

# **Board of Regents**

## **Audit Committee**

### **Meeting**

**May 10, 2018  
Rosenberg, Texas**



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

**Texas State Technical College  
Brazos Center  
26706 Southwest Freeway  
Rosenberg, TX 77471**

**Thursday, May 10, 2018  
10:45 a.m.**

**AGENDA**

- I. Meeting Called to Order by Audit Committee Chair Ivan Andarza**  
[Ivan Andarza]
- 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 2018 Audit Schedule & Other Projects**

Description	Division/Campus	Status	Project No.	Report Date
<b>INTERNAL AUDITS</b>				
Public Funds Investment Act Audit	Financial Services	Complete	18-002A	9/1/2017
Audit of Select Controls on Demand Deposits	Financial Services	Complete	18-002.1A	9/1/2017
Departmental Audit - Industrial Maintenance	North Texas	Complete	18-011A	11/3/2017
Departmental Audit - Provost Office	North Texas	Complete	18-010A	11/3/2017
Facilities Development Project Compliance Audit	Facilities - Waco	Complete	18-019A	11/27/2017
Evidence Room Audit	Waco & Harlingen Police Departments	Complete	18-021A	12/7/2017
Review of Cohort Default Rate	Financial Aid	Complete	18-022A	12/12/2017
Benefits Proportionality Internal Audit	Financial Services	Complete	18-018A	2/9/2018
Departmental Audit - Provost Office	EWCHec	Complete	18-024A	3/13/2018
Departmental Audit - Welding	EWCHec	Complete	18-025A	3/26/2018
PCI Compliance Audit	Marketing/OIT	In Progress		
TEC §51.217 Safety Audit	Cross-Divisional	In Progress		
TAC §202 Compliance Audit	OIT	In Progress		
External Quality Assessment Review	Internal Audit	In Progress		
Internal Penetration Test (Marshall)	OIT	In Progress		
Internal Penetration Test (West Texas)	OIT	In Progress		
Inventory Follow-up Audit	Cross-Divisional	In Progress		
TEC §51.9337 Contracting Audit	Purchasing			

**EXTERNAL AUDITS**

Department of Education: Final Program Review Determination	Financial Aid	Complete		7/20/2017
Workforce Solutions - Cameron County - Monitoring Review of Contract 2416 TCY2-00	College Readiness - Harlingen	Complete	18-008A	9/5/2017

<b>Description</b>	<b>Division/Campus</b>	<b>Status</b>	<b>Project No.</b>	<b>Report Date</b>
THECB: Follow Up Audit of TEXAS Grant	Financial Aid	Complete		1/10/2018
State Auditor's Office: Benefits Proportionality (2016 & 2017)	Financial Services	Complete		2/1/2018
State Auditor's Office: A-133 Follow-up	Financial Aid - Harlingen	Complete		2/1/2018
State Auditor's Office: A-133 Follow-up	Financial Aid - Marshall	Complete		2/1/2018
THECB: 2017/2018 Programmatic Desk Review of the Perkins Basic Grant	Sponsored Programs	In Progress	18-023A	
State Comptroller's Office: Post Payment Audit	Purchasing	In Progress		
THECB: TEOG Audit	Financial Aid	In Progress		

#### **OTHER INTERNAL PROJECTS**

Risk Assessment - Purchasing	Procurement	Complete	18-006RA	8/18/2017
Re-calculation of Salaries - Workforce Development	Workforce Development	Complete	18-004P	8/23/2017
Donation Process Review - Welding	Instructional -Brownwood	Complete	18-007I	10/9/2017
SAO Hotline: Allegation of inappropriate purchasing and bonuses. Results: Conflict of interest procedures, as well as regulations governing merit increases and bonuses were followed. Found no evidence of fraud, waste or abuse.	Central Administration	Complete	18-015I	10/31/2017
Internal Hotline: Allegation of employees abusing time. Results: Allegation was referred to individual supervisors to remind employees of College expectations if they were studying during working hours. The AVC stated she would require all VPSLs to remind faculty that work on their own studies must take place after working hours.	Instructional - Abilene	Complete	18-017I	11/17/2017

<b>Description</b>	<b>Division/Campus</b>	<b>Status</b>	<b>Project No.</b>	<b>Report Date</b>
SAO Hotline: Allegation that instructional quality in a program is poor because the former lead instructor was replaced. Results: Determined the allegation had no merit.	Instructional - Harlingen	Complete	18-020I	12/15/2017
Managemet Request: Reviewed a practice in which an internal report was being manipulated by inputting inaccurate processing codes for applications of potential students. Results: Determined the practice was based on a directive intended to make the report misleading. Also determined the practice resulted in untimely communication to applicants, and potentially erroneous external reporting.	Student Services	Complete	18-038I	3/27/2018
Internal Hotline: Allegation that TGC 658.010 related to place of work is being violated when employees work at places other than their normal place of business. Referred to Human Resources.	Human Resources	In Progress		
SAO Hotline: Allegation that instructor is using college resources for personal benefit. Results: Pending review.		In Progress		
Culinary Arts Audit - Requested by management.				
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
Payroll: Benefits Proportionality Audit (18-018A)		No material exceptions noted.				
Payroll: Selected Higher Education Institutions' Compliance with Benefits Proportional Requirements (performed by the State Auditor's Office)		No material exceptions noted.				

Report Name & No.		Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
<b>Financial Aid: State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2017 (performed by the State Auditor's Office)</b>		Marshall Campus: Finding from the original audit conducted in 2014 found 5 part-time students who were awarded aid based on the "cost of attendance" for a full-time student. Two were actually over awarded aid totaling \$2,399. In this follow-up, one student was identified as being over awarded in the Fall semester because the cost of attendance budgets were changed in the Spring semester. While the student appeared to be over awarded in the Fall, he in fact, was not.		Since 2014, an automated process has been implemented to adjust the cost of attendance variables for all part-time students. Regarding the new issue, new reports are being run that identify instances where enrollment statuses for students change from one period to another so that the correct COA budgets will remain for all prior periods. This issue is a <i>presentation</i> issue due to system limitations, and not a matter of students being over awarded financial aid.	Adler	Jan-18
<b>East Williamson County Campus: Departmental Audit of Provost's Office (18-024A)</b>		No material exceptions noted.				

