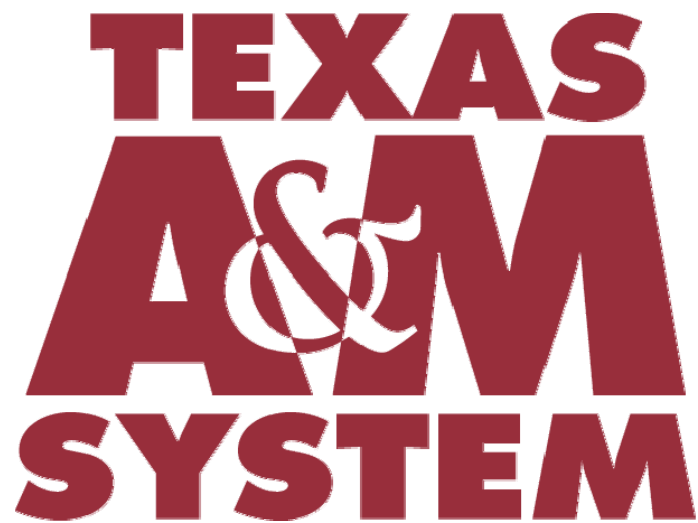
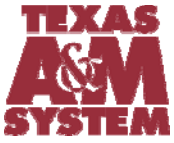


The Texas A&M University System Internal Audit Department

**FIRST QUARTER REPORT
FISCAL YEAR 2008**



December 19, 2007



The Texas A&M University System Internal Audit Department
First Quarter Report
Fiscal Year 2008

TABLE OF CONTENTS

Texas A&M University
Review of Decentralized Accounting Processes

Texas A&M University
Review of Instructional Enhancement Fees

Texas A&M University - Kingsville
Review of Contract and Grant Administration

Texas A&M University - Kingsville
Review of Performance Measures

Texas A&M University
Review of Pre-Award Administration

The Texas A&M University System Offices
Review of Construction Contracts

Texas A&M University
Review of Agency Infrastructure Assessments



PROJECT SUMMARY

Overall, Texas A&M University needs to provide better guidance to ensure departmental accounting records are accurate and sufficient to meet management's needs. The official accounting system for Texas A&M University is the Financial Accounting and Management Information System (FAMIS), but testing indicated that most departments utilized various self-selected support accounting systems to meet their information needs. As a result, information in the support accounting systems must be reconciled to FAMIS to ensure that management has reliable information for decision-making purposes. However, our test work indicated that over 35% of the departments reviewed had minimal reconciliation processes.

Training the University's departmental bookkeepers to monitor information accuracy and completeness, including reconciliation of support accounting systems to FAMIS, is inefficient in the current environment where little emphasis has historically been placed on the consistency of departmental accounting practices. The University's challenges in managing the financial and administrative aspects of decentralization have been the subject of recent internal and external studies, both of which concluded that centralization of certain services, where possible, would make the University more efficient.

OBSERVATION, RECOMMENDATION, AND RESPONSE

Guidance for Effective and Efficient Departmental Accounting

Observation

Departmental accounting guidance and increased standardization would strengthen controls in the University's decentralized accounting environment.

Overall, Texas A&M University needs to provide better guidance to departments to ensure that departmental accounting records are accurate, reconciled to the University's accounting system (FAMIS), and sufficient to meet the departments' needs. The University rule for departmental accounting names the department head/director as the responsible party for maintaining proper

records for their accounts and states “Departmental fiscal records are to be reconciled to the University’s accounting system regularly and any outstanding reconciling items should be cleared as soon as possible.” The University does not currently provide training with regard to the expectations of the University rule.

The official accounting system for the University is FAMIS, but testing of 30 University departments indicated that most utilized various self-selected support accounting systems to meet their information needs. As a result, information contained in both the support accounting system as well as information contained in FAMIS must be accurate and the two information repositories must be reconciled to ensure that management has reliable information for decision-making purposes. Additionally, documenting the reconciliation process on a monthly basis, through either signatures or initials and dates, assists in assigning accountability for the accuracy of accounting records. However, our review indicated:

- Forty percent of reconciliations tested lacked evidence of supervisory approval to strengthen control through oversight.
- Twenty-eight percent of reconciliations tested contained reconciling items older than 60 days.
- Sixteen percent of reconciliations tested lacked evidence that they had been prepared timely.
- Thirty-six percent of departments tested had below average reconciliation processes, based on the evaluation of accuracy and format.
- Twelve different support accounting systems were used in the 30 departments reviewed.

The lack of strong reconciliation controls increases the risk of untimely identification of errors or discrepancies.

Training the University’s bookkeepers proper reconciliation techniques would strengthen oversight controls, but cannot be efficiently performed given the variation in departmental accounting practices.

Recommendation

To strengthen controls, the University should:

- Develop a comprehensive set of standards for department fiscal record-keeping, providing guidance especially with regard to account reconciliations and expected monitoring outcomes.
- Develop a fiscal record-keeping training curriculum for departmental bookkeepers.
- Develop standardized departmental fiscal record-keeping procedures where appropriate to better position the University for training.

Management's Response

Any subsystems used by the departments are not recognized as sub-ledger systems of FAMIS. Accordingly, use of these systems is not required and training on these systems is not considered a priority of the University. Anecdotally, we believe these subsystems are used by the departments, because FAMIS does not meet their reporting or analytical needs. We agree there may be inefficiencies caused by the use of multiple subsystem; therefore, Financial Management Operations (FMO) will conduct a survey in cooperation with representatives from University departments to determine (1) what is driving the use of these subsystems and (2) what measures can be taken to reduce the reliance on these systems for management decisions. The results of this survey should be available by November 30, 2007. Possible outcomes may include enhanced reporting and standardized analytical tools for departments and possibly new Finance, Human Resources, and Payroll systems that better address end user needs for data and reporting.

Based on results of the survey, FMO in consultation with representatives from University departments will develop standards and protocols to define minimum record-keeping expectations. FMO will work with departments to identify financial tools which may potentially eliminate the need for the support accounting systems. If it is determined the support accounting systems are needed, FMO will provide a recommended plan to help the departments transition to the new recommended standards. This plan will be completed by May 31, 2008.

FMO will also develop training and provide materials to teach the Fundamentals of Reconciliation by February 28, 2008.

BASIS OF REVIEW

Objective and Scope

The objective was to review and assess the accounting processes used by University departments to determine whether they provide assurances that accounting records are accurate and complete and that confidential information is secured.

The review focused on the decentralized accounting processes in place for fiscal year 2007 with regard to reconciled accounts, accounting support programs in use, security of sensitive confidential information, and overall guidance for the bookkeeping function. The University relies on approximately 158 business officers throughout the 227 University departments to monitor accounting processes. Fieldwork was performed in July and August 2007.

Criteria

Our review was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; the Treadway Commission's Committee of Sponsoring Organization's Internal Control - Integrated Framework (COSO); and other sound administrative practices. The evaluation was performed in compliance with generally accepted government auditing standards and other criteria to conform with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Background

The University's Financial Management Operations Reconciliation Unit is the service unit that performs clearing account and bank reconciliations for the University and provides guidance, training, and financial management information to departmental accounting/finance personnel in 227 departments. The staff assists with developing University rules related to accounting and finance functions across the University. Historically, Financial Management Operations has not been involved in the implementation of alternative accounting solutions in departments.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Mark Poehl, CPA, Project Manager
Lori Ellison
Madelyn Galloway
Kim Pekar, CPA
Darwin Rydl, CPA

Contact Information

For questions regarding this review, contact Charlie Hrcir, Director.

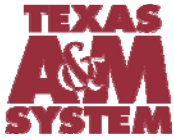
E-Mail: chrncir@tamu.edu
Phone: (979) 458-7100
Fax: (979) 458-7111
Web Site: <http://saqo.tamu.edu/iaudit>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. Eddie J. Davis, Interim President
Dr. Jerry R. Strawser, Interim Vice President and Provost
Ms. Sue Redman, Senior Vice President and Chief
Financial Officer
Mr. Terry Pankratz, Associate Vice President for Finance and
Controller
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and Compliance



PROJECT SUMMARY

Overall, Texas A&M University has controls in place to provide reasonable assurance that Instructional Enhancement/Equipment Access Fee (IEEF) funds are used for intended purposes and in compliance with laws, policies and regulations. IEEF funds provide course enhancement for students; however, the costs involved in administering these fees for effective compliance with statutes and guidelines may diminish the overall benefits. Administration of these fees is inefficient both in the fee approval process and in expenditure monitoring processes, and there is inconsistency in how IEEF funds are administered throughout the University. The University has made efforts to standardize the administration of IEEF funds through the creation of the Guidelines for Expenditure of Instructional Enhancement/Equipment Access Fee Funds that were approved in September 2006. However, the University should continue to pursue improvements by exploring other funding opportunities that have less administrative costs, and clarifying existing fee guidelines to clearly distinguish between instruction and enhancement activities in order to ensure IEEF funds are used appropriately and in compliance with the fee statutes.

The University's fiscal year 2007 budget was \$981 million consisting of over \$13.5 million (1.4%) in IEEF funds. The \$13.5 million is made up of over 5,500 courses charging IEEF fees, and administered from more than 100 separate accounts within the University. Additionally, IEEF funds are administered in different ways by the ten colleges within the University.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Fee Administration

Observation

IEEF approval and monitoring is inefficient.

