

**Board of Regents
Audit Committee
Meeting**

**November 17, 2016
Waco, Texas**



**Texas State Technical College
Board of Regents
Audit Committee Meeting**

**Col. James T. Connally Aerospace Center
Board Room
3801 Campus Drive
Waco, TX 76705**

**Thursday, November 17, 2016
10:45 a.m.**

AGENDA

- I. Meeting Called to Order by Audit Committee Chair Ivan Andarza**
[Ivan Andarza, Joe Gurecky, J.V. Martin]
- II. Committee Chair Comments**
- III. Minute Order:
Proposed MO #**
- None
- IV. Reports:**
- [Status of Fiscal Year 2016 Audit Schedule & Other Projects](#) 3/83
- [Status of Fiscal Year 2017 Audit Schedule and Other Projects](#) 5/83
- [Summary of Audit Reports](#)..... 6/83
- [Follow-up Schedule & Status](#) 9/83
- [Internal Audit Annual Report Fiscal Year 2017](#) 12/83
- [Annual Review of Internal Audit Charter](#)..... 35/83
- [Annual Confirmation of Organizational & Individual Independence](#) 40/83
- [Information of Internal Audit's Program of Quality Control](#) 41/83
- [North Texas Campus Audit](#) 42/83
- [Fort Bend Construction Audit \(Building One\)](#)..... 46/83
- [Senate Bill 20 Audit](#)..... 50/83
- [Portal Audit](#)..... 56/83

<u>Annual Program Monitoring of Contract 2416-TCYI-00</u>	61/83
<u>Compliance Audit of TEXAS Grant (Waco)</u>	67/83
<u>AY 2015 A-133 Desk Review and Evaluation (Harlingen)</u>	73/83
<u>AY 2015 A-133 Desk Review and Evaluation (Marshall)</u>	74/83
<u>AY 2015 A-133 Desk Review and Evaluation (System)</u>	75/83
<u>AY 2015 A-133 Desk Review and Evaluation (Waco)</u>	77/83
<u>AY 2015 A-133 Desk Review and Evaluation (West Texas)</u>	78/83
<u>Perkins Basic Site Visit Results (Waco)</u>	79/83
<u>Attestation Disclosures</u>	83/83

V. Adjourn



Texas State Technical College
Internal Audit
Status of Fiscal Year 2016 Audit Schedule & Other Projects

Description	Division/Campus	Status	Report No.	Report Date
INTERNAL AUDITS				
Public Funds Investment Act Audit	Accounting & Finance	Complete	16-005A	9/3/2015
Ft. Bend Construction Audit (TSTC Foundation)	Accounting & Finance	Complete	16-010A	9/29/2015 & 9/01/16
College Assistance Migrant Program Grant Audit	Integrated Marketing	Complete	16-009A	11/9/2015
50th Anniversary Celebration Audit	Integrated Marketing	Complete	16-017A	12/11/2015
Benefits Proportionality Audit	Accounting & Finance	Complete	16-015A	1/8/2016
Variable Expenditures Audit	All divisions	Complete	16-008A	2/22/2016
Airplane Utilization Audit	Office of the Chancellor	Complete	16-025A	3/17/2016
Violence Against Women Act & Campus Sexual Violence Elimination Act Compliance Audit	Integrated Marketing, Operations	Complete	16-006A	3/21/2016
Developmental Education Scaling and Sustaining Success Grant	Integrated Marketing	Complete	16-019A	3/24/2016
Work Study Compliance Audit	Financial Aid	Complete	16-013A	5/31/2016
Internal Network Penetration Test	OIT	Complete	16-016A	6/9/2016
Campus Audits	All campuses	Complete	Various	Various
Portal Application Audit	OIT	Complete	16-024A	9/14/2016
SB 20 Compliance Audit	Accounting & Finance	Complete	16-007A	9/8/2016

EXTERNAL AUDITS

State Auditor's Office: A-133 Follow-up	Harlingen	Complete		2/25/2016
State Auditor's Office: A-133 Follow-up	Waco	Complete		2/25/2016
State Auditor's Office: A-133 Follow-up	West Texas	Complete		2/25/2016
State Auditor's Office: A-133 Follow-up	Marshall	Complete		2/25/2016
Texas Department of Agriculture - Restricted Chemical Inspection Report	Airport	Complete		5/23/2016
THECB: Perkins Basic Grant Programmatic Desk Review & Site Visit	OSP	Complete		Various
THECB: TEXAS Grant Audit	Financial Aid	Complete		8/31/2016
Workforce Solutions Cameron: Monitoring Review of Contract 2416 TCY1-00	OSP	Complete		8/23/2016

OTHER INTERNAL PROJECTS

Internal Hotline: Allegation - An employee is going to school full-time while being paid as a full-time employee. Result - Found that the courses were being attempted as credit by exam, therefore, no conflict with work schedule was found. However, we determined that financial aid that was awarded needed to be returned by the employee because credit by exam is not eligible for such aid.	Harlingen	Complete	16-011I	10/12/2015
Internal Hotline: Allegation - The legitimacy of financial aid of an employee's dependent was questioned. Result - By obtaining the tax transcripts used to apply for financial aid, we determined the allegation was unsubstantiated.	Harlingen	Complete	16-012I	10/22/2015

Description	Division/Campus	Status	Report No.	Report Date
SAO Hotline: Allegation - Some employees in a specific area receive inflated salaries, and the supervisor promotes a hostile working environments for other employees. Result - This allegation was investigated by the HR Department. They did not find the allegation to have merit.	Harlingen	Complete	16-0171	11/17/2015
Internal Hotline: Allegation - Employee attempted to sell College equipment without using the approved disposal process. Result - Determined the allegation had merit. Found the equipment was still on College property so the sale was stopped. Additionally, determined that the employee used College equipment off campus for an unrelated purpose. Employment was terminated.	Waco	Complete	16-0141	10/30/2015
Internal Hotline: Allegation - It was alleged that an employee abused her vouchering and check signing authorities. Result - We did not find any evidence that payments made to the employee were for anything other than legitimate business expenses.	Marshall	Complete	16-0201	1/13/2016
SAO Hotline: Allegation - Reported alleged a hostile work environment. Result - HR investigated and determined the allegation had no merit. An independent review of HR procedures validated their results.	Harlingen	Complete	16-0351	8/25/2016



**Texas State Technical College
Internal Audit
Status of Fiscal Year 2017 Audit Schedule & Other Projects**

Description	Division/Campus	Status	Report No.	Report Date
INTERNAL AUDITS				
TAC 202 Audit	OIT	In progress		
Internal Penetration Test - Marshall & West Texas	OIT			
Construction Audit	Ft. Bend			
Departmental Audit	Office of COO	In progress		
Departmental Audit	Office of External Relations	In progress		
Departmental Audit	TBD			
Departmental Audit	TBD			
Departmental Audit	TBD			
Departmental Audit	TBD			
Departmental Audit	TBD			
Departmental Audit	TBD			
Departmental Audit	TBD			
Departmental Audit	TBD			
Departmental Audit	TBD			
Internal Quality Assessment Review	Internal Audit	In progress		
Financial Aid Fraud Audit	Financial Aid			
SB 20 Contract Audit	Purchasing			
Facilities Development Project Audit	Harlingen	In progress		

EXTERNAL AUDITS				
State Auditor's Office: A-133 Follow-up	Harlingen	In progress		
State Auditor's Office: A-133 Follow-up	Marshall	In progress		
Texas Workforce Commission: Personnel Policies & Procedures Review	HR	In progress		
Thomas P Miller & Associates: DOL TAACCCT Grant	OSP	In progress		

OTHER INTERNAL PROJECTS				
Internal Hotline: Allegation - Employee wasted money by engaging a consultant that added no value to the College. Results - Determined that value was added by the consulting engagement to several IT projects, that the engagement occurred during the consolidation of OIT, and the engagement was not a unilateral decision. No waste noted.	OIT	Complete	17-0051	9/16/2016
Theft of Cash Investigation - Investigated a cash shortage at the North Texas Campus. Determined that additional money was missing, but because of the lack of controls, could not reliably determine whether it was theft.	North Texas	Complete	16-0371	9/29/2016
Internal Hotline: Allegation - Supervisor abused his/her position by misusing federal funds for personal travel, and to fund disallowable activities. Results - Pending.		In progress		



**Texas State Technical College
Internal Audit
Summary of Audit Reports**

Report Name & No.	Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
North Texas Campus Audit (16-033A)	1.	No exceptions noted.			
Fort Bend Construction Audit (Building One) (16-010A)	1.	No exceptions noted.			
Senate Bill 20 Audit (16-007A)	1.	Certain required statements are missing from the Ethics and Standards of Conduct policy, and the contract management handbook and contract review procedures/checklist are not yet completed.	The contract management handbook is not fully completed; management estimates that it is approximately 50 percent complete. This handbook is intended to establish clear levels of purchasing accountability and establish contracting policies and practices that are consistent with the Comptroller's contract management guide.	1.1 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.	Rushing/Hoekstra 2/28/2017
			The contract review procedure/checklist has not been completed. The purpose of the checklist is to have systematic procedures used to evaluate, approve and execute contracts.		
		Four of the eight required ethics statements, per Section 51.9337(c) are not included in the current version of SOS HR 2.1.12, Ethics and Standards of Conduct, or are not currently being performed. Specifically, required verbiage is not included and ethics training for all employees has not been performed during the past 5 years; currently, only new employees are required to participate in a conflict of interest/ethics training.	1.2 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.	Rushing	11/30/2016

Report Name & No.		Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
Portal Audit (16-024A)	1.	Controls over access and general security to the Portal need to be improved.	Students and employees are given default user IDs and passwords that are not forced by the system to be changed. The formats of both are publicized, creating a situation where unauthorized access is fairly easy should a person obtain the specific information of some other student/employee. The types of information that are available through the Portal include e-mails and sensitive information stored in Colleague and Webadvisor. We were able to access a student's account using the default user ID and password, and were able to see e-mails, and even order a transcript (which was mailed to us). [NOTE: This issue was cited in a prior audit, and is currently being addressed. It is brought up in this audit for information purposes].	1.1 We are instituting new password requirements statewide including a password reset after first login, password expiration after 1 year, and improved password complexity requirements.	Herrera	10/31/2016
			The Portal does not lock after a defined number of failed log on attempts, and the system does not force periodic password changes.	1.2 We are in the process of implementing account lockout settings on the authentication provider for portal.	Herrera	10/31/2016
			Multiple users' have Colleague access to administrator type functions related to the Portal that they do not need.	1.3 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.	Herrera	10/31/2016
			Individuals with access to SharePoint administrative accounts are not tracked or monitored.	1.4 The users noted in the audit have had their account access reviewed and revised as needed according to job function.	Herrera	Immediately
				1.5 We have reviewed the Sharepoint access to this account, and are comfortable with those who have access.	Herrera	Immediately

Annual Program Monitoring of Contract 2416TCY1-00 performed by Collins & Associates	1.	No exceptions noted.				
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Compliance Audit of TEXAS Grant (Waco) performed by THECB	1.	Information technology processes and controls over security access to the student information system should be strengthened to ensure compliance with TAC 202 and FERPA 99.31.	An annual biennial review of meeting TAC 202 requirements has not been performed.	A comprehensive internal audit of TAC 202 compliance was scheduled for FY 2017 prior to this finding. The audit will satisfy the biennial review requirements.	Mallory	7/31/2017
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AY 2015 A-133 Evaluation and Desk Review (Harlingen) performed by the THECB	1.	No exceptions noted.				
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Report Name & No.		Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
AY 2015 A-133 Evaluation and Desk Review (Marshall) performed by the THECB	1.	Failed to provide adequate time and effort reporting documentation on Perkins Basic, Schedule A: Salaries & Fringe Benefits.	Time and effort reporting for an employee did not include 100% of the time worked.	Issue was resolved prior to issuance of the report.	Lisa Frenette	Completed
AY 2015 A-133 Evaluation and Desk Review (System) performed by the THECB	1.	Hotel expenses for 2 nights were reimbursed at a rate higher than the allowable rate.	Same as finding.	Reimburse THECB \$262.60. As of April 2016, all travel is managed through a centralized area. Per the newly established SOS, all hotel fees greater than the allowable rate will be charged to insitutional funds. Only the state allowable rate is charged to the sponsor.	Mary Hernandez	4/1/2016
	2.	Summary: Found one instance where expenditure on food was not reasonable in cost, necessary to accomplish program objectives, and an integral part of instructional program.	Same as finding.	Reimburse THECB \$52.23. Each expense will be reviewed for allowability within the Office of Sponsored Programs before requisitions for payments are approved.	Cindy Reily	9/1/2016
AY 2015 A-133 Evaluation and Desk Review (Waco) performed by the THECB	1.	No exceptions noted.				
AY 2015 A-133 Evaluation and Desk Review (West Texas) performed by the THECB	1.	No exceptions noted.				
Perkins Basic Site Visit Results (Waco) performed by the THECB	1.	No findings, but recommendations for enhancements were made. Please refer to the actual results.				



