of these unconfirmed financial aid receivables were not eligible for the formula funding monies which were received.

Executive Summary

- Additionally, some procurement practices and fixed asset management activities did not comply with state regulations or reflect good business practices, although no serious wrongdoing or fraud was detected during our review.

Improve the Reliability and Use of Information Needed for Operational Decision-Making

The management of information at Prairie View A&M University does not ensure that some key data needed to evaluate operations and activities is reliable. Our review noted instances where some key data and information were not accurate, were not easily obtainable, and were not protected from loss.

University management has a strong performance measurement system in place for academic activities. However, management's system for the evaluation of non-academic performance information is not sufficient to determine if operations are effective or efficient in achieving established goals and objectives.

Non-academic departmental performance plans only outline tasks to be performed during the course of a fiscal year. However, the tasks:

- Have not been prioritized
- Do not have established performance targets and benchmarks

- Are not linked to the University's overall strategic plan

Thus, it is difficult to determine how well or how efficiently tasks are being accomplished.

Summary of Management's Responses

University management is in agreement with our audit conclusions and has already begun needed corrective actions. All corrective actions are scheduled for completion during the current fiscal year.

Summary of Objective and Scope

The objective of this audit was to evaluate the existing management control systems within Prairie View A&M University to identify strengths and opportunities for improvement.

The scope of this audit included the University's control environments associated with the following management systems:

- Policy
- Information
- Resources
- Performance

It also included the key processes that support management control systems. Additionally, we reviewed base year 1996 formula funding data and calculations.

Section 1:

Strengthen the Development and Implementation of University Policy to Better Ensure That Operations Will Meet Established Goals

Accountability

Being responsible for achieving expected results, establishing and maintaining an environment that protects against scandals and financial disasters, and ensuring that resources are used economically and effectively.

Some Prairie View A&M University activities associated with developing and implementing University policy are insufficient. As a result, University management cannot be sure that operations will be as effective or accountable as possible. Nor can management be certain that strategies will achieve the mission of the University and meet the expectations of the public.

The effective management of policy identifies what the University should be doing and begins the process of translating these intentions into actions by:

- Articulating strategic plans
- Establishing policies and procedures
- Assigning appropriate resources

Section 1-A:

Several Key University Policies and Procedures Are Not Documented

University policies and procedures¹ used to prescribe many key activities were found to be inadequate throughout our review. We found incomplete policies and procedures for contracting, purchasing, and information services:

- Procedures for procurement contracts provided by University staff only addressed the purchasing function and did not cover the activities associated with contract amendments.
- Existing purchasing procedures focused on the low-bid process and did not consider other procurement processes such as best proposal.
- Procedures necessary for ensuring data reliability and validity within the University's student information system are not documented, thus the accuracy and usefulness of University-generated information from this system is at risk.

Upon our request, the Office of Finance and Administration provided a list of activities that did not have current written policies, some of which are key to University operations.

¹University-level, or local, policies and procedures are more specific to campus processes, as opposed to Texas A&M University System-level oversight policies and procedures.

The lack of specific documented policies and procedures within functional and operational areas of the University makes it difficult to:

- Gauge the consistency and efficiency of daily activities.
- Measure the overall achievement of goals and objectives.
- Ensure consistent interpretation and application by staff.

Documented policies and procedures communicate uniform guidance to staff. Written policies and procedures also communicate operational parameters, performance expectations, and process efficiencies.

Recommendation:

Essential and routine University processes, such as those mentioned above, should be documented and revised as needed. Management should identify missing or inadequate policies and procedures that need to be addressed and documented.

Management's Response:

For the past ten years, the University has taken an active role in developing and documenting sound operating policies and procedures. We view this as an ongoing process and welcome the recommendations for improvements made by the State Auditor. We agree that our procedures relating to procurement contracting and contract amendments can be enhanced and plan to make the necessary revisions by March 31, 1998. We also agree that our procedures related to our student information system data control procedures can be enhanced and plan to complete this task by June 30, 1998.

Section 1-B:

Some Human Resources Practices Do Not Comply With Policies and Regulations

Not all personnel practices comply with University policies or existing state regulations. Centralized personnel files are not complete, job posting activities are not compliant with state requirements, and inappropriate information is contained on some applicant selection worksheets.

During our limited review of the University's central personnel files, we found several files that lacked the following:

- Required job applications
- Required annual performance evaluations
- Supporting documentation for pay increase actions

Maintaining the official personnel records and verifying compliance with personnel policies and regulations are the key responsibilities of the University's Human

Resources Department. The General Appropriations Act of the 74th Legislature (Article IX, Section 8) requires that state agencies and universities maintain an official personnel file that includes job applications and other records normally placed in a personnel file. A centralized, comprehensive, and up-to-date personnel file helps to ensure that:

- Proper documents have been collected.
- There is compliance with personnel laws and requirements.
- Decisions made regarding personnel actions are appropriate and justified.

Job Posting Requirement

State agencies in the executive and judicial branches must post job openings with the Texas Workforce Commission when applicants are considered from outside the agency.

*Vernon's Texas Codes Annotated
Title 6, Section 656.001*

The University does not routinely notify the Texas Workforce Commission when job openings exist, which is required by state regulations. According to staff members of the Human Resources Department, University employment opportunities are generally posted on a bulletin board outside the Human Resources Department. A position will be advertised in a local or regional newspaper only if requested by the hiring department.

