

# Meeting of the Board of Regents

## Audit Committee

November 14, 2019  
Waco, Texas



**TEXAS STATE TECHNICAL COLLEGE**

**Audit Committee Meeting  
of the Board of Regents**

**Texas State Technical College  
Connally Meeting & Conference Center  
1651 E. Crest Drive  
Waco, TX 76705**

**Thursday, November 14, 2019**

**10:30a.m.**

**AGENDA**

**I. MEETING CALLED TO ORDER BY AUDIT COMMITTEE CHAIR IVAN ANDARZA**

**II. COMMITTEE CHAIR COMMENTS**

**III. MINUTE ORDERS**

None.

**IV. REPORTS:**

1. Status of Fiscal Year 2019 Audit Schedule & Other Projects ..... A-4  
*Jason D. Mallory*
2. Status of Fiscal Year 2020 Audit Schedule & Other Projects ..... A-10  
*Jason D. Mallory*
3. Summary of Audit Reports..... A-12  
*Jason D. Mallory*
4. Follow-up Schedule & Status..... A-18  
*Jason D. Mallory*
5. Internal Audit Annual Report Fiscal Year 2019 ..... A-26  
*Jason D. Mallory*
6. Annual Statement on Quality Control..... A-48  
*Jason D. Mallory*

Please note: Meetings are scheduled to follow each other consecutively and may start earlier or later than the posted time depending on the length of the discussions and the reports of preceding meetings. The estimated times are approximate and may be adjusted as required with no prior notice.

7. Annual Confirmation of Organizational & Individual Independence .....	A-49
<i>Jason D. Mallory</i>	
8. Annual Review of Internal Audit Charter .....	A-50
<i>Jason D. Mallory</i>	
9. Departmental Audits of Challenger Learning Centers (19-018A & 19-019A).....	A-51
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10. Public Funds Investment Act Audit (20-004A) .....	A-65
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12. Admissions Audit (19-017A) .....	A-75
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13. Admissions Audit – Audit of the Target X Application (19-017A) .....	A-84
<i>Jason D. Mallory</i>	
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15. TAC 202 – Quarterly Update .....	A-97
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16. AY 2016 A-133 Evaluation and Desk Review Management Letter CFDA 84.048, Award #14919, Perkins Grant (West Texas) .....	A-100
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17. AY 2016 A-133 Evaluation and Desk Review Management Letter CFDA 84.048, Award #14916, Perkins Grant (Marshall) .....	A-101
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18. AY 2016 A-133 Evaluation and Desk Review Management Letter CFDA 84.048, Award #14748, Perkins Leadership Grant (System) .....	A-102
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19. AY 2016 A-133 Evaluation and Desk Review Management Letter CFDA 84.048, Award #14918, Perkins Career & Technical Education (Waco) .....	A-103
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20. Attestation Disclosures.....	A-106
<i>Jason D. Mallory</i>	

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- V. CHANCELLOR COMMENTS**
- VI. BOARD COMMENTS**
- VII. ADJOURN**

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**Texas State Technical College**  
**Internal Audit**  
**Status of Fiscal Year 2019 Audit Schedule & Other Projects**

Description	Division/Campus	Status	Project No.	Report Date
<b>INTERNAL AUDITS</b>				
Facilities Development Project Compliance Audit	Facilities - West Texas	Complete	19-006A	11/28/18
Facilities Development Project Compliance Audit	Facilities - Marshall	Complete	19-007A	11/28/18
Google Drive Audit	OIT	Complete	19-004A	12/10/18
TRS Contributions Audit	HR	Complete	19-005A	12/20/18
Internal Penetration Test (North Texas)	OIT, North Texas Campus	Complete	19-011A	2/13/19
Maxient Software	OIT, Student Discipline	Complete	19-003A	2/25/19
Internal Penetration Test (Ft. Bend)	OIT, Ft. Bend Campus	Complete	19-015A	3/29/19
Graduation Process Audit	Student Services	Complete	19-008A	4/9/19
Workplace Harassment Audit	HR	Complete	19-014A	6/10/19
TAC §202 Compliance Audit	OIT	Complete	19-012A	10/5/18, 1/11/19, 4/12/19, 7/12/19
Fixed Asset Control Follow-up Audit	Cross-Divisional	Complete		7/12/19
Safety & Security Follow-up Audit	Cross-Divisional	Complete		7/12/19
Departmental Audit - Challenger Center	Harlingen	Complete	19-019A	9/4/19
Departmental Audit - Challenger Center	Waco	Complete	19-018A	9/4/19
Admissions Process Audit	Student Services	Complete	19-017A	9/30/19
Admissions IT Audit	Student Services/OIT	Complete	19-017A	9/30/19
C4EO Audit	C4EO	In Progress		
TEC §51.9337 Contracting Audit	Purchasing	In Progress		



**Texas State Technical College**  
**Internal Audit**  
**Status of Fiscal Year 2019 Audit Schedule & Other Projects**

Description	Division/Campus	Status	Project No.	Report Date
<b>EXTERNAL AUDITS</b>				
State Comptroller's Office: Desk Audit - Charge Card Program	Finance	Complete		8/27/18
State Auditor's Office: A-133 Follow-up	Financial Aid - Marshall	Complete		2/28/19
Single Audit for FY 2018: BKD	Accounting	Complete		2/12/19
State Comptroller's Office: Post Payment Audit	Purchasing	Complete		5/17/19
THECB: FY 2016 Perkins Desk Audit	OSP/Harlingen	Complete		6/7/19
THECB: FY 2016 Perkins Desk Audit	OSP/Marshall	Complete		7/17/19
THECB: FY 2016 Perkins Desk Audit	OSP/West Texas	Complete		7/19/19
THECB: FY 2016 Perkins Desk Audit	OSP/System Operations	Complete		8/8/19
THECB: FY 2016 Perkins Desk Audit	OSP/Waco	Complete		8/20/19
TWC: Monitoring review of SDF Contract # 2418SDF002	OSP/Harlingen	In Progress		
TWC: Monitoring review of SDF Contract # 2418SDF003	OSP/Harlingen	In Progress		
TWC Audit of Apprenticeship Training Program in Harlingen	OSP/Harlingen	In Progress		
USDA: NIFA Audit of UTRGV Subaward of 2015-38422-24061(03)	OSP/Harlingen	In Progress		
VA Audit	VA Office/Waco Campus	In Progress		



Texas State Technical College  
Internal Audit  
Status of Fiscal Year 2019 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date
<b>OTHER INTERNAL PROJECTS</b>				
Internal Ethics Line Report: An anonymous report indicated vending machines were charging more than the posted amount when a charge card was used. Results: We determined that when a card is used, a temporary transaction for \$1 more than the posted price is temporarily posted to the card holder's account, but the correct amount is charged when the customer's account is actually charged. Found the complaint to have no merit.	Business Services/Waco	Complete	19-010P	10/5/18
Police Evidence Room Surprise Inspection	Police Department/Harlingen	Complete	19-013A	1/2/19
Executive Management Request: Review contractual relationship with vendor associated with Helicopter Pilot Program, and any other potential exposure related to V A compliance. Results: Did not find any inappropriate training provided by the contractor. Identified several process improvements within accounting, tracking flight hours, and purchasing controls.	Instructional/Waco	Complete	19-009I	2/8/19



Texas State Technical College  
Internal Audit  
Status of Fiscal Year 2019 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date
SAO Ethics Line Report: An anonymous report indicated donations were being received and used by someone in the HVAC program that was not licensed to do so. Results: Allegation had no merit. HVAC programs receive small quantities of duct board. The product is not a restricted use item which requires special licensure. We did recommend that the donations be reported to the Foundation, though, as required by policy.	Instructional/Harlingen	Complete	19-016I	3/1/19
Police Evidence Room Surprise Inspection	Police Department/Waco	Complete	19-013A	4/11/19
SAO Ethics Line Report: A former student complained that he had not received his diploma for almost a year after graduating. Results: Determined the complaint had merit. There were not any holds or unpaid fees that were preventing him from receiving his diploma. His diploma was issued, all fees returned, and the causes for the failure are being addressed by management as a directive from the Chancellor.	Registrar's Office	Complete	19-023I	5/18/19





Texas State Technical College  
Internal Audit  
Status of Fiscal Year 2019 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date
THECB Ethics Hotline: Received an allegation from THECB that an ISD employee who provides dual credit instruction for the College is not qualified to do so. Results: Allegation had no merit.	Dual Enrollment/Ft. Bend	Complete	19-029I	7/12/19
Executive Management Request: Review complaint about unfair practices related to the Skills USA competition. Results: Did not determine that any intentional unfair advantages were given, however, recommended that management be intentional to not give that appearance.	Other	Complete	19-022P	7/23/19
Internal Ethics Hotline Report: Employee reported that an instructor is using College equipment and resources for personal gain. Results: Found no merit to the complaint. Recommendations were made to stop selling raw food, follow the policy related to the student club account, and to continue to scrutinize all professional development opportunities to ensure they benefit the College.	Culinary/Waco	Complete	19-028I	8/27/19



Texas State Technical College  
Internal Audit  
Status of Fiscal Year 2019 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date
Internal Ethics Report: An employee raised a concern about a co-worker selling equipment to the College as a vendor. Results: Determined that the employee disclosed the relationship prior to any transaction occurring. However, because the purchases were from a related party, determined that the the contracting handbook and select regulations were violated.	Instructional/Waco	Complete	19-0271	9/27/19
Executive Management Request: Review process for instructional departments receiving equipment from 3rd parties for students to work on. Results: In Progress		In Progress	19-026P	



**Texas State Technical College**  
**Internal Audit**  
**Status of Fiscal Year 2020 Audit Schedule & Other Projects**

Description	Division/Campus	Status	Project No.	Report Date
<b>INTERNAL AUDITS</b>				
Public Funds Investment Act Compliance Audit	Finance	Complete	20-004A	9/26/19
Internal Network Penetration Test (EWCHEC)	OIT/Safety & Security/Provost Office	Complete	20-002A	9/27/19
TAC 202 Follow-up Audit	OIT	In Progress	20-010A	10/7/19
Benefits Proportionality Audit		In Progress		
Internal Network Penetration Test (Harlingen)		In Progress		
Career Services Audit		In Progress		
Clery Act Audit		In Progress		
Airport Operations Audit				
Waco Bookstore Integrated Audit				
Harlingen Bookstore Integrated Audit				
Accounting Controls Audit				
Help Desk Audit				
Field Support Audit				
Internal Network Penetration Test (Waco)				
Contract Audit				

**EXTERNAL AUDITS**

TWC: Monitoring review of SDF Contract # 2418SDF002	OSP/Harlingen	In Progress		
TWC: Monitoring review of SDF Contract # 2418SDF003	OSP/Harlingen	In Progress		



**Texas State Technical College  
Internal Audit  
Status of Fiscal Year 2020 Audit Schedule & Other Projects**

Description	Division/Campus	Status	Project No.	Report Date
TWC Audit of Apprenticeship Training Program in Harlingen	OSP/Harlingen	In Progress		
USDA: NIFA Audit of UTRGV Subaward of 2015-38422-24061(03)	OSP/Harlingen	In Progress		
VA Audit	VA Office/Waco Campus	In Progress		
Texas Comptroller: Duplicate Payment Audit	Procurement	In Progress		

**OTHER INTERNAL PROJECTS**

Assisting management with inventorying all IT closets so that access and fire risks can be better managed.		In Progress		
Face to Face Complaint: A concern was raised that a manager accepted impermissible gifts in exchange for awarding contracts. Results: Unable to determine whether gifts were accepted, but validated that a personal relationship existed between the manager and the vendor which created an appearance of impropriety and bias. As a result, the manager was separated from the College, and enhanced procedures were implemented to prevent recurrence.	Facilities	Complete	20-0061	10/8/19

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
<b>Departmental Audit - Challenger Centers (19-018A &amp; 19-019A)</b>	1. Risks associated with minors on campus would be better managed by performing enhanced background checks on CLC employees, and requiring them to attend periodic training.	The CLCs provides training experiences for children in kindergarten through the 12th grade. In Waco, none of the employees have been subjected to the required finger print type background check. In Harlingen, only 1 employee was subjected to it. We were able to verify that all employees had the standard new hire background check performed.	1.1 Determine whether DPS Fingerprint service can be utilized. 1.2 Staff working with minors will complete training.	Mayfield, Balli	10/31/19
	2. Controls related to the recording of revenue and accounts receivable need to be improved.	Revenue is generally recorded when missions are scheduled, rather than when they take place. The CLC in Harlingen has written contracts with 2 school districts. For one of those contracts, services were not billed according to the schedule specified in the contract.	2.1 Accounting processes will be changed to record deferred/unearned revenue when missions are scheduled and invoiced. 2.2 Validate revenue and accounts receivable monthly.	Wooten	11/30/19
<b>Admissions Process Audit (19-017A)</b>	1. Application processes need to be improved to ensure documentation is standardized, and communications with applicants are timely.	Several instances of missing documentation, different processes from campus to campus, and Colleague not being updated.	1.1 Enrollment Services 2.0 was created to reduce such errors and during the audit period trainings were taking place on new processes. All Enrollment Coaches will be issued their own stamps for documents. A Conditional Enrollment Agreement went into effect in July 2019 whereas prior to 2.0 a form was not required by all campuses.	Foshie/Stuart-Carruthers	5/31/20

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
		Some applicants were not sent acceptance letters/notification of missing documents, other communications were not sent, notice of missing documentation sent to students after they turned items in, admissions telephone numbers were wrong on the website.	1.2 With the implementation of ES 2.0, a shift in communications moved from Colleague to Salesforce. While automatic letters still generate from Colleague, those tracks are under review to ensure communication is timely. A communication committee has been developed that will manage the creation, editing, and scheduling of all communication to applicants. Phone numbers have been updated as needed.	Foshie/Stuart-Carruthers	5/31/20
	2. Access to admissions and enrollment related mnemonics in Colleague needs to be better restricted.	We noted several departments with users having questionable, probably unnecessary, access to these mnemonics. Questionable access included employees in Workforce Development, Instructional, Distance Education, Student Development, Finance, HR, Financial aid and others.	2.1 Submitted a request to OIT to evaluate access for employees in question and remove if not appropriate. The Executive Registrar will collaborate with Human Resource and OIT to identify a process to ensure access is evaluated by the appropriate department when changes in employment within the college occur.	Arredondo/Stuart-Carruthers	6/30/20
Admissions Audit – Target X Application Audit (19-017A)	1. We found 27 TAC 202 controls that need to be implemented for Target X.	Missing controls in 8 families, including access, personnel security, configuration management, and system integrity.	1.1 We will begin evaluating each missing control, and by September 2020 implement those controls that are cost effective and beneficial to implement.	Suggs/Scherwitz	9/30/20



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
Admissions Audit – Informatica Server Audit (19-017A)	1. We found 15 TAC 202 controls that need to be implemented on the Informatica Server.	Missing controls in 5 families, including access, contingency planning, and system integrity.	1.1 We will begin evaluating each missing control, and by September 2020 implement those controls that are cost effective and beneficial to implement.	Suggs/Scherwitz	9/30/20
AY 2016 A-133 Evaluation and Desk Review Management Letter CFDA 84.048, Award #14919, Perkins Grant (West Texas) by THECB	No findings identified.				
AY 2016 A-133 Evaluation and Desk Review Management Letter CFDA 84.048, Award #14916, Perkins Grant (Marshall) by THECB	No findings identified.				



