



TEXAS STATE TECHNICAL COLLEGE

Internal Audit Annual Report Fiscal Year 2023

Prepared by
Jason D. Mallory, Chief Auditor

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I. 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 Annual Report includes the approved fiscal year 2024 audit plan. Furthermore, all Internal Audit reports are posted in the Board of Regents section of the TSTC website under the meeting agendas section. These are posted within 30 days after each meeting of the Board of Regents. These reports include detailed summaries of the weaknesses, deficiencies, wrongdoings, or other concerns found during each audit, if any, as well as summaries of the actions taken by the College to address those concerns. Information is available as far back as August 2015.

II. Internal Audit Plan for FY 2023

The Board of Regents approved the original internal audit plan for FY 2023 on August 18, 2022, with Minute Order #IA 01-22(c). There were two deviations from the original internal audit plan that was approved by Minute Order #IA 01-23(c) on August 10, 2023. Specifically, audits of Remote Work Processes and Accounts Payable were removed due to audit resources being redirected to a comprehensive fixed asset audit (Report #23-003A).

Texas Government Code §2102.005(b) requires a state agency to consider methods for ensuring compliance with contract processes and controls and for monitoring agency contracts. To comply with this provision, an internal audit of contract compliance is conducted annually. In FY 2023, an audit related to a compliance audit of a construction contract currently in progress on the Waco campus was performed. This is listed below as Report #23-028A. It was completed on May 18, 2023. There were no material exceptions identified. Furthermore cost recovery audits were outsourced under delegation #719-2023-001 for 3 construction projects. One was completed on August 24, 2023, which resulted in a recovery for the College due to an overpayment of \$55,977. The other two audits were still in progress at August 31, 2023.

An audit of benefits proportionality was conducted in FY 2022 to address the benefits proportionality audit requirement prescribed in Rider 8, page III-50, of the General Appropriations Act of the 87th Legislature. Dated December 9, 2021, Report # 22-008A includes one finding in which \$67,984.46 in disallowed benefits were paid from appropriated funds. That amount was refunded to the Comptroller's Office on November 8, 2021. In FY 2023, another limited scope audit of benefits proportionality was performed due to a change in relied upon processes. Process were identified that needed minor improvements, but no overpayment by appropriated funds was found. That report is represented below as Report #23-019A. It was completed on August 14, 2023.

Fiscal Year 2023 Internal Audit Plan

Project Description	Division/Campus	Report Number	Report Date	Status
Internal Network Penetration Test	OIT/Harlingen Campus	23-004A	9/30/2022	Complete
American Rescue Plan Act – Higher Education Emergency Relief Fund III	Office of Sponsored Programs, Student Services	23-007A	12/9/2022	Complete
Internal Network Penetration Test	OIT/East Williamson County Campus	23-009A	12/9/2022	Complete
Internal Network Penetration Test	OIT/Waco Campus	23-011A	12/9/2022	Complete

T-Drive Audit	OIT/Several Departments	23-012A	3/17/2023	Complete
Sick Leave Administration	HR	23-005A	4/3/2023	Complete
TEC 51.9337 (Contracting) Audit	Contract Office	23-020A	5/18/2023	Complete
Personal Property Verification Audit	Finance/College-wide	23-003A	10/3/2022 , 12/16/22, 3/23/23, 6/16/23	Complete
Audit of General IT Controls	OIT	23-018A	6/21/2023	Complete
TAC 202 Follow-up Audit	OIT	23-002A	11/10/2022, 1/13/2023, 3/31/23, 7/31/23	Complete
Payroll and Benefits Proportionality	Payroll/Finance	23-019A	8/14/2023	Complete
Construction Audit of FTB projects completed in early 2022	Construction	23-008A	8/24/2023	Complete ^{Note 1}
Audit within the Harlingen Physical Plant	Physical Plant	23-021A	9/7/2023	Complete ^{Note 1}
Audit within the Waco Physical Plant	Physical Plant	23-022A	9/7/2023	Complete ^{Note 1}
Construction Audit of JBC Remodel	Construction	23-008A		In Progress

Note 1: This report will be forward to agencies in November 2023 after it is presented to Board of Regents

Three FY 2022 audits were also completed in FY 2023. Those an Audit of Foundation Controls (Report #22-037A), a follow-up of corrective actions for an External Penetration Test (Report #22-001A), and a Bookstore Audit (Report #22-034A).

