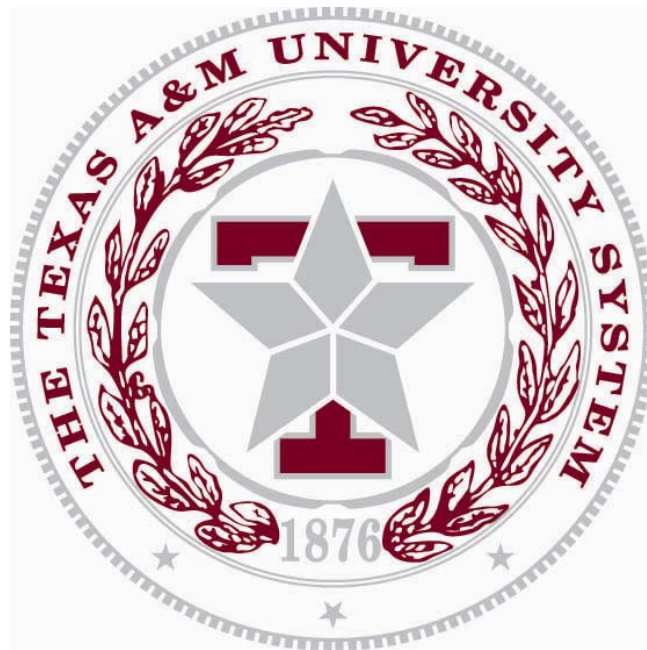


**The Texas A&M University System Internal Audit Department**

**SECOND QUARTER REPORT  
FISCAL YEAR 2009**



March 12, 2009



The Texas A&M University System Internal Audit Department  
Second Quarter Report  
Fiscal Year 2009

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# PROJECT SUMMARY

## Overview

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The Texas A&M University System Office of Facilities Planning and Construction (FP&C) did not establish an effective monitoring system over the North and South area program management service agreements to ensure resources were used efficiently and effectively and in compliance with agreement terms. In addition, agreement terms were not written clearly enough to identify and account for the use of supporting resources.

Improvements are needed in coordination with the System Office of Budgets and Accounting to ensure timely notification of agreements to the Legislative Budget Board as required by state law. Also, a cost analysis was not performed prior to the execution of the service agreements to support the need for outsourced services and performance satisfaction surveys are not used to obtain feedback on the services provided by FP&C.

Program management service agreement values are approximately \$4.7 million and \$3.3 million in the North and South areas, respectively, and are in effect for a two-year period ending May 31, 2009. The North area includes Tarleton State University, Texas A&M University-Commerce, Texas A&M University-Texarkana and West Texas A&M University. The South area includes Texas A&M International University, Texas A&M University-Corpus Christi and Texas A&M University-Kingsville.

**Program Management Service Agreements**

Agreements are intended to provide FP&C with professional and other experienced staff over a specified period of time to offset the personnel needs in the programming, planning, design, construction, and occupancy of projects included in the capital plan. Services may include, but are not limited to, project management, cost management and/or schedule management services.

## Summary of Significant Results

### Agreement Monitoring

Significant improvements are needed in the monitoring of program management service agreements to ensure compliance with agreement terms and to provide adequate protection of assets

and efficient and effective use of resources. Poor monitoring controls have resulted in both violations of agreement terms and questioned costs totaling approximately \$225,000. Proactive and routine monitoring reduces risks associated with noncompliance of agreement provisions and errors in or falsification of expense documentation that could go unnoticed, undetected, or not reported timely to proper levels of FP&C and program management.

### *Agreement Language*

Program management service agreements do not include terms and conditions necessary to ensure reasonable accountability of program management companies, particularly in the areas of basic service fees, reimbursable expenses, and business ethics. Weak agreement language increases the risk of inefficient and ineffective use of resources.

### *Legislative Budget Board Reporting*

Program management service agreements for the North, South, and Central areas of Texas were significantly delinquent (approximately 280 days past the deadline) in being reported to the Legislative Budget Board as required by state law and System Regulation 25.07.01, Contract Administration Procedures and Delegations. In addition, a program management software license agreement and three of four additional service requisitions approved in relation to the program management service agreements were not submitted timely.

## Summary of Management's Response

*Facilities Planning and Construction's management concurs with the findings and recommendations of the auditors and several of the recommendations are already in place. The North program management firm has already credited back over \$87,000 and the South program management firm will credit back over \$113,000 in a future invoice.*

*In addition, at our request the lead outsourced individual with both the North and South program management firms have been removed from the agreement.*

## Scope

The review of program management service agreements focused on two of the three service agreements for outsourced construction management services in the North and South areas of the State of Texas. Activities and transactions related to insurance coverage, scope of services, expenses, performance surveys, and additional service requisitions were sampled and reviewed for the period of June 1, 2007 through July 31, 2008. Due to questioned costs noted in the initial review of basic services fee and reimbursable expenses, the Associate Vice Chancellor for FP&C requested that the audit include all basic services fee and reimbursable expenses through October 31, 2008. Audit fieldwork was conducted September through November 2008.

# OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

## 1. Agreement Monitoring

### Observation

**Effective monitoring processes are not in place for the program management service agreements.**

Monitoring of program management service agreements, particularly in the areas of basic services fee and reimbursable expenses, is not sufficient to ensure compliance with agreement provisions and to provide adequate protection of assets and accurate records for management decision-making.

Management did not recognize the inadequate monitoring process was resulting in violations of agreement terms, questioned costs, and poor equipment controls and accounting practices.

Violations of agreement terms identified in the audit included the following:

- Reimbursable expenses incurred in Year 1 of the agreement by the South program management company exceeded the maximum allowable agreement value by approximately \$19,200. This is due to the application of a reimbursable expense multiplier not included in the agreement and transportation costs incurred above the maximum allowable agreed-upon value.
- Ordinary back up documentation, such as employee expense reports and receipts, was not submitted by the South program management company to substantiate reimbursable service expenses as required by the agreement.
- Four of fifty-seven (7%) invoices were not signed by the FP&C Area Manager as required by agreement terms. Two of the four were signed by the Director of Project Delivery and the other two were not signed. A delegation of signature authority is not included in the agreements that would allow for a substitute signature outside of the FP&C Area Manager.

#### **Questioned Costs**

Costs are questioned because of:

- (a) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement or other document governing expenditure of funds,
- (b) costs that are not supported by adequate documentation, or
- (c) the expenditure of funds for the intended purpose is unnecessary or unreasonable.

(Lectric Law Library:  
<http://www.lectlaw.com>)

1. Agreement Monitoring  
(cont.)

Questioned costs of approximately \$225,000 were also noted as follows:

- Basic services fee (labor) expense submitted for the final month of Year 1 for the South program management company included a markup of approximately \$32,870 to reach the maximum allowable basic services fee agreed-upon value.
- A reimbursable multiplier was applied to all reimbursable expenses invoiced by both the North and South program management companies; however, the multiplier was not approved in the official agreements nor in additional service requisitions. The application of the multiplier resulted in an additional expense of approximately \$38,840. The agreements state basic services fee payments are “to cover all labor costs and profits” while reimbursable services to be paid do not include a profit margin.
- HUB services provided by the North program management company were appropriately classified as a reimbursable service beginning in January 2008; however, the services included a 2.5 multiplier, which was not approved in the executed agreement. HUB services incurred after January 1, 2008 resulted in excess expenses of approximately \$16,200 due to the multiplier.
- Reimbursable expenses in the amount of \$740 and \$3,080 were submitted respectively by the North and South program management companies for services not related to the program management agreements.
- An inspector from the North program management company’s Seattle, Washington office commuted between Texas and Washington to perform inspection and observation services for one North area project. Approximate questioned costs for this service totaled \$54,730.
- Miscellaneous reimbursable expenses were submitted by the South program management company on a pro rata basis of maximum expenses allowed according to the agreements versus actual expenses incurred, resulting in excess charges of approximately \$73,640.
- General questioned costs outside of those discussed above associated with expenses submitted for both the North and South program management companies totaled approximately \$4,760. These costs included items such as car washes, individual lunches, and business meals lacking proper support.

1. Agreement Monitoring  
(cont.)

Improvements are also needed in controls surrounding the purchase of equipment by program management companies. Although allowed according to the executed agreements, no formal provisions have been established for the return of equipment or funds should the agreements not be renewed. Equipment purchases noted during the audit totaled approximately \$3,500.

In addition, poor accounting practices were noted in that monthly invoices from and payments to the North program management company included a prepayment of estimated expenses to be incurred in the next month. Prepaid expenses are then reconciled to actual expenses incurred with variances captured in the next month's invoice. Generally accepted accounting principles state expenses incurred to generate revenue should be matched against that revenue; therefore, expenses should be paid in the period work is performed, not prior to the work being performed. The System Office of Budgets and Accounting (SOBA) Disbursements Guidelines also state that a state agency may not prepay for goods or services prior to delivery to the agency except for certain conditions, none of which are met by the program management service agreements.

Proactive and routine monitoring processes are necessary controls for managing the risks associated with program management service agreements and to provide timely and useful information for management decision-making.

### Recommendation

Develop and implement an effective monitoring process to ensure compliance with agreement provisions and to reduce risks associated with questioned costs. Establish formal controls for the purchase, use, and return of equipment or funds if a return of equipment is not desired. Ensure personnel responsible for administering the financial aspect of program management service agreements abide by generally accepted accounting principles and SOBA Disbursement Guidelines.

