PROJECT SUMMARY

Overview

The Texas A&M University Athletic Department requires significant improvement in its financial controls and processes to ensure resources are used in an effective and efficient manner and in compliance with policies, regulations, and rules. Significant control weaknesses noted include limited monitoring and accountability of daily business operations; non-comprehensive financial reporting; expenditures not made in accordance with policies, regulations, and rules; and the lack of a formal plan for handling athletic facilities’ deferred maintenance. These weaknesses have hindered the Athletic Department’s ability to achieve and maintain financial stability. Additionally, departmental controls can be improved in the areas of purchasing, working funds, contract administration, employee vehicle benefits, inventory of non-capitalized goods, accounts receivables, and information technology.

Financial difficulties were recognized by the department in 2006 and discussions were held with the University’s executive management to determine how to address the financial issues. As a result, a $16 million loan was provided from the University to the Athletic Department from fiscal year 2006 through 2009.

In February 2009, the University charged the Division of Finance to lead an in-depth budget review of the department and develop a multi-year business plan to ensure the future financial viability of the Athletic Department. The Division of Finance’s report was released in June 2009 and the Athletic Department is currently addressing the recommendations in the report.

Summary of Significant Results

Financial Control Systems

The extent of financial reporting and control weaknesses noted throughout this audit indicate that the Athletic Department lacks effective control systems over its business operations. Limited monitoring of financial controls and processes and limited
accountability for daily financial operations has contributed to the department's financial position. The lack of effective control systems has increased the department's risk for the inefficient and ineffective use of resources.

**Financial Reporting**

Financial reporting activities performed by the Athletic Department do not provide a complete representation of the department's financial position. A balance sheet is not prepared and in fiscal year 2008, over $2.5 million in revenues and expenses were not included in the department's financial statements. The exclusions included $1.1 million in revenues and expenses routed through the 12th Man Foundation and $1.4 million of product revenues and expenses provided from athletic apparel contracts. The inclusion of all financial activities identified would provide better financial information for University and Athletic Department management.

**Expenses Processed Through the 12th Man Foundation**

The Athletic Department was not required to comply with controls and processes outlined in A&M System policies, regulations and University rules by processing expenses directly through the 12th Man Foundation instead of the University's business functions. One example noted was the construction of an equestrian facility valued at approximately $1 million. The Athletic Department managed this construction project instead of using the University’s or System's facility and construction divisions. According to Athletic Department management, processing of certain payments through the 12th Man Foundation is a more expedient and, at times, a less costly process than that in place at the University.

**Facilities Maintenance**

Results from facility assessments of Kyle Field performed in 2002 and 2004 have not been substantially implemented. Of the one hundred thirty-eight recommendations resulting from the 2002 and 2004 assessments, twenty-one are complete while seventy-three are in progress. Some of the outstanding items have been included in future Kyle Field expansion or renovation plans. Total estimated costs for implementation of all recommendations range from approximately $128 million to $140 million. The University does not have a formal, comprehensive plan with timelines for addressing the outstanding facility assessment items.
Summary of Management's Response

The Texas A&M University Athletic Department appreciates the thorough review of its financial and business administration processes and controls performed by the System Internal Audit Department. In October 2008, the Director of Athletics identified weaknesses in certain business operations of the Athletic Department and, thereby, formed an advisory committee, consisting primarily of non-Athletic Department personnel, to determine the extent of such weaknesses and recommend appropriate actions for improvement. As a result, in 2009, the Athletic Department experienced significant improvements in its processes, the details of which are provided within our responses to each of the observations noted in the report. We agree with the System Internal Audit Department's recommendations and believe that with their implementation, in conjunction with the implementation of recommendations made by the advisory committee, will enable the Athletic Department to maintain financial stability through efficient and effective operations.

Scope

The review of Athletic Department administration focused on the following areas: financial condition and monitoring, expenditures paid by the 12th Man Foundation, facilities, general expenditures, travel advances and team travel cards, athletic camps, booster clubs, contract administration, non-capitalized inventory, vehicle benefits, rate-setting, accounts receivables, information technology, utilities, procurement card and charge card accounts, working funds and safes, and e-communications. The audit period for the review was from September 1, 2007 through December 31, 2008, although some activities outside of this time period were examined as necessary. The review was performed from April 2009 through September 2009.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. Financial Control Systems

Observation

The extent of financial reporting and control weaknesses noted throughout this audit indicate that the Athletic Department lacks effective control systems over its business operations. Limited monitoring of financial controls and processes and limited accountability for daily financial operations has contributed to the department’s financial position.

In addition to the audit observations outlined in the remainder of this report, the following financial control weaknesses were noted:

- A lack of monitoring of the overall financial condition of the Athletic Department including department and individual sports budgets for adherence to budget limits. High level monitoring, such as financial ratio analysis, assists management in making critical and day-to-day operational decisions as well as staying apprised of matters such as solvency or the ability to repay debt. Monitoring of budgets throughout the year serves as a preventive measure to ensure departments operate within their financial means and, if needed, budget adjustments are addressed in a timely manner.