Report Name & No.		Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
<b>East Williamson County Campus: Departmental Audit of Welding Department (18-025A)</b>		Procedures related to sick leave needs to be improved to ensure related use is in compliance with College policy.	For two employees, we identified a trend where sick leave was being taken in such a manner that specific negative trends were appearing. For instance, sick leave was generally being taken right before or after holidays, vacation, and or weekends. We also identified two instances where extended sick leave and/or FMLA leave was taken and granted, but the appropriate documentation, such as a note from the employee's physician, was not on file. With recent turnover within Human Resources, one instance is probably attributable to the documentation being misplaced. But in the other example, the employee has simply failed to present the required documentation.	The Production and Manufacturing Division Director will ensure compliance with Texas State Technical College Policy and accepts the findings in this report. Training on leave policies will be provided to the department in coordination with Human Resources and any required corrective actions related to this finding will be taken. This will assure the EWC Welding Department conforms with our policies.	Rodriguez, Love	Immediately
<b>Student Services: Application Process Investigation (18-038I)</b>		Summary: Admissions procedures need to be improved to ensure all applicants receive timely communication, and to ensure all internal and external reporting is accurate.	We found potential students who had not received timely notification that their applications were received and processed, and select practices that impacted accurate reporting.	The work performed by the Internal Audit Department further justifies our movement towards a centralized processing center where stricter internal controls and monitoring can take place. The recommendations for improvement are areas in which we are working to address.	Stuart-Carruthers	Immediately





**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, Hoekstra</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.	The new timekeeping system is due to Human Resources from the Programmers on 4/1/2018. Training will be completed in April and May. The new system will go live in May.	4/1/2018 - Pending Review
			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.	4/1/2018 - Pending Review
			1.4 Once the method for time reporting is determined, System-wide training will be implemented.	See above.	See above.	4/1/2018 - Pending Review

Report Name & No., Resp. Sr Mgr		Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
<b>Marshall: A-133 Audit (performed by the SAO), Herrera</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>Substantially Complete:</b> As of 1/8/18, the Sweetwater campus is the only remaining campus left to validate that the wireless networks (secured vs guest) are segregated.	Per Director of CyberSecurity on 1/8/18, the wireless networks in Sweetwater have been segregated.	Pending Review

Report Name & No., Resp. Sr Mgr		Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
<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. On 1/4/18, we verified Dell One had been purchased, but not yet installed.	Per Director of CyberSecurity on 1/8/18,, a project kickoff meeting will be held later this month. They still estimate the rollout completion to before the end of FY 2018.	8/31/2018
<b>Summary of Departmental Audits (Marshall Welding Department 17-013A, Fort Bend Diesel 17-023A, Fort Bend HVAC 17-022A), Hoekstra</b>	1.	We identified numerous exceptions related to inventory control in the Welding Department.	1.1 Summary : Create a cross-divisional team and review existing policies and procedures related to the inventory process.	We are currently auditing the entire fixed asset process. This includes the purchasing, custody, and disposal cycles.		Currently being reviewed

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>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 3/29/18, 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> As of 3/28/18, a proposed Contract Administration SOS had been created, but revised due to changes in the SOS format. Currently, all pending SOS's are on hold due to further changes in the SOS process. As of right now, an expected completion date is unknown.		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
			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> As of 3/28/18, The contract compliance manager has reportedly reviewed the SOSs included on the Delegation of Authority. We are in the process of verifying if any changes were actually made.		TBD - Pending Review
	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.	<b>Ongoing:</b> As of 3/28/18, training for the BOR or others delegated to approve contracts has not yet occurred. Department has been in communication with Professional Development to determine the best format to issue the training. Additionally, training has been delayed due to enhancements to the contracting process (recently adding a new project manager to be the starting point for all contracts).		Revised to 8/31/18

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
			2.2 A formal risk analysis procedure will be developed and implemented.	<b>Ongoing:</b> As of 3/28/18, a formal risk analysis process has been included in the SOS mentioned in CAP 1.1. It has yet to be implemented.		TBD
			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.	<b>Ongoing:</b> As of 3/28/18, training for the BOR or others delegated to approve contracts has not yet occurred. Department has been in communication with Professional Development to determine the best format to issue the training. Additionally, training has been delayed due to enhancements to the contracting process (recently adding a new project manager to be the starting point for all contracts).		Revised to 8/31/18

<b>Departmental Audit of EWCHEC Welding (18-025A), Stuckly, Hoekstra</b>	1.	Procedures related to sick leave needs to be improved to ensure related use is in compliance with College policy.	1.1 The Production and Manufacturing Division Director will ensure compliance with Texas State Technical College Policy and accepts the findings in this report. Training on leave policies will be provided to the department in coordination with Human Resources and any required corrective actions related to this finding will be taken. This will assure the EWC Welding Department conforms with our policies.	<b>Pending Review</b>		Immediately
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Report Name & No., Resp. Sr Mgr		Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
<b>Application Process Investigation (18- 0381), Herrera</b>	1.	Summary: Admissions procedures need to be improved to ensure all applicants receive timely communication, and to ensure all internal and external reporting is accurate.	1.1 The work performed by the Internal Audit Department further justifies our movement towards a centralized processing center where stricter internal controls and monitoring can take place. The recommendations for improvement are areas in which we are working to address.	<b>Ongoing:</b> Internal Audit will perform a full scope audit of the admissions process in Spring 2019.		Immediately

## **Internal Audit Department**

### **Audit Report**

#### **Benefits Proportionality Audit (18-018A)** **TEXAS STATE TECHNICAL COLLEGE**

**February 9, 2018**

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



## **Executive Summary**

Internal Audit has audited compliance to Article IX, section 6.08 of the General Appropriations Act of the 85<sup>th</sup> Legislature as of August 31, 2017 (Section 6.08). This section of the Act deals with benefits proportionality. Rider 8 of the General Appropriations Act requires an audit of compliance for fiscal years 2015, 2016, and 2017, using methodology approved by the State Auditor's Office. All results must be submitted to the Legislative Budget Board, State Comptroller's Office and the State Auditor's Office by August 31, 2018. That methodology includes testing compliance to the applicable rules prescribed by Section 6.08, verifying the accuracy of the APS011 reports for each year, and identifying and reporting all instances of noncompliance with the proportionality requirements, regardless of materiality.

The scope of our audit included all salaries and benefits paid in fiscal years 2015, 2016, and 2017. Specifically, we tested 120 payroll transaction in each fiscal year (for a total of 360 transactions) to ensure proportionality was achieved. In particular, we verified General Revenue (GR) did not pay more benefits than it should have based upon proportionality rules. We tested a sample of salary refunds to the State Treasury initially paid by GR and tuition to ensure benefits were also returned. We verified positions paid by appropriated funds were allowable, and reviewed the internal controls relied upon to achieve ongoing compliance. Finally, we verified the APS011 report for fiscal year 2015 was accurate, and that proportionality was achieved. Because the State Auditor selected TSTC for audit in this same year, we did not test the APS011 reports for fiscal years 2016 and 2017, rather defer to their report dated February 2018. In their audit, they did not cite any reportable deficiencies.

Based on our audit work, we determined the College complied with section 6.08 of the General Appropriations Act for fiscal years 2015, 2016, and 2017. We did not find any instance of non-compliance, nor identify any reimbursements that needed to be made to the State Comptroller due to non-compliance. Similarly, procedures performed by the State Auditor did not find any instances requiring GR to be refunded.

## **Introduction**

Section 6.08 states employee benefits paid from GR shall be proportional to the method of finance that paid the related salaries and wages. It also requires a report be filed with the State Comptroller's and State Auditor's Offices by November 20 of each year demonstrating proportionality for the preceding fiscal year. Associated rules are developed by the State Comptroller, with compliance biennially subject to audit by the State Auditor (based upon a risk assessment they perform). TSTC was selected for audit this fiscal year. That audit was performed concurrently with the internal audit we performed.