**Texas State Technical College
Internal Audit
Follow Up Schedule & Status**

Report Name & No., Resp. Sr Mgr		Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
December 2010 Attestation Disclosure, Herrera	1.	TSTC provides internet service to members of the West Texas Telecommunications Consortium (WTTC). In 2008, WTTC was cited for an FCC violation in an external audit because the audit concluded that WTTC "surrendered control of its competitive bidding process" to TSTC because a TSTC employee sat on the WTTC board at the time. However, the audit went on to conclude that the selection of TSTC was the most cost effective bid. Nevertheless, as a result of this audit finding, the funding agency has indicated in letters to both TSTC and WTTC that \$589 thousand may be required to be repaid. The certainty of that requirement is yet unknown.	TSTC and WTTC issued an attorney drafted joint appeal on January 11, 2011, to the funding agency in an attempt to 1) clarify the audit finding, and 2) appeal the ruling that the money may need to be repaid. This appeal is based primarily on the facts that no negative monetary effect was felt by WTTC, and the TSTC employee who was on the Board did not actually participate in any part of the bid process. The appeal also included affidavits from 4 WTTC Board members, the WTTC WAN Director, and the TSTC employee that state the TSTC employee did not participate in the bidding or selection process.	On-going: As of 09/20/16, we had not received a response on our appeal to the finding from the FCC. TSTC General Counsel previously spoke with outside counsel on the matter who indicated the FCC is severely backlogged on appeals. They are just reviewing appeals filed in 2006. Internal Audit will leave this on the follow-up schedule until the appeal has been heard. This may take several years.	We are still pending a ruling from the FCC on the matter.	Still awaiting FCC response
Harlingen, Waco, Marshall, WT, Sys Ops: 2014 Employee Time Reporting Audits, Rushing	1.	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.	1.2 HOD will review (and revise if necessary) all existing policies and procedures related to leave and compensatory time to ensure compensatory time is handled consistently throughout the System.	Partially Complete: HR personnel have been trained to better scrutinize all manual time sheets. In January 2016, an IT project was approved to create a single State-wide application to manage leave requests, accruals, and timesheets. This system will be computing device agnostic.	10/12/16: The training with Human Resources personnel has occurred. HR continues to meet with OIT on modifications to the leave request and accrual system. One phase of that project is anticipated to reach completion this fall.	TBD
			1.3 Depending on availability of IT programming personnel, HOD will facilitate enhancements of the current leave system to accommodate automation of compensatory time recording and calculation.	See above comments		12/31/2016
			1.4 Once the method for time reporting is determined, System-wide training will be implemented.	See above comments		TBD

Report Name & No., Resp. Sr Mgr		Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
Harlingen: A-133 Audit (performed by the SAO), Adams	1.	Summary: Cost of Attendance budgets need to be adjusted to reflect actual enrollment so that the potential for over awards is reduced.	Continue to calculate initial award on full-time enrollment, and after the census date adjust the cost of attendance to the actual enrollment level. Awards will continue to be adjusted as necessary.	09/20/16: Substantially implemented. The CAP was not due until 08/31/16. The SAO elected to wait until after action was taken, and delayed testing until Summer 2017.		2/1/2018
Marshall: A-133 Audit (performed by the SAO), Adams	1.	Summary: Cost of Attendance budgets need to be adjusted to reflect actual enrollment so that the potential for over awards is reduced.	Continue to run an automated process to adjust awards based upon enrollment. The financial aid office will ensure only eligible budget components are included in the COA calculation.	09/20/16: Substantially implemented. The CAP was not due until 08/31/16. The SAO elected to wait until after action was taken, and delayed testing until Summer 2017.		2/1/2018
Cybersecurity Audit (15-049A), Herrera	1.	Controls related to wireless access and mobile devices need to be improved, as well as overall IT security training and awareness.	1.1 Due to network and hardware configuration, the following TSTC networks do not have separate guest and secure wireless: Sweetwater, Brownwood, Breckenridge, Abilene and Marshall. We are currently in the stages of correcting Brownwood and Breckenridge. The estimated completion date is October 31, 2015. Sweetwater and Marshall should be completed by July 2016 and Abilene by October 2016.	Partially Complete: At 09/29/16, the Brownwood and Breckenridge campuses have been completed. Marshall, Sweetwater, and Abilene are scheduled for completion by October 31, 2016.		10/31/2016
			1.3 A draft Mobility Management Policy has been created and is in the early stages of revision. Once OIT management has approved the draft it will go to the Information Technology Action Group for comment, revision and acceptance prior to going to EMC and the Chancellor for review. We expect the Mobility Management Policy to be in place by April 1st, 2016.	Partially Complete: At 03/02/16, a rough draft of the policy has been created. At 07/08/16, the final version of the policy was not yet complete. At 09/30/16, the final version was not yet completed.		6/1/2016
Internal Network Penetration Test (16-016A), Herrera	1.	We were able to find information on the internet that was useful to us in our social engineering attacks. As such, we were able to obtain both end user credentials to systems containing protected data, and other information that could be used to get those credentials using relatively low-tech methods. We also noted instances in which physical security needs to be improved. Finally, we were able to inappropriately access student and employee data on servers using techniques available to more sophisticated hackers.	We have reviewed the issues identified and agree that corrective actions are necessary. We formulated specific actions for each of the issues, and have already corrected some. All required actions will be completed no later than December 2016 since some actions will require assistance from personnel outside of OIT.	On-going: At 9/30/16, issues were still being addressed.		12/31/2016

Report Name & No., Resp. Sr Mgr		Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
Portal Audit (16-024A), Herrera	1.	Controls over access and general security to the Portal need to be improved.	1.1 We are instituting new password requirements statewide including a password reset after first login, password expiration after 1 year, and improved password complexity requirements.	On-going		10/31/2016
			1.2 We are in the process of implementing account lockout settings on the authentication provider for portal.	On-going		10/31/2016
			1.3 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.	On-going		10/31/2016
			1.4 The users noted in the audit have had their account access reviewed and revised as needed according to job function.	Pending Review		Immediately
			1.5 We have reviewed the Sharepoint access to this account, and are comfortable with those who have access.	Pending Review		Immediately
Senate Bill 20 Audit (16-007A), Rushing, Hoekstra	1.	Certain required statements are missing from the Ethics and Standards of Conduct policy, and the contract management handbook and contract review procedures/checklist are not yet completed.	1.1 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.	On-going		2/28/2017
			1.2 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.	On-going		11/30/2016



Internal Audit Annual Report
Fiscal Year 2017
in Accordance with the Texas Internal Auditing Act

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



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

I. Internal Audit Plan for Fiscal Year 2016

The Board of Regents approved the audit plan for fiscal year 2016 (see I-2) in August 2015, and approved in August 2016 additional audits performed throughout the year. This audit plan was prepared using risk assessment techniques in accordance with the Texas Internal Auditing Act.

Audits of various campuses, SB 20 compliance, airplane utilization, 50th Celebration, and the construction of building one in Ft. Bend was added to the plan after its initial approval. In total, 19 internal audit reports were issued for audits performed in fiscal year 2016.



**Internal Audit Department
Fiscal Year 2016 Audit Plan**

Project Description	Division/Campus	Report Number	Report Date	Status
Public Funds Investment Act	Accounting & Finance	16-005A	09/03/15	Complete
Ft. Bend Construction Audit (TSTC Foundation) ¹	Accounting & Finance	16-010A	9/29/2015 & 09/01/16	Complete
College Assistance Migrant Program Grant Audit	Integrated Marketing	16-009A	11/09/15	Complete
50th Anniversary Celebration Audit ²	Integrated Marketing	16-017A	12/11/15	Complete
Benefits Proportionality Audit ³	Accounting & Finance	16-015A	01/08/16	Complete
Variable Expenditures Audit	All divisions	16-008A	02/22/16	Complete
Airplane Utilization Audit ²	Office of the Chancellor	16-025A	03/17/16	Complete
Violence Against Women Act & Campus Sexual Violence Elimination Act Compliance Audit	Integrated Marketing, Operations	16-006A	03/21/16	Complete
Grant	Integrated Marketing	16-019A	03/24/16	Complete
Workstudy Compliance Audit	Financial Aid	16-013A	05/31/16	Complete
Internal Network Penetration Test	OIT	16-016A	06/09/16	Complete
SB 20 Compliance Audit ^{1,2&4}	Accounting & Finance	16-007A	09/08/16	Complete
Williamson County Campus Audit ²	Williamson County	16-031A	07/08/16	Complete
Harlingen Campus Audit ²	Harlingen	16-027A	06/01/16	Complete
Waco Campus Audit ²	Waco	16-028A	06/01/16	Complete
West Texas Campus Audit ²	West Texas	16-029A	06/28/16	Complete
North Texas Campus Audit ^{1&2}	North Texas	16-033A	08/24/16	Complete
Portal Application Audit ¹	OIT	16-024A	09/14/16	Complete

Notes:

1 Audit in progress at year end. Report was issued in FY 2017.

2 Audit was added during the fiscal year.

3 Performed to address the benefits proportionality audit requirement prescribed by Rider 8, page III-41, of the GAA of the 84th Legislature.

4 The audit determined that the Ethics Policy required revision, and the required contracting handbook and checklist were not yet completed.

II. 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. Mr. Groover is the Director of Internal Audits at Texas Woman's University, while Mrs. Charbonneau is 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. See the attached report.



Office of Internal Audits

P.O. Box 425587, Denton, TX 76204-5587
940-898-3260 Fax 940-898-2986

April 29, 2015

Mr. Jason Mallory
Internal Audit Department
Texas State Technical College
3801 Campus Drive
Waco, TX 76705

Dear Mr. Mallory,

At your request, we performed an external quality assurance review (EQAR) of the Texas State Technical College Internal Audit Department (TSTCIAD) to assess compliance with the following:

- Texas Internal Auditing Act (Tex. Gov't. Code Chapter 2102);
- Institute of Internal Auditors *Code of Ethics* and *International Standards for the Professional Practice of Internal Auditing*; and
- U.S. Government Accountability Office *Generally Accepted Government Auditing Standards*.

These are collectively referred to as the *Standards* for purposes of this review.

The EQAR was performed by Andrew Groover, Director of Internal Audits for Texas Woman's University and Leticia Charbonneau, Executive Director of Internal Audit for Lone Star College System, with onsite fieldwork conducted April 6th and 7th 2015.

The review was conducted in accordance with the State Agency Internal Audit Forum Peer Review Guidelines using the Master Peer Review Program. It included audit activities from September 2011 – January 2015.

Rating System for Opinion

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 TSTCIAD has policies, procedures, and an audit charter that were judged to be in accordance with applicable standards; however, opportunities for improvement may exist.
- *Partially conforms* means deficiencies, while they might impair, did not prohibit the TSTCIAD from carrying out its responsibilities.

- *Does not conform* means deficiencies in practice were found that were considered so significant as to seriously impair or prohibit the TSTCIAD in carrying out its responsibilities.

Introduction

The Texas Internal Auditing Act requires TSTCIAD to conform to standards established by the Institute of Internal Auditors (IIA) and the U.S. Government Accountability Office (GAO). The *International Standards for the Professional Practice of Internal Auditing*, promulgated by the IIA, require external assessments to be performed at least once every five years by a qualified, independent reviewer or review team from outside the organization. The *Generally Accepted Government Auditing Standards* (GAGAS) issued by the GAO require an external assessment at least every three years. The Texas Internal Auditing Act also requires an external assessment every three years.

This report represents the results of the external quality assurance review that we conducted. The objectives were to assess the level of TSTCIAD's compliance with the *Standards* and identify opportunities to enhance its operations.

Scope

The scope of the review included:

- Review of self-assessment materials prepared by the Director, including the audit charter, audit manual, and other organizational materials;
- Interviews with the Chair of the Audit Committee, TSTC Chancellor, Vice Chancellor for Finance, Vice Chancellor and Chief Information Officer; State Auditor's Office Audit Manager for TSTCIAD, Director of Internal Audits and Internal Audit Staff members in Waco and Harlingen.
- Examination of four sets of work papers and the related audit report produced by the TSTCIAD during the EQAR period; and
- A comparison of the TSTCIAD's audit practices with the *Standards*.
- A survey of various TSTC administrative staff.

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
<i>Attribute Standards</i>	
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
<i>Performance Standards</i>	
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 TSTC Director of Internal Audit 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 External Quality Assurance Review Team

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.

We appreciate the opportunity to conduct the EQAR of the TSTCIAD. We confirm that we are independent and have no actual or potential conflicts of interest associated with the TSTCIAD.

Sincerely,



Andrew S. Groover, M.Ed., CPA, CIA, CICA, CISA, CFE
Director of Internal Audits
Texas Woman's University



Leticia T. Charbonneau, CPA, CIA, CGAP
Executive Director-Internal Audit
Lone Star College System

cc:

Regent Ellis M. Skinner II, Chair
Regent Joe M. Gurecky, Vice Chair
Regent Linda McKenna
Regent Penny Forrest
Regent Ivan Andarza
Regent John K. Hatchel
Regent Joe K. Hearne
Regent Keith Honey
Regent James Virgil (J.V.) Martin
Chancellor Mike Reeser



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Fax: 254.867.3912

April 29, 2015

Mr. Joe Gurecky, Audit Committee Chair
Texas State Technical College System
Waco, Texas 76705

Mr. Gurecky:

SUBJECT: Response to the Recommendations offered in the 2015 External Quality Assessment Review

I have formulated responses to the recommendations offered in the Internal Quality Self-Assessment conducted by me and the External Quality Assessment Review conducted by Andrew Groover of Texas Woman's University and Leticia Charbonneau of LoneStar Colleges.

As noted in both reports, the TSTC Internal Audit Department achieved the highest rating possible of "generally conforms to the standards." Those standards include the *International Standards for the Professional Practice of Internal Auditing* issued by the IIA, *Generally Accepted Government Auditing Standards* (GAGAS) issued by the GAO, and the Texas Internal Auditing Act.

Both of those audits resulted in recommendations for my consideration. While the recommendations are intended simply as opportunities to enhance my current processes and are not compliance related, I formulated responses so that you could be aware of my planned actions.

Sincerely,

A handwritten signature in black ink, appearing to read "Jason D. Mallory", is written over a light gray, stylized graphic of the state of Texas.