### Management's Response

*Management of FP&C has strengthened the monitoring required for the program management agreements and has resolved the deficiencies noted in the report. We entered into the program management agreements at the same time we reorganized the department and experienced a cumulative two-year turnover rate of 44% of the current staff. In addition, the System employees who are overseeing the North and South area agreements had just been hired and they had no prior A&M System experience. The*

1. Agreement Monitoring  
(cont.)

*agreement review protocol was being developed as these positions were being filled and their responsibilities developed.*

*The area managers are now trained and a more thorough review protocol has been established. All invoices are now initially reviewed by the offsite area manager and a local administrative person in the Project Controls Division and finally by the Director of Project Delivery to verify that all charges are correct and all required documentation is included. Equipment purchased as a part of the agreement by the North program management firm (one computer, two monitors, ten mice, six cameras, five folding tables, and twelve padded chairs) has been accounted for and inventoried as required. The cost of the folding tables and chairs has been credited back to FP&C. At the end of the agreements the equipment will be returned to FP&C. No further reimbursement of equipment purchases will be allowed.*

*During the month of January, FP&C management reviewed the findings of the audit with the North and South vendors and sent them a letter requesting that the amount overpaid be credited back to FP&C. Several costs, including equipment listed above, totaling \$4,101.86 has already been credited back to FP&C. The North program management firm credited back \$87,045.05 in their January invoice. The South program management firm will credit back \$113,751.63 in a future invoice and we will review the remaining \$22,520.01 of miscellaneous reimbursable expenses once they have presented their supporting documentation.*

## 2. Agreement Language

### Observation

**Agreement language is weak particularly in the area of payments to the program manager.**

The program management service agreements do not include terms and conditions necessary to ensure reasonable accountability of program management companies, particularly in the area of payments to the program manager and business ethics. Weak agreement language resulted in the following:

- Expenses were increased by the South program management company towards the end of the first agreement period to meet maximum expenses allowed according to the executed agreement.
- Expenses were submitted by the South program management company on a pro rata basis, rather than an actual basis.

2. Agreement Language  
(cont.)

- Labor was charged by employees not included in agreement staffing plans and in excess of that allowed according to agreement staffing plans.

The current executed agreements simply state expenses are 'not to exceed' agreed-upon amounts, but do not limit expenses to actual amounts incurred. In addition, guidelines for changes in agreement staffing plans and adjustments to monthly personnel rates are not clearly defined.

Direct provisions regarding required documentation and limitations for particular expenses such as mileage incurred, business meals, business trip per diem, individual meals, and hotel and rental car expenses are not included in the current agreement. In addition, although business code of conduct language is built into the agreement, no direct provision is in place resulting in limited communication of business ethics expectations.

Weak agreement language and the absence of direct expense and business ethics provisions could result in the A&M System being held liable for intentional or unintentional unethical behaviors including invoice errors, fraudulent activities, and noncompliance with agreement provisions. The success of program management services is at risk if the executed agreements are not well-defined, documented, and communicated to applicable constituents.

### Recommendation

Develop and incorporate the following to strengthen program management service agreements:

- Agreement language limiting payments to actual expenses incurred not to exceed agreed-upon limits.
- Requirements for approval of staffing, personnel rate, and percentage of effort changes.
- Provisions detailing required documentation and limitations for mileage, business meals, business trip per diem, individual meals, hotel and rental car expenses, and other miscellaneous expenses.
- A fully developed business ethics expectations clause.

## Management's Response

2. Agreement Language  
(cont.)

*The identified weaknesses in the original program management agreements resulted in over two-thirds of the billing errors and questioned costs identified. The recommended modifications to the agreements have been developed, reviewed by General Counsel and will be incorporated as a change to the agreements. The modifications included are language limiting all payments to actual expenses incurred, requirements for written approval of staffing changes and rates, expanded language defining the handling of reimbursable/miscellaneous expenses such as mileage, meals, hotels, etc. and language outlining business ethics expectation.*

## 3. Legislative Budget Board Reporting

### Observation

**Reporting of professional service agreements and additional service requisitions to the Legislative Budget Board is significantly delinquent.**

Three of three (100%) program management service agreements (North, South, and Central areas of Texas) executed by FP&C were significantly delinquent in being reported to the Legislative Budget Board (LBB) due to poor communication between FP&C and the System Office of Budgets and Accounting. Reporting of the program management service agreements occurred approximately 280 days after the reporting deadline. In addition, a program management software license agreement and three of four (75%) additional service requisitions associated with the South program management agreement were not filed timely as noted below:

- Program management software license agreement – submitted 229 days past deadline requirements
- Additional service requisition #2 – submitted 372 days past deadline requirements
- Additional service requisition #3 – submitted 303 days past deadline requirements
- Additional service requisition #9 – submitted 79 days past deadline requirements

A&M System Regulation 25.07.01 and Texas Government Code require all contracts for construction projects, professional services, or consulting services and all related amendments, modifications, renewals, and extensions that exceed \$14,000 be reported to the LBB within 10 days of execution. Timely reporting requires the coordination of staff from both the System Office of Budgets and Accounting, who formally reports contracts to the LBB, and FP&C to

3. Legislative Budget Board Reporting (cont.)

reduce the risk of noncompliance with the A&M System regulation and state law.

