An Audit Report on

Financial Processes at Texas Southern University

- The University overrode safeguards to make purchases that did not comply with applicable requirements.

- The University was unable to determine which assets it did or did not possess due to insufficient recordkeeping.

- The University did not submit timely and accurate financial information to the Office of the Comptroller of Public Accounts.

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

Texas Southern University (University) had significant weaknesses in its financial processes related to procurement, asset management, and financial reporting. The University did not consistently comply with established procurement processes; for example, University departments ordered directly from vendors without first obtaining the required approvals and budget checks, which creates legal and financial obligations for the University. In addition, the University could not locate or determine the value of all its assets because it did not have a complete and accurate asset inventory.

The University's financial reporting was delayed and contained errors, limiting stakeholders' ability to make informed decisions. Staffing gaps in critical functions contributed to poor asset oversight and the financial reporting issues.

The University had certain information technology processes in place to safeguard its data; however, it did not appropriately restrict access to its financial system.

- *Audit Objective* | p. 12

This audit started in May 2025 and focused on procurement activities and asset management functions from September 1, 2022, through July 31, 2025, as well as an assessment of financial reporting processes for fiscal years 2023 and 2024. The audit was conducted in accordance with Texas Government Code, Sections 321.013, 321.0131, and 321.0132.

PRIORITY

SIGNIFICANT WEAKNESSES IN FINANCIAL AND OPERATIONAL PROCESSES

- The University had significant weaknesses in its procurement processes. | pg. 4

- The University did not ensure that assets were properly safeguarded—50 (83 percent) of 60 sampled assets could not be located. Additionally, the University did not maintain an accurate and complete listing of assets. | pg. 6

- The University did not submit timely and accurate financial information to the Office of the Comptroller of Public Accounts. | pg. 8

For more information about this audit, contact Audit Manager Jeannette Garcia or State Auditor Lisa Collier at 512-936-9500.

December 2025 | Report No. **26-012**

Summary of Management's Response

Auditors made recommendations to address the issues identified during this audit, provided at the end of Chapter 1 in this report. The University agreed with the recommendations. See Appendix 2 for the University's response.

Ratings Definitions

Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

PRIORITY: Issues identified present risks or effects that if not addressed could ***critically affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

HIGH: Issues identified present risks or effects that if not addressed could ***substantially affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

MEDIUM: Issues identified present risks or effects that if not addressed could ***moderately affect*** the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

LOW: The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks *or* effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

For more on the methodology for issue ratings, see Report Ratings in Appendix 1.

An Audit Report on Financial Processes at Texas Southern University | 26-012
December 2025

Chapter 1
Significant Weaknesses in Financial and Operational Processes

PRIORITY

The University overrode safeguards in its financial and operational processes.

Texas Southern University (University) had significant weaknesses in its financial processes that reduced its ability to (1) comply with required purchasing procedures, (2) safeguard its assets and maintain complete and accurate asset records, (3) prepare and submit reliable financial information to the State in a timely manner, and (4) restrict user access to its financial system to appropriate individuals.

Overall Operations. The University did not consistently follow its policies and procedures for procurement, asset management, financial reporting, and information technology. In addition, it had not reviewed most of those procedures every three years as required by University policies. Specifically, the last documented review of many policies was in 2010.

Additionally, the University had vacancies in key positions for extended periods. Establishing well-developed and documented processes, providing staff training, and promoting adherence to those processes could help the University address the weaknesses identified in this report and promote more effective continuity of operations.

Procurement Processes

The University did not comply with its procurement requirements.

The substantial weaknesses in the University's procurement practices resulted in unapproved purchasing. The University overrode safeguards to make purchases that did not comply with applicable requirements.

Inaccurate Expenditure Data. The University could not provide an accurate report of its expenditures from Banner, the official system of record for financial information (see text box). The expenditure data provided for this audit included duplicate expenditure amounts, which significantly inflated the total amounts spent. As a result, the monetary impact of some analyses provided in this chapter could not be quantified.

> **Banner**
>
> Banner is a system used primarily by universities to manage administrative and academic functions such as student information, finance, and human resources.
>
> Source: Ellucian Banner

Non-compliance With Requisition Requirements. The University's procurement processes required the creation and approval of a requisition prior to making a purchase. However, University departments ordered directly from vendors without completing requisitions, which are designed to obtain and document approvals and assess the impact on departmental budgets. Specifically, the University paid all 60 invoices tested, totaling $102,100, for purchases that were made without first obtaining requisitions. Further analysis revealed that a total of 8,144 vendor invoices were dated before the purchase requisitions were made, confirming that the University did not always follow its procurement processes. As a result, the University incurred unauthorized spending, which creates the risk of budget overruns.

Lack of Access to Required Information. When the University departments properly obtained requisitions prior to purchases, they did not consistently ensure that all documentation required for certain spending thresholds, such as quotes, bids, and board approvals (see text box), was available to the purchasing staff for review prior to processing purchases. Specifically, the University departments did not make the necessary documentation available to purchasing staff for 22 (37 percent) of 60 invoices tested. By making purchases without all the necessary information, the University cannot ensure that it gets the best value.