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
AY 2016 A-133 Evaluation and Desk Review Management Letter CFDA 84.048, Award #14748, Perkins Leadership Grant (System) by THECB		No findings identified.			
AY 2016 A-133 Evaluation and Desk Review Management Letter CFDA 84.048, Award #14918, Perkins Career & Technical Education (Waco) by THECB	1. Student meals in a total amount of \$233.87 were inappropriately paid with Perkins funds.		Return the funds, implemented 2 signature approval procedure.	Hyde, Wooten	Immediately
Skills USA Review (19-022P)	Found no evidence suggesting a conspiracy existed to give Waco students an advantage over Harlingen Students. Having the competition moved to another college next year will help with that perception.				



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
<b>Culinary Arts Investigation (19-0281)</b>	1. No evidence of self-dealing, but recommended all professional development events continue to be scrutinized, the Student Club Account be properly managed, and that raw food no longer be sold.	Director attended 2 events in same fiscal year (neither were paid for by the College), past deposits and withdrawals to the Club account did not follow proper procedures, and raw food is occasionally sold to generate revenue.	1.1 Will continue to scrutinize all professional development opportunities, 1.2 club funds will be handled according to policy, and 1.3 raw food will no longer be sold.	Bowers	Immediately

<b>COI Purchasing Investigation (19-0271)</b>	Found no evidence of malfeasance or deception. Instructor owned company was disclosed several times.				
1.	Found purchasing policy and specific regulations were violated by allowing the transaction to proceed.	F.A. 1.16 & Contracting Handbook prohibit related party purchasing, CFR prohibits the transactions Perkins funds were used on.	1.1 Follow policy prohibiting these transactions, 1.2 In unique situations where it may be in the best interest of the College, elevate that decision to the LT & possibly Board, 1.3 fund 2019 with funds other than Perkins, and self-disclose use of 2018 Perkins to the THECB.	Leadership Team, Boykin, Hyde	Immediately

<b>Public Funds Investment Act Compliance Audit (20-004A)</b>	1. Minor compliance requirements were not achieved.	Some employee independence forms were not submitted by October 1 deadline, some Regent independence forms were not submitted by November 1 deadline, a report on investment officer training was not presented to the Board in November 2017, and one investment report signed by only 1 of the investment officers.	1.1 Prepare a check-list that will assist in making sure all the guidelines stated the investment policy are abided by in an accurate and timely manner. The check-list will be completed quarterly and annually by the Accounting & Reporting office and will be reviewed by at least one investment officer.	Motwani/Wooten	11/30/19
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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
<b>Internal Network Penetration Test (EWCHC) (20-002A)</b>	1. Three people provided us their user IDs and logons.	Made social engineering phone calls, and sent phishing emails. We were able to compromise 3 people.	1.1 The Provost's Office promptly informed the entire campus community of this audit, the results, and the importance of never disclosing user IDs and passwords to anyone. The individuals who were compromised were also counseled to ensure they were aware of the breach and the part they played.	Padilla	Immediately
<b>TAC 202 Follow-up Audit (20-010A)</b>	Implemented controls increased from 103 to 106 controls.				
<b>Purchasing Kickback Investigation (20-006I)</b>	1. The process for awarding roofing work on the Waco campus has not been managed in a way to, at a minimum, avoid the appearance of impropriety or ensure other qualified vendors receive legitimate consideration for the work, as required by the Contracting Handbook.	Personal relationship with vendor, practice of exclusivity, not bidding/quoting work to ensure best value.	1.1 Employment action was taken, 1.2 staff re-educated on responsibilities, 1.3 current projects are being bid, and 1.4 committed to ensure unbiased decisions going forward.	Fried	Immediately

Texas State Technical College  
Internal Audit  
Follow Up Schedule & Status

Completion Summary			
	6/30/19	9/30/19	Cleared from (Added to) Schedule
Audits from FY 2017 & Earlier	3	2	1
Audits from FY 2018	5	2	3
Audits from FY 2019	7	9	(2)
Audits from FY 2020	0	1	(1)
Net Total	15	13	1
Findings from FY 2017 & Earlier	3	2	1
Findings from FY 2018	5	2	3
Findings from FY 2019	7	11	(4)
Findings from FY 2020	0	1	(1)
Net Total	15	16	(1)

**Highlights:**

Deficiencies in penetration tests (16-016A, 18-026A, 18-046A, 19-011A & 19-003A) cleared.
TAC 202 (17-002A) saw 3 controls clear with 3 controls pending Internal Audit review.
PCI Audit (18-009A) has 8 controls pending Internal Audit review.
Helicopter Investigation (19-009I) is pending Internal Audit review.
Graduation Audit (19-008A) - 1 task cleared.
Workplace Harassment Audit (19-014A) is pending Internal Audit review.

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
Summary of Departmental Audits (Marshall Welding Department 17-013A, Fort Bend Diesel 17-023A, Fort Bend HVAC 17-022A), Hoekstra	1. We identified numerous exceptions related to inventory control in the Welding Department.	1.1 Summary : Create a cross-divisional team and review existing policies and procedures related to the inventory process.	<b>Substantially Complete:</b> Determined in follow-up testing performed in November 2018 and June 2019 that all but one deficiency was corrected. The remaining deficiency related to asset transfers will be retested in FY 2020.		8/31/20
TAC §202 Compliance Audit (17-002A), Herrera	1. Several required controls were not yet implemented.	As noted in the report, a majority of the required controls have been implemented with the remaining controls being evaluated and addressed. For the controls not yet implemented, we are evaluating the associated risk to TSTC and associated applicability in our environment to prioritize implementation. IT Security along with TAC 202 compliance is a priority for TSTC.	<b>Ongoing:</b> At 7/12/19, 103 controls were implemented, with 32 still requiring attention. 10 of those 32 controls are pending testing by Internal Audit.		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
PCI Compliance Audit (18-009A), Herrera, Kilgore	1. Numerous IT related controls and/or their control elements, as prescribed by PCI DSS, have not been implemented. As such, PCI DSS compliance is not being fully met.	1.1 In an effort to ensure the protection of payment card data for students and employees, The Office of Information Technology has been working with Food Services to resolve a number of important control deficiencies during the audit and will continue to review and implement recommendations moving forward. As we anticipate that the review and implementation review of 100 controls across 6 objectives will take over a year, we will prioritize controls that have the largest impact on the protection of cardholder data. As part of this process, we will also implement the recommendation of an annual assessment of PCI-DSS controls to ensure ongoing adherence to PCI-DSS compliance changes.	<b>Ongoing:</b> As of 1/9/19, PCI controls were being mapped to TAC 202 controls so implementation efforts will be optimized. At 7/12/19, 8 controls were pending Internal Audit's review.		8/31/19
Annual Compliance Audit of TEC §51.9337 (18-047A), Hoekstra & Rushing	1. We identified exceptions related to employee training on contracting procedures, conflict of interest procedures, the contract management handbook missing some current procedures, and some other documentation exceptions.	2.1 Contract Management Training - Training for procurement staff and departments, as well as those with delegated authority to execute contracts will be conducted in November/December, following approval of statewide policy.	<b>Partially Complete:</b> Procurement staff were trained on 12/11/18 and 2/11/19. An email regarding the training via Moodle was sent to TSTC Designated Signatories on 4/11/19 instructing them to complete the training by 5/31/19. This will be verified in the next full audit scheduled to begin in August 2019.		<del>4/31/2019,</del> 5/31/2019, Pending Review

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
Audit of Google Drive (19-004A), Herrera	1. While the majority of the minimally required TAC 202 controls are in place for the Google Drive, we found 12 that still need attention. Those include deficiencies related to access and security. Since sensitive or important information is stored within the Google Drive, we feel priority should first be given to access and security controls.	1.1 For the controls not yet implemented, we are evaluating the associated risk to TSTC and associated applicability in our environment to prioritize implementation. IT Security along with TAC 202 compliance is a priority for TSTC to reasonably and effectively control risks. IT believes they can have these implemented by June 2019.	Ongoing		6/30/19
Audit of Maxient Application (19-003A), Herrera	1. While the majority of the minimally required TAC 202 controls are in place for the Maxient, we found 19 that still need attention. Those include deficiencies related to access and security. Since sensitive or important information is stored within the Maxient, we feel priority should first be given to access and security controls.	1.1 As noted in the report, a majority of the required controls have been implemented with the remaining controls being evaluated and addressed. For the controls not yet implemented, we are evaluating the associated risk to TSTC and associated applicability in our environment to prioritize implementation. IT Security along with TAC 202 compliance is a priority for TSTC to reasonably and effectively control risks.	Ongoing		7/31/19

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
Graduation Process Audit (19-008A), Herrera	1. Internal controls need to be improved to ensure certification requirements are always met, and well documented.	1.1 Management has implemented controls that include a centralized processing center to oversee the graduation process for all campuses. The standardization of these procedures should minimize any gaps in documentation standards. This new process will also ensure consistency in communication and information that is provided to respective graduates.	Ongoing		12/31/19

Helicopter Training Program Investigation (19-009I), Kilgore, Hockstra, Herrera	1. Summary: We did not identify any training of flight students performed by a contractor. Additionally, the student composition of HPTP when combined with the fixed wing enrollment figures complies with the VA's 85/15 rule. While we made several observations indicating the program was ineffectively managed in the past, current management appears to be taking steps to improve the operation of the program to make it more efficient and less costly. We did, however, identify accounting processes and controls that need to be improved to ensure the correct flight fees are charged to students, and any unused Chapter 33 funds are returned timely to the VA.	Various tasks - See investigative report. Summary: all observations for improvement will be addressed.	Pending Review		Immediately
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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
Workplace Harassment Audit (19-014A), Hockstra, Mayfield	1. Current policies and procedures related to workplace harassment can be improved by implementing several of the recommendations offered by the EEOC in their 2016 report.	1.1 A single, comprehensive policy will be created that includes all 10 of the EEOC's recommended elements.	Pending Review		9/30/19
		1.2 Frequent reminders to the employees on the College's expectations, with some of those reminders coming directly from the Executive Team.	Pending Review		9/30/19
		1.3 A single comprehensive policy will be created, with various forms of training being conducted.	Pending Review		10/31/19
		1.4 Ethical Advocate will be marketed as an appropriate reporting method for harassment.	Pending Review		10/31/19
Departmental Audit - Challenger Centers (19-018A & 19-019A), Mayfield, Balli, Wooten	1. Risks associated with minors on campus would be better managed by performing enhanced background checks on CLC employees, and requiring them to attend periodic training.	1.1 Determine whether DPS Fingerprint service can be utilized, and if not identify the an entity that will best serve this need.	Ongoing		10/31/19
		1.2 Staff who work with minors will complete training.	Ongoing		10/31/19
	2. Accounting processes for revenue need to be improved.	2.1 Accounting processes will be changed to record deferred/unearned revenue when missions are scheduled and invoiced.	Ongoing		11/30/19
		2.2 Validate revenue and accounts receivable monthly.	Ongoing		11/30/19



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
Admissions Process Audit (19-017A), Stuart-Carruthers, Foshie, Arredondo	1. Application processes need to be improved to ensure documentation is standardized, and communications with applicants are timely.	1.1 Enrollment Services 2.0 was created to reduce such errors and during the audit period trainings were taking place on new processes. All Enrollment Coaches will be issued their own stamps for documents. A Conditional Enrollment Agreement went into effect in July 2019 whereas prior to 2.0 a form was not required by all campuses.	Ongoing		5/31/20
		1.2 With the implementation of ES 2.0, a shift in communications moved from Colleague to Salesforce. While automatic letters still generate from Colleague, those tracks are under review to ensure communication is timely. A communication committee has been developed that will manage the creation, editing, and scheduling of all communication to applicants. Phone numbers have been updated as needed.	Ongoing		5/31/20
	2. Access to admissions and enrollment related mnemonics in Colleague needs to be better restricted.	2.1 Submitted a request to OIT to evaluate access for employees in question and remove if not appropriate. The Executive Registrar will collaborate with Human Resource and OIT to identify a process to ensure access is evaluated by the appropriate department when changes in employment within the college occur.	Ongoing		6/30/20

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
Admissions Audit - Target X Application Audit (19-017A), Scherwitz, Suggs	1. We found 27 TAC 202 controls that need to be implemented for Target X.	1.1 We will begin evaluating each missing control, and by September 2020 implement those controls that are cost effective and beneficial to implement.	Ongoing		9/30/20
Admissions Audit - Informatica Server Audit (19-017A), Scherwitz, Suggs	1. We found 15 TAC 202 controls that need to be implemented for Target X.	1.1 We will begin evaluating each missing control, and by September 2020 implement those controls that are cost effective and beneficial to implement.	Ongoing		9/30/20
Public Funds Investment Act Compliance Audit (20-004A), Wooten, Motwani	1. Minor compliance requirements were not achieved.	1.1 Prepare a check-list that will assist in making sure all the guidelines stated the investment policy are abided by in an accurate and timely manner. The check-list will be completed quarterly and annually by the Accounting & Reporting office and will be reviewed by at least one investment officer.	Ongoing		11/30/19

# **TEXAS STATE TECHNICAL COLLEGE**

## **Internal Audit Annual Report Fiscal Year 2019**

**Prepared by  
Jason D. Mallory, Director of Audits**

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## I. Internal Audit Plan for FY 2019

The Board of Regents approved the original internal audit plan for fiscal year 2019 on August 9, 2018, with Minute Order #13-18. There were no revisions to the plan.

This audit plan was prepared using risk assessment techniques as required by the Texas Internal Auditing Act. Prior to August 31, 2019, 12 internal audits, 7 investigations, 8 audits/reviews by external regulatory agencies, and 1 financial statement audit by an independent CPA firm. After August 31, 2019, 3 internal audits and 1 investigation began in FY 2019 reports were completed. Finally, there were 2 internal audits from the FY 2019 internal audit plan, 5 audits by external regulatory agencies, 1 consulting project still in progress with no reports yet issued at the time this annual report was being prepared.