Reports for all completed audits listed above are posted in the Board of Regents section of the TSTC website under the meeting agendas section at <https://www.tstc.edu/about/board-of-regents>. Each report contains detailed summaries of the weaknesses, deficiencies, wrongdoings, or other concerns found during each audit, if any, as well as summaries of the actions taken by the College to address those concerns. Reports with Note 1 will be posted after they are presented to the Board of Regents in November 2023.

III. List of Consulting Engagements and Non-audit Services Completed in FY 2023

The following schedule summarizes projects, other than planned audits, that were completed or nearing completion.

Report #	Date	Project Description	Division /Campus	Summary of Observations and Recommendations	Status & Summary of CAPs
23-006I	9/16/2022	Forwarded an HR complaint about work/life balance.	Enrollment	Appropriate work/life balance was being maintained, and pay was appropriate.	
23-010I	3/08/2023	IA reviewed a complaint of student behavior not being corrected.	Student Discipline	Determined the student created repeated distractions for faculty and staff until he was expelled.	\$1,250 in financial aid was reclassified to a different type; a follow-up with reporters are made when student discipline reports are made; CARE team meetings are better documented, and HR representative has been included; all reported safety concerns are documented and acted on; considering behavioral patterns before approving discretionary financial aid and appeals. All CAPs were implemented.
23-015I	5/19/2023	Investigated allegation of misuse of College equipment.	Instruction	Investigated an allegation that an employee used equipment for personal reasons.	Found merit in the allegation. Employee was terminated.

23-013I	5/26/2023	Investigated concern of instructors taking classes.	Instruction	Found nothing inappropriate.	Recommended release time processes be improved. CAPs are pending verification.
23-017I	5/31/2023	Investigated student complaint that instruction was ineffective.	Instruction	Reviewed student grievance process. Process worked as intended. Grievances were resolved.	
23-023I	8/23/2023	Forwarded a concern of an employee being under the influence at work to HR.	Auxiliary Services	Employee was terminated.	
23-024I	8/23/2023	Forwarded a concern of a hostile environment to HR.	Student Recruiting	No hostile work environment existed.	
23-026I	8/28/2023	Investigated an allegation of inappropriately accessing emails and chats.	OIT	Allegation had no merit.	
23-025I	In progress	Investigating an allegation of theft of time.	Government Relations	Investigation is in progress.	

IV. External Audit Services Procured in FY 2023

One delegated request (#719-2023-001) was approved in FY 2023 for a series of cost recovery audits for construction projects. The following schedule summarizes that project.

Auditor	Date of Report	Project Description
RL Townsend	8/24/23	Cost recovery audit – Recovered \$55,977 in overbillings for a construction project completed in 2022 at the Fort Bend County campus.
RL Townsend	In progress	Cost recovery audit – being performed concurrently while a remodel project on the Waco campus is being performed.
RL Townsend	In progress	Cost recovery audit – being performed concurrently while a campus annex is being built in Waco.

V. Internal Audit Plan for FY 2024

The plan was developed through a collaborative effort between Internal Audit, Executive Management, Senior Management, and the Board of Regents. Multiple activities and functions throughout the College were assessed for financial, fraud, regulatory/compliance, and presence sensitive information. TAC 202 and technology risks were also considered in the planning. Management and the Board were also requested to provide a list of specific audits they wanted performed. All regulatory-required audits were included in the Audit Plan. Other than the areas actually selected for audit, consideration was given to risks associated with purchasing and accounts payable, workforce development, dual enrollment, and various physical plant and HR activities, and financial aid.

As is done every year, benefits proportionality was considered for an audit. It was not selected because it was audited in both FY 2022 and FY 2023, as well as numerous other times within the last 10 years. The TEC §51.9337 (Contracting) Audit is intended to satisfy the annual contracting audit requirement. Our planning process yielded the following audit plan for FY 2024:

Audit Name	Budgeted Hours
TEC §51.9337 (Contracting) Audit – satisfies annual audit requirement of contracts	200
Internal/External Audit Quality Assessment Review	300
Grant Audit	300
Public Funds Investment Act Compliance Audit	200
Procurement Card Audit	300
Internal Penetration Test – Marshall campus	200
Internal Penetration Test – West Texas campuses	200
PCI Compliance Audit	500
TAC 202 Audit of CRIMES system	300
Student Grievance Process Audit	200
Fleet Management Audit	300
Safety and Security Audit	1,000
Accounting Controls (Foundation) Audit	100
Quarterly Follow-up of TAC 202 Controls	200
Construction Project Audits (3-5 audits)	Will be outsourced

The FY 2024 Audit Plan was approved by the Board of Regents on August 10, 2023, by Minute Order #IA 02-23(c).

