

# Board of Regents Meeting

Audit Committee Meeting

November 8, 2018  
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 8, 2018**

**10:30a.m.**

**AGENDA**

- I. MEETING CALLED TO ORDER BY AUDIT COMMITTEE CHAIR IVAN ANDARZA**
- II. COMMITTEE CHAIR COMMENTS**
- III. MINUTE ORDERS**

None

**IV. REPORTS:**

- 1. Status of Fiscal Year 2018 Audit Schedule & Other Projects .....A-3  
*Jason D. Mallory*
- 2. Status of Fiscal Year 2019 Audit Schedule & Other Projects .....A-7  
*Jason D. Mallory*
- 3. Summary of Audit Reports.....A-9  
*Jason D. Mallory*
- 4. Follow-up Schedule & Status .....A-16  
*Jason D. Mallory*
- 5. Internal Audit Annual Report Fiscal Year 2018.....A-26  
*Jason D. Mallory*
- 6. Annual Statement on Quality Control .....A-46  
*Jason D. Mallory*

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

7. Annual Confirmation of Organizational & Individual Independence.....	A-47
<i>Jason D. Mallory</i>	
8. Annual Review of Internal Audit Charter.....	A-48
<i>Jason D. Mallory</i>	
9. Internal Network Penetration Test – West Texas Campuses (18-046).....	A-54
<i>Jason D. Mallory</i>	
10. Departmental Audit of Culinary Arts Program – Waco Campus (18-044A) .....	A-61
<i>Jason D. Mallory</i>	
11. Departmental Audit of Culinary Arts Program - Harlingen Campus.....	A-70
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12. External Quality Assessment Review .....	A-78
<i>Terrance Corrigan</i>	
13. Annual Compliance Audit of TEC §51.9337 (18-047A) .....	A-81
<i>Jason D. Mallory</i>	
14. TAC 202 - Quarterly Update.....	A-90
<i>Jason D. Mallory</i>	
15. Perkins Desk Review 2017/2018.....	A-92
<i>Texas Higher Education Coordinating Board</i>	
16. Desk Audit – Charge Card Program .....	A-97
<i>Texas Comptroller of Public Accounts</i>	
17. Attestation Disclosures .....	A-107
<i>Jason D. Mallory</i>	

**V. CHANCELLOR COMMENTS**

**VI. BOARD COMMENTS**

**VII. 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 the preceding 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	9/1/17
Audit of Select Controls on Demand Deposits	Financial Services	Complete	18-002.1A	9/1/17
Departmental Audit - Industrial Maintenance	North Texas	Complete	18-011A	11/3/17
Departmental Audit - Provost Office	North Texas	Complete	18-010A	11/3/17
Facilities Development Project Compliance Audit	Facilities - Waco	Complete	18-019A	11/27/17
Evidence Room Audit	Waco & Harlingen Police Departments	Complete	18-021A	12/7/17
Review of Cohort Default Rate	Financial Aid	Complete	18-022A	12/12/17
Benefits Proportionality Internal Audit	Financial Services	Complete	18-018A	2/9/18
Departmental Audit - Provost Office	EWCHEC	Complete	18-024A	3/13/18
Departmental Audit - Welding	EWCHEC	Complete	18-025A	3/26/18
PCI Compliance Audit	Marketing/OIT	Complete	18-009A	5/14/18
Internal Penetration Test (Marshall)	OIT	Complete	18-026A	6/7/18
TEC §51.217 Safety Audit	Cross-Divisional	Complete	18-012A	6/11/18
TAC §202 Compliance Audit	OIT	Complete	18-003A	6/15/18
Fixed Asset Control Follow-up Audit	Cross-Divisional	Complete	18-037A	6/15/18
Internal Penetration Test (West Texas)	OIT	Complete	18-046A	8/16/18
Departmental Audit - Culinary Program	Waco	Complete	18-044A	8/16/18
Departmental Audit - Culinary Program	Harlingen	Complete	18-043A	8/16/18
External Quality Assessment Review	Internal Audit	Complete	18-005A	8/30/18
TEC §51.9337 Contracting Audit	Purchasing	Complete	18-047A	10/2/18

Description	Division/Campus	Status	Project No.	Report Date
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#### EXTERNAL AUDITS

Department of Education: Final Program Review Determination	Financial Aid	Complete		7/20/17
Workforce Solutions - Cameron County - Monitoring Review of Contract 2416 TCY2-00	College Readiness - Harlingen	Complete	18-008A	9/5/17
THECB: Follow Up Audit of TEXAS Grant	Financial Aid	Complete		1/10/18
State Auditor's Office: Benefits Proportionality (2016 & 2017)	Financial Services	Complete		2/1/18
State Auditor's Office: A-133 Follow-up	Financial Aid - Harlingen	Complete		2/1/18
State Auditor's Office: A-133 Follow-up	Financial Aid - Marshall	Complete		2/1/18
THECB: TEOG Audit	Financial Aid	Complete		5/9/18
THECB: 2017/2018 Programmatic Desk Review of the Perkins Basic Grant	Sponsored Programs	Complete	18-023A	8/6/18
State Comptroller's Office: Post Payment Audit	Purchasing	In Progress		

#### OTHER INTERNAL PROJECTS

Risk Assessment - Purchasing	Procurement	Complete	18-006RA	8/18/17
Re-calculation of Salaries - Workforce Development	Workforce Development/Waco	Complete	18-004P	8/23/17
Donation Process Review - Welding	Instructional -Brownwood	Complete	18-007I	10/9/17
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	10/31/17

