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A Follow-Up Audit Report on Management Controls at Sam Houston State University

October 1998

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Key Points of Report

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Overall Conclusion

Sam Houston State University (University) has taken a number of actions to address the recommendations in *An Audit Report on Management Controls at Sam Houston State University* (SAO Report No. 97-044, March 1997). Although the previous report identified control weaknesses in several areas, management has implemented or is in the process of implementing many of the report's recommendations. Twenty-two of the 37 (60 percent) recommendations reviewed have been resolved. However, some recommendations related to monitoring investment performance, human resources, and information systems remain unresolved. As a result of the University's progress, there is additional assurance that management controls are adequate to ensure resources are spent appropriately.

Key Facts and Findings

- The University implemented most of the recommendations related to improving its internal audit function. In February 1998, the University hired a new Director of Internal Audit who has developed a comprehensive approach to evaluating University operations.
- The University will not fully implement certain recommendations until the next fiscal year. The University has redesigned its performance appraisal system, but certain procedures will not be phased in until fiscal year 1999. We commend management's efforts to address the issues noted in the previous report; however, management should continue its commitment to implementing all the corrective actions.
- The University has not implemented some specific recommendations that could potentially have a significant impact on its operations. These include:
 - Set appropriate benchmarks to evaluate the performance of the University's \$49 million investment portfolio.
 - Continue to improve planning for human resources staffing and monitoring. Adequately planning for human resources is critical since related expenditures totaled \$43.6 million in fiscal year 1997.
 - Test disaster recovery plans to ensure information systems can be restored in case of disaster.

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

Overall Conclusion

Sam Houston State University (University) has taken a number of actions to address the recommendations contained in *An Audit Report on Management Controls at Sam Houston State University* (SAO Report No. 97-044, March 1997). Although the previous report identified control weaknesses in several areas, management has implemented or is in the process of implementing many of the report's recommendations. Twenty-two out of the 37 (60 percent) recommendations reviewed have been resolved. However, some recommendations related to monitoring investment performance, human resources, and information systems remain unresolved. As a result of the findings already addressed, there is additional assurance that management controls at the University are adequate to ensure resources are spent appropriately.

We commend management's efforts to address issues noted in the previous report. However, the University will not fully implement certain recommended actions until the next fiscal year. Examples of pending actions include awarding merits using the newly developed appraisal system and developing a budget to support the training plan. In addition, some recommendations that could potentially have a significant impact on University operations have not been implemented. These recommendations include setting benchmarks to measure the University's investment performance, planning adequately for human resources needs, and testing for recovery of information in case of a disaster.

The scope of this audit was limited to following up on findings and recommendations included in the original report. Our work addressed selected aspects of 8 major areas of concern in the prior report. We encourage the University to continue planned activities and to closely monitor progress towards complete implementation of our recommendations. The State Auditor's Office will continue to monitor the University's actions and will provide assistance as necessary.

The table in each section, where necessary, summarizes and provides the status of the steps taken by the University.

Section 1:

The University Has Taken Steps to Manage Risk Through the Internal Audit Function

The Internal Audit Department has adopted a more proactive and systematic approach to evaluating University operations. The University hired a new Director of Internal Audit in February 1998 and made several changes to improve oversight. The new Director has developed a comprehensive risk assessment of the University's operations and revised the audit plan accordingly. The Director sought input for the audit plan from management and used a formal, weighted risk assessment to rank risk among the University departments. The audit plan contains an analysis of available audit hours to ensure that audit resources are allocated appropriately.

In addition, the Director has revised the Internal Audit Policy manual. The manual now contains key policies and procedures relating to:

- The organizational structure of the Internal Audit Department
- The types of audit reports to be prepared
- The objectivity in the audit function
- The professional proficiency of staff
- The scope and performance of work
- The external review of the Internal Audit Department

Management and the Texas State University System Board of Regents (Board) have increased their involvement with the internal audit function. The Board approved the revised internal audit charter, the internal audit policy, and the audit plan at its May 1998 meeting. Table 1 summarizes and provides the status of steps taken by the University.