Texas Government Code §2102.005(b) requires a state agency to consider methods for ensuring compliance with contract processes and controls and for monitoring agency contracts. To comply with this provision, an internal audit of contract compliance is conducted annually. At the time of this report, that audit for FY 2019 was in progress.

No audits were performed in FY 2019 to test benefits proportionality, however, and internal audit and an audit by the State Auditor's Office was conducted in FY 2018 with no material issues identified. An audit of this topic is scheduled to be performed in FY 2020 in accordance to the audit guidelines established by the State Auditor's Office.

### Fiscal Year 2019 Internal Audit Plan

Project Description	Division/Campus	Report Number	Report Date	Status
TEC §51.9337 (Contracting) Audit <sup>Note 2</sup>	Finance			In progress
TAC 202 (IT Security) Audit	Office of Information Technology	19-012A	10/5/18, 1/11/19, 4/12/19, 7/12/19	Complete
THECB Facilities Audit	Facilities -West Texas Campus	19-006A	11/28/18	Complete
THECB Facilities Audit	Facilities – Marshall Campus	19-007A	11/28/18	Complete
Integrated Admissions Process Audit <sup>Note 1</sup>	Student Services	19-017A	9/30/19	Complete
TRS Contributions Audit	Human Resources	19-005A	12/20/18	Complete
Internal Penetration Test	North Texas Campus/OIT/Security	19-011A	2/13/19	Complete
Internal Penetration Test	Ft. Bend Campus	19-015A	3/29/19	Complete

Google Drive Security Audit	Office of Information Technology	19-004A	12/10/18	Complete
Workplace Harassment Audit	Human Resources	19-014A	6/10/19	Complete
Challenger Center Audit Note 1	Student Learning (Waco Campus)	19-018A	9/4/19	Complete
Challenger Center Audit Note 1	Student Learning (Harlingen Campus)	19-019A	9/4/19	Complete
Graduation Process Audit	Student Services	19-008A	4/9/19	Complete
Maxient Software Audit	Student Discipline/OIT	19-003A	2/25/19	Complete
C4EO (Skills Engine) Audit Note 2	C4EO			In progress
Fixed Asset Follow-up Audit	Inventory Control/Statewide	17-023A	7/12/19	Complete
Safety & Security Follow-up Audit	Safety & Security/Statewide	18-012A	7/12/19	Complete

**Notes:**

- 1 Audit was completed after August 31, 2019. The report(s) will be presented to the Board of Regents on November 14, 2019.
- 2 Audit was completed after August 31, 2019. The report(s) will be presented to the Board of Regents at their Winter 2020 meeting.

## II. Summary of Audit Findings and Corrective Action Plans for Audits Conducted in FY 2019

Twelve of the 17 internal audits from the FY 2019 audit plan were completed before August 31, 2019, with 3 more completed in September 2019. The remaining 2 scheduled audits (TEC §51.9337 (Contracting) & C4EO) were in progress at the time of this report. There were also 4 FY 2018 audits that were completed in early September 2018. All the audits, with the exception of the 2 still in progress, are detailed in the following table.

Report #	Date	Audit	Division/ Campus	Summary of Findings	Status & Summary of CAPs
18-046A	8/16/18	Internal Network Penetration Test	OIT – West Texas Campuses	Security of information and assets could be improved by informing campus employees of the results of this project, and re-educating them on the risks we were able to exploit.	<b>Ongoing:</b> Activity Directory is still in the process of being implemented.
18-044A	8/16/18	Culinary Arts Program	Waco Campus	Expenses related to the non-instructional part of the catering operation should be paid from a Fund 4 account, similar to other auxiliary operations.	<b>Fully Implemented:</b> A local account was established and being used.
				Controls associated with food inventory, cash, and food handling certifications need to be improved.	<b>Fully Implemented:</b> Frequent inventory, track food handler's certificate, and have a separate person reconcile cash deposits.
18-043A	8/16/18	Culinary Arts Program	Harlingen Campus	Controls associated with food inventory and cash handling	<b>Fully Implemented:</b> Frequent inventory, track food handler's certificate, and have a

				need to be improved.	separate person reconcile cash deposits.
18-047A	10/2/18	Annual Compliance Audit of TEC 51.9337 (Contracting)	Finance	A single contracting policy noting specific requirements of TEC §51.9337 has been created, however, still needs to be adopted by the Board of Regents.	<b>Fully Implemented:</b> Policy was submitted to the Board and approved.
				We identified exceptions related to employee training on contracting procedures, conflict of interest procedures, the contract management handbook missing some current procedures, and other documentation exceptions.	<b>Fully Implemented:</b> Training was conducted, Conflict of Interest disclosures were obtained from employees, Delegation of Authority has been updated, Contracting Handbook has been updated, risk analysis procedures will be included in the Handbook, and verifying debarred vendor will be included as part of contract review process.
19-006A	11/28/18	Facilities Development Project Compliance Audit	West Texas Campuses	No material exceptions.	
19-007A	11/28/18	Facilities Development Project Compliance Audit	Marshall Campus	No material exceptions.	



19-004A	12/10/18	Audit of Google Drive	OIT	While the majority of the minimally required TAC 202 controls are in place for the Google Drive, we found 12 that still need attention. Those include deficiencies related to access and security. Since sensitive or important information is stored within the Google Drive, we feel priority should first be given to access and security controls.	<b>Ongoing:</b> For the controls not yet implemented, we are evaluating the associated risk to TSTC and associated applicability in our environment to prioritize implementation. IT Security along with TAC 202 compliance is a priority for TSTC to reasonably and effectively control risks. IT believes they can have these implemented by June 2019.
19-005A	12/20/18	Audit of TRS Retirement Benefits Participation	Human Resources	Processes related to employees electing ORP and processes related to TRS contributions for employees need improvement.	<b>Fully Implemented:</b> Implement a form for all new hires signifying their election, perform a reconciliation each semester for all employees working less than 12 hours per week.
19-013A	1/2/19, 4/11/19	Audit of Police Evidence Room	Police – Harlingen & Waco Campuses	No material exceptions.	
19-011A	2/13/19	Internal Network Penetration Test	OIT – North Texas Campus	Security of information and assets could be improved by informing campus employees of the	<b>Fully Implemented:</b> All employees were informed, and the physical issue in the Learning Resource Center was corrected.

				results of this project, and re-educating them on the risks we were able to exploit.	
19-003A	2/25/19	Audit of the Maxient Application	OIT	While the majority of the minimally required TAC 202 controls are in place for the Maxient, we found 19 that still need attention. Those include deficiencies related to access and security. Since sensitive or important information is stored within the Maxient, we feel priority should first be given to access and security controls.	<b>Ongoing:</b> For the controls not yet implemented, we are evaluating the associated risk to TSTC and associated applicability in our environment to Prioritize implementation. IT Security along with TAC 202 compliance is a priority for TSTC to reasonably and effectively control risks.
19-015A	2/13/19	Internal Network Penetration Test	OIT – Ft. Bend Campus	Security of information and assets could be improved by informing campus employees of the results of this project, and re-educating them on the risks we were able to exploit.	<b>Fully Implemented:</b> Cameras and printers were locked down, employees were retrained.
19-008A	4/9/18	Graduation Process Audit	Student Services	Internal controls need to be improved to ensure certification requirements are always met,	<b>Ongoing:</b> Implement central processing center, and remove the requirement to apply for graduation before being recognized as a

				and well documented.	graduate.
19-014A	6/10/19	Workplace Harassment Audit	Human Resources	Current policies and procedures related to workplace harassment can be improved by implementing several of the recommendation offered by the EEOC in their 2016 report.	<b>Ongoing:</b> Implement a single policy, send frequent reminders of expectations.
19-012A	7/12/19	TAC 202	OIT	We determined that 103 controls were implemented with 32 still needing attention.	<b>Ongoing:</b> 32 controls for Colleague and/or PerCon were still being implemented.
17-023A	7/12/19	Fixed Asset Follow-up Audit	Statewide	Transfer of assets from one custodian to another are not being performed timely.	<b>Ongoing:</b> Will improve the transfer process and make it more timely.
18-012A	7/12/19	Safety & Security Follow-up Audit	Statewide	There was a need to standardize safety processes between campuses, and to better establish organizational expectations and accountability in regards to safety.	<b>Fully Implemented:</b> Implemented a method for tracking safety issues, standardized inspection process and signage, hold frequent meetings, track injuries and improve related issues.
19-017A	9/30/19	Admissions Audit	Enrollment Services	Application processes need to be improved to ensure documentation is standardized, and communications	<b>Ongoing:</b> Implement vs 2.0 which will include enhanced procedures for admissions, as well as communication practices.

				with applicants are timely.	
				Access to admissions and enrollment related mnemonics in Colleague needs to be better restricted.	<b>Ongoing:</b> Will review access and remove as necessary.
19-017A	9/30/19	Audit of Target X Application – IT portion of Admissions Audit	OIT	We found 27 TAC 202 controls that need to be implemented for Target X. The most significant deficiencies relate to access and system security, especially since personally identifiable information of prospective students is captured and accessible through the system.	<b>Ongoing:</b> We will begin evaluating each missing control, and by September 2020 implement those controls that are cost effective and beneficial to implement.
19-017A	9/30/19	Audit of Informatica Server – IT portion of Admissions Audit	OIT	We found 15 TAC 202 controls that need to be implemented on the Informatica Server. The most significant deficiencies relate to access and system security, especially since personally identifiable information of prospective students is stored	<b>Ongoing:</b> We will begin evaluating each missing control, and by September 2020 implement those controls that are cost effective and beneficial to implement.

				on the Server.	
19-018A & 19-019A	9/4/19	Challenger Learning Centers	Waco & Harlingen Campuses	Risks associated with minors on campus would be better managed by performing enhanced background checks on CLC employees, and requiring them to attend periodic training.	<b>Ongoing:</b> Determine whether Fingerprint checks are allowed by DPS, and each employee will complete training.
				Accounting processes for revenue need to be improved.	<b>Ongoing:</b> Record unearned revenue until missions take place. Validate the accounts monthly.

### III. List of Consulting Engagements and Non-audit Services Completed in FY 2019

Eight consulting and non-audit type of services were *completed* in FY 2019. The following schedule summarizes those projects.

Report #	Date	Project Description	Division /Campus	Summary of Observations and Recommendations	Status & Summary of CAPs
19-010	10/5/18	Vending Machine Investigation	Auxiliary Services	Determined vending machines were charging the correct amounts.	
19-009I	2/28/19	Helicopter Vendor Investigation	Student Learning	Did not identify any inappropriate training performed by the vendor. Identified opportunities to improve accounting, purchasing, and flight tracking processes.	<b>Substantially Complete:</b> Accounting processes will be managed by Accounting personnel, access to the 141 system will be restricted, students will be charged the appropriate rates, and refunds to the VA will be made more timely.
19-016I	3/1/19	HVAC Donation Investigation	Student Learning	Small quantities of duct board were being received through a trade organization. The product is not restricted use requiring a special license to accept, handle, or use.	
19-023I	5/18/19	Diploma Investigation	Harlingen Campus	A student was not given his diploma a year after requesting it.	<b>Fully Implemented:</b> The diplomas was immediately issued.

19-029I	7/12/19	Student Learning	Dual Enrollment Investigation	Determined that a complaint directed at dual enrollment was not related to TSTC, rather Ft. Bend ISD.	
19-022I	7/23/19	Student Learning	Skills USA	Determined that the Skills USA organization relied to heavily on the College to run its statewide competition.	<b>Fully Implemented:</b> Competition has been moved to another college.
19-028I	8/27/19	Culinary Investigation	Student Learning	Did not find employees were misusing College resources.	
19-027I	9/27/19	Related Party Purchasing	Student Learning (Harlingen Campus)	Determined that an instructor-owned company sold equipment to the College. The transaction was disclosed prior to it taking place.	<b>Ongoing:</b> Going forward, similar transactions will not be approved. Federal funds were not used in 2019 for this transaction, and 2018 funds will be disclosed to the appropriate funding agencies.

#### IV. External Audit Services Procured in FY 2019

In FY 2018, one delegation request (#719-2018-001) was requested for an audit of the College's FY 2018 financial statements by an independent public accounting firm. This audit was completed in FY 2019. In addition, 8 other audits or reviews were completed by external regulatory agencies. The following schedule summarizes those projects.

Agency	Date	Project Description	Division/Campus
State Comptroller	8/27/18	Reviewed the College's charge card program.	Finance
State Auditor's Office	2/28/19	Verified noted federal compliance exceptions related to previous Single Audit was corrected.	Financial Aid - Marshall Campus
BKD	2/12/19	Audited the FY 2018 financial statements as part of the SACSCOC review.	Finance
State Comptroller	2/28/18	Audited purchasing compliance.	Finance
THECB	6/7/19	Reviewed 2016 Perkins funds.	Harlingen Campus
THECB	7/17/19	Reviewed 2016 Perkins funds.	Marshall Campus
THECB	7/19/19	Reviewed 2016 Perkins funds.	West Texas Campuses
THECB	8/8/19	Reviewed 2016 Perkins funds.	System Operations
THECB	8/20/19	Reviewed 2016 Perkins funds.	Waco Campus



## V. Internal Audit Plan for FY 2020

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

Executive Management and the Board of Regents first rated the priority of the following seven risks:

1. Financial Risk
2. Accounting Risk
3. Strategic Risk
4. Fraud Risk
5. Regulatory/Compliance Risk
6. Safety Risk
7. Customer Service Risk

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

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

Internal Audit assigned scores to the major activities and processes based upon the results of the risk assessments and risk priorities.

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

Internal Audit first selected all required audits, which amounted to three. We then selected audits with the highest risk scores and that touched the most individual risks and covered specific requests. Other than the areas actually selected for audit, consideration was given to risks associated with cloud computing, workforce development contracts, grants (particularly Skills Development grants), Titles IV & IX compliance, customer service, Foundation Accounting, and procurement cards. An audit related to benefits proportionality was also selected to review compliance for in FYs 2017, 2018, and 2019. The TEC §51.9337 (Contracting) Audit is intended to satisfy the annual contracting audit requirement.