### Recommendation

Report construction, professional service, and consulting service contracts and all related amendments, modifications, renewals, and extensions 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 Office of Budgets and Accounting and FP&C to meet these requirements.

### Management's Response

*When our operations and administrative personnel were transferred to the System Office of Budgets and Accounting in 2006, the established process to report contracts and contract change orders to the LBB was negated by the re-organization. The process was re-established in October 2007 with Budgets and Accounting. Since then FP&C has been improving the process to forward the required information to Budgets and Accounting for reporting.*

*As of January 2009 we have refined the process and procedure to forward all contracts and related changes, amendments, modifications, renewals and extensions to Budgets and Accounting so they can report these items to the LBB within 10 days of execution. All FP&C staff has been trained with regard to the protocol and time limit on forwarding these items to the LBB. These items are being logged and tracked through their approval process and forwarded to Budgets and Accounting for reporting when fully executed.*

## 4. Contract Workforce Analysis

### Observation

**A contract workforce analysis was not performed prior to execution of program management service agreements.**

A contract workforce analysis was not performed prior to execution of the program management service agreements to substantiate the need for contracted services. FP&C management was directed to implement program management services to address the rise in construction on the capital plan without increasing FP&C staff levels. Analysis of existing staffing levels and workloads should be performed prior to hiring contract workers or amending or renewing existing contracts. In addition, consideration should be given to why and how the use of contract workers fit into component staffing strategies, including consideration of the mission, goals and objectives, existing and future employee skills needed,

4. Contract Workforce  
Analysis (cont.)

compensation costs, productivity, nature and scope of services to be provided, and workload. Unnecessary use of a contracted workforce could result in inefficient and ineffective use of funds and resources.

Recommendation

Perform a contract workforce analysis to determine if contracted program management services are necessary to meet construction needs in the North, South, and Central regions of Texas.

Management's Response

*A contract workforce analysis will be performed based on the "Best Practices and Guidelines for Effectively Using a Contract Workforce" document from the State Auditor's Office. The workforce analysis will be complete by March 20, 2009.*

5. Performance Satisfaction Surveys

Observation

**Performance satisfaction surveys are not performed by FP&C.**

Performance satisfaction surveys have not been conducted to obtain feedback from System member management, general contractors, and architects/engineers since July 2005. The survey process in place at that time was time consuming and when the department lost its senior management the process was discontinued. Valuable information which would assist FP&C in improving its effectiveness and efficiency is lost due to the absence of performance satisfaction feedback.

Recommendation

Reinstate the use of surveys or some other formal mechanism to obtain performance satisfaction feedback from stakeholders, including System member management, general contractors, and architects/engineers on construction projects.

Management's Response

*FP&C is currently revising the system of customer surveys and will start soliciting data by April 1, 2009.*

## **BASIS OF REVIEW**

### Objective

The objective of the audit was to perform a review of services provided by program management service companies in the North and South areas of the state to determine if the System is receiving services and projects are managed in compliance with the program management service agreements and applicable laws, policies, and regulations.

### Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Background

The System Office of Facilities Planning and Construction (FP&C) 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 51 manages over \$1 billion in construction projects for the nine universities, seven state agencies and the Health Science Center of the Texas A&M University System. FP&C is organized into three divisions including project planning, project delivery and project controls with a fiscal year 2008 budget of approximately \$10 million. The department employs three external firms to assist with program management requirements in the North, South, and Central areas of the state.

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## PROJECT SUMMARY

### Overview

Overall, Texas Engineering Experiment Station centers and institutes are generally operating in accordance with purposes approved by the A&M System Board of Regents (Board). However, Agency management needs to improve monitoring processes to provide oversight to centers and institutes. Without appropriate oversight, there is an increased risk that centers and institutes may not be in compliance with their Board-approved purpose and operational requirements.

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The Agency provided a list of 47 centers and institutes and has been reviewing and dissolving inactive centers and institutes during the past year.

### Summary of Significant Results

#### *Management Oversight*

Agency management has asserted that there is an annual self-assessment and review process for its centers and institutes. Although management has been identifying and dissolving inactive centers and institutes, the Agency's annual self-assessment and review process has not been consistently completed for all centers and institutes. In addition, the annual self-assessment and review process has not been formally documented. The effectiveness of monitoring processes, such as an annual review, is diminished if they are not consistently performed.

