TEXAS STATE TECHNICAL COLLEGE

Internal Audit Annual Report
Fiscal Year 2017

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Table of Contents   SECTION

I.   Internal Audit Plan for FY 2017

The Board of Regents approved the original internal audit plan for fiscal year 2017 in August 2016. In February 2017, amendments to that plan were approved. The plan was amended by removing three departmental audits and an internal penetration test, and replacing them with a facilities development project audit required by the Texas Higher Education Coordinating Board, an audit of TSI exam fees, and an audit of the billing and collection processes for dual enrollment.

This audit plan was prepared using risk assessment techniques as required by the Texas Internal Auditing Act, and all requested revisions were the result of changes to the risk environment. In total, fifteen internal audit reports, ten audit reports by external regulatory agencies, and ten reports related to consulting engagements and/or investigations were issued. At August 31, 2017, two internal audits from the plan were still in progress, with those reports to be issued in November 2018.

Fiscal Year 2017 Internal Audit Plan

Project Description	Division/Campus	Report Number	Report Date	Status
Facilities Development Project Compliance Audit **see note 1**	Harlingen	17-008A	10/28/16	Complete
Departmental Audit	Office of the Chief Operating Officer	17-006A	10/28/16	Complete
Reconciliation of Statewide TSI Exam Fees **see note 1**	Integrated Marketing	17-012A	11/01/16	Complete
Internal Quality Assessment Review	Internal Audit	17-003A	11/21/16	Complete
Departmental Audit	Office of External Relations	17-009A	12/14/16	Complete
Departmental Audit	Welding – Marshall	17-013A	3/02/17	Complete
Departmental Audit	Provost – West Texas	17-016A	3/15/17	Complete
Financial Aid Fraud Audit	Financial Aid	17-004A	3/21/17	Complete
Dual Enrollment Audit **see note 1**	Operations	17-015A	4/05/17	Complete
Departmental Audit	Welding – West Texas	17-017A	4/04/17	Complete
Departmental Audit	Diesel – Fort Bend	17-023A	6/15/17	Complete
Departmental Audit	HVAC – Fort Bend	17-022A	6/19/17	Complete
TAC §202 Compliance Audit	OIT	17-002A	6/28/17	Complete

Departmental Audit	Provost – Harlingen	17-020A	6/29/17	Complete
Departmental Audit	Developmental Education – Harlingen	17-021A	7/06/17	Complete
Construction Audit	Fort Bend	17-029A		In progress
TEC §51.9337 Compliance Audit (Contracting) see note 3	Statewide	17-028A		In progress
Departmental Audit see note 2				Removed
Departmental Audit see note 2				Removed
Departmental Audit see note 2				Removed
Internal Penetration Test see note 2				Removed

Notes:

1   Audit was added to the plan in February 2017.
2   Audit was removed from the plan in February 2017.
3   The audit was ongoing at the time this report was prepared. All findings will be included in a report to be issued in November 2017.
4   A benefits proportionality audit was not conducted in FY 2017. To comply with Rider 8, page III-41, of the GAA of the 84th Legislature, one was conducted in FY 2016. One is scheduled for FY 2018 to comply with Rider 8, page III-44, of the GAA of the 85th Legislature.

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II. Summary of Audit Findings and Corrective Action Plans for Audits Conducted in FY 2017

Fifteen of the seventeen audits from the FY 2017 audit plan were completed before August 31, 2017. Additionally, four FY 2016 audits were completed after August 31, 2016. The following schedule summarizes the results from each audit.

Report #	Date	Audit	Division/ Campus	Summary of Findings	Status & Summary of CAPs
16-010A	9/01/16	Construction Audit	Ft. Bend	No reportable exceptions.	
16-033A	8/24/16	Campus Audit	North Texas	No reportable exceptions.	
16-007A	9/08/16	Senate Bill 20 Audit	Statewide	Certain required statements are missing from the Ethics and Standards of Conduct policy, and the contract management handbook and contract review procedures/check list are not yet completed.	**Ongoing:** We will soon be in the process of hiring an SB 20 specialist, whose job will include devising the statutorily required checklist and handbook, and to ensure compliance with the statute going forward.
					Fully Implemented: A revised Ethics and Standards of Conduct policy (HR 2.1.12) has been revised to comply with the ethics requirements of SB 20. The policy is pending review by the General Counsel's office and the final version will be presented at the November BOR meeting for Board approval.

