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TEXAS EASTERN UNIVERSITY
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May 14, 1979

VICE PRESIDENT
FOR FISCAL AFFAIRS

Memorandum

To: Dr. James H. Stewart, Jr., President

From: John R. Sawyer, Vice President for Fiscal Affairs John R. Sawyer

Subject: State Auditor's Management Letter Dated April 25, 1979

Following is a report concerning the State Auditor's observations and suggestions made as a result of the audit of Texas Eastern University for the fiscal year ended August 31, 1978.

Introduction

As you are aware, the State Auditor's practice of issuing a management letter at the conclusion of an annual audit is a practice of long standing. The practice of sending a copy of the management letter to all members of the Board of Regents is, however, a practice which was initiated for the first time at the end of fiscal 1977-78. I concur that there is need for and merit in the Board having this information. At the same time, I trust it is understood that practically all state agencies and institutions receive such a letter at the conclusion of each annual audit and that the observations and suggestions contained in the letter are intended as a management tool. Each item in the letter must be evaluated as to its relative seriousness or materiality as compared to the total scope of operations and to the fiscal and personnel resources available to accomplish the work.

Auditor's Comment:

1. Residency Determination for Tuition Purposes

More care should be taken when determining residency for tuition assessment. During the course of our audit we found eight cases of students who were allowed to pay in-state tuition when the information contained in the students' files indicated that they should be paying out-of-state fees. In half of these cases, the students were allowed to pay in-state fees because they had paid in-state fees at another college or university. In the other cases it could not be readily determined if the student had been a full-time student or gainfully employed prior to the student's admission to the University.

Each student should be required to pay tuition rates based upon his or her particular situation and not upon what was paid at another institution. More information regarding the residency of the student should be considered when determining what rates apply.

Remedial Action:

Beginning with the Spring Semester, 1979 the Office of Admissions and Records designed a new form to obtain additional information in cases where a student's residency is questionable. One employee has been assigned the specific responsibility of reviewing all residency classifications.

Comments:

Determination of a student's residency for tuition assessment is the primary responsibility of the Office of Admissions and Records. The Coordinating Board, Texas College and University System, has issued guidelines for use in determining residency. The accounting office assesses tuition according to the predetermined residency classification as established by the Office of Admissions and Records.

Often the determination of a student's residency classification is complicated by the fact that the student seeks admission to the university before all transcripts and other required documents have been received. The university attempts to cooperate with new students by allowing extra time for all required admission documents to be assembled. However, this practice has permitted residency classifications to be based upon incomplete information. To totally correct the problem the university may have to adopt a policy of denying admission to students who do not have all required documents on file prior to registration. Such a policy could affect as many as 300 students each semester.

During the audit period, September 1, 1977 through August 31, 1978, there were four registration periods during which 5,357 students were enrolled. The auditor reported eight cases where the residency classification was questionable which is an indication of a very low percentage of error.

Auditor's Comment:

2. Refunds to Students Concurrently Enrolled Should Be Stopped

The University is currently refunding tuition to students first registered at TEU and subsequently enrolled at other colleges or universities that have lower minimum tuition charges. This is in violation of Section 54.062 (1) and (2) V.A.T.S. Education Code and Coordinating Board positions.

We suggest that tuition exemptions arising from concurrent enrollment be granted at the time of registration and that no refunds be made to students who later register at institutions that have lower minimum tuition charges.

Remedial Action:

The policy of refunding tuition to students first registered at TEU and subsequently enrolled at other colleges or universities was stopped immediately, in December 1978, when the assistant state auditor, Mr. Neil Moseley, advised the staff that in his opinion such refunds were in violation of the statute on Tuition Limits in Cases of Concurrent Enrollment.

Comments:

Section 54.062 (1), (2) and (3) V.A.T.S. Education Code reads as follows:

(1) The student shall pay the full tuition charge to the first institution at which he is registered; and in any event he shall pay an amount at least equal to the minimum tuition specified in this code.

(2) If the minimum tuition specified in this code for the first institution at which the student is registered is equal to or greater than the minimum tuition specified in this code for the second institution at which the student is registered concurrently, the student shall not be required to pay the specified minimum tuition charge to the second institution in addition to the tuition charge paid to the first institution, but shall pay only the hourly rates, as provided in this code, to the second institution.

(3) If the minimum tuition specified in this code for the first institution at which the student is registered is less than the specified minimum tuition charge at the second institution (that is, if the second institution has a higher minimum tuition charge specified in this code), then the student shall first register at the institution having the lower minimum tuition and shall pay to the second institution only the amount equal to the difference between his total tuition charge at the second institution and his total tuition charge at the first institution, but in no case shall the student pay to the second institution less than the hourly rates as provided in this code.

It appears the intent of this legislation was to provide for concurrently enrolled students to pay no more tuition fees than would have been charged had the student been enrolled in only one state institution.

