



TEXAS STATE TECHNICAL COLLEGE

Internal Audit Annual Report Fiscal Year 2018

Prepared by
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I. Internal Audit Plan for FY 2018

The Board of Regents approved the original internal audit plan for fiscal year 2018 in August 2017. In August 2018, amendments to that plan were approved. The plan was amended by removing two risk assessment projects, and replacing them with two internal audits.

This audit plan was prepared using risk assessment techniques as required by the Texas Internal Auditing Act. All revisions were the result of changes to the risk environment. Prior to August 31, 2018, twelve internal audit reports, one report from a peer reviewer, seven reports by external regulatory agencies, and thirteen reports related to consulting engagements and/or investigations were issued. At August 31, 2018, four internal audits from the plan, two external audits, and one investigation were still in progress, with those reports to be presented to the Board of Regents at their November 2018 meeting.

Fiscal Year 2018 Internal Audit Plan

Project Description	Division/Campus	Report Number	Report Date	Status
Public Funds Investment Act Audit	Finance	18-002A	9/1/17	Complete
TAC 202 Audit	Office of Information Technology	18-003A	6/15/18	Complete
TEC 51.217 Audit (Safety)	State-wide	18-012A	6/11/18	Complete
Benefits Proportionality Internal Audit <i>see note 4</i>	Finance	18-018A	2/9/18	Complete
External Quality Assessment Review	Internal Audit	18-005A	8/30/18	Complete
THECB Facilities Audit	Facilities (Waco Campus)	18-019A	11/27/17	Complete
PCI Compliance Audit	Finance/OIT	18-009A	5/14/18	Complete
Departmental Audit – Provost	North Texas Campus	18-010A	11/3/17	Complete
Departmental Audit – Industrial Maintenance	Student Learning (North Texas Campus)	18-011A	11/3/17	Complete
Departmental Audit – Provost	Hutto Campus	18-024A	3/13/18	Complete
Departmental Audit – Welding	Student Learning (Hutto Campus)	18-025A	3/26/18	Complete
Internal Penetration Test	Marshall Campus	18-026A	6/7/18	Complete
Inventory Follow-up Audit	Statewide	18-037A	6/15/18	Complete
Departmental Audit – Culinary Arts <i>see notes 1 & 3</i>	Student Learning (Waco Campus)	18-044A	8/16/18	In progress

Departmental Audit – Culinary Arts <i>see notes 1 & 3</i>	Student Learning (Harlingen Campus)	18-043A	8/16/18	In progress
Internal Penetration Test <i>see note 3</i>	West Texas Campuses	18-046A	8/16/18	In progress
TEC 51.9337 (Contracting) Audit <i>see note 3</i>	Statewide	18-047A		In progress
2 Business Process – Risk Assessment <i>see note 2</i>	Ft. Bend Campus			Removed

Notes:

- 1 Audit was added to the plan in August 2018.
- 2 Projects were removed from the plan in August 2018.
- 3 The audit was ongoing at 8/31/18 or had yet to be presented to the Board of Regents. All findings will be included in a report to be presented to the Board of Regents at their November 2018 meeting.
- 4 Audit was performed to satisfy the audit requirement prescribed by Rider 8, page III-45 of the General Appropriations Act of the 85 Legislature. No reportable findings were noted. Furthermore, The State Auditor's Office conducted an additional audit of Benefits Proportionality, with their report (#18-020) being issued February 2018. Similarly, they had no reportable findings.

II. Summary of Audit Findings and Corrective Action Plans for Audits Conducted in FY 2018

Twelve of the sixteen internal audits from the FY 2018 audit plan were completed before August 31, 2018. Additionally, two FY 2017 audits were completed after August 31, 2017. The following schedule summarizes the results from each audit.

