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LAWRENCE F. ALWIN, CPA
State Auditor

November 15, 1996

Mr. Enos Cabell, Jr., Chairman
Board of Regents of Texas Southern University
4103 Frost Lake Ct.
Missouri City, Texas 77459

Dear Mr. Cabell:

In response to your August 1996 request, the State Auditor's Office has conducted a financial and operational review at Texas Southern University (University). Neither proactive leadership nor fundamental oversight systems are in place to prevent a future financial crisis and to ensure accountability for the achievement of fiscal and administrative goals. The University does not currently have the information systems necessary to provide accurate, timely data required for monitoring and decision-making, nor the human resources support necessary to build reliability and effectiveness in the implementation of policies and procedures.

As a result, Texas Southern University is projected to incur operating deficits totaling over $8 million during fiscal year 1997 unless radical changes are instituted in the University's financial management practices. The potential shortfall is primarily a result of the University's inability to collect two major sources of revenue on a timely basis; federal student financial aid and grants receivable. Although the Board of Regents and management have begun to address the revenue shortfall, they must move from crisis management to demonstrating sustained progress in achieving defined goals and objectives.

Our review included an examination of cash flows, financial controls, and management systems such as human resources and information management. Also at the request of the University, the State Auditor's Office assisted University management in addressing a crisis in financial aid. These efforts included assisting with the University's corrective action plan for re-engineering the Financial Aid Department and addressing federal noncompliance issues.

LACK OF UNIVERSITY ACCOUNTABILITY SYSTEMS CONTRIBUTE TO CRISIS MANAGEMENT

Comprehensive internal oversight systems are not in place to provide early warning of fiscal crisis and promote achievement of the University's mission. Specifically, current human resource, financial, and information systems do not consistently support goals and strategies that have University-wide impact.

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Human Resources

The University's Human Resources Department is a critical function that has not contributed to efforts to improve management systems. Only by employing and retaining qualified people can the University hope to achieve its educational and administrative goals. The University faces several challenges in this area, including management and staff turnover, availability of training, inadequate staffing, and personnel performance issues. The Human Resources Department does not currently address related strategies such as:

- Conducting staffing analysis to determine what positions are needed in each department
- Identifying and meeting training needs as well as evaluating results of training
- Assessing selection process for filling key executive positions
- Guiding recruiting and screening of job applicants
- Ensuring implementation of performance evaluations to provide feedback about weak performance to employees and management

These strategies are critical to successful operations University-wide. Once enhanced procedures and automation are established, qualified, capable employees are needed to carry out the new systems and procedures and to bring the University to a stable financial position.

Finance and Accounting

The existing finance and accounting systems are not adequately controlling and maximizing the resources that are relied upon University-wide. During fiscal year 1996, the University's accounting system did not reflect all relevant transactions. While the University plans to convert financial data to the recently purchased BANNER system, the existing system does not generate complete, current, and accurate data regarding certain fiscal activities. For example, auditors noted unaccounted-for checks and checks with the same identification number issued to different parties. Cash receipts accounts in the general ledger were not updated for several months. During fiscal year 1996, $1.3 million in checks not accurately identified in the University's accounting records were cashed.

Additionally, the University is not maximizing revenue enhancing opportunities in response to shrinking or delayed funding sources. Appropriations totaling $948,000 have lapsed between 1991 and 1995. Further, cash balances are generally held in low- or no-interest bearing accounts, versus more lucrative short-term liquid securities.

Management Information Systems

Installation of a multi-million dollar student services and financial information system is behind schedule. The University made a $6.9 million commitment to replace aging and disjointed administrative applications by purchasing BANNER, an integrated student services and administrative system. However, implementation of BANNER's financial module has been delayed while problems are being resolved with the student services module already on-line. Nonetheless, the University is spending approximately $71,000 each year to maintain its two nonintegrated finance and accounting systems pending the installation of BANNER's financial module. There is no detailed implementation plan for this module specifying dates when each phase of installation will be initiated or operational.