Jason D. Mallory
Director of Audits

Division: Internal Audit

Senior Management: Jason Mallory, Director of Audits

Task	Brief Description	Responsible Individual	Completion Date
1.1	The working papers prepared by the Director will be reviewed by another person in the Department.	Tahlia Pena	Immediately
1.2	An annual report to the Board will be prepared that lists the quality control procedures that are in place over the internal audit process.	Jason Mallory	August 13, 2015
1.3	I did not realize the different standards conflicted on this requirement. In practice everyone in the Department has obtained close to 40 hours or more of education annually, however our departmental policy only requires 20 hours. That policy will be updated to require at least 40 hours annually rather than 20.	Tahlia Pena	Immediately
1.4	The standards only require <u>periodic</u> self-assessments, which we perform. The term “periodic” is not defined. But to further demonstrate our commitment to quality, we will begin performing and documenting a self-assessment every 1.5 years, and reporting the results to the Board.	Tahlia Pena	Immediately
1.5	The ethics and IT governance audit recommendation implies that performing specific audits every 3 years is a requirement. But in fact compliance guidance included in the actual standards clearly state that we must be familiar with these processes, and that an understanding is most likely obtained through several different audits and processes. We will include these individual audits in our annual audit planning process, and perform them only if the risk rating is high in comparison to other auditable areas.	Jason Mallory	Immediately
1.6	In the past, specific IT audits similar to those listed in the peer review team’s recommendation were performed because a dedicated IT auditor was on staff. After losing that resource, we have gradually been rebuilding that capacity through training and outsourcing, and will continue down that path. In 2015, four specific IT audits were scheduled which demonstrates our commitment to performing IT audits. Going forward, IT specific audit will continue to be included in the annual audit plan.	Jason Mallory	Immediately

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

Report #	Report(s) Date	Audit Name	Location(s)	Summary of Audit Findings	Summary of Corrective Action Plans	Current Status of Corrective Action Plans
9/29/2015 & 9/01/16	16-010A	Ft. Bend Construction Audit ¹	Foundation	No reportable exceptions noted.		
09/03/15	16-005A	Public Funds Investment Act	Finance	The College materially complied with the PFIA and Rider 5 requirements during fiscal years 2014 and 2015.		
11/09/15	16-009A	CAMP Grant Audit	OSP	We identified reporting errors that need to be corrected for this Grant, and administrative errors that need to be corrected going forward for any similar grants.	As we move forward with similar grants , we work closely with the Office of Sponsored Programs (OSP).Our grants will be receiving additional support from OSP as it relates to grant and budget compliance. Additionally, close communication will be will encouraged to ensure that all procedures are followed and understood.	Fully Implemented
					The final report due in November 2015 will include accurate information.	Fully Implemented
11/10/15	15-049A	Cybersecurity Audit ²	OIT	Controls related to wireless access and mobile devices need to be improved, as well as overall IT security training and awareness.	Due to network and hardware configuration, the following TSTC networks do not have separate guest and secure wireless: Sweetwater, Brownwood, Breckenridge, Abilene and Marshall. We are currently in the stages of correcting Brownwood and Breckenridge. The estimated completion date is October 31, 2015. Sweetwater and Marshall should be completed by July 2016 and Abilene by October 2016.	Substantially Implemented
					Information security training has been developed and is available through Moodle in the TSTC Portal. Institutional Advancement is currently revising the training to include an end-of-course quiz. That training will be fully deployed Statewide by December 1st and will be mandatory annually for all employees as well as new hires during the on-boarding process.	Fully Implemented
					A draft Mobility Management Policy has been created and is in the early stages of revision. Once OIT management has approved the draft it will go to the Information Technology Action Group for comment, revision and acceptance prior to going to EMC and the Chancellor for review. We expect the Mobility Management Policy to be in place by April 1st, 2016.	Ongoing
12/11/15	16-017A	50th Celebration Audit	Integrated Marketing	No reportable exceptions noted.		
01/08/16	16-015A	Benefits Proportionality Audit	Finance	No reportable exceptions noted.		
02/22/16	16-008A	Variable Expenditures Audit	Statewide	No reportable exceptions noted.		
03/17/16	16-025A	Airplane Utilization Audit	Chancellor's Office	No reportable exceptions noted.		
03/21/16	16-006A	Violence Against Women Act (VAWA) Compliance Audit	Integrated Marketing, Operations	Improvements are needed to better comply with VAWA. Specifically, we determined training, policy disclosures in the annual security reports, and other required disclosures were lacking.	The TSTC ASR for 2016 will include the required policies, statistics, and elements not included within the October 1st, 2015 annual security report/notice.	Substantially Implemented

Report #	Report(s) Date	Audit Name	Location(s)	Summary of Audit Findings	Summary of Corrective Action Plans	Current Status of Corrective Action Plans
					All ten TSTC campuses will be included within an ASR(s) for 2016.	Substantially Implemented
					The link to the TSTC Title IX Booklet will be provided to all enrolled TSTC students during student orientation at the beginning of each semester; in addition, each identified TSTC Campus Security Authority will be provided a hard copy as well as the link to the TSTC website containing the Title IX Booklet.	Substantially Implemented
					Campus Security Authorities will be identified for each TSTC campus and will receive standardized training in accordance with the Clery Act Handbook.	Substantially Implemented
					A standardized VAWA training module for employees and students will be created and published via Moodle.	Substantially Implemented
03/24/16	16-019A	Developmental Education Scaling and Sustaining Success Grant Audit	OSP	No reportable exceptions noted.		
05/31/16	16-013A	Work Study Compliance Audit		Federal non-compliance issues were noted in the awards expended in the 2015 award year.	FISAP: TSTC will be submitting one FISAP for the College. All documentation for the FISAP will be stored in a shared Google folder. Preparation of the FISAP will begin in mid-July each year in order to give ample time for the data to be reviewed for accuracy by all relevant parties, including Financial Aid and Financial Services prior to the due date of October 1.	Fully Implemented
					Job Descriptions: We have developed two core job descriptions and have given the hiring departments the ability to add specific requirements as needed. One core job description is for the Texas Work-study Program and the other is for Federal Work-study Program. Upon requesting a work-study student, hiring managers will complete a Student Employment Needs Assessment Form on which they will complete a job description with roles, responsibilities, qualifications and education requirements as well as preferred skills related to their department needs. These items will be added to the core job descriptions. Job descriptions have been updated to include all required elements.	Fully Implemented
					Timesheets & Hours Worked: Work-study students are not permitted to work in any FWS positions during scheduled class times. While exceptions may be permitted, we have chosen not to permit students to work during scheduled class times. The Student Employment Needs Assessment Form, which is required to be completed prior to obtaining a work-study student, has been updated to add a disclosure advising hiring managers that work-study students will not be permitted to work during a time he/she is scheduled to be in class. Hiring managers submitting the Student Employment Needs Assessment are required to understand and sign the disclosure statement.	Fully Implemented

Report #	Report(s) Date	Audit Name	Location(s)	Summary of Audit Findings	Summary of Corrective Action Plans	Current Status of Corrective Action Plans
					Community Service & Literacy Requirements: The college is responsible for using at least 7% of its Federal Work-study allocation each year to employ students in community service jobs. For the 2015-16 year we have already met that requirement. We have 17 students who are employed in community service jobs, and have already spent 7.8% of our total allocation on community service jobs at the end of the Spring 2016 semester. In addition, the college must have at least one FWS student employed as a reading tutor for children in a reading tutoring project or performing family literacy activities in a family literacy project. For the 2015-16 year, we have a total of 7 students employed in reading/math tutoring positions.	Fully Implemented
06/01/16	16-027A & 16-028A	Waco & Harlingen Campus Audits	Harlingen & Waco	No reportable exceptions noted.		
06/09/16	16-016A	Internal Network Penetration Test	Waco & Harlingen	We were able to find information on the internet that was useful to us in our social engineering attacks. As such, we were able to obtain both end-user credentials to systems containing protected data, and other information that could be used to get those credentials using relatively low-tech methods. We also noted instances in which physical security needs to be improved. Finally, we were able to inappropriately access student and employee data on servers using techniques available to more sophisticated hackers.	We have reviewed the issues identified and agree that corrective actions are necessary. We formulated specific actions for each of the issues, and have already corrected some. All required actions will be completed no later than December 2016 since some actions will require assistance from personnel outside of OIT.	Ongoing
06/28/16	16-029A	West Texas Campus Audits	West Texas Campuses	No reportable exceptions noted.		
07/08/16	16-013A	Williamson County Campus Audit	Williamson County	No reportable exceptions noted.		
08/24/16	16-033A	North Texas Campus Audit ¹	North Texas	No reportable exceptions noted.		
09/08/16	16-007A	Senate Bill 20 Audit ¹	Finance	Certain required statements are missing from the Ethics and Standards of Conduct policy, and the contract management handbook and contract review procedures/checklist are not yet completed.	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.	Ongoing
					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.	Ongoing
09/14/16	16-024A	Portal Audit ¹	OIT	Controls over access and general security to the Portal need to be improved.	We are instituting new password requirements statewide including a password reset after first login, password expiration after 1 year, and improved password complexity requirements.	Ongoing
					We are in the process of implementing account lockout settings on the authentication provider for portal.	Ongoing
					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.	Ongoing
					The users noted in the audit have had their account access reviewed and revised as needed according to job function.	Fully Implemented

Report #	Report(s) Date	Audit Name	Location(s)	Summary of Audit Findings	Summary of Corrective Action Plans	Current Status of Corrective Action Plans
					We have reviewed the Sharepoint access to this account, and are comfortable with those who have access.	Fully Implemented

Notes:

- 1 FY 2016 audit completed in FY 2017.
- 2 FY 2015 audit completed in FY 2016.

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

Report #	Report Date	Project Purpose	Division/Campus	Summary of Observations and Recommendations	Summary of Corrective Action Plans	Corrective Action Plans
16-0111	10/12/2015	Investigate an allegation that financial aid awarded to a full-time employee who was also enrolled as a full-time student was inappropriate.	Harlingen	The process for receiving credit by exam was not followed. Financial aid was not justified in this case, and needed to be returned immediately. Instructors inaccurately reported attendance by the employee/student.	All financial aid was returned, to include all federal and local awards. Employee was de-registered from all classes, and all employees involved were trained on the proper way to handle credit by exam.	Complete
16-0121	10/22/2015	Investigate an allegation that information submitted on a FAFSA was fraudulent.	Harlingen	Verified the financial information submitted on the FAFSA was legitimate. No exceptions were identified.	Not applicable.	
16-0141	10/30/2015	Investigate an allegation of an improper sale of College equipment.	Waco	Determined that an employee intentionally attempted to sell equipment outside of the normal disposal process. The attempted sale was to related party.	The sale was stopped, and the employee was immediately dismissed.	Complete
16-0181	11/17/2015	Investigate an allegation of a hostile work environment, and conflict of interest between the supervisor and an employee.	Harlingen	HR did not find evidence of a hostile work environment. Conflict of interest allegations were addressed in 2007.	Not applicable.	
16-0201	6/2/2015	Investigate an allegation that segregation of duties was being overrode in the A/P Department.	Marshall	Did not find evidence that the person named in the allegation overrode controls.	Not applicable.	
16-0351	8/25/2016	Investigate allegation of hostile work environment.	Harlingen	HR did not find evidence of a hostile work environment. Because the integrity of the HR investigators were questioned, a separate appellate review was performed on their work. The results were the same.	Not applicable.	

V. Internal Audit Plan for Fiscal Year 2017

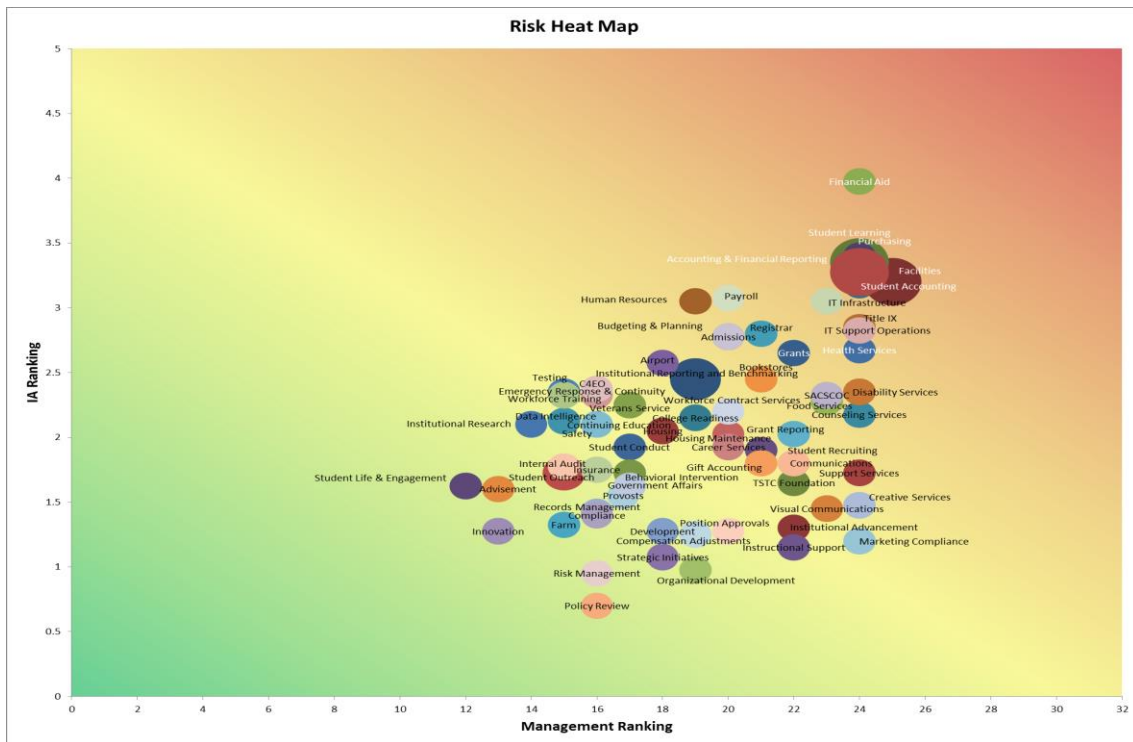
The Plan was developed by risk assessing major activities and processes performed throughout the College, with input from numerous levels of management, Board, and audit staff. Over 60 people throughout the College participated, with 10 high level risks being applied to 68 processes and activities. Risk information available at the time was considered, therefore, the Plan is subject to revision should the risk climate materially change, or unexpected events occur. If this happens, the Director of Audits will promptly notify the Audit Committee and Executive Management of requested revisions to the Plan.