Although IEEF funds provide course enhancement for students, the costs involved in administering IEEFs for effective compliance with statutes and guidelines may diminish the overall benefits.

1. Fee Administration (cont.)

Administration of these fees is inefficient both in the fee approval and monitoring processes, and there is inconsistency in how IEEF funds are administered throughout the University colleges.

- Administering fees to comply with the legislation under which the fees are charged requires establishment of separate accounts and tracking processes. The Texas Education Code §54.504, Incidental Fees, states “The rate of an incidental fee must reflect the actual cost to the university of the materials and services for which the fee is collected.” The IEEF guidelines allow colleges to administer IEEF funds differently. In some of the colleges, all expenditures made using IEEF funds are reviewed and approved at the Dean’s Office while other colleges allow the individual academic departments within the college to approve and monitor expenditures. In addition, some colleges that have departments administer their IEEF funds retain a percentage of the funds at the college level to use for special projects related to instructional enhancement. It is not always possible to trace each individual IEEF expenditure back to the specific course or course section that charged the fee even though expenditures were made for student learning enhancement purposes.
- The fee approval process begins when the Course Fee (Increase/New) Request form is completed at the department or college-level and then routed to various levels of administration. The Course Fee Request form information is entered into an online system called the Course Fee Revision Program (CFR) by the department or college at the same time the paper form is prepared. Reports are run from the CFR which detail the percent change in fees at a college-level as well as the individual course fee changes. These reports are reviewed and verified. They are routed and approved through the President. After approval by the President, the original requests (Course Fee Request forms) are matched to the CFR entries. The CFR is then used to load the fee table into the Student Information Management System (SIMS) to ensure that students are charged the correct fees.
- Monitoring expenditures at a university level for compliance with IEEF guidelines is difficult due to the need to review circumstances surrounding the individual expenditures. The IEEF guidelines are written in a manner that leaves room for interpretation by the colleges and departments on campus. While some of the exceptions noted in our review are clearly in violation of the guidelines, other expenditures for faculty development and student graders are more open to interpretation. There is no distinct division between where instruction of a course ends and enhancement for the course

1. Fee Administration (cont.)

begins. Therefore, monitoring based upon expense types and payroll codes is not effective. Monitoring these funds becomes increasingly difficult because each and every transaction has to be reviewed in detail. For example, an expenditure may appear inappropriate because of the expense code charged, but further review may find that this particular expenditure does relate to instructional enhancement.

- Additional monitoring and tracking is required for equipment purchases from IEEF funds. The IEEF guidelines require that equipment less than four years old that is no longer used for enhancement activities must be used as trade-in for new equipment dedicated to instructional enhancement activities or sold as surplus property and the proceeds returned to the fee account that originally purchased the equipment. These guidelines assure that the equipment is used for the purposes for which it was purchased. If equipment is moved from enhancement activities to other department uses (faculty, administrative staff), a transaction is needed to reimburse or compensate the IEEF account for the value of the equipment.

The above issues and processes make the administration of IEEF funds inefficient. Without detailed accounting and monitoring processes, the risk is increased that funds will not be used in compliance with the enabling legislation and University guidelines. These funds provide a small portion of the funding for instruction for students; however, they are more costly to administer than other types of funds that the University collects for instructional purposes.

Recommendation

Review the costs and benefits of maintaining separate fee accounts and take advantage of any opportunities that provide more efficient administration of instructional enhancement funds. Additionally, consider replacing instructional enhancement/equipment access fees with other revenues to reduce the administrative burden of managing these fees.

Management's Response

Accountability for how instructional enhancement fees are charged and spent is a critical aspect of the administration of these funds. A review of current administrative processes is underway and will be completed by the end of December 2007. Items identified will be implemented for the fiscal year 2009 process that begins during the spring 2008 semester. An example of an item identified includes a separate process for changes in existing course fee amounts versus new course fee requests.

1. Fee Administration (cont.)

We will continue to consider alternate revenue sources; however, given the nature of the related expenditures, the use of Instructional Enhancement Fees is an appropriate source of funding. The purpose of these funds is to enhance the educational experience of our students; while administrative costs should be considered, they should not be the sole criterion in our decision.

2. Expenditures

Observation

IEEF guidelines do not provide clear distinctions between instruction and enhancement.

Expenditures on IEEF accounts for October 2006 through March 2007 were \$8.5 million. Of this total, \$5.1 million was spent on salaries, wages and benefits. Of the 150 expenditures reviewed for compliance with IEEF guidelines (60 voucher purchases, 30 procurement card purchases, and 60 employees paid from IEEF funds), all were appropriate University expenditures supporting academic instruction. However, eight (5%) were not in compliance with IEEF guidelines for direct support of instructional enhancement. The following summarizes our detail test results:

- Two of sixty (3%) voucher purchases reviewed did not appear to be for the direct support of instructional enhancement activities, as required by the IEEF guidelines. The guidelines state that purchases must be used for the direct support of instructional enhancement activities. Exceptions included expenditures related to general and student recruitment activities.

Another six of the sixty (10%) vouchers were made for expenditures that are more open to interpretation. Four purchases were made for faculty and graduate assistant development and training expenditures. In some cases, development and training costs may be interpreted as enhancement when they can be directly tied to the course or course section charging the fee. However, some development and training relates to subject matter or research areas for which the faculty or graduate student has involvement beyond that of a specific course instruction. Two purchases were made for meals and lodging for a prospective graduate student that made class presentations at the University as well as attended a lecture on campus during the same visit with our students. Since this individual was recruited as a student it may be interpreted that his travel expenses were related, at least, partially to student recruitment although his presentations and interactions with University students did provide enhancement to course instruction.

2. Expenditures (cont.)

- Six of sixty (10%) employees reviewed were paid from IEEF funds for work that did not meet the IEEF requirements for direct involvement in instructional enhancement activities. Exceptions included an instructor of a distance education course, academic advisors, administrative personnel, and a maintenance worker. The IEEF guidelines state that under no circumstances may teaching salaries or indirect administrative support salaries be paid from IEEF funds.

Additionally, twelve of sixty (20%) employees reviewed were paid from IEEF funds for work that is more open to interpretation, because it was difficult to determine if the work performed was part of instruction or considered enhancement. The twelve employees were student graders. One department stated that in some cases graders were grading extra practice assignments that were not included in the calculation of the students' course grade. Grading these assignments was interpreted as enhancement, because it provided more timely and relevant feedback to the students. In other departments, graders were grading assignments that were used in calculating the students' course grade which was considered to be instruction. The IEEF guidelines state that under no circumstances may teaching salaries be paid from IEEF funds.

The definition of course enhancement can be interpreted to include types of expenditures that are also considered to be instructional in nature. Without guidelines that make clear distinctions between where instruction of a course ends and enhancement for the course begins, the risk is increased that fees are charged and used for expenditures that are already charged under other student fee categories. The Texas Education Code §54.504, Incidental Fees, states that incidental fees authorized under this section does not include a fee for which a governing board makes a charge under any other provision of law. Therefore, clear guidelines are essential to ensure that fees are charged for and used in a manner that does not duplicate costs included in any other fees.

Recommendation

Clarify existing guidelines to ensure there is a clear distinction between instruction and enhancement for courses. Monitor IEEF funds at a university level to provide assurance that funds are being used consistently and in compliance with current guidelines.

Management's Response

For the fiscal year 2009 process that begins during the spring 2008 semester, the University guidelines will be modified to ensure there

2. Expenditures (cont.)

is a more defined distinction between instruction and enhancement for courses.

The current guidelines require an annual review of account balances, expenditures and fee structures within the colleges.

The University monitoring process will include requiring documentation from the colleges to the Office of the Executive Vice President and Provost confirming that the review of expenditures, fee structures, and account balances was performed to provide reasonable assurance that the funds used were in compliance with the guidelines.

In addition, training of the approval process, appropriate expenditures, and monitoring will be held with the colleges annually. Training will also be made available to business personnel throughout the colleges and departments. This training will be provided prior to the fiscal year 2009 process.

BASIS OF REVIEW

Objective and Scope

The objective was to review the administration of required instructional enhancement fees by academic departments to ensure fee collection and utilization is efficient and effective and in compliance with laws, policies and regulations. The review focused on the entire fee process from revenues to expenditures for the six-month period from October 2006 through March 2007. Fieldwork was performed in May and June 2007.

Criteria

Our review was based upon standards as set forth in the Texas Education Code; the System Policy and Regulation Manual of The Texas A&M University System; Texas A&M University Rules and Standard Administrative Procedures; Texas A&M University Guidelines for the Expenditure of Instructional Enhancement/Equipment Fee Funds; the Treadway Commission's Committee of Sponsoring Organization's Internal Control - Integrated Framework (COSO); and other sound administrative practices. The evaluation was performed in compliance with generally accepted government auditing standards and other criteria to conform with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Background

Instructional enhancement fees are charged to students enrolled in certain courses. The fee is used for salaries, the purchase and maintenance of equipment, visual aids, other supplemental materials and educational supplies to provide students with a rich learning environment. These fees are charged on distance education courses as well as non-distance education courses. Fees for non-distance education courses range from \$0 to \$200 per course and fees for distance education courses range from \$0 to \$1,500 per course.