This planning process yielded the following audit plan for FY 2020:

Audit Name	Budgeted Hours
TEC §51.9337 (Contracting) Audit – satisfies annual audit requirement of contracts	350
TAC 202 (IT Security) Audit – satisfies biennial audit requirement	450

Public Funds Investment Act Compliance Audit – satisfies biennial audit requirement	350
Audit of Airport Operations	650
Bookstore Audit (Waco Campus)	400
Bookstore Audit (Harlingen Campus)	400
Bookstore Software Audit – will TAC 202 controls	300
Jeanne Clery Disclosure of Campus Security Policy & Campus Crime Statistics Act Audit:	450
Accounting Controls Audit	450
IT Field Support Audit	400
IT Help Desk Audit	400
Internal Network Penetration Test (Waco Campus)	350
Internal Network Penetration Test (Harlingen Campus)	350
Internal Network Penetration Test (East Williamson County Campus)	350
Career Services Audit	400
PCI Follow-up Audit	365
Benefits Proportionality Audit – satisfies General Appropriations requirement.	450

## **VI. Reporting Suspected Fraud and Abuse**

TSTC has taken the following actions to implement the fraud detection and reporting requirements of Section 7.09 of the 86<sup>th</sup> Legislature's General Appropriations Act, and Texas Government Code, Section 321.022:

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

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

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

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

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

## **VIII. External Quality Assurance Review**

An External Quality Assurance Review of the Internal Audit Department was completed on August 30, 2018, by Terry Corrigan and Courtney Holden. Mr. Corrigan is the Internal Audit Director with Houston Community College. Mr. Holden is an Internal Auditor with that same college. Both were entirely independent from all auditors employed by the TSTC Internal Audit Department.

The results of the review indicated that TSTC Internal Audit Department generally conforms to standards. The Department was also commended for several practices it facilitates and engages in. A copy of the original report is attached.

## INTERNAL AUDIT

August 30, 2018

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

Dear Mr. Andarza and Mr. Mallory,

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

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

### **Opinion Rating Definitions**

The rating system that was used for expressing an opinion for this review provides for three levels of conformance: generally conforms, partially conforms, and does not conform.

- *Generally conforms* means that the Internal Audit Department has the relevant structures, policies, procedures, and an audit charter that comply with the *Standards* in all material respects; however, opportunities for improvement may exist.

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

### **Scope and Work Performed**

The review was performed in accordance with the State Agency Internal Audit Forum Peer Review Guidelines using the Master Peer Review Program. It included all TSTC internal audit activities from September 2015 through June 2018, and consisted of the following:

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

### **Results and Opinion**

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

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

### **Best Practices Observed**

We commend the following best practices observed:

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

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

Sincerely,



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



Courtney Holden, CFE  
Houston Community College  
Internal Auditor

Copies:

Mike Reeser, Chancellor  
John Hatchel, Chairman of the Board  
Ellis Skinner, Regent  
Tiffany Tremont, Regent  
Keith Honey, Regent  
Tony Abad, Regent  
Pat McDonald, Regent  
Curtis Cleveland, Regent  
Alejandro Meade, Regent  
Elton Stuckly, EVC  
Rick Herrera, VC  
Jonathan Hoekstra, VC  
Ray Rushing, VC  
Gail Lawrence, VC  
Jeff Kilgore, VC  
Michael Bettersworth, VC  
Roger Miller, VC





November 14, 2019

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 2019, all staff obtained at least 40 hours of relevant continuing education.
- Professional certification(s) and Education: Departmental staff hold undergraduate degrees in Accounting, Management, and Cybersecurity. One staff also holds an MBA. Professionally recognized licenses and certifications held include 1 CPA, 2 Certified Internal Auditors, and a certification in control self-assessment. Additionally, recognitions as Certified Information System Auditors is also being pursued.
- Internal and external quality assessment reviews: An internal review was performed in FY 2017 that resulted in a "Meets Standards" opinion. An external review was performed in FY 2018, with a "Generally Conforms to Standards" grade being achieved. The next external review will be performed in FY 2021.
- Reliable and sufficient documentation for all audit reports and opinions: I supervised all FY 2019 audits, and conducted working paper reviews before any reports or opinions were issued.
- Policy and procedures manual: All auditors are in possession of the manual, and acknowledged their responsibilities in writing prior to the fiscal year. That manual was reviewed and updated throughout the year as procedural changes were enhanced, with staff being promptly informed.
- Independence statements. In FY 2019, all auditors acknowledged their independence in writing. Formal procedures are established to address any potential conflicts of interest that may arise.
- 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*. One staff member served as the Secretary for the Board in FY 2019 of the latter.
- Client surveys. In FY 2019, client opinions of our work were sought after each audit. All responses were generally good to exceptional.

Sincerely,

A handwritten signature in black ink, appearing to read "Jason D. Mallory".

Jason D. Mallory  
Director of Audits



November 14, 2019

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



November 14, 2019

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. The Internal Audit Charter was last approved by the Board of Regents on January 31, 2019, at Minute Order 1-19(c).

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**

<b>No. GA 1.4</b>	<b>Page 1 of 5</b>	<b>Effective Date: 01/31/2019</b>
<b>DIVISION:</b>	<b>General Administration</b>	
<b>SUBJECT:</b>	<b>Internal Audit Function</b>	
<b>AUTHORITY:</b>	<b>Minute Order #01-19(c)</b>	
<b>PROPOSED BY:</b>	<b>Jason D. Mallory</b>	
<b>TITLE:</b>	<b>Director of Audits</b>	<b>Date: 01/31/2019</b>
<b>RECOMMENDED BY:</b>	<b>Jason D. Mallory</b>	
<b>TITLE:</b>	<b>Director of Audits</b>	<b>Date: 01/31/2019</b>
<b>APPROVED BY:</b>	<b>Mike Reeser</b>	
<b>TITLE:</b>	<b>Chancellor</b>	<b>Date: 01/31/2019</b>

**STATUS:**     Approved by BOR 01/31/2019

**HISTORICAL STATUS:**   Approved by LT 10/11/2018  
                                   Revised 11/05/15  
                                   Revised 06/09/15  
                                   Approved 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

**I.    STATEWIDE STANDARD**

**POLICY:** It is the policy of Texas State Technical College (TSTC) that the College 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' *International Professional Practices Framework*, and the Comptroller General of the United States *Government Auditing Standards*. The Internal Audit Department shall maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to ensure their technical competence. The Internal Audit Department shall have unrestricted access to all functions, records, property, and personnel, exercising prudence in the use of these resources.

## **II. PERTINENT INFORMATION**

*The International 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 shall be mandatory.

## **III. GENERAL GUIDELINES**

The Internal Audit Department shall act in an ethical manner and follow standards prescribed by the Institute of Internal Auditors. To follow those standards, the department and its personnel shall have access to all records necessary to offer an opinion, shall be accountable to the Board of Regents (BOR) and management, and shall have prescribed responsibilities.

## **IV. DEFINITIONS**

**Internal Auditing:** A TSTC department that provides independent, objective assurance and consulting services designed to add value and improve TSTC's operations. The department shall help TSTC accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

## **V. DELEGATION OF AUTHORITY**

To provide for the independence of the TSTC Internal Audit Department, its personnel shall report to a Director of Audits (Director), who shall report directly to the Audit Committee of the BOR, 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 within units of TSTC where they perform audits, as well as other specialized services.

The Director and staff are not authorized to:

- Perform any operational duties for TSTC.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any TSTC 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.

## **VI. PERFORMANCE STANDARDS**

1. The internal audit activity meets or exceeds the requirements outlined by the International Standards for the Professional Practice of Internal Auditing.
2. Reviews and appraisals of federal programs, activities, and functions are performed in accordance with the Comptroller General of the United States *Government Auditing Standards*.
3. The Director and staff of the Internal Audit Department maintain technical competence through continuing education consistent with the requirements for certified public accountants or certified internal auditors that is applicable to the College's environment.

## APPENDIX

### VII. RELATED STATEWIDE STANDARDS. LEGAL CITATIONS, OR SUPPORTING DOCUMENTS

[Texas Government Code, Title 10, Subtitle C, Chapter 2102](#)  
[SOS GA 1.16, Reporting of Wrongdoing or Retaliation](#)  
[International Standards for the Professional Practice of Internal Auditing](#)  
[The Comptroller General of the United States Government Auditing Standards](#)  
[Texas Education Code, Section 51.9337\(h\)](#)

### VIII. OPERATING REQUIREMENTS

#### **Code of Ethics**

The staff within the TSTC Internal Audit Department shall be required to act with integrity, objectivity, confidentiality, and competency in accordance with the *The International Professional Practices Framework's* [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 the department and its personnel by management and the BOR.

#### **Standards**

The College has imposed the specific requirements by which The TSTC Internal Audit Department shall perform its work. Examples include requiring a quality improvement program, professional development, and due professional care.

The scope of work of the TSTC Internal Audit Department shall be 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 that:

- 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.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and protected adequately.
- 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. Once identified, these opportunities must be communicated to the appropriate level of management.

### **Accountability**

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

- Report significant issues related to the processes for controlling the activities of TSTC, including potential improvements to those processes, and to 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, and external audit).

### **Responsibility**

The Director and staff shall be responsible for:

- Developing a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submitting that plan to the 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\(h\)](#), with the results being reported to the State Auditor.
- Implementing the annual audit plan, as approved, including, as appropriate, any special tasks or projects requested by management and the Audit Committee.
- Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to ensure professional standards are maintained.
- Establishing a quality assurance program by which the Director assures the operations of the TSTC Internal Audit Department.
- Performing 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.
- Evaluating and assessing significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issuing periodic reports to the Audit Committee and management summarizing results of audit activities.
- Keeping the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Assisting in the investigation of significant suspected fraudulent activities within TSTC and notifying management and the Audit Committee of the results.
- Considering 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.



## **Internal Audit Department**

### **Audit Report**

**Departmental Audits of Challenger Learning Center  
(19-018A and 19-019A)**  
**TEXAS STATE TECHNICAL COLLEGE**  
**Waco & Harlingen Campuses**

**September 4, 2019**

**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 recently completed departmental audits of the Challenger Learning Centers (CLC) on the Waco and Harlingen Campuses as of April 30, 2019. These audits focused on compliance to numerous College policies related to purchasing, travel, inventory control, cash handling, work study, employee leave, select HR rules, safety, training, IT security, the campus clearance process, and extra pay items. We also reviewed items specific to the CLCs such as ensuring all revenue was properly recorded and payment for services received. The following table summarizes the areas reviewed, and our results:

Topic	Test Focus	Waco CLC	Harlingen CLC
Purchasing	Split purchases, proper approvals, proper documentation, clear benefit to College, completed training purchasing training.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Procurement Cards	Secure custody of cards, monthly completion and reconciliation of logs, legitimate purchases, proper approvals, split purchases, training.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Travel	Legitimacy of travel, proper approval, correct State rates.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Inventory Control – Fixed Assets	Assets are secured, physical inventory was accurately completed within the last year, any transferred, missing, or disposed of items have the appropriate documentation on file.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.

Cash Handling	Access to cash is properly restricted, all cash on hand is accounted for, and proper segregation of duties are in place.	Not applicable.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Work Study	Student workers schedules and duties, validity of timesheets, financial need of students.	In compliance.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Staffing Levels	Appropriateness of staffing levels.	Levels appeared appropriate.	Levels appeared appropriate.
Employee Leave	Approval for all leave, appropriate documentation on file for extended leaves of absences.	In compliance.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Performance Evaluations	Written employee performance evaluations performed in the past year.	In compliance.	In compliance.
Safety	Safety awareness and compliance to hazardous chemicals, fire extinguishers, indoor air quality, eyewash and showers stations, concealed handgun policy, small appliance policy, driver safety program.	In compliance.	In compliance.
Minors on Campus	Appropriate training and background checks.	See FINDING #1.	See FINDING #1.
Required Training	Driver Safety, Information Security	In compliance.	In compliance.

	Awareness, Active Shooter, Title IX		
Time Keeping	Unusual entries, proper approval, timely submission, and overtime amounts on timesheets.	Not applicable.	Not applicable.
IT	Password protected screensavers, appropriate Colleague access, Identity Finder software, use of OIT servers, social engineering.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Campus Clearance	Verified that terminated employees do not have IT access, inventory assigned, College keys were returned, and paychecks were stopped at the termination date.	In compliance.	In compliance.
Extra Pay Items	Extra pay items to employees beyond their regular salaries are appropriate.	Not applicable.	Not applicable.
Revenue Recognition and Payment	Verify all revenue is properly recorded and payments are received.	See FINDING #2.	See FINDING #2.

Overall, the CLCs are generally in compliance with the governing policies tested. Isolated exceptions were identified in some areas as noted, but those did not pose material risk to the College. Those incidences were discussed with management, with corrective actions being formulated.

Two areas were identified that require attention. The first relates to risks associated with children who attend training at the CLCs. We determined that the enhanced form of background checks have not been performed on employees within the CLC, even though

this seems to be required by policy, and is prudent. And while training related to minors on campus is available, it is not technically required by policy for CLC employees. As such, none have taken it. We recommend the enhanced background checks be performed, and periodic training be required, to ensure associated risks are understood by all employees, and to demonstrate the College's commitment to limiting these risks.

The second finding relates to revenue recordation. We found instances where revenue was recorded before earned, overstatements of revenue, untimely invoicing, and documentation issues. These exceptions led us to conclude that associated processes should be improved.

### **Introduction**

On January 28, 1986, the Challenger Space shuttle exploded 73 seconds after liftoff killing all 7 crew members aboard. The crew for that mission consisted of five astronauts, one payload specialist, and one teacher. In April 1986, the families of the Challenger crew created the Challenger Center for Space Science Education as a memorial to the crew. Their goal was to spark youth interest and joy in science and engineering. They opened the first Challenger Learning Center in Houston, TX in 1988. There are currently 43 Challenger Learning Centers throughout the United States, South Korea, Canada, and the United Kingdom. The Harlingen Challenger Learning Center opened in January 2014 and the Waco location opened in September 2016.

The Challenger Learning Centers use space themed simulated learning and role playing strategies to help elementary and middle schooled aged students bring their classrooms to life and cultivate skills needed for future success. These skills include problem solving, critical thinking, communication, and teamwork. The CLCs have programs available for k-12 students, educators, corporations, scouts, community groups, and the general public.

The CLCs have 4 employees at each location. Each staff is responsible for recruiting customers and facilitating missions. In addition, each CLC hosts annual STEM summer camps, and holds periodic community events throughout the year. The Waco CLC hosted 35 different groups comprising over 1,800 students in fiscal year 2018. As of April 30, 2019, they have hosted 21 different groups comprising over 1,200 students in fiscal year 2019. The Harlingen CLS hosted 106 different groups comprised of over 5,200 students in fiscal year 2018. As of April 30, 2019, they have hosted 95 different groups comprising almost 4,500 students in fiscal year 2019. These figures suggest management is increasing participation on each campus.

Revenue is generated at each CLC by conducting missions for student groups throughout the school year, and by hosting an annual STEM camp. Salaries and benefits are the largest annual expenses for each CLC, with an annual licensing fee paid to the Challenger Center for Space Science Education being the largest other operating cost. By the College operating the CLCs, it champions STEM subjects and interest with local ISDs and their

students, while serving as a recruiting tool. In fiscal years 2018 and 2019, each CLC has operated at a net loss as demonstrated below. We were informed that each CLC has been directed, however, to at least break even by 2021.