Internal Audit staff and departmental managers completed risk questionnaires on 68 major College process and activities. Those questionnaires gathered information about the following risks in each area:

1. regulatory compliance
2. financial statement impact
3. fraud risk
4. IT dependency
5. handling of sensitive information
6. known safety hazards
7. importance of data and reports generated by the area
8. quality of internal controls
9. customer impact, especially on students
10. impact of recent changes

The departmental managers also identified strategic goal(s) their processes and activities impacted.

The responses on these questionnaires were converted to numeric scores, and plotted on a "heat map." See that heat map below. The purpose of the heat map is to illustrate areas reflected by the risk questionnaires in which audit resources should be directed. Internal Audit selected auditable areas from the processes and activities plotted higher on the map.



The Plan is also considered in light of significant activities occurring at the College and in the industry. Some of those activities this year included recent single accreditation efforts, performance based funding, increased marketing efforts, and actions aimed at building a culture of philanthropy. Other's included management's stated intent to maximize alternative funding sources such as grants and auxiliary business profits, specific actions aimed at operating more efficiently in administrative functions, increased IT security efforts, and legislative requests. 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) were also considered.

An audit of the contract management requirements of Senate Bill 20 from the 84th Legislature is included in the Plan, as is a comprehensive audit of TAC 202 requirements.



**Internal Audit Department
Fiscal Year 2017 Audit Plan**

Project Description	Budgeted Hours
TAC 202 Audit	900
Construction Audit	450
Internal Network Penetration Test (Marshall & West Texas)	350
Texas Education Code, Chapter 51, Subchapter Z, Section 51.9337 (Contracting Requirements) Audit ¹	350
Financial Aid Fraud	350
12 Departmental Audits - to be determined (200 hours each)	2,400
Internal Quality Assessment Review	450

Notes:

1 Addresses requirements of Senate Bill 20 (84th Legislature).

VI. External Audit Services Procured in Fiscal Year 2016

In FY 2016, the following audits were performed by auditors external to TSTC:

- TSTC Harlingen:
 - A-133 Audit – State Auditor’s Office
- TSTC Waco
 - A-133 Audit – State Auditor’s Office
- TSTC West Texas
 - A-133 Audit – State Auditor’s Office
- TSTC Marshall
 - A-133 Audit – State Auditor’s Office

VII. 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 84th Legislature's General Appropriations Act, and Texas Government Code, Section 321.022:

- The TSTC website 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.
- A confidential internal fraud hotline is also available for people to report suspected fraud. The hotline is administered by Internal Audit.
- Statewide Operating Standards 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 also available on the College's website.
- In compliance with the reporting requirements of fraud, waste, and abuse, TSTC reports all instances of confirmed fraud, waste, and abuse to the SAO.

VIII. 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 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, TSTC Internal Audit will submit its Internal Audit Annual Report to the 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.



Office of Internal Audit
254.867.3999
Fax: 254.867.3912

November 17, 2016

Mr. Ivan Andarza, TSTC Audit Committee Chairman
Texas State Technical College
Waco, Texas 76705

SUBJECT: Annual Review of Internal Audit Charter

Mr. Andarza:

The Institute of Internal Auditors' *Professional Practices Framework* requires that the Audit Committee establish and periodically review a written document which establishes an internal audit department's authority and responsibilities. Attached for your review is Statewide Operating Standard GA 1.4 Internal Audit Function, otherwise known as the Internal Audit Charter. This document formally establishes the authority and responsibilities of the Internal Audit Department at TSTC.

In my opinion, the Internal Audit Charter contains all necessary elements required by the *Professional Practices Framework*, and adequately establishes our authority and responsibilities to you, the Board of Regents, and TSTC. At this time, I do not recommend any changes to the document.

Sincerely,

A handwritten signature in black ink, appearing to read "Jason D. Mallory", written in a cursive style.

Jason D. Mallory
Director of Audits

**TEXAS STATE TECHNICAL COLLEGE
STATEWIDE OPERATING STANDARD**

No. GA 1.4	Page 1 of 4	Effective Date: 11/05/15
DIVISION:	General Administration	
SUBJECT:	Internal Audit Function	
AUTHORITY:	Minute Order #30-13	
PROPOSED BY:	<i>Original Signed by Jason D. Mallory</i>	
TITLE:	Director of Audits	Date: 11/05/15
RECOMMENDED BY:	<i>Original Signed by Jason D. Mallory</i>	
TITLE:	Director of Audits	Date: 11/05/15
APPROVED BY:	<i>Original Signed by Ellis M. Skinner, II</i>	
TITLE:	Chairman of the Board of Regents	Date: 11/05/15

STATUS: Revised 11/05/15

HISTORICAL STATUS: Revised 06/09/15
 Approve by BOR 8/15/13
 Revised March 2013
 Approved BOR 01/23/04
 Approved MC 12/5/03
 Approved MC 4/9/2003
 Revised 3/2003
 Revised MC 11/21/96
 Approved MC 11/21/96
 Revised 10/18/96
 Approved by BOR 05/11/96
 Approved MC 05/10/96
 Revised 04/02/96
 Approved by MO #39-94 dated 03/26/94
 Rescinded MO #9-90 by MO #40-94 dated 03/26/94
 Approved by MO #9-90 dated 01/21/90
 MG-IA-1 01/10/90

POLICY

It is the policy of Texas State Technical College to maintain an internal audit activity to provide

independent, objective assurance and consulting services designed to add value and improve the College's operations in accordance with the Texas Internal Auditing Act, The Institute of Internal Auditors *Professional Practices Framework*, and the Comptroller General of the United States *Government Auditing Standards*. The Internal Audit function will maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to ensure their technical competence. The Internal Audit function shall have unrestricted access to all functions, records, property, and personnel, exercising prudence in the use of these resources.

PERTINENT INFORMATION

The Institute of Internal Auditors *Professional Practices Framework* consists of the Definition of Internal Auditing, Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing. Compliance to these elements is mandatory.

Definition of Internal Auditing

The mission of the internal audit activity is to provide independent, objective assurance and consulting services designed to add value and improve Texas State Technical College's (TSTC) operations. It helps TSTC accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Code of Ethics

The purpose of the Code of Ethics is to promote an ethical culture within the internal audit profession. It forms the basis of the trust placed on them by management and the Board of Regents. As such, the staff within the TSTC Internal Audit Department is required to act with integrity, objectivity, confidentiality, and competency.

Standards

These are the specific requirements by which the TSTC Internal Audit Department are evaluated and measured. They also provide a framework for performing and promoting internal audit activities, and foster improved processes and operations. Examples include requiring a quality improvement program, professional development, and due professional care.

The scope of work of the TSTC Internal Audit Department is to determine whether TSTC's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.

- Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Plans and objectives are achieved.
- Quality and continuous improvement are fostered in TSTC's control process.
- Significant legislative or regulatory issues impacting TSTC are recognized and addressed properly.

Opportunities for improving management control, profitability, and TSTC's image may be identified during audits. They must be communicated to the appropriate level of management.

DELEGATION OF AUTHORITY

To provide for the independence of the TSTC Internal Audit Department, its personnel report to a Director of Audits (Director), who reports directly to the Audit Committee of the Board of Regents, and administratively to the Chancellor.

The Director and staff are authorized to:

- Have unrestricted access to all functions, records, property, and personnel.
- Have full and free access to the Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary assistance of personnel in units of TSTC where they perform audits, as well as other specialized services from within or outside TSTC.

The Director and staff are not authorized to:

- Perform any operational duties for TSTC.
- Initiate or approve accounting transactions external to the internal auditing department.
- Direct the activities of any organization employee outside of the TSTC Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

OPERATING REQUIREMENTS

Accountability

The Director, in the discharge of his/her duties, shall be accountable to management and the Audit Committee of the Board of Regents to:

- Report significant issues related to the processes for controlling the activities of TSTC, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.

- Coordinate with other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

Responsibility

The Director and staff have responsibility to:

- Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to Audit Committee for review and approval. Along with the many other risks associated with College activities, the audit planning must consider risks specifically associated with contracts and contract administration. Additionally, an annual assessment must be made of contract compliance matters outlined in Texas Education Code, Section 51.9337, with the results being reported to the State Auditor.
- Implement the annual audit plan, as approved, including, as appropriate, any special tasks or projects requested by management and the Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of the Internal Audit Charter.
- Establish a quality assurance program by which the Director assures the operations of the TSTC Internal Audit Department.
- Perform consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services.
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to the Audit Committee and management summarizing results of audit activities.
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Assist in the investigation of significant suspected fraudulent activities within TSTC and notify management and the Audit Committee of the results.
- Consider the scope of work of external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to TSTC at a reasonable overall cost.

PERFORMANCE STANDARDS

The internal audit activity will meet or exceed the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors. Reviews and appraisals of federal programs, activities and functions will also be performed in accordance with Government Auditing Standards established by the Comptroller General of the United States. The Director and staff of the internal auditing department will maintain technical competence through continuing education consistent with the requirements for certified public accountants or certified internal auditors that is applicable to the college environment.



Office of Internal Audit
254.867.3999
Fax: 254.867.3912

November 17, 2016

Mr. Ivan Andarza, Audit Committee Chairman
Texas State Technical College
Waco, Texas 76705

SUBJECT: Annual Confirmation of Organizational & Individual Independence

Mr. Andarza:

The Institute of Internal Auditors' *Professional Practices Framework* requires that I confirm annually to you that the Internal Audit Department and its staff are organizationally independent within TSTC to assure you that audit reports and other opinions I offer you are free of interference from management.

I attest that the Internal Audit Department has a reporting structure which promotes organizational independence. The current structure requiring me to report functionally to the Chairman of the Audit Committee, but administratively to the Chancellor, achieves the requirements of the *Professional Practices Framework*. I do not feel any barriers exist which prevent my direct communication and interaction with you. Also, there has not been any instance in which management has attempted to limit the scope of the internal audit role, interfere with work necessary to offer opinions, or unduly influence communications that you receive.

And while not specifically required to be confirmed, I also attest, to the best of my knowledge and belief, that my staff and I are free from any personal impairments which might present a conflict of interest. Everyone is expected to maintain independence of mental attitude in the conduct of all assigned work, to be objective, fair, and impartial, and to conduct themselves appropriately at all times. To limit and identify personal impairments, Internal Audit Department employees cannot have any operational responsibilities outside of the Internal Audit Department. They must also annually acknowledge their responsibilities in writing, and report any situation they feel might jeopardize their objectivity.

Sincerely,

A handwritten signature in black ink, appearing to read "Jason D. Mallory", is written over a horizontal line.

Jason D. Mallory
Director of Audits



Office of Internal Audit
254.867.3999
Fax: 254.867.3912

November 17, 2016

Mr. Ivan Andarza, TSTC Audit Committee Chairman
Texas State Technical College
Waco, Texas 76705

SUBJECT: Information on Internal Audit's Program of Quality Control

Mr. Andarza:

The Institute of Internal Auditors' *Professional Practices Framework* requires I provide you information annually on our quality control program for internal auditing. We have established a program that ensures independence, competency, and compliance to auditing standards. That program includes the following:

- Required annual continuing education for each staff member. In FY 2016, all staff obtained at least 40 hours of relevant continuing education.
- Attainment of professional certification(s). I am a CPA, Certified Internal Auditor (CIA), and hold a certification in control self-assessment. Two staff members have partially completed the requirements for the CIA designation, and the other will be sitting for the Certified Information Systems Auditor exam in FY 2017.
- Internal and external quality assessment reviews. An external review was performed in FY 2015 in which an independent assessor rated us as achieving standards. An internal review is scheduled for FY 2017.
- Reliable and sufficient documentation for all audit reports and opinions. I supervised all FY 2016 audits, and conducted working paper reviews before any reports and opinions were issued.
- Policy and procedures manual. All auditors are in possession of the manual, and acknowledge their responsibilities in writing annually. The manual is reviewed annually, and updated as needed.
- Independence statements. In FY 2016, all auditors acknowledged their independence in writing. Formal procedures are established to address conflicts of interest.
- Membership in professional organizations. The Department is a member of the *Institute of Internal Auditors*, the *Association of College and University Auditors*, and the *Texas Association of College and University Auditors*. I sit on the Board of the latter.
- Client surveys. In FY 2016, client opinions of our work were sought after each audit. We received 14 responses, with those responses generally being good to exceptional.

Sincerely,

A handwritten signature in black ink, appearing to read "Jason D. Mallory", is written over a horizontal line.

Jason D. Mallory
Director of Audits

Internal Audit Department

Audit Report

North Texas Campus Audit (16-033A)
of
TEXAS STATE TECHNICAL COLLEGE

August 24, 2016

This audit was conducted in accordance with the
International Standards for the Professional Practice of Internal Auditing
of the Institute of Internal Auditors.

