

# **Board of Regents**

## **Audit Committee**

### **Meeting**

**November 16, 2017  
Waco, Texas**



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

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

**Thursday, November 16, 2017  
10:45 a.m.**

**AGENDA**

- I. Meeting Called to Order by Audit Committee Chair Ivan Andarza**  
[Ivan Andarza, Joe Gurecky, J.V. Martin]
- II. Committee Chair Comments**
- III. Minute Order:  
Proposed MO**
- None.
- IV. Reports:**
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## **V. Adjourn**

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 previous meetings. The estimated times are approximate and may be adjusted as required with no prior notice. Lunch will be at approximately noon.



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

Description	Division/Campus	Status	Report No.	Report Date
<b>INTERNAL AUDITS</b>				
Facilities Development Project Compliance Audit	Harlingen	Complete	17-008A	10/28/2016
Departmental Audit	Office of COO	Complete	17-006A	10/28/2016
Reconciliation of Statewide TSI Exam Fees	Integrated Marketing	Complete	17-012A	11/1/2016
Internal Quality Assessment Review	Internal Audit	Complete	17-003A	11/21/2016
Departmental Audit	Office of External Relations	Complete	17-009A	12/14/2016
Departmental Audit	Welding - Marshall Campus	Complete	17-013A	3/2/2017
Departmental Audit	Provost - West Texas Campuses	Complete	17-016A	3/15/2017
Financial Aid Fraud Audit	Financial Aid	Complete	17-004A	3/21/2017
Dual Enrollment Audit	Operations	Complete	17-015A	4/5/2017
Departmental Audit	Welding - West Texas	Complete	17-017A	4/4/2017
Departmental Audit	Diesel - Ft. Bend	Complete	17-023A	6/15/2017
Departmental Audit	HVAC - Ft. Bend	Complete	17-022A	6/19/2017
TAC §202 Compliance Audit	OIT	Complete	17-002A	6/28/2017
Departmental Audit	Provost - Harlingen	Complete	17-020A	6/29/2017
Departmental Audit	Developmental Education - Harlingen	Complete	17-021A	7/6/2017
Construction Audit	Fort Bend	Complete	17-029A	9/5/2017
SB 20 Contract Audit	Purchasing	Complete	17-028A	10/10/2017
<b>EXTERNAL AUDITS</b>				
Texas Commission on Law Enforcement: Agency Audit	Sweetwater Police	Complete	5505	1/12/2016
Texas Commission on Law Enforcement: Agency Audit	Waco Police	Complete	6302	10/25/2016
Thomas P Miller & Associates: DOL TAACCCT	OSP	Complete		12/31/2016
State Auditor's Office: A-133 Follow-up	Harlingen	Complete	17-027	2/21/2017
State Auditor's Office: A-133 Follow-up	Marshall	Complete	17-027	2/21/2017
FAA: Annual Inspection of Automated Weather Observing System (AWOS): No issues.	Waco Airport	Complete	Written report not issued.	
Texas Workforce Commission: Personnel Policies & Procedures Review	HR	Complete		2/28/2017
DOL: Monitoring Visit for TAACCCT Grant	OSP	Complete		3/16/2017
DPS - Texas CJIS-ISO Audit	Waco Police	Complete		4/10/2017
THECB: 2015/2016 Perkins Grant Programmatic Desk Review (West Texas) - No issues.	OSP	Complete	Written report not issued.	
THECB: 2015/2016 Perkins Grant Desk Review (Harlingen) - Received an email on 5/10/17 stating the auditor resigned, and the audit would be place on hold until further notice.	OSP	On Hold		
THECB: 2015/2016 Perkins Grant Desk Review (Waco) - Received an email on 5/10/17 stating the auditor resigned, and the audit would be place on hold until further notice.	OSP	On Hold		

Description	Division/Campus	Status	Report No.	Report Date
THECB: 2015/2016 Perkins Grant Desk Review (Marshall) - Received an email on 5/10/17 stating the auditor resigned, and the audit would be place on hold until further notice.	OSP	On Hold		
THECB: 2015/2016 Perkins Grant Desk Review (West Texas) - Received an email on 5/10/17 stating the auditor resigned, and the audit would be place on hold until further notice.	OSP	On Hold		

#### OTHER INTERNAL PROJECTS

Internal Hotline: Allegation - Employee wasted money by engaging a consultant that added no value to the College. Results - Determined that value was added by the consulting engagement to several IT projects, that the engagement occurred during the consolidation of OIT, and the engagement was not a unilateral decision. No waste noted.	OIT	Complete	17-005I	9/16/2016
Theft of Cash Investigation - Investigated a cash shortage at the North Texas Campus. Determined that additional money was missing, but because of the lack of controls, could not reliably determine whether it was theft.	North Texas	Complete	16-037I	9/29/2016
Internal Hotline: Allegation - Supervisor abused his/her position by misusing federal funds for personal travel, and to fund disallowable activities. Results - Could not validate the allegation, but control gaps were noted.	Cross-divisional/Harlingen	Complete	17-010I	1/20/2017
Risk Assessment of the gift shop for the Harlingen Challenger Center - We reviewed the objectives and risks associated with the gift shop. Our project objective was to recommend controls related to accounting, sales tax, cash, and inventory to management.	Integrated Marketing	Complete	17-014RA	N/A
SAO Hotline: Allegation - Supervisor traveled with another employee, who is also a friend. Travel was perceived as wasteful. Results - Investigation could not be performed because the anonymous allegation was too vague. No specific employees were named. I reached out to the SAO for guidance, and they indicated that they have no way to communicate with the reporter.	Unknown	Complete	17-018I	2/15/2017
SAO Hotline: Allegation - Cell phone emoluments need to be reviewed. The report was unclear on whether the reporter took exception to the process for approving such emoluments, or they disagreed with specific ones. Results - Did not identify any obviously wasteful expenses. A review of the current process for approving stipends reasonably controls waste. Furthermore, the annual expense Statewide is approximately \$65 thousand.	Waco	Complete	17-019I	3/28/2017

<b>Description</b>	<b>Division/Campus</b>	<b>Status</b>	<b>Report No.</b>	<b>Report Date</b>
Department of Education Hotline: Allegation - Certain grant funds were being used to support lobbying and recruiting activities. Both are disallowable. Results - Found no evidence to support the allegation. Forwarded response to the Department of Education on 5/11/17.	Harlingen	Complete	17-024I	5/11/2017
Risk Assessment of Focus WIGs - Completed a consulting engagement in which all Focus WIGs were risk assessed. Internal Audit's role was limited to facilitating discussions and documenting results. A management report was created.	Cross-divisional	Complete	17-027RA	6/7/2017
Internal Hotline: Allegation - Unlicensed software is/has been used by IT technicians. Results - Determined that the allegation had no merit for 2 pieces of software mentioned in complaint. For another piece of software, we did find inappropriate use. The appropriate license was subsequently purchased at a cost of \$30, 000.	OIT	Complete	17-026I	6/21/2017
SAO Hotline: Allegation - Employee received preferential treatment by being allowed to be absent from work without having to charge his paid time off. Results - Forwarded to HR for investigation. Per their investigation, the allegation had no merit.	OIT	Complete	17-025I	6/29/2017



**Texas State Technical College  
Internal Audit  
Status of Fiscal Year 2018 Audit Schedule & Other Projects**

Description	Division/Campus	Status	Project No.	Report Date
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**INTERNAL AUDITS**

Public Funds Investment Act Audit	Financial Services	Complete	18-002	9/1/2017
Audit of Select Controls on Demand Deposits	Financial Services	Complete	18-002.1	9/1/2017
Facilities Development Project Compliance Audit (Waco)	Facilities	In Progress		
Departmental Audit - Industrial Maintenance	North Texas	In Progress		
Departmental Audit - Provost's Office	North Texas	In Progress		
TAC §202 Compliance Audit	OIT	In Progress		
PCI Compliance Audit	Finance/OIT	In Progress		
Benefits Proportionality Audit	Payroll	In Progress		
TEC §51.9337 Contracting Audit	Purchasing			
External Quality Assessment Review	Internal Audit			
Departmental Audit	TBD			
Departmental Audit	TBD			
TEC §51.217 Safety Audit	Cross-Divisional			
Internal Penetration Test (Marshall)	OIT			
Internal Penetration Test (West Texas)	OIT			
Inventory Follow-up Audit	Cross-Divisional			

**EXTERNAL AUDITS**

Department of Education: Final Program Review Determination	Financial Aid	Complete		7/20/2017
State Auditor's Office: A-133 Follow-up	Harlingen	In Progress	18-001	
State Auditor's Office: A-133 Follow-up	Marshall	In Progress	18-001	
Workforce Solutions - Cameron County - Monitoring Review of Contract 2416 TCY2-00	Harlingen	In Progress	18-008	

**OTHER INTERNAL PROJECTS**

Risk Assessment - Purchasing	Procurement	Complete	18-006	8/18/2017
Re-calculation of Salaries - Workforce Development	Workforce Development	Complete	18-004	8/23/2017
Donation Process Review - Welding	Brownwood	Complete	18-007	10/9/2017
SAO Hotline: Allegation of inappropriate purchasing and bonuses. Results: Still being reviewed.		In Progress		
Internal Hotline: Allegation of employees abusing time. Results: Pending review.		In Progress		
Business Process Risk Assessment	Ft. Bend			



**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
Annual Compliance Audit of TEC §51.9337 (17-028A)	1. A single contracting policy noting specific requirements of TEC §51.9337 still needs to be created, and subsequently adopted by the Board of Regents.	1. Contract handbook, contract delegation guidelines, and training protocols have been created and implemented, but these documents and processes have not yet been formally adopted by the Board. 2. Identified numerous Statewide Operating Standards (SOSs) approved by the BOR that speak to contracting authority, but none acknowledged the BOR's sole authority to execute all contracts over \$1 million unless they specifically delegate that authority. Some of those SOSs have not yet been reviewed, updated, or published since the College's merger. As a result, determining who has the authority to sign certain contracts and amendments proved more difficult during our audit than it probably should have been.	1.1 A contract management handbook, contract delegation of authority guidelines, and training protocols have been developed with assistance from our Office of General Counsel. A Statewide Operating Standard on contract management will be developed and presented to the Board for approval at their February meeting. This Contract Management SOS will contain delegation of authority protocols that will supersede all other delegations of authority included in existing SOSs. 1.2 The delegation of authority language included in existing SOSs will be removed as each SOSs is reviewed during the normal course of business.	Hoekstra/Rushing	1.1 - 2/1/2018 1.2 - Ongoing
	2. Exceptions related to training, contract risk analysis, contract execution by unauthorized individuals, and other documentation exceptions indicate some of the requirements have not yet been fully implemented.	1. Identified several people who can execute contracts who did not complete required contract and ethics training. 2. Board has not been offered training. 3. Formal risk analysis process of executed contracts has not been implemented to identify certain contracts that require enhanced monitoring. 4. Identified instances where contracts were executed by people without authority, contract checklists not properly completed, debarred vendor lists not printed, and missing forms related to interested parties.	2.1 In FY2016 all employees with delegated authority to execute contracts were trained on contract management procedures. In FY2017, several training sessions were conducted; however, these were not mandatory and we didn't achieve 100% participation. Although Senate Bill 20 does not specifically set the frequency for contract related training, we agree with the recommendation to offer this training on an annual basis and to make it a mandatory training for employees with delegated authority to execute contracts. With assistance from Professional Development Office, work is already underway to develop a training module available via our LMS. Training for the Board will also be developed. 2.2 A formal risk analysis procedure will be developed and implemented.	Hoekstra/Rushing	2/28/2018
			2.3 Delegation of authority guidelines will be covered during the annual mandated contract management training, general procurement training, and by email to all employees when the SOS on Contract Management is approved.	Hoekstra/Rushing	3/31/2018