The University ultimately provided some of the necessary documentation (e.g., quotes, contracts, and board approvals) in response to auditor requests. However, this information had not been uploaded into Banner or the University's contract database, the Legal Management System (LMS), and therefore it was not available for purchasing staff to review at the time the purchases were made. For example, the University asserted that it had to contact several vendors to obtain missing quotes for the audit, further indicating that this information had not been maintained or reviewed as required during the purchasing process.

> **Spending Thresholds for Purchases**
>
> The University's procurement requirements increase according to these four tiers of purchase amounts:
>
> - **$0 to $4,999:** No quote required if vendor is on the University's approved vendors list.
> - **Between $5,000 and $24,999:** Purchase orders required. Must obtain at least three informal quotes.
> - **Between $25,000 and $99,999:** Contracts required for services. Formal solicitation issued to obtain a minimum of three sealed bids.
> - **$100,000+:** Board of Regents approval and the chief financial officer's signature required, in addition to the requirements of the previous tier.
>
> Source: The University

Lack of a Process to Verify Contracts' Validity. The University required contracts for purchases over $25,000. Although high dollar values were involved, the University did not have a process in place to verify that valid contracts were in place before processing requisitions and payments. Despite a University directive instructing staff to enter all contract information in LMS beginning November 2020, contract information was decentralized, which limited the staff's ability to verify contract terms and effective dates.

Of 60 invoices tested, the University provided valid contracts for 46 (77 percent) vendor invoices. However, because the contract information for those vendors was not always in LMS, the University had to perform extensive research to obtain some of the signed contracts for the audit, asserting that the majority of contracts provided were obtained from the originating departments or employees' email accounts. This demonstrates that in some cases the

University lacked the fundamental information necessary to justify moving forward with the completed purchases and payments.

Having a valid contract in place before receiving a good or service is important because the contract defines performance expectations, total cost, liability protection, and avenues for legal recourse.

According to the University's LMS and Banner data, 743 invoices were paid to vendors whose contracts had expired, confirming that the University was not checking the contracts before making payments. Approving invoices without reviewing the underlying contract creates risks of overpayments, duplicate or unauthorized charges, and receipt of goods and services that do not meet contract specifications.

Inaccurate Contract Data. LMS did not have accurate or complete contract information as required by the University's directives. Specifically, the LMS records for 58 (97 percent) of 60 vendors tested did not match the corresponding contract documentation. Inaccuracies in the University's LMS contract data included incorrect start and termination dates, contract numbers, approval statuses, and amounts. Further, some University contracts were not listed in LMS.

The identified procedural deficiencies, absence of a process to verify contract validity, and unreliable contract information significantly increase the risk of unauthorized or noncompliant purchases, fiscal mismanagement, and potential legal and financial liabilities.

Asset Management

The University was unable to determine asset locations or values due to insufficient asset management.

Significant deficiencies in the University's asset management functions prevented it from accurately accounting for and protecting its assets. Texas Government Code, Chapter 403, requires state entities to accurately account for their assets.

The University had not been conducting the annual physical inventory required by its policy. The University asserted that it last conducted an annual inventory

verification in 2019. The lack of regular inventories contributed to the University's inability to locate 50 (83 percent) of 60 assets tested that were recorded in Banner; the 50 missing assets had a total purchase value of $3.2 million.

The deficiencies in asset management extended to asset records in Banner, which were incomplete and contained substantial inaccuracies. For example, in the 60 assets tested, the following issues were identified:

- Over half either had no custodians listed or the custodians listed were former employees (custodians are the individuals responsible for the care and control of assets).

- The asset's value was not always accurate. Of the 38[1] capital assets tested, 12 either were not being depreciated or contained incorrect useful-life estimates, which are a component of depreciation calculation. An additional asset was not being depreciated and lacked useful-life information.

- The University did not consistently track asset disposals. As a result, assets that had been auctioned or written off, including a $560,000 bus for which the University had already been reimbursed by insurance, continued to be reported and depreciated in Banner.

While performing on-site inventory verification, auditors selected 60 additional assets and attempted to locate the corresponding asset records in Banner; more than half were not listed in Banner. For example, within the University's radio station, which comprised ten rooms containing multiple pieces of equipment, only three assets were tagged and recorded in Banner.

The University also maintained a separate Microsoft Access asset database that was not integrated with Banner. More than 7,700 assets in that database could not be found in Banner. According to the University, a staff member elected to create the Access database rather than use Banner despite the risk of inconsistent asset tracking.

These conditions demonstrate a significant breakdown in asset accountability as well as the unreliability of the University's official asset records. The lack of asset tracking was exacerbated by vacancies in associated positions. For example, one warehouse manager position remained vacant for four years.

---

[1] These 38 capital assets are part of the 60 assets selected for physical verification.

The failure to perform required annual inventories, the absence of a centralized asset listing, and the lack of complete and accurate asset data in Banner creates a high risk that assets may be lost, stolen, or misused without detection and that financial statements may be misstated.

