



Internal Audit Annual Report
Fiscal Year 2014
in Accordance with the Texas Internal Auditing Act

Prepared by
Internal Audit Department
Jason D. Mallory, Director of Audits



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I. Internal Audit Plan for Fiscal Year 2014

The Board of Regents approved the audit plan for fiscal year 2014 (see I-2) in August 2013, and revisions in February and August 2014. This audit plan was prepared using risk assessment techniques in accordance with the Texas Internal Auditing Act.

The audit plan was revised in February 2014 by removing a planned financial aid in Waco and replacing it with an Employee Time Reporting Audit. This change was necessary because performing the financial aid audit would have been redundant with work being performed by the State Auditor's Office. The audit plan was also revised in August 2014 by removing a planned financial aid audit in Marshall and replacing it with a benefits proportionality audit. Again, this change was necessary because performing the financial aid audit would have been redundant with work being performed by the State Auditor's Office, and the Governor's Office requested the benefits proportionality audit on May 29, 2014.



**Internal Audit Department
Fiscal Year 2014 Audit Plan**

Project Description	Location	Report Number	Report Date	Status
Employee Time Reporting Audit	Harlingen	14-009A	01/14/14	Complete
Tuition and Fees	Harlingen	14-013A	03/21/14	Complete
Student Recruiting	Harlingen	14-025A	07/14/14	Complete
Tuition and Fees	Marshall	14-003A	12/17/13	Complete
Employee Time Reporting Audit	Marshall	14-017A	03/21/14	Complete
Student Recruiting*	Marshall	14-036A	08/15/14	Complete
Financial Aid (FSEOG and CWS) Compliance Audit **	Marshall			Removed
Public Funds Investment Act Compliance Audit	System Operations	14-001A	09/06/13	Complete
Bonds*	System Operations	14-028A	09/30/14	Complete
Employee Time Reporting Audit**	System Operations	14-021A	04/07/14	Complete
Benefit Proportionality Audit**	System Operations	14-037A	07/09/14	Complete
Employee Time Reporting Audit	Waco	14-010A	01/14/14	Complete
Tuition and Fees	Waco	14-026A	07/08/14	Complete
Student Recruiting	Waco	14-016A	03/25/14	Complete
Financial Aid (FSEOG and CWS) Compliance Audit **	Waco			Removed
Student Recruiting	West Texas	14-002A	02/17/14	Complete
Employee Time Reporting Audit	West Texas	14-023A	04/10/14	Complete
Tuition and Fees	West Texas	14-012A	03/21/14	Complete

* Report was not issued until FY 2015.

** Audit was added/removed.

II. External Quality Assurance Review

An External Quality Assurance Review of the Internal Audit Department was performed in August 2011 by Carla Patroliia, CIA, CISA. Ms. Patroliia is a principal with Integrichck Audit & Consulting Services, and also serves as the Chief Audit Executive for Sunset Logistics in Fort Worth. Prior to her current role, she was the Senior Audit Manager at UTHSC San Antonio. Her opinion states that the “Texas State Technical College Internal Audit Department’s internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with the Standards for assurance and consulting engagements during the review period.” See the attached report.

Integrichcheck

Audit & Consulting Services

Mr. Jason Mallory, Director Internal Audit
Texas State Technical College System
501 Campus Drive
Waco, Texas

Dear Mr. Mallory:

We have completed a peer review of the Texas State Technical College System Internal Audit Division for the past two years. In conducting our review, we followed the standards and guidelines contained in the Quality Assessment Manual, Updated 6th Edition, published by The Institute of Internal Auditors.

We reviewed the internal quality control systems of your audit organization and conducted tests in order to determine whether your internal quality control system operated to provide reasonable assurance of compliance with the International Standards for the Professional Practice of Internal Auditing (the Standards) issued by the Institute of Internal Auditors as part of their Professional Practices Framework. Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Texas State Technical College Internal Audit Department's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with the Standards for assurance and consulting engagements during the review period.

We appreciate the opportunity to participate in this peer review and share some of our observations of the implementation of best practices in the governance of the internal audit function with other organizations faced with the challenges of growing risks amid tightened budgets.