- The department’s internal procedures manual has not been updated since 2005 and lists certain guidelines as ‘pending’. Without a current procedures manual, new and existing employees may not have the information needed to perform their responsibilities in adherence to requirements established by the System, University, and department management.

- Documentation to support the Athletic Department’s fiscal year 2008 required annual self-assessment of financial and operating systems could not be located. The investment in documenting the analysis of the department’s financial and operating systems provides management information regarding its areas of strengths and potential control weaknesses.

Ineffective financial control systems, along with limited monitoring processes, do not allow for the timely prevention or detection of
1. Financial Control Systems (cont.)

   declines in departmental performance which could result in financial losses, reputational risks, or operational failures.

**Recommendation**

Develop, implement, and sustain the administrative business controls and processes necessary to effectively manage the Athletic Department’s financial and operational risks. Clearly define areas of responsibility and accountability and develop communication channels that function both vertically and horizontally. Take appropriate measures to address any identified financial performance issues in a timely manner.

Develop monitoring controls and processes that encompass both high level and detail level financial and operational aspects of the department. Update the athletic internal procedures manual to align with current practices and the System, University, and departmental requirements; review the manual on a regular basis; and train employees as necessary for changes in procedures.

Retain documentation of internal efforts performed to support assurances made in the annual self-assessment of financial and operating systems.

**Management’s Response**

*We agree that robust and effective administrative business controls and processes are necessary to effectively manage the Athletic Department’s financial and operational risks.*

*In accordance with a recommendation made by the Athletic advisory committee, as discussed in the Summary of Management’s Response, the Director of Athletics requested the 12th Man Foundation to engage an external consultant to perform a detailed review of Athletic business operations, focusing specifically on leadership, staffing levels, system adequacy, fiscal year 2009 projected results, and the fiscal year 2010 budget process. Based on the consultant's review, the Athletic Department (1) hired a new CFO, effective July 2009; (2) created a new position of Athletic Assistant Financial Manager and filled the position, effective August 2009; (3) accurately projected and minimized the fiscal year 2009 operating deficit through expense reductions and controls; and (4) established a fiscal year 2010 balanced budget. Currently, revenue and expense balances are reconciled to the University’s accounting system and financial statements are generated for each athletic account within two weeks of month-end. Account activity is reviewed by Athletic management, in conjunction with budget, distributed to and discussed with respective sport/administrative*
1. Financial Control Systems (cont.)

units, and communicated to and discussed with the Director of Athletics. As a result, issues are identified and addressed in a timely manner. This recommendation is complete.

The Department of Athletics procedures manual will be revised, as applicable, and placed on the department’s Intranet; available to all Athletic staff. Athletic management will (1) communicate changes to staff, (2) instruct staff to review the updated manual, and (3) train staff, as necessary, on changes made. Beginning in fiscal year 2011, the manual will be reviewed and updated, as necessary, on an annual basis. Estimated Completion Date: August 31, 2010.

Documentation of internal efforts performed to support assurances made in the annual self-assessment of financial and operating systems of the Athletic Department will be properly retained for review. This recommendation will be complete upon completion of the annual self-assessment for fiscal year 2009.

2. Financial Reporting

Observation

Financial information prepared and utilized by the Athletic Department is not complete.

Financial reporting activities performed by the Athletic Department do not provide a complete representation of the department’s financial position. A balance sheet is not prepared and not all departmental revenues and expenses are included in the financial statements.

The following specific financial reporting items were noted:

- In fiscal year 2008, expenses of approximately $1.1 million routed through the 12th Man Foundation for payment on behalf of the Athletic Department were not accounted for in the University’s Financial Accounting Management Information System (FAMIS) and, therefore, were excluded from the University’s and department’s financial statements. The revenues associated with these transactions were also excluded.

- Revenues and expenses for the product portion of the Athletic Department’s apparel contracts were not recorded in FAMIS and were also excluded from the University’s and department’s financial statements. Product revenues and expenses from Adidas and NIKE for fiscal year 2008 were $1.2 million and $218,000, respectively.
2. Financial Reporting (cont.)

- No depreciation or other form of non-cash expenses were included in the department's income statement to ensure adequate reserves will be generated for deferred maintenance and renewal and replacement of equipment or facilities. Estimated depreciation expense for fiscal year 2008 was $3.3 million.

In addition, Reed Arena’s financial operations are accounted for separately and not included in the department’s financial statements even though the department became responsible for the management of the Arena in 2007. The Arena is used almost exclusively by the department for at least 67% of the year. The Arena’s gross profit and expenses were $3 million and $3.2 million, respectively, in fiscal year 2008.

System Regulation 21.01.01, Financial Accounting and Reporting, supports the full accounting of revenues and expenses as it requires that financial accounts of the System and its members be maintained and presented in formal financial reports in accordance with generally accepted accounting principles. In addition, the regulation indicates that academic institutions are encouraged to maintain a comprehensive balance sheet of auxiliary enterprises and service departments. The preparation of comprehensive financial statements which include all Athletic Department operations and transactions would provide management with complete and accurate financial information for more informed decision-making.