Construction Audit of the Brazos Center (17-029A)	No material exceptions noted.
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Report Name & No.		Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
Public Funds Investment Act Audit (18-002A)		No material exceptions noted.				
Audit of Select Controls on Demand Deposits (18-002.1A)	1.	Access to demand deposits need to be better controlled.	1. A former employee was still listed on the signature card of 14 accounts. 2. Two former employees had on-line access to one account, and three current employees had access they did not need. 3. No central control of on-line access. 4. On-line access has been set-up at one institution, but never used.	1.1 Recently approved Minute Order 08-17(c) authorizing the Chancellor or his designee to make changes to signature authorizations will now allow updates to be done in a more timely manner. Further, the monthly bank reconciliation document has been modified to include a checklist item to verify that signature authorizations are either up to date or in process. Regarding online access to financial institutions, the Financial Services office has now been designated to manage online access for all statewide users, and policies for appropriate users, access levels, and timely monitoring are currently being developed.	Hoekstra	Ongoing
Final Program Review Determination performed by the Department of Education	1.	Crime awareness requirements not met on the annual security report.	TSTC's 2013 ASR did not contain the required statement of policy notifying students of the existing on and off campus counseling, mental health, or other student services for victims of sex offenses.	TSTC revised the ASR, developed new policies to prevent recurrence, and ensured information was included in subsequent ASRs.	Wolaver	Completed in 2014
	2.	Drug and alcohol abuse prevention program requirements not met.	In 2013, TSTC failed to provide written description of legal sanctions under local, State, Federal law for the unlawful possession or distribution of illicit drugs and alcohol in their Drug and Alcohol Abuse Prevention Program (DAAPP).	Implemented new DAAPP material that clearly describes legal sanctions.	Wolaver	Completed in 2014



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

Report Name & No., Resp. Sr Mgr		Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
<b>Harlingen, Waco, Marshall, WT, Sys Ops: 2014 Employee Time Reporting Audits, Rushing</b>	1.	The forms used to report time should be enhanced to capture more information on the compensatory time that is being requested so as to assist HOD with verifying the time calculation. This would benefit employees by further ensuring they are credited with the correct amount of compensatory time.	1.2 HOD will review (and revise if necessary) all existing policies and procedures related to leave and compensatory time to ensure compensatory time is handled consistently throughout the System.	<b>Partially Complete:</b> HR personnel have been trained to better scrutinize all manual time sheets. In January 2016, an IT project was approved to create a single State-wide application to manage leave requests, accruals, and timesheets. This system will be computing device agnostic.	Human Resources has worked with OIT to develop an online timekeeping system. The new system is in the final programming prototype stage. It should be ready for release for testing by late fall, January at the latest. Human Resources anticipates rolling the new product out in early spring 2018.	4/1/2018
			1.3 Depending on availability of IT programming personnel, HOD will facilitate enhancements of the current leave system to accommodate automation of compensatory time recording and calculation.	See above.	See above.	
			1.4 Once the method for time reporting is determined, System-wide training will be implemented.	See above.	See above.	
<b>Marshall: A-133 Audit (performed by the SAO), Wolaver</b>	1.	Summary: Cost of Attendance budgets need to be adjusted to reflect actual enrollment so that the potential for over awards is reduced.	The College is developing new procedures to prevent recurrence of the issue. New reports have been created and will be thoroughly tested during the Spring 2018 semester. While we do not anticipate a need to re-programming, we will request it. We anticipate the action to be complete by 01/31/18.	<b>Ongoing:</b> At 10/12/17, SAO performed follow-up testing and did not find any exceptions related to cost of attendance. However, they found one over award unrelated to COA, and elected to not remove the finding.		2/1/2019
<b>Cybersecurity Audit (15-049A), Herrera</b>	1.	Controls related to wireless access and mobile devices need to be improved, as well as overall IT security training and awareness.	1.1 Due to network and hardware configuration, the following TSTC networks do not have separate guest and secure wireless: Sweetwater, Brownwood, Breckenridge, Abilene and Marshall. We are currently in the stages of correcting Brownwood and Breckenridge. The estimated completion date is October 31, 2015. Sweetwater and Marshall should be completed by July 2016 and Abilene by October 2016.	<b>Partially Complete:</b> At 12/19/16, the Brownwood, Breckenridge, and Marshall campuses have been completed. At 10/02/17, the Sweetwater and Abilene campuses were still not fixed. The delay is due to a piece of equipment needing to be purchased. The completion date is being pushed from 7/15/2017 to 12/1/2017.		12/1/2017

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
<b>Internal Network Penetration Test (16-016A), Herrera</b>	1.	We were able to find information on the internet that was useful to us in our social engineering attacks. As such, we were able to obtain both end-user credentials to systems containing protected data, and other information that could be used to get those credentials using relatively low-tech methods. We also noted instances in which physical security needs to be improved. Finally, we were able to inappropriately access student and employee data on servers using techniques available to more sophisticated hackers.	We have reviewed the issues identified and agree that corrective actions are necessary. We formulated specific actions for each of the issues, and have already corrected some. All required actions will be completed no later than December 2016 since some actions will require assistance from personnel outside of OIT.	<b>Substantially Complete:</b> As of 7/7/17, 8 of 9 corrective action plans have been completed. The only item that is pending to be completed is CAP 2.1 relating to secured logons to lab computers. On 10/2/17, the Director of Cybersecurity indicated Dell One is being purchased which will resolve the remaining item. Expected completion date is being moved up from 8/31/19 to 8/31/18.		8/31/2018

<b>Reconciliation of Statewide TSI Exam Fees (17-012A), Kilgore, Hoekstra</b>	1.	Stronger controls need to be established to account for all earned exam fees, regardless of whether they are collected or waived.	1.2 In the event a cashier is not available, a secure lock box has been established in the cashier area for persons dropping off payments at locations other than Waco and Harlingen. If the payment is cash, two signatures are required on the envelope verifying amount being place in the drop box. The enrollment specialists at all locations have been trained in this procedure.	<b>Ongoing:</b> On 10/2/17, lockbox procedures had not yet been implemented.	On 10/6/17, the AVC/Financial Services indicated that they believe the risks are being adequately controlled, and will provided evidence by 10/31/17.	10/31/2017
			1.3 A waiver code will be created in Colleague to be used for waived fees.	<b>Partially Complete:</b> 10/2/17, a waiver code was created in Colleague. The waiver code is not yet in use.	See above.	
			1.4 To document the reduction of price for a TSI exam, a form has been created that both testing and cashier personnel must sign before the waiver code can be entered in Colleague. This will allow for tracking when test fees are reduced or waived.	<b>Partially Complete:</b> At 10/2/17, we verified a form to approve testing waiver has been created and is being used by the Testing Department. However, the Student Accounting department is not yet using the form.	See above.	
			1.5 The Statewide leads for Advisement & Testing and Student Accounting will meet quarterly to reconcile the accounts. A report will be provided to the AVC/Financial Services and VP/Enrollment Services.	<b>Ongoing:</b> At 10/2/17, a reconciliation had not yet been performed.	See above.	

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 There was a need to review existing policies and procedures related to the inventory process. As a result, a team composed of approximately 15 employees representing, procurement, inventory, grants, and the TSTC foundation was created to look at existing processes and make recommendations to streamline and standardize processes as appropriate. This team began meeting in December 2016 and currently meets every two weeks. The first order of business for the team was to create a list of all the different activities and functions related to inventory and create sub-groups to work on each of the 18 topics identified. The topics include items such as: review of SOS's, standardizing inventory tags, review forms, and review the inventory process for assets acquired using TPFA funds, etc. The group will continue to meet on a regular basis until all items have been reviewed and any recommended changes have been implemented. The topics that include items related to the findings from this audit will be given the highest priority to ensure standard processes are developed and followed by all inventory teams statewide.	<b>Ongoing:</b> We are aware that the team referenced in the CAP is actively meeting, and addressing inventory issues. We have forwarded them issues identified in prior audits, and have had conversations with team members about planned improvements. As of 10/12/17, their efforts are still on-going. In FY 2018, we will perform an extensive review of inventory controls throughout the College to ensure all assets and controlled items are properly accounted for.		TBD
Dual Enrollment Audit (17-015A), Lawrence and Hoekstra	1.	Business processes that support dual enrollment, to include recording receivables, billing and collecting, and obtaining signed memorandums, need to be improved.	1.1 The TSTC 2017-2018 MOU was revised in coordination with the Dual Enrollment team; Beth Holquin, Marina Wilcox, Rene Ralston & Kori Bowen, stating the new DE policy, billing procedures, exceptions and amendments. The revised MOU clearly states who will sign the MOU and that all MOU's statewide will be housed on the Sweetwater campus and Lulu Morales will be responsible for accountability of each ISD. A Google spreadsheet has been created for all DE managers to log each ISD, date sent, and date received in the Sweetwater office. Marina Wilcox will be the TSTC representative signing the MOU's.	<b>Pending Review:</b> We have verified that the MOU template has been revised to include the language discussed in the CAP. As of 10/12/17, we were following up to ensure the process has been implemented.		3/29/2017