Additionally, a review of required applicant selection worksheets (or job applicant flow worksheets) on file with the Human Resources Department reflected:

- Incomplete information
- Inaccurate information
- Inappropriate information

The information on the worksheets is completed by the hiring department, which does not have access to equal employment opportunity data filed by the applicant at the time of application. However, according to human resources management, the information from the worksheets is used to compile affirmative action and equal employment opportunity reports required by the State. A centralized human resources department should make sure that personnel forms are completed with accurate and suitable information and that resulting reports are reliable.

Recommendation:

Prairie View A&M University's Human Resources Department should improve the comprehensiveness and accuracy of its centralized personnel files and records. Human resources management should review state personnel requirements applicable to the organization and ensure that personnel procedures and activities are compliant with these requirements. Additionally, human resources management should identify weaknesses within University-wide personnel practices and establish information and training programs to better educate those individuals making personnel decisions. The Human Resources Department should also make sure that personnel forms are completed with accurate and suitable information and that resulting reports are reliable.

Management's Response:

We agree with the recommendations of the State Auditor and plan to have the necessary changes fully implemented by June 30, 1998.

Section 1-C:

Management's Use of Interim Positions May Not Promote Optimum University Personnel Selection Decisions

The use of long-term interim management positions at the University may not promote optimum University personnel selection decisions or operational effectiveness. The Human Resources Department reported eight higher-level professional positions filled with appointed interim staff members for fiscal year 1997. Most of the interim positions have been in place for at least a year. Toward the end of the fiscal year, one interim staff member was awarded the position permanently and another was awarded permanency pending approval by the Texas A&M University System Board of Regents. No documentation was available to verify that either position was filled permanently after direct consideration of a pool of qualified candidates.

Table 1

University Interim Positions Fiscal Year 1997	
Interim Positions Existing at the Beginning of Fiscal Year 1997 (Unless Otherwise Noted)	Status of Interim Position as of September 1, 1997
Vice President of Student Affairs	To be made permanent. Candidate awaiting Board approval
Director of Institutional Development	Still Interim
Registrar and Director of Admissions	Made permanent on July 11, 1997
Athletic Director	Still Interim
Director of Student Activities	Still Interim
Assistant Director of Student Activities	Still Interim
Director of Student Life (established during fiscal year)	Still Interim
Assistant Director of Student Life (established during fiscal year)	Still Interim

The use of interim employees is not a poor human resources practice. However, the recurrent use of interim managers, who are initially appointed without having to formally compete for the position based on qualifications and experience, does not promote employee selection from an adequate pool of available and qualified applicants. Thus, human resource management cannot ensure that the most qualified individuals are being appointed to fulfill the needs of the University. Additionally, maintaining interim management positions for extended lengths of time can result in interim staff:

- Becoming uncertain of their roles and tenure within the organization
- Being unsure of which direction to take and how much authority to assume

These consequences are important given management positions have a direct impact on the efficiency and effectiveness of operations.

Recommendation:

University management should evaluate its practice of using long-term interim management positions to see if other effective options are available. University management should ensure that its hiring and selection practices for interim personnel who later become permanent consistently ensure obtaining a pool of qualified applicants from which to fill available job positions. Supporting documentation for these personnel selection decisions should be maintained according to established record retention guidelines so that inquiries may be adequately addressed.

Management's Response:

We acknowledge the fact that for most of Fiscal Year 1997 we had eight interim appointments in management positions. However, given the University's historically low turnover rate, we would consider this to be abnormal. All of the positions except for one are in areas under review for reorganization and we have intentionally not filled them with a permanent appointment until the new structure is finalized. With the appointment of a permanent Vice President for Student Affairs (one of the eight positions referenced), we expect to complete the restructuring of the Division of Student Affairs soon and will conduct the appropriate searches to fill all remaining vacant and interim filled positions. Restructuring relating to the remaining two positions should be finalized by March 31, 1998 and the appropriate job searches conducted thereafter to fill the vacant or interim-filled positions. We are well aware of the potential negative impact that long-term interim appointments can have, but have been patient to identify the optimal structure and candidates before filling the positions in question. Regardless, we anticipate bringing closure to the interim appointments identified by the auditors soon.

With regards to the retention of documentation relating to job applicants, we agree with the auditors recommendations and have reiterated to the Office of Human Resources the need to maintain these records in compliance with the TAMUS Records Retention Policy.

Section 2:

Improve the Management of University Resources to Ensure That Revenues and Purchases Comply With Regulations and Are Safeguarded From Loss

While the University has made recent efforts to identify errors in formula funding data reported to the State, some practices regarding the management of financial resources do not ensure the University is receiving the optimum dollars available and the best value for its expenditures.

Resources are the input and the means by which an entity achieves its goals and objectives. Inefficient and ineffective application and use of resources can only deter from these desired outcomes.

Section 2-A:

Subsequent to Requested Self-Reported Corrections, the University Appears Compliant With Formula Funding Guidelines

As a result of a formula funding compliance review, University management identified over-funding received of \$521,708.80.² Subsequent formula funding audit testing³ of registration data for the Summer 1996, Fall 1996, and Spring 1997 semesters did not identify any significant over- or under-funding of semester credit hours at Prairie View A&M University within the sample reviewed.