<b>Description</b>	<b>Division/Campus</b>	<b>Status</b>	<b>Project No.</b>	<b>Report Date</b>
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	11/17/17
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	12/15/17
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/Harlingen	Complete	18-038I	3/27/18
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. They interpreted the rule to require State business be conducted during normal business hours at the regular place of business or assigned duty point.	Human Resources	Complete	18-27I	4/25/18

<b>Description</b>	<b>Division/Campus</b>	<b>Status</b>	<b>Project No.</b>	<b>Report Date</b>
SAO Hotline: Allegation that instructor is using college resources for personal benefit. Results: Determined that an instructor has brought his children to class on at least one occasion. We were unable to validate the allegation that personal work was being performed in the shop area, but confirmed that controls needed to be improved.	Instructional/Harlingen	Complete	18-042I	6/1/18
SAO Hotline: Allegation that a supervisor abuses time, misuses assets, and has an employee approve requisitions using the supervisor's credentials. Results: Determined that the requisition allegation was legitimate. Was unable to verify the other allegations, but the employee was counseled on College expectations and requirements.	Support Services/Harlingen	Complete	18-045I	6/18/18
Anonymous Complaint: Allegation of a personal relationship resulting in overpayments of stipends and misuse of other assets. Results: Determined that stipend components related to curriculum development for an instructor was excessive, and personal use of College vehicles occurred. Other operating improvements were also identified.	Workforce Development/Waco	Complete	18-048I	10/12/18



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

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

Facilities Development Project Compliance Audit	Facilities - Marshall	In Progress		
Facilities Development Project Compliance Audit	Facilities - West Texas	In Progress		
TRS Contributions Audit	HR	In Progress		
Google Drive Audit	OIT	In Progress		
Maxient Software	OIT, Student Discipline	In Progress		
Graduation Process Audit	Student Services	In Progress		
C4EO Audit	C4EO			
Fixed Asset Control Follow-up Audit	Cross-Divisional			
Safety Follow-up Audit	Cross-Divisional			
Departmental Audit - Challenger Center	Harlingen			
Departmental Audit - Challenger Center	Waco			
Workplace Harassment Audit	HR			
TAC §202 Compliance Audit	OIT			
Internal Penetration Test (North Texas)	OIT			
Internal Penetration Test (Ft. Bend)	OIT			
TEC §51.9337 Contracting Audit	Purchasing			
Admissions Process Audit	Student Services			

**EXTERNAL AUDITS**

State Comptroller's Office: Desk Audit - Charge Card Program	Finance	Complete		8/27/18
State Auditor's Office: A-133 Follow-up	Financial Aid - Marshall	In Progress		
State Comptroller's Office: Post Payment Audit	Purchasing	In Progress		
Single Audit for FY 2018: BKD	Accounting	In Progress		



Description	Division/Campus	Status	Project No.	Report Date
<b>OTHER INTERNAL PROJECTS</b>				
Internal Ethics Line Report: An anonymous report indicated vending machines were charging more than the posted amount when a charge card was used. Results: We determined that when a card is used, a temporary transaction for \$1 more than the posted price is temporarily posted to the card holder's account, but the correct amount is charged when the customer's account is actually charged. Found the complaint to have no merit.	Waco/Business Services	Complete	19-010P	10/5/18
Executive Management Request: Review contractual relationship with vendor associated with Helicopter Pilot Program, and any other potential exposure related to VA compliance.		In Progress		



Texas State Technical College  
Internal Audit  
Summary of Audit Reports

Report Name & No.	Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
<b>West Texas:</b> <b>Internal Network</b> <b>Penetration Test</b> <b>(18-046A)</b>	<p>1. Security of information and assets could be improved by informing campus employees of the results of this project, and re-educating them on the risks we were able to exploit.</p>	<p>While many controls are in place, we did identify areas that need to be improved. The details of this finding are included in the Supplemental Audit Report rather than here so as to not create further risk. That report is available upon request.</p>	<p>1.1 The Office of Information Technology, assisted by the Professional Development Department conducted west Texas information security training during Professional Development Day on June 13th, this specific audit and remediation's were discussed with attendees. The Office of Information Technology will continue working with our Professional Development Department to provide ongoing yearly and periodic training to all employees to ensure awareness of technology risks and how to protect the college.</p>	Herrera/Scherwitz	6/13/18

Report Name & No.	Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
			1.2 The Office of Information Technology is currently in the process of implementing a centralized computer management solution, Microsoft Active Directory, which will enable us to implement technical controls to enforce security on workstations. We anticipate this project will be complete in the 2019 calendar year.	Herrera/Scherwitz	12/31/19
			1.3 The Office of Information Technology has resolved the identified wired and wireless network issues and we will continue to evaluate additional security controls around network connectivity while still allowing productive access for students and employees.	Herrera/Scherwitz	Immediately
			1.4 The Office of the Provost for West Texas campuses is currently working with the Sweetwater Campus Chief of Police to design and implement a daily building security check conducted by the on-duty patrol officer. This procedure will begin at the close of normal business hours (5pm) to verify all campus buildings external doors are locked and secured.	Herrera/Scherwitz	9/4/18