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
			1.2 The billing and student accounting process for Dual Enrollment was a complete manual process with no system of checks and balances. Rick Herrera and Orlando Penuelas have been tasked to head up the Dual Enrollment "Front End Team" which will be addressing the automization of the student accounting/billing system in conjunction with Deborah Gibson. Through the revision of the MOU and its processes, as per Jonathon Hoekstra and the Business Intelligence team, all billing will be made through the ISD. If the ISD is not paying, it will be their responsibility to collect all tuition and fees from the student. Recommendations from the Audit report have been relayed to the Front End Team.	<b>Pending Review:</b> As of 10/12/17, we were following up to ensure the billing process has been improved, and working as management intends.		7/31/2017
<b>TAC §202 Compliance Audit (17-002A), Herrera</b>	1.	Twenty-three of the 106 IT controls we tested have not yet been 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> As of 10/12/17, Internal Audit determined that efforts were still ongoing to implement all missing controls.		TBD
<b>Annual Compliance Audit of TEC §51.9337 (17-028A, Hoekstra &amp; Rushing</b>	1.	A single contracting policy noting specific requirements of TEC §51.9337 still needs to be created, and subsequently adopted by the Board of Regents.	1.1 A contract management handbook, contract delegation of authority guidelines, and training protocols have been developed with assistance from our Office of General Counsel. A Statewide Operating Standard on contract management will be developed and presented to the Board for approval at their February meeting. This Contract Management SOS will contain delegation of authority protocols that will supersede all other delegations of authority included in existing SOSs.	<b>Ongoing</b>		2/1/2018
			1.2 The delegation of authority language included in existing SOSs will be removed as each SOSs is reviewed during the normal course of business.	<b>Ongoing</b>		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
		2. Exceptions related to training, contract risk analysis, contract execution by unauthorized individuals, and other documentation exceptions indicate some of the requirements have not yet been fully implemented.	2.1 In FY2016 all employees with delegated authority to execute contracts were trained on contract management procedures. In FY2017, several training sessions were conducted; however, these were not mandatory and we didn't achieve 100% participation. Although Senate Bill 20 does not specifically set the frequency for contract related training, we agree with the recommendation to offer this training on an annual basis and to make it a mandatory training for employees with delegated authority to execute contracts. With assistance from Professional Development Office, work is already underway to develop a training module available via our LMS. Training for the Board will also be developed.	Ongoing		2/28/2018
			2.2 A formal risk analysis procedure will be developed and implemented.	Ongoing		2/28/2018
			2.3 Delegation of authority guidelines will be covered during the annual mandated contract management training, general procurement training, and by email to all employees when the SOS on Contract Management is approved.	Ongoing		3/31/2018
Audit of Select Controls on Demand Deposits (18-002.1A), Hoekstra	1.	Access to demand deposits need to be better controlled.	1.1 Recently approved Minute Order 08-17(c) authorizing the Chancellor or his designee to make changes to signature authorizations will now allow updates to be done in a more timely manner. Further, the monthly bank reconciliation document has been modified to include a checklist item to verify that signature authorizations are either up to date or in process. Regarding online access to financial institutions, the Financial Services office has now been designated to manage online access for all statewide users, and policies for appropriate users, access levels, and timely monitoring are currently being developed.	Ongoing		TBD

# **TEXAS STATE TECHNICAL COLLEGE**

## **Internal Audit Annual Report Fiscal Year 2017**

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

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## I. Internal Audit Plan for FY 2017

The Board of Regents approved the original internal audit plan for fiscal year 2017 in August 2016. In February 2017, amendments to that plan were approved. The plan was amended by removing three departmental audits and an internal penetration test, and replacing them with a facilities development project audit required by the Texas Higher Education Coordinating Board, an audit of TSI exam fees, and an audit of the billing and collection processes for dual enrollment.

This audit plan was prepared using risk assessment techniques as required by the Texas Internal Auditing Act, and all requested revisions were the result of changes to the risk environment. In total, fifteen internal audit reports, ten audit reports by external regulatory agencies, and ten reports related to consulting engagements and/or investigations were issued. At August 31, 2017, two internal audits from the plan were still in progress, with those reports to be issued in November 2018.

### Fiscal Year 2017 Internal Audit Plan

Project Description	Division/Campus	Report Number	Report Date	Status
Facilities Development Project Compliance Audit see note 1	Harlingen	17-008A	10/28/16	Complete
Departmental Audit	Office of the Chief Operating Officer	17-006A	10/28/16	Complete
Reconciliation of Statewide TSI Exam Fees see note 1	Integrated Marketing	17-012A	11/01/16	Complete
Internal Quality Assessment Review	Internal Audit	17-003A	11/21/16	Complete
Departmental Audit	Office of External Relations	17-009A	12/14/16	Complete
Departmental Audit	Welding – Marshall	17-013A	3/02/17	Complete
Departmental Audit	Provost – West Texas	17-016A	3/15/17	Complete
Financial Aid Fraud Audit	Financial Aid	17-004A	3/21/17	Complete
Dual Enrollment Audit <sup>see</sup> note 1	Operations	17-015A	4/05/17	Complete
Departmental Audit	Welding – West Texas	17-017A	4/04/17	Complete
Departmental Audit	Diesel – Fort Bend	17-023A	6/15/17	Complete
Departmental Audit	HVAC – Fort Bend	17-022A	6/19/17	Complete
TAC §202 Compliance Audit	OIT	17-002A	6/28/17	Complete

Departmental Audit	Provost – Harlingen	17-020A	6/29/17	Complete
Departmental Audit	Developmental Education – Harlingen	17-021A	7/06/17	Complete
Construction Audit	Fort Bend	17-029A		In progress
TEC §51.9337 Compliance Audit (Contracting) <sup>see note 3</sup>	Statewide	17-028A		In progress
Departmental Audit <sup>see note 2</sup>				Removed
Departmental Audit <sup>see note 2</sup>				Removed
Departmental Audit <sup>see note 2</sup>				Removed
Internal Penetration Test <sup>see note 2</sup>				Removed

**Notes:**

- 1 Audit was added to the plan in February 2017.
- 2 Audit was removed from the plan in February 2017.
- 3 The audit was ongoing at the time this report was prepared. All findings will be included in a report to be issued in November 2017.
- 4 A benefits proportionality audit was not conducted in FY 2017. To comply with Rider 8, page III-41, of the GAA of the 84th Legislature, one was conducted in FY 2016. One is scheduled for FY 2018 to comply with Rider 8, page III-44, of the GAA of the 85th Legislature.

## II. Summary of Audit Findings and Corrective Action Plans for Audits Conducted in FY 2017

Fifteen of the seventeen audits from the FY 2017 audit plan were completed before August 31, 2017. Additionally, four FY 2016 audits were completed after August 31, 2016. The following schedule summarizes the results from each audit.

Report #	Date	Audit	Division/Campus	Summary of Findings	Status & Summary of CAPs
16-010A	9/01/16	Construction Audit	Ft. Bend	No reportable exceptions.	
16-033A	8/24/16	Campus Audit	North Texas	No reportable exceptions.	
16-007A	9/08/16	Senate Bill 20 Audit	Statewide	Certain required statements are missing from the Ethics and Standards of Conduct policy, and the contract management handbook and contract review procedures/check list are not yet completed.	<b>Ongoing:</b> 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.
					<b>Fully Implemented:</b> 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.

16-024A	9/14/16	Portal Audit	OIT	Controls over access and general security to the Portal need to be improved.	<b>Fully Implemented:</b> We are instituting new password requirements statewide including a password reset after first login, password expiration after 1 year, and improved password complexity requirements.
					<b>Fully Implemented:</b> We are in the process of implementing account lockout settings on the authentication provider for portal.
					<b>Fully Implemented:</b> 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.
					<b>Fully Implemented:</b> The users noted in the audit have had their account access reviewed and revised as needed according to job function.
					<b>Fully Implemented:</b> We have reviewed the Sharepoint access to this

					account, and are comfortable with those who have access.
17-008A	10/28/16	Facilities Development Project Compliance Audit	Harlingen	No reportable exceptions.	
17-006A	10/28/16	Departmental Audit	Office of the Chief Operating Officer	No reportable exceptions.	
17-012A	11/01/16	Reconciliation of Statewide TSI Exam Fees	Integrated Marketing	Stronger controls need to be established to account for all earned exam fees, regardless of whether they are collected or waived.	<b>Fully Implemented:</b> The cashiers are the only individuals allowed to take payments for anything.
					<b>Fully Implemented:</b> In the event a cashier is not available, a secure lock box has been established in the cashier area for persons dropping off payments at locations other than Waco and Harlingen. If the payment is cash, two signatures are required on the envelope verifying amount being placed in the drop box. The enrollment specialists at all locations have been trained in this procedure.
					<b>Fully Implemented:</b> A waiver code will be created in Colleague to be used for waived fees.

					<b>Fully Implemented:</b> To document the reduction of price for a TSI exam, a form has been created that both testing and cashier personnel must sign before the waiver code can be entered in Colleague. This will allow for tracking when test fees are reduced or waived.
					<b>Ongoing:</b> The Statewide leads for Advisement & Testing and Student Accounting will meet quarterly to reconcile the accounts. A report will be provided to the AVC/Financial Services and VP/ Enrollment Services.
17-003A	11/21/16	Internal Quality Assessment Review	Internal Audit	No reportable exceptions.	
17-009A	12/14/16	Departmental Audit	Office of External Relations	No reportable exceptions.	
17-013A	3/02/17	Departmental Audit	Welding – Marshall	Inventory controls need to be strengthened.	
17-016A	3/15/17	Departmental Audit	Provost – West Texas	No reportable exceptions.	
17-004A	3/21/17	Financial Aid Fraud Audit	Financial Aid	No reportable exceptions.	
17-015A	4/05/17	Dual Enrollment Audit	Operations	Business processes that support dual enrollment, to include recording receivables, billing and	<b>Pending Review:</b> The TSTC 2017-2018 MOU was revised in coordination with the Dual Enrollment team stating the new DE policy, billing

				collecting, and obtaining signed memorandums, need to be improved.	procedures, exceptions and amendments. The revised MOU clearly states who will sign the MOU and that all MOU's statewide will be housed on the Sweetwater campus and Lulu Morales will be responsible for accountability of each ISD. A Google spreadsheet has been created for all DE managers to log each ISD, date sent, and date received in the Sweetwater office. Marina Wilcox will be the TSTC representative signing the MOU's.
					<b>Pending Review:</b> The billing and student accounting process for Dual Enrollment was a complete manual process with no system of checks and balances. Rick Herrera and Orlando Penuelas have been tasked to head up the Dual Enrollment "Front End Team" which will be automating the student accounting /billing system in conjunction with Deborah Gibson. Through the revision of the MOU and its processes, as per Jonathon Hoekstra and

					the Business Intelligence team, all billing will be made through the ISD. If the ISD is not paying, it will be their responsibility to collect all tuition and fees from the student. Recommendations from the Audit report have been relayed to the Front End Team.
17-017A	4/04/17	Departmental Audit	Welding – West Texas	No reportable exceptions.	
17-023A	6/15/17	Departmental Audit	Diesel – Fort Bend	Inventory controls need to be strengthened.	<b>Ongoing:</b> Review existing policies and procedures related to the inventory process. Create a team representing, procurement, inventory, grants, and the TSTC foundation to look at existing processes and make recommendations to streamline and standardize processes as appropriate. The first order of business for the team was to create a list of all the different activities and functions related to inventory and create sub-groups to work on each of the 18 topics identified. The topics include items such as: review of SOS's, standardizing inventory tags, review forms, and review the inventory process for



					assets acquired using TPFA funds, etc. The group will continue to meet on a regular basis until all items have been reviewed and any recommended changes have been implemented. The topics that include items related to the findings from this audit will be given the highest priority to ensure standard processes are developed and followed by all inventory teams statewide.
17-022A	6/19/17	Departmental Audit	HVAC – Fort Bend	Inventory controls need to be strengthened.	See 17-023A.
17-002A	6/28/17	TAC §202 Compliance Audit	OIT	23 of the 106 IT controls we tested have not yet been implemented.	<b>Ongoing:</b> 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.
17-020A	6/29/17	Departmental Audit	Provost – Harlingen	No reportable exceptions.	
17-021A	7/06/17	Departmental Audit	Devel. Ed – Harlingen	No reportable exceptions.	