Table 1

Recommendation	Auditor's Remarks
<p>1. The Board should ensure that all audit reports and audit plans are reviewed each year. Additionally, Internal Audit should take proactive steps to ensure that the Board has approved its audit plans and reviewed its reports each year. Hiring and firing of directors of internal audit should have prior approval from the Board to ensure independence of the internal audit function.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>The Board of Regents approved the hiring of a new Director of Internal Audit and the Director's revised audit plan.</p>
<p>2. Management, with input from the Board, should evaluate the Internal Auditor annually as required by University policy.</p>	<p>Implementation Status: PARTIALLY IMPLEMENTED</p> <p>Management plans to complete an annual, formal evaluation of the new Director after one year of employment.</p>

Recommendation	Auditor's Remarks
<p>3. The Board and management should be involved in the risk assessment process. Explain, in detail, to the Board and management the risk-ranking process and how projects were selected for the audit plan.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>Management completed a survey that is used in the risk-ranking process.</p>
<p>4. The risk-ranking process used by Internal Audit should be reevaluated. As part of this process, Internal Audit should reassess the weights of the risk factors used and redefine auditable units in specific terms.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>The new Director of Internal Audit has revised the audit plan and the risk assessment. Management, directors, and deans completed a risk-ranking survey and assessed 12 independent factors. Using a formal, weighted risk assessment, the Director identified and prioritized the departments and programs that could be audited. Auditable departments and programs increased from 56 in the 1997 plan to 126 in the revised 1998 plan.</p>
<p>5. Audits included in the annual audit plan should be selected based on assessed risk. When high-risk audits are not included in the plan, the reasons why these projects were excluded should be documented and management should be notified of the risk assumed by excluding these audits.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>Audits in the plan are a combination of High, Moderate, Low, and Special Projects. Per the audit risk assessment, all high-risk audits are included in the plan. All high-risk audits will be performed between fiscal year 1998 and fiscal year 2000.</p>
<p>6. A process should be established to systematically address adding special projects to the audit plan. The process should include a mechanism to determine the risk of the special projects to the University and a mechanism to inform management of the changes and how these changes impact the risk management assumes.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>The University has addressed special projects both in the audit plan and in the internal audit policy. In fiscal year 1998, 10 percent (210 hours) of total audit hours will be used on Special Projects such as petty cash counts, cash receipts and disbursements testing, and inventory observation. Request procedures for special projects have been documented in the internal audit policy.</p>
<p>7. A systematic method of tracking direct and indirect audit hours should be developed.</p>	<p>Implementation Status: PARTIALLY IMPLEMENTED</p> <p>The University is in the process of developing a systematic method of tracking direct and indirect audit hours. The University has purchased a software package that tracks direct and indirect audit hours and generates reports.</p>
<p>8. Supporting evidence should be better referenced to document audit conclusions, and/or more convincing evidence should be obtained to support audit findings.</p>	<p>Implementation Status: PARTIALLY IMPLEMENTED</p> <p>According to the Director of Internal Audit, the department is currently performing an audit that will be reviewed by the Director of Audits and Analysis of the Texas State University System. Reports and working papers will be tested for supporting evidence when the University's audit is completed.</p>

Recommendation	Auditor's Remarks
9. Methods for instituting a quality control process should be considered. For example, the Internal Auditor could trade review services with someone else within the Texas State University System or could arrange to have an independent third party from within the University review her work.	Implementation Status: PARTIALLY IMPLEMENTED See remarks above.
10. The Internal Audit Department should have a peer review as soon as possible.	Implementation Status: IMPLEMENTED A quality assurance review was completed April 14, 1997. The review covered audit work performed from September 1994 through December 1996.
11. An improved risk assessment should be used to help Internal Audit reevaluate the amount of resources it needs.	Implementation Status: IMPLEMENTED The Internal Audit Department increased the number of full-time equivalent employees (FTEs) from 1 in fiscal year 1997 to 2.5 in fiscal year 1998. The FTE increase reflects the changes in the revised audit plan.

Management's Response:

(2)

The prior Director of Internal Audit was reviewed as of January 6, 1997. The current Director of Internal Audit began employment on February 2, 1998. The new Director had a six-month review on August 2, 1998. Management will continue the evaluation process by completing a formal, annual evaluation every year, as required by University policy.

(7)

The Director of Internal Audit requires all Audit Department personnel to complete weekly time sheets. The information is then entered into "Time Slips." The Time Slips software produces many reports that assist in analyzing actual to budgeted time, cost per audit project, and administrative time requirements.