This provision of the law is very important to upper level institutions as many students (40 to 50 each semester at TEU) are currently enrolled at area junior colleges. However, a problem arises when the registration dates at the various colleges do not coincide to the extent that students can first enroll in the institution having the lower minimum tuition charges. For example, a student who takes advantage of early registration at TEU cannot benefit from the tuition advantage for concurrent enrollment, if he cannot enroll first at an area junior college having a lower minimum tuition fee.

Therefore, in an effort to meet what we thought was the intent of the law, and to give concurrently enrolled students the advantage of the specified minimum tuition fee, we refunded overpayments of minimum tuition fees to some students who had first registered at TEU but subsequently registered at an area junior college with a lower minimum tuition fee. The audit revealed that this practice was unacceptable and should be discontinued as indicated above.

Auditor's Comment:

3. Transfer of Tuition Income to Texas Public Educational Grant Account Should Be Calculated Correctly

The University should transfer funds from tuition into the Texas Public Educational Grant account according to Section 56.033 of the Texas Education Code. Section 56.033 of the Texas Education Code states that 25¢ of each in-state hourly charge and $1.50 of each out-of-state charge collected under Section 54.051 (b) and (c) of the Code be transferred into the TPEG Scholarship Account. The University has been transferring amounts equal to the total amount of semester credit hours as of the twelfth class day times 25¢. This has resulted in an overtransfer of $254.75 during the fiscal year ended August 31, 1978.

Remedial Action:

After consultation with the field auditor, during the audit, we have now reached a "concurrence" on an interpretation of the statutes concerning the method of calculating the amount due to the Texas Public Educational Grants Program, and will in the future apply the formula for calculation of the tuition income to be transferred.

Comments:

Two state statutes speak to the amounts to be transferred to the TPEG Program, and these statutes are subject to interpretation. An Attorney General's opinion would be required to totally clarify the issue. During the fiscal 1978 audit was the first time the State Auditor has questioned the TEU calculation and rendered his interpretation of how the transfers should be calculated.

The accumulation of data required to meet the provisions of the law involves the Office of Admissions and Records, Student Financial Aid, Data Processing, and the accounting office and is difficult and time-consuming at best. During the fiscal year tuition collections amounted to $233,055.46 of which the auditor calculated an overtransfer of $254.75.

Auditor's Comment:

4. Strengthen Internal Control Over Cash

Employees in the Accounting (sic) area are required to perform various duties concerning university bank accounts. An employee is assigned several of the bank accounts and must record receipts in the receipts journal, prepare bank deposits, prepare vouchers and checks, and record disbursements in the disbursement journal, for each bank account. In addition, the same employees must mail out checks to vendors, prepare journal entries and reconcile the bank accounts. We feel that internal control of cash would be strengthened if these duties were divided among the employees rather than hvaing (sic) each employee perform all of the duties in each bank account.

Remedial Action:

The volume of work being processed through the accounting office precludes the establishment of ideal controls with the current staff. Every attempt will be made to improve the controls where possible.

Comments:

The fiscal staff concurs with the auditor that it is less than desirable internal control for accounting personnel to handle all transactions and documents related to a given bank account. However, the reason this organization was chosen is that with a small number of employees, it is more efficient than a system whereby a given employee is responsible for only one function such as posting cash receipts only. Under the current organization, good control of disbursements is accomplished by having all disbursement vouchers reviewed and approved by two persons outside the accounting department in most cases and by at least one person outside the accounting department in all cases. The university receives very little revenue except at registration periods, at which time cash and cash receipts are verified by personnel other than the employee collecting the funds. To minimize this problem would require a minimum of two additional accounting clerks.

Auditor's Comment:

5. More Support for Local Fund Expenditures Should be Included in the Vouchering Process

Departments submitting vouchers for payment should attach a properly processed purchase order and supporting vendor invoice to the voucher to insure correct coding of the expenditure and to prevent duplicate payments.

In our examination of local fund purchase vouchers in the accounting area, we found that 17 vouchers out of 243 checked had no purchase order, 9 had no supporting invoice, and 49 vouchers had neither a supporting purchase order or invoice. The 49 vouchers with no supporting documentations accounted for expenditures of $5,511.70. This is in violation of published university policy and good business procedures.

Remedial Action:

The purchasing office, business office and accounting office will give special attention to all local fund vouchers to verify appropriate voucher support. All deans and directors will be advised in writing that appropriate voucher support will be required before local fund vouchers will be paid.