As a part of our audit testing, University management was given the opportunity to identify needed corrections to semester credit hour data reported to the Higher Education Coordinating Board. (Semester credit hour data is used to calculate formula funding dollars due the institution.) As a result, management identified 318 cases of incorrect reporting that resulted in \$521,708.80 of over-funding received by the University. These self-reported corrections to the credit hour data reported to the Higher Education Coordinating Board consisted of:

- Texas Academic Skills Program noncompliance
- Lack of documentation for graduate students
- Inadequate tuition payments

²Note: Universities are allowed a 2 percent error rate before having appropriations revised, as called for in the General Appropriations Act of the 75th Legislature, Article III, Rider 20. Prairie View A&M University's allowable error rate for \$33,293,597 of total appropriations for tested formulas is \$665,871.94.

³Audit work included performing tests of compliance with state laws and Higher Education Coordinating Board rules upon a selected statistical sample. A review of the reported actual fiscal year 1996 educational and general revenues noted that the amounts are materially accurate. These amounts were also used to request appropriations for the 1998-1999 biennium.

Once identified by University management, the cases were removed from our audit test population.

Table 2

Prairie View A&M University Self-Reported Corrections by Attribute and Semester					
Attribute	Summer 1996	Fall 1996	Spring 1997	Over-Funding for All Attributes Resulting From Self-Reported Corrections	Students Per Attribute
TASP Noncompliance	\$16,006.65	\$88,724.87	\$57,147.77	\$161,879.29	104
Graduate Student Classification	\$2,242.07	\$10,592.99	\$5,086.76	\$17,921.82	10
Inadequate Tuition Payments	\$56,165.07	\$195,424.69	\$90,389.93	\$341,979.69	204
Totals	\$74,413.79	\$294,742.55	\$152,624.46	\$521,708.80	318

Our testing did reveal control weaknesses outside of the sample attributes tested that resulted in an additional \$8,649.27 of actual over-funding to the University. In one case, an accounting error resulted in over-funding to the University of \$954.14. The error occurred when the University received formula funding for a class (outside of our sampled population) that had not been paid for by a student. The student later dropped the class and all record of the class was removed from the student's account detail, with tuition and fees owed never collected. In the remaining cases, courses for three students were funded by the State when appropriate tuition had not been paid or valid receivables had not been posted by the required class date. The total amount over-funded the University for the three students was \$7,695.13. The situation for the three students was similar to the 204 inadequate tuition payment cases identified by the University in its self-reported corrections (discussed in more detail in Section 2-B of this report).

Recommendation:

Management should ensure that accounting and reporting procedures result in capturing and reporting only eligible semester credit hour data to the Higher Education Coordinating Board for formula funding purposes. Data reported should also be accurate per established criteria. Management has begun the process of identifying procedural weaknesses in the University's process through its extensive review and testing performed while compiling the self-reported corrections report. Management should also ensure that student account detail adjustments (such as classes dropped) clearly reflect the appropriate actions for the situation.

Management's Response:

Recognizing that the University was found to be in compliance with the State's 2% error rate, as called for in the General Revenue Appropriations Act of the 75th

Legislature, we agree that current procedures and practices can be improved to help ensure that we accurately report only eligible semester credit hour data to the Higher Education Coordinating Board for formula funding. The purpose of our extensive review was not only to identify and report errors for self-deletion for the semesters previously reported, but to also identify and address weaknesses in our data collection and reporting procedures. Our first effort was to address weaknesses in TASP compliance controls, which resulted in a significant reduction of errors for the Spring 1997 semester. We have since added additional control procedures in the Fall 1997 semester. We will continue to review this process each semester and continue to refine procedures and controls as necessary.

Section 2-B:

Some Accounting Practices Do Not Adequately Ensure Tuition Obligations Will Be Paid

Some accounting practices for the collection of tuition and fees do not ensure the University will receive payment. During our review of semester registrations for Summer 1996, Fall 1996, and Spring 1997, we noted that installment payment plans do not require an obligation signature by the student, and estimated financial aid receivables have been posted before the financial aid award has been extended to the student and accepted.

Good Business Practice

A documented and signed installment payment agreement helps to ensure that students are advised of the consequences of not paying the remainder of their installment payments and that institutions are able to collect.

Students who do not pay their tuition and fee bill in full upon registration for semester courses are automatically placed on the installment payment plan. This automatic process does not require a signature on the part of the student agreeing to the terms and conditions of the payment plan and acknowledging that non-payment can lead to sanctions. Statutes state that no sanctions may be imposed upon students who do not make installment payments unless the institution had the student sign a promissory note containing required language (Texas

Education Code, Title 3, Section 54.007). Thus, should the student fail to abide by the terms of the installment payment plan, the University may have little recourse.

Many students applying for financial assistance have been credited with a “financial aid pending” receivable upon completion of their financial assistance file but prior to the actual award package being offered and the student accepting the offer. The posting of this unconfirmed receivable leaves the University at risk that the estimated financial assistance package may not be offered or accepted. In such cases, formula funding dollars may be paid in error to the institution based on a report claiming the student’s account credit status as eligible for formula funding consideration.⁴

⁴In fact, this very situation led to the University reporting 204 cases of pending financial aid receivables that were not eligible for approximately \$342,000 of formula funding when the self-reported corrections report was provided in response to our audit. (See report Section 2-A.) Our audit testing detected an additional three cases not eligible for approximately \$7,695.