(8) and (9)

The initial recommendation was targeted for a one-person audit department. Since that time, the Internal Audit Department has two full-time employees, one part-time student intern, and a part-time federal work-study student. The changes in the structure of the department have prompted many changes in the quality control process. The Director of Internal Audit has detailed the work paper procedures in the Internal Audit Policy. The Policy requires that each work paper will contain a heading which will include the auditable unit being examined, the division of the unit (if applicable) and the date of the period covered by the audit. Each work paper will be signed and dated by the Internal Auditor creating the work paper and signed and dated as reviewed by the Director of Internal Audit. Procedures and conclusions will be documented on each work paper. All audit tick marks will be explained. Each work paper will be numbered in the bottom right hand corner of the paper.

In addition, the Director has had prior experience in working paper reviews and peer reviews related to governmental auditing. The new policies and proper supervision by the Director should insure that all working papers contain sufficient information to enable an experienced auditor who has not had previous connection with the audit to ascertain from them the evidence that support the auditor's significant conclusions and judgements.

To further strengthen the quality control process, the Director of Audits and Analysis of the Texas State University System will also perform periodic reviews of the work papers.

Section 2:

The University Has Improved Controls Over Investments But Needs Appropriate Benchmarks to Evaluate the Performance of Long-Term Investments

We commend management for its continued effort to strengthen internal controls over investments. However, suitable benchmarks for assessing returns on long-term investments have not been established.

University accomplishments include reconciling investment reports in a timely manner and expanding ethics guidelines. In addition, duties have been adequately segregated between investment personnel who initiate transactions and business office personnel who reconcile investment records.

The University has not set appropriate benchmarks to evaluate the performance of its portfolio as recommended in our previous audit. The University uses a benchmark rate of 95 percent of the yield on one-year U.S. Treasury Bills. This benchmark is a short-term rate that may not be appropriate for the University's entire long-term portfolio. In addition, the University only measures performance over a relatively short period of time, one year or less. As a result, the University may not be able to assess how well its investment is doing for periods longer than one year. Performance measurement over a longer period for longer-term investments provides more useful information.

As of February 28, 1998, the market value of the University's investment was \$49 million. Of that amount, \$16 million, or 32 percent, was in long-term investments. The majority of the long-term investments consisted of fixed-income securities having maturity rates of one to five years or longer.

The benchmark currently used by the University does not reflect the types of assets that are included (or are permitted to be included) in the specific portfolio. Benchmarks can provide a framework for the Board's expectations regarding anticipated returns and acceptable risks. Table 2 summarizes and provides the status of steps taken by management.

Table 2

Recommendation	Remarks
<p>1. The University's investment policy requires reconciliations be reviewed on a regular basis by the Vice President for Finance and Operations and the Internal Auditor. We commend management for its quick responses to our findings and encourage them to continue to look for ways to strengthen internal controls over investments</p>	<p>Implementation Status: IMPLEMENTED</p> <p>Monthly investment reports are prepared and distributed to the Assistant Director of the Business Office, who reconciles the report using statements from investment entities.</p> <p>This issue was resolved before the original report was issued.</p>
<p>2. The University did not require investment personnel to sign an ethics policy addressing conflict of interest issues and requiring annual financial disclosure by key employees. We commend management for its quick responses to our findings and encourage them to continue to look for ways to strengthen internal controls over investments.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>The University issued ethical guidelines and required investment personnel to complete disclosure statements.</p> <p>This issue was resolved before the original report was issued.</p>
<p>3. The Board of Regents, the President and the Vice President for Finance and Operations should work together to establish realistic benchmarks for the University's investment portfolio. Established benchmarks should be reported to the Board as part of the quarterly investment performance report. Finally, the University should follow its policy and prepare formal cash flow projections. Investment decisions should be based on current cash flow projections.</p>	<p>Implementation Status: NOT IMPLEMENTED</p> <p>The University has not set appropriate benchmarks to evaluate the performance of the University's portfolio as recommended in our report dated March 1997. As of February 29, 1998, the market value of the University's investment was \$49 million. Of that amount, \$16 million was in long-term investments. The majority of the long-term investments in the portfolio consisted of fixed-income securities having maturity rates of one to five years or longer.</p> <p>The University prepares quarterly cash flow projections. Copies of this report are sent to the President, the Director of Internal Audit, the Assistance Director of the Business Office, and the Texas State University System's Director of Finance. However, there are no indications that investment decisions are based on current cash flow projections. There was no documentation available to link cash projections to investment strategies.</p>

Management's Response:

(3)

The Texas State University System investment policy is in the process of being reviewed and revised to better address the selection of benchmarks applicable to long term investments. The Sam Houston State University benchmark will be reviewed with The Texas State University System, Director of Finance to determine a change to include other benchmarks such as a benchmark for one-two year investments and a benchmark for two-three year investments.