VI. Reporting Suspected Fraud and Abuse

TSTC has taken the following actions to implement the fraud detection and reporting requirements of Section 7.09, page IX-38 of the 87th 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. This 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.

VIII. External Quality Assurance Review

An External Quality Assurance Review of the Internal Audit Department was completed on May 17, 2021, by Carole M. Fox, CPA. Ms. Fox is the Chief Audit Executive for the Texas State University System. She is entirely independent from all auditors employed by the TSTC Internal Audit Department.

The results of the review indicated that TSTC Internal Audit Department generally conforms to standards. The Department was also commended for its well-crafted audit charter, and the level of accessibility to the Board of Regents and the Chancellor. A copy of the original report is attached.

May 17, 2021

Mr. Jason D. Mallory, Director of Internal Audit
Texas State Technical College
3801 Campus Drive
Waco, Texas 76705

Dear Mr. Mallory,

At your request, I performed an external quality assurance review on the Internal Audit Department of the Texas State Technical College (TSTC). The review included an independent validation of the assertions and conclusions made in the *Internal Quality Assessment Review Report* issued by Ms. Tahlia Pena, Audit Manager, on November 6, 2020.

The primary objective of the review was to provide an opinion on whether the internal auditing program, overseen by you, achieves the basic requirements expected of internal auditing activities at all State of Texas institutions of higher education. Those requirements are set forth in the *Texas Internal Auditing Act* (Texas Government Code, Chapter 2102), the Institute of Internal Auditors' *Code of Ethics* and *International Standards for the Professional Practice of Internal Auditing*, and the U.S. Government Accountability Office's *Generally Accepted Government Auditing Standards*. For purposes of this review, I collectively refer to these as "the *Standards*". In acting as a validator, I am fully independent of TSTC and have the necessary knowledge and skills to undertake this engagement.

Opinion Rating Definitions

The rating system used for expressing an opinion for this review is defined by the *Standards*, and provides for three levels of conformance: generally conforms, partially conforms, and does not conform.

- **Generally conforms** means that the Internal Audit Department has the relevant structures, policies, and procedures in place and an audit charter that complies with the *Standards* in all material respects; however, opportunities for improvement may exist.
- **Partially conforms** means the Internal Audit Department is making good-faith efforts to comply with the *Standards*, but falls short of achieving some major objectives. This will usually represent that significant opportunities for improvement are needed in effectively applying the *Standards*.
- **Does not conform** means the internal audit activity is failing to achieve many or all of the *Standards*' objectives. These deficiencies will usually have a significant impact on the internal audit activity's effectiveness and its potential to add value to the organization.

Scope and Work Performed

The review was performed in accordance with the State Agency Internal Audit Forum *Peer Review Guidelines* using the *Master Peer Review Program*. The scope included all TSTC internal audit activities from September 2017 through August 2020, and consisted of the following:

- A review of the self-assessment documents,
- Discussions with you,

- Interviews with the Board Chairman (also the former Audit Committee Chair), the former Chairman of the Board, the Chancellor, and members of the TSTC Leadership Team,
- A survey of a sample of managers who recently participated in internal audits;
- A survey of all internal audit staff, including you, and
- A review of the audit working papers for four audit projects completed during the review period.

Results and Opinion

Based upon the self-assessment documents, interviews, survey results, and the review of audit working papers, I concur with the assertions and conclusions stated in the *Quality Assurance Review Self-Assessment Report* dated November 6, 2020 that the internal audit activity at TSTC generally conforms to the *Standards*.

In my opinion, the TSTC Internal Audit Department **generally conforms** to the *Standards* for the period under review and no significant opportunities for improvement were observed. This opinion, representing the best possible evaluation, means that there are in place the relevant structures, policies, and procedures, including the processes by which they are applied, that comply with the *Standards* in all material respects.

Key Observations

As required by the *Standards*, TSTC has a well-crafted audit charter that clearly defines the audit function's purpose, authority, and responsibility. The Director and audit staff have unrestricted access to all TSTC personnel, records, and property. Results of a confidential survey of auditees indicate a high degree of confidence in the audit function, with many respondents commenting on the professionalism of the audit team. The Director has full and free access to the Board Chairman, the Audit Committee Chair, and the Chancellor; in fact, the level of accessibility is commendable and noteworthy, as it contributes to an enhanced governance structure at the TSTC.

I would like to express my thanks for the time and assistance given by you and your staff and other representatives of the TSTC during the review.

Sincerely,



Carole M. Fox, CPA
Chief Audit Executive
Texas State University System