### III. List of Consulting Engagements and Non-audit Services Completed in FY 2017

Ten consulting and non-audit type of services were completed in FY 2017. The following schedule summarizes those projects.

Report #	Date	Project Description	Division/ Campus	Summary of Observations and Recommendations	Status & Summary of CAPs
17-005I	9/16/16	Investigation of allegation of waste by hiring a consultant.	OIT	Determined that the engagement added value, was properly procured, and approved.	
16-037I	9/29/16	Investigation of theft of cash.	Ft. Bend	Determined that cash was stolen, and controls needed to be improved.	<b>Substantially Complete:</b> Employee was terminated. Audit was conducted. Refer to 17-012A in previous schedule.
17-010I	1/20/17	Investigation that a supervisor abused his position, lost or stole checks, and misused federal funds for non-essential travel.	Harlingen	Found no evidence of abuse of authority, loss of checks, or misuse of funds. Determined that accounting controls in Dual Enrollment, Challenger Center, TexPrep, and MAARS needed to be improved.	<b>Substantially Complete:</b> Accounting personnel will ensure a receivable is recorded.
17-014RA	12/14/16	Risk assessment of Challenger gift shop.	Integrated Marketing	Recommended controls related to accounting, sales, tax, cash, and inventory management.	

17-018I	2/15/17	Investigation that a supervisor wasted money on non-essential travel.	Unknown	Could not substantiate because the allegation was too vague.	
17-019I	3/28/17	Investigation of cell phone emoluments	Waco	Did not identify any obvious waste. All emoluments were reasonable.	
17-024I	5/11/17	Investigation of misuse of federal grant funds.	Harlingen	Found no evidence to support the allegation.	
17-027RA	6/07/27	Risk Assessment of Focus WIGs	Cross-divisional	Identified enhancements to increase likelihood WIGs will be achieved.	
17-026I	6/21/17	Investigation of use unlicensed software.	OIT	Determined that one piece of software was being used without proper licensing.	<b>Fully Implemented:</b> A corporate license was immediately purchased.
17-026I	6/29/17	Investigation of preferential treatment of an employee.	OIT	Passed allegation to Human Resources. They found no evidence of wrong-doing.	

#### IV. External Audit Services Procured in FY 2017

In FY 2017, no delegation requests were made to obtain external audit services. However, ten audits or reviews were performed by external regulatory agencies. The following schedule summarizes those projects.

Agency	Date	Project Description	Division/Campus
Texas Commission on Law Enforcement	01/12/16	Verify police training and records maintenance.	Sweetwater Campus Police
Texas Commission on Law Enforcement	10/25/16	Verify police training and records maintenance.	Waco Campus Police
Thomas P Miller & Associates	1/20/17	Conduct interim evaluation of deliverables for TAACCCT Grant. This evaluation was a grant requirement.	Workforce Development
Department of Labor	3/16/17	Monitoring visit to evaluate deliverables for TAACCCT Grant.	Workforce Development
Federal Aviation Administration	No report issued	Annual inspection of Automated Weather Observing System.	Airport
Texas Workforce Commission	2/28/17	Personnel Policies and Procedures Review.	Human Resources
State Auditor's Office	2/21/17	A-133 Follow-up.	Financial Aid (Marshall)
State Auditor's Office	2/21/17	A-133 Follow-up.	Financial Aid (Harlingen)
Texas DPS	4/10/17	Verify access to criminal system and database.	Waco Campus Police
Texas Higher Education Coordinating Board	No report issued	2015/2016 Perkins Grant Programmatic Desk Review.	Office of Sponsored Programs

## V. Internal Audit Plan for FY 2018

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. Sixty-eight people provided input to the plan.

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

Internal Audit first selected all required audits, which amounted to eight. 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, fleet management, and faculty workload.

This planning process yielded the following audit plan for FY 2018:

Audit Name	Budgeted Hours
TEC §51.9337 (Contracting) Audit <sup>see note 3</sup>	250
Public Funds Investment Act Audit	200
TAC §202 Audit <sup>see note 2</sup>	300
TEC §51.217 (Safety) Audit	500
Benefits Proportionality <sup>see note 1</sup>	400
External Quality Assurance Review	400

Facilities Development Project Compliance Audit	150
PCI Compliance Audit	700
Departmental Audit – North Texas Provost Office	200
Departmental Audit – North Texas Industrial Maintenance	200
Departmental Audit – TBD	200
Departmental Audit – TBD	200
Internal Penetration Test – Marshall	200
Internal Penetration Test – West Texas	200
Follow-up Audits	650

**Notes:**

- 1 Intended to satisfy Rider 8, page III-44, of the GAA of the 85th Legislature. Audit was removed from the plan in February 2017.
- 2 IT Controls not tested in the FY 2017 will be tested. Intended to satisfy the TAC §202 biennial audit requirements.
- 3 Intended to satisfy the annual audit requirements of TEC §51.9337.

## **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 85<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 performed on April 29, 2015, by Andrew Groover and Leticia Charbonneau. At the time, Mr. Groover was the Director of Internal Audits at Texas Woman's University, while Mrs. Charbonneau was 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.

The following is a summary of the 2015 EQAR report:

### **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.*

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

*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.*

All recommendations were implemented immediately, and validated in the formal Internal Quality Assessment performed in FY 2017.

The next External Quality Assurance Review is scheduled for summer 2018.



November 16, 2017

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 2017, all staff obtained at least 40 hours of relevant continuing education.
- Attainment of professional certification(s). I am a CPA, Certified Internal Auditor (CIA), and hold a certification in control self-assessment. One staff member is a CIA, with another actively pursuing that same designation. The other staff member sat for the Certified Information Systems Auditor (CISA) exam in June 2017 for the first time, and is still pursuing that designation.
- Internal and external quality assessment reviews. An internal review was performed in FY 2017 that resulted in a "Meets Standards" opinion. An external review is scheduled for FY 2018.
- Reliable and sufficient documentation for all audit reports and opinions. I supervised all FY 2017 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 acknowledge their responsibilities in writing annually. The manual is reviewed annually, and updated as needed.
- Independence statements. In FY 2017, 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*. I serve as the Secretary for the Board of the latter.
- Client surveys. In FY 2017, 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", is written over a horizontal line.

Jason D. Mallory  
Director of Audits



November 16, 2017

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 16, 2017

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

SUBJECT: Annual Review of Internal Audit Charter

Mr. Andarza:

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

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

Sincerely,

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

Jason D. Mallory  
Director of Audits

**TEXAS STATE TECHNICAL COLLEGE  
STATEWIDE OPERATING STANDARD**

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

**STATUS:** Revised 11/05/15

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

**POLICY**

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



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

## **PERTINENT INFORMATION**

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

### **Definition of Internal Auditing**

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

### **Code of Ethics**

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

### **Standards**

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

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

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

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

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

## **DELEGATION OF AUTHORITY**

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

The Director and staff are authorized to:

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

The Director and staff are not authorized to:

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

## **OPERATING REQUIREMENTS**

### **Accountability**

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

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

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

## **Responsibility**

The Director and staff have responsibility to:

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

## **PERFORMANCE STANDARDS**

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

**Internal Audit Department**

**Audit Report**

**Annual Compliance Audit of TEC §51.9337 (Contracting) (17-028A)  
of  
TEXAS STATE TECHNICAL COLLEGE**

**October 10, 2017**

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

## **Executive Summary**

Senate Bill 20 of the 84th Texas Legislature was signed by the Governor on June 4, 2015. Its purpose was to reform state agency contracting by clarifying accountability, increasing transparency, and ensuring a fair competitive contracting process. The purpose of this audit was to ensure processes have been established to comply with the requirements added by Senate Bill 20 to Section 51.9337, Purchasing Authority Conditional; Required Standards, which amends Subchapter Z, Chapter 51, Education Code; and to test compliance to these processes and policies. We also verified compliance to several other Sections in the Education Code that relate to contracts/purchasing requirements.

Our testing included reviewing procurement/contract management policies and procedures and related training as of July 20, 2017. We scrutinized the code of ethics policy, approved contract delegation list and related training, and internal audit policies and protocols. We also reviewed the recently implemented contract management handbook and related checklist. Finally, we tested Board of approval of required processes and documents, compliance of contracts to the aforementioned handbook and checklist, and other requirements not listed in TEC §51.9337, but required by Senate Bill 20.

Our test work revealed that significant efforts were made in fiscal year 2017 to more fully comply with the revised TEC §51.9337 since the previous year. Specifically, we noted that the Board approved Code of Ethics contains all the necessary language, a contract management handbook which reflects the one maintained by the Texas Comptroller's Office was created and implemented, and a contract checklist approved by the College's OGC is in place. We also acknowledge the attempt to ensure contracts are stored in a central repository, comply with related regulations and policies, and are executed by the proper level of authority. The College's commitment towards improving its contract management processes and complying with TEC §51.9337 are further demonstrated by the hiring a dedicated Contract Compliance Manager to oversee contract management, and the frequent involvement of OGC in reviewing contracts.

With that said, we determined that a single contracting policy noting specific requirements of TEC §51.9337 still needs to be created, and adopted by the Board of Regents. And we identified exceptions related to training, contract risk analysis, contract execution by unauthorized individuals, and other documentation exceptions that indicate some of the requirements have not yet been fully implemented. We discussed the results of our audit with management. They concurred with our findings and immediately began addressing our recommendations.