	FY 2018		FY 2019 through April 30	
	Waco	Harlingen	Waco	Harlingen
Mission Revenue	\$33,394.50	\$96,750.00	\$17,500 <sup>Note 3</sup>	\$39,450.00 <sup>Note 2</sup>
STEM Revenue	\$860.00	\$2,940.00		
Total Revenue	\$34,254.50	\$99,690.00	\$17,500	\$39,450.00
Salaries & Benefits	\$52,485.09	\$50,726.09	\$82,963.40 <sup>Note 1</sup>	\$27,674.65 <sup>Note 5</sup>
Travel	\$157.45	\$9,100.69	\$3,402.68	\$6,647.79
Operating	\$17,168.64	\$48,894.33 <sup>Note 4</sup>	\$24,421.39	\$28,580.68
Total Expenses	\$69,811.18	\$108,721.11	\$110,787.47	\$62,903.12
Net Income (Loss)	(\$35,556.68)	(\$9,031.11)	(\$93,278.47)	(\$23,453.12)
Fund Balance	\$94,951.01	\$82,066.01	\$94,951.01	\$73,034.90

Note 1: In 2019, the staff in Waco was increased in effort to provide better services to the ISDs and their students, and to increase the number of missions.

Note 2: Excludes \$47 thousand recorded after April 30.

Note 3: Early in FY 2019, several missions were given to school districts to introduce them to the service.

Note 4: In 2018, there were approximately \$10 thousand in remodeling expenses and \$2 thousand in computer purchases.

Note 5: In 2019, the Harlingen CLC was understaffed by 2 employees for a portion of the year.

## Objectives

The objective of the audits were to ensure the CLCs acted in accordance to College policy in the select areas previously noted. Because the Centers are revenue producing, we also reviewed their accounting process to ensure all revenue was accurately recorded and payments for services were received timely.

## Scope & Methodology

The scope of our audit included all activities and transactions at the CLCs on the Waco and Harlingen campuses in fiscal year 2018 and 2019 related to purchasing, travel, inventory control, cash handling, work study, employee leave, select HR rules, safety, training, and IT security. The following Statewide Operating Standards and other guidelines formed the basis of our testing: FA 1.16, FA 5.4, Procurement Card Program Guidelines and training, FA 6.1, FA 1.13, FA 1.19, FA 2.1, FA 2.2, IFAP Volume 6 Chapter 2, HR 2.3.12 through

HR 2.3.14, HR 2.3.18, HR 2.2.3, HR 2.2.8, GA 5.1.1 through GA 5.1.7, and GA 1.6.1 through GA 1.6.12 We also reviewed Program staffing levels, the campus clearance process, extra pay items, required training participation, and the accounting processes which record activity.

### **General Observations**

The CLCs offer unique opportunities to interest elementary and middle school aged students in both the space program and STEM subjects through hands on learning environments. TSTC has 2 of only 43 CLCs in the world, and 2 of only 3 in Texas.

The CLCs also provide marketing opportunities for the College. During their visits, students are provided campus tours, information on College programs of study, and any other information they request.

### **Summary of Findings**

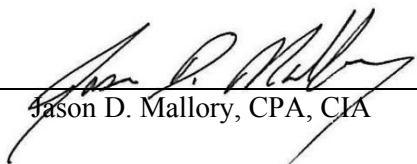
1. Risks associated with minors on campus would be better managed by performing enhanced background checks on CLC employees, and requiring them to attend periodic training.
2. Controls related to the recording of revenue and booking of accounts receivable need to be improved.

### **Opinion**

Based on the audit work performed, we determined both CLCs generally comply with the College policies tested in this audit. Nevertheless, operating results would be improved, and safety risks decreased by addressing the observations found in the findings sections of this report.

We would like to express our gratitude for the time and assistance provided by the faculty and staff during this audit.

Submitted by:

  
 Jason D. Mallory, CPA, CIA

September 4, 2019

Date

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### AUDIT FINDING DETAIL

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**Finding #1:** Risks associated with minors on campus would be better managed by performing enhanced background checks on CLC employees, and requiring them to attend periodic training.

**Criterion:** The College requires employees who have direct contact with minors on campus to have a finger print type criminal background check performed. The CLCs provides training experiences for children in kindergarten through the 12th grade. In Waco, none of the employees have been subjected to the required finger print type background check. In Harlingen, only 1 employee was subjected to it. We were able to verify that all employees had the standard new hire background check performed.

The College also has a policy requiring employees overseeing certain types of camps attended by minors to take additional training in preventing sexual abuse and child molestation every two years. Though employees in the CLCs are not technically required to take this training, we feel all CLC employees should be required to take it because of the frequent contact they have with elementary school aged children.

We recommend the enhanced background checks be performed, and periodic training be required, to ensure associated risks are understood by all employees, and to demonstrate the College's commitment to limiting these risks.

**Consequences:** Failure to comply with State regulations and College policy, and various consequences related to uncontrolled risks associated with frequent interaction with minors on each campus.

**Possible Solution:** Perform finger print type criminal background checks on all Challenger Learning Center employees, and require periodic training in preventing sexual abuse and child molestation.

### Management Response

Management of the Human Resources Office is in agreement with the observations and recommendations as stated this audit. The Human Resources Office has reached out to the Texas Department of Public Safety (TX DPS) to determine if their Fingerprint Services can be utilized for the set of employees identified within this audit as working with minors. Inclusively, the Human Resources Office is prepared to continue with the process of identifying an entity that will successfully meet the recommendations stipulated, if the TX DPS is not an option.

Regarding training, those working with minors in the Pre-College Programs will complete either the YouthCampTraining.com or TrainRight, Inc. sessions by no later than the end of October 2019 depending on the availability of the training resources provided. Neri Balli, Pre-College Programs Director will be responsible for the implementation of this corrective action plan.



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### AUDIT FINDING DETAIL

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**Finding #2:** Accounting processes for revenue need to be improved.

**Criterion:** Because the CLCs generate revenue, we verified all earned revenue was properly recorded. We identified several issues during this test which indicate processes should be improved.

- Revenue is generally recorded when missions are scheduled, rather than when they take place. In practice this overstates earned revenue for a period of time until the missions take place. Additionally, we identified missions that were cancelled or given for free, yet the revenue was still recorded. This practice also overstates accounts receivable.
- We identified instances where revenue was posted to the wrong GL revenue account.
- The CLC in Harlingen has written contracts with 2 school districts. For one of those contracts, services were not billed according to the schedule specified in the contract. The CLC also reportedly has a verbal agreement with yet another district to not bill them for missions until the end of each fiscal year. These 3 schools districts comprise the majority of revenue for the CLC. These issues increase the likelihood that all revenue that is earned is not recorded, or at the very least, not recorded timely.

**Consequences:** Overstated revenue and accounts receivable in some instances, failure to bill and receive for services provided.

**Possible Solution:** We recommend revising accounting processes to record revenue and accounts only after a service has been rendered. We also recommend improving contract management with the school districts to ensure all revenue is recorded and received timely. We also recommend that any verbal agreements be formalized in a written contract.

### Management Response

Management of the Accounting Department agrees with the observations made in the audit. The revenue recording errors for the Challenger Learning Center were the result of miscommunication between the Challenger Learning Center staff and the Accounting Office. By November 2019, accounting processes will be changed to record deferred/unearned revenue when missions are scheduled and invoiced, and actual revenue will be recorded after a mission has taken place. Accounts receivable will continue to be booked when the mission is scheduled, but any time a mission is cancelled, the receivable (and related deferred/unearned revenue) will be removed from the general ledger. We intend to validate these accounts on a no less than monthly basis through a joint reconciliation process between Institutional Revenue and Challenger Learning Center staff. The new reconciliation process, along with the change to recording deferred/unearned revenue, will address all issues in the finding, including proper and timely revenue recognition, as well as correct GL revenue account coding. Chad Wooten, EVP Accounting & Reporting will be responsible for implementation of this corrective action plan.

## **Internal Audit Department**

### **Audit Report**

#### **Public Funds Investment Act Audit (20-004)** **TEXAS STATE TECHNICAL COLLEGE**

**September 26, 2019**

**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**

Chapter 2256 of the Texas Government Code, commonly referred to as the Public Funds Investment Act (PFIA), provides guidance on the authority and responsibilities the College has when making investment decisions. The PFIA requires a biennial compliance audit to ensure all rules are followed. In addition, Article III, Rider 5 of the General Appropriations Act, 85<sup>th</sup> Legislature (Rider 5), also specifies various investment reporting requirements. The purpose of this audit was to satisfy the biennial audit requirement by verifying the College has complied with the PFIA and Rider 5 during fiscal years 2018 and 2019.

Our audit was conducted to ensure all major provisions within the PFIA and Rider 5 were followed. Specifically, we tested the College's investment policy to ensure it includes all required elements of the PFIA, and to determine whether it is reviewed and approved by the Board of Regents (Board) annually. We also reviewed training records, conflict of interest disclosures, and bidding procedures. Quarterly investment and collateral reports were tested to determine their validity, accuracy and timeliness. The investment portfolio was scrutinized to ensure all investments were allowable by both policy and regulation. Finally, we determined various reports and investment information is published on the College's website, and that an "annual tracking report" was submitted to the State Auditor's Office by December 31.

Our test revealed that all investments and related collateral are within PFIA guidelines, required training is being performed, and conflicts of interest disclosures were obtained with no conflicts being reported. The quarterly investment and collateral reports report valid and accurate information in a timely manner. Written policies in compliance with the PFIA have been implemented, and those policies were approved by the Board in both fiscal years under audit. The investment strategy as demonstrated by the make-up of the current investment portfolio is managed to, in order of priority, preserve principal, achieve liquidity, and then maximize yield. The annual tracking report was submitted to the State Auditor's Office timely and all required information per Rider 5 was posted on the College's website.

In our opinion, the College substantially complied with the PFIA and Rider 5 during fiscal years 2018 and 2019. While we identified isolated exceptions of non-compliance, as detailed in the Findings section of this report, those exceptions have no impact on the preservation of the College's investment position, or the liquidity and annual yield of the investments. The exceptions are technical in nature, and mostly relate to dates associated with training acknowledgment and conflict of interest disclosures.

## **Introduction**

Chapter 2256 of the Texas Government Code outlines the rules State entities must follow when investing its funds. Its primary investment objective is preservation of principal. Maximizing yield, while addressed, is not its ultimate concern. To achieve the primary

objective, it specifies the type of investments that are allowable, outlines training requirements, addresses conflict of interest procedures, and mandates policy and reporting guidelines.

Within the College, the Vice Chancellor for Finance/CFO has been designated as the College's Investment Officer, with the Comptroller being designated as the alternate. They are primarily responsible for the College achieving PFIA and Rider 5 compliance.

Currently, the investment portfolio is very conservative, being largely comprised of demand deposits, certificates of deposit and money market accounts. As of May 31, 2019, the collective balance of all demand and time deposits totaled \$63,632,608. Of that balance, \$27,493,287 was deposited at the State Treasury, or other government pools (TexTerm and TexPool), which do not require collateral. There was sufficient collateral of \$47,173,315 for the remaining deposits.

### **Objectives**

The objectives of the audit were to determine whether:

1. The College has achieved compliance with the PFIA and Rider 5 in fiscal years 2018 and 2019.
2. Adequate controls were designed/implemented for continuing compliance.

### **Scope & Methodology**

The scope of our audit included all investments and collateral, policies, and related trainings, disclosures, and reports in fiscal years 2018 and 2019. We audited to Chapter 2256 of the Texas Government Code and Article III, Rider 5 of the General Appropriations Act, 85<sup>th</sup> Legislature, to ensure compliance of all College investment activities in those years. We utilized the *Internal Control – Integrated Framework* as guidance for the control aspect.

### **General Observations**

Management has established strong controls to ensure investments are appropriately maintained, with practices in accordance with established guidelines. Internal policy parallels regulatory guidance and addresses the College's investment strategy. Management does a commendable job in documenting related activity and reporting it timely to the Board.

### **Summary of Finding**

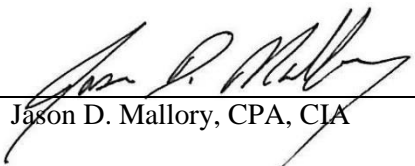
1. Minor compliance requirements were not achieved.

### Opinion

Based on the audit work performed, TSTC substantially complied with Chapter 2256 of the Texas Government Code and Article III, Rider 5 of the General Appropriations Act, 85<sup>th</sup> Legislature, in fiscal year 2018 and 2019. However, we identified select regulatory requirements that were not met by the College.

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 26, 2019  
Date

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### AUDIT FINDING DETAIL

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Finding #1: Minor compliance requirements were not achieved.

**Criterion:** We reviewed the College's compliance to all requirements in the Public Funds Investment Act, Rider 5 of the General Appropriations Act, and the College's Investment Policy. We found that while the College is substantially compliant with the PFIA and the Investment Policy there were isolated instances of non-compliance. These requirements include the following:

- Employees who work with College investments are required to submit an Employee Independence – Deposits and Investment form by October 1 of each year. While all employees either submitted forms by the due date or within 30 days of it, 6 of 12 the forms were dated after October 1. There were no conflicts reported on any form.
- Regents are required to submit a Board Member Independence – Deposits and Investment form by November 1 of each year. Of the 20 forms we tested, 3 were submitted after the due date and 4 of the forms were not dated. There were no conflicts reported on any form.
- A report on investment officer training was not presented to the Board of Regents in November 2017. Nevertheless, all training was completed. The next report is due in November 2019.
- We identified a Quarterly Investment report presented to the Board of Regents that was signed by only 1 of the investment officers. The report was accurate, nevertheless.

**Consequences:** Increased probability of non-compliance to a significant requirement.

**Possible Solution:** Develop a compliance checklist to be completed each September which guides compliance.

### Management Response

Management agrees with the observations made in the audit. The findings noted above were the result of isolated incidents. By the end of the next reporting quarter, November 2019, management plans on preparing a check-list that will assist in making sure all the guidelines stated the investment policy are abided by in an accurate and timely manner. The check-list will be completed quarterly and annually by the Accounting & Reporting office and will be reviewed by at least one investment officer. Anju Motwani, VP & Controller, will be responsible for implementation of this corrective action plan.

## **Internal Audit Department**

### **Audit Report**

**Internal Network Penetration Test Audit (20-002A)**  
**TEXAS STATE TECHNICAL COLLEGE**  
**East Williamson County Campus**

**September 27, 2019**

**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

Between August 19, 2019 and September 20, 2019, we performed vulnerability scans and penetration testing of the College's internal network on the East Williamson County Campus.