Best Regards,

Carla Patroli, CISA, CIA

Integrichcheck

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III. Audit Plan: Summary of Audit Findings and Corrective Action Plans

Report #	Report Date	Audit Name	Location	Summary of Audit Findings	Summary of Corrective Action Plans	Current Status of Corrective Action Plans
09/13/13	13-024A	Curriculum Office Audit	Marshall		No findings noted.	
09/06/13	14-001A	Public Funds Investment Act Compliance Audit	System Operations		No findings noted.	
09/23/13	13-022A	Curriculum Office Audit	Waco		No findings noted.	
09/09/13	13-025A	Sales Tax Compliance Audit	Waco	The processes for documenting and reporting tax exempt sales need improvement.	All tax exempt sales will be included on the monthly tax returns, tax exemption certificates will be obtained on tax exempt sales, and all taxable items will be marked appropriately in the point of sale system.	Complete
01/14/14	14-009A	Employee Time Reporting Audit	Harlingen	The forms used to report time should be enhanced to capture more information on the compensatory time that is being requested so as to assist HOD with verifying the time calculation. This would benefit employees by further ensuring they are credited with the correct amount of compensatory time.	HOD will scrutinize all manual ALPs; policies and training will be created; a more automated system will be explored and implemented if resources permit.	Partially Complete
12/17/13	14-003A	Tuition & Fees Audit	Marshall	Controls for waivers and exemptions should be strengthened to ensure only qualified students receive these benefits.	Proof of dependency will be required before dependent waivers will be applied; the waiver will be required to be requested each semester.	Complete
01/14/14	14-010A	Employee Time Reporting Audit	Waco	The forms used to report time should be standardized and enhanced to capture more information on the compensatory time that is being requested so as to assist HOD with verifying the time calculation. This would benefit employees by further ensuring they are credited with the correct amount of compensatory time.	HOD will scrutinize all manual ALPs; policies and training will be created; a more automated system will be explored and implemented if resources permit.	Partially Complete
03/21/14	14-013A	Tuition & Fees Audit	Harlingen	Supporting documentation should be maintained on dependent waivers as a way to evidence those receiving the waivers are qualified.	The form used to grant the waiver will be revised to require a notation that supporting documentation was reviewed; supporting documentation evidencing dependency will be maintained in file.	Complete
03/21/14	14-017A	Employee Time Reporting Audit	Marshall	The timesheets used by employees who are paid monthly should be sent to HOD for verification, and need to be enhanced to capture more information on the compensatory time that is being requested.	HOD will scrutinize all manual ALPs; policies and training will be created; a more automated system will be explored and implemented if resources permit.	Partially Complete
04/07/14	14-021A	Employee Time Reporting Audit	System Operations	The forms used to report time should be standardized and enhanced to capture more information on the compensatory time that is being requested so as to assist HOD with verifying the time calculation. This would benefit employees by further ensuring they are credited with the correct amount of compensatory time.	HOD will scrutinize all manual ALPs; policies and training will be created; a more automated system will be explored and implemented if resources permit.	Partially Complete
03/25/14	14-016A	Student Recruiting Audit	Waco	Prospect information is entered into a system in which access needs to be better restricted, and the system does not reconcile prospective students to actual enrollees.	All student data will be entered in PMT; additional training will be implemented; monthly reports will be evaluated; access will be further restricted.	Partially Complete

Report #	Report Date	Audit Name	Location	Summary of Audit Findings	Summary of Corrective Action Plans	Current Status of Corrective Action Plans
04/10/14	14-023A	Employee Time Reporting Audit	West Texas	The forms used to report time should be enhanced to capture more information on the compensatory time that is being requested so as to assist HOD with verifying the time calculation. This would benefit employees by further ensuring they are credited with the correct amount of compensatory time.	HOD will scrutinize all manual ALPs; policies and training will be created; a more automated system will be explored and implemented if resources permit.	Partially Complete
02/17/14	14-002A	Student Recruiting Audit	West Texas	Management should improve the use and administration of the automated systems used in the recruiting activity to ensure related goals are met and that access to prospects' information is secured.	Improve user access; create a separate budget for recruiting efforts.	Partially Complete
03/21/14	14-012A	Tuition & Fees Audit	West Texas	Controls for waivers and exemptions should be strengthened to ensure only qualified students receive these benefits.	Proof of dependency will be required before dependent waivers will be applied; the waiver will be required to be requested each semester.	Complete
07/09/14	14-037A	Benefit Proportionality Audit	System Operations	No findings noted.		
07/14/14	14-025A	Student Recruiting Audit	Harlingen	Prospect information is entered into a system in which access needs to be better restricted, and the process of reconciling prospective students to actual enrollees should be enhanced.	All student data will be entered in PMT; additional training will be implemented; monthly reports will be evaluated; access will be further restricted.	Partially Complete
07/08/14	14-026A	Tuition & Fees Audit	Waco	Controls around tuition and waivers should be improved.	Proof of dependency will be required before dependent waivers will be applied; the waiver will be required to be requested each semester.	Partially Complete
				In two unique situations where students dropped courses, Colleague did not process the drops properly. One instance resulted in an inappropriate refund to the student.	OIT has opened a case with Ellucian and are awaiting resolution. We will continue to follow-up with them on a monthly basis. We stand ready to work with Admissions and Student Accounting on a manual process until the programming issue is resolved.	Complete