The College achieves benefits proportionality compliance on a transactional level through automated payroll and accounting processes. Benefits are allocated to the various funds by

an automated process based upon which funds paid the salaries. The types of appropriated funds that are used are monitored and adjusted by the accounting office on a monthly basis, with the relevant reporting being done on an annual basis. The Payroll Department, Accounting, and Colleague programmers all play critical roles in ensuring benefits proportionality compliance.

For fiscal years 2015, 2016, and 2017, benefits paid from GR were approximately \$17,388,419, \$18,851,304, and \$19,805,365, respectively. For that same period, benefits paid from tuition revenue were \$5,540,161, \$5,719,611, and \$6,689,944 respectively.

### **Objectives**

The overall objective of the audit was to ensure compliance with Article IX, Section 6.08 of the General Appropriations Act of the 85<sup>th</sup> Legislature for fiscal years 2015, 2016, and 2017. More specific objectives were to ensure:

- a. Employee benefits paid from GR were made proportionately from the same source the related salaries and wages were paid.
- b. The positions in which salaries were paid using appropriated funds (GR and tuition) were authorized to be paid using those funds.
- c. In instances where salaries paid by appropriated funds (GR and tuition) were returned to the State, all corresponding benefits were also returned.
- d. The APS011 reports were submitted timely and accurately to the State Comptroller, with benefits proportionality being achieved.

### **Scope & Methodology**

The scope of our audit included all salaries and benefits paid in fiscal years 2015, 2016, and 2017. To accomplish our objective, we utilized the methodology prescribed by the State Auditor's Office as required by Rider 8, page III-44 of the General Appropriations Act of the 85<sup>th</sup> Legislature. That methodology included testing compliance to the applicable rules prescribed by Section 6.08, verifying the accuracy of the APS011 reports for each year, and identifying and reporting all instances of noncompliance with the proportionality requirements, regardless of materiality. We deferred testing of the APS011 reports for fiscal years 2016 and 2017 to the State Auditor. They granted us a waiver for that portion covered by their audit.

### **General Observations**

An automated process for calculating benefits proportionality has been established that significantly reduces the risk of error. In our testing, we did not identify any compliance errors. Additionally, procedures have been established which would detect material deviations should they occur. Furthermore, the College's Comptroller completes the required reporting timely and accurately.

### Summary of Findings

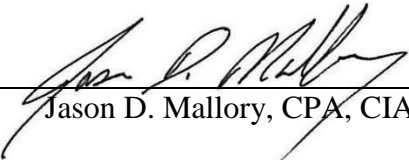
No issues of non-compliance or instances requiring reimbursement were noted.

### Opinion

Based on the audit work performed, the College complied with Article IX, Section 6.08 of the General Appropriations Act of the 85<sup>th</sup> Legislature for fiscal years 2015, 2016, and 2017. There were no instances found in our audit or the audit performed by the State Auditor that required reimbursement to the State Comptroller

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

February 9, 2018

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Date



An Audit Report on

**Selected Higher Education Institutions’  
Compliance with  
Benefits Proportional Requirements**

February 2018  
Report No. 18-020



## Overall Conclusion

For appropriation years 2016 and 2017, the Texas Tech University Health Sciences Center (Health Sciences Center) and Texas State Technical College (College) each completed a *Benefits Proportional by Fund Report* in accordance with the Office of the **Comptroller of Public Accounts' (Comptroller's Office)** requirements.

In its accounting policy statement 011, the **Comptroller's Office requires** state entities to complete *Benefits Proportional by Fund Reports* to administer benefits proportionality requirements (see text box for additional detail on those requirements).

While auditors identified no significant issues, auditors noted other, less significant issues at the College and communicated them to College management separately in writing.

### Background Information

The General Appropriations Act (84th Legislature) specified that **"unless otherwise provided, in order to maximize balances in the General Revenue Fund, payment for benefits paid from appropriated funds...shall be proportional to the source of funds..."** It also specified that **"...funds appropriated...out of the General Revenue Fund may not be expended for employee benefit costs, or other indirect costs, associated with the payment of salaries or wages, if the salaries or wages are paid from a source other than the General Revenue Fund."**

The benefits to which this report refers include the employer portion of Social Security, group health insurance, retirement, and optional retirement benefit programs.

Source: The General Appropriations Act (84th Legislature).

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating <sup>a</sup>
1	The Texas Tech University Health Sciences Center Completed Its <i>Benefits Proportional by Fund Report</i> for Appropriation Years 2016 and 2017 in Accordance with Requirements	Low
2	Texas State Technical College Completed Its <i>Benefits Proportional by Fund Report</i> for Appropriation Years 2016 and 2017 in Accordance with Requirements	Low
<p><sup>a</sup> A chapter is rated Priority if the issues identified present risks or effects <b>that if not addressed could critically affect the audited entity's</b> ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter is rated High if the issues identified present risks or effects <b>that if not addressed could substantially affect the audited entity's</b> ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter is rated Medium if the issues identified present risks or effects <b>that if not addressed could moderately affect the audited entity's</b> ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A chapter is rated Low if the <b>audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s)</b> audited or the issues identified do not present significant risks or effects that would <b>negatively affect the audited entity's ability to effectively</b> administer the program(s)/function(s) audited.</p>		

## Audit Objective and Scope

The objective of this audit was to determine whether selected higher education institutions complied with benefits proportional provisions in accordance with the Comptroller's Office's rules, policies, and procedures.

The scope of this audit covered the appropriation years 2016 and 2017 *Benefits Proportional by Fund Reports* that the Health Sciences Center and the College completed.

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## ***Detailed Results***

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# Detailed Results

Chapter 1

## **The Texas Tech University Health Sciences Center Completed Its Benefits Proportional by Fund Report for Appropriation Years 2016 and 2017 in Accordance with Requirements**

Chapter 1  
Rating:  
Low <sup>1</sup>

The Texas Tech University Health Sciences Center (Health Sciences Center) completed its *Benefits Proportional by Fund Report* for appropriation years 2016 and 2017 in accordance with the Office of the Comptroller of Public Accounts' (Comptroller's Office) requirements in accounting policy statement 011 (see text box for additional detail on those requirements).

For the appropriation years ending August 31, 2016, and August 31, 2017, the Legislature appropriated \$121,146,107 and \$121,240,517, respectively, in General Revenue to the Health Sciences Center.

For appropriation years 2016 and 2017, the Health Sciences Center reported that it also received net amounts of \$16,640,867 and \$14,885,600, respectively, in General Revenue – Dedicated funds. Those funds, which are set aside by law for a particular purpose or entity, consisted of Educational and General funds (specifically, tuition and fees), as well as interest earned on State Treasury deposits.