Additionally, reconciliations between the department’s internal financial accounting system (CYMA) and FAMIS were not reviewed or approved nor was an appropriate separation of duties in place between data entry and the reconciliation process. Reconciliations are performed to identify discrepancies between two sets of records or systems so that appropriate actions can be taken to resolve any outstanding items. Review processes are established to ensure that the reconciliations are prepared adequately and that management is aware of outstanding items that need attention. Without adequate review and monitoring processes, the risks are increased that errors or misappropriations could remain undetected month-to-month.

Recommendation

Develop comprehensive financial statements for athletic operations to include the following:

- All athletic related revenues and expenses. Ensure these revenues and expenses are recorded in FAMIS as well.
2. Financial Reporting (cont.)

- Depreciation or some other form of non-cash expense to account for future deferred maintenance and renewal, and replacement of equipment and facilities.

- A comprehensive balance sheet to show the financial position of the department.

Determine the best method for inclusion of Reed Arena operations in the financial statements for the Athletic Department so that all athletic facility operations are included. This could also eliminate resources expended in developing, identifying, and ultimately eliminating what constitute inter-departmental transactions between Reed Arena and the Athletic Department.

Additionally, in the reconciliation process separate the duties of data entry, reconciliation, and approval of reconciliations.

Management’s Response

We agree that financial activities, as previously reported by the Athletic Department, do not provide a complete representation of the department’s financial position. The following items, which have not resulted in a cash misstatement, will be corrected:

- The Athletic Business Office will limit the number of expenses routed through the 12th Man Foundation for payment to only those deemed necessary, as discussed in further detail within management’s response to observation three, Expenses Processed Through the 12th Man Foundation. Such transactions, if any, will be continuously monitored, recorded in the department’s internal accounting system as revenue from the 12th Man Foundation, expense to the department, and reported to the University’s Division of Finance at the end of each fiscal year. Additionally, the Athletic Business Office will monitor the receipt of in-kind items, such as apparel and other products from sponsors such as Adidas, Nike, and Gatorade. Such transactions will be recorded in the department’s internal accounting system as revenue from the sponsor, expense to the department, and reported to the University’s Division of Finance at the end of each fiscal year. Estimated Completion Date: August 31, 2010.

- The Athletic Business Office will request that the Division of Finance annually calculate depreciation expense for Athletic Department facilities and assets. The resulting non-cash expense will be recorded in the department’s internal accounting system to account for maintenance, renewal and replacement of
2. Financial Reporting (cont.)

- The Athletic Business Office will prepare an annual comprehensive balance sheet to demonstrate the financial position of the Athletic Department, including items recorded by the Division of Finance, accumulated depreciation, debt principal, accounts receivable, and accounts payable. Estimated Completion Date: August 31, 2010.

  Reed Arena’s financial operations are currently reported apart from the Athletic Department’s financial statements. Athletic management will, with input from the University’s Division of Finance, conduct an in-depth study to determine whether the inclusion of Reed Arena operations as a component of the athletic enterprise is appropriate and, if so, the method by which they should be included. Estimated Completion Date: November 30, 2010.

  Athletic operational activity is recorded to the department’s internal accounting system by Athletic management and staff. The Athletic Department has established separation of duties to the extent that delegation of responsibility is feasible and operational efficiency may be maintained. Account reconciliations for all Athletic accounts are performed monthly by either the Assistant Financial Manager or Business Associate III and reviewed and approved by the Financial Manager. These reconciliations to FAMIS mitigate the risk that errors or misappropriations are undetected month-to-month. This recommendation is complete.

3. Expenses Processed Through the 12th Man Foundation

   Observation

The Athletic Department was not required to comply with controls and processes outlined in A&M System policies, regulations and University rules by processing expenses directly through the 12th Man Foundation. According to Athletic Department management, processing of certain payments through the 12th Man Foundation is a more expeditious and, at times, a less costly process than that in place at the University.

One example of this situation involved the construction of an equestrian facility for the women’s equestrian team. Expenses totaling approximately $1 million for an equestrian facility were paid directly by the 12th Man Foundation. The facility was constructed on land leased by the University from Brazos County. An inter-local agreement for a term of five years was signed on January 15, 2008.
3. Expenses Processed Through the 12th Man Foundation (cont.)

between Brazos County and the University's Senior Vice President and Chief Financial Officer on behalf of the Board of Regents for use of land at the Brazos County Expo Complex. The construction project was managed by the Athletic Department with no involvement from the University's or System's facility and construction divisions. Uncertainty exists as to whether the facility was built to meet all internally required structural, health, fire and life safety standards.

Insurance coverage for the facility has not been obtained by the System, the University, or the 12th Man Foundation nor is the facility included in the University's inventory listing. University employees and students began using the facility in December 2008. Buildings under control of a System member must be accounted for in the perpetual inventory of the member according to System Regulation 41.05.02.