Comments:

Since the auditor did not list the 243 local fund purchase vouchers which he examined, I cannot specifically explain the individual items to which he took exception. However, there are several observations which can be made in regard to local payments: (a) In many instances local fund expenditures are for very minor purchases made at grocery stores or "dime" stores in which the issuance of a purchase order or obtaining bids while technically correct, is impractical and inefficient. (b) Many local fund expenditures such as those related to student life are incurred during the course of a function or event and are needed quickly in order to meet the time frame of the function involved. For example, if student life schedules a movie to be shown on Friday night, and are notified on Thursday by the film rental vendor that a special delivery fee will have to be paid in order to receive the film at the time needed, then there is very little alternative except to incur this additional cost in order to meet existing schedules. (c) We use the same type voucher for local fund expenditures as for state expenditures, the point being that if such a voucher is properly certified by a representative of the vendor and the budget administrator then this document actually becomes a purchase order and invoice in one. This is the reason that the regular state voucher form was chosen to be used for local expenditure documentation in that the wording in the certifications on this document are very precise in making it a dual-purpose document. If a purchase voucher is properly filled out, no other support documents are needed to make it supportable.

Auditor's Comment:

6. More Care Needed in the Maintenance of Accounting Records

During our audit we encountered difficulty reconciling some of the Universities (sic) accounting records to the annual financial report.

A. In our examination of general ledger accounts we found entries that were crossed out, entries that contained no Journal Voucher numbers, and entries that did not refer to a source document at all, but contained a brief description of the reason for the journal entry.

These types of entries make auditing the general ledger difficult by limiting the ability to extract information from the general ledger and supporting documents. All entries made in the general ledger should clearly reflect the source document from which the entry arises. Also, all journal entries should contain proper supporting schedules and/or documentation.

Remedial Action:

The accounting department will realign priorities of work and place more emphasis on the maintenance of accounting records.

Comments:

Because of the steady growth of the university in both student and fiscal resources, the accounting department has never been staffed to adequately accomplish all required work on a day to day basis. Priorities must constantly be shifted to cover the most pressing work at hand. Overall institutional priorities such as faculty development and the instructional program have made it necessary to limit staffing in all service areas to fit within available fiscal resources. Therefore, we have had to operate as effectively and efficiently as possible within available resources. Due to a combination of reasons, including increased competition for bookkeeping personnel and an improved local pay scale, the accounting department has experienced a high rate of employee turnover in the past three years. This turnover has required continual retraining of personnel and has contributed to the lower quality of records for which we are criticized. Another problem that has confronted the accounting department is the fact that the State Board of Control and the Comptroller of Public Accounts have both been in the process of making major revisions in the state accounting system for the past two years. These agencies experienced serious problems in making the conversions and these problems compounded the workload and decreased the efficiency at TEU as well as other state agencies.

The percentage of errors or omissions in our records is relatively small. During the audit year, the university paid items from 20 separate bank accounts and 60 separate state appropriations. During this same period the university maintained individual budget subsidiaries in an excess of 700 accounts. Over 5,000 individual purchase vouchers were processed. Each voucher must be posted a minimum of two times and most vouchers require five typed transactions. As an extreme example, the Southwestern Bell Telephone bill for one month must be posted to 36 different departments and 12 different state appropriations or bank accounts.

An increase of two additional accounting clerks would be necessary to provide better internal control, as discussed in item 4 above, and to improve the maintenance of records.

Auditor's Comment:

B. Some of the investments and investment income earned was (sic) not recorded in the investment ledger. We found that the Teledyne, Inc. bond and interest sinking fund debentures belonging to the Wise Incentive Award Endowment Fund were not recorded in the investment ledger. We also found that income from one certificate of deposit, the passbook savings account at Southside State Bank, the interest income from the Wise Endowment, and interest earned on deposits in the State Treasury was earned during the 1978 fiscal year but was not recorded in the investment ledger of as (sic) February 12, 1979.

All investments should be recorded in the investment ledger and income earned on investments should be recorded on a timely basis to insure the prompt collections as well as the proper reporting of this income in the annual financial reports.

Remedial Action:

All investments will be recorded in an investment ledger and income earned on investments will be recorded on a timely basis.

Comments:

It should be noted that the management letter did not state investment income had not been accounted for or that it had not been correctly recorded in the annual financial statement. Rather, the auditor was concerned that the investments ledger had not been maintained in a timely manner. The investments ledger is a relatively new record that was initiated by the university and no directives have been issued by the auditor as to the type and manner in which the record is to be maintained.

Under the College and University Business Administration Manual which is used as an accounting guide by the university, all principal amounts and interest received on investments are kept by individual fund groups. The accounting department maintains subsidiaries and records and controls receipts by fund groups and maintains a record which shows all investments, interest and related information. It is essential that we continue to maintain this information by fund group. However, we will also maintain a separate investments ledger as requested by the State Auditor.

Auditor's Comment:

C. Subsidiary Ledgers - Subsidiary ledgers should be established and maintained for general ledger accounts. As of February 16, 1979, accounting had not satisfactorily produced a list of returned checks carried on the balance sheet in Auxiliary Enterprises at a value of $1,808.43.