For each applicable funding source (for example, General Revenue, General Revenue – Dedicated) on the *Benefits Proportional by Fund Report* for appropriation years 2016 and 2017, the Health Sciences Center appropriately calculated the funding amount subject to benefits proportionality requirements. Based upon those amounts, it accurately calculated the

The Accounting Policy Statement 011 *Benefits Proportional by Fund Report*

The Comptroller's Office developed the accounting policy statement 011 *Benefits Proportional by Fund Report* to provide guidance and a reporting mechanism for state entities to demonstrate benefits proportionality, as required by the General Appropriations Act. Entities with multiple appropriated funds must complete a *Benefits Proportional by Fund Report* and submit it annually to the Comptroller's Office by November 19.

The *Benefits Proportional by Fund Report* calculates the percentage of total funding for each appropriated fund and then uses those percentages to determine the amount of benefit charges that should be paid by each appropriated fund. State entities are required to make adjustments in the Uniform Statewide Accounting System if the funding source used to pay benefits does not match the calculated proportional benefits.

A state entity's chief financial officer must sign the *Benefits Proportional by Fund Report* certifying that the report complied with General Appropriations Act requirements and was completed in accordance with accounting policy statement 011 benefits proportional report guidelines.

Source: The Comptroller's Office.

<sup>1</sup> Chapter 1 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.



required funding proportionality percentages for the General Revenue and General Revenue – Dedicated funding sources.

For appropriations years 2016 and 2017, and for each applicable funding source, the Health Sciences Center appropriately applied the required funding proportionality percentages to calculate the proportional amount of benefits paid from the General Revenue and General Revenue – Dedicated funding sources. It also appropriately processed adjustments necessary to achieve benefits proportionality.

## ***Texas State Technical College Completed Its Benefits Proportional by Fund Report for Appropriation Years 2016 and 2017 in Accordance with Requirements***

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Chapter 2  
Rating:  
Low <sup>2</sup>

Texas State Technical College (College) completed its *Benefits Proportional by Fund Report* for appropriation years 2016 and 2017 in accordance with the Comptroller's Office's requirements in accounting policy statement 011. (It is important to note that the College completed one *Benefits Proportional by Fund Report* for each appropriation year on behalf of all of its campus locations. Those locations included the Texas State Technical College System and the Harlingen, Marshall, Waco, and West Texas campuses. The amounts on the College's *Benefits Proportional by Fund Report* were totals for all of those locations.)

For the appropriation years ending August 31, 2016, and August 31, 2017, the Legislature appropriated \$69,083,702 and \$69,019,022, respectively, in General Revenue to the College.

For appropriation years 2016 and 2017, the College reported that it also received net amounts of \$19,667,938 and \$24,008,652, respectively, in General Revenue – Dedicated funds. Those funds were tuition income and interest earned on State Treasury deposits.

For the General Revenue funding source on the *Benefits Proportional by Fund Report* for appropriation year 2016, the College appropriately calculated the funding amount subject to benefits proportionality requirements. Additionally, for the General Revenue – Dedicated funding source, the College calculated, within acceptable limits, the funding amount subject to benefits proportionality requirements. Based upon those amounts, it used the appropriate methodology to calculate the required funding proportionality percentages for the General Revenue and General Revenue – Dedicated funding sources.

For each applicable funding source (for example, General Revenue, General Revenue – Dedicated) on the *Benefits Proportional by Fund Report* for appropriation year 2017, the College appropriately calculated the funding amount subject to benefits proportionality requirements and accurately calculated the required funding proportionality percentages for those funding sources.

<sup>2</sup> Chapter 2 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

For appropriation years 2016 and 2017, and for each applicable funding source, the College appropriately applied the required funding proportionality percentages to determine the proportional amount of benefits paid from the General Revenue and General Revenue – Dedicated funding sources.

Auditors identified no significant issues regarding the College's preparation and calculation of its *Benefits Proportional by Fund Report* for appropriation years 2016 and 2017. However, auditors noted other, less significant issues and communicated them to College management separately in writing.

# Appendices

## Appendix 1

### **Objective, Scope, and Methodology**

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#### Objective

The objective of this audit was to determine whether selected higher education institutions complied with benefits proportional provisions in accordance with the Office of the Comptroller of Public Accounts' (Comptroller's Office) rules, policies, and procedures.

#### Scope

The scope of this audit covered the appropriation years 2016 and 2017 *Benefits Proportional by Fund Reports* that the Texas Tech University Health Sciences Center (Health Sciences Center) and Texas State Technical College (College) completed.

#### Methodology

The audit methodology included reviewing both higher education institutions' (institutions) processes for preparing and submitting the *Benefits Proportional by Fund Report*; reviewing applicable laws, regulations, Comptroller's Office requirements, and institutional policies and procedures; collecting, reviewing, and analyzing the institutions' salaries and benefits expenditures and associated adjustments; and performing selected tests and other procedures.

#### Data Reliability and Completeness

Auditors obtained expenditure data from the Uniform Statewide Accounting System (USAS) for the audited institutions. Auditors used that USAS data to determine whether certain information the institutions reported on their *Benefits Proportional by Fund Reports* was complete and accurate for appropriation years 2016 and 2017.

Auditors generated expenditure data from USAS, performed analysis on the data output, and relied on previous State Auditor's Office audit work to determine that the USAS expenditure data was sufficiently reliable for the purposes of this audit.

For certain information, auditors relied on self-reported supporting documentation that the institutions provided to determine whether the information they reported on their *Benefits Proportional by Fund Reports* was accurate for appropriation years 2016 and 2017. For those particular

instances, auditors reviewed report parameters and/or discussed with institution management the processes used for generating the supporting documentation. Based upon the limited procedures performed, auditors determined that the information in the institution-provided support was sufficiently reliable for the purposes of this audit.

Information collected and reviewed included the following:

- The institutions' *Benefits Proportional by Fund Reports* for appropriation years 2016 and 2017.
- Internal control questionnaires that the institutions completed describing their processes for preparing and submitting the *Benefits Proportional by Fund Report*.
- Expenditure and accounting adjustment data from USAS.
- The institutions' supporting documentation for preparing the *Benefits Proportional by Fund Reports* for appropriation years 2016 and 2017.
- Other third-party sources of information.

Procedures and tests conducted included the following:

- Reviewed institution-prepared internal control questionnaires to understand the institutions' processes for preparing and submitting the *Benefits Proportional by Fund Report*.
- Reviewed various sources of criteria, as applicable, including the Comptroller's Office accounting policy statement 011 – Benefits Proportional by Fund (updated October 2016), applicable sections of the General Appropriations Act (84th Legislature), and the Texas Education Code.
- Analyzed USAS expenditure data to determine whether amounts reported on the institutions' *Benefits Proportional by Fund Reports* were supported.
- Tested accounting adjustments reported on the institutions' *Benefits Proportional by Fund Reports* to determine whether the institutions made the required adjustments in USAS.
- Tested the completeness and accuracy of the institutions' *Benefits Proportional by Fund Reports*.

Criteria used included the following:

- Comptroller's Office's accounting policy statement 011 – Benefits Proportional by Fund (updated October 2016).
- General Appropriations Act (84th Legislature).
- Texas Education Code, Chapter 51.