In another example, the 12th Man Foundation paid for a departmental purchase of a computer operating system in December 2008 for $226,000. The operating system is located in the Cox-McFerrin Center and was needed to run a software program that analyzes player performance for the basketball program. Management indicated that expediency was the reason why they went to the 12th Man Foundation for this purchase because they needed the operating system functioning for basketball season. The department could have used the University's internal sole source purchasing procedures.

Invoices routed through the 12th Man Foundation for payment held approval signatures from the Athletic Department's Chief Financial Officer, a voucher clerk from the Division of Finance's Financial Management Operations for review of voucher support only, and the Director for Presidential Events in the President's Office. According to the Director for Presidential Events, no formal review process was in place nor was a reporting structure established to inform executive management of invoices routed from the Athletic Department to the 12th Man Foundation for payment.

Financial transactions processed outside of the University's standard business operations do not go through the established financial control and oversight processes that have been established to ensure that resources are used appropriately and in compliance with internal and external requirements. Thus, the University's risk for the inefficient and ineffective use of resources is increased when departmental expenses are processed through the 12th Man Foundation.
**Recommendation**

3. Expenses Processed Through the 12th Man Foundation (cont.)

The Athletic Department should limit its use of processing financial transactions directly through the 12th Man Foundation, particularly capital type expenditures. For those rare situations where this may need to occur, the University should establish and implement a formal reporting structure to ensure appropriate levels of University executive management are apprised that these transactions are being paid directly by the 12th Man Foundation.

With the aid of System and University facility and construction experts, assess whether the newly built equestrian facility meets all of the System and University building requirements. Obtain appropriate insurance coverage for the facility and include the facility in the University’s perpetual inventory listing.

**Management’s Response**

We agree that use of the 12th Man Foundation to process financial transactions should be limited, particularly as they relate to capital expenditures. On an infrequent basis, when use of the 12th Man Foundation to process a financial transaction is deemed necessary, Athletic management and staff operate in accordance with the following process, effective September 1, 2009. An expenditure to be paid by the 12th Man Foundation on behalf of the Athletic Department is first approved by the Athletic CFO and then by the Division of Finance Vice President and CFO or designee. If the expenditure represents a capital expenditure or facility, details are provided to the Financial Management Operations (FMO) Property Manager to ensure the item is properly recorded in the University’s accounting system and perpetual inventory listing. Upon approval by the Vice President of Finance and CFO or designee and FMO Property Manager, if applicable, the expenditure is provided to the President of the 12th Man Foundation for final approval and payment. The aforementioned process ensures that appropriate levels of University executive management are kept apprised of all athletic transactions, although rare, paid by the 12th Man Foundation. This recommendation is complete.

Appropriate insurance coverage for the athletic equestrian facility has been obtained, as of October 12, 2009, and the facility is recorded in the University’s perpetual inventory listing. Additionally, Athletic management has requested that the System Facilities Planning and Construction Office perform an assessment of the equestrian facility to determine whether it meets all System and University building requirements. Corrections or enhancements, if required, will be made as expeditiously as available funding allows. Estimated Completion Date: May 31, 2010.
4. Facilities Maintenance

Observation

The Athletic Department has not developed a plan to address athletic facilities deferred maintenance needs.

A deferred maintenance plan has not been developed by the Athletic Department to address assessment recommendations relating to Kyle Field and Olsen Field or maintenance necessary for other athletic venues.

Results from facility assessments of Kyle Field performed in 2002 and 2004 have not been substantially implemented. Of the one hundred thirty-eight recommendations resulting from the assessments, twenty-one are complete while seventy-three are in progress. Total estimated costs determined at the time of the assessments for implementation of all recommendations ranged from approximately $128 million to $140 million. Recommendations are specific to the north, west, and east sides of Kyle Field.

A life safety assessment of Olsen Field in 2005 resulted in forty-six recommendations of which thirty-six have been addressed.

According to the Assistant Director for Facilities, the Athletic Department primarily depends on external funding, such as gifts, for construction and maintenance projects and these projects are typically addressed during renovations or new construction. Without a comprehensive deferred maintenance plan, facility repair costs may become unmanageable and put students, employees, and guests at risk.

According to Texas Administrative Code, Title 19, Chapter 17, Rule 17.30, new construction and/or additions may be denied by the Texas Higher Education Coordinating Board if critical deferred maintenance exists. Approval of new construction and/or new additions can also be denied if deferred maintenance ratios are not at acceptable levels.

Recommendation

The University should develop a deferred maintenance plan inclusive of all athletic facilities. The plan should include consideration of financial reserves needed to address the costs of deferred maintenance, replacement, and renewal of facilities. Defined timelines tied to milestones and assigned responsibilities for task implementation of facility maintenance recommendations should be put in place to address facility assessments, promote accountability, and expedite implementation.
Management’s Response

4. Facilities Maintenance (cont.)

We agree that an all-inclusive athletic facility deferred maintenance plan is a necessary and valuable tool to outline current and future needs for deferred maintenance, replacement and renewal of athletic facilities. Although a deferred maintenance plan will provide a roadmap for work to be performed, Athletic management recognizes that funding is currently not available to subsidize the plan. We believe that our reliance on external sources, such as donor gifts, will continue as our primary source of funding; however, we will strive to build financial reserves in the normal course of operations for normal recurring maintenance and repair. To ensure a plan is in place when necessary funds become available, Athletic management will develop an all-inclusive athletic facility deferred maintenance plan, including an optimal timeline for implementation and assignment of responsibility for completion. Estimated Completion Date: August 31, 2010.