The Board of Regents, The Texas State University System, approves the investment guidelines for each of the system component universities. Our benchmark of 95% of 1 year U.S. Treasury Bill bid rate is utilized by two other universities in the Texas State University System and the 1-year U.S. Treasury Bill bid rate is utilized by one other university in the System. The weighted average maturities of all Sam Houston State University investments for 05/31/98 was 209.9 days, for 07/31/98 was 179.79 days, and for 08/31/98 was 161.67 days. Due to the short-term nature of the portfolio, reflected by the weighted average maturities, a short-term benchmark was selected.

The Vice President of Finance and Operations utilizes daily cash fund statements and quarterly cash flow projections to make investment decisions. The cash fund statements are received early each day and reviewed by the Vice President of Finance and Operations, who then makes daily investment decisions accordingly.

Section 3:

Procedures for Safeguarding State Assets Have Been Strengthened Through Segregation of Duties and Reconciliation of Fixed Asset Records

The University has taken steps to enhance business systems that safeguard state assets. The University improved segregation of duties over the food service contract by involving the Purchasing Department as well as the Business Office in the request for proposal (RFP) and bidding process. One person is no longer responsible for drafting the RFP, evaluating the bids, drafting the contracts, and recommending the contractor to the University and the Board. The new process reduces the risk for misuse of authority. In addition, the University is currently performing timely reconciliation of fixed asset between the inventory and the accounting records. Table 3 summarizes and provides the status of steps taken by management.

Table 3

Recommendation	Remarks
<p>1. Perform periodic reconciliations between the physical count of property and equipment and the general ledger balances to improve controls over property and equipment.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>In fiscal year 1997, the University performed a physical count of property and equipment and made appropriate adjustments to the general ledger.</p>
<p>2. Ensure that there is adequate separation of duties for all auxiliary contracts. The Purchasing Department should be involved in the RFP and bidding process.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>Our review of the ARAMARK contract indicated that the Purchasing Department was involved in the RFP and bidding process. We hope that this practice will continue in all auxiliary contracts to ensure continued separation of duties.</p>

Recommendation	Remarks
3. Re-bid the food service contract in May 1997 to ensure that the University is receiving the best services for the best price.	Implementation Status: IMPLEMENTED The University re-bid and signed a contract with ARAMARK Educational Services of Texas, Inc., in June 1997. The contract is for a five-year period. ARAMARK has been the University's food service contractor for the past 12 years.

Management's Response:

None

Section 4:

Continue to Improve Planning for Human Resources Staffing and Monitoring

Our follow-up review indicates that certain recommendations related to key functions such as analyzing staffing needs, hiring, and evaluating performance have not been implemented. Although the University has improved human resources policy and procedures, management should resolve those findings that ensure appropriate planning for future human resources needs. Strategic activities such as analyzing staffing needs and posting all jobs help to ensure that qualified personnel are selected and appropriately allocated among University departments. The importance of adequate planning is underscored by the fact that the University spent a total of \$43.6 million, or 50.1 percent of total current fund expenditures, on salaries and wages in fiscal year 1997. Table 4 summarizes and provides the status of steps taken by management.

Table 4

Recommendation	Remarks
1. The performance appraisal policy should be reviewed to ensure that it suggests only appropriate evaluation systems. The policy should state that all appraisals must be documented. Also, the policy should direct supervisors to review evaluation criteria with employees before the evaluation occurs. Evaluation criteria used should reflect the essential job functions so that feedback is focused to provide meaningful, relevant feedback for that job.	Implementation Status: PARTIALLY IMPLEMENTED The University has developed a new performance appraisal policy that addresses Responsibility, Meritorious Service, Staff Performance Evaluation, Annual Merit Review, Merit Pay Increase, Seniority Merit Pay, Documentation, and Forms. The University is currently implementing the new system which will be completely phased in by fiscal year 1999. The University has organized a Staff Evaluation System Planning Committee to (1) serve as an advisory committee to the Director of Human Resources, (2) monitor the entire Staff Evaluation System in a continuous effort to determine necessary alterations, and (3) stabilize and create a sense of continuity to the evaluation process.