## **Introduction**

As it relates to the State Purchasing and General Services Act, Senate Bill 20 provided for verification of the use of a best value standard in state agency contracting and procurement, and establishes requirements for the training, continuing education, and certification of

state agency purchasing personnel. The bill also established ethics, reporting, and approval requirements for certain higher education contracts. Specifically, Texas Education Code §51.9337, Purchasing Authority Conditional; Required Standards requires by rule, that the Board of Regents (BOR) shall establish the following contract related standards:

- a Code of Ethics for officers and employees,
- policies for the internal investigations,
- a contract management handbook,
- contracting delegation guidelines,
- training for officers and employees authorized to execute contracts, and
- internal audit protocols.

Additionally, TEC §51.9337 requires that the contract review procedures/checklist be reviewed and approved by legal counsel, policies governing contracting authority be approved by the BOR, and that an annual assessment by the chief auditor be performed to determine whether the institution has adopted the rules and policies required by this section.

In addition to the annual assessment, the auditor must submit a report of findings to the State Auditor. If the State Auditor determines that an institution has failed to adopt the required rules and policies, the report will be submitted to the legislature and the institution will need to adopt a remediation plan to bring the institution back into compliance within a specified timeframe. Furthermore, if an institution fails to comply with the remediation plan, the institution will be suspended from acquiring goods and services as provided by TEC §51.9337, and as a result, laws including Subtitle D, Title 10, Government Code, and Chapter 2254, Government Code, which govern the acquisition of goods and services by state agencies (from which the institution is otherwise exempt), will now apply to the institution's acquisition of goods and services.

Within the College, the Contract Compliance Manager, along with Procurement Services, Human Resources and the Office of General Counsel, collectively work to facilitate compliance, with managers with contracting authority throughout the College responsible for following the processes that are established.

### **Objectives**

The objective of this audit was to verify compliance to Section 51.9337, Purchasing Authority Conditional; Required Standards, which amends Subchapter Z, Chapter 51, Education Code as amended by Senate Bill 20 of the 84<sup>th</sup> Legislature. We also reviewed compliance to other related regulations, including Texas Government Code §2155.0755, §2155.089 and §441.1855 involving verification of best value, vendor performance reporting and retention of contracts.

### Scope & Methodology

The scope of our audit included all processes, policies and procedures relating to contract management from September 1, 2016, through August 31, 2017. We developed our audit criteria using TEC §51.9337. Our methods consisted of reviewing contract management procedures, training, and contract delegation authorities. We also reviewed statewide policies, internal audit protocols, and discussed other processes with management. Our test work focused on ensuring processes and policies were established and implemented, and verifying a sample of contracts adhered to said processes and policies.

### General Observations

Management has established contracting procedures including a contract management handbook, contract review checklist and the delegation of authority which details the types and amounts of contracts specific positions may execute. Countless meetings, various revisions to the handbook and checklist, and pilot testing have been performed to ensure the rules are carried out in an efficient manner. A Contract Compliance Manager, who works closely with Procurement and OGC, was hired in December 2016 to oversee contract management, and as noted in last year's audit, audit protocols have also been established.

### Summary of Findings

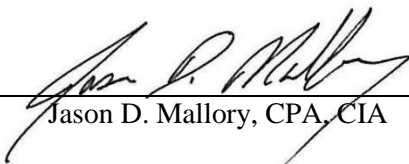
1. A single contracting policy noting specific requirements of TEC §51.9337 still needs to be created, and subsequently adopted by the Board of Regents.
2. Exceptions related to training, contract risk analysis, contract execution by unauthorized individuals, and other documentation exceptions indicate some of the requirements have not yet been fully implemented.

### Opinion

Based on the audit work performed, the College has developed processes to achieve compliance with TEC §51.9337, and has significantly improved its contract management over the last few years. Once the exceptions identified in this audit are addressed, full compliance should be achieved.

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 10, 2017  
 Date

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## AUDIT FINDING DETAIL

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**Finding #1:** A single contracting policy noting specific requirements of TEC §51.9337 still needs to be created, and subsequently adopted by the Board of Regents.

**Criterion:** TEC §51.9337 requires the Board of Regents (BOR) by rule to establish the following contract related standards: a code of ethics, policies for internal investigations, a contract management handbook, contract delegation guidelines, training protocols, and internal audit protocols. We determined that a code of ethics, and policies for internal audit protocols and investigations have been approved by the BOR. We also determined that a contract management handbook, contract delegation guidelines, and training protocols have been created and implemented, but these documents and processes have not yet been formally adopted by the Board.

We were able to verify delegation guidelines are in place. Although approved by the Leadership Team, they have not been approved by the BOR. We also identified numerous Statewide Operating Standards (SOSs) approved by the BOR that speak to contracting authority, but none acknowledged the BOR's sole authority to execute all contracts over \$1 million unless they specifically delegate that authority. Additionally, some of the SOSs we identified have not yet been reviewed, updated, or published since the College's merger. As a result, determining who has the authority to sign certain contracts and amendments proved more difficult during our audit than it probably should have been.

**Consequences:** By not creating a single contracting policy approved by the BOR, there is an increased risk of non-compliance and inappropriate contracting actions.

**Possible Solution:** We recommend that a single contracting policy be developed and approved by the BOR that clearly states the requirements noted above, with particular emphasis given to the delegation to approve contracts. Because so many SOS's currently include some sort of contracting language in them, we further recommend that the contracting policy supercede all other SOSs when conflicting language is present.

### Management Response:

**Division:** Finance, Legal/HR/Governance  
**Senior Management:** Jonathan Hoekstra, VC/CFO,  
Ray Rushing, VC/General Counsel



<b>Task</b>	<b>Brief Description</b>	<b>Responsible Individual</b>	<b>Completion Date</b>
1.1	A contract management handbook, contract delegation of authority guidelines, and training protocols have been developed with assistance from our Office of General Counsel. A Statewide Operating Standard on contract management will be developed and presented to the Board for approval at their February meeting. This Contract Management SOS will contain delegation of authority protocols that will supersede all other delegations of authority included in existing SOSs.	Mary Hernandez	February 2018
1.2	The delegation of authority language included in existing SOSs will be removed as each SOSs is reviewed during the normal course of business.	Tom Hooker	Continuous

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## AUDIT FINDING DETAIL

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**Finding #2:** Exceptions related to training, contract risk analysis, contract execution by unauthorized individuals, and other documentation exceptions indicate some of the requirements have not yet been fully implemented.

**Criterion:** TEC §51.9337 requires periodic training for officers and employees authorized to execute contracts, that a contract risk analysis procedure be implemented which helps guide management on how closely to monitor certain contracts after execution, and that the authority for executing contracts be clearly defined and followed.

We determined that although contract management training was held in FY 2017, at least 30 of 45 individuals authorized to execute contracts did not attend; there was 100 percent participation in FY 2016, however, due to new policies and procedures additional training was required. For ethics training, at least 29 of 45 individuals that can execute contracts did not complete training during FY 2016; the next training is expected to be completed in November 2017. And, while not specifically required in the regulation, the State Auditor's Office in audits they have performed at other institutions appear to interpret that training to be applicable to the BOR. The College has not yet offered contract type training to the BOR.

We determined that the contract management handbook mentions a risk analysis process. We acknowledge there are processes to monitor higher risk contracts after execution, such as the efforts taken on multi-million dollar construction contracts. But the risk analysis mentioned in the handbook does not formally define monitoring efforts that are expected based upon the characteristics of individual contracts. We feel the intent of this requirement, again based upon issues cited by the State Auditor's Office at other institutions, is to have a well-defined process which moves certain types of contracts (i.e., higher dollar amount, type of services/product) to a higher level of monitoring after they have been executed.

Finally, we noted instances where contracts were executed by people without authority to do so, and some lesser documentation type of exceptions. Examples of these included a checklist that was not properly approved, debarred vendor lists not printed and attached to contracts, missing vendor signatures on contracts, missing evidence of review/approval by OGC and missing 1295-Certificates of Interested Parties. Finally, some contracts were not readily available for review because they were not forwarded to the central repository as required.

**Consequences:** There is an increased risk of non-compliance and inappropriate contracting actions, with penalties potentially leading to a suspension from acquiring goods and services.

**Possible Solution:** We recommend all training be conducted on at least an annual basis, with evidence being maintained. We recommend a formal risk analysis process be defined and applied to all contracts to ensure all high risk contracts are sufficiently monitored. And we recommend

that a more deliberate effort be made to educate the College community on their authorities and responsibilities related to contracting.

**Management Response:**

**Division:** Finance, Legal/HR/Governance  
**Senior Management:** Jonathan Hoekstra, VC/CFO,  
Ray Rushing, VC/General Counsel

<b>Task</b>	<b>Brief Description</b>	<b>Responsible Individual</b>	<b>Completion Date</b>
2.1	In FY2016 all employees with delegated authority to execute contracts were trained on contract management procedures. In FY2017, several training sessions were conducted; however, these were not mandatory and we didn't achieve 100% participation. Although Senate Bill 20 does not specifically set the frequency for contract related training, we agree with the recommendation to offer this training on an annual basis and to make it a mandatory training for employees with delegated authority to execute contracts. With assistance from Professional Development Office, work is already underway to develop a training module available via our LMS. Training for the Board will also be developed.	Mary Hernandez	February 2018
2.2	A formal risk analysis procedure will be developed and implemented.	Mary Hernandez	February 2018
2.3	Delegation of authority guidelines will be covered during the annual mandated contract management training, general procurement training, and by email to all employees when the SOS on Contract Management is approved.	Mary Hernandez	March 2018

**Internal Audit Department**

**Audit Report**

**Construction Audit of the Brazos Center (17-029A)  
of  
TEXAS STATE TECHNICAL COLLEGE  
Ft. Bend Campus**

**September 5, 2017**

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

## **Executive Summary**

We have completed a construction audit of the Brazos Center on the Ft. Bend Campus as of August 31, 2017. Construction was 93% complete at the time of this audit, with the building set to open for fall 2017 classes. The total project costs at August 31, 2017, were \$13,468,670.82, which included architect fees, construction costs and fees, engineer fees and other miscellaneous costs (utilities, trash receptacles, etc.). The majority of the project was funded by proceeds from tuition revenue bonds.