In 2000, the University replaced the Equipment Access Fee (EAF) with the Instructional Enhancement/Equipment Access Fee (IEEF) in all colleges except the College of Engineering. The College of Engineering continued to use the EAF. In 2001, the College of Engineering began using an Instructional Enhancement/Distance

Learning Fee, but did not replace the EAF. At that time, all colleges had their own range for what could be charged for IEEFs. In 2005, the College of Engineering eliminated the EAF and the University standardized the fee range for IEEFs. In September 2006, the University published the Guidelines for the Expenditure of Instructional Enhancement/Equipment Fee Funds to standardize the usage of the fees.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Sandy Ordner, CPA, Project Manager
Aliza Dirden, CIA
Nora Miles, CPA
Joseph Mitchell

Contact Information

For questions regarding this review, contact Charlie Hrcir, Director.

E-Mail: chrncir@tamu.edu
Phone: (979) 458-7100
Fax: (979) 458-7111
Web Site: <http://sago.tamu.edu/iaudit>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. Eddie J. Davis, Interim President
Dr. Jerry R. Strawser, Interim Executive Vice President and
Provost
Ms. K. Sue Redman, Senior Vice President and Chief Financial
Officer
Ms. Terry Spang, Assistant Provost for Finance and
Administration
Mr. Charley Clark, Associate Vice President for University Risk
and Compliance



PROJECT SUMMARY

Overview

<u>Table of Contents</u>	
Project Summary	1
Detailed Observations	3
Basis of Review	10
Audit Team Information	11
Distribution List	11

Overall, the controls established for contract and grant administration at Texas A&M University – Kingsville provide reasonable assurance that sponsored projects and business contracts are operating in compliance with applicable laws, policies, and rules except in the areas of effort reporting for federally sponsored agreements and approval of animal use protocols. Other opportunities for improvement exist in the areas of invoicing and receipting, and cash handling.

The Office of Research and Sponsored Programs (ORSP) along with the Office of Grants and Contracts Administration (GCA) administered 149 sponsored research awards for fiscal year 2006 totaling approximately \$14 million. All awards reviewed had approval or an agreement prior to the start date and all the information for the projects was initially set up correctly. Post-award processes are effective, efficient, and capture required information. Invoices are submitted timely, collections are current, and expenditures reviewed were considered allowable. Facilities and Administration rates are properly approved and billed.

Contracts for goods and services are administered through the Procurement and General Services office. Purchases for goods and services for fiscal year 2006 amounted to approximately \$13 million as reported in the Annual HUB Report. Agreements for professional and general services were properly approved and appropriate and complied with System policy and University rules.

Summary of Significant Results

Effort Reporting

Effort charged to federally sponsored agreements is not certified adequately. The University does not have a mechanism in place to certify 100% effort for employees working on federally sponsored research. In addition, 12 of 15 projects reviewed (80%) had a principal investigator (PI) charge no effort directly to their own projects or capture any effort as cost-sharing. Some of the projects had other employees completing the work.

Animal Use in Research

Two of eight (25%) of the projects reviewed involving animal research did not receive approval from the Institutional Animal Care and Use Committee prior to the start of the research. The Office of Research and Sponsored Programs facilitated research beginning prior to approval being received by establishing restricted research accounts where expenditures could be charged.

Summary of Management's Response

Texas A&M University-Kingsville will be utilizing the Time and Effort reporting system developed by the Texas A&M University System for Prairie View A&M University. In addition, the University has instituted new procedures for recording "key personnel" time and effort that is identified as "voluntary committed."

The University has also reconstituted the Institutional Animal Care and Use Committee (IACUC) and implemented new procedures to ensure compliance with all federal and state requirements related to animal care and use in research activities at the institution.

Scope

The review of contract and grant administration focused on business contracts and sponsored research agreements. Activities related to these areas were reviewed for the period from July 2006 to June 2007. Audit fieldwork was conducted in July 2007.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Effort Reporting

Effort reporting is a requirement for all federally sponsored research. Certifying effort is different from certifying payroll. However, these two activities coincide with each other. Payroll is a measurable means of verifying effort. Institutions vary on what constitutes a full work load and as such, Office of Management and Budget Circular A-21, Cost Principles for Educational Institutions, (OMB A-21) allows for the payroll distribution system to reflect categories of activities as percentage distribution of total activities.

Effort reporting is to confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee using suitable means of verification that the work was performed.

OMB Circular A-21, Cost Principles for Educational Institutions, (paraphrased)

Proposing to a sponsor the work needed to complete a project is establishing a precedence of effort. The sponsor accepts a proposal with the knowledge that the PI will complete at least some of the work required to complete the project. When a PI agrees to a sponsored research agreement they are obligating themselves to complete the work necessary to ensure the requirements are met.

1a. 100% Effort Certification

Observation

Certification of all effort is not being completed.

The University is not certifying 100% of the effort for all employees paid from federally sponsored research projects. ORSP is responsible for obtaining this certification. Time is currently certified per account and not by employee. Effort related to teaching positions, supplemental (incidental) pay, or private funding was not certified.

The Texas A&M University System, as a whole, and the University individually, do not have a mechanism in place to view all employees' time that are paid from federally sponsored accounts. In addition, ORSP is only allowed to see the subsidiary ledger for the restricted accounts (4xxxxx) and cannot view the other accounts

1a. 100% Effort Certification
(cont.)

from which employees are paid. Incomplete certifications provide inaccurate and ineffective records and place the University in noncompliance with federal requirements. Also, the ORSP cannot be completely certain that PIs are not receiving compensation for over 100% of the salary or that sponsors are reimbursing an unfair portion of the PI's salaries.

During fiscal year 2007, the Texas A&M University System formed a committee to oversee the development of an effort reporting system. This system is proposed to be web enabled and will capture all of an employee's effort regardless of the employee's administrative location or source of funds.

The OMB A-21, Cost Principles for Educational Institutions, requires educational institutions to "encompass both sponsored and all other activities on an integrated basis" for the certification of effort. The certification should produce an "equitable distribution of charges for employees' activities." System Policy 15.01.01, Administration of Sponsored Agreements – Research and Other, states that "all costs charged to a sponsored agreement must be adequately documented. Charges for salaries and wages must be documented by after-the-fact confirmation of time and effort devoted to each sponsored agreement by each employee."

Recommendation

Acquire or design a mechanism to allow for certification of 100% effort for all employees paid from federally sponsored projects. Ensure this system includes supplemental/incidental pay for faculty members.

Management's Response

Texas A&M University-Kingsville has contacted Prairie View A&M University regarding the use of a time and effort report that the Texas A&M University System developed for that institution. In March of 2007, Internal Audit staff identified this report as the only report format available to the general academic institutions that could provide certification for 100% of time for System employees. At that time, the Director of Research and Sponsored Programs requested that the report be made available to A&M-Kingsville for review, modification (if necessary), and implementation. In October, the original queries used to create the report were made available by the Research Office at PVAMU through the shared folders in the Data Warehouse. The University is reviewing the report for any modifications necessary to allow for implementation to begin with the spring 2008 semester. It is also monitoring closely the group at

1a. 100% Effort Certification
(cont.)

College Station that has been charged with developing a System-wide online certification format.

For a number of years, A&M-Kingsville has been seeking appropriate means to certify time and effort of employees on federally funded projects. Prior to coming into the Texas A&M University System in 1989, the University had time and effort certification in place. In May of 1990, the System discontinued time and effort reporting. The University sought assistance from the Research Foundation and received copies of the RF reporting format which certified time and effort by account. The Payroll Office was able to identify a similar report form, the Subsidiary Payroll Ledger, and the University implemented that for the Time and Effort reporting format.

1b. No Time Expended on Project

Observation

PIs are not claiming any effort on their projects.

Twelve of fifteen (80%) projects reviewed had a PI that did not charge any time to their projects. One did begin charging time during the summer after the school term ended. Some of the projects had graduate assistants or research assistants working on them. The responsibility for the project's deliverables and results are those of the PI. A PI expends some amount of time developing the proposal, mentoring graduate assistants, administering the review, or conducting the research. This time is not being captured in the budgets sent to the sponsors and is therefore not apparent in the University's time/payroll system.

The University does not require PIs to record all of their effort expended on every project they are working on. Therefore, a PI's time is not properly allocated among projects which theoretically over-charge some accounts and under-charge others. Another account is then receiving an unfair portion of the PI's salary in regard to the effort they are expending towards those activities.

A memorandum was issued by the OMB in January 2001, (M-01-06) to provide clarification of OMB Circular A-21's treatment of voluntary uncommitted cost-sharing and tuition remission costs. This memorandum states that federally funded research should have a level of effort commitment from faculty (or senior level researchers). This effort may be paid or unpaid by the project itself. If a sponsored research agreement shows no senior researcher effort, an estimated amount must be computed by the University and included in the organized research base. System Policy 15.01.01, Administration of Sponsored Programs – Research and Other, discusses cost-sharing as an alternative to the sponsor paying for certain costs. Cost-

1b. No Time Expended on Project (cont.)

sharing should only be engaged when “mandated by the sponsor, needed to accurately reflect the level of effort required to conduct the project, or necessary due to the competitive nature of the award.” Other institutions of higher education require all individuals who devote effort to sponsored activities, whether paid or unpaid, to report their effort. Stanford University declares it inappropriate for PIs to submit proposals for research funding without specifying some commitment of their effort to that project.

