



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

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



Table of Contents

SECTION

Internal Audit Plan for Fiscal Year 2016.....	I
External Quality Assurance Review	II
Summary of Audit Findings and Corrective Action Plans	III
List of Consulting Engagements and Non-audit Services Completed.....	IV
Internal Audit Plan for Fiscal Year 2017	V
External Audit Services – Fiscal Year 2016	VI
Reporting Suspected Fraud and Abuse	VII
Compliance with TGC, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the TSTC Website	VIII

I. Internal Audit Plan for Fiscal Year 2016

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

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



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

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

Notes:

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

² Audit was added during the fiscal year.

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

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

II. External Quality Assurance Review

An External Quality Assurance Review of the Internal Audit Department was performed on April 29, 2015, by Andrew Groover and Leticia Charbonneau. Mr. Groover is the Director of Internal Audits at Texas Woman's University, while Mrs. Charbonneau is the Executive Director of Internal Audit at the Lone Star College System. Their opinion states that the "Texas State Technical College Internal Audit Department generally conforms to the Standards for the period under review." Recommendations for improvement were given, but none of the recommendations represented material non-compliance to the standards. See the attached report.



Office of Internal Audits

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

April 29, 2015

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

Dear Mr. Mallory,

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

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

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

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

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

Rating System for Opinion

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

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

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

Introduction

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

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

Scope

The scope of the review included:

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

Overall Opinion

In our opinion, the Texas State Technical College Internal Audit Department ***generally conforms*** to the *Standards* for the period under review.

The following table contains our opinion of how the TSTCIAD activities conform to each section of the *International Standards for the Professional Practice of Internal Auditing*, IIA Code of Ethics, and Texas Internal Auditing Act. GAGAS areas are not specifically mentioned in the table but are similar to the *International Standards for the Professional Practice of Internal Auditing* attribute and performance standards. Recommendations for

areas of improvement for the TSTCIAD revealed as part of the EQAR process are included below.

IIA Standard Type and Description	Opinion
<i>Attribute Standards</i>	
1000 – Purpose, Authority, and Responsibility	Generally conforms
1100 – Independence and Objectivity	Generally conforms
1200 – Proficiency and Due Professional Care	Generally conforms
1300 – Quality Assurance and Improvement Program	Partially conforms
<i>Performance Standards</i>	
2000 – Managing the Internal Audit Activity	Generally conforms
2100 – Nature of Work	Generally conforms
2200 – Engagement Planning	Generally conforms
2300 – Performing the Engagement	Generally conforms
2400 – Communicating Results	Generally conforms
2500 – Monitoring Progress	Generally conforms
IIA Code of Ethics	Generally conforms
Texas Internal Auditing Act	Generally conforms

During both the self-assessment performed by TSTCIAD and our external assessment, opportunities for enhancement were noted by both parties. Given our opinion that policies and procedures were in compliance with the Standards, the recommendations below do not represent observations of material non-compliance.

Recommendations identified by the TSTC Director of Internal Audit as a result of completing the self-assessment.

1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Working papers prepared by the Director of Audits are generally not reviewed by another member of the department prior to issuance of the audit report. Going forward, those will be subject to review by another staff member. This will not only ensure consistency in the performance of the procedure, but will assist with quality control.

1320 – Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

Internal quality control procedures have not been reported annually to the Audit Committee. While adequate quality control procedures are in place, annual reporting of those procedures and their results will assure the Audit Committee that audit quality is being monitored for compliance to Standards.

1230 – Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

Current procedures for continuing professional education do not require each auditor to obtain at least 40 hours per year. The internal policy requires 40 hours to be obtained by auditors in a 2-year period; however, the above standard is interpreted to mean 40 hours each year as a best practice. Internal policy will be changed to reflect the 40 hour standard and a more concerted effort will be given to achieve those hours.

The EQAR team concurs with the recommendations identified by the self-assessment.

Recommendations identified by the External Quality Assurance Review Team

1311 – Internal Assessments

Internal assessments must include:

- *Ongoing monitoring of the performance of the internal audit activity; and*
- *Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.*

Ongoing monitoring of the performance of the internal audit activity is being conducted; however, periodic self-assessments should be completed more frequently to enhance compliance with the Standards. The only self-assessment that was conducted during the EQAR period was the one completed for the EQAR.

2110 – Governance

2110.A1 – The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.

In reviewing the Annual Audit Plans for FY 2013, FY 2014, and FY 2015 and related progress reports we noted that there was no audit scheduled or completed to evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities. An audit of TSTC's ethics program should be conducted periodically to enhance compliance.

2110.A2 – The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.

In reviewing the Annual Audit Plans for FY 2013, FY 2014, and FY 2015 and related progress reports, we noted that there was no audit scheduled or completed to assess whether the information technology governance of the organization supports the organization's strategies and objectives. An audit of TSTC's information technology governance should be conducted periodically to enhance compliance.