#### Project Information

Audit fieldwork was conducted from October 2017 through February 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Jennifer Brantley, MS, CPA (Project Manager)
- Kelly Bratton, CFSA, CRMA, MBA (Assistant Project Manager)
- Arnton Gray
- Douglas Jarnagan, MAcc
- Nathan Stein
- Mary Ann Wise, CPA, CFE (Quality Control Reviewer)
- Michael Simon, MBA, CGAP (Audit Manager)

## Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

**Related State Auditor's Office Work**

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Related State Auditor's Office Work		
Number	Product Name	Release Date
17-022	An Audit Report on The University of Texas at El Paso's Compliance with Benefits Proportional Requirements	February 2017
16-024	An Audit Report on Benefits Proportionality at Higher Education Institutions	May 2016
16-003	An Audit Report on Benefits Proportionality at the Office of the Comptroller of Public Accounts, the Teacher Retirement System, and the Employees Retirement System	September 2015



Copies of this report have been distributed to the following:

### **Legislative Audit Committee**

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair  
The Honorable Joe Straus III, Speaker of the House, Joint Chair  
The Honorable Jane Nelson, Senate Finance Committee  
The Honorable Robert Nichols, Member, Texas Senate  
The Honorable John Zerwas, House Appropriations Committee  
The Honorable Dennis Bonnen, House Ways and Means Committee

### **Office of the Governor**

The Honorable Greg Abbott, Governor

### **Texas State Technical College**

Members of the Texas State Technical College Board of Regents  
Mr. John K. Hatchel, Chair  
Mr. Ivan Andarza, Vice Chair  
Mr. Tony Abad  
Mr. Curtis Cleveland  
Mr. Joe M. Gurecky  
Mr. Joe K. Hearne  
Mr. Keith Honey  
Mr. Alejandro Meade III  
Mr. Ellis M. Skinner II  
Mr. Mike Reeser, Chancellor and CEO

### **Texas Tech University Health Sciences Center**

Members of the Texas Tech University Board of Regents  
Mr. L. Frederick Francis, Chair  
Mr. Tim Lancaster, Vice Chair  
Mr. John Esparza  
Mr. Ronnie Hammonds  
Mr. Christopher Huckabee  
Mr. J. Michael Lewis  
Mr. Mickey L. Long  
Mr. Jarett Lujan  
Mr. John D. Steinmetz  
Mr. John Walker  
Mr. Robert L. Duncan, Chancellor  
Dr. Tedd L. Mitchell, President



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**State of Texas**  
**Federal Portion of the**  
**Statewide Single Audit Report**  
**for the Year Ended**  
**August 31, 2017**

Report No. 18-314







## INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Greg Abbott, Governor  
The Honorable Glenn Hegar, Comptroller of Public Accounts  
The Honorable Dan Patrick, Lieutenant Governor  
The Honorable Joe Straus III, Speaker of the House of Representatives  
and  
Members of the Legislature, State of Texas

We have audited the consolidated financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information of the State of Texas, as of and for the year ended August 31, 2017, and have issued our report thereon dated February 21, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

As described in Note 1 to the schedule of expenditures of federal awards, the schedule of expenditures of federal awards does not include expenditures of federal awards for five component units of the State of Texas. Each of those component units has its own independent audit in compliance with the Uniform Guidance.

*Lisa R. Collier*

Lisa R. Collier, CPA, CFE, CIDA  
First Assistant State Auditor

February 21, 2018

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## **Summary Schedule of Prior Audit Findings**

Federal Portion of  
Statewide Single Audit Report

For the Year Ended August 31, 2017

## Texas State Technical College - Harlingen

Reference No. 2013-142

### Eligibility

#### Student Financial Assistance Cluster

Award year – July 1, 2012 to June 30, 2013

Award numbers – CFDA 84.063, Federal Pell Grant Program, P063P133162; CFDA 84.007, Federal Supplemental Educational Opportunity Grant, P007A134149; CFDA 84.268, Federal Direct Student Loans, P268K133162; and CFDA 84.033, Federal Work-Study Program, P033A134149

Type of finding – Significant Deficiency and Non-Compliance

### Cost of Attendance

The determination of the federal student financial assistance award amount is based on financial need. Financial need is defined as a student's cost of attendance (COA) minus the expected family contribution (EFC) (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087kk). The phrase "cost of attendance" refers to the "tuition and fees normally assessed a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." An institution may also include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll). A full-time student is defined as an enrolled student who is carrying a full-time academic workload, as determined by the institution, under a standard applicable to all students enrolled in a particular educational program. For an undergraduate student, an institution's minimum standard must equal or exceed 12 semester hours. A half-time student is defined as an enrolled student who is carrying a half-time academic workload, as determined by the institution, which amounts to at least half of the workload of the applicable minimum requirement outlined in the definition of a full-time student (Title 34, Code of Federal Regulations (CFR), Section 668.2).

Initial Year Written: 2013  
Status: Implemented  
U.S. Department of Education

For Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and is computed by the federal central processor and included on the student's Institutional Student Information Report (ISIR) provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Title 34, CFR, Sections 673.5 and 668.2).

A federal Pell Grant is calculated by determining a student's enrollment for the term, and then based on that enrollment status, determining the annual award from a disbursement schedule. The amount of a student's award for an award year may not exceed his or her scheduled federal Pell Grant award for that award year (Title 34, CFR, Sections 690.63 (b) and (g)). No federal Pell Grant can exceed the difference between the EFC for a student and the COA at the institution in which the student is in attendance (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1070b).

Direct Loans have annual and aggregate limits that are the same for all students at a given grade level and dependency status. In general, a loan may not be more than the amount the borrower requests, the borrower's cost of attendance, the borrower's maximum borrowing limit, or the borrower's unmet financial need (U.S. Department of Education 2012-2013 *Federal Student Aid Handbook*).

**For 6 (10 percent) of 60 students tested, Texas State Technical College – Harlingen (College) did not calculate the students' COA in accordance with its published COA schedule. Specifically:**

- For 5 students, the College did not remove room and board and personal expense charges for terms the students did not attend, which resulted in the students' COA being overstated. However, the College did not overaward assistance to those students as a result of that error.
- For 1 student, the College increased the student's COA by \$2,500 in miscellaneous fees to offset a merit-based scholarship the student received, but it did not document its rationale for exercising that professional judgment. However, the College did not overaward assistance to that student as a result of that error.

**In addition, for 2 (3 percent) of 60 students tested, the College overawarded need-based financial assistance and awarded financial assistance in excess of the students' COA. Specifically:**

- Through a manual process, the College awarded one student \$794 in Subsidized Direct Loans. That assistance exceeded the student's need by \$794; therefore, the amount of questioned costs associated with award P268K133162 was \$794. Additionally, that student's total assistance exceeded the student's COA by \$650. The \$650 overaward was associated with Direct Plus Loans, which also means that the student's assistance exceeded the Direct Plus Loan limit.
- The College awarded one student \$1,388 in Pell Grant funds even though the student's COA was only \$1,284. That resulted in a \$104 overaward of Pell Grant funds; therefore, the amount of questioned costs associated with award P063P133162 was \$104. The College awarded Pell Grant funds based on the student's Pell COA, which the College calculates differently from its institutional COA. The methodology the College used to determine Pell COA overstated the student's COA and resulted in the overaward of assistance.