Report #	Date	Audit	Division/Campus	Summary of Findings	Status & Summary of CAPs
17-028A	10/10/17	Annual Compliance Audit of TEC §51.9337 (Contracting)	Finance	A single contracting policy noting specific requirements of TEC §51.9337 still needs to be created, and subsequently adopted by the Board of Regents.	Ongoing: Internal Audit verified that the policy has been drafted, awaiting review and approval.
				Exceptions related to training, contract risk analysis, contract execution by unauthorized individuals, and other documentation exceptions indicate some of the requirements have not yet been fully implemented.	Ongoing: Internal Audit verified improvement, but exceptions still occurred in FY 2018.
17-029A	9/5/17	Construction Audit of the Brazos Center	Ft. Bend Campus	No material exceptions.	
18-002A	09/1/17	Public Funds Investment Act Audit	Finance	No material exceptions.	
18-011A	11/3/17	Departmental Audit of Industrial Maintenance	Student Learning (North)	No material exceptions.	

			Texas Campus)		
18-010A	11/3/17	Departmental Audit of Provost's Office	North Texas Campus	No material exceptions.	
18-019A	11/27/17	Facilities Development Project Compliance Audit	Waco Campus	No material exceptions.	
18-018A	2/9/18	Benefits Proportionality Audit	Finance	No issues of non-compliance or instances requiring reimbursement.	
18-024A	3/13/18	Departmental Audit of Provost's Office	Hutto Campus	No material exceptions.	
18-025A	3/26/18	Departmental Audit of Welding Department	Student Learning (Hutto Campus)	Procedures related to sick leave needs to be improved to ensure use is in compliance with College policy.	Fully Implemented: Training on leave policies will be provided to the department in coordination with Human Resources and any required corrective actions related to this finding will be taken.
18-009A	5/14/18	PCI Data Security Audit	OIT & Finance	Numerous IT related controls and/or their control elements, as prescribed by PCI DSS, have not been implemented. As such, PCI DSS compliance is not being fully met.	Ongoing: We anticipate that the review and implementation review of 100 controls across 6 objectives will take over a year. We will prioritize controls that have the largest impact on the protection of

					cardholder data. As part of this process, we will also implement the recommendation of an annual assessment of PCI-DSS controls to ensure ongoing adherence to PCI-DSS compliance changes.
18-026A	6/7/18	Internal Network Penetration Test	OIT	Physical and logical security could be improved by informing campus employees of the results of this project, and re-educating them on the risks we were able to exploit.	Partially Implemented: Communicate findings of audit to personnel, implement centralized computer management solution, remove personal printers and use multifunction copiers, and OIT will evaluate additional controls around network connectivity.
18-012A	6/11/18	Safety & Security Audit	Statewide	Improvements should be made to standardize safety processes between campuses, and to better establish College expectations and accountability.	Ongoing: We are currently reviewing all safety processes, and will be standardizing them throughout the State. Our efforts will, at a minimum, address all observations noted in the audit report and include follow-up of the individual safety issues notes at each campus as detailed in the supplemental report. The revised processes will include a designated safety officer performing

					frequent inspections, along with training individual departments.
18-003A	6/15/18	TAC 202 Compliance Follow-up Audit	OIT	Forty one required controls still need to be implemented or substantially improved.	Ongoing: OIT will prioritize the missing controls and implement.
18-037A	6/15/18	Fixed Asset Control Follow-up Audit	Statewide	Several process need attention to ensure all assets are properly safeguarded after purchase.	Ongoing: Additional training, reconcile annual inventory documentation to stewards, more closely monitor inventory forms that are submitted, obtain sign offs prior to transferring assets.

III. List of Consulting Engagements and Non-audit Services Completed in FY 2018

Thirteen consulting and non-audit type of services were completed in FY 2018. The following schedule summarizes those projects.

Report #	Date	Project Description	Division/Campus	Summary of Observations and Recommendations	Status & Summary of CAPs
18-006RA	8/18/17	Risk Assessment of the Purchasing Process	Purchasing	Identified enhancements to increase likelihood Purchasing controls were effective.	
18-004P	8/23/17	Recalculated salaries of employees paid by grant	Workforce Development (Waco Campus)	Calculation agreed to the calculation performed by management.	
18-002.1A	9/1/17	Audit of Select Controls on Demand Deposits	Finance	Access to demand deposit accounts need to be better restricted.	Fully Implemented: Updates to signature cards will be more timely, all online access will be periodically reviewed, monthly account reconciliation will include a verification of that signature authorizations are appropriate.
18-007I	10/9/17	Fund Raising Controls	Brownwood Campus	Recommended SOS FA 3.1 be revised, donations be reported to Advancement, training be conducted, and Advancement be	