Recommendation:

Management should improve its revenue practices so as to ensure that student obligations are enforceable. Installment payment plans should be signed by the student to comply with state statutes. Management should also improve its procedures over the use of “financial aid pending” receivables to enhance collectibility.

Management’s Response:

We agree with the auditors findings and will begin requiring students to sign an Installment Payment Plan document, effective with the Spring 1998 semester. We will also continue to review current procedures and practices for possible enhancements.

Section 2-C:

Some Purchasing Activities Do Not Comply With Regulations and Do Not Reflect Good Business Practices

Some purchasing activities reviewed were not in compliance with established state regulations or in line with good business practices. As a result, these deficiencies may have resulted in purchases that cost the University more than was necessary.

During fiscal year 1997, over \$21,000 was spent by the University’s Physical Plant Department for the purchase of janitorial supplies from one vendor. This total dollar amount was made up of many individual purchase orders for less than \$1,000 each, most occurring multiple times per month.

The vendor, a New Jersey company, is not under contract with the University. Nor does the vendor have a state term contract with the General Services Commission. Janitorial supplies are a commodity on a term contract that state agencies and universities are required to use unless special needs can justify otherwise. Justifications cannot be used to rectify poor planning (for example, the need for janitorial supplies can be planned for in advance based on historical data and available facilities). The support documentation provided by the University for the purchases indicated the vendor was a sole-source provider for some of the items, yet there was insufficient evidence in the justification to verify that comparable products or vendors had been sought. Additionally, the authorizing signature on the justification documents was not one on file with the General Services Commission, as is required.

Spot purchases of such routine supplies usually do not reflect prices with discounts based on volume purchases. Proprietary items are usually priced higher than standard items because of the lack of competition. Given the additional freight charges incurred with using an out-of-state vendor, purchases by the Physical Plant Department for janitorial supplies may have been:

- At a cost higher than necessary
- Noncompliant with some General Services Commission requirements

In a separate situation, the Physical Plant Department awarded a contract for roofing repairs in August 1996 based on bid specifications prepared by an independent architectural and engineering firm. However, seven days after the contract award, the contractor indicated the work could not be performed as stipulated and that significant specification and dollar changes would be required in order to complete the job to the University's satisfaction. Another architectural and engineering firm confirmed that additional work was needed to repair the roofs in question. Instead of rebidding the job based on the new specification parameters, the Physical Plant Department then amended the contract for an additional \$202,874. This amendment more than doubled the original contract award of \$142,350, bringing the total contract award to \$345,224.

The amendment reflected only the contract manager's signature, with no additional authorizing signatures (although other management personnel were aware of the changes needed). The University's current policy and procedures do not require additional authorizing signatures for such changes. There is no requirement to rebid jobs which significantly change in scope, although good business practice would support such action. Finally, when the contract was amended, payment and performance bonds collected from the contractor with the original contract were not updated to reflect the revised contract dollar value. The purpose of payment and performance bonds are to secure the University's interest in the job should contract requirements not be met.⁵

Other purchasing activities that were not in compliance with current regulations are those associated with the University's use of historically underutilized business (HUB) vendors. The University has not met its HUB usage goals, nor has the University complied with all aspects of HUB regulations.

Historically Underutilized Business Program

State agencies are to make a good-faith effort to identify HUB participation in the procurement process of goods, services, and public utility contracts. This encourages the elimination of barriers for equal economic opportunities in state purchasing for HUBs.

The University did not meet state-mandated HUB targets for the six reportable categories of expenditures in fiscal year 1996. Semi-annual results for fiscal year 1997 continued to show poor performance.

While the University appears to be making a good-faith effort to contract with HUBs, and it has complied with most planning and reporting requirements, rules guiding subcontracting activities by prime contractors are not enforced. Specifically, contracts are awarded without requiring a contractor to:

- Submit a statement of expected percentage of work to be subcontracted (as required by 1 Texas Administrative Code, Section 111.14b).
- Complete a checklist reflecting that the contractor has made a good-faith effort to subcontract with HUBs (as required by 1 Texas Administrative Code, Section 111.14f).

⁵A similar instance of bonding noncompliance was detected during a review of the contract for security services at the University's Nursing Center in Houston where required bonds were not collected from the security company.

Recommendation:

Prairie View A&M University management should take steps to improve purchasing practices to eliminate instances of technical noncompliance with established General Services Commission requirements and Historically Underutilized Business regulations. An assessment should be conducted to determine why noncompliance occurred, and corrective actions should be implemented.

Management should also evaluate patterns of routine purchases to identify where planning improvements are needed and where economies and efficiencies can be gained. Policies and procedures for contract revisions should be enhanced to establish appropriate controls in the revision process to prevent excessive authority residing with any one individual. Contracting terms, such as bonding requirements, should be verified for compliance, especially when contracts have been amended.

Management's Response:

With respect to the janitorial supply purchases off state contract, we have reviewed them with appropriate General Services Commission staff and have been advised that the justifications provided to the auditors, while acceptable for purchasing off state contract, could be strengthened or enhanced. The University's Purchasing Agent will continue to monitor such purchases to ensure that we continue to meet the General Services Commission standards and make improvements where possible.