Recommendation	Remarks
<p>2. The Human Resources Department or Personnel Office should develop spot-check procedures to ensure that the evaluations are being performed and documented. Recent evaluations should accompany all pay actions.</p>	<p>Implementation Status: NOT IMPLEMENTED</p> <p>The University developed a new human resources policy that requires annual merit review (AMR). During the Spring semester, supervisors review all employees with at least one year of service on their current jobs. However, the Human Resources Department (HR) only receives personnel action forms if reviews result in merits or promotions. Therefore, HR has no way of ensuring that supervisors evaluate all employees in a timely manner and document those evaluations appropriately. Without timely, written evaluations, it becomes difficult for the University to reward good performance or correct poor performance.</p>
<p>3. Supervisors should be trained on the importance of performance appraisals. Performance evaluations can be used to encourage good performance and to correct and discourage substandard performance.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>The University has developed a Performance Training class for supervisors and has trained supervisors on the importance of performance appraisals.</p>
<p>4. The Personnel Office should require that specific examples of exceptional performance be included in the justification section of the personnel action form.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>The new staff evaluation system uses the Annual Merit Review (AMR) Form to document staff employee reviews. The form requires supervisors to summarize exceptional performance over the past year.</p>
<p>5. Human Resources or the Personnel Office should develop procedures to ensure that all evaluation confirmation letters have been received for each employee each year. To better control the process, the evaluation periods for the non-academic personnel could be staggered so that a certain number of departments would be due for evaluations each month.</p>	<p>Implementation Status: NOT IMPLEMENTED</p> <p>With the current policy, HR receives only personnel action forms for merits or promotions resulting from reviews. The employee's department keeps the actual evaluations.</p>
<p>6. The training function at the University could be strengthened by developing a training and development plan that is linked to University strategies, establishing a training and development budget, establishing a means of identifying and prioritizing training and development needs, developing a system to track internal and external training provided to staff, and conducting post-training studies to determine the effectiveness of training classes attended by staff.</p>	<p>Implementation Status: PARTIALLY IMPLEMENTED</p> <p>Although the University has outlined training goals, mechanism for implementing and monitoring them have not yet been fully defined. The University has not established a training budget for all key functions but has formalized a budget for the President's Employee Scholarship Program. Staff members use feedback from evaluations to determine the effectiveness of training. The University identifies and prioritizes training needs through the staff evaluation system and tracks internal and external training of staff using the Staff Training Request.</p>

Recommendation	Remarks
7. The Human Resources Department should conduct a staffing analysis for the University. Additionally, Human Resources planning should be integrated with University strategic planning.	Implementation Status: NOT IMPLEMENTED The University has developed a plan to analyze staffing needs. The current job classification now includes needs analysis. The staffing analysis has not yet been performed.
8. All jobs should be posted internally and/or externally. Decisions should not be made concerning hiring a particular employee until after the selection process has been completed.	Implementation Status: NOT IMPLEMENTED If jobs are open to outside applicants, the postings are made public. However, all jobs are not posted internally. There are exceptions that will allow the University to deviate from the normal hiring process. One exception permits the hiring department to promote an employee from within that area. Such an exception prevents the University from making a selection from a wide pool of quality applicants.
9. The question asking applicants to rank 10 factors (retirement plan, group insurance, vacation and holidays, pay, etc.) in terms of importance should be removed from the Applicant Questionnaire. If the University feels that this information should be collected, ask employees after they have been hired.	Implementation Status: IMPLEMENTED Management has revised the applicant questionnaire form and removed the ranking question.
10. Inappropriate information should not be stored in the personnel files. It should be removed and stored separately. If this is not practical, only appropriate information from the file should be printed and sent to the requesting party.	Implementation Status: IMPLEMENTED Management has implemented a procedure to remove inappropriate information from personnel files and to file it separately. All information requested from personnel files will be reviewed, and only appropriate information will be released.

Management's Response:

(1)

Sam Houston State University developed a new staff evaluation system during fiscal year 1998 (September, 1997 through April, 1998). This staff evaluation system was budgetarily implemented during May, 1998 through July, 1998 and utilized to award merit pay to staff for the 1999 budget. The budget and the procedures were formally approved prior to the completion of the audit follow-up. However, the actual procedures and pay raises were implemented subsequent to the completion of the fieldwork. The Staff Evaluation System Planning Committee is organized and will provide continuous efforts to recommend improvements and enhancements to the staff evaluation system.

(2)

Sam Houston State University has revised HR Policy HR-6, Staff Evaluation System, to include an audit procedure to ensure that each eligible staff employee receives an

annual performance evaluation. The Department Manager will list staff employees within the department who are eligible for an annual review. The Department Manager will reconcile the list with the individual Annual Merit Review (AMR) Form for each staff employee, and will verify that each staff employee did receive an annual evaluation. The original list will be kept on file in the department with the original AMR forms. A copy of the list will be forwarded to the Human Resources Department. The Human Resources Department will review the list to verify that all staff employees received a performance evaluation.