Recommendation

Capture all the effort expended by employees on sponsored projects. This includes a PI’s time whether paid from the grant/contract or cost-shared.

Management’s Response

Texas A&M University-Kingsville has instituted new procedures to capture, upon submission of a proposal, “key personnel” time and effort that is identified as “voluntary committed.” The Office of Research and Sponsored Programs will work with the Finance and Administration’s Office of Grants and Contracts to include this information on the Electronic Personnel Action form prior to the spring 2008 certification of time and effort.

The University has always captured and tracked the federally-funded percentages of time and effort, as well as the required cost-sharing that included time and effort.

2. Animal Use in Research

Observation

Animal research projects reviewed did not have IACUC approval.

Two out of eight projects (25%) reviewed requiring Institutional Animal Care and Use Committee (IACUC) approval did not receive it prior to the start of the research. ORSP allowed projects to start by filing out the restricted account establishment forms and sending them to GCA for processing. The IACUC did not notify the researcher, department, ORSP, or GCA of the approvals. ORSP was unaware of the lacking approvals until questions were raised. ORSP assumes the PIs are informed of the approvals and the PIs assume approval is granted when they receive notification of the account establishment.

The United States Department of Agriculture’s Animal Welfare Act stipulates the requirements of an IACUC and the need for approval prior to the research beginning. The IACUC “shall possess sufficient

2. Animal Use in Research
(cont.)

ability to assess animal care, treatment, and practices in experimental research” and “shall represent society’s concerns regarding the welfare of the animals.” The Public Health Service Policy on Humane Care and Use of Laboratory Animals describes the IACUC’s responsibilities with regard to the Public Health Service. The IACUC may “review and approve, require modification in (to secure approval) or withhold approval of those components of PHS-conducted or supported activities of the care and use of animals.” Violation of these laws could lead to the suspension of animal research at the University.

Recommendation

Review the animal use protocol approval process to ensure that IACUC approval is obtained before animal research begins and grant accounts are established.

Management’s Response

As of October 1, 2007, Texas A&M University-Kingsville has reconstituted the Institutional Animal Care and Use Committee and implemented new procedures to ensure compliance with all federal and state requirements related to animal care and use in research activities at the University. The new procedures include: (1) routing all protocols through the ORSP, including research not involving external funds; (2) requiring a protocol for each proposal submitted to insure IACUC review when a PI believes his/her proposal is covered by an existing approval; and, (3) will be holding monthly meetings with an agenda of protocols to be reviewed, provided by ORSP, to assist in tracking the status of all proposed research involving animals.

Additionally, IACUC approvals and denials are sent directly to the ORSP, which notifies the PI of the authorization to proceed with the research or requesting the submission of a new protocol if the PI wishes to pursue the research. If the committee requires additional information before approval can be obtained, ORSP is copied on the correspondence to the PI, and is notified of the approval or denial when the additional information is received by the committee.

3. Segregation of Duties

Observation

Invoicing, receipting, depositing, and recording of sponsor reimbursements are not adequately segregated.

There was a lack of segregation of duties concerning the tasks of invoicing, receiving payment and making deposits with grant reimbursements. GCA is responsible for the billing side of sponsored agreements. Accounting assistants are assigned to work groups and only process the grants assigned to their work group. Each accounting assistant creates and sends the invoices. That same accounting assistant also receives payments through the mail and delivers the payments for deposit with the fiscal office. GCA stated that there have historically been an insufficient number of people to segregate these duties, so they rely on oversight and monitoring functions to address the risk of loss. However, there is little to no evidence of the oversight and monitoring functions being completed to alleviate the risk of loss or misappropriation of funds. GCA has recently committed resources to ensure that outstanding accounts receivables are collected timely. This process helps to identify sponsors who have not been given credit for sending in their payments.

Monitoring and oversight controls provide after-the-fact identification of errors and potential accidental losses or misappropriation of funds and assets. Proper segregation of duties reduces the risk of initial errors or inappropriate actions occurring.

Recommendation

Evaluate the current risks associated with not segregating the duties of invoicing, receipting, depositing, and recording sponsor reimbursements. Based on that evaluation, determine whether the preventive controls associated with segregating the duties between the accounting assistants would provide the best method of ensuring the accuracy and integrity of the process. Clearly document any oversight and monitoring aspects of the process used to mitigate the risks.

Management's Response

All funds received via the mail system or delivered to the Grants and Contracts Office will be processed by the Grants & Contracts (G&C) Staff Accountant II. This employee will follow the receipting policy as prescribed in the Texas A&M University System Policy 21.01.02 (Receipt, Custody, and Deposit of Revenues). All G&C invoice submissions are processed by other staff members within the Office.

4. Transfer of Custody

Observation

Chain of custody is not documented for sponsor payments received outside of GCA.

In some instances, sponsors mail reimbursement checks to the ORSP instead of the GCA as requested. ORSP is listed as the point of contact for many of the sponsored agreements even though GCA completes the billing process to sponsors. ORSP receives their mail and opens the checks. Copies of the checks are made to demonstrate the receipt of the check by ORSP. Then an ORSP employee delivers the checks to GCA who in turn processes the checks accordingly. ORSP and GCA consider the custody transfer to be an error on the part of the sponsor and post office for delivering the checks to alternative locations. The exchange of checks between ORSP and GCA represents a correction of the original error. There is no documentation or acknowledgement of the chain of custody for these erroneously mailed checks. Without properly documenting the chain of custody of these checks, the risk of loss or misappropriation is increased.

System Policy 21.01.02, Receipt, Custody, and Deposit of Revenues, states that there should be an official receipt or document acknowledging the transfer of funds. Collection and deposit processes are also subject to the documentation requirements. In the event of lost or stolen checks, prudent business practices suggest a chain of custody to protect employees from accusations of theft.

Recommendation

Create an official receipt or document acknowledging the transfer of funds between departments.

Management's Response

Funds received from departments outside of the G&C office that pertain to grant/contract issues will be treated as a transfer of funds transaction. A transfer-of-funds form will be completed and the receipting will be processed as prescribed in the System Policy 21.01.02 by the G&C Staff Accountant II.

BASIS OF REVIEW

Objective

The objective of the audit was to review contract and grant administration at the University to determine if resources are used efficiently and effectively and in compliance with laws, policies, and regulations.

Criteria

Our review was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; the Office of Management and Budgets Circular A-21; United States Department of Agriculture's Animal Welfare Act; Public Health Service Policy on Humane Care and Use of Laboratory Animals; and other sound administrative practices. The evaluation was performed in compliance with generally accepted government auditing standards and other criteria to conform with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Background

The Office of Research and Sponsored Programs (ORSP) along with the Office of Grants and Contracts Administration administered 149 awards for fiscal year 2006 totaling approximately \$14 million. ORSP is responsible for the authorization and submission of all University proposals for external support for research and sponsored projects from all sources. Nearly 25 percent of all faculty members at the University are engaged in externally funded research or other scholarly projects. Additionally, Texas A&M - Kingsville has been designated a Doctoral Research Intensive University in the Carnegie Classification of Institutions of Higher Education.

The Office of Procurement and General Services provides services to the University through three departments: Procurement, Storeroom and Central Receiving, and Printing. Contracts for goods and services are administered through Procurement and General Services as required according to the University's delegation of authority. The Director of Purchasing and General Services reviews, negotiates terms, processes, and retains all contractual documents for the University, which includes professional services contracts.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

David Maggard, CPA, Project Manager
Joseph Mitchell
Katie Rannebarger
Tracey Sadler, CIA

Contact Information

For questions regarding this review, contact Dick Dinan, Director.

E-Mail: D-Dinan@tamu.edu
Phone: (979) 458-7144
Fax: (979) 458-7111
Web Site: <http://sago.tamu.edu/iaudit>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. Rumaldo Z. Juarez, President
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Ms. Maggie Juarez, Director of Grants and Contracts
Ms. Claudia Conard, Assistant Director of Grants and Contracts
Ms. Sandra Rexroat, Director of Research and Sponsored
Programs
Mr. Ralph Stephens, Director of Procurement and General
Services



PROJECT SUMMARY

Texas A&M University - Kingsville's performance measure information reporting processes need improvement to provide reasonable assurance that performance measures are accurately reported to the Texas Legislative Budget Board (LBB). Review processes over student information system data collection and processing need to be enhanced for assurance that information is reported accurately and in compliance with LBB definitions. Continued review and update of account coding will improve accounting information in the University's annual financial report that provides the financial data used in calculating certain performance measures.

Management provided a list of five LBB performance measures for auditors to consider for review. These performance measures were selected by management based upon their impact on various other measures or overall impact on the University. Three of the five measures reviewed indicated opportunities for improvement in the performance measure processes and underlying accounting information to enhance the accuracy of these measures. Of these three measures, one was related to student data and two were related to financial indicators. The Fiscal Office had already begun the process of reviewing the coding of accounts to better align with account function codes as defined by the National Association of College and University Business Officers (NACUBO) prior to the audit.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Full-time Undergraduate Transfer Student Graduation Rate

Observation

Full-time undergraduate transfer student graduation rates were not reported in compliance with LBB requirements.