The purpose of this audit was to ensure costs paid by the College were legitimate construction expenditures allowable under governing contracts, and that all amounts were correct and paid to the appropriate parties. We verified adequate insurance and bond coverage was in place with TSTC being the certificates holder. We ensured all contracts were signed by the proper level of authority and subjected to a competitive bidding process. We verified the Board of Regents approved the project and a budget, and that actual expenditures were within that approved budget. Finally, we verified select controls were in place, especially those related to awarding contracts, paying invoices, and inspecting construction progress and quality. We did not perform any test work on purchases of instructional and other necessary equipment because a separate funding source was used in those purchases.

We tested \$11,991,745.59 in expenditures. Of that amount, more detailed tests were performed on \$3,281,530.78 paid to subcontractors through the general contractor.

We determined that all payments to date represented legitimate construction expenditures allowed by the various contracts. Insurance and bonding was appropriate and sufficient, the project was properly approved, and contracts were properly bid and signed by the correct levels of authority. Finally, the project was well within the budget approved by the Board of Regents, and the internal controls operated as intended.

## **Introduction**

The Brazos Center (Brazos) is a 56,698 square foot facility recently built on the master planned Fort Bend Campus in Rosenberg, TX. It is the second building to be located on that campus, located adjacent to the Industrial Technology Center completed in the summer of 2016. Brazos includes spaces for instruction, student support, faculty offices, and multipurpose spaces. The overall education purpose of Brazos is to provide technical education and training for students in the Houston metropolitan area, and to serve as an anchor for student support services on the campus. Primary users will be students seeking specific job training and associates degrees.

The construction for Brazos was approved by the Board of Regent's on November 6, 2015, at a budget not to exceed \$14,950,000. The total budget was subsequently increased to

\$15,200,000 so that a bookstore could be built out. Because this increase did not exceed 10% of the originally approved budget, further approval was not required.

Brazos was constructed under a “Construction Manager At-Risk” type of contract with Bartlett Cocke serving as the general contractor, and PBK Architects serving as the project architect. Up to \$14,950,000 in proceeds from tuition revenue bonds (TRB) were available for the construction. Because TRB funds cannot be utilized to support auxiliary businesses, up to an additional \$250,000 in auxiliary funds were available to build out the bookstore. The project had a Guaranteed Maximum Price (GMP) to construct of \$13,384,448. The following chart details the architect, general contractor, and engineer fees for the project:

Contractor	Fees	% of GMP
Bartlett Cocke General Contractors	\$395,005	2.95%
PBK Architects	\$998,618.88	7.5%
Terracon Consultants	Up to \$60,570	Less than 1%

The following chart details the project’s actual costs through August 31, 2017:

Contractor	Amount
Bartlett Cocke General Contractors (includes direct construction costs and fee)	\$12,445,973.68, which includes \$622,298.68 in retainage.
PBK Architects	\$929,834.66
Terracon Consultants	\$58,464.25
Other	\$34,398.23
Total	\$13,468,670.82

We tested \$11,991,745.59 of these costs. Of that amount, detailed tests were performed on \$3,281,530.78 paid to subcontractors through the general contractor.

All construction projects are governed by Statewide Operating Standards 4.3 & 4.4. Delegations of authority to execute construction contracts are defined by these same standards and Texas Education Code §51.9337. The project was overseen by the AVC/Facilities, with daily oversight being delegated to the VP/Facilities on the Harlingen Campus. Accounting personnel established dedicated general ledger accounts for all costs to be recorded, and they drew down TRB proceeds. Purchasing personnel facilitated bidding and paid invoices that were first approved for payment by the Facilities personnel. Legal counsel reviewed all contracts.

## Objectives

The objectives of this audit were to determine whether:

- All expenditures were legitimate and allowable, and properly recorded.
- Builders risk and general liability insurance coverages were sufficient, and named the College as the certificate holder.

- An adequate performance bond and payment bond were in effect, with the College being named as the obligee.
- Competitive bidding was performed, with awards being based on objective criteria.
- The project was properly approved by the Board of Regents, and stayed within its approved budget.
- All contracts were executed by a person with explicit authority.
- Controls were in place to ensure contract awards, payments, and construction work were appropriate.

### **Scope & Methodology**

The scope of our audit included construction activity through August 31, 2017. The construction project was 93% complete as our testing finished. To accomplish our objectives, we identified all costs recorded in the general ledger, and inspected invoices, pay applications, insurance certificates, contracts, bid packets, and other construction related documents. The project manager for Bartlett Cocke provided subcontractor invoices and supporting schedules. We were able to review drawings, surveys, engineer reports, supporting schedules for pay requests, and other information directly by accessing Owners Insite, a cloud based project management software. Invoices, purchasing documentation, and general ledger information was obtained through Colleague and Perceptive Content.

### **General Observations**

The project has been well managed by Facilities, with the GMP decreasing from \$13,450,000 to \$13,384,448. A pole facility to teach utility lineman was recently added to the project due to savings in the buyout, contractor's contingency, and owner's contingency. Facilities personnel were active in the bidding process, and ensured that the rationale for their decisions was documented and based upon objective criteria. They also reviewed and approved all pay applications and other invoices prior to payments. All information requested during the course of this audit was quickly made available because it was so well organized. The general contractor also quickly answered any questions and requests we made.

### **Summary of Findings**

No material exceptions were identified.

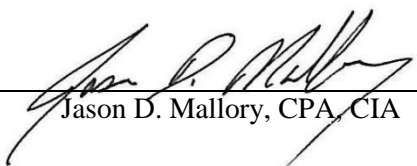
### **Opinion**

Based on the audit work performed, all payments represented legitimate construction expenditures allowed by the various contracts. Insurance and bonding was appropriate and sufficient, the project was properly approved, contracts were properly bid and signed by the correct levels of authority, and the project's cost was within the approved budget.

Finally, controls were in place to ensure contract awards, payments, and construction work was appropriate.

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 5, 2017  
\_\_\_\_\_  
Date



## **Internal Audit Department**

### **Audit Report**

#### **Public Funds Investment Act Audit (18-002A)** **TEXAS STATE TECHNICAL COLLEGE**

**September 1, 2017**

**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, 84<sup>th</sup> Legislature, 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 2016 and 2017.

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 investment 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 has materially complied with the PFIA and Rider 5 requirement during fiscal years 2016 and 2017.

## **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 certificates of deposit and money market accounts. As of April 30, 2017, the collective balance of all demand and time deposits totaled \$34,698,898. These balances were secured by pledged collateral of \$47,848,485. In addition, \$30,578,556 in bond proceeds are currently invested in TexPool and TexTerm.

### **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 2016 and 2017.
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 2016 and 2017. We audited to Chapter 2256 of the Texas Government Code and Article III, Rider 5 of the General Appropriations Act, 84<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 Findings**

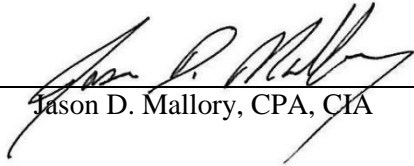
No material exceptions were identified.

### **Opinion**

Based on the audit work performed, TSTC complied with Chapter 2256 of the Texas Government Code and Article III, Rider 5 of the General Appropriations Act, 84<sup>th</sup> Legislature, in fiscal year 2016 and 2017. Furthermore, appropriate internal controls have been designed and implemented to ensure continued compliance.

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

Submitted by:

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

September 1, 2017  
\_\_\_\_\_  
Date

## **Internal Audit Department**

### **Audit Report**

#### **Audit of Select Controls on Demand Deposits (18-02.1A)** **TEXAS STATE TECHNICAL COLLEGE**

**September 1, 2017**

**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**

During a recent compliance audit of the Public Funds Investment Act (PFIA), we expanded the scope of our testing to include key controls related to demand deposit accounts. The investment amount on the College's balance sheet is comprised of certificates of deposit, money market accounts, and investments in TexPool and TexTerm. Our opinion on PFIA compliance only relates to assets classified as investments in the annual financial report. However, we expanded the scope of our testing to include demand deposits classified as cash because those accounts are subject to the same risks as those classified as investments, given the characteristics of the current investment portfolio. We are issuing a separate report on the results of that testing because we identified a control issue that is unrelated to PFIA compliance.

We tested physical and on-line access to demand deposits to ensure access to the demand deposits is appropriately restricted. We also tested monthly bank account reconciliations to verify all transactions on the bank and general ledger are appropriately identified and accounted for. Finally, we confirmed the majority of the demand deposits directly with the financial institutions to verify the accuracy of the amounts included in the College's financial records.

In our testing, we determined that access to demand deposits needs to be improved, particularly on-line access.

## **Introduction**

Demand deposits as of April 30, 2017, totaled \$19,288,513. This represented 29.54% of all cash and investments deposited at financial institutions outside of the State treasury. Deposited in 12 accounts in 8 financial institutions throughout the State, these funds are used for daily operations, and are critical for the smooth operation of the College.

## **Objectives**

The objective of the audit was to verify cash deposited in demand deposits are adequately safeguarded, and accurately recorded.

## **Scope & Methodology**

The scope of our audit included select controls associated with all demand deposits as of April 30, 2017. We tested access, reconciliations, and current valuation.

## **General Observations**

Accounting and Reporting is actively improving the reconciliation process of all bank accounts to ensure it is more effective and timely. They have been diligent in seeking input from Internal Audit as they re-evaluate their current controls. They are also actively trying to maintain bank signature cards, even though frequent personnel changes are taking place as a result of the consolidation initiative.

### Summary of Findings

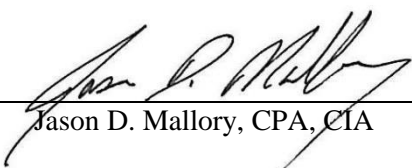
Access to demand deposit accounts needs to be better controlled.

### Opinion

Based on the audit work performed, we determined that there are adequate controls to ensure demand deposit accounts are appropriately stated in the College's financial records. However, we feel access to those same accounts needs to be better controlled.

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

Submitted by:

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

September 1, 2017

\_\_\_\_\_  
Date

---

## AUDIT FINDING DETAIL

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Finding #1: Access to demand deposit accounts need to be better controlled.

**Criterion:** We reviewed signature cards and online access at select financial institutions where College funds are deposited. We reviewed the signature cards for 19 different demand deposit accounts, and verified the persons listed on the signature cards were authorized signors. We also reviewed on-line access to 5 financial institutions to determine who has access, and whether that access is appropriate given their job responsibilities. The following results led us to conclude access needs to be improved:

- One terminated employee was still listed on the signature card for 14 of the accounts reviewed.
- Because on-line access is not controlled through a central office, it was more difficult than we feel it should have been to determine who has access.
- At one institution, two terminated employees were still shown as having on-line access.
- Two current employees who were listed as having on-line access. These employees no longer need the access to perform their current jobs.
- A cashier was identified with the ability to originate ACH transactions, which may represent a segregation of duties issue.
- On-line access was been set up at one institution, but never used.