(5)

Sam Houston State University requires that a copy of the most recent annual evaluation be attached to the Payroll Action Form (PAF) when requesting a merit increase or promotion. The University issues all annual merit raises concurrently. Staggering the evaluation periods would result in certain employees having reviews, but not receiving their raise until a later date. University Management believes the timing of the evaluation should match the timing of the reward or discipline, which ever is applicable.

(6)

The Human Resource Department of Sam Houston State University is improving the existing training budget as funds and resources are available. A training calendar is developed for information purposes and is available to all University departments. Sam Houston State University will continue to improve and enhance the training program's implementation and monitoring.

(7)

Sam Houston State University will begin the staff analysis during fiscal year 1999. The human resource planning is being integrated into the annual strategic planning.

(8)

Sam Houston State University is posting internal job openings in compliance with the Sam Houston State University Human Resource Policy E-1 (revised April, 1998). An exception is permitted for a recommended promotion from within the University. This exception requires the employee being recommended for promotion to meet all of the standards of quality and experience for the position. This exception allows University Management to show confidence in a current employee and to reward excellent performance and is an example of upward mobility of our employees.

Process for Meeting Statutory Requirements Has Been Improved

The University has made significant steps to improve controls over statutory requirements. Management should be commended for resolving compliance issues related to the Historically Underutilized Business (HUB) program. The Physical Plant Department has made a good-faith effort to support the HUB program and improve the method of collecting data reported to the General Services Commission (GSC). As of July 31, 1998, the Physical Plant Department had issued architectural and engineering contracts totaling \$1,160,667. HUB contracts account for \$779,202, or 67 percent, of the total contracts. Table 5 summarizes and provides the status of steps taken by management.

Table 5

Recommendation	Remarks
<p>1. The HUB Coordinating Group should assume an oversight role over the program as soon as possible. Adequate monitoring tools should be developed and implemented in order to improve overall management of the HUB program.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>Currently, the Director of Purchasing (for purchases of goods and services) and the Director of Physical Plant (for construction) make up the University's HUB Coordinating Group. The Vice President for Finance and Operations oversees the group. The group has developed and used the Subcontractor Progress Report and the HUB plan to monitor and manage the HUB program.</p>
<p>2. Communication between the Purchasing Department and the Physical Plant should be enhanced to ensure that each performs comparable HUB activities.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>The Director of Purchasing and the Director of Physical Plant meet routinely to discuss HUB activities and ways of making good efforts.</p>
<p>3. A list of certified HUBs eligible for subcontracts should be developed and distributed to contractors.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>The University provides all general contractors of record a copy of the HUB subcontractor list prior to bidding.</p>
<p>4. Modifications to all necessary systems should be made to ensure that subcontractor information is captured and reported to the GSC.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>The Accounting, Purchasing, and Physical Plant Departments ensure that information captured and reported to GSC is necessary and relevant. These departments use the HUB Sub-Contractor's Progress Report, the HUB Plan Form, the Expenditure Summary Data, and the Bid Document Information to collect and report HUB data. These forms have been modified to include information ranging from the HUB vendor's name, identification number, total contract amount, amount paid during current period, firm contact, certification, expiration date, and the scope of work.</p>
<p>5. The University should register its brand with the Walker County Clerk, and policies and procedures should be developed concerning the donation of livestock.</p>	<p>Implementation Status: IMPLEMENTED</p> <p>The University has registered its brand with the Walker County Clerk and developed policies and procedures for livestock that is donated.</p>

Management's Response:

None

Section 6:

Continue to Improve Electronic Data Processing Controls by Testing the Disaster Recovery Plans Each Year

Although the University has modified procedures to enhance security over the processing of data, some of these measures have not been tested. For example, the University has established an off-site location that currently houses standby systems which have current copies of all data files. However, the standby systems have not been tested to ensure the desired results are achieved. Testing will ensure that automated systems can be restored and information can be recovered should a disaster occur. Because the systems have not been tested, it is difficult to determine if the University needs to set priorities for application processing. Setting priorities determines the sequence or order in which programs, such as accounting, payroll, or transcripts, could be brought on line after a disaster.

The University has taken additional measures to improve security, which include:

- Asking vendors what level of support they will provide to the University in the event of a disaster
- Sending the Internal Audit Department all requests for new systems and all modifications to existing programs for review

Table 6 summarizes and provides the status of steps taken by management.