The primary objective of this project was to ensure sensitive information stored and processed by primary systems, and systems directly supporting the confidentiality, integrity, and accessibility of those systems, have controls in place to detect and prevent attacks from unauthorized individuals on the campuses. Physical and logical security controls, to include the actions and habits of personnel, were targeted in this project. We specifically focused on likely attack vectors that could be exploited by bad actors to gain unauthorized access to sensitive information and information technology assets.

The scope of the penetration test included the physical and logical securities of core network equipment and servers located on the East Williamson County Campus. We approached the tests from the perspective of an unauthorized individual with limited knowledge of available assets and controls. To gain an understanding, we relied upon information available to the general public by performing internet searches and physically observing facilities to identify potential weaknesses. The only information that we used that was provided by management was a list of rooms used by TSTC. Since the campus has other colleges residing on it, we focused our efforts on only assets and resources that were attributed to TSTC. We tested end user training effectiveness (known as phishing) by calling and sending emails to select individuals requesting sensitive information that would never legitimately be sought. We attempted to access areas that should be restricted to identify sensitive information or assets that could be pilfered. We attempted to gain access to privileged systems and information by scanning the network to identify control flaws, testing wireless access points, and searching for available ports that we could plug in to. Finally, we accessed computers available to the public to determine whether we could gain access to sensitive information. Both manual and automated testing methods were used to detect and/or exploit vulnerabilities. Industry standards noted in the Scope & Methodology section of this report served as our basis.

We determined that employees do not expose sensitive information on documents by disposing of them in recycle/trash bins or leaving them in public view. Computer desktops and offices were inaccessible. Wireless networks are appropriately segregated, and protected by secured logon protocols and encryption. We were unable to access any restricted information on the network. Furthermore, usable wireless access is only available from inside the building, open ports are disconnected from the network, and security personnel actively monitor the facility. In fact, while the security guard did not confront us, we are certain they noticed our presence. Finally, IT related closets were restricted by locks that require both a physical key and badge swipe. Our badges were not able to open these doors.

We identified one training opportunity associate with us successfully obtaining the three user's credentials through our phishing and social engineering attempts.



## Introduction

The East Williamson County Campus in Hutto is shared by TSTC, Temple College (TC), and other colleges. In an operating agreement signed by both parties in July of 2011, TC agreed to provide all utilities, custodial services, grounds keeping, IT costs, and routine maintenance of the facility. This includes all IT operations and network activities, including telephone services. TSTC maintains its own instructional equipment and any other property it uses for its sole instructional benefit. To that end, the OIT Department of TSTC maintains all College owned computers, printers, desktops and other similar equipment, and provides help desk services to TSTC staff and students who require assistance with logging into their TSTC related accounts or accessing computers in the lab. The TC IT department provides help desk services for telephone and network related issues.

Because IT services are primarily provided by TC, our testing focused on processes, services, and activities that presented risks to TSTC. The Associate Provost for the East Williamson County Campus provided a map detailing all areas primarily occupied by the College.

To ensure the integrity of the results, we only notified the Provost and Associate Provost, and Temple College's network administrator through our OIT Department. The specifics and timing of our tests were not disclosed to anyone in an attempt to make this test as realistic as possible to achieve reliable results.

This test verified not only physical and logical controls related to safety and security and IT security, it also validate human behavior and training in certain regards.

## Objectives

The objectives of the internal network penetration test were to:

- Ensure primary systems, and systems directly supporting the confidentiality, integrity, and accessibility of primary systems have the controls in place to detect and prevent attacks.
- Ensure unauthorized individuals on campus are unable to access privileged systems or sensitive data.
- Verify the effectiveness of end-user training on threats related to information security.
- Allow the College to gain insight into real-world attack vectors that may have not been previously considered or tested.

This test was not intended to verify all risks the campus faces during an attack. We focused on likely scenarios based upon the information we gathered during our testing.

## Scope & Methodology

The scope of the penetration test included the physical and logical securities of core network equipment, access network equipment, and servers located on the East Williamson County Campus. It also included employee awareness and vigilance against potential related attacks that compromise IT systems and sensitive data. The following industry standards served as our methodology:

- IS Benchmarks - Baseline Configurations for Secure Operating System and Application Deployment
- NIST Configuration Baselines - Baseline Configurations for Secure Operating System and Application Deployment
- NIST 800-53 - Security and Privacy Controls for Federal Information Systems and Organizations
- NIST 800-115 - Technical Guide to Information Security Testing and Assessment

## General Observations

Most employees were vigilant in protecting sensitive information, and access to it. Wired and wireless networks are segregated between privileged and guest accounts, with services being appropriate on each. Wireless access points are unlikely to emit signals that can be used by bad actors outside of the physical perimeters of the originating building. Access to closets containing networking equipment were kept locked during and after business hours. Access to faculty offices were kept restricted from unauthorized users by locked doors. Security personnel made their presence known by consistently surveying the campus floors at all hours of the day. Access to computer lab desktops were restricted by requiring the use of a student name and ID in order to logon.

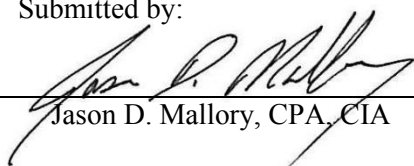
## Summary of Findings

Three people provided us their user IDs and logons.

## Opinion

Based on the audit work performed, IT assets and information are well protected on the East Williamson County Campus. The 3 people who provided user IDs and logons during our attack represented the only weakness we were able to exploit. The names of those individuals were provided to management to counsel. 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 27, 2019

Date

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### **AUDIT FINDING DETAIL**

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Finding #1: Three people provided us their user IDs and logons.
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**Criterion:** Posing as a student, we walked through various areas on the campus during and after business hours. We attempted to access buildings and rooms that contained both IT equipment and potentially sensitive information (electronic and hard forms). We took note whether people or other obstacles prevented access. We also made phishing telephone calls and sent emails to employees in an attempt to learn logon IDs and passwords to the Portal and Colleague. And we scanned the network searching for vulnerabilities that could potentially be exploited. Finally, we attempted to access areas on the network via wireless access.

Two people respond to our phishing email by submitting their user IDs and passwords to the Portal. A third person provided her credentials to Colleague during a telephone call. Both of these systems allow access to sensitive information.

**Consequences:** Exposure of sensitive student and employee information.

**Possible Solution:** We recommend all campus employees be informed of our project results, and everyone be reminded of their responsibilities to protect sensitive information and IT assets. We further recommend that the 3 individuals that actually provided their credentials be specifically counseled. We spoke with one of these employees during our closing process for this audit.

### **Management Response**

<p>The Office of the Provost (EWCHEC) agrees with the observations made in the audit. The employees who provided their usernames and passwords was the result of a successful social engineering effort aimed at identifying vulnerabilities. It has helped us identify a key training need on our campus. On 9/24, the Provost's Office promptly informed the entire campus community of this audit, the results, and the importance of never disclosing user IDs and passwords to anyone. The individuals who were compromised were also counseled to ensure they were aware of the breach and the part they played. While these audit procedures are effective training tools in elevating awareness, we will continue with the annual training that is provided to continue to remind employees of risks, and the roles each play in reducing them.</p>
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## **Internal Audit Department**

### **Audit Report**

**Admissions Audit (19-017A)**

## **TEXAS STATE TECHNICAL COLLEGE**

**September 30, 2019**

**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 completed an operational audit of the Admissions process as of April 30, 2019. The primary purpose of this audit was to verify applications from prospective students are being processed in a timely and effective manner to ensure maximum enrollment. Communications to students, required admissions documents, such as transcripts, vaccination records, and evidence of residency, and applications received through Apply Texas and Target X were all included in this audit. Because some programs such as Dental Hygiene and Nursing have additional admissions requirements, we also verified the admissions processes for those programs are based on objective criteria. Finally, we ascertained whether all processes were standardized across campuses.

The audit focused on applications received in the Fall 2018 and Spring 2019 terms. We reviewed a sample of general applicants from each campus and verified each applicant met admissions requirements by providing all necessary documentation. We also tested a sample of applicants to the Dental Hygiene and Nursing programs to verify their additional requirements were met. Date stamps on documents were reviewed to verify those documents were received prior to final admission, and communications were reviewed to verify prospective students were receiving information requests timely. Finally, we reviewed the process of importing applications submitted from Apply Texas and Target X into Colleague.

We determined that applying to the College is relatively simple; prospective students apply directly from the TSTC or Apply Texas websites. Admissions requirements, program information and related contact information is available on numerous pages of the College's website, and a chat feature is available during weekdays. We were able to trace applications from submission through the review and enrollment processes. We were also able to trace various communications sent to applicants, including acceptance letters and communications requesting additional information. Finally, we determined that the College has very little risk similar to the recent nationwide fraud cases involving individuals offering payments in exchange for guaranteed acceptance into a College.

Nevertheless, we identified several opportunities for improvement, especially in standardizing documentation practices across campuses, and enhancing communications with prospective students. We also identified the need to better restrict access to admissions and enrollment related mnemonics in Colleague.

## **Introduction**

The Statewide Operating Standard (SOS) ES 4.07 Admission of Students outlines the admissions requirements applicants must satisfy to gain admittance to the College. TSTC is an open enrollment institution, however, applicants must still submit an application and other documents, such as applicable testing requirements, immunization records and proof of compliance with any established and approved program entry level standards. For some

programs such as those in the Allied Health division, applicants must complete an additional application, and meet course prerequisites and additional immunization requirements.

Prospective students apply on the TSTC website using Target X, a 3<sup>rd</sup> party software application. Or, they can apply through the Apply Texas website which allows applicants to apply to several Colleges at once. Applicants may transition to enrolled students only after an enrollment coach reviews their application and verifies all documents have been submitted.

The Enrollment Center (The Center) is managed by Enrollment Management. The Center is under the leadership of the Associate Vice Chancellor of Enrollment Management AVC-EM). The Executive Director, 31 Enrollment Coaches, 5 Assistant Directors, 7 Campus Enrollment Executives and a Communication Specialist report directly to the AVC-EM. The Executive Director provides coaching support, but not direct managerial oversight. The process of importing applications is performed by the Enrollment Support Services Director, with IT processes supported by an Application Administrator.

14,790 and 2,962 applications were submitted for the Fall 2018 and Spring 2019 terms, respectively. As expected, applications are generally higher during fall terms. The Harlingen and Waco campuses made up 67% and 72% of total applications submitted for the terms previously mentioned.

### **Objectives**

The primary purpose of this audit was to verify applications from prospective students are being processed in a timely and effective manner to ensure maximum enrollment. All related processes and campuses were included our test work.

### **Scope & Methodology**

The scope of our audit included all admissions applications submitted for the Fall 2018 and Spring 2019 semesters at each campus. Dual Enrollment applications were specifically excluded. To accomplish our objectives, we reviewed a sample of applications from each campus, with emphasis being placed on each phase of the application process. We reviewed the application import process as well as system access to these processes. Communications to applicants were tested to ensure applicants are receiving information requests timely. Several “test” applications were also submitted to trace the application from submission through the review process. We also tested application packets submitted for the Fall 2019 term to the Harlingen Nursing and Dental Hygiene programs. SOS ES 4.07 Admission of Students formed the basis of our compliance related testing.

## General Observations

The Admissions departments at each campus have gone through several changes since single accreditation. There is a concerted effort to standardize processes. To that end, an Enrollment Center was created, with the roles for enrollment coaches, processing personnel, and even the Student Resource Center as a whole being refined.

We noted an attitude of constant improvement among employees within Enrollment Management and the desire to continue to improve processes to better assist applicants. Management was candid about some processes that still needed to be improved.

Additionally, we determined that the College *does not* have a high risk associated with potential admissions fraud schemes, similar to the recent nationwide fraud cases involving individuals offering payments in exchange for guaranteed acceptance into a College. One factor that reduces this risk for TSTC is due to the College being open enrollment institution.

As detailed in the Finding section of this report, we identified a need to continue improving internal controls. Some of the areas we identified were already receiving attention prior to this audit. An example of this related to the inconsistency of communications with applicants which was noted during a previous Admissions related project in FY 2018.

## Summary of Finding

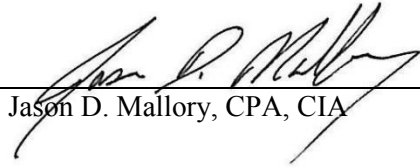
1. Application processes need to be improved to ensure documentation is standardized, and communications with applicants are timely.
2. Access to admissions and enrollment related mnemonics in Colleague needs to be better restricted.

## Opinion

Based on the audit work performed, we found that processes have been appropriately designed to ensure prospective students have a simple method for applying to the College. Those processes, however, need attention. We found numerous exceptions related to applications not being processed timely, and inconsistent practices for obtaining and maintaining supporting documentation. We also identified the need to communicate more timely to applicants, including simple notifications that applications were received and to requests additional information from the applicant.

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 30, 2019  
\_\_\_\_\_  
Date



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### AUDIT FINDING DETAIL

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Finding #1: Application processes need to be improved to ensure documentation is standardized, and communications with applicants are timely.

**Criterion:** We selected a sample of 112 recent applications from the Fall 2018 and Spring 2019 terms. All campuses were represented in the sample. We reviewed required documents such as transcripts and bacterial meningitis vaccinations were provided and processed prior to enrollment, and that an accurate residency status was provided. We also reviewed communications to the applicants to verify timely communication was made with each applicant. We found the following deficiencies:

**Inconsistent documentation practices:**

- Different stamps, or lack of, were used when stamping applications in Image Now, transcripts and other supporting documentation.
- There was not an entry in CRI in Colleague documenting the requested transcript for 16 applicants, and for 7 applicants the date the transcript was received was not updated in CRI. The receiving date should be updated in CRI timely as this affects future communications sent to the applicant. *During the audit, management updated CRI for these applicants.*
- 11 applications were not linked to the applicant's record in Image Now or Target X.
- 12 applicants that were granted conditional enrollment did not have documentation of the agreement terms in Target X or Colleague, and we found inconsistencies with the processing of 2 agreements that did exist.
- 4 applicants did not submit the appropriate documents, such as transcripts or the Core Residency Questionnaire prior to being marked as eligible to enroll.
- A mailing file was not created for 3 applicants in CRI.
- The process of marking applications as duplicates is inconsistent.
- 14 applications with statuses of pending/not processed status have been in that state for at least 6 months, with some applications being outstanding since March 2018. 9 applicants evidently previously submitted applications, therefore, the latter applications should have been changed to a duplicate status.

The majority of our sample included applications from Fall 2018 because most applications are received each fall. While we still noted exceptions in Spring 2019, there was evidence that the changes that are being implemented are improving the overall process.