Financial Reporting

The University did not provide timely and accurate financial information to the State.

Significant weaknesses in the University's financial reporting processes resulted in untimely and inaccurate financial information reported to the Office of the Comptroller of Public Accounts (Comptroller's Office).

Delayed and Inaccurate Financial Reporting. The University's financial information was not reported accurately and in a timely manner as required by the Comptroller's Office. Specifically, audited financial statements for fiscal years 2023 and 2024 were completed 10 months and 4 months, respectively, after the deadline set by the Comptroller's Office. In addition, the University submitted unaudited financial information that contained significant errors to the Comptroller's Office for both fiscal years. For example, the payments of principal on debt for fiscal year 2023 and fiscal year 2024 were misstated by $86.5 million and $77.3 million, respectively, which misrepresented the amounts that the University paid towards bonds. These errors were subsequently identified by either the University or the external auditors and the University corrected the errors for its audited financial statements.

However, because the audited financial statements were late, the Comptroller's Office had to make corrections to the unaudited financial information submitted for the State's annual comprehensive financial report.

Staffing Shortages. Due to staffing shortages the University did not consistently comply with its internal processes, such as completing certain reconciliations and financial transaction reviews, to help ensure financial data accuracy.

Not presenting timely and accurate financial information limits accountability, transparency, and stakeholders' ability to make informed decisions about the University.

Information Technology

The University generally secured its information systems; however, it did not always restrict user access to Banner.

The University had certain information technology processes in place to safeguard its data. For example, it performed penetration testing and internal vulnerability scanning of servers and remediated identified vulnerabilities. Access to the Uniform Statewide Accounting System, the State's accounting system, was appropriately restricted. However, the University did not effectively restrict user access to Banner for 9 (3 percent) of the 303 users. Unauthorized access to the University's system of record could affect the reliability of its financial records.

Recommendations

The University should review and update its policies and procedures as required.

The University should ensure it produces accurate expenditure reports.

To strengthen procurement safeguards and ensure compliance with procurement requirements, the University should:

- Enforce its policy to require departments to obtain approved requisitions prior to incurring an expenditure.

- Obtain and maintain the required quotes, bids, contracts, and board approvals according to its spending threshold requirements.

- Develop a process to verify that valid contracts are in place before processing requisitions and invoice payments.

- Ensure that its designated contract database contains complete and accurate information for all University contracts.

- Require regular procurement and contract management training for departmental purchasers, approvers, and contract managers, focusing

on proper requisition procedures and contract verification and documentation standards.

The University should strengthen its asset management processes to ensure that all assets are accurately recorded, properly safeguarded, and annually verified. Specifically, the University should:

- Enforce the annual inventory requirements and require documentation of completion.

- Establish a complete and centralized asset listing in Banner by conducting a comprehensive physical inventory of all assets and evaluating whether the asset records in the Microsoft Access database should be included in Banner.

- Regularly update all asset records to ensure complete and accurate information, such as asset locations, custodian assignments, depreciation data, and disposal records.

- Require regular training for staff involved in property management.

- Establish periodic monitoring controls and require departments to submit inventory reports and correct discrepancies promptly.

To ensure the timeliness and accuracy of financial reporting in compliance with the Comptroller's Office requirements, the University should:

- Establish clear timelines and accountability structures to ensure that all financial reports are accurately prepared and submitted to the Comptroller's Office by the established deadlines.

- Ensure that the accounting staff has access to the training and technical expertise needed to meet State reporting requirements.

- Conduct and document monthly reconciliations between Banner and the Uniform Statewide Accounting System, including investigating and resolving discrepancies promptly.

- Ensure financial transactions have appropriate and documented management review.

The University should appropriately restrict user access to its financial system.

Management's Response

See Appendix 2 for the University's response.

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether Texas Southern University (University) has processes and related controls to ensure that it administers financial transactions in accordance with applicable requirements.

Scope

The scope of this audit included a review of procurement activities and asset management functions from September 1, 2022, through July 31, 2025, as well as an assessment of financial reporting processes for fiscal year 2023 and fiscal year 2024.

The scope also included a review of significant internal controls related to the University's procurement, asset management, and financial reporting processes.

The following members of the State Auditor's staff performed the audit:

- Amadou Ngaide, MBA, CIDA, CFE, CICA (Project Manager)
- Charlotte Carr, M.Ed. (Assistant Project Manager)
- Jamie Clark, MIA
- Fabienne Robin, MBA, CFE
- Joseph Kozak, CPA, CISA
- Alariyah Burr
- Melissa Migl
- Castulo Estevan Villagomez
- Robert G. Kiker, CFE, CGAP (Quality Control Reviewer)
- Jeannette Quiñonez Garcia, CPA (Audit Manager)

Methodology

We conducted this performance audit from May 2025 through December 2025 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Addressing the Audit Objective

During the audit, we performed the following:

- Interviewed University staff to gain an understanding of procurement, asset management, and financial reporting processes, including internal controls and information that supports those processes.

- Performed walk-throughs to observe key functions related to procurement, asset management, and financial reporting.