Thirteen of 30 (43%) student records reviewed for the full-time undergraduate transfer student graduation rate performance measure were part-time rather than full-time undergraduate transfer students. There was an inconsistency between the LBB

definition and the University instructions (full-time versus part-time). The LBB Reporting Requirements title for the definition is "Percent of incoming full-time undergraduate transfer students who graduate within four years." The detailed instructions for computation did not include the phrase "full-time" and did not clarify that part-time students are not included in this measure. It is important to clarify definitions and resolve inconsistencies between definitions and instructions to reduce the risk that performance measures are not reported in compliance with the LBB requirement.

Recommendation

Improve oversight and verification of data and performance measure calculations prior to submission to the LLB to ensure accuracy. Review and verify definitions for performance measures and ensure the departmental instructions are in agreement with LLB definitions.

Management's Response

A series of meetings of all parties concerned with reporting THECB and LBB data commenced during October 2007. The purpose of these meetings was to develop a common understanding among admissions, registrar, and institutional research personnel of data sources and reporting requirements so that inconsistencies of the type discovered can be identified and eliminated.

2. Administrative Cost Rate and Dollar Amount of Research Funds

Observation

Account function code errors impact the accuracy and reliability of performance measure results.

Two performance measures reviewed are calculated from the University's Annual Financial Report that aggregate expenditures based upon NACUBO function codes. Audit results of the two financial report related measures confirmed management's concern about the accuracy of the University's account function codes. Two samples of thirty accounts were reviewed for function code accuracy:

- Seven of 30 (23%) accounts reviewed were incorrectly coded as related to research. The function code for research is used in financial schedules supporting the performance measure for the dollar amount of external or sponsored research funds. The accounts coded in error represent approximately 1.5% of total expenditures in the sampled accounts.

- Eighteen of 30 (60%) accounts reviewed were incorrectly coded as related to institutional support. The function code for institutional support is important in calculating the performance measure for the amount expended for administrative costs as a percent of the operating budget. The accounts coded in error represent approximately 10% of the expenditures in the sampled accounts.

Several of the accounts coded incorrectly in each of the above samples are older accounts that have little or no current activity. Therefore, they would not have a significant impact on the accuracy of performance measures which are based upon expenditure amounts. Fiscal Office personnel had initiated their own review of accounts prior to the audit and were correcting function codes to correspond with current account activities according to NACUBO requirements. They were also closing old accounts that are no longer used. It is important to continue this process to reduce the risk of inaccurate financial reporting as well as inaccurate performance measure results. In addition, completion of this account review and correction process should also better align Texas A&M University - Kingsville's financial reporting with that of other universities in the A&M System, which will make any comparative analysis more meaningful.

Recommendation

Complete review and correction of Financial Accounting Management Information System (FAMIS) account codes for agreement with NACUBO function code definitions to ensure accuracy of annual financial reports and supporting schedules used in performance measure calculations. Establish procedures for updating or closing accounts in a timely manner to ensure FAMIS accounts are set up and coded in agreement with current account activity.

Management's Response

The University has completed the review of FAMIS account codes for agreement with NACUBO function code definitions. Utilizing the Business Objects Data Warehouse, annual data queries will be generated that identify zero account activity to enable timely closing of inactive accounts. Annual data queries will also be generated comparing chart of accounts' NACUBO classification with other System members. Major deviations will be researched and modified if applicable, or justification for deviation documented. This will result in a higher degree of data accuracy and comparability of reported performance measures across other A&M System members.

BASIS OF REVIEW

Objective and Scope

The objective was to review and assess the University's processes for the development and monitoring of performance measures used by management for decision-making and to determine the extent to which the processes provided for the completeness, integrity and accuracy of data in an efficient and effective manner.

The review focused on five performance measures reported by the University to the Legislative Budget Board for fiscal year 2006. Selected measures included freshmen graduation rates; undergraduate transfer student graduation rates; courses taught by tenured or tenure-track faculty; value of external or sponsored research funds; and administrative costs as a percent of operating budget. Fieldwork was conducted from June through July 2007.

Criteria

Our review was based upon standards as set forth in System Policy and Regulation Manual of The Texas A&M University System; the Texas Legislative Budget Board's General Academic Institutions Performance Measure Definitions and Guide to Performance Measure Management; the Treadway Commission's Committee of Sponsoring Organization's Internal Control - Integrated Framework (COSO); and other sound administrative practices. The evaluation was performed in compliance with generally accepted government auditing standards and other criteria to conform to the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Background

The Office of Institutional Research, established in 1990, coordinates University performance measure reporting to the Legislative Budget Board. The Office of Institutional Research supports institutional planning, policy formulation and decision-making through the development and dissemination of accurate and timely data, reports and analysis. The Office is committed to providing support and expertise for the evaluation and assessment activities throughout the University. The Office is also responsible for ensuring the timely submission and accuracy of reports to external agencies.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Sandra Ordner, CPA, Project Manager
Aliza Dirden, CIA
Nora Miles, CPA
Joseph Mitchell

Contact Information

For questions regarding this review, contact Dick Dinan, Director.

E-Mail: D-Dinan@tamu.edu
Phone: (979) 458-7144
Fax: (979) 458-7111
Web Site: <http://www.tamus.edu/offices/iaudit>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. Rumaldo Z. Juarez, President
Dr. Thomas D. Saban, Vice President for Finance and
Administration
Dr. Kermeta J. Clayton, Provost and Vice President for
Academic Affairs
Dr. Robert Diersing, Associate Provost and Director of Computing
and Information Systems
Mr. Manuel Lujan, Vice President for Enrollment Management
Ms. Gettie Moreno, Assistant Vice President and Comptroller
Dr. Alan Tipton, Director, Office of Institutional Research



PROJECT SUMMARY

Overview

<u>Table of Contents</u>	
Project Summary.....	1
Detailed Observations.....	3
Basis of Review.....	9
Audit Team Information.....	10
Distribution List.....	10

Generally, the controls established within the Office of Sponsored Projects (OSP) at Texas A&M University provide reasonable assurance that the pre-award administration of sponsored projects is operating in compliance with applicable System regulations and University rules except for proposal approval. Improvements are needed in the review and approval of proposals before submission to sponsors. Forty percent of the sponsored project proposals examined during the audit had not been reviewed and approved by the University prior to the submission to the sponsor, increasing the financial and compliance risks associated with sponsored projects. Additionally, performance measures need to be developed and the documentation of the selection process of limited submissions, conflict of interest, and departmental procedures needs to be improved. Also, the University rule related to sponsored project proposals needs to be updated. Over nine hundred proposals, totaling approximately \$378 million, were submitted from September 2006 through June 2007.

Sponsored project administration within the Office of the Vice President for Research is in transition. In the spring of 2007, the Office of University Research Services (OURS) was created to incorporate the proposal, contract and project administration duties previously performed in the Office of Sponsored Projects and the Department of Contract Administration in the Division of Finance. The University is planning for pre- and post-award services to be expanded for more comprehensive support of sponsored project activities to improve controls and efficiencies.

Summary of Significant Results

Proposal Approvals

The pre-award review and approval of sponsored projects is the responsibility of the Office of University Research Services. Forty percent of sponsored project proposals examined had not been reviewed and approved before submission to sponsors. Without institutional oversight, financial and compliance risk is increased. University Rule, 15.01.01.MR, states “to meet its responsibilities

as the applicant, the University must give careful review of all proposals prior to submission.”

Summary of Management's Response

The Office of the Vice President for Research continually strives to enhance services to support sponsored research. The following audit recommendations and management responses will support this continuous effort. The creation of the Office of University Research Services will strengthen our compliance of University Rule 15.01.01.M5 by combining like-duties of proposal coordination and review, contract negotiation and compliance and research services under one umbrella to enhance the University's decision-making, minimize the University's unmitigated risk and maximize the University's position for successfully competing for external research dollars.

Scope

The review of pre-award administration focused on the proposal review process through submission to the sponsor. Contract negotiations were not reviewed as part of this audit. Activities and transactions related to this area were reviewed from September 1, 2006 through June 30, 2007.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Proposal Approvals

Observation

Proposals are not always approved by the University prior to submission to the sponsor.

Forty percent of the sponsored project proposals examined (24 of 60) had not been reviewed and approved prior to submission to the sponsor. Because of this, the University may be awarded grants or contracts for which they have inadequate resources to meet the terms of the award. The award may have to be renegotiated or declined.

University Rule 15.01.01.M5 states "To meet its responsibilities as the applicant, the University must give careful review to all proposals prior to submission." The Office of Sponsored Projects within the Office of the Vice President for Research has overall responsibility for proposal review and approval for the University. The University does not monitor compliance with this rule.

Of the proposals that were not approved by the University:

- Thirty-three percent were submitted by the principal investigator and had no approval by the pre-award function of any System member or had not been processed through the Texas A&M Research Foundation.
- Sixty-seven percent were submitted by the pre-award function of another System member or the Texas A&M Research Foundation, and had the approval of this member.