Report Name & No.	Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
Departmental Audit of Culinary Arts Program - Waco Campus (18-044A)	1. Expenses related to the non-instructional part of the catering operation should be paid from a Fund 4 account, similar to other auxiliary operations.	The Program offers catering services to College departments and the general public, but are not necessarily student required. All personnel are paid through Fund 1.	1.1 Meetings with Accounting and payroll have been accomplished and plan of splitting the Fund 1 and Fund 3 accounts will be presented in the near future.	Kilgore/Schneider	TBD
	2. Controls associated with food inventory, cash, and food handling certifications need to be improved.	The Program does not specifically reconcile inventory records to food inventory. We identified an instructor whose food handler certification was expired. The person who reconciles deposits also prepares them.	2.1 Food Inventory: My office will issue a statewide mandate for Local Department Leads of recording and reporting a food inventory control to the Statewide Department Chair on a semester by semester basis.	Kilgore/Schneider	8/31/18
			2.2 Food Handler: This issue has been address and instructor in question will be taking the Coordinating exam the week of 8-11-18.	Kilgore/Schneider	8/31/18
			2.3 Cash: Plan is being initiated for a two person system to be implement immediately.	Kilgore/Schneider	8/31/18
Departmental Audit of Culinary Arts Program - Waco Campus (18-044A)	1. Controls associated with food inventory and cash handling need to be improved.	The Program does not specifically reconcile inventory records to food inventory. Cash shortages and overages are not readily identifiable. The person reconciling cash and the person depositing it do not always sign documentation.	1.1 My office will issue a statewide mandate for Local Department Leads of recording and reporting a food inventory control to the Statewide Department Chair on a semester by semester basis.	Kilgore/Schneider	8/31/18

Report Name & No.	Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
			1.2 Plan is being set in place to ensure that a consistent reportable and verifiable system will be implemented immediately.	Kilgore/Schneider	8/31/18

<b>External Quality Assessment Review - Internal</b>	The results of our review confirmed compliance with the Standards. The interviews and survey results indicated the Internal Audit Department and its methods are very much valued and appreciated at TSTC.				
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<b>Annual Compliance Audit of TEC §51.9337 (18-047A)</b>	1. A single contracting policy noting specific requirements of TEC §51.9337 has been created, however, still needs to be adopted by the Board of Regents.	We 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.	1.1 FA 4.4 Contract Administration and related documents (Handbook, Delegation of Authority Chart, Contract Review Checklist) will be revised and submitted for LT & BOR approval.	Hoekstra/Anz	11/8/18
2. We identified exceptions related to employee training on contracting procedures, conflict of interest procedures, the contract management handbook missing some current procedures, and some other documentation exceptions.	Several employees had not completed recent contract training; process for tracking ethics training needs to be improved; conflict of interest forms are not available for several employees, and the resolution process was flawed; delegation of authority matrix was not current; current forms, risk analysis process, and other processes need to be updated.	2.1 Contract Management Training - Training for procurement staff and departments, as well as those with delegated authority to execute contracts will be conducted in November/December, following approval of statewide policy.		Hoekstra/Anz	12/31/18

Report Name & No.	Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
			2.2 Conflict of Interest/Ethics Training is coordinated as a mandatory training topic carried out annually by Human Resources/ Professional Development and administered as well as tracked on Moodle under the title "TSTC Workplace Ethics and Conflict of Interest". The Office of Risk Management will coordinate with HR/PD to make sure that any employees with deficient scores or no record of taking the training session and associated quiz/tests will be set into a management plan to ensure accountability of the mandatory training.	Hoekstra/Anz	11/30/18
			2.3 Delegation of Authority - Recommended changes have been made to the Delegation of Authority Chart and the chart will adhere to for all purchases.	Hoekstra/Anz	9/30/18
			2.4 Contract Management Handbook - Additional forms needed to transmit contracts and POs to the Contract Compliance Manager for retention and reporting will be specified in the policy (SOS) and the Handbook.	Hoekstra/Anz	10/31/18

Report Name & No.	Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
			2.5 Risk Analysis Procedures - Procedures outlined in the policy (SOS) will be included in the Handbook.	Hoekstra/Anz	10/31/18
			2.6 Debarred Vendor Verification - For contracts, the Contract Compliance Manager will attach a current debarred vendor list as a step of the contract review process. The exceptions related to purchases that don't have a contract. In those cases, procurement staff will attach a current debarred vendor list for POs over the reporting threshold (usually \$50,000) so that the CCM will have the list on file.	Hoekstra/Anz	10/31/18

Perkins Desk Review 2017/2018 performed by the THECB	No significant issues identified. Recommendations were issued and management agreed to implement.
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Report Name & No.	Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
<b>Desk Audit – Charge Card Program performed by the State Comptroller</b>	1. The System processed 327 card payments (consisting of 968 line items) for \$209,065.46 using the full 16 digits of the CBA number instead of just the last 10 digits. Using the full 16 digits may result in the vendor (Citibank) not being able to directly or timely post payments to the System's purchase and travel card accounts. All but 2 payments were from 2014-2015.	Entering procurement and travel card transactions in USAS requires special considerations for timely reconciliation of payments. The risk exists that payments that do not include the correct information in the invoice number field will not post to the correct account(s), leading to the account(s) becoming delinquent and ultimately resulting in lost rebate dollars.	The System will continue to comply with FPP A.043 and FPP E.023, as stated in the audit report. The System will continue to follow policies and procedures, which have been in place since July 5, 2017, to assure ongoing compliance.	Hoekstra/Wooten	Complete