Post-installation problems with the student financial aid module of BANNER persist. Employees' access is not adequately restricted or monitored, increasing the risk that unauthorized modifications are being made to the system. Additionally, employees have not been adequately trained and no one in the Financial Aid Department is reviewing the module's program modifications or data entry for accuracy. As a result, incorrect processing of financial aid data is occurring. Also, the Financial Aid Department is not fully utilizing all aspects of the student financial aid module. Employees still use manual processes in many areas, which is an inefficient use of resources and a costly misuse of the new system.

Planning and Communications

While the University developed a strategic plan in 1994, there is not a systematic approach to holding responsible parties accountable, coordinating implementation of goals among departments, and monitoring their achievement. According to this plan, some departments are not expected to demonstrate any milestone accomplishments until 1997. Other departments have developed alternative operational short-term goals which have not been evaluated to determine their alignment with strategic objectives. Further, executive management does not have a system for tracking departmental performance using relevant output and outcome measures.

THE UNIVERSITY MAY INCUR MATERIAL OPERATING LOSSES DURING FISCAL YEAR

If fiscal practices exhibited during fiscal year 1996 continue, Texas Southern University will run into monthly operational deficits during fiscal year 1997, which at worse could total $8 million by August 1997. Delays in obtaining both federal student financial aid and grants receivable leave the University struggling to meet payroll expenses for the year.

Management has taken action to postpone the impending shortfall by reallocating the sources of revenue used for payroll expenses. Typically, the University's monthly payroll expenses are funded two-thirds by state appropriations and one-third by local funds to comply with state law regarding proportional funding. The University will postpone the deficit and maintain proportional funding compliance by using appropriations to cover all payroll expenses for the first eight months of the fiscal year and local funds for the last four months. However, if financial aid reimbursements have not been recouped by April, the deficit could be severe in the last four months of the year, especially if delays in collecting local grant funds have also continued.

The University's fiscal year 1997 cash position has been evaluated based on expected expenditures and revenues related to federal grants and local funds. State appropriations were not included in the analysis since the realization of those funds is not in question. Following are projections of the University's cash flows under three scenarios of financial aid reimbursement:

Table 1
Cash Flow Projections For Fiscal Year 1997
Operating Surplus/(Deficit) By Month*

MONTH	SCENARIO 1: No Federal Reimbursement of Financial Aid	SCENARIO 2: Receive 50 percent of Estimated Financial Aid Reimbursement	SCENARIO 3: Receive 75 percent of Estimated Financial Aid Reimbursement
SEPTEMBER 1996	$ 2,257,233	$ 2,257,233	$ 2,257,233
OCTOBER	2,042,006	2,042,006	2,042,006
NOVEMBER	1,714,000	1,714,000	2,014,000
DECEMBER	1,555,431	1,755,431	1,855,431
JANUARY	2,822,629	3,372,629	3,722,629
FEBRUARY	4,074,432	5,074,432	5,724,432
MARCH	2,948,031	4,583,031	5,398,031
APRIL	657,026	2,927,026	4,107,026
MAY	**(1,472,892)**	1,547,108	2,977,108
JUNE	**(4,242,589)**	**(562,589)**	1,157,411
JULY	**(6,512,878)**	**(2,172,878)**	**(262,878)**
AUGUST 1997	**($8,133,499)**	**($3,133,499)**	**($883,499)**

*The surplus(deficits) projected each month are cumulative representations.

If the University is able to maintain appropriate eligibility documentation on its students and submit these records on a timely basis during the year, it can potentially collect 100 percent of its financial aid reimbursement for fiscal year 1997. In light of the school's historic difficulties in certifying the accuracy of student records, it should be noted that the break-even point for the University avoiding an operational deficit is to collect at least 79 percent of financial aid claims submitted to the Department of Education.

Since several audits have identified repeated noncompliance with federal requirements, the University also faces liabilities for financial aid distributed in prior years. Conditions in the University's Financial Aid Department were first identified in a State Auditor's Office 1993 financial and compliance audit. The most significant problems were that the University was not maintaining adequate documentation to support payments made to students and that students ineligible to received aid were in fact receiving it. The U.S. Department of Education has issued a letter of determination indicating the University is potentially liable for as much as $13 million of financial aid payments made to students during 1993. Subsequent audits in 1994 and 1995 by our Office and a programmatic review by the Department of Education in early 1996 found that no improvements have been made and that, in some areas, further deterioration of controls has occurred. The Department of Education has not yet determined potential liabilities for 1994 and 1995.