IV. List of Consulting Engagements and Non-audit Services Completed

Report #	Report Date	Project Name	Location	Summary of Observations and Recommendations	Summary of Corrective Action Plans	Corrective Action Plans
14-008I	9/10/2013	Investigation of an instructor teaching without the proper credentials.	Marshall	Determined that the complaint did not have merit.	Not applicable.	
14-014I	11/22/2013	Investigation of a complaint that two employees provided misleading information on their applications.	Harlingen	Determined that two custodians provided misleading information on their applications, however, the information was not relevant to their job duties.	Obtain educational credentials at the date of hire.	Complete
14-018I	2/10/2014	Investigation of a complaint that a student received a student loan without being enrolled.	West Texas	Determined that the complaint did not have merit.	Not applicable.	
14-019I	2/5/2014	Investigation of an IT security breach.	Waco	Determined that the compromise was enabled by an outdated application on a webserver.	OIT is identifying all servers administered outside of their office, and applying appropriate security controls.	In progress
14-020I	2/7/2014	Review of inventory controls in the bookstore.	Waco	After a theft occurred, management requested a review of controls to determine which controls failed. We concluded that both preventive and detective controls were in place, and substantial changes to those controls were not warranted.	Not applicable.	
14-022P	2/21/2014	Opinion on publishing signed system operating standards on the internet.	System Operations	Offered an opinion on the benefit of publishing system operating standards on the internet. Opined that publishing the signed versions, rather than just the language, did not add any value.	Not applicable.	
14-024I	2/27/2014	Investigation of suspicion that a supervisor directed official records to be changed.	Marshall	Determined that the allegation did not have merit.	Not applicable.	
14-027I	4/7/2014	Investigation of an allegation that an instructor had an inappropriate relationship with a student.	Harlingen	Determined that the allegation did not have merit.	Not applicable.	
14-029I	4/8/2014	Investigation of an allegation an instructional division director was providing an external company an unfair competitive advantage.	Waco	Determined that the allegation did not have merit.	Not applicable.	

Report #	Report Date	Project Name	Location	Summary of Observations and Recommendations	Summary of Corrective Action Plans	Corrective Action Plans
14-030RA	5/30/2014	Risk assessed the grant process.	Waco	Recommended enhancing various accounting and IT controls.	Not applicable.	
14-033I	5/6/2014	Investigation of an allegation that the College was being a poor steward by disposing of airplanes at too low of a price.	West Texas	Determined that the allegation did not have merit.	Not applicable.	
14-034P	5/6/2014	Assisted during the annual Colleague reauthorization process by evaluating access of select employee's.	System Operations	Determined that access was appropriate.	Not applicable.	
14-038I	7/9/2014	Investigated fraudulent timesheets submitted by a student worker.	Marshall	Determined the report had merit, and assisted with recovering the money the student was paid as a result of fraudulent timesheets he submitted.	Management indicated that timesheets would be subjected to further scrutiny.	Complete
14-039I	7/9/2014	Investigated allegation that an employee was studying during work hours.	West Texas	Could not determine the merit of the complaint. Spoke with the accused's supervisor to inform him of the need to be a good steward with State resources.	Not applicable.	



V. Internal Audit Plan for Fiscal Year 2015

A comprehensive risk-based methodology was used in developing the 2015 Internal Audit Plan. To assist in selecting relevant audits, several steps were taken.

First, Internal Audit developed and maintains a database of all potential audits. It was created by reviewing past audit work, flowcharts, general industry processes, and, by obtaining input from management and the audit staff. It is updated frequently to reflect recently completed audits and findings.

Annually, we review the database mentioned above, the most recent year-end financial statements, industry related news and events, recent legislation, and past audit plans from other colleges (particularly those in Texas). We do this to identify current processes that could have a significant impact on the College. Management's and the Audit Committee's interest is gauged for particular audits by inquiring of them. Also, the available audit time is considered in light of vacations, sicknesses, holidays, and other unexpected events.