- Identified the relevant criteria:

  o Texas Government Code, Chapters 403 and 2101.

  o Office of the Comptroller of Public Accounts' guidelines for procurement and contract management, asset management, and financial reporting.

  o The University's policies and procedures.

  o Department of Information Resources' *Security Control Standards Catalog,* version 2.1.

- Reviewed University procurement, asset management, financial reporting, and information technology policies and procedures to determine whether they were reviewed as required.

- Performed data analysis to identify invoices from vendors whose contracts were listed as expired in the University's contract database, the Legal Management System (LMS).

- Performed data analysis to identify expenditure transactions with invoice dates that preceded the requisition dates.

- Conducted testing of University compliance with procurement and contracting policies using these nonstatistical samples:

  o Tested a random sample of 60 invoices from a population of 743 invoices for amounts over $25,000 made on contracts listed as expired in LMS to determine whether the University had valid contracts with the vendors who received these payments. The sample is representative of the population. This sample design was chosen so the sample could be evaluated in the context of the population. It would be appropriate to project the test results to the population, but the accuracy of the projection cannot be measured.

  o Tested a targeted sample of 60 invoices from a population of 27,239 vendor invoices with amounts in the Banner data to determine whether the University complied with procurement requirements at each purchasing threshold. The sample design was chosen to ensure a cross section of purchases representing the four purchasing thresholds were evaluated. The sampled items are not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

  o Tested a random sample of 60 invoices from a population of 8,144 invoices for which the invoice date preceded the requisition date to test compliance with its applicable procurement policy. Expenditure data included line items for each invoice, and as a result invoices with more line items had a higher chance of selection. The sampled items are not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

- Performed inventory verification of the University's assets to verify asset existence, location, and valuation using these nonstatistical samples:

  o **Physical Verification.** Tested a targeted sample of 60 controlled and capitalized assets from a population of 4,112 asset records that had location and permanent tag information in Banner to verify asset existence and accuracy of asset records, including asset valuation, depreciation, classification, and disposal information.

- o **Records Verification.** Tested a targeted sample of 60 controlled and capitalized assets identified on-site at the University to determine whether these assets were accurately recorded in Banner. The total population of on-site assets is unknown. These assets were selected while performing the physical verification described above; as a result, the assets found near the locations auditors were attempting to verify had a higher chance of selection.

  These sample designs were chosen to ensure that a variety of assets were physically verified. The assets sampled are not necessarily representative of the populations; therefore, it would not be appropriate to project the test results to the populations.

- Compared the asset records in Banner to the Microsoft Access asset database to identify discrepancies.

- Compared the unaudited and audited financial statements to identify significant adjustments and justifications, as well as approvals for those adjustments.

- Reviewed selected general controls for Banner and the Uniform Statewide Accounting System.

Data Reliability and Completeness

To determine whether the asset and expenditure data from Banner and contract data from LMS was reliable and complete, auditors observed the data extracts, reviewed the parameters used to extract the data, and analyzed the data to determine whether the information conformed to auditors' expectations.

As discussed in Chapter 1, the asset and expenditure data from Banner and the contract data from LMS were not reliable. However, they were the most complete data sets available, and auditors used them for the purpose of the audit.

Report Ratings

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Appendix 2

Management Response

TEXAS SOUTHERN UNIVERSITY
3100 CLEBURNE ST. | HOUSTON, TEXAS 77004 | 713.313.1179

Office *of the* President

December 22, 2025

The Honorable Lisa R. Collier
State Auditor
State Auditor's Office
1501 North Congress Avenue
Austin, Texas 78701

Re: *Response to the 2025 Audit Report on Financial Processes at Texas Southern University*

Sent via email: Lisa.Collier@sao.texas.gov

Dear Honorable Collier:

Texas Southern University acknowledges receipt of the State Auditor's Office report concerning the audit of the University. On behalf of the University, I extend my appreciation to you and your audit team for the thoroughness, professionalism, and diligence demonstrated throughout the audit process.

SECTION I
MANAGEMENT RESPONSE OVERVIEW

Texas Southern University (University) is deeply appreciative of the assistance provided by the State Auditor's Office (SAO). The last audit of the University was conducted in 2006, essentially nineteen years (19) ago. Over that time, there has been a lack of senior leadership continuity and the execution of major actions, resulting in a significant reduction of capability, commencing in June 2022, of over 200 positions, some of which remain unfilled, in critical areas. This action involved positions in the University's Information Technology, Finance, and Procurement offices. There had been no follow-on assessment of the impact of those reductions until May 2025 under the current university senior leadership and Board team. The 2022 reductions and lack of follow-up have fostered longstanding structural weaknesses that have had cascading effects over the intervening years, driving operational vulnerabilities and contributing significantly to the deficiencies identified in the audit.