5. General Expenses

Observation

An analysis of Athletic Department expenses (7,023 vouchers) identified opportunities for the department to improve efficiencies by establishing additional vendor contracts, paying invoices timely and eliminating in-store charge accounts.

Our vendor analysis testing identified 174 vendors to whom approximately $3.3 million in purchases were made throughout the audit period that accumulated to more than the bid threshold of $5,000 per vendor. For eighteen of twenty-seven (67%) vendors reviewed, contracts were not in place between the vendor and the University or Athletic Department. A total of approximately $753,000 was spent with these eighteen vendors.

University Rule 25.99.02.M1, Purchasing Procedures, requires purchases greater than $5,000, unless specifically exempted, to be competitively bid to ensure the best use of resources. Purchases may not be separated into smaller dollar purchases to avoid the bid threshold.

The Athletic Department Business Office does not actively monitor vendor payments to determine whether contracts should be established. Vouchers are also not monitored to ensure groups of purchases greater than $5,000 are competitively bid. Unnecessary expenses may result as efficiencies can be gained through the bidding process and establishing contracts with vendors.
5. General Expenses (cont.)

Prompt payment interest of approximately $7,450 was incurred by the Athletic Department during the audit period. The trend of late payments ranged from a low of 0.25% in September 2007 to a high of 52% in October 2008. For fiscal year 2009, interest penalties incurred by the Athletic Department were approximately $9,000 as of May 31, 2009. System Regulation 21.01.03, Disbursement of Funds, and Texas Government Code 2251.021, Time for Payment by Governmental Entity, both require payment of invoices within thirty days of either receipt of goods or an invoice or performance of service. Employees/units are not being held accountable for processing invoices in a timely manner.

A listing of active in-store charge accounts at vendors in the Bryan/College Station area could not be provided. Management indicated use of the procurement card has reduced in-store account activity; however, actions have not been taken to formally close the in-store accounts. Limited controls over active in-store charge accounts increase the risk of fraud and unauthorized charges to the department.

Recommendation

The Athletic Department should:

- Establish contracts with vendors to whom payments of more than $5,000 are made on an annual basis. Utilize contracts developed to enhance the efficient use of resources. Comply with purchasing requirements as stated in University Rule 25.99.02.M1.

- Process purchase vouchers in a timely manner to comply with the State of Texas Prompt Payment Act, Texas Government Code, and System regulations.

- Identify in-store charge accounts with vendors in the Bryan/College Station area. Eliminate or significantly reduce the number of in-store charge accounts and encourage use of the procurement card.

Management’s Response

*We agree that opportunities exist to improve certain processes related to Athletic Department expenses and that implementation of the aforementioned recommendations not currently in place is necessary to comply with certain University requirements.*
5. General Expenses (cont.)

- Athletic management will generate a list of fiscal year 2009 transactions by vendor and identify vendors from whom purchases exceeded $5,000. For each vendor identified, management will work with University Procurement Services to establish a contract, if required. On a monthly basis, Athletic management will review year-to-date expenses by vendor to identify vendors from whom purchases are approaching $3,000. For each vendor identified, Athletic management will communicate with representatives from the respective sport/administrative units to determine whether expenses are expected to exceed $5,000 and subsequently work with University Procurement Services to establish a contract, if required. Estimated Completion Date: May 31, 2010.

- Athletic management and staff have worked diligently to resolve purchase voucher process inefficiencies and, as a result, have observed a positive trend in the number and dollar value of late payment charges incurred. For the quarter ending August 31, 2009, the Athletic Department incurred late payment charges of $272.77; an approximate 80% decrease from average late payment charges incurred per quarter during the audit period. For fiscal year 2010, as of October 31, 2009, the Athletic Department incurred one late payment charge of $8.35. Athletic management and staff have resolved purchase voucher process inefficiencies and will continue to process purchase vouchers in a timely manner. This recommendation is complete.

Athletic management strongly encourages the use of procurement cards by all sport/administrative units within the Athletic Department. To limit the risk associated with in-store charge accounts, Athletic management will communicate with representatives from each sport/administrative unit to identify active accounts, close all accounts with vendors who accept procurement cards, and maintain a list of vendors with whom in-store charge accounts are necessary. Athletic Department controls require that invoices are approved before they are paid; therefore, an in-store charge account bill will not be paid until Athletic management or staff authorize the charge(s). Estimated Completion Date: February 28, 2010.

6. Working Funds

Observation

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Cash handling controls have not been adequately implemented to ensure accurate accounting for and safeguarding of funds for booster clubs managed by the Athletic Department and athletic camp merchandise sales. Team travel financial procedures also
require improvement to reduce risks associated with cash management prior to and during travel and reconciliation processes after travel has occurred.