**Consequences:** Increased risk of errors and misappropriation of College funds.

**Possible Solution:** Continue efforts to update signature cards as personnel changes. Designate a single office or person to monitor control all on-line access, and limit that access to an as needed basis.

**Management Response:**

**Division:** Finance

**Executive Management:** Jonathan Hoekstra, VC/CFO

Task	Brief Description	Responsible Individual	Completion Date
1.1	Recently approved Minute Order 08-17(c) authorizing the Chancellor or his designee to make changes to signature authorizations will now allow updates to be done in a more timely manner. Further, the monthly bank reconciliation document has been modified to include a checklist item to verify that signature authorizations are either up to date or in process. Regarding online access to	Chad Wooten	On-going



<b>Task</b>	<b>Brief Description</b>	<b>Responsible Individual</b>	<b>Completion Date</b>
	financial institutions, the Financial Services office has now been designated to manage online access for all statewide users, and policies for appropriate users, access levels, and timely monitoring are currently being developed.		



July 20, 2017

Dr. Mike Reeser  
President  
Texas State Technical College  
3801 Campus Drive  
Waco, TX 76705

Certified Mail  
Return Receipt Requested  
No. 7015 0640 0004 5021 6511

RE: Final Program Review Determination  
OPEID: 00363400  
PRCN: 201430628606

Dear Dr. Reeser:

The U.S. Department of Education's (Department's) Dallas School Participation Division issued a program review report on July 24, 2014, covering Texas State Technical College's (TSTC's) administration of programs authorized by Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs), for the 2012-2013 and 2013-2014 award years. TSTC's final response was received on August 24, 2014. A copy of the program review report (and related attachments) and TSTC's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by TSTC upon request. Additionally, this Final Program Review Determination (FPRD), related attachments, and any supporting documentation may be subject to release under the Freedom of Information Act (FOIA) and can be provided to other oversight entities after this FPRD is issued.

**Purpose:**

Final determinations have been made concerning all of the outstanding findings of the program review report. The purpose of this letter is to close the review.

This FPRD contains one or more findings regarding TSTC's failure to comply with the requirements of the Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (the *Clery Act*) in Section 485(f) of the HEA, 20 U.S.C. § 1092(f), and the Department's regulations in 34 C.F.R. §§ 648.41 and 668.46. Additionally, one or more findings related to TSTC failure to comply with the Drug-Free Schools and Communities Act (*DFSCA*) and Part 86 of the General Administrative Regulations are included in this FPRD. Since *Clery Act* and *DFSCA* findings do not result in a financial liability, such findings may not be appealed.

**Federal Student Aid**

An OFFICE of the U.S. DEPARTMENT of EDUCATION

Dallas School Participation Division

1999 Bryan Street, Suite 1410, Dallas, TX 75201-6817

StudentAid.gov

TSTC's responses have resolved all other findings. In addition, TSTC has provided assurances that the appropriate corrective actions have been taken to resolve and prevent future occurrences of all findings.

**Record Retention:**

Program records relating to the period covered by the program review must be retained until the later of: resolution of the loans, claims or expenditures questioned in the program review; or the end of the retention period otherwise applicable to the record under 34 C.F.R. §§ 668.24(e)(1), (e)(2), and (e)(3).

The Department expresses its appreciation for the courtesy and cooperation extended during the review. If the institution has any questions regarding this letter, please contact Ms. MaEsther Francis at 214-661-9456.

Sincerely,



Cynthia Thornton, Director  
Dallas School Participation Division

Enclosure:

Final Program Review Determination letter (including appendices)

cc: Jackie Adler, Financial Aid Administrator  
Texas Higher Education Coordinating Board  
Southern Association of Colleges and Schools Commission on Colleges  
Department of Defense  
Department of Veterans Affairs  
Consumer Financial Protection Bureau

Prepared for

**Texas State Technical College**

**Federal Student Aid**  
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**OPEID: 00363400**

**PRCN: 201430628606**

Prepared by

**U.S. Department of Education**

**Federal Student Aid**

**Dallas School Participation Division**

## **Final Program Review Determination**

### **July 20, 2017**

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### **A. Institutional Information**

Texas State Technical College  
3801 Campus Drive  
Waco, TX 76705

Type: Public

Highest Level of Offering: Associate Degree

Accrediting Agency: Southern Association of Colleges and Schools Commission on Colleges

Current Student Enrollment: 4,277 (Fall 2014)

% of Students Receiving Title IV: 67% (2011-2012)

Title IV Participation: School Participation Division School Funding Report

	<u>2012-2013</u>
Federal Pell Grant Program	\$ 9,428,918
William D. Ford Federal Direct Loan Program (FDLP or DL)	\$19,228,066
Federal Supplemental Educational Opportunity Grant Program (FSEOG)	\$ 123,131
Federal Work-Study Program (FWS)	\$ 217,322

Cohort Default Rate FFELP/DL:	2011	29.7%
	2010	27.1%
	2009	16.7%

## **B. Scope of Review**

The U.S. Department of Education (the Department) conducted a program review at Texas State Technical College (TSTC) from May 12 – 16, 2014. The review was conducted by Ms. MaEsther Francis and Ms. Catherine Smoker.

The focus of the review was to determine TSTC's compliance with the statutes and federal regulations as they pertain to the institution's administration of the Title IV programs. The review consisted of, but was not limited to, an examination of TSTC's policies and procedures regarding institutional and student eligibility, individual student financial aid and academic files, attendance records, student account ledgers, and fiscal records.

A sample of 30 files was identified for review from the 2012-2013 and 2013-2014 (year to date) award years. The files were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for each award year. Appendix A lists the names and partial social security numbers of the students whose files were examined during the program review. A program review report was issued on July 24, 2014.

### **Disclaimer:**

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning TSTC's specific practices and procedures must not be construed as acceptance, approval, or endorsement of those specific practices and procedures. Furthermore, it does not relieve TSTC of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

## **C. Findings and Final Determinations**

### **Resolved Findings**

#### Findings 3, 4, 5, 6, 7, and 8

TSTC has taken the corrective actions necessary or provided documentation to resolve Findings 3, 4, 5, 6, 7, and 8 of the Program Review Report.

- Finding 3: Ineligible Student – Citizenship Status Not Verified
- Finding 4: Gainful Employment Disclosures Not Met
- Finding 5: Student Status – Inaccurate/Untimely Reporting
- Finding 6: Return to Title IV (R2T4) Policy Inadequate
- Finding 7: SAP Policy not Adequately Developed/Monitored
- Finding 8: Bank Account – Federal Funds Not Identified

A copy of the program review report issued July 24, 2014 is attached as Appendix B – Program Review Report. Appendix C contains the institution's written response. Findings requiring further action by TSTC are discussed below.

### **Final Determinations**

The program review report findings requiring further action are summarized below. At the conclusion of each finding is a summary of TSTC's response to the finding, and the Department's final determination for that finding.

#### **Finding 1. Crime Awareness Requirements Not Met – Annual Security Report Disclosures Inadequate/Omitted from the Annual Security**

**Citation Summary:** The Jeanne Clery Disclosure of Campus Security Policy and Campus Crime Statistics Act (*Clery Act*) and the Department's regulations require that all institutions that receive Title IV, HEA funds must, by October 1 each year, publish and distribute to its current students and employees through appropriate publications and mailing, a comprehensive Annual Security Report (ASR) that contains, at a minimum, all of the statistical and policy elements described in 34 C.F.R. § 668.46(b).

The ASR must be prepared and actively distributed as a single document. Acceptable means of delivery include regular U.S. Mail, hand delivery, or campus mail distribution to the individual or posting on the institution's website. If an institution chooses to distribute its report by posting to an internet or intranet site, the institution must, by October 1 of each year, distribute a notice to all students and employees that includes a statement of the report's availability and its exact electronic address, a description of its contents, as well as an advisement that a paper copy will be provided upon request. 34 C.F.R. § 668.41(e)(1). The Department's regulations also require participating institutions to provide a notice to all prospective students and employees that includes a statement about the ASR's availability, its contents, and its exact electronic address if posted to a website. This notice must also advise interested parties of their right to request a paper copy of the ASR and to have it furnished upon request. 34 C.F.R. § 668.41(e)(4).

The *Clery Act* and the Department's regulations require institutions to include statistics for incidents of crimes reported during the three most recent calendar years. The covered categories include criminal homicide (murder and non-negligent manslaughter), forcible and non-forcible sex offenses, robbery, aggravated assaults, burglary, motor vehicle theft, and arson. Statistics for certain hate crimes as well as arrest and disciplinary referral statistics for violations of certain laws pertaining to illegal drugs, illegal usage of controlled substances, liquor, and weapons also must be disclosed in the ASR. These crime statistics must be published for the following geographical categories: 1) on campus; 2) on-campus student residential facilities; 3) certain non-campus buildings and property; and, 4) certain adjacent and accessible public property. 34 C.F.R. § 668.46(c)(1).



Several policy statements must be included in the ASR. These disclosures are intended to inform the campus community about the institution's security policies, procedures, and the availability of programs and resources as well as channels for victims of crime to seek recourse. In general, these policies include topics such as the law enforcement authority and practices of campus police and security forces, incident reporting procedures for students and employees, and policies that govern the preparation of the report itself. Institutions are also required to disclose alcohol and drug policies and educational programs. Policies pertaining to sexual assault education, prevention, and adjudication must also be disclosed. Institutions also must provide detailed policies of the issuance of timely warning, emergency notifications, and evacuation procedures. All required statistics and policies must be included in a single comprehensive document, known as an Annual Security Report (ASR). With the exception of certain drug and alcohol program information, cross-referencing to other publications is not sufficient to meet the publication and distribution requirements of the Act. § 485(f) of the HEA; 34 C.F.R. § 668.46(b).

Finally, each institution must also submit its crime statistics to the Department for inclusion in the Office of Postsecondary Education's (OPE's) "Campus Safety and Security Data Analysis Cutting Tool." 34 C.F.R. § 668.41(e)(5).

**Noncompliance Summary:** TSTC violated provisions of the *Clery Act*. While TSTC did publish their Annual Security Report, the report was materially incomplete. Specifically, TSTC's ASR did not contain the required statement of policy notifying students of existing on- and off-campus counseling, mental health, or other student services for victims of sex offenses.