KEY REVENUE SOURCES ARE UNAVAILABLE DUE TO PROCESSING CLAIMS IN AN INACCURATE AND UNTIMELY MANNER

The University's tenuous fiscal position is primarily a result of two major revenue sources being delayed at the same time: federal student financial aid and federal and local grants receivable.

Student Financial Aid

The University is at risk of losing the ability to participate in federal student financial aid programs as a result of a failure to adequately maintain eligibility records for students receiving aid. The University processed approximately $39 million in federal student financial assistance for 74 percent of its enrolled students in the 1995-1996 school year. Since a high percentage of students depend on this aid for tuition, participation in the Department of Education programs is vital to the University's ability to continue funding these students' education and to continue its operations.

The University is currently in the process of preparing a report and accumulating the necessary documentation to request federal reimbursement for the 1995-1996 Spring and Summer semesters as well as the 1996-1997 Fall payments made to students. The total to be reimbursed is approximately $3.9 million.

Grants Receivable

While the University successfully secured alternative funding in the way of federal, local, and private grants for academic research, it has not been able to collect reimbursements for grant expenditures on a timely basis during fiscal year 1996. Once expenditures allowed under a particular grant are incurred, the University must submit a billing statement to the grantor to receive reimbursement for the expenditures. At the time of our review, 70 percent of reimbursable local and private grant expenditures had not been billed, representing $2.7 million. In addition, $1.7 million in federal grant expenditures had not been drawn down.

A contributing factor to the delay in processing is the dramatic growth in the grants administered by the University. The total number of grants has increased 150 percent, from 100 in 1990 to 250 in 1995. University management recognized this issue and developed a plan to re-engineer the Grants Department, but some of the recommended actions, such as securing temporary personnel to alleviate the workload, have not been implemented. In fact, the number of staff members in the Grants Department has decreased from four to three personnel.

ATHLETICS DEFICIT COMPOUNDS FINANCIAL CONDITION

Texas Southern's athletics program deficit continues to increase at a rate of nearly $500,000 per year. Although experiencing an athletics deficit is not unique to Texas Southern University, other schools are not concurrently facing the same significant revenue constraints described at the University.

The University is allocating approximately 50 percent of student service fees to athletics each year to offset the losses. In addition, enrollment at the University has declined from 10,000 to 8,000 students in the past two years; therefore, the associated fees used to subsidize athletics will be declining as well. Also, there is no evidence of efforts to reduce program expenditures. In fact, expenditures have increased from $1.8 million in fiscal year 1994 to $1.9 million in 1995. Other auxiliary enterprises experiencing losses over $100,000 include the Student Life Center and Student Health Insurance facility.

BOARD OF REGENTS AND MANAGEMENT TAKE ACTION ON CRISIS, BUT MUST REDESIGN ADMINISTRATIVE PROCESSES TO ENSURE FUTURE SOLVENCY

The Board of Regents and management of Texas Southern University have initiated efforts to address the fiscal crisis, but must exercise aggressive leadership and develop monitoring and accountability systems that will ensure needed management system changes are made. Positive measures taken by University officials include requesting assistance from the State Auditor's Office and the Department of Education to re-engineer their student Financial Aid Department. Further, the Board is recruiting experienced business executives to join the University's management team. To build on these efforts, University management must develop a short-term action plan to address weaknesses identified in this report. The action plan should specify prioritization of tasks, personnel responsible for implementation, and frequency and type of reporting for purposes of monitoring by the Board and external oversight bodies.

Texas Southern University management must immediately demonstrate leadership to secure the solvency of the University as well as the educational opportunities it offers to the local community.

Sincerely,

Lawrence F. Alwin

Lawrence F. Alwin, CPA
State Auditor

cc: Mr. James Douglas, President
Texas Southern University Board of Regents
The Honorable George W. Bush, Governor
The Honorable Bob Bullock, Lieutenant Governor
The Honorable James E. "Pete" Laney, Speaker of the House
The Honorable Garnett Coleman
The Honorable Harold Dutton, Jr.
The Honorable Al Edwards
The Honorable Rodney Ellis
The Honorable Sylvester Turner
The Honorable Ron Wilson