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. Dell One is currently being implemented. New anticipated date of completion is 5/31/19.		5/31/19

Report Name & No., Resp. Sr Mgr	Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
Summary of Departmental Audits (Marshall Welding Department 17-013A, Fort Bend Diesel 17-023A, Fort Bend HVAC 17-022A), Hoekstra	1. We identified numerous exceptions related to inventory control in the Welding Department.	1.1 Summary : Create a cross-divisional team and review existing policies and procedures related to the inventory process.	<b>Ongoing:</b> We completed a follow-up audit in June 2018, and determined that process related to the safeguarding of assets still needed to be improved. Procedures related to terminated employees and disposal of assets were the primary areas that need attention. We will bring a follow-up audit in the second quarter of FY 2019.		8/31/19

TAC §202 Compliance Audit (17-002A), Herrera	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> At 10/11/18, we had tested all 135 required controls. 41 needed enhancement. OIT has submitted 8 of those 41 for re-verification.		TBD
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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
Application Process Investigation (18-0381), Herrera	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

PCI Compliance Audit (18-009A), Herrera, Kilgore	1. Numerous IT related controls and/or their control elements, as prescribed by PCI DSS, have not been implemented. As such, PCI DSS compliance is not being fully met.	1.1 In an effort to ensure the protection of payment card data for students and employees, The Office of Information Technology has been working with Food Services to resolve a number of important control deficiencies during the audit and will continue to review and implement recommendations moving forward. As we anticipate that the review and implementation review of 100 controls across 6 objectives will take over a year, we will prioritize controls that have the largest impact on the protection of cardholder data. As part of this process, we will also implement the recommendation of an annual assessment of PCI-DSS controls to ensure ongoing adherence to PCI-DSS compliance changes.	<b>Ongoing</b>		8/31/19
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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
Marshall: Internal Network Penetration Test (18-026A), Herrera, Kilgore	1. Physical and logical security could be improved by informing campus employees of the results of this project, and re-educating them on the risks we were able to exploit.	1.2 The Office of Information Technology is currently in the process of implementing a centralized computer management solution, Microsoft Active Directory, which will enable us to implement technical controls to enforce security on workstations.	Ongoing		12/31/18
		1.4 The Office of Information Technology will evaluate additional security controls around network connectivity to address the identified issues, while still allowing productive access for students and employees.	Pending Review		7/31/18
Safety & Security Audit (18-012A), Herrera	1. Improvements should be made to standardize safety processes between campuses, and to better establish College expectations and accountability.	1.1 We are currently reviewing all safety processes, and will be standardizing them throughout the State. Our efforts will, at a minimum, address all observations noted in the audit report and include follow-up of the individual safety issues notes at each campus as detailed in the supplemental report. The revised processes will include a designated safety officer performing frequent inspections, along with training individual departments.	Ongoing: Spoke with the newly appointed Safety Commissioner on 9/26/18. Focused training is currently taking place at each campus.		8/31/19

Report Name & No., Resp. Sr Mgr	Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
West Texas: Internal Network Penetration Test (18-046A), Herrera	1. Security of information and assets could be improved by informing campus employees of the results of this project, and re-educating them on the risks we were able to exploit.	1.1 The Office of Information Technology, assisted by the Professional Development Department conducted west Texas information security training during Professional Development Day on June 13th, this specific audit and remediation's were discussed with attendees. The Office of Information Technology will continue working with our Professional Development Department to provide ongoing yearly and periodic training to all employees to ensure awareness of technology risks and how to protect the college.	Complete		6/13/18
		1.2 The Office of Information Technology is currently in the process of implementing a centralized computer management solution, Microsoft Active Directory, which will enable us to implement technical controls to enforce security on workstations. We anticipate this project will be complete in the 2019 calendar year.	On-going		12/31/19

Report Name & No., Resp. Sr Mgr	Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status Review	Management Comments on Status	Expect. Complete Date
		1.3 The Office of Information Technology has resolved the identified wired and wireless network issues and we will continue to evaluate additional security controls around network connectivity while still allowing productive access for students and employees.	Pending Review		Immediately
		1.4 The Office of the Provost for West Texas campuses is currently working with the Sweetwater Campus Chief of Police to design and implement a daily building security check conducted by the on-duty patrol officer. This procedure will begin at the close of normal business hours (5pm) to verify all campus buildings external doors are locked and secured.	Complete		9/4/18
<b>Departmental Audit of Culinary Arts Program - Waco Campus (18-044A), Kilgore</b>	1. Expenses related to the non-instructional part of the catering operation should be paid from a Fund 4 account, similar to other auxiliary operations.	1.1 Meetings with Accounting and payroll have been accomplished and plan of splitting the Fund 1 and Fund 3 accounts will be presented in the near future.	Ongoing		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. Controls associated with food inventory, cash, and food handling certifications need to be improved.	2.1 Food Inventory: My office will issue a statewide mandate for Local Department Leads of recording and reporting a food inventory control to the Statewide Department Chair on a semester by semester basis.  2.2 Food Handler: This issue has been address and instructor in question will be taking the Coordinating exam the week of 8-11-18.  2.3 Cash: Plan is being initiated for a two person system to be implement immediately.	<b>Pending Review</b>		8/31/18
			<b>Pending Review</b>		8/31/18
			<b>Pending Review</b>		8/31/18
<b>Departmental Audit of Culinary Arts Program - Harlingen Campus (18-043A), Kilgore</b>	1. Controls associated with food inventory and cash handling need to be improved.	1.1 My office will issue a statewide mandate for Local Department Leads of recording and reporting a food inventory control to the Statewide Department Chair on a semester by semester basis.  1.2 Plan is being set in place to ensure that a consistent reportable and verifiable system will be implemented immediately.	<b>Pending Review</b>		8/31/18
			<b>Pending Review</b>		8/31/18
<b>Workforce Development Investigation (18-048I), Kilgore</b>	1. Several recommendations made related to curriculum development, stipend payments, and asset utilization.	Personnel action was taken, and improvements directed specifically at the observations made in the report were developed.	<b>Ongoing:</b> We have verified the personnel action, and will verify the enhancements in February 2019 to ensure they are effective.		10/31/18