With respect to HUB Compliance, we acknowledge the fact that we have not achieved the State's HUB expenditure goals and will continue to make a concerted effort to achieve these goals. To this end, we will review our current procedures relating to reporting of HUB subcontractor information and make the necessary improvements. We anticipate having this completed by February 28, 1998.

With respect to the spot purchase of janitorial supplies, we agree that some savings can be achieved through more efficient ordering practices by the department in question. A review of the \$21,000 in supply purchases referred to above indicated that the University could have saved an estimated \$346 by ordering in larger quantities when possible. Our Purchasing Agent has been instructed to review departmental purchases on a monthly basis for potential opportunities for operating efficiencies and cost savings. With respect to the authorized signers list, current University staff was unaware of a separate authorized signers list maintained by the General Services Commission for Sole Source Justifications. An updated authorized signers list was submitted to the General Services Commission on October 20, 1997 and a copy was provided to the State Auditor's Office.

With regards to the contract amendment procedures, as stated in our response to Section I-A of this report, we agree with the State Auditor that our current procedures can be enhanced and plan to make the necessary revisions by March 31, 1998.

Section 2-D:

Fixed-Asset Testing Revealed Noncompliance With Regulations

University management cannot ensure that all fixed-asset resources in the organization are adequately protected and safeguarded from loss. Specifically, internal control activities reviewed do not provide for adequate identification, monitoring, and security of these assets. Deficiencies in the University's asset tracking and verification processes may have resulted in potential losses of fixed assets.

During reconciliation testing of University asset records to the State Property Accounting System, a judgmental, non-statistical sample of fixed asset items was selected from the reconciliation list. This selection resulted in 37 items to be auditor-verified. A current University inventory list depicted incorrect locations and missing identification numbers for many of the items tested. Specifically, the deficiencies noted in the sample included the following:

- Of 37 items physically searched for, 14 items were not found at the time of testing. Inventory records valued the cost of these unlocated items at a total of \$32,896.
- Twenty of the 23 items located did not have University inventory identification tags. The original cost recorded for these 20 items totaled \$77,589. Four of the untagged items could not be verified as the originally purchased item due to lack of other recorded identification information. The four questionable items reflected an original cost total of \$35,639.

To Promote Effective Fixed-Asset Management . . .

agencies and universities should have a reliable process for identifying, tracking, and securing fixed assets under their control.

According to the *State Property Accounting System Manual*, each agency and university is responsible for having a reliable process to ensure that fixed assets are appropriately identified, tracked, and secured in a manner that is most likely to prevent theft, loss, damage, or misuse of assets.

Recommendation:

University management should strengthen known or detected areas of weakness in fixed-asset management processes. These processes should ensure that all University fixed-assets required to be accounted for are assigned unique identification numbers. Asset verification should be performed regularly and discrepancies should be resolved immediately, with appropriate documentation maintained. The University's tracking database should be periodically verified for accuracy and completeness.

Management's Response:

We agree with the recommendations of the State Auditor. We have identified 35 of the 37 items tested and properly tagged or updated the inventory listing, as appropriate. We are currently reviewing the procedures for fixed asset tagging and inventorying for

possible enhancements to provide improved accountability and accuracy. We plan to make the necessary procedural changes by March 31, 1998.

Section 3:

Improve the Reliability and Use of Information Needed for Operational Decision-Making

Information Systems . . .

may be automated, manual, or a combination of both.

The management of information at Prairie View A&M University does not ensure that some key data needed to evaluate non-academic operations and activities is reliable. Additionally, management does not use such information to formally assess the effectiveness of non-academic operations and processes. Management information processes should be designed to ensure that the organization has identified its information needs and that data supporting those information needs is available and accurate.

Data should be appropriately maintained, safeguarded, and periodically evaluated for usefulness. Management information processes should yield valid and reliable data needed to routinely measure progress toward the achievement of University objectives and goals and assessing the effectiveness and efficiency of operations and processes.

Section 3-A:

Some Key Data Is Inaccurate, Difficult to Access, and Not Protected From Loss

Controls Over Information Systems

With widespread reliance on information systems, controls are needed over all such systems: financial, compliance and operational, large and small.

Internal Control Integrated Framework Report, Treadway Commission

Operational decision-making by University management may be deficient because some key data and information is not accurate, cannot be easily obtained, and is not protected from loss. As a result, management's use of information may have resulted in:

- Inadequate or erroneous data analysis
- Irrecoverable loss of key information and data files

We requested information regarding a complete list of all University contracts for fiscal year 1997. The information request was not one routinely performed by the purchasing department. A special report was prepared and, upon review, contained information for non-contract activities. It appears that complete and accurate information regarding University contracts for a fiscal year is not readily available. Thus, it would be difficult for University management to assess the volume, pattern, efficiency and effectiveness of contracting activities.

Some data needed for our review was not easily obtained. Recent registration data from Summer 1996 had already been purged from the main student information system. Special programming code had to be developed in order to get the needed data

in a format that could be analyzed. The lengthy retrieval process could deter any in-house historical registration evaluation activities that may be desired.

Regarding the security of University data and information, University-wide uniform policies and procedures to provide guidance for stand-alone computer use and local departmental networks have not been adequately communicated to University personnel and are not complete. There are procedures available for faculty and staff for computer-processed information run on a University computer but not through a departmental database or local area networks. Additionally, controls established regarding the access and physical security of data maintained on the University's mainframe computer are not adequately enforced. Access to the mainframe room is not consistently controlled and backup tapes are stored in the same location as the main processing units.