The deep assessment – including audit findings and recommendations – presented in the SAO report establishes a new baseline for informed decisions and actions. The findings of the report identify operational weaknesses in processes, practices, capabilities, and inadequate execution across specific fiscal and operational functions that require immediate, disciplined, and sustained correction. As noted above, in May 2025, prior to the receipt of the SAO Engagement Letter, the University conducted a four (4)-month comprehensive operational readiness assessment to evaluate institutional capacities, capabilities, and gaps across core administrative and academic functional areas. The findings of this review will be merged with the audit findings and recommendations to achieve holistic reform across institutional business and operational practices. Furthermore, the University is engaged in final-stage discussions with a high-performing State University to provide tailored support in finance, procurement, contracting, and internal audit. Texas Southern University recognizes that coordination with the SAO is necessary for the review and consideration of an external support arrangement. For brevity in this document, the arrangement under development will be referred to as services support. Collectively, these actions will result in a long-needed and wide-ranging reset in how Texas Southern University operates.

The corrective actions outlined in this response are aligned with the framework provided by the SAO report and the University Operational Readiness Assessment, which will complement the guidance provided by the State Auditor. Additionally, at the recommendation of the University President, the Chair of the Board of Regents has established an ad hoc Audit Response Committee under the standing Audit Committee to ensure that action and oversight are closely aligned in the overall reform effort.

The University has established defined actions that directly address the process, capacity, and control gaps identified by the State Auditor.

- Institutionalize Internal Controls and Accountability
  - Establish an effective internal control framework with clearly defined lines of responsibility, checks and balances, and escalation protocols across finance, procurement, contracts, and asset management in collaboration with the services support provider – based on consultation with the SAO.
    - Quarterly compliance and control reviews, with documented results reported to executive leadership.
    - Systemized document retention that allows reliable "look back" at decisions and executed actions.

- Modernize and Integrate Core Systems
  - A new and more capable procurement and contract management platform, JAGGAER, was acquired, and configuration started in 2024. The first phase of JAGGAER configuration was completed in September 2025. The full configuration is currently scheduled for September 2026. The University is working to potentially accelerate completion into summer 2026.

2

- JAGGAER will be integrated with the Banner ERP, the University's system of record, to ensure alignment of all tasks to facilitate accurate and repeatable outcomes.
- Illustrative capabilities provided by the JAGGAER system
  - eProcurement. Requires approved requisitions and complete supporting documentation before purchase orders can be issued, eliminating after-the-fact purchasing and inconsistent approval practices.
  - Invoicing and Digital Capture. Automates invoice intake, matching, and approval, reducing manual processing, strengthening payment controls, and ensuring complete and accurate documentation.
  - Contracts+ with Artificial Intelligence. Centralizes contract execution and storage, verifies contract validity prior to procurement and payment, and improves contract visibility, accuracy, and compliance monitoring.
- JAGGAER can dramatically increase university operational regularity and reliability. JAGGAER provides the tools personnel require to perform their tasks correctly and appropriately. However, the University concurs with the essence of the SAO report's findings, which suggest that, at this time, systems alone are not the solution. Updated policies and procedures are essential to drive the impact of tools like JAGGAER, supported by the enforcement of individual personnel responsibility and job ownership consistent with policy. This approach, which involves locking in subject matter expertise at the department-level and unit supervisory leadership, is key to achieving the reform demanded by the SAO report.

- Increase Personnel Expertise and Capacity
  - The University is in the final stages of emplacing a new lead for the Office of Human Resources. This new leadership will spearhead the acquisition of skilled and experienced personnel to enable effective implementation of the SAO recommendations and maximize the impact of an approved services support arrangement.
    - Improved expertise and experience in General Accounting, Procurement Services, Contract Administration, Asset Management, etc.
    - Align staffing models and role definitions to the areas of highest operational and compliance risk identified through the SAO audit and operational readiness assessment.

- Standardize Procurement and Contract Management Practices, augmented by direction and oversight from a services support provider, as determined by the SAO.
  - Enforce requisition approval prior to expenditure commitments. Design system parameters to mandate complete supporting documentation in accordance with updated policies.
    - Establish a recurring assessment to ensure compliance.
  - Centralize contract data and verification processes to ensure the availability and ease of access to contract information throughout the contract proposal cycle, from submission to validation and completion. Ensure that valid, executed agreements are in place before processing requisitions and payments.

3

- Ensure consistent strict compliance through routine contract sampling.
  - o Conduct periodic reviews of procurement and contract activity to identify trends, address personnel performance issues in a timely manner to reinforce accountability.
  - o Ensure system access is strictly limited to cleared personnel only. University Information Technology will constantly review access list to ensure currency.

- Enhance Asset Management and Records Retention
  - o Systemize a comprehensive best practice process for annual physical inventories with documented departmental certification.
  - o Centralize asset records in Banner. Establish a policy-driven schedule for updates of asset location, custodian assignment, depreciation, and disposition.
    - Terminate the current end-of-year process for recording property disposition and institute and establish a process contemporaneous with the property disposition determination.
    - Establish current policy-driven documentation, retention, and reconciliation practices to ensure alignment between physical assets and financial records.