Executive Summary

We have completed an audit of select procedures on the North Texas Campus (North Texas). The purpose of the audit was to verify capitalized and non-capitalized items were on hand, cash is handled appropriately and adequately safeguarded, and student club funds were segregated from College funds and properly safeguarded. We also made random safety observations while classes were in session, and reviewed mail handling procedures.

The following Statewide Operating Standards served as the basis of our testing:

- SOS ES 5.21 – Student Organizations
- SOS FA 2.2 – Controls of Cash
- SOS GA 1.15 – Fraudulent Use of Assets and Resources
- SOS FA 1.19 – Real and Personal Property Accountability
- SOS GA 1.6.1 – Safety Program

We determined that active student organizations in North Texas do not currently have club accounts, therefore, no further procedures were performed. We were able to locate all capital and non-capital items we selected for surprise inspection, and we determined mail is properly secured. Safety practices were being followed during the labs we observed. While conducting our cash related tests, we were able to account for all cash on hand. During this audit, we were notified of a recent incident in which an employee was terminated due to theft of cash. Upon further investigation of the incident conducted in a separate project, we determined that related controls needed to be improved. Those observations and recommendations were made in a separate report.

Introduction

We utilized several Statewide Operating Standards (SOS) for the basis of our testing of assets, property and other College resources on the campus.

SOS ES 5.21, Student Organizations, states funds must be maintained as “agency” funds and be maintained with the Student Accounting office. During FY 2016, North Texas did not have any student clubs that were actively using club funds.

SOS FA 2.2, Control of Cash, Cash Receipts and Cash Refunds, specifies controls and safeguards surrounding this asset; the Cashier’s offices was selected for a random cash count and inspection.

SOS GA 1.15, Fraudulent Use of Assets and Resources, and SOS FA 1.19, Real and Personal Property Accountability identify controls and procedures required to safeguard assets. Property reviewed during this audit included the recent purchases of various non-capitalized and capitalized items. Particular attention was given to items with probable

value to people outside of the College. We also inspected the mail rooms to ensure mail is secure.

SOS GA 1.6.1, Safety Program, identifies safeguards to protect the employees and students, and to create healthy and safe learning and work environment. Safety is especially important in technical classes where students are exposed to machinery, chemicals or potential hazards. We made observations related to safety in the classes we observed.

Objectives

The objectives of the audit were to determine whether:

- Funds from student clubs are classified as agency funds, with access being restricted.
- Cash is controlled and restricted.
- Use of College resources, assets and property are used in accordance with policy, and properly secured.
- Appropriate safety practices are taking place in classes.

Scope & Methodology

The scope of our audit included all cash in the cashier's office, all mail handling procedures, and all agency accounts held for all student organizations. It also included all recent purchases, as well as labs being held at the time of our audit. To accomplish our objectives, we reviewed student organization accounts, and verified the existence of items recently purchased. We also verified the security of the mailrooms, performed surprise cash counts, and observed course labs to determine whether proper safety practices were being used. Numerous SOSs served as the basis of our testing.

General Observations

The College policies and procedures we tested were being complied with at the North Texas Campus.

Summary of Findings

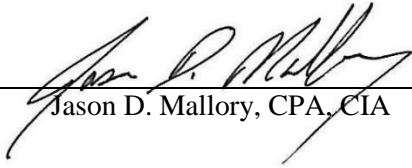
No material exceptions were identified.

Opinion

Based on the audit work performed, we determined that controls and processes for the various assets, resources and property tested during this project were operating as intended on the North Texas Campus.

We would like to extend our appreciation for the time and assistance given by management and employees during this audit.

Submitted by:



Jason D. Mallory, CPA, CIA

August 24, 2016

Date

Internal Audit Department

Audit Report

**Fort Bend Construction Audit (Building One) (16-010A)
of
TEXAS STATE TECHNICAL COLLEGE**

September 1, 2016

**This audit was conducted in accordance with the
International Standards for the Professional Practice of Internal Auditing
of the Institute of Internal Auditors.**

Executive Summary

We have completed the second phase of the audit of the construction of building one at Ft. Bend. The first phase of this audit was completed on September 29, 2015, and focused primarily on verifying reliable controls were in place to ensure loan draws and disbursements were appropriate. At the time of that audit, only \$2,455,590.75 had been drawn and disbursed. The purpose of this audit was to ensure all draws were recorded correctly, and represented legitimate, allowable expenditures under the terms of the various contracts which govern the construction. At the time of this audit, \$22,648,654.07 of the \$25 million loan had been disbursed. **It should be noted that this construction is being performed by the TSTC Foundation (Foundation), not TSTC (College).** As such, this audit report is not intended to express an opinion on work performed by the College. The TSTC Board of Regents requested this audit because the construction, along with the various relationships which sprang from this endeavor, are important factors in successfully developing the campus in the Houston region.

We tested all draws paid to date to the architect, construction manager at risk, and engineer. Those draws totaled \$1,393,578.83, \$19,921,656.39, and \$75,106.00, respectively. We also tested \$739,892.53 in other expenditures. In total, we tested \$22,130,233.75 of all draws to date, or 98%.

We determined that all draws represented legitimate, allowable construction expenditures, and were recorded properly in the Foundation's accounting records.

Introduction

TSTC, the TSTC Foundation, two private foundations, the Rosenberg and Richmond Economic Development Corporations, Ft. Bend County, and several other donors partnered to establish a TSTC campus in Ft. Bend County. One of the private foundations pledged 80 acres to the campus, with 38 acres being donated to the College for the initial building, another 37 acres to be donated in 2016, and the remaining 5 acres to be donated to the City of Rosenberg to construct roads. The other private foundation pledged an equal monetary donation.

The 38 acres that was donated to the College was leased to the Foundation so that it could construct building one - the subject of this audit. The College agreed to lease that facility from the Foundation so that it can conduct technical educational programs in demand in the region. To construct the 105 thousand square foot facility, the Foundation secured a \$25 million construction loan through American Bank, with the Clifton Higher Education Financing Corporation acting as a conduit for that financing. The same two private foundations previously mentioned pledged monetary donations to the Foundation to pay the loan. The other donors also made pledges for that same purpose.

The facility is being constructed under a “Construction Manager At-Risk” type of contract with Bartlett Cocke in which a guaranteed maximum price has been set at \$22,235,364.21. Construction was substantially completed by July 29, 2016. The architect on the project is PBK Architects with a contract amount of \$1,428,133. Finally, the engineer on the project is Terracon with a contract amount of \$81,000. At the time of this audit, \$22,648,654.07 had been drawn on the \$25 million loan.

The College’s accounting and facilities personnel have been very involved in managing the project, accounting for the activity, and reconciling the related records. The Foundation’s personnel are involved in requesting draws, approving disbursements, and paying invoices

Objectives

The objectives of this audit were to determine whether:

- Loan draws were for legitimate, allowable construction related expenditures.
- All draws were recorded correctly.

Scope & Methodology

The scope of our audit included all draws through July 31, 2016, on the \$25 million loan intended to construct building one at Ft. Bend. To accomplish our objectives, we obtained relevant accounting records and detailed draw information. We also obtained all contracts and amendments with the donor foundations, lenders, architect, construction manager, and engineer. We reconciled the draw information to the accounting records, and to draws on the dedicated bank account. We reviewed the draws to ensure they were properly approved, and were for legitimate construction costs as allowed by the various contracts. Finally, since the majority of disbursement were made to Bartlett Cocke, we selected a sample of expenditures paid to them, and obtained supporting sub-contractor supporting documentation.

General Observations

Management developed and implemented strong safeguards that ensured all construction related activity was managed properly and recorded correctly. It is evident through our discussions with them, and by reviewing documentation, that they understand the importance of the work they are responsible for.

Summary of Findings

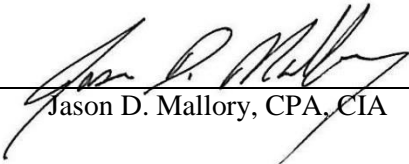
No exceptions were identified.

Opinion

Based on the audit work performed, all draws represented legitimate, allowable construction expenditures, and were recorded properly in the Foundation's accounting records.

We would like to extend our appreciation for the time and assistance given by management and employees during this audit.

Submitted by:



Jason D. Mallory, CPA, CIA

September 1, 2016

Date

Internal Audit Department

Audit Report

**Senate Bill 20 Audit (16-007A)
of
TEXAS STATE TECHNICAL COLLEGE**

September 8, 2016

**This audit was conducted in accordance with the
International Standards for the Professional Practice of Internal Auditing
of the Institute of Internal Auditors.**

Executive Summary

Senate Bill 20 of the 84th Texas Legislature was signed by the Governor on June 4, 2015. Its purpose is to reform state agency contracting by clarifying accountability, increasing transparency, and ensuring a fair competitive contracting process. The purpose of this audit was to ensure processes have been established to comply with the requirements added by Senate Bill 20 to Section 51.9337, Purchasing Authority Conditional; Required Standards, which amends Subchapter Z, Chapter 51, Education Code. Since the requirements formalize contracting processes, this audit focused on ensuring processes and policies were being established. We did not specifically test compliance to these processes and policies this year, rather those will be our focus in the FY 2017 audit.

Our testing included reviewing procurement/contract management policies and procedures and related training as of June 30, 2016. We scrutinized the code of ethics policy, approved contract delegation and related training, and internal audit policies and protocols. We also reviewed progress towards creating the required contract management handbook, and the contract review procedures/checklist.

We determined that management is well on its way to creating processes and policies required by Senate Bill 20. Ethics and purchasing training has been developed which includes most of the required language, contract authorities and delegation have been established, as well as contract review procedures. An annual audit protocol has been established. While we determined management is still in the process of developing the required contract management handbook and checklist, and some required language still needs to be added to the ethics policy, we feel they are actively progressing towards those goals.

Introduction

As it relates to the State Purchasing and General Services Act, Senate Bill 20 provides for verification of the use of a best value standard in state agency contracting and procurement, and establishes requirements for the training, continuing education, and certification of state agency purchasing personnel. The bill also established ethics, reporting, and approval requirements for certain higher education contracts. Specifically, Section 51.9337, Purchasing Authority Conditional; Required Standards requires the following, under the management and control of the Board of Regents (BOR):

- a Code of Ethics for officers and employees,
- policies for the internal investigation of misappropriations or fiscal irregularities,
- a contract management handbook,
- contracting delegation guidelines,
- training for officers and employees authorized to execute contracts,
- internal audit protocols and standards,

- contract review procedures/checklist to be reviewed and approved by legal counsel,
- policies specifying the types and values of contracts that must be approved by the BOR and those delegated to others, and
- an annual assessment by the chief auditor whether the institution has adopted the rules and policies required by this section.

In addition to the annual assessment, the auditor must submit a report of findings to the State Auditor. If the State Auditor determines that an institution has failed to adopt the required rules and policies, the report will be submitted to the legislature and the institution will need to adopt a remediation plan to bring the institution back into compliance within a specified timeframe. Furthermore, if an institution fails to comply with the remediation plan, the institution will be suspended from acquiring goods and services as provided by Section 51.9335 or 73.115, and as a result, laws including Subtitle D, Title 10, Government Code, and Chapter 2254, Government Code, which govern the acquisition of goods and services by state agencies (from which the institution is otherwise exempt), will now apply to the institution's acquisition of goods and services.

Within the College, Procurement Services, Human Resources and Legal Counsel are collectively working to achieve full compliance with Senate Bill 20.

Objectives

The purpose of the audit was to verify the College is in compliance with Section 51.9337, Purchasing Authority Conditional; Required Standards, which amends Subchapter Z, Chapter 51, Education Code as amended by Senate Bill 20.

Scope & Methodology

The scope of our audit included all processes, policies and procedures relating to contract management since September 1, 2015 through June 30, 2016. We developed our audit criteria using Section 51.9337. Our methods consisted of reviewing contract management procedures, training, and contract authorities. We also reviewed statewide policies, internal audit protocols, and discussed other processes with management. Our test work focused on ensuring processes and policies were being established. It did not specifically focus on full compliance to those processes and policies since some of the policies were relatively new. Implementation testing will be performed in the FY 2017 audit.

General Observations

Management has established statewide policies and controls, established a delegation of authority for signing contracts and agreements, and provided training for those same individuals. They have also partially completed the contract management handbook and checklist, all while concurrently consolidating and overhauling procurement processes Statewide. Audit protocols have also been established.

Enhancements to the Ethics and Standards of Conduct policy and completion of the contract management handbook and contract review procedures/checklist are pending. Management is aware of these items, and is actively in the process of completing them.

Summary of Findings

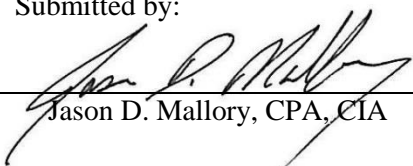
Certain required statements are missing from the Ethics and Standards of Conduct policy, and the contract management handbook and contract review procedures/checklist are not yet completed.

Opinion

Based on the audit work performed, the College is currently making strides to comply with the new requirements of Senate Bill 20. While several of the requirements have been addressed, some key provisions are still being developed and implemented.

We would like to extend our appreciation for the time and assistance given by management and employees during this audit.

Submitted by:


 Jason D. Mallory, CPA, CIA

09/08/16

 Date

AUDIT FINDING DETAIL

Finding #1: Certain required statements are missing from the Ethics and Standards of Conduct policy, and the contract management handbook and contract review procedures/checklist are not yet completed.

