



# The Audit of Texas A&M University - San Antonio's Fiscal Year 2011 Financial Statements

John Keel, CPA  
State Auditor

June 29, 2012

Members of the Legislative Audit Committee:

In our audit report dated June 8, 2012, we concluded that Texas A&M University - San Antonio's (University) basic financial statements for fiscal year 2011 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America. The University published our audit report as part of its basic financial statements, which it intends to post on its Web site at [www.tamusa.tamus.edu](http://www.tamusa.tamus.edu).

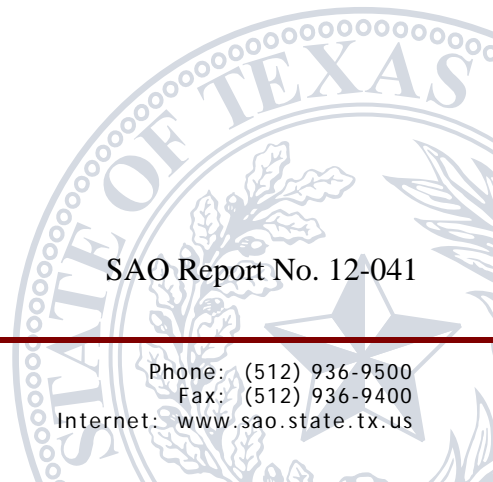
We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards (that report, including responses from University management, is presented in the attachment to this letter). In that report, auditors identified the following significant deficiencies:

- The University's initial calculation of tuition discounts and allowances and financial aid amounts was inaccurate because it relied on a report that incorrectly calculated the dollar amount of federal financial aid in fiscal year 2011. After auditors brought this matter to the University's attention, it corrected that error.
- The University did not reconcile the clearing accounts used in the automated interface between its student accounting system and general ledger system. As a result, the University did not identify that it had incorrectly added adjustments totaling \$900,302 to its clearing accounts. After auditors brought this matter to the University's attention, it corrected that error.

Our procedures were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on compliance with laws and regulations. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting or on compliance with laws and regulations.

Auditors communicated certain issues that were not material or significant to the audit objectives in writing to the University's management.

As required by auditing standards, we will also communicate to the Texas A&M University System board of regents certain matters related to the conduct of a financial statement audit.



We appreciate the University's cooperation during this audit. If you have any questions, please contact Verma Elliot, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA  
State Auditor

Attachment

cc: Members of the Texas A&M University System Board of Regents  
Dr. Richard Box, Chairman  
Mr. Phil Adams, Vice Chairman  
Mr. Morris Foster  
Ms. Elaine Mendoza  
Ms. Judy Morgan  
Mr. Jim Schwertner  
Mr. Cliff Thomas  
Mr. John White  
Mr. James Wilson  
Mr. John Womack, Student Regent  
Mr. John Sharp, Chancellor, Texas A&M University System  
Dr. Maria Ferrier, President, Texas A&M University - San Antonio



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# Attachment



## Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

### Members of the Texas A&M University System Board of Regents

Dr. Richard Box, Chairman  
Mr. Phil Adams, Vice Chairman  
Mr. Morris Foster  
Ms. Elaine Mendoza  
Ms. Judy Morgan  
Mr. Jim Schwertner  
Mr. Cliff Thomas  
Mr. John White  
Mr. James Wilson  
Mr. John Womack (Student Regent)

We have audited the financial statements of the business-type activities of Texas A&M University - San Antonio (University) as of and for the year ended August 31, 2011, and have issued our report thereon dated June 8, 2012. Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have chosen not to comply with a reporting standard that specifies the wording to be used in discussing restrictions on the use of this report. We believe the use of such wording is not in alignment with our role as a legislative audit function.

### Internal Control over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant

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SAO Report No. 12-338

deficiencies, or material weaknesses. We did not identify any deficiencies in internal controls over financial reporting that we considered to be material weaknesses, as defined above. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Summary of Findings and Responses
Finding Number
2011-1
2011-2

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the University in writing.

The University's response to the findings identified in our audit is included in the accompanying schedule of findings and responses. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Texas A&M University System Board of Regents, University management, and the Legislature. However, this report is a matter of public record, and its distribution is not limited.

John Keel, CPA  
State Auditor

June 8, 2012

## ***Schedule of Findings and Responses***

### *Section 1*

### ***The University Should Correct the Report Used for Its Calculation of Tuition Discounts and Allowances and Financial Aid Amounts***

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Reference No. 2011-1

#### **Type of finding: Significant Deficiency**

As part of its financial statements calculations for the year ended August 31, 2011, Texas A&M University - San Antonio (University) relied on a report that incorrectly calculated the dollar amount of federal financial aid in fiscal year 2011. Federal grants are directly reported in the University's financial statements, and both federal grants and loans are components in the University's calculation of the amount reported for tuition discounts and allowances. Although the report used to calculate the amount of federal financial aid tried to capture the University's student financial aid activity that occurred during fiscal year 2011, it was incorrect because it (1) used an incorrect date field to query the student financial aid information for the fiscal year and (2) did not account for the financial aid activity of students whose financial aid had been rescinded during the fiscal year.

The University shares its student accounting system with Texas A&M University - Kingsville. This requires the two universities to allocate the disbursement of grant funds, refunds, federal loan funds, and some scholarship funds between the two universities. Beginning with the Fall 2010 term, separate term codes and additional payment detail codes were established for the University, which allowed the University to easily distinguish its information from the information for Texas A&M University - Kingsville. The University is also able to pull reports by date, as well as term, so that information is available for the University to base its calculation of tuition discounts and allowances on actual student information for the fiscal year.

