



Lawrence F. Alwin, CPA
State Auditor

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Members of the Legislative Audit Committee:

The Legislature and other oversight bodies can rely on Stephen F. Austin State University's (University) financial information. The financial system is the primary source of information for all financial reports. The University's financial system and financial processes are designed to ensure that information is recorded accurately and consistently. In addition, the University is spending state appropriations and local funds in accordance with limitations set forth in the General Appropriations Act and other applicable state laws and regulations. We can only provide limited assurance on the alignment between expenditures and performance outcomes because the University's expenditures and outcomes correlate with its appropriations for Educational and General State Support, not with specific strategies.

We reviewed the University's information technology controls relating to financial information and made recommendations to strengthen controls over user access. We also noted that the University's internal target for the amount of external or sponsored research funds was substantially lower than the target established by the Legislative Budget Board. This contributed to the University falling short of this performance target by 29 percent. The University reported \$52.5 million in state appropriations revenue for fiscal year 2001.

Our assurances are based on our review and testing of the structure of the University's financial system and financial processes in place as of March 2002. This financial review was an extension of work we conducted during fiscal year 2001 at the request of the Senate Finance Committee and the House Appropriations Committee. The attachment to this letter contains additional detail on the results of our work.

We appreciate the University's cooperation and responsiveness during this project. The University agrees with our observations and recommendations, and its responses are included in the attachment to this letter. If you have any questions, please contact Ron Franke, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

khm/Attachment

cc: Stephen F. Austin State University
Chair and Members of the Stephen F. Austin State University Board of Regents
Dr. Tito Guerrero, President

A Financial Review of Stephen F. Austin State University

Objective, Scope, and Methodology

The project objectives were to:

- Determine whether the University's reporting processes enable it to provide legislative budget committees and University management with accurate and consistent financial information.
- Determine whether the University is using state appropriations and local funds in accordance with applicable state laws and regulations.
- Determine the relationship between funds expended and outcomes.

To achieve these objectives, we gained an understanding of controls over financial information. We tested the controls and the accuracy of the financial information by assessing information system controls and reviewing financial reports, expenditures of state appropriations and local funds, revenues, transfers, lapses, and fund balances. We also examined the relationship between expenditures, key strategies, and the expected outcomes for the strategies. We conducted fieldwork between February and April 2002 and tested transactions that occurred from September 1, 2000, through January 31, 2002.

This review was conducted in accordance with standards applicable to performance audits contained in generally accepted government auditing standards.

Do the University's reporting processes enable it to provide legislative budget committees and University management with accurate and consistent financial information?

Stephen F. Austin State University (University) is providing accurate and consistent financial information to the Legislature, the University's Board of Regents, and University management. We noted several aspects of the University's financial operations that underscore this conclusion.

The University's financial processes and systems are designed to ensure that information is recorded accurately and consistently.

The University's Financial Reporting System (FRS) is the primary source of reported financial information. The University maintains policies and procedures to ensure the integrity and security of information in this system. The University prepares financial reports using a combination of manual and automated techniques that use information from FRS and its subsystems. The University reviews and reconciles information during the reporting process to ensure the accuracy of financial reports. Controls over the financial system and the reporting process are adequate to ensure the accuracy and reliability of financial reports provided to the Legislature and University management.

In 2001, 81 percent of the funding for the University's Educational and General Fund came from state appropriations; the remaining 19 percent came from local fund sources such as tuition and fees, gifts and grants, sales and services, and interest income. It is important to note that the University's legislative appropriations requests (LAR) contain information relevant to state appropriations only; its annual financial reports (AFR), operating budget, Uniform Statewide Accounting System (USAS) data, and FRS data contain information relevant to both state appropriations and local funds.

Appropriations information in the University's financial system is consistent with appropriations information in its AFR and USAS.