Table 6

Recommendation	Remarks
1. Improve disaster recovery planning efforts by testing the disaster recovery plan yearly, prioritizing application processing, locating critical documentation at the back-up facility, and contacting vendors regarding the level of support they will provide.	Implementation Status: PARTIALLY IMPLEMENTED An off-site location has been equipped for standby systems. The vendor support list is currently maintained at the off-site and the main system locations. The list shows the vendor, the product, and the number of days it will take to deliver after the receipt of the order. However, the standby system has not been tested and application processing has not been prioritized.
2. Including Internal Audit in the review of the development of new or modifications to existing systems. Providing for the development of user documentation.	Implementation Status: PARTIALLY IMPLEMENTED Weekly requests are made available to the Director of Internal Audit for review. However, user documentation is only provided upon request as opposed to during the process of developing the application.

Management's Response:

(1)

The standby system has been prioritized and tested subsequent to the audit fieldwork. The results reflected that the Sam Houston State University backup system is capable of running all applications of processing.

(2)

Sam Houston State University treats user documentation as any other request for programming. It is produced upon user request and is prepared to meet user specification. In addition, Internal Audit periodically pulls and reviews a sample of requests. User documentation is reviewed as part of this process.

Section 7:

Continue to Improve the Budget Process for Two Auxiliary Enterprises

The University has initiated but not completed efforts to strengthen budget development and monitoring for two Auxiliary Enterprises. Some key elements of an effective budgeting process have not yet been incorporated. For example, both the Cheerleading Summer Camp Program and the Bearkitten Academy now use the prior year's income and expenses to estimate their operational budgets. However, the budget for the Cheerleading Summer Camp Program does not reflect all related expenses and has not yet been included in the University's operating budget.

In addition, more time is needed to determine whether the revised budgets are reasonable projections in comparison to actual activities. Table 7 summarizes and provides the status of steps taken by the University.

Table 7

Recommendation	Remarks
1. Establish a realistic budget for the Bearkitten Academy. Prior year's income and expenditures should be used as a basis for budget estimates. Reevaluate the financial viability of the Bearkitten Academy. Consider other options, such as the one proposed by the Ad Hoc Committee on Campus Child Care Facilities, to consolidate the Bearkitten Academy and The Little Bearkat Center.	Implementation Status: IMPLEMENTED The University projected revenue of \$135,000 for the Bearkitten Academy for fiscal year 1998. This is based on actual revenue of \$150,454 (\$135,432 from sales and services and \$15,022 from other sources) as reported in the 1997 annual financial report. Per management assertion, the Bearkitten Academy reported a net profit of \$11,362.23 in fiscal year 1997. In addition, management has evaluated other options for consolidating the Bearkitten Academy as proposed by the Ad Hoc Committee.

Recommendation	Remarks
<p>2. Establish rules and regulations for the allocation of student service fees and set thresholds when approval of the Student Service Fee Advisory Committee is required for reallocations or increases in allocations from the student service fees.</p>	<p>Implementation Status: PARTIALLY IMPLEMENTED</p> <p>Improvements have been made over controls relating to allocation of student service fees. Currently, the University President approves the allocation of income and fund balance of Student Service Fees. Further, the Student Service Fee Advisory Committee recommends this allocation. The Committee recommended \$34,300 for the Bearkitten Academy for fiscal year 1998 - 1999. The President approved the allocation in accordance with the Committee's recommendation. However, the University still needs to establish written rules and regulations to translate this practice into policy.</p>
<p>3. Establish a realistic budget for the Twirling – Cheerleading Summer Camp Program for inclusion in the operating budget. Income should not be budgeted beyond what the Music Department should reasonably expect to collect. Prior year's actual income and expenditures should be used as a basis for estimating. Budgeted expenditures should include provisions to repay the deficit.</p>	<p>Implementation Status: PARTIALLY IMPLEMENTED</p> <p>Currently, the University projects the budget for this program by adding 5 percent to the actual income and expenses of the previous year. For fiscal year 1998, the Cheerleading Summer Camp Program projects \$215,195 in revenues and \$135,145 in expenses. The projected expenses do not include the payments for scholarships of \$73,540 and the planned deficit reduction of \$16,000. If the scholarship payment is deducted, the projection will result in an anticipated profit of \$6,510. This amount will not be sufficient to fund the planned deficit reduction payments of \$16,000 annually. In addition, the budget for the Cheerleading Summer Camp Program has not been included in the University's operating budget.</p>

Management's Response:

(2)

A committee from the University composed of students, faculty, and staff approved a recommendation for a proposal establishing rules and regulations for the allocations or increases in allocations from Student Service Fees and establishing thresholds for the approval from the Student Service Fee Advisory Committee. Currently, the rules and regulations for the allocation of Student Service Fees and thresholds are being reviewed and are in the approval process.