**Required Action Summary:** As a result of this violation, TSTC was required to review and revise its existing internal policies and procedures for preparing, publishing, and distributing its ASR. This included promulgating any new policies and procedures as needed to ensure that these violations do not recur. A copy of TSTC's new policies including a draft ASR was required to be submitted to the Department. Finally, TSTC was required to provide documentation evidencing distribution of the ASR, as well as a statement of certification attesting the materials were distributed in accordance with the *Clery Act*. This certification was to also affirm the College understands its *Clery Act* obligations, and, has taken all necessary corrective actions to ensure this violation does not recur.

**Institutional Response Summary:** In its official response, TSTC management concurred with the finding and stated that remedial action was taken as directed in the program review report. Per the response, the 2013 ASR was revised to include notifications to students and employees about on- and off-campus counseling, mental health, or other student services intended for victims of sex offenses. TSTC officials also claimed that the revised 2013 ASR was distributed to students on August 17, 2014. Finally, College management certified that all materials were produced and distributed in accordance with the *Clery Act*.

### **Final Determination:**

Finding 1 cited TSTC for violations of the *Clery Act*, as outlined in the Noncompliance section above. Specifically, the review team found that the College did not include information about counseling and mental health services that are available for victims of sexual assault either on-campus or in the near-campus community in the 2013 ASR. As a result of this violation, TSTC was required to develop and implement new policies and procedures to govern the production and distribution of future ASRs. In its response, TSTC concurred with the Department's findings, and asserted that remedial action was taken in accordance with the *Clery Act* to ensure these violations do not recur. The Department carefully examined all available information, including TSTC's narrative response and supporting documentation. Based on that review and TSTC's admissions, the violation noted in the initial finding is sustained. This analysis also indicated that the identified violations were, for the most part, satisfactorily addressed by TSTC's revised ASR, subsequent reports, and its new and revised internal policies and procedures. As such, the Department has determined that TSTC's remedial action plan meets minimum requirements. For these reasons, the Department has accepted TSTC's response and considers this finding closed for purposes of this program review. Nevertheless, the directors and officials of TSTC are put on notice that they must take any additional actions that may be needed to address the deficiencies identified by the Department, as well as any other deficiencies or weaknesses that were detected during the preparation of the response, and/or as may otherwise be needed to ensure that these violations do not recur.

TSTC is reminded that the exceptions identified above constitute serious violations of the *Clery Act* that by their nature cannot be cured. There is no way to truly "correct" violations of this type once they occur. The production and distribution of an accurate and complete ASR is a foundational requirement of the *Clery Act* and is essential to its campus safety and crime prevention goals. Access to this information permits campus community members and their families to make well-informed decisions about where to study and work and empowers individuals to play a more active role in their own safety and security. TSTC asserted that it has taken adequate remedial actions and that by doing so, that it is now in compliance with the *Clery Act* as required by its PPA. Nevertheless, TSTC officials must understand that the compliance failures documented above deprived the campus community members of important campus security information to which they were entitled. For these reasons, TSTC is advised that its remedial efforts cannot and do not diminish the seriousness of these violations nor do they eliminate the possibility that the Department will impose an adverse administrative action and/or require additional corrective measures as a result.

Given the serious consequences of a compliance failure, the Department strongly recommends that TSTC re-examine its campus security and general Title IV policies and procedures on an annual basis to ensure that they continue to reflect current institutional practices and are compliant with Federal requirements. To that end, TSTC officials are encouraged to consult the Department's "Handbook for Campus Safety and Security Reporting" (2016) as a reference guide on *Clery Act* compliance. The Handbook is online at: [www.ed.gov/admins/lead/safety/handbook.pdf](http://www.ed.gov/admins/lead/safety/handbook.pdf). The Department also provides a number of other

*Clery Act* training resources. TSTC officials can access these materials at: [www.ed.gov/admins/lead/safety/campus.html](http://www.ed.gov/admins/lead/safety/campus.html). The regulations governing the *Clery Act* can be found at 34 C.F.R. §§668.14, 668.41, 668.46, and 668.49.

Finally, TSTC officials are also reminded that Section 304 of the Violence Against Women Reauthorization Act of 2013 (VAWA) amended the *Clery Act* to require institutions to compile and disclose statistics for incidents of sexual assault, dating violence, domestic violence, and stalking. VAWA also requires institutions to include new policy, procedural, and programmatic disclosures regarding sexual assault prevention, response, and adjudication in their ASRs. Because the Department issued Final Rules on the implementation of the VAWA amendments on October 20, 2014, the new regulations went into effect on July 1, 2015, per the Department's Master Calendar. TSTC officials may access the text of the Final Rule at: <http://ifap.ed.gov/fregisters/attachments/FR102014FinalRuleViolenceAgainstWomenAct.pdf>.

## **Finding 2. Drug and Alcohol Abuse Prevention Program Requirements Not Met - Multiple Violations**

**Citation Summary:** The Drug-Free Schools and Communities Act (*DFSCA*) and Part 86 of the Department's General Administrative Regulations require each participating institution of higher education (IHE) to certify that it has developed and implemented a drug and alcohol abuse education and prevention program. The program must be designed to prevent the unlawful possession, use, and distribution of drugs and alcohol on campus and at recognized events and activities.

On an annual basis, the IHE must distribute written information about its Drug and Alcohol Abuse Prevention Program (DAAPP) to all students, faculty, and staff. The distribution plan must make provisions for providing the material to students who enroll at a date after the initial distribution, and for employees who are hired at different times throughout the year. The information must include:

- A written statement about its standards of conduct that prohibits the unlawful possession, use or distribution of illicit drugs and alcohol by students and employees;
- A written description of legal sanctions imposed under Federal, state and local laws for unlawful possession or distribution of illicit drugs and alcohol;
- A description of the health risks associated with the use of illicit drugs and the abuse of alcohol;
- A description of any drug or alcohol counseling, treatment, or rehabilitation or re-entry programs that are available to students and employees; and.

- A statement that the IHE will impose disciplinary sanctions on students and employees for violations of the institution's codes of conduct and description of such sanctions.

In addition, each IHE must conduct a biennial review in order to measure the effectiveness of its drug prevention program, and to ensure consistent treatment in its enforcement of its disciplinary sanctions. *34 C.F.R. §§ 86.3 and 86.100*

**Noncompliance Summary:** TSTC failed to provide a written description of the legal sanctions under local, State, or Federal law for the unlawful possession or distribution of illicit drugs and alcohol in their Drug and Alcohol Abuse Prevention Program (DAAPP).

**Required Action Summary:** TSTC was required to take all necessary corrective actions to resolve this violation and to ensure that it does not recur. At a minimum TSTC was required to:

- Review and revise its existing drug and alcohol program materials and develop new program content as needed to ensure that a comprehensive DAAPP that includes all of the required elements found in the *DFSCA* is in place;
- Publish a materially-complete annual DAAPP disclosure that summarizes the program;
- Distribute the new DAAPP disclosure and provide documentation evidencing the distribution as well as a statement of certification attesting to the fact that the materials were distributed in accordance with the *DFSCA*. This certification was also to affirm that the institution understands all of its *DFSCA* obligations and that it has taken all necessary corrective actions to ensure that this violation does not recur.

**Institutional Response Summary:**

In its official response, TSTC management did not specifically state whether or not the College concurred with the violation. Instead, College officials stated that they believed that the institution acted in good faith in terms of its efforts to implement a compliant DAAPP; however, after the review commenced, it became apparent that changes were required.

**Final Determination:** Finding 2 cited TSTC for multiple violations of the *DFSCA*, as outlined in the Noncompliance section above. Specifically, the review team found that the College failed to develop and implement a comprehensive DAAPP that addressed all required subject areas. For example, TSTC's program materials did not include detailed information about the legal sanctions that may be imposed under Federal and State statutes and local ordinances related to the possession, use, and/or distribution of illicit drugs or alcohol. This violation occurred in 2012-2013 and 2013-2014. As a result of these violations, TSTC was required to develop and implement a comprehensive DAAPP and revise its annual DAAPP disclosure and other program materials accordingly. In its response, TSTC management described the remedial actions taken so far and submitted documents in support of its claims.



The Department carefully examined all of the available information, including TSTC's narrative response and supporting documentation. Based on the Department's review and the College's tacit admissions, the violation identified in the initial finding is sustained. The review team's examination also indicated that the identified violations were, for the most part, satisfactorily addressed by TSTC's new DAAPP program materials and new internal policies and procedures. As such, the Department also determined that the College's remedial action plan meets minimum requirements. For these reasons, the Department has accepted the response and considers this finding to be closed for purposes of this program review. Nevertheless, the officials and directors of TSTC are put on notice that the College must take all necessary action to address the deficiencies and weaknesses identified by the Department as well as those that were detected during the preparation of the response to the Department's report and as may otherwise be needed to ensure that these violations do not recur.

In this regard, TSTC is advised that it must continue to develop its DAAPP. The College must also ensure that it distributes accurate and complete DAAPP materials to all students and employees on an annual basis in accordance with the Department's regulations and the College's procedures. Moreover, going forward, TSTC must conduct substantive biennial reviews and do so on the required schedule. TSTC officials must take care to ensure that each review is in fact a probative inquiry into the program's effectiveness. The review process must not merely become a conclusory ratification of existing policy. Finally, the College must produce detailed reports that clearly state the methods used and outcomes reached during each review. Each report must also be approved by TSTC's chief executive and/or its Board.

TSTC is reminded that the exceptions identified above constitute serious and persistent violations of the *DFSCA* that by their nature cannot be cured. There is no way to truly "correct" violations of this type once they occur. The College asserted that it has taken adequate remedial actions and is now in compliance with the *DFSCA* as required by its PPA. Nevertheless, TSTC officials must understand that the Department deems compliance with the *DFSCA* as essential to maintaining a safe and healthy learning environment. This is true for all institutions regardless of their size, location, or organizational structure. Data compiled by the Department shows that the use of illicit drugs and alcohol abuse is highly correlated to increased incidents of violent crime on campus. The compliance failures identified above deprived the College and its officials of important information about the effectiveness of any drug and alcohol programs that were in place during the Department's review period. Such failures may contribute to increased drug and alcohol abuse on-campus as well as an increase in drug and alcohol-related violent crime and constitute a violation of Federal law. For these reasons, the TSTC is reminded that corrective measures cannot and do not diminish the seriousness of these violations nor do they eliminate the possibility that the Department will impose an adverse administrative action and/or require additional corrective measures as a result.

Finally, the Department strongly recommends that TSTC re-examine its drug and alcohol abuse prevention policies, procedures, and programs on at least an annual basis and revise them as needed to ensure that they continue to reflect current College policies and are in full compliance

with the *DFSCA*. Please be advised that the Department may request information on a periodic basis to test the effectiveness of the College's new policies and procedures.



**Texas State Technical College  
Internal Audit  
Attestation Disclosures**

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

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.