A potential list of audits is formulated using the above information. The following risk criteria are then applied to that list so as to recommend specific audits for approval:

1. Asset Liquidity/Fraud
2. Regulatory Compliance
3. Quality of Internal Control
4. Financial Statement Impact
5. Importance and Integrity of Data and Reports
6. Management Interest
7. Frequency, Complexity, and Volume of Transactions
8. Changes in Systems, Processes, or Procedures
9. Results and Time Since Last Audit
10. Customer Impact

Areas that were considered for audit, but not selected due to resource limitations, included PCI Compliance, Colleague Administration, building maintenance, Texas Public Education Grant compliance, Patient Protection & Affordable Care Act compliance, Student Health Center, student placement, FCC Contract management, travel, and vacation/sick time accruals.

Specific information technology risks considered in the plan included information security and business continuity. Three related audits are scheduled - Colleague Disaster Recovery, External Port Scan, and a general IT Security audit.

Currently, there are not any projects in the plan related to expenditure transfers, capital budget controls, or other restrictions. However, travel (employee and Board travel), fourth quarter expenditures, gifts, and FTE limitations were considered.

In fiscal year 2014, proportionality of benefits was audited. The associated audit report was submitted to the Governor's Office, State Auditor's Office, Legislative Budget Board, and the Sunset Advisory Commission in August 2014. As such, a similar audit is not planned in fiscal year 2015.



**Internal Audit Department
Fiscal Year 2015 Audit Plan**

Project Description	Location	Budgeted Hours
<u>External</u>		
A-133 Audit Follow-up	Harlingen	50
A-133 Audit Follow-up	Waco	50
A-133 Audit Follow-up	West Texas	50
A-133 Audit	Marshall	100
Year-end Financial Statement Audit	System Operations	300
<u>Internal</u>		
Safety and Security Audit	Harlingen	500
Title IX Audit	Harlingen	250
VA Benefits Audit	Harlingen	250
Follow-up Audits	Harlingen	50
Quarterly External Port Scan	OIT	200
Disaster Recovery Test - Colleague	OIT	100
IT Security Follow-up	OIT	250
Follow-up Audits	OIT	50
Safety and Security Audit	Marshall	300
Title IX Audit	Marshall	250
Skills Development Grant Audit	Marshall	250
Follow-up Audits	Marshall	50
External Quality Assessment Review of Internal Audit	System Operations	400
Safety and Security Audit	Waco	500
Title IX Audit	Waco	250
VA Benefits Audit	Waco	250
Follow-up Audits	Waco	50
Safety and Security Audit	West Texas	350
Title IX Audit	West Texas	250
Skills Development Grant Audit	West Texas	250
Follow-up Audits	West Texas	50

VI. External Audit Services – Fiscal Year 2013

In FY 2014, the following audits were performed by auditors external for TSTC:

- TSTC Harlingen:
 - A-133 Audit – State Auditor’s Office
 - FY 2013 Financial Statement Reviews – Long Chilton, LLP

- TSTC Waco
 - A-133 Audit – State Auditor’s Office
 - FY 2012 & 2013 Financial Statement Audits – Patillo, Brown & Hill, LLP

- TSTC West Texas
 - A-133 Audit – State Auditor’s Office
 - FY 2012 & 2013 Financial Statement Reviews – Jaynes, Reitmeier, Boyd & Therrell, PC

VII. Reporting Suspected Fraud and Abuse

To comply with Article IX, Section 7.09 of the 83rd Legislature's General Appropriations Act, and Texas Government Code, Section 321.022, the following actions have been taken:

- Information on all campus websites describes how to report suspected fraud to the State Auditor's Office. A link to the State Auditor's Office fraud hotline is included, as is the hotline telephone number.
- System Operating Standards have been adopted that include fraud reporting information and expectations. Those Standards are available on the Colleges' websites.
- A confidential internal fraud hotline is also available for people to report suspected fraud. The hotline is administered by Internal Audit.

VIII. Compliance with House Bill 16

House Bill 16 (83rd Legislature, Regular Session) was signed by Governor Perry on June 14, 2013. It amends Chapter 2102 of the Texas Government Code by requiring the College to post certain information on its website. Specifically, the College must post the following information within 30 days of approval by the Board of Regents:

- The approved audit plan for the current fiscal year.
- The annual audit report for the previous fiscal year.

It must also post:

- 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 of House Bill 16, the Internal Audit Annual Report will be posted on the Internal Audit section of the College's website no later than November 1 of the current fiscal year. This report includes all the required elements of House Bill 16.