These errors occurred because for the 2012-2013 award year, the College initially packaged student assistance based on full-time enrollment, regardless of students' actual enrollment. In summer 2013, the College redesigned its automated COA process and retroactively adjusted students' COA to reflect their actual enrollment for each term of the 2012-2013 award year. However, the College did not retroactively adjust COA for students whose COA budgets the College had locked following previous manual adjustments. Incorrectly calculating COA increases the risk that students may be overawarded or underawarded financial assistance.

The College's automated controls over Direct Loans and Pell Grant awards do not ensure that manually entered awards comply with federal assistance limits. In addition, the College awarded all Direct Loans through manual processes during the 2012-2013 award year. Thirteen staff members at the College have the ability to modify or override eligibility rules. That increases the risk of awards exceeding limits.

*Corrective Action:*

Corrective action was taken.

## Texas State Technical College - Marshall

Reference No. 2014-122

### Eligibility

#### Student Financial Assistance Cluster

Award year – July 1, 2013 to June 30, 2014

Award numbers – CFDA 84.007, Federal Supplemental Educational Opportunity Grants, P007A138753; CFDA 84.033, Federal Work-Study Program, P033A138753; CFDA 84.063, Federal Pell Grant Program, P063P135503; and CFDA 84.268, Federal Direct Student Loans, P268K135503

Type of finding – Significant Deficiency and Non-Compliance

### Cost of Attendance

The determination of the federal student financial assistance award amount is based on financial need. Financial need is defined as a student's cost of attendance (COA) minus the expected family contribution (EFC) (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087kk). The phrase "cost of attendance" refers to the "tuition and fees normally assessed for a student carrying the same academic workload as determined by the institution, and including costs for rental or purchase of any equipment, materials, or supplies required of all students in the same course of study." An institution may also include an allowance for books, supplies, transportation, miscellaneous personal expenses, and room and board (Title 20, United States Code, Chapter 28, Subchapter IV, Section 1087ll).

Initial Year Written: 2014  
Status: Partially Implemented  
U.S. Department of Education

For Title IV programs, the EFC is the amount a student and his or her family are expected to pay for educational expenses and is computed by the federal central processor and included on the student's Institutional Student Information Record (ISIR) provided to the institution. Awards must be coordinated among the various programs and with other federal and non-federal assistance to ensure that total assistance is not awarded in excess of the student's financial need (Title 34, Code of Federal Regulations (CFR), Sections 668.2 and 673.5).

For students with less-than-half-time enrollment, COA includes tuition and fees and an allowance for only books, supplies, and transportation; dependent care expenses; and room and board costs, except that a student may receive an allowance for such costs for not more than three semesters, or the equivalent, of which not more than two semesters or the equivalent may be consecutive (Higher Education Act of 1965 (HEA), Section 472(4)).

Texas State Technical College – Marshall (College) initially calculates student COA budgets based on full-time enrollment. After the census date each semester, the College identifies students with less-than-full-time enrollment and runs a process within its financial aid system, Colleague, to adjust those students' COA budgets. That process requires the College to manually enter specific award codes to adjust students' COA based on their enrollment.

**For 5 (8 percent) of 60 students tested, the College did not correctly or consistently calculate COA.** The five students were enrolled less than full-time, and the College did not adjust their COA after the census date based on their actual enrollment. That occurred because the College did not enter the correct award codes for those students, and Colleague did not identify that the COA needed to be adjusted. That resulted in overawards for 2 of those students totaling \$2,399 in Federal Direct Student Loans. After auditors brought those overawards to the University's attention, it corrected the overawards and returned the funds; therefore, there were no questioned costs.

**Additionally, the College's COA budgets are not consistent with federal requirements.** The College's COA budgets include a personal expense component for all students. However, the personal expense component is not allowable for students who are enrolled less than half-time. Two (3 percent) of 60 students tested were enrolled less than half-time, but the College assigned them a personal expense COA component that they were not eligible. That occurred because the College was not aware that less-than-half-time students were not eligible for a personal expense component. Although those two students were not overawarded student financial assistance, including COA components for which students are not eligible increases the risk that students could be overawarded student financial assistance.



Recommendations:

The College should:

- Adjust COA accurately and consistently for students with less-than-full-time enrollment.
- Include COA budget components, such as personal expenses, in the COA calculation only for students who are eligible for those components.

Views of Responsible Officials and Corrective Action Plan 2014:

*The College calculates initial cost of attendance and awards based on full-time enrollment. After the census date each semester, a process is run to adjust the cost of attendance based on the student's actual enrollment levels. Awards are adjusted as needed in accordance to student's actual enrollment at official census date. This process required Financial Aid staff to enter award codes requiring adjustment. The process has been automated to no longer require award code entry.*

*The Financial Aid Office will ensure that only eligible budget components are included in the COA calculation for all less-than-full-time students.*

Views of Responsible Officials and Corrective Action Plan 2015:

*The College calculates initial cost of attendance and awards based on full-time enrollment. After the census date each semester, an automated process is run to adjust the tuition and book components of the cost of attendance based on the student's actual enrollment levels. Awards are adjusted as needed according to the students' actual enrollment at official census date.*

*We met with our IT department programmer to request an automated process that will remove the Room/Board and Personal Expenses budget components in the COA for students who are enrolled less-than half time. TSTC Tracker Ticket #4567 was created on January 21, 2016 for this process and we expect to have this fully implemented before the start of the Summer, 2016 term. We will then be able to utilize this new functionality to properly adjust the cost of attendance for all students who are enrolled during the 2015-16 award year. The Financial Aid System Analyst who was hired in January 2015 will be in charge of these procedures and will develop reports to assure that the process has calculated the cost of attendance figures accurately.*

*During this period of time the Texas State Technical College System Board approved the merger of all Texas State Technical Colleges into One College statewide with 11 locations. The Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) approved the consolidation/merger as of June 11, 2015 and receive the Program Participation Agreement from The Department of Education on August 20, 2015.*

Views of Responsible Officials and Corrective Action Plan 2016:

*The College calculates initial cost of attendance and awards based on full-time enrollment. After the census date each semester, an automated process is run to adjust the tuition and book components of the cost of attendance based on the student's actual enrollment levels. Awards are adjusted as needed according to the students' actual enrollment at official census date.*

*We met with our IT department programmer to request an automated process that will remove the Room/Board and Personal Expenses budget components in the COA for students who are enrolled less-than half time. TSTC Tracker Ticket #4567 was created on January 21, 2016 for this process and we expect to have this fully implemented by the end of the Summer, 2016 term. We will then be able to utilize this new functionality to properly adjust the cost of attendance for all students who are enrolled during the 2016-17 award year.*

Views of Responsible Officials and Corrective Action Plan 2017:

*The College calculates initial cost of attendance and awards based on full-time enrollment. After the census date each semester, an automated process is run to adjust the tuition and book components of the cost of attendance based on*

*the student's actual enrollment levels. Awards are adjusted as needed according to the students' actual enrollment at official census date. The College worked with programming staff to create a process to remove the housing and personal expense budget components from the cost of attendance for students who are enrolled less than half time.*

*The audit that was conducted did not identify any students with incorrect cost of attendance calculations. However, one student was identified as being over-awarded – because the cost of attendance was changed due to less than full-time enrollment. The recalculation was performed after initial funds were disbursed.*

*The College is developing new procedures to prevent re-occurrence of this issue. New reports have been created and will be thoroughly tested during the Spring 2018 semester. We do not anticipate the need for additional programming, but will submit a request for it if necessary. If so, the implementation date listed below would change to May 2018.*

*Implementation Date:      January 2018*

*Responsible Person:      Susan Wingate*

## **Internal Audit Department**

### **Audit Report**

**Departmental Audit of the East Williamson County Provost's Office  
(18-024A)**

**TEXAS STATE TECHNICAL COLLEGE**

**March 13, 2018**

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

## Executive Summary

We recently completed an audit of the East Williamson County Provost's Office (Department) as of January 31, 2018. The audit focused on compliance to numerous College policies related to purchasing, travel, inventory control, cash handling, work study, employee leave, select HR rules, safety, training, IT security, campus clearance, and extra pay items. The following table summarizes the areas reviewed, and our results:

Topic	Test Focus	Results
Purchasing	Split purchases, proper approvals, proper documentation, obvious benefit to College, completed training purchasing training.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Procurement Cards	Secure custody of cards, monthly completion and reconciliation of logs, legitimate purchases, proper approvals, split purchases, training.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Travel	Legitimacy of travel, proper approval, correct State rates.	Not applicable. There was no reimbursed travel during time period audited.
Inventory Control	Assets are secured, physical inventory was accurately completed within the last year, any transferred, missing, or disposed of items have the appropriate documentation on file.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Cash Handling	Access to cash is properly restricted, all cash on hand is accounted for, and there are proper segregation of duties are in place.	Not applicable. The Department does not handle cash.
Work Study	Student workers schedules and duties, validity of timesheets, financial need of students.	Not applicable. The department does not have work study students.
Staffing Levels	Appropriateness of staffing levels.	Levels appeared appropriate.
Employee Leave	Approval for all leave, appropriate documentation on	In compliance.

	file for extended leaves of absences.	
Performance Evaluations	Written employee performance evaluations performed in the past year.	In compliance.
Safety	Safety awareness and compliance to hazardous chemicals, fire extinguishers, indoor air quality, eyewash and showers stations, concealed handgun policy, small appliance policy, driver safety program.	In compliance.
Minors on Campus	Appropriate training and background checks.	Not applicable. The Department does not regularly interact with minors.
Required Training	Driver Safety, Information Security Awareness, Active Shooter, Title IX	In compliance.
Time Keeping	Unusual entries, proper approval, timely submission, and overtime amounts on timesheets.	Not applicable. Department does not have any non-exempt employees.
IT	Password protected screensavers, appropriate Colleague access, Identity Finder software, use of OIT servers, social engineering.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Campus Clearance	Verified terminated employees do not have IT access, inventory assigned, College keys were returned, and paychecks were stopped at the termination date.	Not applicable. There was no terminations to test in the audit period.
Extra Pay Items	Reviewed extra pay items for departmental employees to ensure they are appropriate.	All extra pay items are appropriate.

Overall, the Department was in compliance with the governing policies tested. As noted above, isolated exceptions were identified, but none represented material non-compliance. Those incidences were discussed with management, and corrective action was implemented.

## **Introduction**

The East Williamson County Provost's Office consisted of the Provost and an administrative assistant. The administrative assistant is a Temple College employee and is responsible for assisting the Provost with daily administrative tasks. The Department had total expenditures of \$107,636 for fiscal year 2017. Regarding the expenditures, the total amounts were from local and appropriated funds. The actual expenditures in fiscal year 2017 were \$99,230 in salaries, and \$8,406 in other operating cost.

The Provost is responsible for administrative oversight, execution of policies and strategic initiatives, and the overall management of daily operation for the East Williamson County campus. He fosters a positive work culture that helps make TSTC a great place to work. He is also responsible for building and maintaining relationships throughout the community. This is accomplished by participating in speaking engagements, serving on community committees, and communicating with local and regional elected officials.

## **Objectives**

The objective of the audit was to ensure the Department acted in accordance to College policy in the select areas previously noted.

## **Scope & Methodology**

The scope of our audit included all Departmental activities and transactions in fiscal year 2017 and 2018 related to purchasing, travel, inventory control, cash handling, work study, employee leave, select HR rules, safety, training, and IT security . The following Statewide Operating Standards and other guidelines formed the basis of our testing: FA 1.16, FA 5.4, Procurement Card Program Guidelines and training, FA 6.1, FA 1.13, FA 1.19, FA 2.1, FA 2.2, IFAP Volume 6 Chapter 2, HR 2.3.12 through HR 2.3.14, HR 2.3.18, HR 2.2.3, HR 2.2.8, GA 5.1.1 through GA 5.1.7, and GA 1.6.1 through GA 1.6.12 We also reviewed departmental staffing levels, required training participation, the campus clearance process, and extra pay items.

## **General Observations**

The East Williamson County Provost Office oversees the East Williamson County Campus. The campus currently offers 7 different instructional programs. The campus contributed to the Colleges overall mission of placing more Texas by graduating 74 students in the 2016 – 2017 academic year. The Department is mindful to comply with College policies.

## **Summary of Findings**

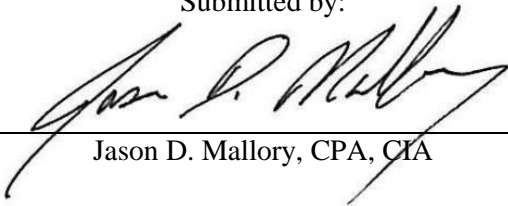
No material exceptions were identified.

### Opinion

Based on the audit work performed, we determined that the East Williamson County Provost's Office is generally in compliance with the College policies tested in this audit. All issues of non-compliance were immediately addressed, and were minor in nature.

