

An Audit Report on Management
Controls at Texas A&M University - Kingsville

November 18, 1998

Members of the Legislative Audit Committee:

Texas A&M University - Kingsville (University) in general manages its \$65 million in current fund revenues effectively. This means that the University's business systems provide assurance that resources are spent appropriately in serving its 5,929 students.

However, we identified several areas of weakness that could lead to financial or compliance problems if not corrected. To avoid these problems, the University needs to:

- Streamline the process for receiving and approving invoices. This improvement will help the University:
 - Pay vendor invoices within 30 days as required by state law. (The University did not pay 10 percent of the invoices we tested within 30 days.)
 - Avoid the interest payments that the State will add to late invoices beginning in fiscal year 2000.
 - Begin exploring savings with vendors by negotiating early payment discounts. (The range of possible discounts that our Office and the University estimate may be attainable, depending on vendor participation, is between \$22,000 and \$66,000.)
- Use an independent collection agency to help it recover accounts receivables from students for tuition, fees, and room and board. While the University uses a collection agency for some of its loans to students (federal student loans), it does not use these services for its accounts receivables. As a result, it wrote off \$191,618 as bad debts in May 1997 and was planning to write off an additional \$89,377 as of August 1998. Good business practice calls for the University to make every effort to collect debts.
- Improve the way it administers contracts. The University's contract with the operator who runs the campus bookstore expired on November 20, 1997, and the new contract is not in effect yet. Without a contract, the University cannot hold the bookstore operator accountable. In addition, the University risks losing money by delaying the improved terms it negotiated into the new contract. For example, the new contract guarantees the University an annual payment of \$60,000 over the old contract terms and increases its share of net sales.
- Strengthen controls over its \$31 million of property. Currently, the University does not have a system in place to ensure it protects its property and equipment. Property officers

have incompatible duties in that they are responsible for both the property in their area and taking the annual inventory. No compensating controls exist to address this condition. Although we located all the property items in our sample, 50 percent did not have accurate or complete locations on file. Additionally, property management indicated it is behind on tagging new assets and has not reconciled its last (fiscal year 1997) physical inventory to property records.

- Improve management of its human resources. Good management of human resources helps the University attract, retain, and train qualified employees. In turn, qualified personnel help the University fulfill its purpose. In fiscal year 1997, the University invested 47.9 percent (\$28 million) of its current fund expenditures in salaries and wages to compensate its workforce. Specifically, the University needs to:
 - Monitor and track employee training and development.
 - Effectively implement the new performance appraisal system.
 - Remove confidential information from personnel files to comply with law.

Before the audit, the University evaluated itself using the State Auditor's Office *Human Resources Self-Assessment Guide*. In addition, the University has already taken steps to improve its human resources management.

During the audit, the audit team provided the University with tools and advice to help improve its accounting processes and controls. The State Auditor's Office is prepared to help the University correct its weaknesses if requested.

We provided the University detailed findings and recommendations for these and other issues, which are available from our Office upon request. The University generally agrees with our findings and has already started improving several areas.

We appreciate the cooperation of the University's management and staff during the audit. If you have any questions, please contact Pat Keith, Audit Manager, at 479-4700.

Sincerely,



Lawrence F. Alwin, CPA
State Auditor

Objective, Scope, and Methodology

The objective of this audit was to provide independent information regarding both management and fiscal performance. We limited the scope of the examination to significant issues identified by preliminary assessment of the University's operations.

Methodology used to accomplish our objective included (1) gaining an understanding of business processes; (2) reviewing university reports, policies and procedures, and internal audit reports; (3) interviewing university personnel; and (4) observing work processes.