16-024A	9/14/16	Portal Audit	OIT	Controls over access and general security to the Portal need to be improved.	**Fully Implemented:** We are instituting new password requirements statewide including a password reset after first login, password expiration after 1 year, and improved password complexity requirements.
					Fully Implemented: We are in the process of implementing account lockout settings on the authentication provider for portal.
					Fully Implemented: Portal access is open ended from the time a student applies or an employee is hired. Access for former students and employees is required to access transcript and tax document information. We will create separate constituencies specific for alumni and former employees, and further restrict access to SSO applications.
					Fully Implemented: The users noted in the audit have had their account access reviewed and revised as needed according to job function.
					Fully Implemented: We have reviewed the Sharepoint access to this

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					account, and are comfortable with those who have access.
17-008A	10/28/16	Facilities Development Project Compliance Audit	Harlingen	No reportable exceptions.	
17-006A	10/28/16	Departmental Audit	Office of the Chief Operating Officer	No reportable exceptions.	
17-012A	11/01/16	Reconciliation of Statewide TSI Exam Fees	Integrated Marketing	Stronger controls need to be established to account for all earned exam fees, regardless of whether they are collected or waived.	**Fully Implemented:** The cashiers are the only individuals allowed to take payments for anything.
					Fully Implemented: In the event a cashier is not available, a secure lock box has been established in the cashier area for persons dropping off payments at locations other than Waco and Harlingen. If the payment is cash, two signatures are required on the envelope verifying amount being placed in the drop box. The enrollment specialists at all locations have been trained in this procedure.
					Fully Implemented: A waiver code will be created in Colleague to be used for waived fees.

Texas State Technical College.

					Fully Implemented: To document the reduction of price for a TSI exam, a form has been created that both testing and cashier personnel must sign before the waiver code can be entered in Colleague. This will allow for tracking when test fees are reduced or waived.
					Ongoing: The Statewide leads for Advisement & Testing and Student Accounting will meet quarterly to reconcile the accounts. A report will be provided to the AVC/Financial Services and VP/ Enrollment Services.
17-003A	11/21/16	Internal Quality Assessment Review	Internal Audit	No reportable exceptions.	
17-009A	12/14/16	Departmental Audit	Office of External Relations	No reportable exceptions.	
17-013A	3/02/17	Departmental Audit	Welding – Marshall	Inventory controls need to be strengthened.	
17-016A	3/15/17	Departmental Audit	Provost – West Texas	No reportable exceptions.	
17-004A	3/21/17	Financial Aid Fraud Audit	Financial Aid	No reportable exceptions.	
17-015A	4/05/17	Dual Enrollment Audit	Operations	Business processes that support dual enrollment, to include recording receivables, billing and	**Pending Review:** The TSTC 2017-2018 MOU was revised in coordination with the Dual Enrollment team stating the new DE policy, billing

Texas State
Technical College.

					collecting, and obtaining signed memorandums, need to be improved.	procedures, exceptions and amendments. The revised MOU clearly states who will sign the MOU and that all MOU's statewide will be housed on the Sweetwater campus and Lulu Morales will be responsible for accountability of each ISD. A Google spreadsheet has been created for all DE managers to log each ISD, date sent, and date received in the Sweetwater office. Marina Wilcox will be the TSTC representative signing the MOU's.
						Pending Review: The billing and student accounting process for Dual Enrollment was a complete manual process with no system of checks and balances. Rick Herrera and Orlando Penuelas have been tasked to head up the Dual Enrollment "Front End Team" which will be automating the student accounting /billing system in conjunction with Deborah Gibson. Through the revision of the MOU and its processes, as per Jonathon Hoekstra and

					the Business Intelligence team, all billing will be made through the ISD. If the ISD is not paying, it will be their responsibility to collect all tuition and fees from the student. Recommendations from the Audit report have been relayed to the Front End Team.
17-017A	4/04/17	Departmental Audit	Welding – West Texas	No reportable exceptions.	
17-023A	6/15/17	Departmental Audit	Diesel – Fort Bend	Inventory controls need to be strengthened.	**Ongoing:** Review existing policies and procedures related to the inventory process. Create a team representing, procurement, inventory, grants, and the TSTC foundation to look at existing processes and make recommendations to streamline and standardize processes as appropriate. The first order of business for the team was to create a list of all the different activities and functions related to inventory and create sub-groups to work on each of the 18 topics identified. The topics include items such as: review of SOS's, standardizing inventory tags, review forms, and review the inventory process for