We recommend that admissions processes continue to be refined to ensure consistency among all campuses, specifically as it relates to stamping of transcripts and applications, updating applicant records in CRI, and processing conditional enrollment and duplicate applications.

## **Management Response**

Enrollment Center Management agrees with the observations made in the audit regarding **Documentation and Communication**. This auditing finding identified inconsistencies with current documentation and communication practices. By the end of the Spring 2020 term this issue should be greatly reduced if not eliminated. Enrollment Services 2.0 was created to reduce such errors and during the audit period trainings were taking place on new processes. All Enrollment Coaches will be issued their own stamps for documents. A Conditional Enrollment Agreement went into effect in July 2019 whereas prior to 2.0 a form was not required by all campuses.

Robert Foshie – Executive Director Enrollment Center will be responsible for implementation of this corrective plan.

### **Inconsistent communication practices:**

- Out of 112 applicants, 34 did not receive a TSTC Acceptance Letter and 24 did not receive a subsequent Additional/Missing Information Letter.
- For applicants receiving the Additional/Missing Information Letters, 51 applicants' letters were not sent according to the new student admissions track schedule; in most cases letters were sent more frequently.
- The "New Student Outreach-Welcome to the TSTC Family" email could not be verified as being sent to all applicants as it is not tracked or documented in Target X. Also, the New Student Congrats Enroll letter issued from Colleague is not consistently sent to applicants.
- 5 applicants received a Missing Information letter after they were already marked as eligible, they already submitted the pending documentation, or had already notified the College that they were no longer interested in attending.
- The chat feature on the TSTC website is operating at a 79 percent completion rate, leaving 21 percent of incoming chats unanswered. This is due to operators only being logged on during the weekdays, 8am-5pm.
- For 4 locations, the admissions contact phone numbers on the main TSTC Admissions do not agree to those on pages for the individual campuses.
- Similarly, the Admissions phone number on the TSTC website has been disconnected or is not working for 4 campuses. During the audit, one of the phone numbers was corrected.

We recommend that communication processes be enhanced to ensure all applicants are receiving Acceptance Letters and subsequent letters, as needed. In addition, that the Admission's department contact information be updated on the College website.

### Management Response

Management of the Enrollment Center agrees with the observations made in the audit regarding **Documentation and Communication**. This auditing finding identified inconsistencies with current documentation and communication practices. By the end of the Spring 2020 term a new communication plan will be in place as well as training to ensure understanding of processes. With the implementation of ES 2.0, a shift in communications moved from Colleague to Salesforce. While automatic letters still generate from Colleague, those tracks are under review to ensure communication is timely. A communication committee has been developed that will manage the creation, editing, and scheduling of all communication to applicants. Phone numbers have been updated as needed.

Robert Foshie – Executive Director Enrollment Center will be responsible for implementation of this corrective plan.

**Consequences:** These observations increase the risk that applications are not processed as intended, and that applicants might not pursue enrollment.

**Possible Solution:** See the recommendations listed above.

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**AUDIT FINDING DETAIL**

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Finding #2: Access to admissions and enrollment related mnemonics in Colleague needs to be better restricted.

**Criterion:** We reviewed access to Colleague mnemonics SHAP and RGPE which allows users to change the application status and turn an applicant over to a student.

We noted several departments with users having questionable, probably unnecessary, access to these mnemonics. Questionable access included employees in Workforce Development, Instructional, Distance Education, Student Development, Finance, HR, Financial aid and others.

We recommend access to these mnemonics in Colleague be reviewed to ensure only appropriate individuals have access.

**Management Response**

Enrollment Center Management agrees with the observations made in the audit regarding **access to SHAP and RGPE**. This auditing finding identified inconsistencies with current documentation and communication practices. Upon notification of the findings management submitted a request to OIT to evaluate access for employees in question and remove if not appropriate. The Executive Registrar will collaborate with Human Resource and OIT to identify a process to ensure access is evaluated by the appropriate department when changes in employment within the college occur. Timeline to complete this process is Summer 2020. The Executive Registrar will monitor the access on a yearly basis to ensure compliance.

Paula Arredondo, Executive Registrar will be responsible for implementation of this corrective plan.

**Consequences:** Admissions information could be inadvertently changed, and the risks related to sensitive personal information increases when more people have access.

**Possible Solution:** Remove all unnecessary access.

## **Internal Audit Department**

### **Audit Report**

# **Audit of the Target X Application (19-017A) of TEXAS STATE TECHNICAL COLLEGE Admissions Audit**

**September 30, 2019**

**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

As part of the Admissions Audit, we also reviewed the Target X Application. Our audit focused on application controls required in Texas Administrative Code 202 (TAC 202). Fifty two controls in 13 TAC domains were tested. We verified periodical maintenance, training, audit logs, and baseline configurations were in place and operating as intended. We also tested controls related to access, security awareness and training, audit and accountability safeguards, configuration management, and contingency planning. Finally, we tested media protection, risk assessment and purchasing processes, as well as system integrity.

Twenty four controls required by TAC 202 have been implemented. But, we identified 27 controls that still need to either be implemented or improved. We feel these issues warranted comment in this report to ensure future follow-up testing. The following table summarizes the areas reviewed, and results:

Control Family	Implemented	Implemented with Recommendations	Not Implemented	Required
Access Controls	6	0	3	9
Awareness and Training Controls	3	0	0	3
Audit and Accountability Controls	1	0	8	9
Configuration Management Controls	0	0	4	4
Contingency Planning Controls	1	0	4	5
Identification and Authentication Controls	4	0	1	5
Maintenance Controls	1	1	0	2
Media Protection Controls	2	0	0	2
Personnel Security Controls	1	0	3	4
Risk Assessment Controls	0	0	1	1
System and Services	2	0	0	2

Acquisition Controls				
System and Communications Protection Controls	3	0	0	3
System and Information Integrity Controls	0	0	3	3
<b>Total</b>	<b>24</b>	<b>1</b>	<b>27</b>	<b>52</b>

### Introduction

The College implemented Target X, a cloud based application running on the Salesforce platform in January 2017. It is a customer service relationship management tool which allows the College to interact with, and track potential student applicants during the application process. The application had an initial setup fee of \$25 thousand, and costs \$50 thousand annually. In its third year, the contract renews annually for 5 years. The College receives unlimited licenses. Target X is a “Software as a Service” type of application. The vendor, Sales Force, hosts the application on their servers, and is responsible for the majority of its maintenance and updates. Headquartered in San Francisco, they provide other social and mobile cloud services. They have production data centers throughout the United States, Japan, and the United Kingdom.

Potential students submit application information in Target X. That information includes personally identifiable information, as well educational related data. Employees can communicate with potential students through the system to request further information that may be required to complete the application process. Target X also supports other functions in enrollment and financial services. Currently, there are 196 users with access to this system. Target X is accessible through any computer or mobile device with internet connectivity by people with a current user ID and password.

The Office of Information Technology (OIT) recently took over the administration of the system from the Admissions Office. They provide end-user support, and have begun managing access and TAC 202 compliance. The system was implemented and administered outside of the initially. With a continued focus on system security and TAC 202 compliance, OIT took over the administration to more effectively achieve those goals.

### Objectives

The objective of the audit was to ensure minimum application level controls required by TAC 202, especially security related ones, are in place and working as intended for Target X.

## **Scope & Methodology**

The scope of our audit included all minimally required TAC 202 application controls that relate Target X. The Texas Department of Information Resources (DIR) Security Controls Standards Catalog, NIST Special Publication 800-53A revision 4, and the DIR Texas Cloud Services Guide for State Agencies and Institutions of Higher Education formed the basis of our testing. To accomplish our objectives, we reviewed access, policies, system configurations, and other related information. We also interviewed and interacted with both OIT personnel and end users. And, we reviewed contracts and the most recent SOC 2 report from the Vendor to ascertain vendor applied controls.

## **General Observations**

Current policy and procedures cover many of the security issues facing Target X. The system generates detailed audit logs capable of identifying the types of events that occur, reasons for the event, as well as date, time, and the user associated with them. User identification and authentication controls are strong and working as intended. The system was thoroughly vetted prior to purchase, and allows numerous features capable of making the admissions process more effective and efficient. Furthermore, the system is secure, when managed properly. Vendor controls were verified in Sales Force's most recent SSAE 18 SOC 2 report.

## **Summary of Finding**

We found 27 TAC 202 controls that need to be implemented for Target X. The most significant deficiencies relate to access and system security, especially since personally identifiable information of prospective students is captured and accessible through the system.

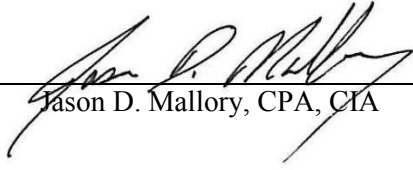
## **Opinion**

Based on the audit work performed, twenty four controls required by TAC 202 have been implemented, by the majority of the required controls have not yet been satisfactorily implemented. Moving the administration of the system to OIT will probably assist with better securing it, and ensuring all required controls are implemented. The details of the controls and our results were provided to management in a separate document. They are not detailed in this report so as to limit risk associated with the deficiencies. The details are available upon request

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 30, 2019

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Date

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**AUDIT FINDING DETAIL**


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**Finding #1:** We found 27 TAC 202 controls that need to be implemented for Target X. The most significant deficiencies relate to access and system security, especially since personally identifiable information of prospective students is captured and accessible through the system.

**Criterion:** The TAC 202 Security Controls Standards Catalog specifies the minimum information security controls to implement for all State information and information systems. For each required control, Internal Audit inquired and reviewed policies and procedures, third party audits, agreements, whitepapers, users' access roles and privileges, security settings, etc.

We determined that only 24 of the required security controls were implemented. Twenty seven were not. Controls in the following families were found to be either not implemented, or deficient:

Control Family	Not Implemented
Access Controls	3
Audit and Accountability Controls	8
Configuration Management Controls	4
Contingency Planning Controls	4
Identification and Authentication Controls	1
Personnel Security Controls	3
Risk Assessment Controls	1
System and Information Integrity Controls	3
<b>Total</b>	<b>27</b>

**Consequences:** Being out of compliance with TAC 202 controls increases the likelihood of data leaks, data exfiltration, data deletion, account breaches, malware, and malicious insider attacks.

**Possible Solution:** We recommend the specific control deficiencies identified in this audit be implemented. All of the controls were required to be implemented by 2017. We further recommend access and personal security controls receive priority since personally identifiable information is captured by the system for any prospective student who has applied to the College.

### Management Response

OIT Management agrees with the observations made in the audit. There are 27 required TAC controls still needing to be implemented. This lag was the result of administration of the software initially being outside of the oversight of OIT. We will begin evaluating each missing control, and by September 2020 implement those controls that are cost effective and beneficial to implement.

A quarterly follow-up process between OIT and Internal Audit will take place. Zach Bratcher and Brannon Suggs will be responsible for implementation of this corrective action plan.

**Internal Audit Department**

**Audit Report**

**Audit of the Informatica Server (19-017A)  
of  
TEXAS STATE TECHNICAL COLLEGE  
Admissions Audit**

**September 30, 2019**

**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

As part of the Admissions Audit, we also reviewed the Informatica Server. Our audit focused on application controls required in Texas Administrative Code 202 (TAC 202). Fifty two controls in 13 TAC domains were tested. We verified periodical maintenance, training, audit logs, and baseline configurations were in place and operating as intended. We also tested controls related to access, security awareness and training, audit and accountability safeguards, configuration management, and contingency planning. Finally, we tested media protection, risk assessment and purchasing processes, as well as system integrity.

Thirty six of the controls required by TAC 202 have been implemented. But, we identified 15 controls that still need to either be implemented or improved. We feel these issues warranted comment in this report to ensure future follow-up testing. The following table summarizes the areas reviewed, and results:

Control Family	Implemented	Implemented with Recommendations	Not Implemented	Required
Access Controls	5	0	4	9
Awareness and Training Controls	3	0	0	3
Audit and Accountability Controls	5	0	4	9
Configuration Management Controls	4	0	0	4
Contingency Planning Controls	1	0	4	5
Identification and Authentication Controls	5	0	0	5
Maintenance Controls	2	0	0	2
Media Protection Controls	2	0	0	2
Personnel Security Controls	3	0	0	3
Risk Assessment Controls	0	0	1	1
System and Services	2	0	0	2

Acquisition Controls				
System and Communications Protection Controls	3	0	0	3
System and Information Integrity Controls	1	0	2	3
<b>Total</b>	<b>36</b>	<b>0</b>	<b>15</b>	<b>51</b>

### Introduction

The Informatica Server (Server) pairs with the Target X application as part of the product subscription, and is included with the cost of Target X application. Informatica, a cloud ETL tool, is used to extract, transform, and load data by Target X. To use Informatica, a secure software agent must be installed on a local campus server. This Server is critical for data files (e.g. test scores, SIS (student information system) data, etc.) to be transferred between the campus network and the cloud service. Data stored on the on the Server includes personally identifiable information of any prospective student that used Target X when they applied to the College. Currently, there are only 5 people with access to the Server. All of them are employed within the Office of Information Technology (OIT). The licenses to Informatica are unlimited for the production environment and the test environment, and their associated security agents.

Informatica is part of the Target X bundled third party application subscription, and as such, supported by Sales Force. If the College has support tickets regarding Informatica then the College submits the ticket to the Sales Force Team for resolution. The Server, however, on TSTC premises is updated and maintained by OIT. The vendor does not have access to the Server. Users are able to gain access via a remote desktop connection made to the Server's IP address from any computer on the College's network specific their authorized credentials. There are 2 accounts created directly on the server to hedge against the inability to remote connect.

### Objectives

The objective of the audit was to ensure minimum application level controls required by TAC 202, especially security related ones, are in place and working as intended for the Informatica Server.

### Scope & Methodology

The scope of our audit included all minimally required TAC 202 application controls that apply to the Informatica Server. The Texas Department of Information Resources (DIR) Security Controls Standards Catalog, NIST Special Publication 800-53A revision 4, and the DIR Texas Cloud Services Guide for State Agencies and Institutions of Higher

Education formed the basis of our testing. To accomplish our objectives, we reviewed access, policies, system configurations, and other related information. We also spoke personnel in OIT.

### **General Observations**

The Server generates detailed audit logs capable of identifying the types of events that occur, reasons for the event, as well as date, time, and the user associated with them. User identification and authentication controls utilize Active Directory Naming Services (ADNS) which provide a more secure control for authenticating user's access to the Server. Records are well maintained for any monthly or annual updates applied to the server. Furthermore, any updates are tested prior to being placed into the production environment. Finally, training on the Server was provided by the vendor.