Recommendation:

An analysis of a University-wide information should be formally conducted to determine common and unique software and data systems needs. Corrective improvements should include (1) information sharing for common needs identified and (2) prioritized system development where key needs are not being met.

The existing data management policy and procedures manual needs to be more effectively communicated so that all University personnel are aware of guidelines surrounding the use of automated information systems. Data input and access procedures should be implemented and controlled to ensure key information is protected from inappropriate access, manipulation of existing data, or possible irrecoverable loss. Data safeguarding procedures should address backing up data and proper storage activities for all University computer uses.

Management's Response:

We agree that an assessment of the University-wide information systems needs should be performed as a basis for future operation of the University's Information Systems Department. Other considerations such as restructuring and potential cost savings efforts are currently being reviewed by management. We anticipate completing this task by March 31, 1998.

We also agree that the current data management policies and procedures manual could be enhanced and better communicated and anticipate completing this task by March 31, 1998.

Section 3-B:

The Performance Measurement System for Non-Academic Operations Is Not Sufficient

While the assessment of academic performance is strong, management's system for the evaluation of non-academic performance information is not sufficient to determine if operations are effective or efficient in achieving established goals and objectives. Non-academic departmental performance plans currently in place outline tasks to be performed during the course of a fiscal year. However, the tasks:

- Have not been prioritized
- Do not have established performance targets and benchmarks
- Are not linked to the University's overall strategic plan

Adequate Performance Management Systems Should:

- Provide information needed to measure productivity and workload.
- Collect adequate statistics and information on task accomplishments.
- Compare accomplishments with goals and analyze variances.
- Implement corrective action on variances.
- Establish an overall system of self-evaluation.

Without these task elements in place, it is difficult to determine how well and/or how efficiently tasks and processes are being accomplished. As a result, management may not be able to quickly detect deviations from intended priorities and expectations so that timely corrective action can be implemented before situations become critical. This situation becomes more likely as some administrators and functional managers described their performance monitoring activities as informal and awareness driven, with awareness being triggered by exception situations.

The effective assessment and management of the performance of an organization and its operations is the very essence of accountability.⁶ Prairie View

A&M University received approximately \$25 million in state funding during fiscal year 1997 and, according to management, approximately \$77 million in total revenues from all sources.

Recommendation:

Management should enhance the existing performance measurement systems for those non-academic operational areas and departments whose performance is key to achieving established goals and objectives. These performance measurement systems should reflect performance targets and priorities in line with the University's strategic plan. The systems should also routinely monitor and analyze both interim and final outcomes of those operations and departments to determine if results are meeting expectations. The resulting information generated from the monitoring systems developed should be used to adjust and improve progress toward overall University

⁶“Accountability” is the holding of those entrusted with state resources and programs answerable for their job performance.

goals, objectives, and strategies. The systems should be structured to detect deviations in a timely manner so that corrective action can be implemented to prevent crisis situations from evolving.

Management's Response:

We agree that improvements can be made in our performance measurement systems for non-academic operations and will continue to make refinements. We would, however, point out that many tasks do not lend themselves to benchmarking, that tracking mechanisms for certain tasks could be more costly than any potential benefit, and that priority of tasks change frequently based upon circumstances (both controllable and uncontrollable). Consequently, we anticipate such improvements to be made on a selected basis.

Management Control Audit Objective, Scope, and Methodology

Objective

Our audit objective was to analyze and assess the key management control systems within Prairie View A&M University to ensure that systems are in place to enable the University to achieve its mission and goals in an efficient and effective manner. Management control systems considered key to an organization relate to areas of policy management, information management, resource management, and performance management. Additionally, we sought to identify opportunities for improvement of management controls in order to improve University performance, effectiveness, efficiency, and accountability. The audit evaluated control systems in place during fiscal years 1996 and 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
- Compliance exists with laws and regulations

Management controls, no matter how well designed and implemented, can only provide reasonable assurance that objectives will be achieved.

Scope

The scope of this audit included consideration of the University's overall management control systems as they applied mostly to administrative, non-academic, operations. The management control systems reviewed included: policy management, information management, resource management, and performance management.

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

- Processes used to create, monitor, and evaluate University strategic and operating plans
- Processes used to create, monitor, and revise University budgets
- Processes used to create, implement, evaluate, and revise University policies and procedures

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

- Processes for identifying, collecting, classifying, evaluating, maintaining, and updating information
- Management reports
- Timeliness, accuracy, and availability of information

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

- Processes used to select, train, and evaluate University employees
- Processes used to economically procure goods and services and monitor vendor performance
- The University's compliance with regulations surrounding the use of Historically Underutilized Businesses
- Processes used to ensure that fixed assets are properly tracked and adequately protected against waste and abuse
- Reconciliation activities between the State Property Accounting system and University asset records
- Revenue identification and collection processes
- Protection of computers and computer applications

Consideration of the University's performance management system included a review of processes used to develop, track, and use performance measures.

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.

Procedures and tests conducted:

An understanding of the control systems was gained through discussions and interviews with members of the Texas A&M University System Board of Regents, Texas A&M University System management, Prairie View A&M University

management and staff. Written questionnaires and reviews of University documents were also used to gain more specific information. Control system testing was conducted by comparing the described and actual processes. The testing methods primarily consisted of document analysis, process and resource observation, and interviews.