For booster clubs and camp merchandise sales, the control weaknesses noted include receipts not being provided to donors/customers, cash on hand not being adequately secured, checks not being immediately restrictively endorsed upon receipt or deposited timely, and transfer of custody of funds not documented consistently as required by System Regulation 21.01.02, Receipt, Custody, and Deposit of Revenues. In addition, camp merchandise sales are not reconciled with monies received at the end of the day and camp staff for two of six (33%) camps tested have used funds from personal bank accounts as working funds for camp stores. The seven booster clubs identified received revenues of approximately $135,000 during the audit period while camp merchandise sales for six camp stores totaled approximately $175,000. Employees performing cash handling for booster clubs and athletic camp merchandise sales have not received adequate training and are not aware of System regulations and University rules governing cash handling. These control weaknesses increase the risks for the misappropriation of funds and merchandise and inaccurate accounting for checks and monies.

Athletic management has not transitioned to a more secure payment method for team travel, such as travel cards. Cash advances are currently provided for team travel in the form of a check, at times up to $30,000, and are issued in the name of the head coach or designee, usually the Director of Operations for the sport. Typically, the employee cashes the check, carries an amount equal to the expected cost of incidentals and individual athlete meal money, and deposits the remainder of the advance in a personal bank account. Costs incurred during travel, such as hotel and restaurants, are most often charged to a personal credit card. Upon returning from travel all receipts and remaining cash are submitted to the Athletic Business Office for reconciliation and submittal to the University’s Division of Finance so the department’s permanent working fund can be reimbursed. The current travel advance process is inefficient as extensive resources are necessary to reconcile cash advances after travel. Additionally, risk of fraud and misappropriation of funds is high due to the handling of large sums of cash and the complexity of the reimbursement process.

Recommendation

Provide cash handling training on all applicable regulations and guidelines to any Athletic Department employees involved with working funds and cash receipting processes. Consider transferring
Implement a more secure method for payment of team travel, such as the use of team travel cards, to reduce the amount of cash advances needed and time and effort expended in reconciling travel information and processing reimbursements. Limit cash advances to that necessary for incidental items and individual athlete meal money.

Management’s Response

We agree that controls over working funds and related cash handling procedures may be improved. In conjunction with the resolution to update the Athletic Department procedures manual, Athletic management will document required cash handling procedures, including, but not limited to: (1) providing receipts to donors/customers immediately upon receiving cash; (2) restrictively endorsing checks immediately upon receipt; (3) adequately securing cash and checks on-hand; (4) adequately documenting custody of fund transfers; (5) properly reconciling cash-on-hand with daily merchandise and refreshment sales; and (6) obtaining cash advances from the Athletic Department for use as the camp store working fund. Working fund and cash handling procedures will be included in the revised Athletic Department procedures manual and Athletic staff will be informed of established procedures and trained accordingly, as discussed within management’s response to observation one, Financial Control Systems. Additionally, Athletic management will work with management at the 12th Man Foundation to determine whether the transfer of responsibility for all Athletic booster clubs to the 12th Man Foundation is appropriate. Estimated Completion Date: August 31, 2010.

We agree that cash advances historically provided to team representatives have been excessive and do not represent the most secure means of funding team travel. Although travel cards are used primarily for airfare and vehicle rentals, we encourage the use of travel cards for all travel expenses that may be paid by credit card. The Athletic CFO currently does not authorize travel advances in excess of reasonable incidental expenses and per diem meal allowances for student-athletes, coaches and Athletic staff who accompany student-athletes during team travel. Such procedures have reduced the dollar value of cash advances issued and the extent to which travel costs must be reconciled. This recommendation is complete.
7. Contract Administration

Observation

The Athletic Department does not have a comprehensive contract tracking system in place. A comprehensive contract tracking system is not in place to monitor Athletic Department contracts nor revenues and expenses associated with these contracts. Although all contracts are electronically scanned by the department, a complete listing of contracts is not kept and instead had to be obtained from multiple employees. The University Contract Administration database is relied upon for a complete contract listing; however, due to delegations of authority which do not require involvement of Contract Administration, that listing may not be complete. Without a comprehensive contract tracking system, contracts may not be renewed timely, terms may not be adhered to, and revenues and expenses associated with contracts may not be received or disbursed in a timely fashion. The total value of identified Athletic Department contracts, excluding employment contracts, is approximately $50.6 million over the entire contract period. Employment contracts, including supplemental pay, are approximately $10.5 million on an annual basis.

Weak contract administration controls were included in the prior audit of the Athletic Department issued in the third quarter of fiscal year 2004. While steps have been taken to strengthen the process, further improvements are necessary to ensure adequate controls are in place.

Recommendation

Develop a comprehensive contract tracking system to track all Athletic Department contracts including all associated revenues and expenses. Assign overall contract monitoring responsibilities to a specific employee.