Recommendation

Ensure that proposals are reviewed and approved prior to submission. Monitor noncompliance with University Rule 15.01.01.M5. Analyze this information to identify proposals that have been submitted to the sponsor prior to approval by the University pre-award function, and take appropriate action. Contact the principal investigators who are in noncompliance to identify ways to improve the process. Periodically report compliance issues to the Council of Deans. Consider requiring that all faculty periodically attend the workshops presented by OURS. Seek improved coordination of the proposal review process with the other System

1. Proposal Approvals (cont.)

members and the Research Foundation. Ensure that the interests of the University are fully considered.

Management's Response

The Office of the Vice President for Research will establish a process for monitoring noncompliance with University Rule 15.01.01.M5 to assure that proposals to external entities involving University faculty, other personnel, facilities or resources have the approval of the Office of the Vice President for Research before being submitted to the sponsor. This office will work with the other System members to streamline the approval process as appropriate for University faculty submitting grants through other state agencies within the Texas A&M University System, including the approval process in which the state agency wishes to act on behalf of the University, the degree-granting institution. Additionally, this office will work with the Research Foundation to assure that prior approvals as outlined in the Research Foundation master agreement are being enforced by Research Foundation personnel and that sufficient time is allowed for the University to review, approve and submit proposals by sponsor deadlines. The Research Foundation master agreement will be strengthened to better communicate the need for the compliance with the University rule.

The Office of the Vice President for Research offers training programs to both faculty and staff on processing proposals and procedures for requesting approval for proposals as well as cost-sharing, conflict of interest, etc. These training programs have included persons from the Research Foundation as well as other System agencies. Upon transfer of proposal coordination services to OURS, additional special training and instructions will be offered to colleges, departments and principal investigators to assure that faculty are aware of the requirement that proposals be approved prior to submission on behalf of the University. Compliance issues will be discussed with the University Research Council and the Council of Principal Investigators. Individual college and faculty results will be brought to the Council of Deans to assure that established processes are being followed to mitigate risk to the University.

Anticipated target date: August 31, 2008.

2. Pre-Award Administration Performance Measures

Observation

Performances measures have not been developed.

No formal performance measures for pre-award administration exist. As a result, there is a risk that services and administrative processes are not as efficient and effective as possible. A customer satisfaction survey is not performed, nor is proposal review turnaround time measured. Overall measures for the pre-award process could include the award rate; the number of proposals submitted in total or by principal investigator, department, or specific agency; and trends in proposals and awards.

The Guide to Performance Measure Management prepared by the State of Texas states that well developed performance measures can help focus a function on achieving priority goals and objectives.

Recommendation

Develop and implement performance measures. Use results to improve pre-award services and administrative processes.

Management's Response

Proposal preparation and submission to the sponsors, for the most part, are duties that are performed by the Research Foundation or by other System members. OURS will develop and implement performance measures to address the efficiency and effectiveness of the processes associated with reviewing and approving proposals. Other relevant data will be tracked for proposals processed by the Office of the Vice President for Research, such as proposals awarded, denied and pending.

The Office of the Vice President for Research will continue its efforts to integrate the data regarding University research, including the research performed by University faculty working through other System members, in order to better assess and oversee the University's research program in regard to trends in efforts, funding and opportunities and its evaluation of faculty and performance.

Anticipated target date: August 31, 2008.

3. Limited Submissions

Observation

Selection of limited submissions is not documented.

The review decisions for limited submission proposals are not documented. Documentation for competitive processes, such as limited submissions, which are similar to contractor bidding and hiring practices, is a good business practice. It not only provides information for monitoring performance and identifying trends, but also gives credibility to the process used. Documentation can also provide necessary proof of fair and equitable actions if a decision is challenged.

What are limited submissions?

Some sponsors only permit that a finite number of proposals from the University (including System Agencies and the Health Science Center,) be submitted to them for a particular project. When this occurs, an ad hoc committee, chaired by the Executive Associate Vice President of Research, evaluates all submissions, selecting the proposals to be submitted to the sponsor.

Recommendation

| Document the review decisions for limited submission proposals.

Management's Response

The Office of the Vice President for Research will enhance its documentation as to the selection of limited proposal submissions. The current documentation contains a list of candidates for funding, the tally of the voting and selection by the committee. The review of research proposals is a qualitative peer-reviewed process that involves not only the reviewer's own assessment of the researcher's work, but their assessment of the area of research and its importance to the national agenda. Although the process is more subjective than a contractor bidding process and some aspects cannot be quantified, there is data on the areas of research and reasons for selection that can be documented and provide valuable information as to trends. Relevant information can include the areas of research selected internally based upon the national research agenda and the potential for funding at the national level.

Anticipated target date: February 28, 2008.

4. University Rule

Observation

The University rule on proposal submission is outdated.

University Rule 15.01.01.M5, Preparation, Review and Submission of Sponsored Project Proposals, does not reflect changes in name, organizational structure, or philosophy of the pre-award function. While the current University rule cites the Office of Sponsored Projects as the responsible party, this responsibility is now a part of the newly created Office of University Research Services. Also, the philosophy has changed to provide more comprehensive administrative support of sponsored project activities.

The lack of an updated rule increases the risk that proposal submissions will not be processed accurately due to outdated information.

Recommendation

Review and revise the University rule to be in agreement with the changes in name, organizational structure, and philosophy.

Management's Response

OURS was established as a result of the transfer of the University sponsored contract office from Finance to Research. It is anticipated that proposal coordination and processing will be transferred to OURS by February 28, 2008. Upon transfer, the University rule will be revised to show the transfer of the proposal processing functions to OURS and other changes in pre-award administration within the University. Revisions to the rule will be submitted to the University for the review and approval process by May 31, 2008.

5. Conflict of Interest

Observation

Conflict of interest certification is not required for all proposals.

As part of the proposal review process, principal investigators are not required to provide a conflict of interest certification, except for National Science Foundation and Public Health Service proposals. Without a certification for all proposals, there is increased risk that a potential conflict would not be disclosed.

Recommendation

5. Conflict of Interest (cont.)

Require that principal investigators certify on each proposal submitted whether they have a conflict of interest.

Management's Response

This office concurs that a conflict of interest process on all proposals would assist in helping us mitigate risks and manage the research program more effectively as well as reduce exposure to the institution and to the individual researcher.

Anticipated target date: February 28, 2008.

Additionally, this change in business operations will require revisions to Rule 15.01.03.M1-Rules on Conflicts of Interest in the Design, Conduct, and Reporting of National Science Foundation and Public Health Service Sponsored Research. Revisions to the rule will be submitted to the University for the review and approval process by August 31, 2008.

6. Departmental Procedures

Observation

Internal written procedures are not adequate.

Written procedures to address pre-award administration processes within OURS are limited. A one-page document summarizes the administration process, but does not detail specific roles and responsibilities. Written procedures provide guidance to employees and help ensure that responsibilities and tasks are understood, especially during periods of transition.

Recommendation

Enhance procedures for the internal proposal review process. One option could be to document the process with a flowchart, including notes that detail the specific responsibilities of each individual involved.

Management's Response

The Office of Vice President for Research will enhance the written procedures for the internal proposal review process including new procedures regarding the transfer of proposal services to OURS.

Anticipated target date: May 31, 2008.

BASIS OF REVIEW

Objective

The overall objective was to review the pre-award administration of sponsored projects at the University to determine if resources are used efficiently and effectively and in compliance with laws, policies, and regulations.

Criteria

Our review was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; the Texas A&M University Rules; the Council on Governmental Relations Effective Management Practices; the Treadway Commission's Committee of Sponsoring Organization's Internal Control - Integrated Framework (COSO); The Guide to Performance Measure Management prepared by the State of Texas and other sound administrative practices. The evaluation was performed in compliance with generally accepted government auditing standards and other criteria to conform with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Background

Pre-award administration is in a period of transition. In 2006, it (then named the Office of Sponsored Projects) was moved under the newly created position of Senior Associate Vice President for Research. In fiscal year 2007, the Senior Associate Vice President for Research assumed additional responsibilities, those of sponsored project contract negotiation and management of the post-award function. These areas had previously been part of the Department of Contract Administration, which was part of the Division of Finance. This entire area was renamed the Office of University Research Services. In fiscal year 2008, the proposal review process will be assigned to the recently hired Assistant Vice President for Research, who reports to the Senior Associate Vice President for Research and is currently responsible for contract negotiation and awards and post-award administration.

Currently, the pre-award function has a staff of four full-time employees. Over nine hundred proposals, totaling approximately \$378 million, were reviewed and approved from September 2006 through June 2007.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

William Williams, CPA, Project Manager
Holly Blue, CPA
Katina Greenlee, CPA
Susan McGrail, CIA

Contact Information

For questions regarding this review, contact Charlie Hrcir, Director.