Criterion: Section 51.9337, Purchasing Authority Conditional; Required Standards requires that a code of ethics, contract management handbook, contract delegation authority and training, contract review procedures/checklist and internal audit protocols and policies be established. In addition, internal audit is required to conduct an annual assessment to determine whether the institution has adopted the rules and policies required by this Section and submit a report of findings to the State Auditor.

In our testing, we determined:

- Four of the eight required ethics statements, per Section 51.9337(c) are not included in the current version of SOS HR 2.1.12, Ethics and Standards of Conduct, or are not currently being performed. Specifically, required verbiage is not included and ethics training for all employees has not been performed during the past 5 years; currently, only new employees are required to participate in a conflict of interest/ethics training.
- The contract management handbook is not fully completed; management estimates that it is approximately 50 percent complete. This handbook is intended to establish clear levels of purchasing accountability and establish contracting policies and practices that are consistent with the Comptroller's contract management guide.
- The contract review procedure/checklist has not been completed. The purpose of the checklist is to have systematic procedures used to evaluate, approve and execute contracts.

Consequences: Penalties for non-compliance, as determined by the State Auditor, includes reporting the finding to the legislature and adoption of a remediation plan, which if not complied with could result in suspension from acquiring goods and services as provided by Section 51.9335 or 73.115, and as a result, laws including Subtitle D, Title 10, Government Code, and Chapter 2254, Government Code, which govern the acquisition of goods and services by state agencies (from which the institution is otherwise exempt), would now apply to the institution's acquisition of goods and services.

Possible Solution: Continue efforts in completing the contract management handbook and contract procedure/checklist, as well as update SOS HR 2.1.12, Ethics and Standards of Conduct policy as well as any other requirements of Section 51.337, as it relates to higher education.

Management Response:

Division: GRC Division, Finance Division
Senior Management: Ray Rushing, Jonathan Hoekstra

Task	Brief Description	Responsible Individual	Completion Date
1.1	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.	Ray Rushing	February 2017
1.2	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.	Hannah Love	November 2016

Internal Audit Department

Audit Report

Portal Audit (16-024A)

of

TEXAS STATE TECHNICAL COLLEGE

September 14, 2016

This audit was conducted in accordance with the

International Standards for the Professional Practice of Internal Auditing

of the Institute of Internal Auditors.

Executive Summary

Internal Audit has completed an application audit of the Portal application. The primary purpose of the audit was to test physical and logical access controls to verify the information accessible through the Portal is reasonably secure. We also tested environmental safeguards, operational effectiveness, and change management processes.

To accomplish the audit objectives, we reviewed end-user capabilities and administrator rights to ensure appropriateness, verified sensitive information accessible through the Portal was secured and restricted, ensured passwords were masked at entry, and reviewed the process for making changes to the Portal. We also verified LDAP server security, inquired about account expiration and forced password changes, and determined whether audit logs were available for inspection. Finally, we verified the Portal satisfied the purpose of its implementation by accessing different applications within it and reviewing messages posted on it, and determined that the Help Desk personnel are capable of supporting it.

We determined that passwords are masked when entered, Help Desk personnel utilize a multi-layered approach of authentication before resetting passwords, and the LDAP server is secured. We also determined there is a defined process for making changes to the Portal, and end-users have appropriate access to the content on the Portal that relates to their home campuses. However, we feel that controls over access and general security needed to be addressed, especially since the Portal allows single sign-on capabilities to other systems which contain sensitive information.

Introduction

The Portal is an application that simplifies information exchange for students, faculty, and staff by consolidating systems and sites onto a centralized platform with a single point of entry. The Portal can be used to store, organize, share, and access information. The Portal can be accessed with almost any device and web browser. The single sign-on feature eliminates the need to remember multiple passwords.

The Portal was purchased and installed in fiscal year 2010 with an initial cost of approximately \$80 thousand. The College upgraded the existing Portal in fiscal year 2016 at a cost of approximately \$33 thousand, and annual maintenance cost (license) of \$6 thousand.

The Office of Information Technology (OIT) provides the backend support to the Portal. OIT is overseen by the Vice Chancellor & Chief Technology Officer. The Sr. Executive Director of Communication & Creative Services manages the contents published in the Portal.

Objectives

The primary purpose of the audit was to verify reasonable physical and logical access controls are in place on the Portal, as well as environmental safeguards. We also tested operational effectiveness, and change management processes.

Scope & Methodology

The scope of our audit included all key application controls within the Portal that ensure information security, operational effectiveness, content integrity, and asset protection. We utilized the Texas Department of Information Resources Control Crosswalk and Security Control Standards Catalog Version 1.3 as the basis for our tests. To accomplish our objectives, we reviewed purchasing related documents, Statement of Work and a listing of virtual machines, security reports and a listing of site collection administrators to verify that permissions are appropriate. We reviewed the audit trimming/trace reports to ensure it is consistent with the records retention policy. We physically inspected the datacenter which houses the cloud hardware for the Portal/LDAP server, confirmed passwords are masked, contacted the Help Desk for assistance and reviewed procedures to resetting passwords, and used a special tool to verify that the LDAP server is secured and restricted. Finally, we reviewed procedures for publishing and/or changing content on the Portal, and ensured it is accessible and functioning on different internet browsers.

General Observations

We determined that the Portal provides an easily accessible method to students and employees for accessing College related information. The content is well controlled, and can be disbursed on an individual basis. Furthermore, numerous application controls exist.

Summary of Findings

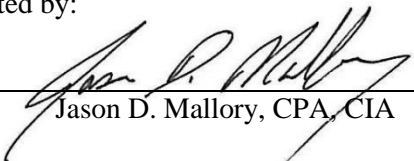
Controls over access and general security to the Portal need to be improved.

Opinion

Based on the audit work performed, the Portal is achieving its purpose, and is generally well controlled. However, security, especially access controls needs to be enhanced.

We would like to extend our appreciation for the time and assistance given by management and employees during this audit.

Submitted by:


 Jason D. Mallory, CPA, CIA

September 14, 2016

Date

AUDIT FINDING DETAIL

Finding #1: Controls over access and general security to the Portal need to be improved.

Criterion: Once a user signs on to the Portal, he/she is capable of viewing posted content, and accessing other applications, such as Colleague and ImageNow. When accessing the other applications, the Portal allows single sign-on. This simply means that the other applications can be accessed generally with-out having to input separate user IDs and passwords each time. We tested whether the Portal utilizes typical access and security controls which reasonably protect sensitive information that can be accessed through it. Those controls included lock-outs after a set number of failed login attempts, forced periodic password changes, account expiration, user ID and password formats, masking of passwords upon entry, ease of password changes, and restricted administrator rights.

We determined that passwords are masked upon entry, audit logs are available, and passwords can be changed fairly easily.

Nevertheless, we did identify the following areas that we feel should be addressed to better secure information available through the Portal.

- Students and employees are given default user IDs and passwords that are not forced by the system to be changed. The formats of both are publicized, creating a situation where unauthorized access is fairly easy should a person obtain the specific information of some other student/employee. The types of information that are available through the Portal include e-mails and sensitive information stored in Colleague and Webadvisor. We were able to access a student's account using the default user ID and password, and were able to see e-mails, and even order a transcript (which was mailed to us). *[NOTE: This issue was cited in a prior audit, and is currently being addressed. It is brought up in this audit for information purposes].*
- The Portal does not lock after a defined number of failed log on attempts, and the system does not force periodic password changes.
- Multiple users' have Colleague access to administrator type functions related to the Portal that they do not need.
- Individuals with access to SharePoint administrative accounts are not tracked or monitored.

Consequences: Sensitive information being accessed inappropriately.

Possible Solution: Force password changes, expire user accounts, lock accounts after defined unsuccessful log on attempts, and better restrict access to administer type functions.

Management Response:

Division: Office of Information Technology
Senior Management: Ricardo Herrera

Task	Brief Description	Responsible Individual	Completion Date
1.1	We are instituting new password requirements statewide including a password reset after first login, password expiration after 1 year, and improved password complexity requirements.	Rick Collatos	10/31/16
1.2	We are in the process of implementing account lockout settings on the authentication provider for portal.	Rick Collatos	10/31/16
1.3	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.	Rick Herrera	10/31/16
1.4	The users noted in the audit have had their account access reviewed and revised as needed according to job function.	Rick Collatos	Complete
1.5	We have reviewed the Sharepoint access to this account, and are comfortable with those who have access.	Rick Collatos	Complete



COLLINS & ASSOCIATES

"A Workforce and Professional Services Agency"

PY 2015-2016

ANNUAL PROGRAM MONITORING (FINAL)

of

**TECHNICAL STATE COLLEGE –
HARLINGEN (TSTC)**

On-Site Review Dates: July 18-19, 2016
Final Report Issuance Date: August 23, 2016

CONTRACT

CONTRACTOR:	Texas State Technical College (TSTC) – Harlingen
CONTRACT No.	2416TCY1-00
CONTRACT PERIOD:	October 1, 2015 – September 31, 2016
CONTRACT TYPE:	Performance
FUNDED PROJECT/PROGRAM:	\$136,562.00

SUMMARY / PURPOSE

Through the WFS Cameron Career Path Training Model, Texas State Technical College (TSTC) was contracted to provide General Equivalency Diploma (GED) program through an open entry/open exit format to 75 WIA/WIOA out-of-school youth, adults and dislocated workers who were determined basic skills deficient. The program design requires TSTC to provide the GED services at three levels of instruction as determined by TABE scores, beginning, intermediate and high. The Contract further requires TSTC to coordinate the provision of services with the Workforce Center contractor – Southwest Key.

According to the contract, the TSTC is responsible for the attainment of two performance measures:

- ❖ **GED Credential Attainment** – 80% of participants taking GED instruction must attain a GED.
- ❖ **Literacy Numeracy Gains** – 86% of participants enrolled shall increase one or more educational functioning levels.

The purpose of the monitoring visit was to evaluate if TSTC is operating the program in accordance with contractual requirements.

SCOPE

The scope of the review was from October 1, 2015 to June 30, 2016. Files were randomly selected, and the areas reviewed included but were not limited to following areas:

- ❖ Workforce Center Referral
- ❖ Adherence to Program Enrollment Requirement
- ❖ GED Attainment
- ❖ Education Functioning Levels (EFL) Gain
- ❖ Quarterly Testing
- ❖ Data Integrity

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

FINDINGS

No reportable findings.

OBSERVATIONS

1. TSTC is required to enroll a minimum of 75 WIA/WIOA customers. Based on documentation provided during the visit, it does not appear that the minimum enrollment goal will be met by the end of the contract period. TSTC reported that 43 individuals were accepted into the program and the acceptance/enrollment status of 26 additional individuals was identified as pending.
2. Referral and assessment processes performed by the Workforce Center contractor appear to be a contributing factor for the low enrollment.
3. One of the performance measures that must be met by TSTC is EFL gain; staff was not aware of this required measure. Based on Board guidance, the EFL gain can be determined either by GED attainment or increase in TABE score(s) in a specific subject area. While the Workforce Center Contractor is responsible for the administration of the TABE assessment, there was no documentation that TABE scores were provided to TSTC other than at the time of program referral. Since 86% of participants enrolled in the GED program must show an increase in one or more EFLs within one year of participation as determined by a TABE test administered by the Workforce Center Contractor, it is recommended that: (1) TSTC begin tracking EFL gains, and (2) test scores be provided to TSTC by the Workforce Center Contractor.
4. Of the 15 customer files reviewed, the following were identified:
 - a. All customers met program entrance requirements at the time of program enrollment.
 - b. Four of 15 customers received their GED within the required 12-month time period.
 - c. Five customers had attained an EFL gain based results of TABE assessment tests.
5. There was documentation in the file of case management coordination between TSTC and the Workforce Center Contractor – Southwest Key.
6. GED customers interviewed “praised” the instructor regarding his teaching techniques, patience and commitment to seeing them successfully obtain their GED.
7. Of the six customers interviewed, one stated that he needed transportation assistance to remain in the program.
8. The customers reported the best elements of the program were:
 - ❖ Provision of materials
 - ❖ Free GED testing
 - ❖ Study tips
 - ❖ GED Instructor and Coordinator
 - ❖ Tutoring
 - ❖ Visual learning techniques
 - ❖ Support – Instructor and Staff
 - ❖ Interaction – Student and Instructor

One student recommended the program could be improved by implementing the following:

- ❖ Extend the day, and increase the number of class hours
- ❖ Include Friday as a day of study

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100	101	102

MONITORING SAMPLE LIST

TWIST ID	CUSTOMER NAME	WORKFORCE CENTER
13374176	Ybarra, Rodolfo	Harlingen
13034356	Padron, Dolores	Harlingen
11391647	Perez, Thalia	Harlingen
9086986	Jett, Abraham	Harlingen
2360658	Rodriguez, Leonicia	Harlingen
4819238	Suarez, Jennifer	Harlingen
13601543	Martinez, Antonio	Harlingen
11448620	Garcia, Jonathan	Harlingen
3043983	Gaytan, Ashley N.	Harlingen
14191360	Gonzalez, Emily	Harlingen
13267661	Alexander, Avalos	Harlingen
3230997	Macias, Crystal	Harlingen
5662227	Vargas, Maria R.	Harlingen
14467203	Alvarado, Jimmie	Harlingen
11502683	Mendoza, Johnny	Harlingen



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August 31, 2016

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Mr. Michael Reeser, Chancellor
Texas State Technical College - Waco
3801 Campus Drive
Waco, Texas 76705

RE: A Compliance Audit of TEXAS Grant at Texas State Technical College - Waco

Dear Mr. Reeser:

I am attaching the final report of *A Compliance Audit of TEXAS Grant at Texas State Technical College - Waco*, Report No. THECB-CM-FA-16-010.