### Summary of Management's Response

*By May 31, 2009, reporting and monitoring procedures will be formally documented in a TEES Standard Administrative Procedure (SAP). This SAP will include a review of centers and institutes on a periodic basis in accordance with System Regulation 11.02.*

## Scope

Our review of centers and institutes focused on general processes and controls in place for management oversight of centers and institutes to ensure they are operating in compliance with A&M System Board of Regents approved purposes. It did not include a detailed review of operational activities. Activities and controls were reviewed for the period of September 1, 2007 through August 31, 2008. Audit fieldwork was conducted in September and October 2008.

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. Management Oversight

#### Observation

**Monitoring and oversight processes need to be formalized and consistently performed.**

Agency management has asserted that there is an annual self-assessment and review process for centers and institutes in the Agency to fulfill its administrative oversight responsibilities. This process has not been formally documented or conducted annually. Although the Agency has been identifying and dissolving inactive centers and institutes, the annual self-assessment and review process has not been consistently completed for all centers and institutes. The 2006 self-assessment review was the most recent self-assessment review performed. The effectiveness of monitoring processes, such as an annual review, is diminished if they are not consistently performed; increasing the risk that centers and institutes may not be achieving their Board-approved purpose or operating in compliance with applicable requirements, i.e., laws, policies, regulations, and cooperative agreements.

#### Recommendation

Formally document procedures for the monitoring process over centers and institutes, such as the annual self-assessment and review. Perform established monitoring procedures to provide for a review of all centers and institutes on a regular, periodic basis.

#### Management's Response

*By May 31, 2009, reporting and monitoring procedures will be formally documented in a TEES SAP. This SAP will include a review of centers and institutes on a periodic basis in accordance with System Regulation 11.02.*

### 2. Contracts

#### Observation

**Contracts and agreements are outdated.**

Two of fifteen (13%) of the centers and institutes reviewed have contractual agreements that are in need of update or revision to reflect current operations. We noted the following:

---

2. Contracts (cont.)

- Global Petroleum Research Institute did not complete an annual report or an annual research plan as required in the cooperative agreement for institute operations due to changes in activity and reduced size of the institute.
- Turbomachinery Laboratory/Turbomachinery Research Consortium is providing terms and conditions created in 1982 to consortium members that have not been reviewed and approved by management. These terms and conditions contain language regarding copyright and patent rights and provide royalty-free usage to members contributing to the development of patents or copyrighted software. In addition, indirect cost rates in the terms and conditions are not current.

Although the current fee amount is \$20,000 per member, there are approximately 30 members with annual fee revenues totaling more than \$600,000. System Policy 25.07 requires that all contracts involving a stated or implied consideration of \$50,000 must be submitted to the Office of General Counsel for review. In this case, these contracts should be submitted to the Office of General Counsel for review and approval since collectively they exceed the \$50,000 limit.

It is important that contractual agreements are reviewed and updated to reflect current activities and agreements between the parties to reduce the risk of conflicts from noncompliance and misunderstandings. Obtaining signatures of all parties involved is necessary to ensure that everyone understands and agrees to the terms of the agreement.

### Recommendation

Ensure that contractual agreements are current, have appropriate management review and approval, and are signed by all parties involved.

### Management's Response

*By August 31, 2009, contractual agreements for centers and institutes will be reviewed and approved by management. Contractual agreements will be signed by parties involved.*

*By August 31, 2009, Global Petroleum Research Institute will complete an annual report as required.*

*TEES management and the Director of the Turbomachinery Laboratories/Turbomachinery Research Consortium have reviewed the terms and conditions to consortium members. The terms and conditions*

2. Contracts (cont.)

*have been updated and were submitted to the Office of General Counsel by February 28, 2009.*

### 3. Accounting Inconsistencies

#### Observation

**Inconsistencies were noted in the accounting system and in center financial reports.**

Accurate and reliable financial information that is consistently recorded and reported is essential for management decision-making and effective monitoring of center operations. We noted inconsistencies in the way center accounts were set up in the TEES accounting system and in financial reports of one of the institutes.

- The Crisman Institute, which includes the Institute and four centers and collectively represents five of the 15 (33%) institutes and centers reviewed, did not have project accounts established to allow for consistent financial reporting as do other centers and institutes. The Crisman Institute has a joint industry project with annual membership fee revenues of approximately \$2 million that are used to fund research projects. Project accounts were set up in the Agency accounting system as general departmental research accounts and were not identifiable as related to the Institute or individual centers within the Institute. This is not consistent with other center and institute accounts set up in the Agency accounting system. As a result, all standard reports for institute/center activities are not available from the accounting system for the Crisman Institute as they are for other centers and institutes. Without discreet presentation of the financial accounting records there is a loss of transparency related to the financial activity of the Crisman Institute limiting effective management oversight.