Criteria used:

- Statutory requirements
- University policies and procedures
- General and specific criteria contained in *A Guide to Assessing Risk in Key Accountability Control Systems* (SAO Report No. 97-075, July 1997)
- State Auditor's Office Project Methodology Guide
- Other standards and criteria developed through secondary research sources, both prior to and during fieldwork

Fieldwork was conducted from July 14, 1997, through September 12, 1997, with most work occurring on site at the University. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Auditing Standards
- Generally Accepted Government Auditing Standards

There were no significant instances of noncompliance with these standards.

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

- Kyle Kelly Doerr, CGFM (Project Manager)
- Susan McClean, CPA
- Errol Williams, CPA
- Sharon Brantley
- Vivek Katyal
- Michelle Jaubert-Esquivel, CPA
- Susan Riley, CPA (Quality Control Reviewer)
- Catherine A. Smock, CPA (Audit Manager)
- Craig D. Kinton, CPA (Audit Director)

Formula Funding Audit Objectives, Scope, and Methodology

Objectives

The primary objectives of a formula funding audit are to:

- Audit the accuracy of the variables in selected formulas used in calculating formula funding appropriations.
- Report differences between university records and data submitted by the University to the Higher Education Coordinating Board (Coordinating Board).
- Determine the accuracy of fiscal year education and general revenues reported in the University's Requests for Legislative Appropriations.

Scope

The scope of formula testing focuses on the accuracy of variables of selected funding formulas. Funding formulas are used to allocate appropriations to the University. There are four funding formulas, each driven by variable data reported by universities. Two formulas were selected for the audit: instructions and operations formula and teaching experience supplement. Statewide, these two formulas account for 78.40 percent of the \$2.9 billion funding by formulas during the 1998-1999 biennium. At Prairie View A&M University these two formulas account for 75.44 percent of the \$44,131,542 funding by formulas during the 1998-1999 biennium.

Semester credit hours is the only variable for each selected formula and is reported to the Coordinating Board in the CBM-004 Class Report and CBM-001 Student Report. All 35 universities receiving semester credit hour formula funding appropriations are subject to audit for compliance with state statutes, General Appropriations Act riders, and the Coordinating Board's rules and regulations. Audit procedures concentrate on testing accuracy of student classification, collection of tuition, compliance with the Texas Academic Skills Program (TASP) requirements, and class size reporting. Test work is concentrated on the base period semesters used to calculate funding for the 1998-1999 biennium which includes the Summer 1996, Fall 1996, and Spring 1997 sessions.

Methodology

The formula funding audit methodology includes:

- Using attribute sampling methodology to test the accuracy of the semester credit hours used in calculating appropriations. (See Formula Funding Sampling and Testing Methodology in Appendix 3.1.)

- Reviewing self-reported corrections provided by the University and calculating the dollar impact on appropriations.
- Reviewing the University's documentation supporting amounts included in its Request for Legislative Appropriations.

University Self-Reported Corrections - Since the audit sample is drawn from certified data and there is no other means for the universities to make corrections to enrollment data after the Coordinating Board certifies the data, universities are encouraged to self-report corrections prior to audit testing. This self-reporting process compensates for known exceptions in certified data. Dollar amounts based on the effective funding rate for the specific item reported increases or decreases any over- or under-funding from compliance testing.

Prior to any audit testing, Prairie View A&M University was encouraged to disclose any known instances of noncompliance in the enrollment data reports. Disclosing known instances of noncompliance is usually to the university's benefit. The dollar amount associated with each self-reported item is based on the appropriations the university received for reporting the semester credit hours. On the other hand, instances of noncompliance identified through the audit sampling result in a greater dollar impact since they are projected to the entire population of appropriation dollars generated by semester credit hours.

Review of Educational and General Amounts - A review was conducted of the educational and general revenue amounts in Schedule 1 of each university's Request for Legislative Appropriations. This review consisted of analytical procedures and included tracing amounts to the University's Annual Financial Reports, performing trend analyses of net tuition and indirect costs, and evaluating procedures for estimating revenues for future fiscal years.

Review of Teaching Experience Supplement Procedures - A review was conducted of the policies and procedures related to tracking and reporting Teacher Experience Supplement formula variables. This review consisted of interviews and analysis of written procedures.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Background Information

Appendix 3.1:

University Profile

Mission Statement

Prairie View A&M University is the second oldest public institution of higher education in Texas and a “state-wide special purpose” institution designated to serve a diverse ethnic and socioeconomic population. Although originally established to educate African Americans, the University now serves students without regard to race, creed, color, gender, or national origin. The University’s mission is to:

- Serve Texas through high quality undergraduate, graduate, special/continuing education, and research programs.
- Meet the needs of a diverse society and the priorities of Texas with a special responsibility to educate and elevate historically by-passed and under privileged people.