The University reconciles state legislative appropriations in its AFR to USAS on an annual basis. Using General Revenue reconciliation information provided by the Comptroller of Public Accounts (Comptroller), we verified that the University had reasonable procedures to ensure that the appropriation activity and asset balance reported in the University's AFR agree with USAS. Through this process, we successfully traced appropriation revenue, transfers, and asset balance from the General Revenue reconciliation to the University's AFR. This indicated that the University correctly reported these amounts in its AFR for fiscal year 2001.

Financial information in the University's operating budget is consistent with its AFR.

We reviewed the University's AFRs for 1998, 1999, and 2000 to identify any revenues or expenditures not reported in its operating budget for those years. Information in the AFRs and the operating budget was consistent.

Fluctuations in financial data were reasonably explained.

We performed a fluctuation analysis of financial data. Each fluctuation was reasonably explained and verified with supporting information. For example, we observed that private gift and grants revenue increased during fiscal year 2001 by 77 percent. According to University management, this increase was the result of an accounting change through which the University began recognizing gifts when they are pledged, rather than when they are received.

Although the University is providing accurate and consistent financial information, its formalized year-end procedures could be strengthened.

Near the end of fiscal year 2001, staff turnover appears to have caused a situation in which the University posted more than 30 adjusting entries after it closed the financial records for that year. The University could strengthen its financial processes and reduce the number of adjusting entries it must post by using checklists and features provided by its accounting software. We discussed with University management other specific steps the University could take to reduce the number of adjusting entries it posts.

The University should strengthen information technology controls to ensure that financial information is adequately protected.

In a March 2000 report, the University's internal auditor recommended that the University develop policies and procedures requiring immediate removal of employee computer access when employees are terminated. The internal auditor also recommended that management review employees' computer access when employees transfer from one position to another. During our review, we noted that the University does not close employees' access accounts immediately upon their terminations. There is a delay in this process because the individual who is responsible for removing terminated employees' access must wait for the appropriate paperwork to arrive. Removing access rights immediately is essential in ensuring that data is protected from unauthorized modification.

In the same March 2000 report, the University's internal auditor also recommended that the University consider upgrading its uninterruptible power supply (UPS) system to help ensure the continual availability of its information technology (IT) systems. During our review, we noted that the University's alternative power supply is provided by a system of batteries and a natural gas-powered generator. However, this does not support the emergency needs of the University's IT department.

The University has an effective control process for assigning users access rights to FRS, its Student Information System (SIS), and its Human Resources System (HRS). A user's ability to access restricted information is based on the needs of the user's position. The access rights for a particular position are controlled through the use of standardized templates. However, we observed that several users had their rights assigned to the same system by multiple templates, which could possibly grant them too much access or access that is incompatible with their positions. This practice weakens the controls that the use of standardized templates offer.

Recommendations

The University should:

- Supplement its written procedures for closing accounting records at the end of the fiscal year with checklists and other tools. It should also consider using the 13th month feature in its accounting software to minimize the need to post adjusting entries after it closes the financial records at the end of the fiscal year.
- Modify its employee termination and transfer procedures to ensure that the human resources department notifies the appropriate parties so that the access rights of employees who are terminated or transferred to other positions can be terminated or changed immediately.
- Restrict user access to the automated systems using one template per system to ensure that users have access only to the screens they need to perform their job duties. If it is necessary for a user to have greater access, the University should specifically approve this.

Management's Response

Response to Recommendation 1: We concur. Written procedures will be improved. Additionally, the University is considering the use of the 13th month accounting software feature. These recommendations will be implemented by the Controller's Office in conjunction with the 2002 fiscal year close.

Response to Recommendation 2: We concur. The University will propose new policies and/or policy modifications to improve access controls for consideration by the Stephen F. Austin State University Board of Regents at its July 2002 meeting. The revised access controls will be implemented by August 31, 2002.

Response to Recommendation 3: We concur. To the extent that the University's software allows, user templates will be modified to eliminate the need for multiple template assignments. These changes will be made by the ITS department on or before August 31, 2002.