It is important to consistently apply controls and account configuration for discreet accounting of centers and institutes for efficient and effective management oversight of institute/center financial activity.

- Aerospace Vehicle System Institute submits quarterly financial reports to the Institute's Executive Board. These quarterly reports are cumulative from quarter to quarter, i.e. the second quarter report includes a column for the information included in the first quarter report, next to the second quarter financial information, and the third quarter includes columns for the first and second quarters, etc. However, these quarterly reports do not consistently report quarterly financial information from one quarter to the next. For example, income and expense amounts that were reported in the first quarterly report, do not match the first quarter income and expense amounts reported on the subsequent quarterly reports. These financial reporting inconsistencies increase the risk that Executive Board

3. Accounting Inconsistencies  
(cont.)

members are not provided accurate and reliable financial information for decision-making purposes related to managing the institute.

Recommendation

Improve the financial accounting and reporting for centers and institutes by:

- Ensuring that centers and institutes are set up consistently within the Agency accounting system to provide for management oversight of financial activity.
- Providing responsible departmental staff with training for financial report preparation.
- Monitoring center and institute financial reports to ensure they are prepared accurately.

Management's Response

*By May 31, 2009, guidelines for classifying institutes, TEES Centers, and departmental centers will be formally documented in a TEES SAP consistent with System Policy 11.02. Effective August 31, 2009, based on the classification, centers and institutes will be reviewed and set up consistently within the Agency accounting system to provide oversight of financial activity.*

*By February 28, 2009, training was provided to Aerospace Vehicle System Institute for financial report preparation. Training will be provided to other responsible departmental staff as needed.*

*By May 31, 2009, reporting and monitoring procedures will be formally documented in a TEES SAP. This SAP will include a review of financial reports prepared during the period to ensure they are prepared accurately.*

## BASIS OF REVIEW

### Objective

The objective of the audit was to review and assess Agency controls and processes over selected centers and institutes to determine if these entities are achieving their Board-approved goals and purpose in an efficient and effective manner and in compliance with laws, policies, regulations, and Agency rules. As such, this work did not include a detailed review of operational activities.

### Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Background

The Texas Engineering Experiment Station was established in 1914 and is the engineering research agency of the State of Texas. The Agency's mission is "to perform engineering and technology-oriented research and development for the enhancement of the educational systems and the economic development of the State of Texas and the nation." Research performed by the Agency is driven by current public needs to enhance the quality of life in Texas. The Agency's fiscal year 2008 operating budget was \$108.6 million. It manages over \$100 million in research projects annually. The Agency is headquartered in College Station, Texas and has affiliations with 15 Texas universities, one community college, and 40 multidisciplinary research centers. The date ranges for the establishment of these centers is from 1958 to 2007. There were approximately ten centers/institutes created within the last five years (September 2003 and forward).

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## PROJECT SUMMARY

Texas A&M University centers and institutes are generally operating in accordance with purposes approved by the A&M System Board of Regents (Board). Monitoring processes for centers and institutes needs to be strengthened to ensure compliance with the Board-approved proposal specifications for each center or institute. Without more active university-wide oversight the risk of inconsistencies and noncompliance with Board and University approved purposes is increased.

The University has not formalized a mechanism to provide direction for oversight of approximately 130 Board-approved centers and institutes throughout the University. The University has not established University rules or procedures for the creation, management, and dissolution of centers and institutes. Additionally, required periodic reviews of centers and institutes are not being consistently performed throughout the University.

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. Monitoring

#### Observation

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**Monitoring of centers and institutes needs to be strengthened.**

Monitoring processes for centers and institutes are decentralized at the college level without a University-wide oversight process to provide assurance that centers and institutes are periodically reviewed and maintain compliance with Board-approved requirements.

The University has not established University rules or procedures for the creation, management, and dissolution of centers and institutes. Without more active university-wide oversight the risk of inconsistencies and noncompliance with Board and University-approved purposes is increased.

The University is in the process of developing a university-wide database system for more current and accurate information on the University's approximately 130 centers and institutes. This system will also provide management with the opportunity for more centralized oversight of current and proposed centers and institutes throughout the campus. Currently, there is not an effective and timely process to dissolve inactive centers and institutes. The University has developed a listing of centers and institutes and identified approximately fifteen inactive ones to be considered for dissolution.

Additionally, periodic reviews of centers and institutes were not consistently performed throughout the University. Three of ten (30%) centers reviewed [Sydney and J.L. Huffines Institute for Sports Medicine and Human Performance, Center for Atmospheric Chemistry in the Environment, and the Center for Biological Clocks Research] did not have a periodic review as required by Board-approved proposals. Board approval of the centers and institutes includes appropriate governance and monitoring procedures, such as periodic reviews, that are specified in the individual center or institute's proposal. These reviews are important to ensure that the centers are achieving expected goals and objectives and are functioning in a manner consistent with their purpose.