					assets acquired using TPFA funds, etc. The group will continue to meet on a regular basis until all items have been reviewed and any recommended changes have been implemented. The topics that include items related to the findings from this audit will be given the highest priority to ensure standard processes are developed and followed by all inventory teams statewide.
17-022A	6/19/17	Departmental Audit	HVAC – Fort Bend	Inventory controls need to be strengthened.	See 17-023A.
17-002A	6/28/17	TAC §202 Compliance Audit	OIT	23 of the 106 IT controls we tested have not yet been implemented.	**Ongoing:** A majority of the required controls have been implemented with the remaining controls being evaluated and addressed. For the controls not yet implemented, we are evaluating the associated risk to TSTC and associated applicability in our environment to prioritize implementation. IT Security along with TAC 202 compliance is a priority for TSTC.
17-020A	6/29/17	Departmental Audit	Provost – Harlingen	No reportable exceptions.	
17-021A	7/06/17	Departmental Audit	Devel. Ed – Harlingen	No reportable exceptions.	

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III. List of Consulting Engagements and Non-audit Services Completed in FY 2017

Ten consulting and non-audit type of services were completed in FY 2017. The following schedule summarizes those projects.

Report #	Date	Project Description	Division/ Campus	Summary of Observations and Recommendations	Status & Summary of CAPs
17-005I	9/16/16	Investigation of allegation of waste by hiring a consultant.	OIT	Determined that the engagement added value, was properly procured, and approved.	
16-037I	9/29/16	Investigation of theft of cash.	Ft. Bend	Determined that cash was stolen, and controls needed to be improved.	**Substantially Complete:** Employee was terminated. Audit was conducted. Refer to 17-012A in previous schedule.
17-010I	1/20/17	Investigation that a supervisor abused his position, lost or stole checks, and misused federal funds for non-essential travel.	Harlingen	Found no evidence of abuse of authority, loss of checks, or misuse of funds. Determined that accounting controls in Dual Enrollment, Challenger Center, TexPrep, and MAARS needed to be improved.	**Substantially Complete:** Accounting personnel will ensure a receivable is recorded.
17-014RA	12/14/16	Risk assessment of Challenger gift shop.	Integrated Marketing	Recommended controls related to accounting, sales, tax, cash, and inventory management.	

Texas State Technical College.

17-018I	2/15/17	Investigation that a supervisor wasted money on non-essential travel.	Unknown	Could not substantiate because the allegation was too vague.	
17-019I	3/28/17	Investigation of cell phone emoluments	Waco	Did not identify any obvious waste. All emoluments were reasonable.	
17-024I	5/11/17	Investigation of misuse of federal grant funds.	Harlingen	Found no evidence to support the allegation.	
17-027RA	6/07/27	Risk Assessment of Focus WIGs	Cross-divisional	Identified enhancements to increase likelihood WIGs will be achieved.	
17-026I	6/21/17	Investigation of use unlicensed software.	OIT	Determined that one piece of software was being used without proper licensing.	**Fully Implemented:** A corporate license was immediately purchased.
17-026I	6/29/17	Investigation of preferential treatment of an employee.	OIT	Passed allegation to Human Resources. They found no evidence of wrong-doing.	

IV. External Audit Services Procured in FY 2017

In FY 2017, no delegation requests were made to obtain external audit services. However, ten audits or reviews were performed by external regulatory agencies. The following schedule summarizes those projects.

Agency	Date	Project Description	Division/Campus
Texas Commission on Law Enforcement	01/12/16	Verify police training and records maintenance.	Sweetwater Campus Police
Texas Commission on Law Enforcement	10/25/16	Verify police training and records maintenance.	Waco Campus Police
Thomas P Miller & Associates	1/20/17	Conduct interim evaluation of deliverables for TAACCCT Grant. This evaluation was a grant requirement.	Workforce Development
Department of Labor	3/16/17	Monitoring visit to evaluate deliverables for TAACCCT Grant.	Workforce Development
Federal Aviation Administration	No report issued	Annual inspection of Automated Weather Observing System.	Airport
Texas Workforce Commission	2/28/17	Personnel Policies and Procedures Review.	Human Resources
State Auditor's Office	2/21/17	A-133 Follow-up.	Financial Aid (Marshall)
State Auditor's Office	2/21/17	A-133 Follow-up.	Financial Aid (Harlingen)
Texas DPS	4/10/17	Verify access to criminal system and database.	Waco Campus Police
Texas Higher Education Coordinating Board	No report issued	2015/2016 Perkins Grant Programmatic Desk Review.	Office of Sponsored Programs

V.   Internal Audit Plan for FY 2018

The plan was developed through a collaborative effort between Internal Audit, Executive Management, Senior Management, and the Board of Regents.