Chapter 2

Is the University using state appropriations and local funds in accordance with applicable laws and regulations?

The University is using state appropriations and local funds in accordance with applicable laws and regulations. Several facets of the University's budget and expenditure process support this assessment.

University expenditures are reasonable and appropriate.

We tested a sample of \$8.7 million in University expenditures (excluding those for salaries and benefits) to determine whether expenditures were:

- Supported by adequate documentation.

- Correctly entered into the University's accounting system.
- Properly approved.
- Reasonable in amount, based on the type of transaction.
- Charged to the appropriate object code.
- Entered into USAS in a timely way.
- Made in accordance with the University's strategies and objectives.

Our testing showed that the University is spending state appropriations and local funds for appropriate goods and services in accordance with applicable state laws and regulations.

Expenditures for 1998 through 2001 were within limitations established by appropriation restrictions. The University reimbursed board members from state appropriations for their travel expenses, which is in compliance with the appropriation spending restrictions regarding the reimbursement of board members. In all four years reviewed, the University did not exceed the allowable limit for annual board expenses. In addition, the University spent less than one-third of its appropriations in the fourth quarter of each year reviewed.

Several significant expenditure fluctuations occurred between 1998 and 2001. Each fluctuation was reasonably explained and supported. For example, we observed that the University's write-offs of plant and facilities increased by 108 percent during fiscal year 2001. Further investigation revealed that this increase occurred because University management implemented an accounting change that required it to write off certain long-lived assets and the threshold for capitalizing equipment increased from \$500 to \$1,000.

The University develops and adheres to reasonable budgets.

The University bases its operating budget on historical data, management's assumptions, and departmental funding requests. University management prepares the operating budget and the University's board approves it.

Encumbrances are reasonable and are paid within a reasonable amount of time.

We reviewed \$1,152,238 of year-end encumbrances for 2000 and \$1,015,256 of year-end encumbrances for 2001. Our review of encumbrance reports and financial data for 2000 and 2001 indicated that the University properly clears encumbrances and maintains appropriate documentation to support encumbrances and corresponding payments.

The University makes appropriate transfers of state appropriations and unexpended balances.

The University made one net transfer out of an appropriation item during the period from 1998 to 2001. This transfer was below the limit of 25 percent of the appropriation set forth in the General Appropriations Act. The University had unexpended balance authority in three funds over the two bienniums we reviewed.

However the University had an unexpended balance in only two of these three funds. The University had a Higher Education Fund (HEF) unexpended balance in all four years tested and transferred forward this funding at the end of each fiscal year. The Advanced Research Program was the only other fund for which the University exercised its authority to transfer forward an unexpended balance. All remaining unexpended balances in both bienniums were properly transferred.

The University does not lapse appropriations.

A review of the University's financial data and supporting documentation for 1998 through 2001 showed that the University did not lapse appropriated funds in any of those years.

Chapter 3

Is there alignment between funds expended and outcomes?

It is difficult to determine the relationship between expenditures and outcomes. We are not giving assurance on the alignment between expenditures and specific strategies because the University's expenditures and outcomes do not correlate with specific strategies. Instead, the University's expenditures and outcomes correlate with its state appropriations for Educational and General State Support. We noted that the University is spending funds appropriated for Educational and General State Support in accordance with applicable state laws and regulations.

In fiscal year 2001, four of the University's eight performance measures fell short of their target levels by more than 5 percent. Most notably, the dollar value of external or sponsored research funds fell short of its target by 29 percent. Although the University did not meet the targets for this outcome measure, the actual amounts of external or sponsored research funds during the year met the University's internal projections. University Institutional Research staff assert that the target level for this outcome measure is not consistent with the University's own projections for research funds. We encourage the University to coordinate with the Legislative Budget Board to ensure that the target for this outcome measure aligns with the University's goals.