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

Submitted by:



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Jason D. Mallory, CPA, CIA

March 13, 2018

Date

## **Internal Audit Department**

### **Audit Report**

**Departmental Audit of East Williamson County Welding Department  
(18-025A)**

**TEXAS STATE TECHNICAL COLLEGE**  
**North Texas Campus**

**March 26, 2018**

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



## Executive Summary

We recently completed a departmental audit of the Welding Department (Department) on the East Williamson County Campus as of January 31, 2018. The audit focused on compliance to numerous College policies related to purchasing, travel, inventory control, cash handling, work study, employee leave, select HR rules, safety, training, IT security, the campus clearance process, and extra pay items. The following table summarizes the areas reviewed, and our results:

Topic	Test Focus	Results
Purchasing	Split purchases, proper approvals, proper documentation, clear benefit to College, completed training purchasing training.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Procurement Cards	Secure custody of cards, monthly completion and reconciliation of logs, legitimate purchases, proper approvals, split purchases, training.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Travel	Legitimacy of travel, proper approval, correct State rates.	Not applicable.
Inventory Control	Assets are secured, physical inventory was accurately completed within the last year, any transferred, missing, or disposed of items have the appropriate documentation on file.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Cash Handling	Access to cash is properly restricted, all cash on hand is accounted for, and there are proper segregation of duties in place.	Not applicable. The Department does not handle cash.
Work Study	Student workers schedules and duties, validity of timesheets, financial need of students.	Not applicable.
Staffing Levels	Appropriateness of staffing levels.	Levels appeared appropriate.
Employee Leave	Approval for all leave, appropriate documentation on	Not in compliance. See Finding #1.

	file for extended leaves of absences.	
Performance Evaluations	Written employee performance evaluations performed in the past year.	In compliance.
Safety	Safety awareness and compliance to hazardous chemicals, fire extinguishers, indoor air quality, eyewash and showers stations, concealed handgun policy, small appliance policy, driver safety program.	In compliance.
Minors on Campus	Appropriate training and background checks.	Not Applicable.
Required Training	Driver Safety, Information Security Awareness, Active Shooter, Title IX	In compliance.
Time Keeping	Unusual entries, proper approval, timely submission, and overtime amounts on timesheets.	Not applicable.
IT	Password protected screensavers, appropriate Colleague access, Identity Finder software, use of OIT servers, social engineering.	In compliance.
Campus Clearance	Verified that terminated employees do not have IT access, inventory assigned, College keys were returned, and paychecks were stopped at the termination date.	Not applicable.
Extra Pay Items	Reviewed extra pay items for departmental employees to ensure they are appropriate.	All extra pay items are appropriate.

Overall, the Department was in compliance with the governing policies tested. As noted above, isolated exceptions were identified, but most did not represent material non-compliance. Those incidences were discussed with management, and corrective action was implemented. We did identify one practice related to sick leave that we felt warrant attention, and is discussed in Finding #1.

## **Introduction**

The Welding Instructional Department in East Williamson County offers an Associate of Applied Science (AAS) degree, a Structural Welding certificate and a Structural and Pipe Welding Certificate. The AAS degree program of study is 4 semesters long and requires students to complete 60 credit hours. Structural Welding certificate program is 3 semesters long and requires 35 credit hours, while the Structural Pipe Welding certificate program requires 4 semesters long and 47 credit hours. There are five full time instructors. For the Spring 2018 semester, the program has 80 students enrolled. Job opportunities for these students include working in manufacturing shops, steel erection operations, ship building yard or oil fields.

The Department had total expenditures of \$384,791 for fiscal year 2017 using appropriated funds. Those expenditures were comprised of \$293,493 in salaries and \$91,298 in other operating cost. The other operating cost was comprised mostly of consumables, such as metal, welding rods, and gases used in the welding process.

## **Objectives**

The objective of the audit was to ensure the Department acted in accordance to College policy in the select areas previously noted.

## **Scope & Methodology**

The scope of our audit included all Departmental activities and transactions in fiscal year 2017 and 2018 related to purchasing, travel, inventory control, cash handling, work study, employee leave, select HR rules, safety, training, and IT security. The following Statewide Operating Standards and other guidelines formed the basis of our testing: FA 1.16, FA 5.4, Procurement Card Program Guidelines and training, FA 6.1, FA 1.13, FA 1.19, FA 2.1, FA 2.2, IFAP Volume 6 Chapter 2, HR 2.3.12 through HR 2.3.14, HR 2.3.18, HR 2.2.3, HR 2.2.8, GA 5.1.1 through GA 5.1.7, and GA 1.6.1 through GA 1.6.12 We also reviewed departmental staffing levels, the campus clearance process, extra pay items, and required training participation.

## **General Observations**

The Welding Department at the East Williamson County campus helped the College fulfill its State mandated mission of Placing More Texans by graduating 21 students in the 2016-2017 academic year, currently has 80 enrolled. The Department teaches in state of the art facilities with modern equipment, and the instructors are very hands-on while teaching. They are mindful to comply with College policies while fulfilling their responsibilities. The instructors were very receptive to our recommendations during this audit.

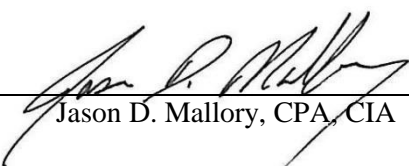
### Summary of Finding

Procedures related to sick leave needs to be improved to ensure related use is in compliance with College policy.

### Opinion

Based on the audit work performed, we determined the Department is in compliance with the College policies tested in this audit, with the one exception noted above. 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

March 26, 2018  
\_\_\_\_\_  
Date

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### **AUDIT FINDING DETAIL**

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**Finding #1:** Procedures related to sick leave needs to be improved to ensure related use is in compliance with College policy.

**Criterion:** We tested compliance to SOS HR 2.3.12, Employee Leave and Holidays and SOS HR 2.3.13, Family and Medical Leave in the Welding Instructional Department by reviewing use of vacation and sick leave for fiscal year to current date. Our objective was to ensure leave complied with related policies, appeared legitimate (if sick leave), and that appropriate documentation was created and on file.

For two employees, we identified a trend where sick leave was being taken in such a manner that specific negative trends were appearing. For instance, sick leave was generally being taken right before or after holidays, vacation, and or weekends. In speaking with Human Resources, we determined that occasionally, employees take an “earn it/burn it” approach to sick time. Once identified, corrective action is recommended by Human Resources to the management team for their review. We evidently identified 2 such instances.

We also identified two instances where extended sick leave and/or FMLA leave was taken and granted, but the appropriate documentation, such as a note from the employee’s physician, was not on file. With recent turnover within Human Resources, one instance is probably attributable to the documentation being misplaced. But in the other example, the employee has simply failed to present the required documentation.

We turned our observations over to Human Resources to review and remedy.

**Consequences:** Decreased productivity, and inconsistent application of leave policy.

**Possible Solution:** We recommend all departmental employees be re-educated on the sick leave policy, and that the policy be enforced.

**Management Response:**

**Division:** Instructional & Human Resource

**Executive Management:** Jose Rodriguez & Hannah Love

<b>Task</b>	<b>Brief Description</b>	<b>Responsible Individual</b>	<b>Completion Date</b>
1.1	The Production and Manufacturing Division Director will ensure compliance with Texas State Technical College Policy and accepts the findings in this report. Training on leave policies will be provided to the department in coordination with Human Resources and any required corrective actions related to this finding will be taken. This will assure the EWC Welding Department conforms with our policies.	Jose Rodriguez	Immediately



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

Responsible Management	Issue Reported by Management	Report Date	Management's Corrective Action Plan	Internal Audit Assistance/Follow-up
	<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.