- Expand and modernize Training and Professional Development
  - o Implement mandatory, role-based training for requisitioners, approvers, contract managers, accounting staff, and property custodians.
  - o Require annual refresher training tied to system access and authorization.
  - o Utilize training, standard processes, and other appropriate personnel actions as necessary to foster job ownership and individual responsibility.
  - o The University will establish a professional development program employing external professional training resources to strengthen technical expertise in state fiscal requirements. A major component of this program will be the utilization of the Professional Development Department of the State Auditor as well as professional training available through the State Comptroller.

- Standardize Policies, Processes, and Workflows
  - o Conduct a comprehensive review and revision of fiscal, procurement, contract, and asset management policies, with documented approval and review cycles. Leverage assistance available within the SAO.
  - o Standardize workflows to restore and formalize checks and balances previously eroded by decentralized and legacy practices.
  - o Publish and maintain all policies and procedures in the University's official policy repository.
  - o Supervisory oversight to ensure accurate data entry by the availability of documentation within the workflow.

4

- Embed Monitoring and Reporting
  - ○ Establish quarterly milestones and performance measures to track year-over-year progress. Validate sufficiency with the SAO training staff.
  - ○ Provide quarterly status reporting to senior leadership (University President and Board of Regents' ad hoc Audit Response Committee) on corrective action implementation to ensure sustained oversight and accountability.

- Enterprise Risk Manager and Risk Management Team
  - ○ In February 2025, the University hired an Enterprise Risk Manager to fill a long-standing position.
  - ○ In April 2025, an Enterprise Risk Management team was established, comprising the Risk Manager, Office of General Counsel, Compliance Officer, Chief Financial Officer, and Internal Auditor.
  - ○ In follow-up to the SAO report, the Enterprise Risk Manager and the Enterprise Risk Management team will be further empowered and self-initiating to provide direct and routine advice and support to the University Board of Regents' Audit Committee.
  - ○ The increased capacity provided by the new internal auditor, acquired in December 2025, will enhance the effectiveness of managing university risk.

From May 2025 through September 2025, the University enlisted external experts to conduct an operational readiness assessment and recommend an institutional plan of action and measurable milestones across core administrative and academic functions. The insights from this assessment informed many of the actions already underway in both areas and will continue to inform the University's remediation and progression to drive continuous improvement, as informed by the SAO report. Together with the corrective actions outlined in this response, this work will assist the University in implementing the SAO audit recommendations in a coordinated, structured, and sustainable manner:

- Standardize and monitor procure-to-pay execution to improve consistency, timeliness, and control across procurement workflows by:
  - ○ Establishing standardized procure-to-pay processes with defined milestones and accountable owners.
  - ○ Tracking adherence to required procurement steps (requisition initiation, approval sequencing, documentation completeness).
  - ○ Monitoring cycle time from requisition submission to purchase order issuance.
  - ○ Measuring compliance with defined approval and documentation thresholds.
  - ○ Ensuring document retention and centralized document management.

- Strengthen contract visibility and control to ensure contracts are traceable, fully executed, and aligned with procurement and payment activity by:
  - ○ Centralizing contract tracking and documentation to support consistent verification.
  - ○ Monitoring the percentage of procurement activity supported by executed agreements.
  - ○ Tracking contract processing timelines and backlog.
  - ○ Improving data completeness and accuracy within contract tracking systems.

5

- Improve financial close and reporting discipline to increase the reliability and timeliness of financial reporting by:
  - Establishing and tracking adherence to a formal financial reporting calendar.
  - Monitoring month-end close timelines and completion rates.
  - Tracking the completion of reconciliation between Banner, the University's system of record, and the required State systems.
  - Measuring on-time submission of the State Comptroller and statutory reports.

- Enhance internal controls and compliance monitoring to institutionalize repeatable control, monitoring, and executive oversight by:
  - Implementing recurring compliance reviews, led by the Compliance Officer, across procurement and finance functions.
  - Coordinated tracking completion of internal control reviews and corrective actions by the Finance Department, the Office of Procurement, and the Office of General Counsel.
  - Monitoring exception trends and recurring control failures.
  - Reporting results through a structured leadership review cadence.

- Build sustainable capacity and role clarity to reduce execution risk caused by staffing gaps and unclear accountability by:
  - Tracking staffing coverage in critical finance, procurement, and contract management roles.
  - Monitoring workload distribution and backlog indicators.
  - Measuring completion of role-based training tied to system access and responsibilities.
  - Process oversight and the Office of Human Resources are assessing the impacts of turnover and interim coverage on execution stability.

- Improve asset and financial data integrity to align operational records with financial reporting by:
  - Tracking completion of annual physical inventories.
  - Monitoring the reconciliation of asset records with financial systems.
  - Measuring the timeliness of asset record updates (location, custodian, disposition).
  - Tracking completion of required asset management training.

SECTION II
INTERNAL AND EXTERNAL MATTERS OF ATTENTION AND ACTION TIMELINE

- June 2024
  - Texas Southern University Board of Regents named J. W. Crawford, III, VADM, JAG, USN (Retired) as the 14th President of Texas Southern University.
  - President directs the Chief Financial Officer and staff to begin drafting the FY2025 operating budget.