Executive Management and the Board of Regents first rated the priority of the following seven risks:
1. Financial Risk
2. Accounting Risk
3. Strategic Risk
4. Fraud Risk
5. Regulatory/Compliance Risk
6. Safety Risk
7. Customer Service Risk

They were also requested to provide a list of specific audits they wanted performed.

Senior Management then completed a risk assessment for each major activity or process within their responsibility. The seven risks prioritized by Executive Management and the Board of Regents were incorporated in those risk assessments. Sixty one activities and processes were assessed.   Senior Management was also requested to provide a list of specific audits.

Internal Audit assigned scores to the major activities and processes based upon the results of the risk assessments and risk priorities. Sixty-eight people provided input to the plan.

Finally, all regulatory required audits were identified by Internal Audit.

Internal Audit first selected all required audits, which amounted to eight. We then selected audits with the highest risk scores and that touched the most individual risks and covered specific requests.   Other than the areas actually selected for audit, consideration was given to risks associated with cloud computing, workforce development contracts, grants (particularly Skills Development grants), Titles IV & IX compliance, customer service, fleet management, and faculty workload.

This planning process yielded the following audit plan for FY 2018:

Audit Name	Budgeted Hours
TEC §51.9337 (Contracting) Audit [see note 3]	250
Public Funds Investment Act Audit	200
TAC §202 Audit [see note 2]	300
TEC §51.217 (Safety) Audit	500
Benefits Proportionality [see note 1]	400
External Quality Assurance Review	400

Facilities Development Project Compliance Audit	150
PCI Compliance Audit	700
Departmental Audit – North Texas Provost Office	200
Departmental Audit – North Texas Industrial Maintenance	200
Departmental Audit – TBD	200
Departmental Audit – TBD	200
Internal Penetration Test – Marshall	200
Internal Penetration Test – West Texas	200
Follow-up Audits	650

Notes:

1   Intended to satisfy Rider 8, page III-44, of the GAA of the 85th Legislature. Audit was removed from the plan in February 2017.

2   IT Controls not tested in the FY 2017 will be tested. Intended to satisfy the TAC §202 biennial audit requirements.

3   Intended to satisfy the annual audit requirements of TEC §51.9337.

VI.   Reporting Suspected Fraud and Abuse

TSTC has taken the following actions to implement the fraud detection and reporting requirements of Section 7.09 of the 85th Legislature's General Appropriations Act, and Texas Government Code, Section 321.022:

- The College's website describes how to report suspected fraud, waste and abuse to the State Auditor's Office. A link to the State Auditor's Office fraud hotline is included, as is the hotline telephone number.
- A confidential internal fraud hotline is also available for people to report suspected fraud, waste and abuse. The hotline is administered by Internal Audit.
- Statewide Operating Standards GA 1.15, GA 1.16, and GA 1.17 have been adopted that detail responsibilities to prevent/detect fraud, how to report suspected fraud, and describe the College's other expectations in regard to fraud, waste, and abuse. Those Standards are available through the College's website.
- In compliance with the reporting requirements of fraud, waste, and abuse, the College reports all instances of confirmed fraud, waste, and abuse to the SAO.

VII. Compliance with TGC, Section §2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the TSTC Website

TGC, Section §2102.015 requires the College to post certain information on its website. Specifically, the College must post the current year audit plan within 30 days of approval by the Board of Regents, and the following information to its website:

- The annual audit report for the previous fiscal year.
- A detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report.
- A summary of the action taken by the College to address concerns raised by the audit plan or annual report.

To comply with the requirements, TSTC Internal Audit will submit its Internal Audit Annual Report to the College's website coordinators to be posted on the Internal Audit section of the College's website no later than 30 days after the TSTC Board of Regents approves the current year audit plan at its August meeting. This report includes all the required elements required by TGC, Section §2102.015.

VIII. External Quality Assurance Review

An External Quality Assurance Review of the Internal Audit Department was performed on April 29, 2015, by Andrew Groover and Leticia Charbonneau. At the time, Mr. Groover was the Director of Internal Audits at Texas Woman's University, while Mrs. Charbonneau was the Executive Director of Internal Audit at the Lone Star College System. Their opinion states that the **"Texas State Technical College Internal Audit Department generally conforms to the Standards for the period under review."** Recommendations for improvement were given, but none of the recommendations represented material non-compliance to the standards.