				notified of all fund raisers prior to them being performed.	
18-015I	10/31/17	Investigation of conflict of interest and bonuses.	Finance	Determined the conflict was properly disclosed, proper separation existed, and required procedures were followed.	
18-017I	11/17/17	Investigated whether 2 employees were studying during working hours	Student Learning (Abilene Campus)	Could not substantiate. Reminded the employees of expectations and perception.	
18-020I	12/14/17	Investigation of poor instructional quality.	Student Learning (Harlingen Campus)	Could not substantiate the allegation.	
18-021A	12/7/17	Police Evidence Room Inspections	Waco and Harlingen Police Departments	Were able to find all evidence we traced, with one minor exception.	
18-022P	12/12/17	Review of Cohort Default Rates	Financial Aid	Verified cohort default rates were within required thresholds.	
18-027I	4/25/18	Investigation of compliance to TGC 658	HR	Determined the allegation had no merit.	
18-038I	3/27/18	Application Process Investigation	Admissions Office (Harlingen Campus)	Determined a management report was intentionally manipulated to be	Fully Implemented: Centralized the processing center, and took employment action.

				misleading, and some applicants were not communicated with timely.	
18-042I	6/1/2018	Automotive Program Investigation	Student Learning (Harlingen Campus)	Determined vehicles not owned by College are worked on in College shop with related controls not working.	Fully Implemented: Vehicles will be recorded and all work will be properly tracked.
18-045I	6/18/18	Investigation of Supervisor Misconduct	Student Services	Determined the supervisor was allowing an employee to use her requisition approval logon ID.	Fully Implemented: Password has been changed, and there is no evidence that it is still occurring.

IV. External Audit Services Procured in FY 2018

In FY 2018, one delegation request (#719-2018-001) was requested for an audit of the College's FY 2018 financial statements by independent public accounting firm. In addition, seven audits or reviews were completed by external regulatory agencies. The following schedule summarizes those projects.

Agency	Date	Project Description	Division/Campus
Department of Education	7/20/17	Review of compliance to Title IV rules for program years 2012-2013 and 2013-2014.	Financial Aid – the former TSTC Waco
Workforce Solutions – County	9/5/17	Review compliance and progress on award 2416TCY2-01 related to a GED program.	College Readiness – Harlingen Campus
Texas Higher Education Coordinating Board	1/10/18	Verify recommendation from a prior TEXAS Grant audit was implemented.	Financial Aid – Waco Campus
State Auditor's Office	2/28/18	Verify compliance to benefits proportional rules for fiscal years 2016 and 2017.	Finance
State Auditor's Office	8/31/17	Verify noted federal compliance exceptions related to previous Single Audit was corrected.	Marshall Campus
State Auditor's Office	8/31/17	Verify noted federal compliance exceptions related to previous Single Audit was corrected.	Harlingen Campus
Texas Higher Education Coordinating Board	5/9/18	Verify compliance with the Texas Educational Opportunity Grant.	Financial Aid – Waco Campus

V. Internal Audit Plan for FY 2019

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.

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

Internal Audit first selected all required audits, which amounted to four. 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, IT Help Desk, airport operations, workforce development contracts, grants (particularly Skills Development grants), Titles IV & IX compliance, customer service, Foundation Accounting, and procurement cards. An audit related to benefits proportionality was not selected because no issues were identified in the previous audits performed in FY 2016, 2017, and 2018 by both Internal Audit and the State Auditor's Office.