(3)

The Music and Cheerleader camps are conducted during the summer months. Information to complete the final budgeted and realized income amounts was not available until after completion of the audit fieldwork. The final results are very positive and are detailed below.

Sam Houston State University (SHSU) completed fiscal year 1998 with the following positive fund balances for the two auxiliary enterprises.

<u>Account Title</u>	<u>Account Number</u>	<u>Fund Balance as of 8/31/98</u>
1. Music and Cheerleader Camps	320-11-8748	\$ 21,264.13
2. Bearkitten Academy	320-11-9991	\$ 1,263.00

The budgeting process for these auxiliaries was fully implemented with very favorable results. For example, the budgeted income estimate was \$227,372.00 with \$238,181.85 realized and the budgeted expenses estimate was \$219,021.00 with \$216,797.76 actual expenses for fiscal year 1998, for Music and Cheerleader Camps.

SHSU has implemented budgeting procedures and budget monitoring for these two accounts that have resulted in positive fund balances for Music and Cheerleader Camps, and Bearkitten Academy as of 08/31/98.

The appropriate Department Chair, Dean and Vice President at SHSU will continue to improve and strengthen the budget preparation and monitoring of these two auxiliary enterprises.

Section 8:

Continue Improving the Strategic Planning Process and Enhancing the Communication and Review of Policies and Procedures

Our follow-up review indicates that the University has redesigned a comprehensive strategic planning process.

All divisions and departments will be participating in developing the 1999 - 2000 plan in September 1998. The redesigned strategic planning process is anticipated to:

- Include all departments in the strategic planning process.
- Link departments' strategic plan to divisions' strategic plans.

In addition, management has taken steps to improve communication and review of policies and procedures by:

- Ensuring that the President signs administrative policies and procedures
- Identifying responsible reviewers for administrative policies and procedures manuals and establishing review dates

Recommendation:

We recommend that the University continue improving the strategic planning process and enhancing the communication and review of policies and procedures.

Management's Response:

Sam Houston State University will continue to enhance and improve the strategic planning process. Sam Houston State University is committed to improving the communication and review of policies and procedures.

Objective, Scope, and Methodology

Our objective and scope were to determine whether the recommendations of *An Audit Report on Management Controls at Sam Houston State University* (SAO Report No. 97-044, March 1997) were implemented, partially implemented, or not implemented.

The methodology used on this audit consisted of collecting information, performing audit tests and procedures, and analyzing and evaluating the results against established criteria.

Information collected to accomplish the audit objective included the following:

- Interviews with management and staff
- Tour of the standby systems' off-site location
- Documentary evidence, including:
 - State and federal statutes, regulations, and rules
 - Board documents, plans, policies, procedures, manuals, reports, memoranda, minutes, and other written communication
 - Various audit and management reports from both internal and external sources
 - Agency-generated financial data and reports

Procedures and tests conducted:

- Reviewed internal audit policies, revised audit plan, risk assessment, and risk assessment methodology for fiscal year 1998
- Reviewed management's updated responses, monthly reconciliation of fixed assets and investments, quarterly investment reports, food service contract, and the National Cheerleading Association contract
- Reviewed policies and procedures over human resources activity, including performance appraisal, job posting, staffing, staff evaluation system, employee development, and the Human Resources Department's goals for the 1998 - 1999 academic year
- Reviewed the plan for the 1999 - 2000 strategic planning and budgeting model and the policies and procedures for building modifications

Analytical techniques used:

- Financial review and analysis
- Process review and analysis

Criteria used:

- Statutory requirements
- General and specific criteria developed by the State Auditor's Office Inventory of Accountability System Project
- State Auditor's Office Management Control Methodology and Models Manual
- Other standard audit criteria established prior to or during the original audit work

Other Information

Fieldwork was conducted from June through July 1998. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

The audit work was performed by:

- Paul Inameti, CPA (Project Manager)
- Dale Kincaid, CIA
- Valerie Hill, MBA (Audit Manager)
- Deborah Kerr, Ph.D. (Audit Director)

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