Management’s Response

We agree that a contract tracking system will better enable Athletic management and staff to monitor contract status and associated revenues and expenses. In August 2009, Athletic management initiated a process to track contract terms, compensation earned, and compensation received for seven primary athletic sponsorship contracts. In fiscal year 2010, Athletic management will (1) expand the scope of its contract tracking system to include, at a minimum, contracts related to athletic sponsorships, game guarantees, facilities, and employment; (2) review all contracts not included in the aforementioned categories and include in the contract tracking...
7. Contract Administration (cont.)

system all those identified with a financial impact on the department; (3) implement a process to ensure that new contracts are reflected in the contract tracking system in a timely manner; and (4) ensure that copies of contracts included in the contract tracking system are available from a single source. The Athletic Assistant Financial Manager is responsible for overall contract monitoring. Estimated Completion Date: May 31, 2010.

8. Monitoring of Aggie Wheels Program/Vehicle Allowances

Observation

The Aggie Wheels and vehicle allowance programs are not adequately monitored to ensure adherence to departmental procedures and proper use of resources. Management does not maintain a current listing of employees receiving vehicle benefits and an analysis is not conducted routinely to ensure resources are used appropriately. Nine employees receiving vehicle allowances are also receiving insurance coverage. Athletic Policy 410, Department Provided Vehicles, indicates employees receiving vehicle allowances will not be provided automotive insurance coverage. Two terminated and two retired employees were also listed as insured. Those employees not requiring coverage should be removed from the policy. Two other employees currently using a dealer vehicle and receiving coverage through the A&M System vehicle insurance policy were not listed as receiving a vehicle through the Aggie Wheels program.

No written, signed agreements are in place for ten of ten (100%) salaried employees tested who use vehicles through the Aggie Wheels program. In addition, evidence that employees were informed of and agreed with rules associated with the use of a dealer vehicle was not noted. Forty-two Athletic Department employees are currently listed as receiving a vehicle through the Aggie Wheels program.

Improper monitoring of employee vehicle benefits may lead to employees receiving monetary allowances, dealer vehicles, or insurance coverage unnecessarily. Absence of proper documentation between employees and the department for vehicle benefits received could result in lack of accountability for monetary liabilities due to noncompliance with rules established for dealer vehicle use.
8. Monitoring of Aggie Wheels Program/Vehicle Allowances (cont.)

**Recommendation**

Maintain a current, complete listing of employees who participate in the Aggie Wheels program and/or receive a vehicle allowance and ensure departmental procedures are adhered to. Regularly perform an assessment of employees who receive a vehicle benefit to determine appropriateness. Ensure written, signed agreements are in place for all employees who drive dealer vehicles including an understanding of rules for use of dealer vehicles.

**Management’s Response**

We agree that controls over the Aggie Wheels and vehicle allowance programs may be improved. To ensure that the vehicle programs are properly managed and monitored, Athletic management will perform the following: (1) document and maintain a listing of employees who receive dealer vehicles or vehicle allowances; (2) draft a standard agreement between the Athletic Department and Athletic staff who receive dealer vehicles, outlining restrictions associated with the use of dealer vehicles, such as responsibility in the event of an accident and required communication in the event of an accident or vehicle trade-in; (3) require each employee who receives a dealer vehicle to sign the standard agreement; and (4) compare the Athletic Department’s listing of employees who receive dealer vehicles or vehicle allowances to the University’s listing of employees who receive insurance coverage to determine whether each employee who receives a dealer vehicle is properly included and each employee who receives a vehicle allowance is properly not included. Athletic management will update the listing of employees who receive vehicle benefits upon notification of a vehicle or allowance change and periodically review the listing to ensure it is current and complete. Estimated Completion Date: February 28, 2010.

9. Inventory of Non-Capitalized Goods

**Observation**

Inventory processes for goods not meeting the $5,000 capitalization threshold have not been developed and implemented for Athletic Department programs. A software program, Assistant Coach System (ACS), was purchased by the Athletic Department in fiscal year 2004 to aid in managing multiple operations including inventory. Currently, two of twenty (10%) sports are utilizing the inventory feature of the software. The Athletic Equipment Manager’s position description includes a responsibility to implement and supervise equipment inventory software for all sports. Sports
9. Inventory of Non-Capitalized Goods (cont.)

have varying understandings of what inventory processes should be performed, if any, and proper methods of handling surplus items. Inadequate inventory controls can result in the mismanagement and loss of resources.

**Recommendation**

For all intercollegiate sports, develop and implement standard procedures for inventory of goods not meeting the $5,000 capitalization threshold and formal methods for handling of surplus items. Train all sports on the established procedures and monitor to ensure procedures are adhered to. Determine if implementation of the ACS inventory module is a feasible solution for all sports.

**Management’s Response**

We agree that the risk of inventory mismanagement and loss may be mitigated by the implementation of standard inventory procedures. In conjunction with the resolution to update the Athletic Department procedures manual, Athletic management will observe current inventory procedures followed by each sport/administrative unit, if any, and identify relevant inventory levels on-hand to determine the most efficient and effective means (e.g., Assistant Coach Software) of controlling inventory that does not meet the $5,000 capitalization threshold. Inventory control and surplus inventory procedures, including the use of forms and procedures established by the University Departmental Property Management Procedures Manual, will be included in the revised Athletic Department procedures manual. Athletic staff will be informed of established procedures and trained accordingly, as discussed within management’s response to observation one, Financial Control Systems. Estimated Completion Date: August 31, 2010.