Appendix 3.2:

Financial Information

Prairie View A&M University reported total revenues and other additions of \$79,959,806 and total expenditures and other deductions of \$78,501,590 in fiscal year 1996. The University's fund balance totaled \$186,723,110 for fiscal year 1996. Reported revenues, expenditures, and fund balance as reported in the University's Annual Financial Report for fiscal year 1996 were distributed as follows:

Figure 1

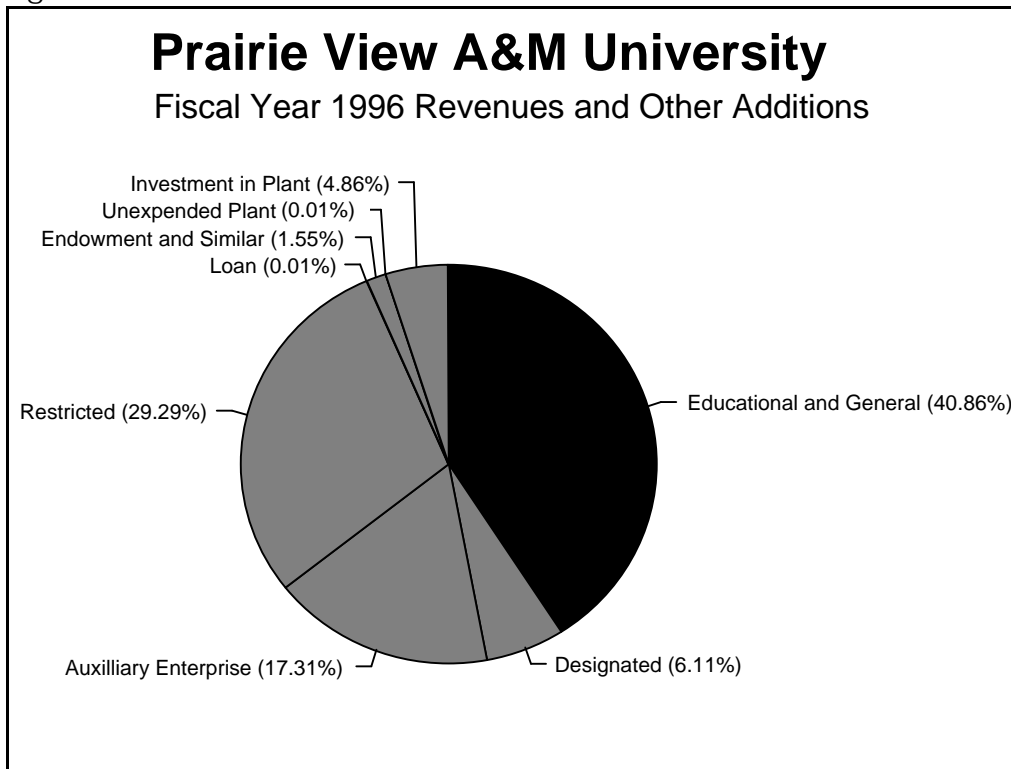


Figure 2

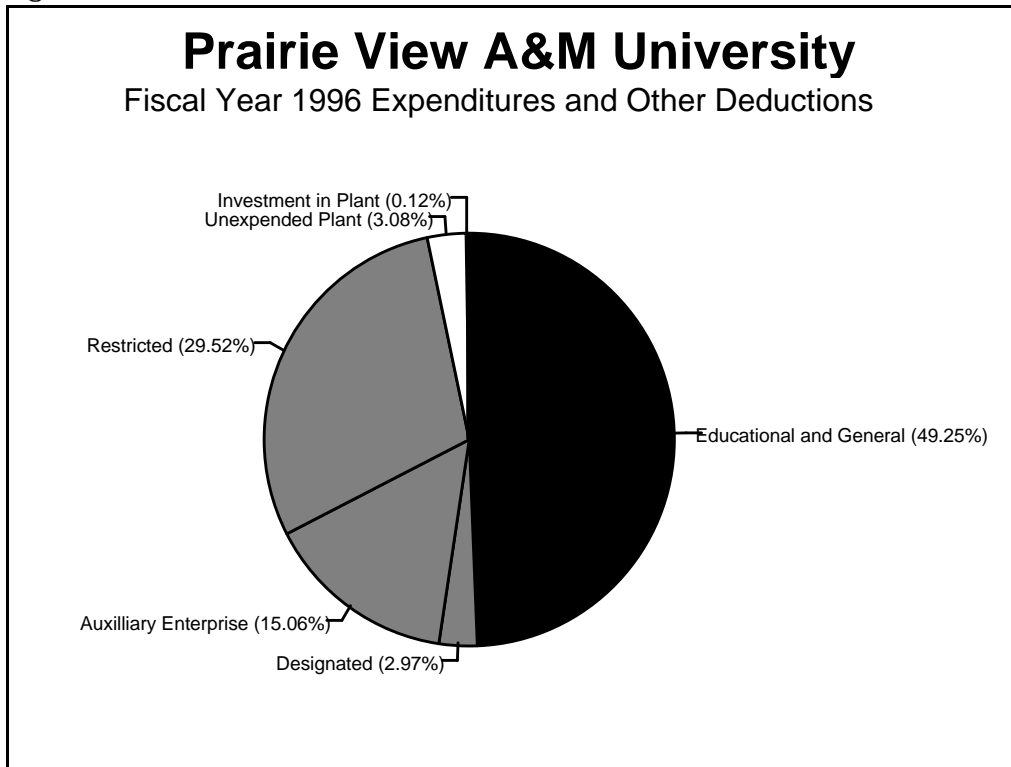


Figure 3