The cumulative effect of using the incorrect report resulted in the University overreporting federal pass-through non-operating revenue by \$384,324, underreporting tuition discounts and allowances by \$318,720, and overreporting scholarship expense by \$65,604. There is no effect on the resulting change in net assets.

**Recommendation**

The University should correct the student financial aid activity report used for its calculation of tuition discounts and allowances and financial aid amounts.

Section 2

***The University Should Reconcile the Clearing Accounts Used in the Automated Interface between Its Student Accounting and General Ledger Systems***

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Reference No. 2011-2

**Type of finding: Significant Deficiency**

Texas A&M University - San Antonio's (University) clearing accounts used in the automated interface between its student accounting system and general ledger system had a combined balance of \$836,851 as of August 31, 2011. The University did not reconcile these clearing accounts at fiscal year end; it reported the combined balance as part of other current assets and student receivables on its statement of net assets.

The University shares its student accounting system with Texas A&M University – Kingsville. The University relies on an automated nightly interface to post student transactions to its general ledger system. However, because some transactions are comingled between the two universities, a manual adjusting entry to the University's general ledger system is required to balance the financial records of each university. The calculation of the manual adjusting entry's amount is based on daily reconciliations ; however, the University records a manual adjusting entry in its general ledger system only several times a year.

In fiscal year 2011, four of the manual adjusting entries recorded in the University's general ledger system included adjustments to reimburse Texas A&M University – Kingsville for scholarship expenses that had already been accounted for through the automated interface. The University incorrectly added those adjustments totaling \$900,302 to its clearing accounts.

The cumulative effect of those four manual adjusting entries resulted in the University overreporting other current assets by \$578,485 and student receivables by \$259,768; and underreporting other payables by \$62,049 and due from other state entities by \$900,302 on the University's statement of net assets.



## Recommendations

The University should:

- Reconcile the clearing accounts used in the automated interface between its student accounting system and general ledger system at least quarterly and after each manual adjusting entry is recorded to balance the financial records of each university.
- Implement proper supervisory reviews of its reconciliations of the clearing accounts.

**Management's Response**



**OFFICE OF THE PRESIDENT  
DR. MARIA HERNANDEZ FERRIER**

One University Way, San Antonio, Texas 78224  
Phone: 210-784-1600 Fax: 210-784-1619

June 21, 2012

State Auditor's Office  
Attn: Fabienne Robin  
P.O. Box 12067  
Austin, TX 78711-2067

Dear Ms. Robin:

In regards to the findings of deficiencies in the internal control over financial reporting and the recommendations of the audit, Texas A&M University-San Antonio responds as follows:

***Finding: The University Should Correct the Report Used for Its Calculation of Tuition Discounts and Allowances and Financial Aid Amounts***

**Recommendation**

The University should correct the student financial aid activity report used for its calculation of tuition discounts and allowances and financial aid amounts.

**Management's Response**

Management agrees with the finding and acknowledges that the University should correct the student financial aid activity report used for its calculation of tuition discounts and allowances and financial aid amounts.

Texas A&M University-San Antonio will ensure that the report that is used to record financial aid, and to calculate tuition discounts and allowances, is capturing the correct information for the fiscal year. Due to short staffing in the Financial Services area, it has been necessary to rely on work performed and information provided by Texas A&M University-Kingsville (TAMUK). Although the report provided by TAMUK was reviewed by the Director of Business Services, it was not readily apparent from the information provided that the date field was incorrect and that the report did not account for the financial aid activity for those students whose financial aid had been rescinded during the fiscal year. The University is planning to hire an information analyst in the Business Services area. The primary job function of this new position will be ensuring the integrity

of the information obtained for use in various financial reports, including the information used to calculate and record financial aid amounts and tuition discounts and allowances.

**Responsible for Implementation:** Comptroller & Director of Business Services

**Timeline:** Target: January 1, 2013. The university will move toward immediate posting for, and hiring of, staff person. Necessary time needed to train staff in the systems and processes necessary to perform the duties.

**Finding: *The University Should Reconcile the Clearing Accounts Used in the Automated Interface between its Student Accounting and General Ledger Systems***

#### **Recommendations**

The University should:

- Reconcile the clearing accounts used in the automated interface between its student accounting system and general ledger system at least quarterly and after each manual adjusting entry is recorded to balance the financial records of each university.
- Implement proper supervisory reviews of its reconciliations of the clearing accounts.

#### **Management's Response**

Management agrees with the finding and acknowledges that the University should reconcile the clearing accounts used in the automated interface between its student accounting and general ledger system.

Texas A&M University-San Antonio will ensure that clearing accounts used in the automated interface between its student accounting system and general ledger system are reconciled periodically, with a goal of at least quarterly, to include reconciliation of any manual entries made to the clearing accounts. Due to short staffing in the Financial Services area, it has not been possible to reconcile the clearing accounts on a regular basis. The University is planning to hire an information analyst in the Business Services area. This person will be assigned to ensuring information feeding from the student accounting system to the general ledger accounting system is correct and recorded properly. This will include reviewing daily feeds for proper recording of transactions and reconciliation of clearing accounts utilized in the process. Additionally, a process for supervisory review of the reconciliations will be put in place.

**Responsible for Implementation:** Comptroller & Director of Business Services

**Timeline:** Target: January 1, 2013. The university will move toward immediate posting for, and hiring of, staff person. Necessary time needed to train staff in the systems and processes necessary to perform the duties.

Sincerely,



Maria Hernandez Ferrier  
President