10. Accounts Receivable for the Zone Facilities

**Observation**

Accounts receivable processes for Zone facilities need to be strengthened.

Accounts receivable processes in place for rental of the Zone facilities are not performed with an adequate separation of duties or adherence to System Regulation 21.01.04, Extension of Credit. The Zone Facility Manager is responsible for setting rental rates for the Zone facilities, invoicing customers, monitoring outstanding receivables, and at times receiving payments. Receivables are not actively monitored to ensure payments are received timely as required by System Regulation 21.01.04 nor are monthly reports of receivable billings and collections, receivable aging reports, and reconciliations of account balances to the controlling general ledger.
performed. In addition, System regulation procedures for delinquent accounts, including internal procedures for late fee assessments and write-offs of uncollectable accounts, are not adhered to.

Nine of nineteen (47%) Zone facility rental invoices sampled were paid more than thirty days after the invoice date, ranging from two to two hundred thirty days late. Of the nineteen sampled, four (21%) of the invoices were sent to the client more than twenty working days after the event. Penalties were not applied to any of the nine late payments. No cross-training has been performed to provide for a back-up should the Zone Facility Manager have a temporary or permanent absence. Revenues from the rental of the Zone facilities during the audit period totaled approximately $183,000.

Under the current process, there is a higher risk that receivables will not be collected in a timely manner and delinquent and uncollectable accounts will not be properly managed.

Recommendation

For the Zone facilities, establish adequate separation of duties for the accounts receivable process. Implement and adhere to all applicable criteria established for receivables in System Regulation 21.01.04. Cross-train employees to allow for the efficient and effective continuation of operations should an employee have a temporary or permanent absence.

Management’s Response

We agree that financial controls related to accounts receivable for the Zone facilities may be improved. In fiscal year 2010, the responsibility to set rental rates for the use of Zone facilities will remain with the Zone Facility Manager; however, all established rates will be approved by the Athletic CFO. The Athletic Business Office will assume all other responsibilities related to the accounts receivable process including, but not limited to, invoicing customers, monitoring outstanding receivables, and receiving payments. Athletic management will also generate monthly reports of receivable activity, assess late fees, and manage delinquent accounts, in accordance with System Regulation 21.01.04, Extension of Credit. The Athletic Financial Manager and Assistant Financial Manager will work jointly to ensure the efficiency and effectiveness of operations related to accounts receivable for the Zone facilities. Estimated Completion Date: February 28, 2010.
11. Information Technology

Observation

<table>
<thead>
<tr>
<th>Documentation of disaster recovery plan testing was not retained.</th>
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<tr>
<td>Evidence of testing of the Athletic Department’s disaster recovery plan could not be provided by management. Generally, testing of the disaster recovery plan does not contribute to day-to-day operations and, therefore, often receives a low priority. A specific, scheduled review of the disaster recovery plan has not been established. Texas Administrative Code (TAC) 202.24 addresses requirements for business continuity planning including specific elements of a disaster recovery plan and how often it should be tested. Failure to properly prepare for a loss of service can result in excessive down time that will negatively affect a department’s ability to fulfill its responsibilities. In some situations, data can be permanently lost.</td>
</tr>
</tbody>
</table>

Recommendation

| Review and test the Athletic Department disaster recovery plan at least annually as required by TAC 202.24. Retain documentation to support that appropriate testing has occurred. |

Management’s Response

| We agree that periodically testing the disaster recovery plan is necessary to ensure the recovery plan will operate as designed in the event of a disaster. Athletic management and staff are currently revising the Athletic Department’s Business Continuity/Disaster Recovery Plan (BC/DRP) to address all Texas Administrative Code (TAC) 202.24 requirements. Beginning in fiscal year 2010, Athletic management and staff will test the disaster recovery plan at least annually and retain documentation in support of the tests performed. Estimated Completion Date: August 31, 2010. |

BASIS OF REVIEW

Objective

The purpose of the audit was to review the financial and management controls of the Athletic Department to determine if resources were used efficiently and effectively and in compliance with laws, policies, regulations and University rules.

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 Athletic Department manages an intercollegiate athletic program that supports approximately six hundred thirty student-athletes participating in twenty varsity sports programs (nine men’s, eleven women’s). The department’s annual operating budget was $67.5 million in fiscal year 2008. The Athletic Department is comprised of athletic administrators and coaches committed to the department’s mission of “building champions through academic achievement, athletic excellence, and national recognition of student-athletes, team and programs.” The Athletic Department also manages athletic facilities including Kyle Field, Olsen Field, and Reed Arena. The University Athletic Department is funded in part by the 12th Man Foundation, a 501(3)c corporation, whose mission is “funding scholarships, programs, and facilities in support of championship athletics.”
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