This planning process yielded the following audit plan for FY 2019:

Audit Name	Budgeted Hours
TEC §51.9337 (Contracting) Audit	350
TAC 202 (IT Security) Audit	500
THECB Facilities Audit – West Texas Campus	150
THECB Facilities Audit – Marshall Campus	150

Integrated Admissions Process Audit	550
TRS Contributions Audit	450
Internal Penetration Test (North Texas Campus)	150
Internal Penetration Test (Ft. Bend Campus)	150
Google Drive Security Audit	600
Workplace Harassment Audit	450
Challenger Center Audit (Waco Campus)	250
Challenger Center Audit (Harlingen Campus)	250
Graduation Process Audit	300
Maxient Software Audit	350
C4EO Audit	300
Fixed Asset Follow-up Audit	300

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 completed on August 30, 2018, by Terry Corrigan and Courtney Holden. Mr. Corrigan is the Internal Audit Director with Houston Community College. Mr. Holden is an Internal Auditor with that same college. Both were 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 several practices it facilitates and engages in. A copy of the original report is attached.



August 30, 2018

Mr. Ivan Andarza, Vice Chairman & Chair of the Audit Committee
Mr. Jason Mallory, Director, Internal Audit
Texas State Technical College
3801 Campus Drive
Waco, Texas 76705

Dear Mr. Andarza and Mr. Mallory,

At your request in the engagement letter dated January 5, 2018, we performed an external quality assurance review (EQAR) on the Internal Audit Department of 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, Manager of Internal Audits for TSTC, on November 21, 2016. The primary objective of our engagement was to provide an independent opinion on whether the internal auditing program, overseen by Mr. Mallory at TSTC, achieves the basic requirements expected of internal auditing activities at all institutions of higher education supported by the State of Texas, as asserted by the Internal Quality Assessment Review Report previously mentioned. Those requirements are set forth by the Texas Internal Auditing Act (Tex. Gov't Code Chapter 2102), the Institute of Internal Auditors' (IIA's) *Code of Ethics* and *International Standards for the Professional Practice of Internal Auditing*, and the U.S. Government Accountability Office *Generally Accepted Government Auditing Standards*. For purposes of this review, we collectively refer to these as the *Standards*.

The EQAR was performed by Terry Corrigan, Internal Audit Director for Houston Community College (HCC), and Courtney Holden, Internal Auditor for (HCC). We attest that we are independent from all internal audit activities at TSTC, and have the requisite skills and knowledge to undertake the engagement.

Opinion Rating Definitions

The rating system that was used for expressing an opinion for this review 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, procedures, and an audit charter that comply 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. It included all TSTC internal audit activities from September 2015 through June 2018, and consisted of the following:

- Review of the self-assessment documents;
- Interviews with you, the Board of Regents (BOR) Chairman, a BOR Audit Committee member, the Chancellor, other Chief Officers, and all internal audit staff members;
- A survey of a sample of managers who recently participated in internal audits; and
- Review of two audit projects working papers completed during the review period.

Results and Opinion

The results of our review confirmed compliance with the *Standards*. The interviews and survey results indicated the Internal Audit Department and its methods are very much valued and appreciated at TSTC.

We concur fully with the assertions and conclusions stated in the Quality Assurance Review Self-Assessment Report dated November 21, 2016. In our opinion, the TSTC Internal Audit Department ***generally conforms*** to the *Standards* for the period under review and no significant opportunities for improvement were observed.

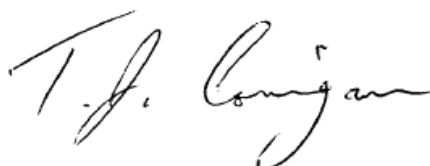
Best Practices Observed

We commend the following best practices observed:

- Facilitating the quarterly leadership attestations;
- Facilitating the annual TSTC risk management assessment as part of the annual audit planning process;
- Issuing management letters for consideration on less significant or outside of audit project's scope observations; and
- Assisting with creating and participation with the Continuous Improvement Action Group.

We would like to express our thanks for the time and assistance given by you and your staff to expedite the review. We appreciated the opportunity to review your internal auditing practices and the sharing of best practices ideas.

Sincerely,



Terry Corrigan, CPA, CIA, CFE
Houston Community College
Director, Internal Audit



Courtney Holden, CFE
Houston Community College
Internal Auditor

Copies:

Mike Reeser, Chancellor
John Hatchel, Chairman of the Board
Ellis Skinner, Regent
Tiffany Tremont, Regent
Keith Honey, Regent
Tony Abad, Regent
Pat McDonald, Regent
Curtis Cleveland, Regent
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