**Periodic Reviews**

Guidelines for establishing centers and institutes state that periodic reviews are expected to occur at least every three years.

Monitoring processes throughout the colleges are not consistent and do not provide assurance that center and institute operations are effectively managed and comply with their Board-approved proposals. Only one of the four college level divisions questioned during our review had documented procedures for periodic reviews of centers and institutes within the college or division. These reviews provide valuable information on center and institute performance for effective lifecycle management. Documented procedures are a means of communicating expectations between college (and University) management and the center and institute directors.

Formalized processes for university-wide oversight of centers and institutes provides for continuity and consistency of monitoring processes. It also provides management with information for timely action or intervention when centers and institutes are no longer functioning within their intended purposes.

In addition to Board-approved centers and institutes, there are a number of other similar operational units (laboratories, programs, consortiums, etc.) at the University. These units have many of the characteristics of centers and institutes such as special purposes and external funding sources. Therefore, similar monitoring activities may be necessary to ensure that management maintains adequate administrative oversight over similar units that were not subject to the Board-approval process.

### Recommendation

Establish university-wide oversight functions for centers and institutes. Establish University rules and/or procedures to provide guidance in the consistent creation, management, and dissolution of centers and institutes throughout the University.

Establish documented procedures for the periodic review of centers and institutes within each college. Perform monitoring procedures to provide for the periodic review of all centers and institutes.

### Management's Response

*As the majority of University centers and institutes have a research or research-related mission, the Provost and Executive Vice President for Academic Affairs will assign university-wide oversight responsibilities for centers and institutes to the Office of Vice President for Research (OVPR).*

*To facilitate university-wide oversight of centers and institutes and to provide guidance in the consistent creation, management and dissolution of centers and institutes, the OVPR will begin by establishing a task force by May 31, 2009. The task force will review the current University rules, processes and criteria for the creation, management, evaluation, change in function, focus or funding sources and dissolution of centers and institutes and will develop rules and/or procedures that will provide guidance and achieve consistency throughout the University. In addition to University centers and institutes, the task force will also address joint centers and institutes and determine effective processes and interfaces between the University and other System members. The task force will establish monitoring guidelines for University colleges so that they can then develop their own written procedures for periodic reviews of centers and institutes to assure that all centers and institutes (research and non-research) are consistently and effectively managed in order to achieve their respective goals, objectives and functions in a manner consistent with University rules and Board-approved proposals. It is anticipated that the task force will complete their recommended rules and/or procedures for the*

*submission to the Vice President for Research by November 30, 2009. It is anticipated that the proposed rules and/or procedures will be routed for approval and implementation by February 28, 2010.*

*The OVPR will continue its efforts to complete the university-wide data base that will help to effectively monitor the management of centers and institutes to assure that the appropriate approvals are obtained in their creation, change or dissolution and that all centers and institutes are being reviewed and evaluated according to University rules and System policy. The OVPR will utilize the data base to perform periodic monitoring and oversight of the centers and institutes that will result in the strengthening of collaborations and more effective use of University resources. Anticipated date of completion of the data base is February 28, 2010.*

*The OVPR will coordinate any actions requiring Board of Regents approval through the Office of the Provost and Executive Vice President for Academic Affairs.*

## 2. Funding Sources for the Center for Atmospheric Chemistry in the Environment

### Observation

**Current funding sources are not in agreement with the Board proposal for the Center for Atmospheric Chemistry in the Environment.**

Current funding sources for the Center for Atmospheric Chemistry in the Environment are not in agreement with the Board-approved proposal for the Center. The proposal for the Center for Atmosphere Chemistry declared that future expectations of financial support would be derived from national and international competition of major research initiatives, faculty group and center-initiated state and federal proposals, and other grants through multidisciplinary grant submissions. However, the Center has a request for University and Texas Engineering Experiment Station financial support for the next three years that remains outstanding. Changes in funding sources needs to be evaluated for compliance with the Board's approval and compliance with System Policy 11.02, Centers and Institutes. The current policy states, "Major changes in function, focus, or funding sources for centers and institutes shall receive prior approval from the responsible president or agency director and the Chancellor and subsequent approval by the Board."

### Recommendation

Review current funding sources for the Center for Atmospheric Chemistry in the Environment and obtain approval from the Board for major changes in funding sources, if deemed necessary.