E-Mail: c-hrcir@tamu.edu
Phone: (979) 458-7100
Fax: (979) 458-7111
Web Site: <http://sago.tamu.edu/iaudit>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

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Grants
Mr. Charley Clark, Associate Vice President for University Risk
and Compliance



PROJECT SUMMARY

Overview

<u>Table of Contents</u>	
Project Summary	1
Detailed Observations.....	3
Basis of Review	8
Audit Team Information.....	9
Distribution List	9

The System Office of Facilities Planning and Construction (FP&C) is currently in transition. The department has begun to reorganize its staff and processes in order to more efficiently manage a construction project workload that has grown to over \$1 billion. Based on our audit work the processes used by FP&C ensured construction projects achieved the specified level of quality for best value. Improvements are needed to ensure that items processed as a project change relate to the scope of the original project, and that documentation and monitoring of prevailing wage rate compliance is performed. Additionally, FP&C should update its written procedures and ensure they are communicated to all affected constituents and coordinate with the System Office of Budgets and Accounting to ensure timely notification of contracts and changes to the Legislative Budget Board.

FP&C manages over \$1 billion in construction projects for the nine universities, seven state agencies and the Health Science Center in the Texas A&M University System. The department has recently been reorganized into three divisions including project planning, project delivery and project controls with a budget of approximately \$4.8 million. In addition, the department now employs three external firms to assist with program management requirements in the north and south areas of the state.

Summary of Significant Results

Change Order Scope

To expedite renovations at the Health Science Center’s Institute of Biosciences and Technology (IBT) animal facility in Houston, a change order was added to the existing Architect/Engineer contract for the Texas A&M University (TAMU) Interdisciplinary Life Sciences project in College Station. Adding unrelated services to an existing contract increases the risk that cost and time will be added to the original project and that services are awarded without going through the appropriate selection and approval processes.

Prevailing Wage Rates

Due to the current volume of construction projects and associated change orders, prevailing wage rate surveys have not been documented, and contractor payrolls are not monitored for compliance with the rate requirements. As a result, some wage rates included on FP&C's fiscal year 2007 prevailing wage schedule fall below federal Davis-Bacon Act rates, increasing the risk of noncompliance with the Texas Government Code. A lack of monitoring for contractor compliance with prevailing wage rates increases the risk that workers on A&M System construction projects are not adequately compensated, and that the penalties provided in FP&C's uniform general conditions are unassessed to the contractors.

Summary of Management's Response

Facilities Planning & Construction's (FPC) management concurs with the findings and recommendations of the auditors and is committed to addressing these issues.

Scope

The review of construction contracts focused on three specific projects: TAMU Interdisciplinary Life Sciences Building with a project budget of \$95 million; TAMU Mitchell Physics Buildings with a project budget of \$63 million; and the Texas Institute for Preclinical Studies Facility with a project budget of \$40 million. Activities and transactions related to these projects were reviewed for the period from December 2005 through May 2007. Audit fieldwork was conducted June through August 2007.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Change Order Scope

Observation

A change order was approved for work unrelated to the contracted project.

In order to expedite renovations at the A&M System Health Science Center's Institute of Biosciences and Technology (IBT) animal facility in Houston, a \$59,812 change order was added to the existing architect/engineer (A/E) contract for the TAMU Interdisciplinary Life Sciences project in College Station. Although the renovations were added to the change order for the University's construction project, the cost of additional services was paid by the Health Science Center. FP&C does not have documented procedures to offer guidance in situations where immediate design needs must be addressed without going through the A/E selection process.

System Policy 51.02, in effect at this time, outlines the evaluation process that should be used to select A/E design teams for renovation projects that are under \$2 million and those that exceed \$2 million. Adding unrelated services to an existing contract increases the risk that cost and time will be added to the original project and that services are awarded without going through the appropriate selection and approval processes.

Recommendation

Ensure compliance with contract conditions and System policies established to manage the scope of project changes and the award of contracts. Develop procedures to provide guidance in handling emergency design or construction needs, including approvals at an appropriate level to ensure A&M System management is aware that standard policies and procedures are not being followed.

Management's Response

This instance was a one-time occurrence. Included in Board Policy 51.02 Selection of Architect/Engineer Design Team, Design-Build Contractor or Construction Manager at Risk Contractor is a process to select an architect/engineer for a minor construction project that is administered by FP&C. FP&C is rigorously adhering to the processes spelled out in this policy. We are also developing a

1. Change Order Scope
(cont.)

process to select an architect/engineer for emergency design needs that we plan to have in place no later than August 31, 2008.

2. Prevailing Wage Rates

Observation

Prevailing wage rate surveys are not documented and contractor payrolls are not monitored for compliance.

Some wage rates included in FP&C's fiscal year 2007 Prevailing Wage Schedule are set below federal Davis-Bacon Act rates without a documented FP&C survey to support the rate. Additionally, FP&C does not monitor contractor payrolls to ensure they are complying with the prevailing wage rate schedule included in FP&C's uniform general conditions. Uniform General Conditions are part of all state contracts as required by Texas Government Code 2166 and contain contract conditions adopted by the Texas Building and Procurement Commission, as well as standard procedures and requirements for the administration of contracts issued by the A&M System. The employee responsible for collecting and monitoring contractor payrolls is also responsible for monitoring contract change orders. According to management, the current change order review workload prohibits the required amount of attention to other tasks.

Texas Government Code 2258, Prevailing Wage Rates, requires workers employed on a public work by the state be paid not less than the prevailing wage rate of per diem wages for similar work in the locality. General prevailing rate of per diem wages may be determined by either conducting a survey of wages received by workers on similar projects or by using the prevailing wage rate as determined by the US Department of Labor in accordance with the Davis-Bacon Act. According to FP&C's procedures, prevailing wage rate surveys are conducted based on geographic locations and include data from mail-out surveys, payroll records, individual interviews and trade publications.

Undocumented surveys increase the risk of noncompliance with Texas Government Code. A lack of monitoring for contractor compliance with prevailing wage rates increases the risk that workers on A&M System construction projects are not adequately compensated, and that the penalties provided in FP&C's uniform general conditions are unassessed to the contractors.

Recommendation

Document wage rate surveys in accordance with Texas Government Code 2258. Routinely monitor contractors' payrolls for prevailing wage rate compliance. If noncompliance is

2. Prevailing Wage Rates
(cont.)

determined, assess penalties as appropriate according to FP&C's uniform general conditions.

Management's Response

FPC is currently updating all of the wage rates for upcoming construction projects. We are in the process of sending out a wage survey by February 28, 2008 to contractors and sub-contractors to update our wage rates. Project managers have begun checking the contractor's monthly certified payroll against the wage rates established for that project to ensure compliance. If noncompliance is determined the penalties as outlined in our Uniform General and Supplementary Conditions shall be assessed.

3. Written Procedures

Observation

Written procedures have not been updated to reflect changes in FP&C's organization or project delivery.

FP&C's Construction Procedures manual and the Instructions to Architects and Engineers for the Preparation of Contract Documents (Red Book) have not been updated to include the department's current procedures for administering projects utilizing the Construction Manager at Risk project delivery method or with new departmental approval authority. System member user coordinators do not receive formal guidance on project delivery methods, FP&C procedures or FP&C cost structure. In addition, the departmental-specific ethics training program implemented by the former Associate Executive Director has not been continued.

Due to the significant increase in project workload volume in the past few years, and the addition of the Construction Manager at Risk project delivery method, updating written procedures and creating a user orientation program has not been among the department's highest priorities. Additionally, the department recently experienced a change in leadership and organization that has affected its processes, including the ethics program.

The success of Construction Manager at Risk projects is at risk if processes are not well-defined, documented and communicated to applicable constituents. This risk has been mitigated to some degree since FP&C works with architects and contractors who have substantial experience with this delivery method. Adequate communication with user coordinators reduces the risk of ineffective coordinators when roles and responsibilities, including financial considerations, are explained. Industry-specific ethics training enhances the ethical climate of the department and deters unethical behavior by employees charged with monitoring contractor performance and quality of work.

Recommendation

3. Written Procedures (cont.)

Establish a process to continually review and update departmental procedures. Current updates should include processes for Construction Manager at Risk projects and new departmental approval authority. Communicate procedures to applicable constituents. Re-institute the departmental ethics training program.

Management's Response

All of our processes and procedures are continually being evaluated, streamlined and documented. We are currently formalizing our processes and procedures into final documentation which will be both in printed format and web-based electronic format and made available to all System members by August 31, 2008. We began implementing a web-based project management system in November 2007 that will track each project's budget and expenditures. We are also re-instituting the departmental ethics training program by February 28, 2008.

4. Legislative Budget Board Reporting

Observation

Reporting of construction contracts and changes to the Legislative Budget Board is not timely.

Sixty percent (12 out of 20) of contracts and change orders reviewed were not reported to the Legislative Budget Board (LBB) within 10 days of execution as required by A&M System regulation. Reporting ranged between 3 to 201 days after the date in which the contract or change order was required to be reported.

A&M System Regulation 25.07.01 and Texas Government Code requires all contracts for construction projects that exceed \$14,000 be reported to the LBB within 10 days of execution. The LBB provides additional explanation on the notification requirement to include any amendment, modification, renewal, or extension of the original contract. Timely reporting requires the coordination of staff from both the System Office of Budgets and Accounting and FP&C to reduce the risk of noncompliance with the A&M System regulation and LBB requirements.

Recommendation

Report construction contracts and change orders that exceed \$14,000 within 10 days of execution in compliance with the A&M System regulation and Texas Government Code. Coordinate activities of the System Offices of Budgets and Accounting and Facilities Planning and Construction to meet these requirements.