6

- Refined work to achieve comprehensive strategic budget development to eliminate previously recurring issues of requiring budget amendments through the Board because of incomplete budgeting considerations.
    - President directs the Chief Financial Officer to complete and submit the FY2023 Annual Financial Report (AFR) and begin the preparation for the FY 2024 AFR submission.
        - FY 2023 AFR had not been completed, resulting in a 10-month delay. The dual task of completing the FY 2023 AFR simultaneously with working on the FY 2024 AFR proved problematic, resulting in a 4-month delay in the FY 2024 AFR and accuracy issues.
    - The President and University staff begin working on the institution's Legislative Appropriation Request.

- July 2024
    - President directed refinement of Phase I of the compensation study started February 2024. Moved accelerated completion in October 2024. The preexisting compensation standards were a drag on talent acquisition.
    - President begins laying the foundation for a comprehensive evaluation of the University's academic and operational areas for a strategic plan development. Previous strategic plan had lapsed in 2022.

- August 2024
    - Legislative Appropriations Request University-Board of Regents coordination completed. LAR submitted (on time).
    - Board approved operating budget submitted (on time).

- October 2024
    - FY 2023 AFR submitted to Texas Comptroller.
        - Resolved accounting for capital assets misstatement from FY 2022 AFR.
        - Resolved Other Post Employment Benefit (OPEB) Accounting misstatement from FY 2022 AFR.
    - Began assessment with the Board Audit Committee on strengthening the impact of internal auditing coordination.

- December 2024/January 2025
    - President conducts an accounting of every funded strategy in the institution's budget pattern. Discovers a balance in the Higher Education Funding of $31.5 million. Directs staff to encumber funds for pressing deferred maintenance. Reports discovery during the course of LAR discussions to ensure all parties have accurate information to make informed decisions.

7

- February 2025
  - University hires an Enterprise Risk Manager. Position had been unfilled for nine (9) months.
  - Subsequently established Risk Management Team which included compliance services, internal audit, Chief Financial Officer, and Office of General Counsel. To begin to steadily and holistically address and strengthen proactive risk assessment.

- April 2025
  - FY 2024 AFR completed and submitted to the Texas Comptroller.
  - ARGOS reporting error resolved from FY 2023 AFR.
  - HEERF accounting error resolved from FY2023 AFR.
  - State appropriations entry errors resolved from the FY2022 and FY 2023 AFRs.

- May 2025
  - State Auditor's Office begins audit.
  - University enlisted external experts to conduct an operational readiness assessment and recommend an institutional plan of action and measurable milestones across core administrative and academic functions.

- August 2025
  - Completed annual operating budget (on time).

- September 2025
  - First phase of JAGGAER, a state-of-the-art procurement/contract management platform, completed.
  - Operational readiness assessment completed.

The University agrees with the State Auditor and adopts all recommendations.

SECTION III
MANAGEMENT RESPONSES TO RECOMMENDATIONS

I. State Auditor's Office Recommendation
The University should review and update its policies and procedures as required.

Management Response
The University agrees with the recommendation. While established policies define review frequencies, the University concurs that SAO reviews must be conducted consistently and the review documented for the record.

Responsible for Implementation: Office of General Counsel
Timeline for Execution: January 2026 – August 2026

8

Corrective Action Plan
- The University will review all policies and make necessary revisions. Each policy will designate the responsible department manager or division head and define the required review frequency.
- All revised policies will undergo formal approval and be published in the University's official policy repository. The Office of General Counsel will document review and approval dates and maintain records evidencing completion. All policies will be updated to include a change log, documenting the last date of review, revision (if applicable), and approval.
- In coordination with the Office of General Counsel, the Office of Human Resources, and appropriate department heads will develop and complete staff training to support effective implementation of updated policies and maintain this staff training regularly.

II. Recommendation
The University should ensure it produces accurate expenditure reports.

Management Response
The University agrees with the recommendation and is committed to ensuring the accuracy and reliability of expenditure reporting.

Responsible for Implementation: Chief Financial Officer
Timeline for Execution: Immediate; ongoing

Corrective Action Plan
- The University will use standard reporting from the system of record, Banner, to generate expenditure reports. Personnel evaluation and training will be completed to ensure Finance Department personnel are knowledgeable and capable of developing accurate reports. Procedures will also be implemented to review reports for accuracy prior to their use for making management decisions or releasing to external auditors.

III. Recommendation
To strengthen procurement safeguards and ensure compliance with procurement requirements, the University should:
- Require approved requisitions prior to incurring expenditures.
- Obtain and maintain required quotes, bids, contracts, and approvals.
- Verify contract validity prior to requisition and payment processing.
- Ensure contract databases contain complete and accurate information.
- Require regular procurement and contract management training.

Management Response
The University agrees with the recommendations. Prior to completion of the audit, the University initiated a major effort to replace its legacy procurement environment. In 2024, the University began implementing the JAGGAER system, a modern, cloud-based procurement platform designed to strengthen controls, improve documentation, and standardize

9

procurement and contracting workflows. Going forward JAGGAER will be the contract management system for purchase contracts. The first phase of the implementation was completed in September 2025, along with training on the use of the system. Additionally, the University also updated the configuration for workflow approvals in the Legal Management System (LMS) to require approval of contracts by the initiating department head prior to approval by the Office of the General Counsel.