The accounts receivable submitted at year-end by the Copy Center and University Police totaling $575.72 were not included in the Annual Financial Report. There was no listing available for the accounts receivable (outstanding fines of $416.00) reported by the University Police.

Employees (sic) Deposits reported in Education and General Funds at a value of $7,694.58 could not be substantiated by listings or reconciliation. This amount reflected a 96% increase from the balance reported at August 31, 1977.

Subsidiary ledgers should be established to support these figures and subsidiaries should be maintained in such a manner that supporting documentation can be obtained for the general ledger accounts.

Remedial Action:

A system will be devised in the accounting office, Bookstore, University Police, Library, Copy Center, and any other department which has accounts receivable and which will provide the detail information required at year end. The personnel office will be charged with the responsibility of maintaining subsidiary personnel records to provide documentation to support the general ledger accounts.

Auditor's Comment:

D. While verifying the balances for Plant Assets in the Annual Financial Report we discovered that no reconciliation had been made between the report and the amounts reflected in the University's inventory records. We were able to reconcile the amounts reported for land, buildings, and improvements other than buildings but could not reconcile a $384,062.62 difference in equipment. The $4,012,336.75 reported as construction in progress could not be verified by tracing prior and audit year expenditures in uncompleted construction projects. A reconciliation should be made between the amounts reported on the Annual Financial Report as Plant Assets and the University's detailed inventory listings and the amount reported as construction in progress should be reconciled to construction expenditures.

Remedial Action:

Provided additional staffing can be made available, reconciliation will be made between the amounts reported on the annual financial report as Plant Assets and the university's detailed inventory listings and the amount reported as construction in progress will be reconciled to construction expenditures.

Comments:

The $384,062.62 mentioned by the auditor as unreconciled between book value and inventory value is primarily explained by the fact that the year end book value includes accruals while the inventory records do not include accruals. Also, the value of library books is captured in the accounting records at the time of purchase while the inventory records are adjusted only periodically to record the value of library books.

In order to adequately control the university's moveable equipment inventory and to make the required reconciliations as recommended by the auditor, additional staffing will be required. Currently the responsibility for receiving of merchandise, numbering and inventorying moveable equipment, reconciling with the state comptroller and university accounts, is shared by the business manager and the central services manager. The volume of moveable equipment now owned by the university and the degree of detailed work involved makes it impractical for this work to be done effectively on a piecemeal basis. A well qualified receiving and inventory clerk is needed to maintain the property records of the university.

Auditor's Comment:

7. Travel Vouchers to Reimburse Travel Advances Should be Submitted for Payment on a More Timely Basis

In our examination of outstanding travel advances paid out of the Travel Advance Fund we discovered that $1,789.22 in travel advances outstanding at August 31, 1978 were submitted for payment 60 or more days after money was advanced to the individuals. This represents 42% of the amount outstanding at August 31, 1978. Of this $1,789.22,

$488.00 was submitted for payment between 60 and 90 days after the advance was received, $659.22 was submitted between 90 and 120, $475.00 between 120 and 150 days, and $167.00 between 150 and 180. These travel vouchers should be submitted for reimbursement on a more timely basis.

Remedial Action:

Institutional policy concerning travel advances will be reviewed and amended if necessary to require that travel vouchers must be submitted by the end of the month in which the travel is completed.

Comments:

The basis of this problem is that after employees have received travel advances and completed the travel, the employees are then often lax about submitting the final travel vouchers which are required to reimburse the travel advance fund. This relatively minor problem can be corrected by administrative action.

Auditor's Comment:

8. Extension of State's Credit Should be Discontinued

At August 31, 1978, the Copy Center had a list of seven private organizations that owed money to them for work performed in the Copy Center. This is a violation of Article 3, Section 50 of the State Constitution which prohibits the extension of the State's Credit (sic), and should be discontinued.

Remedial Action:

Institutional policy concerning printing eligible for production in the university copy center will be reviewed and amended if necessary to correct the problem.

Comments:

It should be understood that the auditor's comment relates to the fact that printing work was not paid for at the time of delivery and not that it is illegal for the print shop to produce the work.

In the past a relatively minor amount of printing has been allowed for organizations related to the university or related to education in general. The seven private organizations mentioned by the auditor were; TEU Women's Association; Texas Association of College Teachers, TEU Women's Forum, Alphi Chi Honor Society, Texas Nurses Association (District #19), Rose City Kiwanis and Tyler Rose Runners. Most of these organizations operate to the benefit of Texas Eastern University to some degree. The university has also allowed printing of scholarly work for individual faculty members on a cash basis. However, in view of the problem, it may be necessary to prohibit all printing except work for the university.

JRS:eh