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
Annual Compliance Audit of TEC §51.9337 (18-047A), Hoekstra & Rushing	1. A single contracting policy noting specific requirements of TEC §51.9337 has been created, however, still needs to be adopted by the Board of Regents.	1.1 FA 4.4 Contract Administration and related documents (Handbook, Delegation of Authority Chart, Contract Review Checklist) will be revised and submitted for LT & BOR approval.	Ongoing: Will be complete after the November Board Meeting.		11/8/18
	2. We identified exceptions related to employee training on contracting procedures, conflict of interest procedures, the contract management handbook missing some current procedures, and some other documentation exceptions.	2.1 Contract Management Training - Training for procurement staff and departments, as well as those with delegated authority to execute contracts will be conducted in November/December, following approval of statewide policy.	Ongoing		12/31/18



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 Conflict of Interest/Ethics Training is coordinated as a mandatory training topic carried out annually by Human Resources/Professional Development and administered as well as tracked on Moodle under the title "TSTC Workplace Ethics and Conflict of Interest". The Office of Risk Management will coordinate with HR/PD to make sure that any employees with deficient scores or no record of taking the training session and associated quiz/tests will be set into a management plan to ensure accountability of the mandatory training.	Ongoing		11/30/18
		2.3 Delegation of Authority - Recommended changes have been made to the Delegation of Authority Chart and the chart will adhered to for all purchases.	Pending Review		9/30/18
		2.4 Contract Management Handbook - Additional forms needed to transmit contracts and POs to the Contract Compliance Manager for retention and reporting will be specified in the policy (SOS) and the Handbook.	Ongoing		10/31/18

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
		2.5 Risk Analysis Procedures - Procedures outlined in the policy (SOS) will be included in the Handbook.	Ongoing		10/31/18
		2.6 Debarred Vendor Verification - For contracts, the Contract Compliance Manager will attach a current debarred vendor list as a step of the contract review process. The exceptions related to purchases that don't have a contract. In those cases, procurement staff will attached a current debarred vendor list for POs over the reporting threshold (usually \$50,000) so that the CCM will have the list on file.	Pending Review		10/31/18

# **TEXAS STATE TECHNICAL COLLEGE**

## **Internal Audit Annual Report Fiscal Year 2018**

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

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## I. Internal Audit Plan for FY 2018

The Board of Regents approved the original internal audit plan for fiscal year 2018 in August 2017. In August 2018, amendments to that plan were approved. The plan was amended by removing two risk assessment projects, and replacing them with two internal audits.

This audit plan was prepared using risk assessment techniques as required by the Texas Internal Auditing Act. All revisions were the result of changes to the risk environment. Prior to August 31, 2018, twelve internal audit reports, one report from a peer reviewer, seven reports by external regulatory agencies, and thirteen reports related to consulting engagements and/or investigations were issued. At August 31, 2018, four internal audits from the plan, two external audits, and one investigation were still in progress, with those reports to be presented to the Board of Regents at their November 2018 meeting.

**Fiscal Year 2018 Internal Audit Plan**

<b>Project Description</b>	<b>Division/Campus</b>	<b>Report Number</b>	<b>Report Date</b>	<b>Status</b>
Public Funds Investment Act Audit	Finance	18-002A	9/1/17	Complete
TAC 202 Audit	Office of Information Technology	18-003A	6/15/18	Complete
TEC 51.217 Audit (Safety)	State-wide	18-012A	6/11/18	Complete
Benefits Proportionality Internal Audit <sup>see note 4</sup>	Finance	18-018A	2/9/18	Complete
External Quality Assessment Review	Internal Audit	18-005A	8/30/18	Complete
THECB Facilities Audit	Facilities (Waco Campus)	18-019A	11/27/17	Complete
PCI Compliance Audit	Finance/OIT	18-009A	5/14/18	Complete
Departmental Audit – Provost	North Texas Campus	18-010A	11/3/17	Complete
Departmental Audit – Industrial Maintenance	Student Learning (North Texas Campus)	18-011A	11/3/17	Complete
Departmental Audit – Provost	Hutto Campus	18-024A	3/13/18	Complete
Departmental Audit – Welding	Student Learning (Hutto Campus)	18-025A	3/26/18	Complete
Internal Penetration Test	Marshall Campus	18-026A	6/7/18	Complete
Inventory Follow-up Audit	Statewide	18-037A	6/15/18	Complete
Departmental Audit – Culinary Arts <sup>see notes 1 &amp; 3</sup>	Student Learning (Waco Campus)	18-044A	8/16/18	In progress