Responsible for Implementation: Senior Associate Vice President for Procurement Services; Office of General Counsel
Timeline for Execution: January 2026 – August 2026

Corrective Action Plan
In addition to the steps that have already been taken, the University will also take the following corrective action steps.
- Complete the JAGGAER implementation to include integrated contract management with the Banner system. LMS will be removed upon operational validation of JAGGAER.
- Two additional Contract Administrator positions have been posted to strengthen contract execution, monitoring, and compliance.
- The University will reinforce purchasing process requirements with all personnel.
- Procurement Services will establish procedures to verify that, where appropriate, the University has valid contracts in place prior to issuing a purchase order.
- Invoices received that do not have corresponding purchase orders will be rejected until required procurement procedures are completed (this action is already in effect). Personnel responsible for initiating purchases without completing the required procurement procedures will be identified and assessed for performance confidence level. Document personnel assessments and follow-on actions will be taken and appropriately documented to ensure the integrity of the process.
- Mandatory annual procurement and contract management training will be implemented for employees with related responsibilities, with completion required for continued system access.

IV. Recommendation
The University should strengthen asset management processes to ensure accurate recording, safeguarding, and annual verification of assets.

Management Response
The University agrees with the recommendations. The University hired a Warehouse Manager in June 2025 and engaged an external provider in July 2025 to assist the University with tracking, value, retire, and report on assets throughout their life.. In August 2025, the University conducted external asset management training for property custodians and department heads.

Responsible for Implementation: Chief Financial Officer; Controller
Timeline for Execution: January 2026 – August 2026

10

Corrective Action Plan
- University Property Accountant and Warehouse Coordinator.
- Mandatory annual physical inventories will be conducted and certified by departmental custodians.
- With the assistance of the third-party vendor, asset records will be updated timely to ensure accuracy of location, custodian, depreciation, and disposition data.
- Annual, mandatory asset management training will be required for custodians and department heads
- Periodic spot audits will be implemented to ensure asset classification, location, and documentation is maintained throughout the year. .

V. Recommendation
The University should ensure timely and accurate financial reporting in compliance with Comptroller requirements.

Management Response
The University agrees with the recommendation. The critical issue here is the filing of timely and accurate annual financial reports. The University will conduct a complete reassessment of the AFR filing process to assess the feasibility of completing an audited report for to ensure the data filed in November and December is the same reported data. Much improved process, attention to detail, timely initiation of the preparation process, supported by a year-long best practice to position the Finance Department to complete a deliberate work schedule, with a comprehensive assessment prior to filing. In coordination with the Office of Human Resources, staffing requirements, as well as skill and expertise standards, will be set for all positions in the Finance Department. Competency standards will be based on the best models; adjustments will be made in the current personnel lineup as necessary.

Responsible for Implementation: Chief Financial Officer; Controller
Timeline for Execution: January 2026 – August 2026

Corrective Action Plan
- Periodic internal reviews will support ongoing monitoring and improvement.
- A formal financial reporting calendar aligned with State Comptroller deadlines has been implemented.
- A formal audit readiness plan will be developed to establish timelines and deliverables in advance of statutory deadlines.
- Monthly reconciliations between Banner and the Uniform Statewide Accounting System will be performed and documented.
- All financial transactions will be subject to appropriate supervisory review and documented approval.

11

VI. Recommendation
The University should appropriately restrict user access to its financial system.
Management Response
The University agrees with the recommendation.

Responsible for Implementation: Chief Information Officer; Chief Financial Officer; Senior Associate Vice President for Human Resources
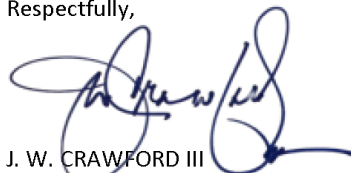**Timeline for Execution:** Immediate

Corrective Action Plan
- A comprehensive audit of all active financial system user accounts is in progress.
- Annual access control audits will be conducted within Banner and related systems.

SECTION IV
MANAGEMENT CONCLUDING STATEMENT

The University is committed to remediating the findings identified by the State Auditor's Office. As an institution, we are implementing initiatives to improve and strengthen processes and internal controls across all areas of our operations, both financially and operationally. Follow-up procedures will be performed by the Internal Audit function to monitor implementation progress and to verify that corrective actions address the root cause of the findings. The University's Chief Internal Auditor will coordinate with the State Auditor's Office as necessary to address the findings and recommendations identified as part of this audit.

The recently established Board Ad Hoc Audit Response Committee will be an integral part of the entire reform process.

Respectfully,

J. W. CRAWFORD III
Vice Admiral, JAGC, U.S. Navy (Retired)
President, Texas Southern University
James.Crawford@tsu.edu

12

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dustin Burrows, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Texas Southern University

Members of the Board of Regents

Mr. James W. Crawford III, President