Management's Response

4. Legislative Board Reporting
(cont.)

When our operations and administrative personnel were transferred to the System Office of Budgets and Accounting, the established process to report contracts and contract change orders to the Legislative Budget Board was discontinued. The process has been re-established in October 2007 within Budgets and Accounting and FP&C will participate in the streamlining of this process through the web-based project management system.

BASIS OF REVIEW

Objective

The objective of the audit was to review construction contracts entered into by Facilities Planning and Construction to determine if construction projects achieve the specified level of quality for best value, and are in compliance with laws, policies and regulations.

Criteria

Our review was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; Facilities, Planning & Construction's Construction Procedures Manual and Specifications; the Texas State Auditor's Office's Methodology Manual – Construction Module; Texas Government Code; the Treadway Commission's Committee of Sponsoring Organization's Internal Control - Integrated Framework (COSO); and other sound administrative practices. The evaluation was performed in compliance with generally accepted government auditing standards and other criteria to conform with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Background

The System Office of Facilities Planning and Construction is dedicated to the ongoing program to improve and expand all physical facilities in support of the teaching, research and service missions of each university and agency of The Texas A&M University System. The department seeks to accomplish this by providing timely and efficient professional services in a fiscally sound manner throughout all phases of project development.

The staff of 45 manages over \$1 billion in construction projects for the nine universities, seven state agencies and the Health Science Center in the Texas A&M University System. FP&C has recently been reorganized into three divisions including project planning, project delivery and project controls with a budget of approximately \$4.8 million. In addition, the department now employs three external firms to assist with program management requirements in the north and south areas of the state.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

Amanda Dotson, CPA, Project Manager
Lori Ellison
Christy Journey
Deidra White, CPA

Contact Information

For questions regarding this review, contact Charlie Hrcir, Director.

E-Mail: chrncir@tamu.edu
Phone: (979) 458-7100
Fax: (979) 458-7111
Web Site: <http://sago.tamu.edu/iaudit>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

Dr. Michael D. McKinney, Chancellor
Mr. Vergel Gay, Managing Director
Mr. James Davidson, Director of Project Controls



PROJECT SUMMARY

The controls established by Texas A&M University provide reasonable assurance that the operations and maintenance (O&M) infrastructure assessments to the local A&M System members are administered appropriately and in compliance with applicable laws, policies, and rules. Opportunities for improvement exist in the allocation of overhead costs, documentation of the process, and planning for future needs.

<u>Table of Contents</u>	
Project Summary.....	1
Detailed Observations.....	2
Basis of Review.....	5
Audit Team Information.....	6
Distribution List.....	6

O&M assessments include charges for facilities coordination, police and security, environmental health and safety, custodial, landscape maintenance, routine building maintenance, and physical plant support. The budgeted cost for each service is divided by the square footage it serves to calculate the rate charged. The utilities rate is calculated separately. The total amount assessed to the agencies for fiscal year 2007 was approximately \$5.7 million. The University provides a base level of services in these categories for the University, agencies, Health Science Center, and System Offices. If a higher level of service is desired, it is provided on a cost-billable basis.

Scope

The scope of the review encompassed the calculation of the fiscal year 2007 O&M infrastructure assessment rates, the service levels provided, and the billing and collection of the fees. The true-up process to settle excesses or deficiencies between estimated fiscal year 2007 costs and actual expenditures had not been completed as of the end of fieldwork and was, therefore, not reviewed. Fieldwork was conducted from May through July 2007.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Physical Plant Support (Overhead)

Observation

The method used for overhead calculation does not evenly distribute the associated costs.

Overhead, listed as Physical Plant Support, is a separate line item in the infrastructure assessments. This amount represents certain administrative costs for all services managed by the Facilities Division (custodial, landscape maintenance, building maintenance, etc.). Overhead was billed as a separate item in the infrastructure assessment to be consistent with the process used for state legislative infrastructure funding. This process assumes that all services will be utilized for all buildings. However, for various reasons, not all buildings and resulting square footage utilize all of the services provided by the Facilities Division. This requires manual adjustments to the Physical Plant Support rate on a case-by-case basis.

In addition, certain overhead costs reflected in the Physical Plant Support assessment are not directly related to O&M services. For example, the Vice President for Facilities and the Assistant Vice President for Physical Plant are also responsible for administration of the utility plant. By not allocating some portion of those costs to the rates for utility services, O&M rates are overstated.

Recommendation

Discontinue assessing Physical Plant Support as a separate line item. Allocate the overhead costs, including administrative salaries, to all applicable services.

Management's Response

Management concurs with the recommendation and will apply the new methodology to the FY09 O&M rates. Target date for implementation is May 31, 2008.

2. Documentation of Process

Observation

No written procedures exist to document how the O&M rates are calculated.

There are no written procedures available to document how the O&M infrastructure rates are calculated. Excel spreadsheets are used to calculate the rates and contain detailed information regarding the calculations. The spreadsheets include information such as account numbers, square footage, and overhead allocations. Without documented procedures, personnel performing this calculation in the future may not have a complete understanding of the rate model and the source of the data.

Data and formulas in spreadsheets are susceptible to accidental deletions or changes by the users. Also, as the square footage sheet is updated, the historical data is lost and there is no documentation to show where the original square footage number was derived.

Recommendation

Develop written procedures that document the reasoning behind each O&M infrastructure rates worksheet, the numbers used in the calculation, and the methods for updating the information annually. Ensure that all historical information used to calculate the rates is maintained. Explore alternative avenues for electronic calculation of the rates that does not lend themselves to easy manipulation or inadvertent errors.

Management's Response

Management concurs with the recommendation. Written procedures that document the reasoning behind each O&M infrastructure rates worksheet, the numbers used in the calculation, and the methods for updating the information annually will be developed. In addition, alternative methods for electronic calculation of the rates will be explored, including using an Access database, off-the-shelf software, and a custom written application. Target date for implementation is August 31, 2008.

3. Strategic Planning for Future O&M Needs

Observation

There are no plans in place to address increasing O&M needs related to future construction.

With the increase in building space planned for the next several years and the uncertainties associated with future budgets, the University faces challenges in funding O&M services at their

3. Strategic Planning for
Future O&M Needs (cont.)

current performance levels. For fiscal years 2008 and 2009, the University is expected to add over one million square feet to its current inventory of space to maintain. If additional funds are not identified or existing University resources freed up, a large burden will be placed on the current work force that will lead to an overall reduction in services.

Increases in funding for future O&M costs were not mentioned in the FY 2008 Programmatic Budget Review for the University. The priorities in the budget review related to facilities were to complete existing buildings and identify long-term needs and funding for deferred maintenance and fire and life safety. Currently, the University does not recover costs for deferred maintenance, fire and life safety, and facility renewal through the assessment process.

Recommendation

Identify additional funding for future O&M needs. Additionally, consider outsourcing some of these services if savings can be obtained.

Management's Response

Management concurs. As a part of the FY09 budget process, Physical Plant will request required funding for O&M needs. University Administration will assess available funding opportunities and determine an approach to address FY09 needs. A plan to address FY09 O&M needs will be finalized by August 31, 2008.

BASIS OF REVIEW

Objective

The objective was to review and evaluate the University's process for establishing rates to recoup operating and maintenance (O&M) costs from other local Texas A&M University System members to ensure it is efficient and effective and in compliance with laws, policies, and regulations.

Criteria

Our review was based upon standards as set forth in the System Policy and Regulation Manual of The Texas A&M University System; the Treadway Commission's Committee of Sponsoring Organization's Internal Control - Integrated Framework (COSO); and other sound administrative practices. The evaluation was performed in compliance with generally accepted government auditing standards and other criteria to conform with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Background

Operations and maintenance assessments include charges for facilities coordination, police and security, environmental health and safety, custodial, landscape maintenance, routine building maintenance and physical plant support. Prior to fiscal year 2006, the agencies and Health Science Center agreed to pay the University 100 percent of their Brazos County infrastructure allocation in return for the University providing these services. Due primarily to escalating utility costs, it was agreed during fiscal year 2006 that a methodology should be developed to equitably allocate costs to the agencies, Health Science Center, and the System Offices. The methodology agreed on allocates these costs based on square footage. Fiscal year 2007 was the first year that the new assessment process was used. Intrasystem cooperation contracts were entered into between the University, agencies, and Health Science Center to specify the total assessment, payment schedule and the services to be provided equally across the University, agencies, Health Science Center, and System Offices. A true-up process will be completed at the end of fiscal year 2007 and any excesses or deficiencies will be settled through refunds or additional payments.

AUDIT TEAM INFORMATION

Auditors Assigned to the Review

David Maggard, CPA, Project Manager
Katie Rannebarger
Tracey Sadler, CIA

Contact Information

For questions regarding this review, contact Charlie Hrcir, Director.

E-Mail: chrncir@tamu.edu
Phone: (979) 458-7100
Fax: (979) 458-7111
Web Site: <http://sago.tamu.edu/iaudit>

The Texas A&M University System
System Internal Audit Department
1200 TAMU
College Station, TX 77843-1200

200 Technology Way, Suite 2192
College Station, TX 77845-3424

DISTRIBUTION LIST

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