Departmental Audit – Culinary Arts <small>see notes 1 &amp; 3</small>	Student Learning (Harlingen Campus)	18-043A	8/16/18	In progress
Internal Penetration Test <small>see note 3</small>	West Texas Campuses	18-046A	8/16/18	In progress
TEC 51.9337 (Contracting) Audit <small>see note 3</small>	Statewide	18-047A		In progress
2 Business Process – Risk Assessment <small>see note 2</small>	Ft. Bend Campus			Removed

**Notes:**

- 1 Audit was added to the plan in August 2018.
- 2 Projects were removed from the plan in August 2018.
- 3 The audit was ongoing at 8/31/18 or had yet to be presented to the Board of Regents. All findings will be included in a report to be presented to the Board of Regents at their November 2018 meeting.
- 4 Audit was performed to satisfy the audit requirement prescribed by Rider 8, page III-45 of the General Appropriations Act of the 85 Legislature. No reportable findings were noted. Furthermore, The State Auditor's Office conducted an additional audit of Benefits Proportionality, with their report (#18-020) being issued February 2018. Similarly, they had no reportable findings.

## II. Summary of Audit Findings and Corrective Action Plans for Audits Conducted in FY 2018

Twelve of the sixteen internal audits from the FY 2018 audit plan were completed before August 31, 2018. Additionally, two FY 2017 audits were completed after August 31, 2017. The following schedule summarizes the results from each audit.

Report #	Date	Audit	Division/ Campus	Summary of Findings	Status & Summary of CAPs
17-028A	10/10/17	Annual Compliance Audit of TEC §51.9337 (Contracting)	Finance	A single contracting policy noting specific requirements of TEC §51.9337 still needs to be created, and subsequently adopted by the Board of Regents.	<b>Ongoing:</b> Internal Audit verified that the policy has been drafted, awaiting review and approval.
				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.	<b>Ongoing:</b> Internal Audit verified improvement, but exceptions still occurred in FY 2018.
17-029A	9/5/17	Construction Audit of the Brazos Center	Ft. Bend Campus	No material exceptions.	
18-002A	09/1/17	Public Funds Investment Act Audit	Finance	No material exceptions.	
18-011A	11/3/17	Departmental Audit of Industrial Maintenance	Student Learning (North	No material exceptions.	

			Texas Campus)		
18-010A	11/3/17	Departmental Audit of Provost's Office	North Texas Campus	No material exceptions.	
18-019A	11/27/17	Facilities Development Project Compliance Audit	Waco Campus	No material exceptions.	
18-018A	2/9/18	Benefits Proportionality Audit	Finance	No issues of non-compliance or instances requiring reimbursement.	
18-024A	3/13/18	Departmental Audit of Provost's Office	Hutto Campus	No material exceptions.	
18-025A	3/26/18	Departmental Audit of Welding Department	Student Learning (Hutto Campus)	Procedures related to sick leave needs to be improved to ensure use is in compliance with College policy.	<b>Fully Implemented:</b> 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.
18-009A	5/14/18	PCI Data Security Audit	OIT & Finance	Numerous IT related controls and/or their control elements, as prescribed by PCI DSS, have not been implemented. As such, PCI DSS compliance is not being fully met.	<b>Ongoing:</b> We anticipate that the review and implementation review of 100 controls across 6 objectives will take over a year. We will prioritize controls that have the largest impact on the protection of



					cardholder data. As part of this process, we will also implement the recommendation of an annual assessment of PCI-DSS controls to ensure ongoing adherence to PCI-DSS compliance changes.
18-026A	6/7/18	Internal Network Penetration Test	OIT	Physical and logical security could be improved by informing campus employees of the results of this project, and re-educating them on the risks we were able to exploit.	<b>Partially Implemented:</b> Communicate findings of audit to personnel, implement centralized computer management solution, remove personal printers and use multifunction copiers, and OIT will evaluate additional controls around network connectivity.
18-012A	6/11/18	Safety & Security Audit	Statewide	Improvements should be made to standardize safety processes between campuses, and to better establish College expectations and accountability.	<b>Ongoing:</b> We are currently reviewing all safety processes, and will be standardizing them throughout the State. Our efforts will, at a minimum, address all observations noted in the audit report and include follow-up of the individual safety issues notes at each campus as detailed in the supplemental report. The revised processes will include a designated safety officer performing

					frequent inspections, along with training individual departments.
18-003A	6/15/18	TAC 202 Compliance Follow-up Audit	OIT	Forty one required controls still need to be implemented or substantially improved.	<b>Ongoing:</b> OIT will prioritize the missing controls and implement.
18-037A	6/15/18	Fixed Asset Control Follow-up Audit	Statewide	Several process need attention to ensure all assets are properly safeguarded after purchase.	<b>Ongoing:</b> Additional training, reconcile annual inventory documentation to stewards, more closely monitor inventory forms that are submitted, obtain sign offs prior to transferring assets.

### III. List of Consulting Engagements and Non-audit Services Completed in FY 2018

Thirteen consulting and non-audit type of services were completed in FY 2018. The following schedule summarizes those projects.