Texas Government Code Section 2102.005. INTERNAL AUDITING REQUIRED

A state agency shall conduct a program of internal auditing that includes:
(2) periodic audits of the agency's major systems and controls, including:
(C) electronic data processing systems and controls.

In reviewing the audit plans for FY 2013, FY 2014, and FY 2015 and related progress reports we noted that comprehensive IT audit coverage can be enhanced. The TSTCIAD should increase audit coverage to ensure periodic audits of major systems such as Colleague, learning management systems, and the required audit of Texas Administrative Code 202 (required every two years) are conducted. In discussions with administration and staff, there was a common theme that IT audit coverage should be increased. This could be accomplished by the addition of an IT Auditor position to the department.

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

Sincerely,



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



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

cc:

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



3801 Campus Dr. | Waco, TX 76705
www.tstc.edu

Office of Internal Audit
254.867.3999
Fax: 254.867.3912

April 29, 2015

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

Mr. Gurecky:

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

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

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

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

Sincerely,

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

Jason D. Mallory
Director of Audits

Division: Internal Audit

Senior Management: Jason Mallory, Director of Audits

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

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

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

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

Report #	Report(s) Date	Audit Name	Location(s)	Summary of Audit Findings	Summary of Corrective Action Plans	Current Status of Corrective Action Plans
					Community Service & Literacy Requirements: The college is responsible for using at least 7% of its Federal Work-study allocation each year to employ students in community service jobs. For the 2015-16 year we have already met that requirement. We have 17 students who are employed in community service jobs, and have already spent 7.8% of our total allocation on community service jobs at the end of the Spring 2016 semester. In addition, the college must have at least one FWS student employed as a reading tutor for children in a reading tutoring project or performing family literacy activities in a family literacy project. For the 2015-16 year, we have a total of 7 students employed in reading/math tutoring positions.	Fully Implemented
06/01/16	16-027A & 16-028A	Waco & Harlingen Campus Audits	Harlingen & Waco	No reportable exceptions noted.		
06/09/16	16-016A	Internal Network Penetration Test	Waco & Harlingen	We were able to find information on the internet that was useful to us in our social engineering attacks. As such, we were able to obtain both end-user credentials to systems containing protected data, and other information that could be used to get those credentials using relatively low-tech methods. We also noted instances in which physical security needs to be improved. Finally, we were able to inappropriately access student and employee data on servers using techniques available to more sophisticated hackers.	We have reviewed the issues identified and agree that corrective actions are necessary. We formulated specific actions for each of the issues, and have already corrected some. All required actions will be completed no later than December 2016 since some actions will require assistance from personnel outside of OIT.	Ongoing
06/28/16	16-029A	West Texas Campus Audits	West Texas Campuses	No reportable exceptions noted.		
07/08/16	16-013A	Williamson County Campus Audit	Williamson County	No reportable exceptions noted.		
08/24/16	16-033A	North Texas Campus Audit ¹	North Texas	No reportable exceptions noted.		
09/08/16	16-007A	Senate Bill 20 Audit ¹	Finance	Certain required statements are missing from the Ethics and Standards of Conduct policy, and the contract management handbook and contract review procedures/checklist are not yet completed.	We will soon be in the process of hiring an SB 20 specialist, whose job will include devising the statutorily required checklist and handbook, and to ensure compliance with the statute going forward.	Ongoing
					A revised Ethics and Standards of Conduct policy (HR 2.1.12) has been revised to comply with the ethics requirements of SB 20. The policy is pending review by the General Counsel's office and the final version will be presented at the November BOR meeting for Board approval.	Ongoing
09/14/16	16-024A	Portal Audit ¹	OIT	Controls over access and general security to the Portal need to be improved.	We are instituting new password requirements statewide including a password reset after first login, password expiration after 1 year, and improved password complexity requirements.	Ongoing
					We are in the process of implementing account lockout settings on the authentication provider for portal.	Ongoing
					Portal access is open ended from the time a student applies or an employee is hired. Access for former students and employees is required to access transcript and tax document information. We will create separate constituencies specific for alumni and former employees, and further restrict access to SSO applications.	Ongoing
					The users noted in the audit have had their account access reviewed and revised as needed according to job function.	Fully Implemented

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

Notes:

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

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

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

V. Internal Audit Plan for Fiscal Year 2017

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

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

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

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

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



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

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

Notes:

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

VI. External Audit Services Procured in Fiscal Year 2016

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

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

VII. Reporting Suspected Fraud and Abuse

TSTC has taken the following actions to implement the fraud detection and reporting requirements of Section 7.09 of the 84th Legislature's General Appropriations Act, and Texas Government Code, Section 321.022:

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

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

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

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

It must also post:

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

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