### **Summary of Finding**

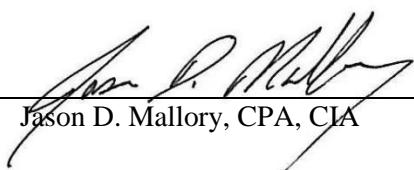
We found 15 TAC 202 controls that need to be implemented on the Informatica Server. The most significant deficiencies relate to access and system security, especially since personally identifiable information of prospective students is stored on the Server.

### **Opinion**

Based on the audit work performed, the majority of the required minimum information security controls have been implemented on the Informatica Server, however, 15 still need to be implemented. The details of the controls and our results were provided to management in a separate document. They are not detailed in this report so as to limit risk associated with the deficiencies. The details are available upon request.

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 30, 2019

Date

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### AUDIT FINDING DETAIL

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**Finding #1:** We found 15 TAC 202 controls that need to be implemented on the Informatica Server. The most significant deficiencies relate to access and system security, especially since personally identifiable information of prospective students is stored on the Server.

**Criterion:** The TAC 202 Security Controls Standards Catalog specifies the minimum information security controls to implement for all State information and information systems. For each required control, Internal Audit inquired and reviewed policies and procedures, third party audits, agreements, whitepapers, users' access roles and privileges, security settings, etc.

We determined that the majority of the information security controls were implemented; however, not all of the required controls were implemented by the required date. Controls in the following families were found to be either not implemented, or deficient:

Control Family	Not Implemented
Access Controls	4
Audit and Accountability Controls	4
Contingency Planning Controls	4
Risk Assessment Controls	1
System and Information Integrity Controls	2
<b>Total</b>	<b>15</b>

**Consequences:** Being out of compliance with TAC 202 controls increases the likelihood of data leaks, data exfiltration, data deletion, account breaches, malware, and malicious insider attacks.

**Possible Solution:** We recommend the specific control deficiencies identified in this audit be implemented. All of the controls were required to be implemented by 2017. We further recommend access and personal security controls receive priority since personally identifiable information is accessible through the Server for any prospective student who has applied to the College.

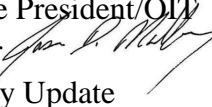
### Management Response

OIT Management agrees with the observations made in the audit. There are 15 required TAC controls still needing to be implemented. This lag was the result of administration of the software initially being outside of the oversight of OIT. We will begin evaluating each missing control, and by September 2020 implement those controls that are cost effective and beneficial to implement.



A quarterly follow-up process between OIT and Internal Audit will take place. Zach Bratcher and Brannon Suggs will be responsible for implementation of this corrective action plan.



To: Shelly Scherwitz, Executive Vice President/OIT  
 From: Jason D. Mallory, Audit Director   
 Subject: TAC 202 Compliance – Quarterly Update  
 Date: October 7, 2019

The purpose of this memo is to provide you the implementation statuses of IT controls required by TAC 202 found to be deficient in an audit of Colleague and Perceptive Content in 2017. This memo *does not* include the controls that were subsequently found to be missing/deficient in other application level audits. Currently, those controls relate to audits performed on Maxient (19 controls), Google Drive (12 controls), Target X (27 controls), and the Informatica Server (15 controls). The chart below provides a summary of the statuses of outstanding controls for Colleague and Perceptive Content, to include those your office has addressed but my office has not yet retested. It also shows the progress from the last quarter.

### CURRENT RESULTS

TAC 202 Control Family	Implemented	Implemented with Recommendations	Not Implemented	Total Required Controls	Pending Verification by IA
Access Control (AC)	7	2	3	12	1
Authority and Purpose (AP)	0	0	0	0	0
Accountability, Audit, Risk Management (AR)	0	0	0	0	0
Awareness and Training (AT)	3	1	0	4	0
Audit and Accountability (AU)	4	4	2	10	0
Security Assessment and Authorization (CA)	4	2	1	7	0
Configuration Management (CM)	2	0	6	8	0
Contingency Planning (CP)	4	2	1	7	0
Data Quality and Integrity (DI)	0	0	0	0	0
Data Minimization and	0	0	0	0	0

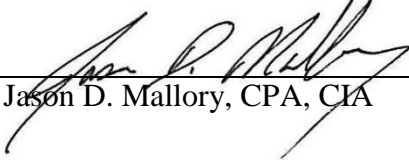
<b>Retention (DM)</b>					
<b>Identification and Authentication (IA)</b>	5	1	1	7	0
<b>Individual Participation and Redress (IP)</b>	0	0	0	0	0
<b>Incident Response (IR)</b>	4	3	0	7	0
<b>Maintenance (MA)</b>	3	0	1	4	1
<b>Media Protection (MP)</b>	2	1	1	4	1
<b>Physical and Environmental Protection (PE)</b>	7	2	1	10	0
<b>Planning (PL)</b>	1	0	2	3	0
<b>Program Management (PM)</b>	10	5	1	16	0
<b>Personnel Security (PS)</b>	2	5	1	8	0
<b>Risk Assessment (RA)</b>	3	1	0	4	0
<b>System and Services Acquisition (SA)</b>	3	1	3	7	0
<b>System and Communications Protection (SC)</b>	8	1	2 See note 1	11	0
<b>Security (SE)</b>	0	0	0	0	0
<b>System and Information Integrity (SI)</b>	2	1	3	6	0
<b>Transparency (TR)</b>	0	0	0	0	0
<b>Use Limitation (UL)</b>	0	0	0	0	0
<b>Total</b>	<b>74</b>	<b>32</b>	<b>29</b>	<b>135</b>	<b>3</b>
	<b>55%</b>	<b>24%</b>	<b>21%</b>	<b>100%</b>	
<b>Previous Quarter Results</b>	<b>71</b>	<b>32</b>	<b>32</b>	<b>135</b>	<b>10</b>

*Note 1: Management has elected to not implement controls SC-20 & SC-21 because implementing is too costly, and does not provide additional risk mitigation. Furthermore, they have researched other agencies and institutions of higher education, and no one else has implemented the controls.*

There are also, at least 8 new PCI controls pending our review.

We appreciate your efforts, and encourage you to continue progressing with implementing the currently outstanding TAC 202 & PCI controls.

Submitted by:

  
\_\_\_\_\_  
Jason D. Mallory, CPA, CIA

October 7, 2019  
\_\_\_\_\_  
Date

cc: Mike Reeser, Chancellor/CEO  
Ricardo Herrera, VC/CSSO  
Audit Committee



# TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

July 17, 2019

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

RE: AY 2016 A-133 Evaluation and Desk Review Management Letter  
CFDA 84.048, Award# 14919, Perkins Grant

Dear Ms. 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 2016 A-133 evaluation. This letter also serves to communicate desk review 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 Elizabeth Steele via email at [Elizabeth.Steele@THECB.state.tx.us](mailto:Elizabeth.Steele@THECB.state.tx.us) or call 512-427-6418.

Thank you for your assistance,

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

Cc: Cindy Reily, Associate Vice President, Sponsored Programs  
Jason Mallory, Director, Internal Audit  
Rebecca Silva, Vice President, Student Learning  
Juan Garza, Executive Director, Sponsored Programs  
Melissa Warren, Lead Grant Accountant



# TEXAS HIGHER EDUCATION COORDINATING BOARD

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Lisa Frenette  
Associate Vice President, Grant Accounting  
Texas State Technical College – Marshall  
300 Homer K. Taylor Drive  
Sweetwater, TX 79556-3697

RE: AY 2016 A-133 Evaluation and Desk Review Management Letter  
CFDA 84.048, Award# 14916, Perkins Grant

Dear Ms. 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 2016 A-133 evaluation. This letter also serves to communicate desk review 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 Elizabeth Steele via email at [Elizabeth.Steele@THECB.state.tx.us](mailto:Elizabeth.Steele@THECB.state.tx.us) or call 512-427-6418.

Thank you for your assistance,

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

Cc: Cindy Reily, Associate Vice President, Sponsored Programs  
Jason Mallory, Director, Internal Audit  
Rebecca Silva, Vice President, Student Learning  
Juan Garza, Executive Director, Sponsored Programs  
Melissa Warren, Lead Grant Accountant





# TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

August 8, 2019

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Lisa Frenette  
Associate Vice President, Grant Accounting  
Texas State Technical College – System  
3801 Campus Drive  
Waco, TX 76705

RE: AY 2016 A-133 Evaluation and Desk Review Management Letter  
CFDA 84.048, Award# 14748, Perkins Leadership Grant

Dear Ms. 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 2016 A-133 evaluation. This letter also serves to communicate desk review 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 Elizabeth Steele via email at [Elizabeth.Steele@THECB.state.tx.us](mailto:Elizabeth.Steele@THECB.state.tx.us) or call 512-427-6418.

Thank you for your assistance,

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

Cc: Cindy Reily, Associate Vice President, Sponsored Programs  
Jason Mallory, Director, Internal Audit  
Rebecca Silva, Vice President, Student Learning  
Juan Garza, Executive Director, Sponsored Programs  
Melissa Warren, Lead Grant Accountant



# TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

August 20, 2019

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Lisa Frenette  
Associate Vice President, Grant Accounting  
Texas State Technical College - Waco  
3801 Campus Drive  
Waco, TX 76705

RE: AY 2016 A-133 Evaluation and Desk Review Management Letter and  
Acceptance of Corrective Action Plan Letter  
CFDA 84.048, Award# 14918, Perkins Career and Technical Education

Dear Ms. 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 2016 A-133 evaluation. This letter also serves to communicate desk review compliance issue(s), if any, on federal funds awarded to your institution by THECB.

This letter also serves to issue our acceptance of the corrective action plan submitted in response to our August 8, 2019 Preliminary Findings regarding compliance issues identified by our desk review of federal funds awarded to your institution by THECB. The original findings and your corresponding corrective action for each finding are noted below.

**A-133 Audit Findings:** NONE.

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

**1. Schedule B - TRAVEL: Unallowable Expense**

Student meal expenses in a total amount of \$233.87 were paid with Perkins federal grant funds and are not allowable. Per the Perkins Basic Request for Application (RFA) Schedule B and Grant Cost Guidelines Appendix, travel costs paid with Perkins funds is for Awarded Applicant employees. The expenses in question are detailed below:

<b>PDF#:</b>	<b>Page#:</b>	<b>Doc #:</b>	<b>Amount</b>	<b>Description</b>
2 – 1 of 2	2-18, 20	Voucher 21348847	459.00	Student meal expense
2 – 1 of 2	19	Receipt 1019070	(225.13)	Refund from student for meal
		<b>TOTAL &gt;&gt;</b>	<b>\$ 233.87</b>	



It is recommended that Texas State Technical College - Waco (1) reimburse the THECB \$233.87, (2) tighten controls to ensure compliance with future Perkins funded expenses, and (3) review other Travel expenses reimbursed by Perkins grant funds to ensure that they are compliant with Federal grant requirements.

### **TEXAS STATE TECHNICAL COLLEGE - WACO Response:**

**TSTC Office of Sponsored Programs (OSP)** agrees that the \$233.87 meal charge was not an allowable expense to the grant and the college will return these funds to THECB. Upon further review it was discovered that an incorrect expense code was used (student travel rather than student meals).

**TSTC OSP** has implemented the following:

- Two OSP signature approvals on all Perkins requisitions – the Associate Vice President and Executive Director or their approved backups review and approve all allowable expenses.
- OSP will ensure that approved student travel does not include meal expense; review Perkins travel requirements with Procurement Department.
- OSP will review (in detail) other travel expenses reimbursed by Perkins grant funds to ensure that they are compliant with Federal grant requirements.

**TSTC Management Response:**

**Division:** Institutional Advancement, Office of Sponsored Programs

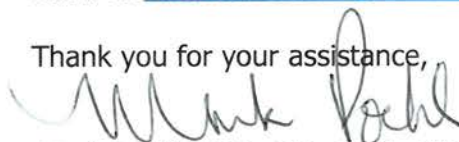
**Senior Management:** Carliss Hyde-Vice President, Cindy Reily-Assoc Vice President

Task	Brief Description	Responsible Individual	Expected Completion Date
1.1	Once a requisition has been created, OSP will ensure that proper expense codes are used and that student travel does not include student meals.	Cindy Reily	8/13/19
1.2	OSP will review (in detail) other travel expenses reimbursed by Perkins grant funds to ensure that they are compliant with Federal grant requirements.	Cindy Reily/Lisa Frenette	8/31/19
1.3	Funds in the amount of \$233.87 to be returned to THECB.	Lisa Frenette	8/31/19

We have reviewed the corrective action plan submitted by Texas State Technical College - Waco 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 Elizabeth Steele via email at [Elizabeth.Steele@THECB.state.tx.us](mailto:Elizabeth.Steele@THECB.state.tx.us) or call 512-427-6418.

Thank you for your assistance,



*Mark Poehl, CPA, CIA, CISA, CFE*

Director, Internal Audit & Compliance

Cc: Jason Mallory, Director of Internal Audit  
Cindy Reily, Associate Vice President – Sponsored Programs  
Melissa Warren, Lead Grant Accountant  
Juan D. Garza, Executive Director – Sponsored Programs



**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
VC Hockstra	<p>Contract Administration for Fleet Vehicle Leases at TSTC TSTC executed a Master Lease Agreement (MLA) with D&amp;M leasing (D&amp;M) on November 9, 2018 and a subsequent amendment on July 11, 2019. D&amp;M has been requiring TSTC to sign and file IRS Form 8038-G or GC for each group of leases. This form is used to report to the IRS that a governmental unit has issued tax-exempt debt, which allows the creditor to exclude interest from taxable income. TSTC has signed numerous 8038 forms during 2019 as new vehicles are added to the lease fleet.</p> <p>The IRS Tax Exempt Government Entities division has provided notices acknowledging receipt of these forms. TSTC is not issuing debt and therefore, should not have signed the forms required by D&amp;M at the time of ordering new vehicles under the MLA. The MLA is a tax lease as described by Internal Revenue Code Section 7701(h), which specifically designates D&amp;M as the owner of the vehicles, and allows D&amp;M tax benefits such as a depreciation deduction. The lease payments are characterized as rental income for tax purposes, and not as debt service with a component of interest income. The characterization of the MLA as a tax lease and not a financing lease with lessee ownership is evidenced by TSTC's certification on page 11 of the MLA.</p>	10/7/19	TSTC management became aware that D&M made an error when preparing the lease order packages by including the tax forms, and that the staff authorized to order the vehicles was not informed that the forms were incorrectly included in the electronically-signed package of documents. TSTC will amend and revoke the incorrectly-filed tax forms, and has determined there is no impact on the financial statements, effectiveness of existing systems of control, or regulatory compliance.	Being no apparent liability with this situation, Internal Audit will treat this report as a disclosure made for the sake of transparency. No specific follow-up will be performed other than ensuring contract management processes account for this risk going forward.

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.