The following is a summary of the 2015 EQAR report:

Overall Opinion

In our opinion, the Texas State Technical College Internal Audit Department **generally conforms** *to the Standards for the period under review.*

The following table contains our opinion of how the TSTCIAD activities conform to each section of the International Standards for the Professional Practice of Internal Auditing, IIA Code of Ethics, and Texas Internal Auditing Act. GAGAS areas are not specifically mentioned in the table but are similar to the International Standards for the Professional Practice of Internal Auditing attribute and performance standards. Recommendations for areas of improvement for the TSTCIAD revealed as part of the EQAR process are included below.

IIA Standard Type and Description	Opinion
Attribute Standards	
1000 – Purpose, Authority, and Responsibility	*Generally conforms*
1100 – Independence and Objectivity	*Generally conforms*
1200 – Proficiency and Due Professional Care	*Generally conforms*
1300 – Quality Assurance and Improvement Program	*Partially conforms*
Performance Standards	
2000 – Managing the Internal Audit Activity	*Generally conforms*
2100 – Nature of Work	*Generally conforms*
2200 – Engagement Planning	*Generally conforms*
2300 – Performing the Engagement	*Generally conforms*
2400 – Communicating Results	*Generally conforms*
2500 – Monitoring Progress	*Generally conforms*
IIA Code of Ethics	*Generally conforms*
Texas Internal Auditing Act	*Generally conforms*

During both the self-assessment performed by TSTCIAD and our external assessment, opportunities for enhancement were noted by both parties. Given our opinion that policies and procedures were in compliance with the Standards, the recommendations below do not represent observations of material non-compliance.

Recommendations identified by the <u>TSTC Director of Internal Audit</u> as a result of completing the self-assessment.

1300 – Quality Assurance and Improvement Program
The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Working papers prepared by the Director of Audits are generally not reviewed by another member of the department prior to issuance of the audit report. Going forward, those will be subject to review by another staff member. This will not only ensure consistency in the performance of the procedure, but will assist with quality control.

1320 – Reporting on the Quality Assurance and Improvement Program
The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

Internal quality control procedures have not been reported annually to the Audit Committee. While adequate quality control procedures are in place, annual reporting of those procedures and their results will assure the Audit Committee that audit quality is being monitored for compliance to Standards.

1230 – Continuing Professional Development
Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

Current procedures for continuing professional education do not require each auditor to obtain at least 40 hours per year. The internal policy requires 40 hours to be obtained by auditors in a 2-year period; however, the above standard is interpreted to mean 40 hours each year as a best practice. Internal policy will be changed to reflect the 40 hour standard and a more concerted effort will be given to achieve those hours.

The EQAR team concurs with the recommendations identified by the self-assessment.

Recommendations identified by the <u>External Quality Assurance Review Team</u>

1311 – Internal Assessments
Internal assessments must include:

- *Ongoing monitoring of the performance of the internal audit activity; and*
- *Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.*

Ongoing monitoring of the performance of the internal audit activity is being conducted; however, periodic self-assessments should be completed more frequently to enhance compliance with the Standards. The only self-assessment that was conducted during the EQAR period was the one completed for the EQAR.

2110 – Governance

2110.A1 – *The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.*

In reviewing the Annual Audit Plans for FY 2013, FY 2014, and FY 2015 and related progress reports we noted that there was no audit scheduled or completed to evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities. An audit of TSTC's ethics program should be conducted periodically to enhance compliance.

2110.A2 – *The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.*

In reviewing the Annual Audit Plans for FY 2013, FY 2014, and FY 2015 and related progress reports, we noted that there was no audit scheduled or completed to assess whether the information technology governance of the organization supports the organization's strategies and objectives. An audit of TSTC's information technology governance should be conducted periodically to enhance compliance.

Texas Government Code Section 2102.005. INTERNAL AUDITING REQUIRED
A state agency shall conduct a program of internal auditing that includes:
(2) periodic audits of the agency's major systems and controls, including:
(C) electronic data processing systems and controls.

In reviewing the audit plans for FY 2013, FY 2014, and FY 2015 and related progress reports we noted that comprehensive IT audit coverage can be enhanced. The TSTCIAD should increase audit coverage to ensure periodic audits of major systems such as Colleague, learning management systems, and the required audit of Texas Administrative Code 202 (required every two years) are conducted. In discussions with administration and staff, there was a common theme that IT audit coverage should be increased. This could be accomplished by the addition of an IT Auditor position to the department.

All recommendations were implemented immediately, and validated in the formal Internal Quality Assessment performed in FY 2017.

The next External Quality Assurance Review is scheduled for summer 2018.