This Compliance Monitoring audit report will be presented to the THECB Committee on Agency Operations, a standing committee of the THECB Board, on October 19, 2016.

If you have any questions or comments, please let me know.

Sincerely,

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

EXECUTIVE SUMMARY

Texas State Technical College - Waco (TSTC) has not performed an information security review biennially, as required by Texas Administrative Code Section §202.76 (c) Security Control Standards Catalog. The last full review was conducted in 2008, but other reviews have indicated user access security weaknesses. TSTC has, however, performed quarterly follow up reviews on known deficiencies from the 2008 review. Information technology processes and controls over security access to the student information system, such as the monitoring control provided by biennial TAC 202 information security reviews, should be enhanced to also ensure compliance with Family Educational Rights and Privacy Act Regulations (FERPA) requirements to protect enrollment and student data in the information system.

TEXAS Grant compliance was not tested due to a lack of a formalized, comprehensive evaluation of student information security upon which to base our work. TSTC intends to perform a TAC 202 information security review in fiscal year 2017, at which time our evaluation of TEXAS Grant compliance, or its successor program, will be completed.

We conducted this audit 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 recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for the findings and recommendations based on the audit objectives.

Audit Scope, Objective, and Methodology

Our audit included review of information security controls over financial aid data reported and certified by TSTC.

Our work included procedures to verify:

- Controls over access to student information were sufficient upon which to further evaluate TEXAS Grant compliance attributes

Our evaluation of TEXAS Grant compliance, or its successor program, will be completed, at a later date, by evaluating:

- Students were eligible for TEXAS Grant awards and disbursements;
- TEXAS Grant program financial aid data met reporting requirements; and
- Reported disbursement amounts reconciled with TSTC's student information system and payment records.

The audit methodology included objectively reviewing and analyzing various forms of documentation, and conducting interviews and observations.

Background

The purpose of the Toward EXcellence, Access, & Success (TEXAS) Grant Program is to provide grants of money to enable eligible students to attend public institutions of higher education in this state. In fall 2014, the Texas legislature required community colleges to begin phasing out the TEXAS Grant Program and only fulfill remaining continuation awards. During fiscal year 2016, 15 students received continuation award disbursements totaling \$52,146.

Texas Administrative Code Section 1.13 (b)(2) states, "The purpose of the Board's risk assessment process and compliance methodologies is to maximize the effectiveness of monitoring funds allocated by the Board and data reported to the Board. The agency-wide, risk-based compliance monitoring function is established for... (A) funds allocated by the board to institutions of higher education, private or independent institutions of higher education, and other entities, including student financial assistance funds, academic support grants, and any other grants, to ensure that those funds are distributed in accordance with applicable law and board rule."

Detailed Observations, Recommendations and Management's Response

1. Information technology processes and controls over security access to the student information system should be strengthened to ensure compliance with the Texas Administrative Code Section 202.70 - 202.78 and FERPA 34 CFR 99.31

The last comprehensive or formalized information security audit performed at TSTC over the student information system was conducted in 2008. TSTC has conducted follow up reviews on implementation of recommendations from the 2008 review and has scheduled a full review in 2017. TSTC's system contains the institution's confidential data and records, including financial aid information used to determine and award financial aid. Without biennial formalized, comprehensive information security reviews, TSTC cannot ensure that there are adequate monitoring controls to protect student information.

TSTC has not met the security standards requirement established by the Department of Information Resources (DIR) for institutions of higher education to conduct biennial reviews. Texas Administrative Code RULE §202.76 (c) Security Control Standards Catalog states, "A review of the institution of higher education's information security program for compliance with these standards will be performed at least biennially, based on business risk management decisions, by individual(s) independent of the information security program and designated by the institution of higher education head or his or her designated representative(s)." TSTC has, however, performed quarterly follow up reviews on known deficiencies from the last TAC 202 information security review conducted in 2008.

In addition, information technology processes and controls over security access to the student information system, such as the monitoring control provided by biennial TAC 202 information security reviews, should be enhanced to ensure compliance with Family Educational Rights and Privacy Act Regulations (FERPA) requirements to protect student data in the information system. FERPA 34 CFR 99.31(a)(1)(ii) requires that "An educational agency or institution must use reasonable methods to ensure that school officials obtain access to only those education records in which they have legitimate educational interests."

Oversight of the College's student information system and compliance with statutory requirements provides greater assurance that student information security and integrity is achieved.

Recommendation:

Provide action steps that will be taken by the college, the scheduled time line for implementation, and the person(s) responsible for implementation to ensure

that the institution will take corrective action to ensure compliance with TAC §202 DIR security standards and 34 CFR 99.31 (FERPA) requirements.

Management Response:

As stated in the auditor's observation, on a quarterly basis TSTC Internal Audit monitored TAC 202 compliance through its audit follow-up process through the fall of FY 2015. This quarterly review was documented on their follow-up schedule, and discussed at management and Board meetings. We feel our organization more than satisfied the biennial review requirements of TAC 202 since our review was performed even more frequently. We also do not feel the format of the biennial review is prescribed by the regulation, as is implied by the finding. Finally, recent audit reports that were shared with the auditor (Cybersecurity Audit, Internal Penetration Test, External Penetration Test, A-133, Back-up and Recovery test), and the questionnaire we answered, sufficiently demonstrate that our organization is actively monitoring IT security and controls, and addressing gaps as they are identified. We intend for the TAC 202 review scheduled for FY 2017 to be comprehensive in nature due to the increased requirements of the regulation. Our FY 2017 Audit Plan reflects that review, with the new control catalog to be the primary focus of that audit.

We anticipate the TAC 202 audit to be completed no later than July 2017 by our internal audit staff so that THECB auditors can utilize it during their audit of the TEXAS Grant audit. The work performed in that audit should eliminate the need to duplicate audit tests, will be more efficient for them, and will demonstrate our continued commitment to complying with TAC 202, including its biennial review requirement.

PERFORMED BY:

Mr. Paul Maeyaert, JD, MBA, CIA, Compliance Specialist (Lead Auditor)

CC:

THECB

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July 13, 2016

Lisa Frenette
Texas State Technical College - Harlingen
1902 North Loop 499
Harlingen, TX 78550-3697

RE: AY 2015 A-133 Evaluation and Desk Review Management Letter

Dear Lisa Frenette:

The Texas Higher Education Coordinating Board (THECB), as a federal pass-through entity, must provide due diligence to ensure its subrecipients meet the requirements of the Single Audit Act Amendments of 1996, as prescribed in OMB Circular A-133 Compliance Supplement and Government Auditing Standards.

The purpose of this letter is to issue our management decision regarding the fiscal review of your organization's Appropriation Year 2015 A-133 evaluation and desk review to communicate compliance issue(s), if any, on federal funds awarded to your institution by THECB.

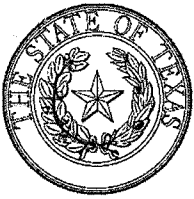
A-133 Audit Findings: NONE

Desk Review Findings: THECB staff noted non-compliance issues in the following areas:
NONE

We greatly appreciate the cooperation and assistance provided by your staff during our review. If you have any questions or comments, please contact Gracie Lopez via email at Gracie.Lopez@THECB.state.tx.us or call 512-427-6499.

Thank you for your assistance,

Mark Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit & Compliance



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August 2, 2016

Lisa Frenette
Texas State Technical College - Marshall
2400 East End Boulevard South
Marshall, TX 75670

RE: AY 2015 A-133 Evaluation and Desk Review Management Letter

Dear Lisa Frenette:

The Texas Higher Education Coordinating Board (THECB), as a federal pass-through entity, must provide due diligence to ensure its subrecipients meet the requirements of the Single Audit Act Amendments of 1996, as prescribed in OMB Circular A-133 Compliance Supplement and Government Auditing Standards.

The purpose of this letter is to issue our management decision regarding the fiscal review of your organization's Appropriation Year 2015 A-133 evaluation and desk review to communicate compliance issue(s), if any, on federal funds awarded to your institution by THECB.

A-133 Audit Findings: NONE

Desk Review Findings: THECB staff noted non-compliance issues in the following areas:

1. Texas State Technical College - Marshall
CFDA# 84.048, Award# 13480, Perkins Basic, Schedule A: Salaries & Fringe Benefits: Time and Effort Reporting
Texas State Technical College – Marshall failed to provide adequate time and effort reporting documentation as required by the 2014-15 Perkins RFA, Section 9.29 and as stated in 2 CFR Part 220, Section J.10.c.(2). Time and Effort Reports for employee BS did not include 100% of time worked. It is recommended that Texas State Technical College – Marshall revise and strengthen its Time and Effort Policies and Procedures to require that Time and Effort Reports document the percentage of time the person worked on all specific grants or accounts.

The issue addressed above was discussed with Texas State Technical College - Marshall prior to the issuance of management letter, and has been subsequently resolved. No further corrective action is required of the institution to resolve this issue.

We greatly appreciate the cooperation and assistance provided by your staff during our review. If you have any questions or comments, please contact Gracie Lopez via email at Gracie.Lopez@THECB.state.tx.us or call 512-427-6499.



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August 3, 2016

Lisa Frenette
Texas State Technical College System
3801 Campus Drive
Waco, TX 76705

RE: AY 2015 A-133 Review of Corrective Action Plan Management Letter

Dear Lisa Frenette:

The Texas Higher Education Coordinating Board (THECB), as a federal pass-through entity, must provide due diligence to ensure its subrecipients meet the requirements of the Single Audit Act Amendments of 1996, as prescribed in OMB Circular A-133 Compliance Supplement and Government Auditing Standards.

The purpose of this letter is to issue our management decision regarding the corrective action plan originating from the Findings from our fiscal review of your organization's Appropriation Year 2015 A-133 evaluation and desk review on federal funds awarded to your institution by THECB.

Desk Review Findings: THECB staff noted non-compliance issues in the following areas:

1. Texas State Technical College System
CFDA# 84.048, Award# 13534, Perkins Basic, Schedule B: Travel: Hotel Rates
In accordance with the 2014-15 Perkins Basic Grant RFA, Appendix I: Travel Costs, (page 59), "Personnel are required to travel at the federal lodging and per diem rates or the awarded applicant's rates, whoever are more stringent."
According to the GSA website, the allowable FY 2015 rate for Austin, TX was \$126 per night. Hotel expenses were submitted for reimbursement at a daily rate of \$246.46 for two nights, plus \$22.18 per night tax for employee RS. The questioned costs are outlined in the following table:

<u>Employee</u>	<u>Travel Destination</u>	<u>Travel Dates</u>	<u>Lodging Claimed</u>	<u>Max Allowed for Lodging</u>	<u>Reimbursement Amount</u>	<u>Total Reimbursement Due</u>
RS	Austin, TX	4/8/2015 - 4/10/2015	\$246.46 per night	\$126 per night	\$120.46 per night for two nights	\$240.92
			\$22.18 per night tax		\$10.84 tax per night for two nights	\$21.68
						\$262.60
TOTAL REIMBURSEMENT DUE FOR TRAVEL:						\$262.60

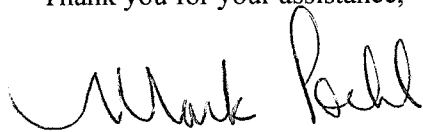
It is recommended that Texas State Technical College System a) reimburse the THECB \$262.60, b) tighten controls to ensure compliance with future Perkins Grant travel and c) review other hotel expenses reimbursed by Perkins and verify that there are no additional overcharges.

2. Texas State Technical College System
CFDA# 84.048, Award# 13534, Perkins Basic, Schedule F: Operating Expenses: Food and Beverage
In accordance with the 2014-15 Perkins Basic Grant RFA, Appendix I: Food and Beverage Costs, (page 56), "Expenditures on food must be reasonable in cost, necessary to accomplish program objectives, and an integral part of the instructional program. The questioned cost is a \$52.23 meal expense incurred on 2/8/2015. It is recommended that Texas State Technical College System reimburse the THECB \$52.23 and strengthen fiscal controls and accounting procedures to provide accurate and complete disclosure of financial results that permit the tracing of funds to a level of expenditure requests and to ensure that funds have been used in accordance with approved grant project.

We have reviewed the corrective action plan submitted by Texas State Technical College System and find the plan acceptable.

We greatly appreciate the cooperation and assistance provided by your staff during our review. If you have any questions or comments, please contact Gracie Lopez via email at gracie.lopez@thechb.state.tx.us or call 512-427-6499.

Thank you for your assistance,



Mark Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit & Compliance



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July 13, 2016

Lisa Frenette
Texas State Technical College - Waco
3801 Campus Drive
Waco, TX 76705

RE: AY 2015 A-133 Evaluation and Desk Review Management Letter

Dear Lisa Frenette:

The Texas Higher Education Coordinating Board (THECB), as a federal pass-through entity, must provide due diligence to ensure its subrecipients meet the requirements of the Single Audit Act Amendments of 1996, as prescribed in OMB Circular A-133 Compliance Supplement and Government Auditing Standards.

The purpose of this letter is to issue our management decision regarding the fiscal review of your organization's Appropriation Year 2015 A-133 evaluation and desk review to communicate compliance issue(s), if any, on federal funds awarded to your institution by THECB.

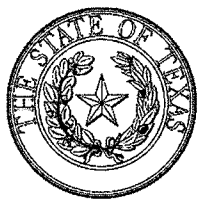
A-133 Audit Findings: NONE

Desk Review Findings: THECB staff noted non-compliance issues in the following areas:
NONE

We greatly appreciate the cooperation and assistance provided by your staff during our review. If you have any questions or comments, please contact Gracie Lopez via email at Gracie.Lopez@THECB.state.tx.us or call 512-427-6499.