Management's Response

*The OVPR will review the current funding sources for the Center for Atmospheric Chemistry in the Environment by May 31, 2009. After the review, the OVPR will seek, through the Office of the Provost and Executive Vice President for Academic Affairs, approval from the Texas A&M University System Board of Regents for any major changes in funding sources deemed necessary as a result of the review. It is anticipated that this will be completed by August 31, 2009.*

## **BASIS OF REVIEW**

### Objective and Scope

The objective of the audit was to review and assess University controls and processes over selected centers and institutes to determine if these entities are achieving their Board-approved goals and purpose in an efficient and effective manner. Our review of centers and institutes focused on general processes and controls in place for management oversight of centers and institutes to ensure they are operating in compliance with A&M System Board of Regents approved purposes and did not include a detailed review of operational activities. The areas reviewed included organizational structure, periodic reviews, annual reporting, and funding sources. Activities and controls were reviewed for the period of September 1, 2007 through August 31, 2008. Audit fieldwork was conducted in September and October 2008.

### Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Background

Texas A&M University has approximately 130 centers and institutes approved by the A&M System Board of Regents, as of May 2008, including joint centers and institutes between the University and other System members. Dates of establishment range from 1944 to 2008. Approximately 22 centers and institutes were established and/or renamed by the Board within the last five years.

In addition to Board-approved centers and institutes, there are a number of other similar operational units (laboratories, programs, consortiums, etc.) at the University. These units have many of the characteristics of centers and institutes such as special purposes and external funding sources.

## AUDIT TEAM INFORMATION

### Auditors Assigned to the Review

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## PROJECT SUMMARY

Tarleton State University's processes in the Office of Development provide reasonable assurance that the University is in compliance with laws, policies, regulations, and rules. Changes made over the last year have improved the internal control environment related to the expenditure of funds from the Office of Development and the independent Tarleton State University Foundation. Improvements can still be made by executing a current agreement with the Tarleton State University Foundation and documenting current office procedures.

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. Affiliation Agreement with the Tarleton State University Foundation

#### Observation

The affiliation agreement between Tarleton State University and the Tarleton State University Foundation had an initial term beginning September 1, 2007 and ending August 31, 2008. Provisions for continuance past this term required that the agreement be subject to annual review and approval by the president of the University. Any objections or recommended changes were to be made known no later than thirty days prior to the expiration of the term. No such review was conducted or approval obtained; therefore, the agreement expired on August 31, 2008. This past year has been a time of transition for University administration, including the arrival of a new president on August 1, 2008 which diverted the University's focus to review and approve this agreement. System Regulation 60.01.01.5 requires that an agreement be executed between affiliated entities.

## Recommendation

Take immediate steps to ensure that a valid agreement is in place between the University and the Tarleton State University Foundation. Consult with General Counsel as necessary.

Develop a process for the president's annual review of the affiliation agreement.

## Management's Response

*In January 2009, a meeting was held between both presidents of the Foundation and the University and three additional Tarleton administrators. It was resolved that the current agreement would remain in place to allow for consistency during the time of administrative transition. To document this effort, a letter, signed by the Foundation Board President, was later submitted to Dr. Dottavio for concurrence. The existing agreement will stay in place through August 31, 2009, and will be reviewed thoroughly by both presidents in May 2009 to determine changes (if any). Subsequent annual reviews will also take place in May. Each annual review will be documented and provided to both University and Foundation representatives. The University will seek the advice and counsel of the Office of General Counsel as needed.*

## 2. Documented Procedures

### Observation

The Office of Development's procedures manual, developed in June 2007, has not been updated to reflect current practices and organizational structure. The past year and a half has been a time of transition for the Office. Only one of the four Office employees was there one and a half years ago. During this time, they have worked on improving internal control issues identified in 2007. Without current documented procedures, the risk exists that what should be accomplished is not being done. Prudent management practice requires that procedures be current, particularly during times of transition with new employees who are not familiar with Office operations.

### Recommendation

Update the procedures manual to reflect recent changes in positions and practices. Make the manual available to all employees.

### Management's Response

*The Office of Development Procedures Manual was updated as of January 30, 2009 to reflect recent changes in positions and practices. The manual was distributed to all employees on the same date and will be given to all new employees on the first day of employment.*

## **BASIS OF REVIEW**

### Objective and Scope

Review and assess Office of Development controls and processes over operations to determine if resources are used efficiently and effectively and in compliance with laws, policies, regulations, and University rules. The review focused on procurement card transactions, and travel and purchase vouchers occurring during fiscal year 2008. Revenues in the form of gifts were only reviewed from a segregation of duties standpoint. Fieldwork was conducted in October and November 2008.

### Criteria

Our audit was based upon standards as set forth in the System Policy and Regulation Manual of the Texas A&M University System and other sound administrative practices. This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Background

The mission of the Office of Development is to assist the University in accomplishing its mission and achieving its goals by promoting an environment for private giving. The Office of Development works closely with an affiliated group, the Tarleton State University Foundation, which is housed in the same building.

With a staff of four in the Office of Development and two in the Foundation, approximately \$1.2 million in contributions from corporations, alumni, and other organizations and individuals was received in fiscal year 2008.

## **AUDIT TEAM INFORMATION**

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