Thank you for your assistance,

Mark Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit & Compliance



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July 13, 2016

Lisa Frenette
Texas State Technical College – West Texas
300 Homer K. Taylor Drive
Sweetwater, TX 79556-3697

RE: AY 2015 A-133 Evaluation and Desk Review Management Letter

Dear Lisa Frenette:

The Texas Higher Education Coordinating Board (THECB), as a federal pass-through entity, must provide due diligence to ensure its subrecipients meet the requirements of the Single Audit Act Amendments of 1996, as prescribed in OMB Circular A-133 Compliance Supplement and Government Auditing Standards.

The purpose of this letter is to issue our management decision regarding the fiscal review of your organization's Appropriation Year 2015 A-133 evaluation and desk review to communicate compliance issue(s), if any, on federal funds awarded to your institution by THECB.

A-133 Audit Findings: NONE

Desk Review Findings: THECB staff noted non-compliance issues in the following areas:
NONE

We greatly appreciate the cooperation and assistance provided by your staff during our review. If you have any questions or comments, please contact Gracie Lopez via email at Gracie.Lopez@THECB.state.tx.us or call 512-427-6499.

Thank you for your assistance,

Mark Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit & Compliance

Topic	Desk Review Documentation	Desk Review / Site Visit Observations	Staff Recommendations	Institutional Response
Performance on Core Indicators	2015-2016 Perkins Core Indicators and TSTC Waco Performance Improvement Plan / Evaluation Plan	1P1 - Met. 2P1 - Met. 3P1 - Met. 4P1 - Met. 5P1 - Not met. Efforts include funding a student success coach, providing interpreting services, and printing non-traditional target brochures; TSTC staff attending events to recruit Hispanic females into non-traditional fields, and hosting a Tech Connect Summit for girls in 9-12 grades. 5P2 - Not met. Efforts include funding a student success coach, recruitment travel, and non-traditional target advertising; TSTC hosting focus groups to discuss barriers for non-traditional students, Parent Enrichment Conferences, and a Women in Technology Day.	TSTC Waco must continue to explore best practices and target Perkins funds towards improving core indicators 5P1, and 5P2.	TSTC currently has an advertising campaign running in Central Texas that is targeting military veterans and non-traditional students. The campaign includes television, traditional radio, streaming radio (Pandora and IHeart), Facebook, Google advertising and newsprint. Perkins funds are being used to support this campaign. TSTC hosts an annual Women in Technology Day which serves the Waco, Williamson County, North Texas, and Marshall locations. This event is both a recruiting and a retention activity for non-traditional students. The cost for the event is about \$3,500, and Perkins funds will be budgeted to assist with the event next year. TSTC is also considering the use of Perkins funds to send key personnel to visit selected Texas community colleges that are performing well in 5P1 and 5P2 to observe and discuss their practices. Retention initiatives for nontraditional students supported by Perkins funds include focus group discussions, Parent Enrichment Conferences, Women in Technology Day, childcare assistance, counseling, and tutoring. Timeline: Ongoing activity.
Capital and Non-Capital Equipment				
Purchases	* Policies and Procedures * Purchase Order * Equipment Inventory * Payment Voucher * Shipping manifest * Inventory receipt * Box content list * Packing list	Documentation supports and follows policies.	No recommendations.	
Inventory	* Policies and Procedures * Inventory Report	Documentation seems to follow policies described. *Site Visit observation: Procedures clearly and thoroughly described; additional steps mentioned. During on-site program review, equipment was easily identifiable.	*Site Visit recommendation: (1) Ensure accuracy of proxy inventory review process by including an inventory spot check periodically; (2) Include reference to steps taken to comply with grant funded requirements; (3) Confirm capital equipment items expended are listed on Schedule C and final inventory list.	OSP will revise its Grant Manual posted on the OSP page on the portal to include clear information about purchasing and identifying inventory items purchased with Perkins funds by August 1, 2016. Inventory maintenance procedures will be upgraded to include periodic inventory spot checks. All steps in Perkins equipment purchases and inventory will comply with grant-funded requirements. Capital items expended will be listed on Schedule C and the final inventory list.
Labeling	* No documentation provided.	No documentation describing the Labeling Policy for Perkins equipment was provided. *Site Visit observation: Procedures clearly and thoroughly described; additional steps mentioned. During on-site program review, equipment was easily identifiable.	Procedures for equipment purchased with Perkins funds must be developed. The procedure must align with grant federal guidelines, and include reference to appropriate tagging of equipment, unique tracking, and ease in identifying items as Perkins purchases. *Site Visit recommendation: Include in policies and procedures the tagging and labeling process verbally described.	TSTC is going through a significant re-organization subsequent to single accreditation. Inventory processes will be centralized and made the same at all locations. TSTC will bring the desk audit recommendations to the statewide lead for inclusion in the new processes. TSTC will review SOS (System Operating Standard) FA 1.19 and the Grant Manual for inclusion of clearer instructions on tagging and labeling equipment purchased with Perkins funds. Timeline: August 1, 2016.
Disposal	* Policies and Procedures	Documentation seems to follow policies described.	No recommendations.	
		79/83		

Topic	Desk Review Documentation	Desk Review / Site Visit Observations	Staff Recommendations	Institutional Response
Travel (In-State)	* Policies and Procedures * Travel documents - Austin (trip not on approved list)	Documentation provided appears to support and follow policies and procedures.	No recommendations.	
Travel (Out-of-State)	* Policies and Procedures appears to apply to both in-state and out-of-state travel * Travel documents - DC (trip not on approved list; documentation states that trip paid with another grant)	Documentation supports and follows policies; however does not follow Perkins Basic Grant RFA requirements.	RFA requirements for project changes need to be followed, including emailing notifications and amendments.	Changes have been made within how we manage Perkins and all activities on Perkins that require notification or amendments, as per the RFA, will be submitted and approval obtained before any expenditures are incurred. Implemented May 10, 2015.
Childcare/Transportation Vouchers				
Distribution & Eligibility	* Policies and Procedures * Intake Form	Documentation appears to support process described. *Site Visit observation: Good description of program.	No recommendations.	
Measuring Effectiveness	* Policies and Procedures * Intake Form	Policies and Procedures documentation indicates measure of effectiveness, but Intake Form for student does not. No other documentation was provided. *Site Visit Observation: Process of program, including mandatory parenting workshop each semester encourages accountability; Parameters for funding term for student and repercussions if eligibility drops were well described.	Enhance documentation to measure effectiveness of services and student use/outcomes for childcare assistance. *Site Visit recommendation: Ensure written procedure indicates eligibility criteria and Perkins parameters (such as special populations or financial aid status).	On June 1, 2016, personnel at the Waco campus began using the childcare assistance application form currently in use at Harlingen and West Texas, which captures special populations and financial aid status. Students are asked if they went to Head Start and CCMS for aid as a prerequisite for program eligibility. Students receiving childcare assistance are monitored for academic standing. Students have the incentive to maintain a 2.0 GPA to remain eligible for the program.
Consultants/ Subcontractors	* Policies and Procedures * Service agreement * Request for Proposal * Payment Voucher * Invoice	Documentation appears to support procedure described.	No recommendations.	
Advisory Committees				
Frequency of Meetings	* List of Advisory Committees	All committees have met at least once during the fiscal/ academic year, except: * Architectural/ Civil Drafting Technology (2012), * Mechanical/ Electrical Drafting Technology (2012), * Building Construction Technology (2014), * Environmental Technology (2014), * Occupational Safety Compliance Technology (2014), * Radiation Protection Technology (2014), * Turfgrass & Landscape Management (2013).	As per the <i>Guidelines for Instructional Programs in Workforce Education</i> (GIPWE) format, CTE "Advisory committees of existing programs must meet in person a minimum of one time a year and should have a quorum present."	TSTC professional development personnel are developing an Advisory Committee Training module for the ongoing Department Chair Academy, an online Moodle course in which all department chairs are enrolled from each campus. This module will include training on information from the THECB GIPWE to ensure that all CTE department chairs plan and hold productive annual Advisory Committee meetings that adhere to GIPWE standards regarding frequency of meetings, format of meetings, meeting minutes, etc. This training will be released in July and the Department Chairs will complete the training no later than the middle of August.

Topic	Desk Review Documentation	Desk Review / Site Visit Observations	Staff Recommendations	Institutional Response
Format of Agendas, Minutes	Advisory Committee minutes for: * Unidentified program * Medical Imaging System Technology * Biomedical Equipment Technology	Pros: 2/3 Identified membership and listed attendees. 3/3 Provided program growth information. Cons: 1/3 minutes do not identify the advisory committee program. 1/3 do not list membership. 3/3 do not list attendees' titles. 3/3 did not mention industry contribution. 3/3 do not have recorder signature.	Advisory committee minutes must follow <i>Guidelines for Instructional Programs in Workforce Education</i> (GIPWE) format and guidance.	TSTC professional development personnel are developing an Advisory Committee Training module for the ongoing Department Chair Academy, an online Moodle course in which all department chairs are enrolled from each campus. This module will include training on information from the THECB GIPWE to ensure that all CTE department chairs plan and hold productive annual Advisory Committee meetings that adhere to GIPWE standards regarding frequency of meetings, format of meetings, meeting minutes, etc. This training will be released in July and the Department Chairs will complete the training no later than the middle of August.
Action on Recommendations	* Advisory committee meeting minutes	Industry contribution in meetings was not evident.	Advisory committee minutes must demonstrate evidence that industry partners have taken an active role in making decision that affect the program, and should show action on committee's motions.	TSTC professional development personnel are developing an Advisory Committee Training module for the ongoing Department Chair Academy, an online Moodle course in which all department chairs are enrolled from each campus. This module will include training on information from the THECB GIPWE to ensure that all CTE department chairs plan and hold productive Advisory Committee meetings that adhere to GIPWE standards regarding frequency of meetings, format of meetings, meeting minutes, etc. This training will be released in July and the Department Chairs will complete the training no later than the middle of August.
THECB Audits	* Coordinating Board letter dated August 18, 2015	No response was required.	No recommendations.	

Part II - Institutional Self-Review

Q1	Institutional response	Response sufficiently describes process. *Site Visit observation: Clear statement of process when determining cost needs; statement of prioritization process for purchases - aligning with core indicators; and variety provided of activities/strategies identified on Performance Improvement Plan and Evaluation Plan.	*Site Visit recommendation: Document the procedure for determining Perkins funding priorities.	TSTC instructional administrators develop an annual technology acquisition plan. The plan includes equipment costs, priority assessment, alignment with core indicators, and integration into the activities/strategies identified on the Performance Improvement Plan and Evaluation Plan. Administrators prioritize Perkins funding for equipment purchases using the technology acquisition plan and work with the department chairs and purchasing personnel to ensure that equipment purchases are made according to established procedures as early as possible in the academic year. Implemented June 1, 2016.
Q2	Institutional response	Response effectively describes procedure.	No recommendations.	
Q3	Institutional response	Response adequately describes process.	No recommendations.	
Q4	Institutional response	Response is acceptable in describing process.	No recommendations.	

Topic	Desk Review Documentation	Desk Review / Site Visit Observations	Staff Recommendations	Institutional Response
Q5	Institutional response	Impact of business partnerships is not highlighted in response.	Continue to involve and partner with business and industry, and identify the impact of the CTE program advisory committees.	TSTC's business and industry partners play a critical role in shaping the curriculum of technical programs and providing co-op slots, donating equipment, participating in job fairs, etc. The attendance and contribution of advisory committee members at annual advisory board meetings will be fully documented in meeting minutes according to GIPWE guidelines. TSTC professional development personnel are developing an Advisory Committee Training module for the ongoing Department Chair Academy, an online Moodle course in which all department chairs are enrolled from each campus. This module will include training on information from the THECB GIPWE to ensure that all CTE department chairs plan and hold productive annual Advisory Committee meetings that adhere to GIPWE standards regarding frequency of meetings, format of meetings, meeting minutes, etc. This training will be released in July and the Department Chairs will complete the training no later than the middle of August.
Q6	Institutional response	Response is satisfactory in describing partnerships.	No recommendations.	
Q7	Institutional response	Response seems to address issue of completion rates.	No recommendations.	
Q8	Institutional response	Response clearly describes efforts.	No recommendations.	
Q9	Institutional response	Response somewhat describes services and understanding of special population needs.	Refer to the Perkins Basic RFA under the Local Plan explanation for definitions and examples of Special Populations groups.	Special populations training will be incorporated into annual Perkins training. Special population students' Satisfactory Academic Progress (SAP) percentage completion is monitored each semester, and students needing extra assistance are provided with special accommodations, interpreting (for deaf and hard of hearing students), tutoring, and counseling.
Q10	Institutional response	Evaluation process for retaining students is not strongly described in response.	Continue efforts toward evaluating effectiveness of retaining students with project funded services.	We will evaluate and revise processes for retaining students as we move to consolidated policies, procedures, and reporting as a single institution. Best practices from Harlingen and the other campuses will be incorporated to ensure that TSTC is effectively evaluating Perkins-funded retention services. One of these is a statewide Early Alert program that gives faculty and staff the ability earlier in the term to identify and assist students who are beginning to struggle academically.



Texas State Technical College
Internal Audit
Attestation Disclosures

Responsible Management	Issue Reported by Management	Report Date	Management's Corrective Action Plan	Internal Audit Assistance/Follow-up
	No new issues were reported this quarter.			

The noted items were reported during the attestation process, and have been disclosed to the Chancellor. These were deemed to be worthy of disclosure to the Audit Committee.