Report #	Date	Project Description	Division/Campus	Summary of Observations and Recommendations	Status & Summary of CAPs
18-006RA	8/18/17	Risk Assessment of the Purchasing Process	Purchasing	Identified enhancements to increase likelihood Purchasing controls were effective.	
18-004P	8/23/17	Recalculated salaries of employees paid by grant	Workforce Development (Waco Campus)	Calculation agreed to the calculation performed by management.	
18-002.1A	9/1/17	Audit of Select Controls on Demand Deposits	Finance	Access to demand deposit accounts need to be better restricted.	<b>Fully Implemented:</b> Updates to signature cards will be more timely, all online access will be periodically reviewed, monthly account reconciliation will include a verification of that signature authorizations are appropriate.
18-007I	10/9/17	Fund Raising Controls	Brownwood Campus	Recommended SOS FA 3.1 be revised, donations be reported to Advancement, training be conducted, and Advancement be	

				notified of all fund raisers prior to them being performed.	
18-015I	10/31/17	Investigation of conflict of interest and bonuses.	Finance	Determined the conflict was properly disclosed, proper separation existed, and required procedures were followed.	
18-017I	11/17/17	Investigated whether 2 employees were studying during working hours	Student Learning (Abilene Campus)	Could not substantiate. Reminded the employees of expectations and perception.	
18-020I	12/14/17	Investigation of poor instructional quality.	Student Learning (Harlingen Campus)	Could not substantiate the allegation.	
18-021A	12/7/17	Police Evidence Room Inspections	Waco and Harlingen Police Departments	Were able to find all evidence we traced, with one minor exception.	
18-022P	12/12/17	Review of Cohort Default Rates	Financial Aid	Verified cohort default rates were within required thresholds.	
18-027I	4/25/18	Investigation of compliance to TGC 658	HR	Determined the allegation had no merit.	
18-038I	3/27/18	Application Process Investigation	Admissions Office (Harlingen Campus)	Determined a management report was intentionally manipulated to be	<b>Fully Implemented:</b> Centralized the processing center, and took employment action.

				misleading, and some applicants were not communicated with timely.	
18-042I	6/1/2018	Automotive Program Investigation	Student Learning (Harlingen Campus)	Determined vehicles not owned by College are worked on in College shop with related controls not working.	<b>Fully Implemented:</b> Vehicles will be recorded and all work will be properly tracked.
18-045I	6/18/18	Investigation of Supervisor Misconduct	Student Services	Determined the supervisor was allowing an employee to use her requisition approval logon ID.	<b>Fully Implemented:</b> Password has been changed, and there is no evidence that it is still occurring.

#### IV. External Audit Services Procured in FY 2018

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

Agency	Date	Project Description	Division/Campus
Department of Education	7/20/17	Review of compliance to Title IV rules for program years 2012-2013 and 2013-2014.	Financial Aid – the former TSTC Waco
Workforce Solutions – County	9/5/17	Review compliance and progress on award 2416TCY2-01 related to a GED program.	College Readiness – Harlingen Campus
Texas Higher Education Coordinating Board	1/10/18	Verify recommendation from a prior TEXAS Grant audit was implemented.	Financial Aid – Waco Campus
State Auditor's Office	2/28/18	Verify compliance to benefits proportional rules for fiscal years 2016 and 2017.	Finance
State Auditor's Office	8/31/17	Verify noted federal compliance exceptions related to previous Single Audit was corrected.	Marshall Campus
State Auditor's Office	8/31/17	Verify noted federal compliance exceptions related to previous Single Audit was corrected.	Harlingen Campus
Texas Higher Education Coordinating Board	5/9/18	Verify compliance with the Texas Educational Opportunity Grant.	Financial Aid – Waco Campus

## V. Internal Audit Plan for FY 2019

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

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

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

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

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

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

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

Internal Audit first selected all required audits, which amounted to four. 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, IT Help Desk, airport operations, workforce development contracts, grants (particularly Skills Development grants), Titles IV & IX compliance, customer service, Foundation Accounting, and procurement cards. An audit related to benefits proportionality was not selected because no issues were identified in the previous audits performed in FY 2016, 2017, and 2018 by both Internal Audit and the State Auditor's Office.

This planning process yielded the following audit plan for FY 2019:

Audit Name	Budgeted Hours
TEC §51.9337 (Contracting) Audit	350
TAC 202 (IT Security) Audit	500
THECB Facilities Audit – West Texas Campus	150
THECB Facilities Audit – Marshall Campus	150

Integrated Admissions Process Audit	550
TRS Contributions Audit	450
Internal Penetration Test (North Texas Campus)	150
Internal Penetration Test (Ft. Bend Campus)	150
Google Drive Security Audit	600
Workplace Harassment Audit	450
Challenger Center Audit (Waco Campus)	250
Challenger Center Audit (Harlingen Campus)	250
Graduation Process Audit	300
Maxient Software Audit	350
C4EO Audit	300
Fixed Asset Follow-up Audit	300



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

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



August 30, 2018

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

Dear Mr. Andarza and Mr. Mallory,

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

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

### **Opinion Rating Definitions**

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

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

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

## **Scope and Work Performed**

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

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

## **Results and Opinion**

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

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

## **Best Practices Observed**

We commend the following best practices observed:

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

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

Sincerely,



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



Courtney Holden, CFE  
Houston Community College  
Internal Auditor

Copies:

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



November 8, 2018

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 2018, all staff obtained at least 40 hours of relevant continuing education.
- Professional certification(s) and Education: Departmental staff hold undergraduate degrees in Accounting, Management, and Cybersecurity. One staff also holds an MBA. Professionally recognized licenses and certifications in one CPA, 2 Certified Internal Auditors, and a certification in control self-assessment. Additionally, recognitions as Certified Information System Auditors is also being pursued.
- Internal and external quality assessment reviews: An internal review was performed in FY 2017 that resulted in a "Meets Standards" opinion. An external review was performed in FY 2018, with a "Generally Conforms to Standards" grade being achieved.
- Reliable and sufficient documentation for all audit reports and opinions: I supervised all FY 2018 audits, and conducted working paper reviews before any reports or opinions were issued.
- Policy and procedures manual: All auditors are in possession of the manual, and acknowledged their responsibilities in writing prior to the fiscal year. That manual was reviewed and updated throughout the year as procedural changes were enhanced, with staff being promptly informed.
- Independence statements. In FY 2018, 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 served as the Secretary for the Board in FY 2018 of the latter, and another staff member was elected to that same Board.
- Client surveys. In FY 2018, 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", written in a cursive style.

Jason D. Mallory  
Director of Audits



November 8, 2018

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 8, 2018

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

SUBJECT: Annual Review of Internal Audit Charter

Mr. Andarza:

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

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

Sincerely,

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

Jason D. Mallory  
Director of Audits

TEXAS STATE TECHNICAL COLLEGE  
**STATEWIDE OPERATING STANDARD**

No. GA 1.4	Page 1 of 5	Effective Date: 10/11/2018
DIVISION:	General Administration	
SUBJECT:	Internal Audit Function	
AUTHORITY:	Minute Order #30-13	
PROPOSED BY:	Jason D. Mallory	
TITLE:	Director of Audits	Date: 10/11/2018
RECOMMENDED BY:	Jason D. Mallory	
TITLE:	Director of Audits	Date: 10/11/2018
APPROVED BY:	Mike Reeser	
TITLE:	Chancellor	Date: 10/11/2018

**STATUS:**     Approved by LT 10/11/2018

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

**I.   STATEWIDE STANDARD**

**POLICY:** It is the policy of Texas State Technical College (TSTC) that the College maintain an internal audit activity to provide independent, objective assurance and consulting services designed to add value and improve the College's operations in accordance with the Texas Internal Auditing Act, The Institute of Internal Auditors' *International Professional Practices Framework*, and the Comptroller General of the United States *Government Auditing Standards*. The Internal Audit Department shall maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to ensure their technical competence. The Internal Audit Department shall have unrestricted access to all functions, records, property, and personnel, exercising prudence in the use of these resources.

## **II. PERTINENT INFORMATION**

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

## **III. GENERAL GUIDELINES**

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

## **IV. DEFINITIONS**

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

## **V. DELEGATION OF AUTHORITY**

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

The Director and staff are authorized to:

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

The Director and staff are not authorized to:

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

## **VI. PERFORMANCE STANDARDS**

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

## APPENDIX

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

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

### VIII. OPERATING REQUIREMENTS

#### **Code of Ethics**

The staff within the TSTC Internal Audit Department shall be required to act with integrity, objectivity, confidentiality, and competency in accordance with the *The International Professional Practices Framework's* [Code of Ethics](#). The purpose of the Code of Ethics is to promote an ethical culture within the internal audit profession. It forms the basis of the trust placed on the department and its personnel by management and the BOR.

#### **Standards**

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

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

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and protected adequately.
- Plans and objectives are achieved.
- Quality and continuous improvement are fostered in TSTC's control process.
- Significant legislative or regulatory issues impacting TSTC are recognized and addressed properly.

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

### **Accountability**

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

- Report significant issues related to the processes for controlling the activities of TSTC, including potential improvements to those processes, and to provide information concerning such issues through resolution.
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.
- Coordinate with other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, and external audit).

### **Responsibility**

The Director and staff shall be responsible for:

- Developing a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submitting that plan to the Audit Committee for review and approval. Along with the many other risks associated with College activities, the audit planning must consider risks specifically associated with contracts and contract administration. Additionally, an annual assessment must be made of contract compliance matters outlined in [Texas Education Code, Section 51.9337\(h\)](#), with the results being reported to the State Auditor.
- Implementing the annual audit plan, as approved, including, as appropriate, any special tasks or projects requested by management and the Audit Committee.
- Maintaining a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to ensure professional standards are maintained.
- Establishing a quality assurance program by which the Director assures the operations of the TSTC Internal Audit Department.
- Performing consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training, and advisory services.
- Evaluating and assessing significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issuing periodic reports to the Audit Committee and management summarizing results of audit activities.
- Keeping the Audit Committee informed of emerging trends and successful practices in internal auditing.
- Assisting in the investigation of significant suspected fraudulent activities within TSTC and notifying management and the Audit Committee of the results.
- Considering the scope of work of external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to TSTC at a reasonable overall cost.

## **Internal Audit Department**

### **Audit Report**

**Internal Network Penetration Test Audit (18-046A)**  
**TEXAS STATE TECHNICAL COLLEGE**  
**West Texas Campuses**

**August 16, 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

Between May 14, 2018 and July 1, 2018, we performed vulnerability scans and penetration testing of the College's internal network on the campuses in West Texas.

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

The scope of the penetration test included the physical and logical securities of core network equipment and servers located on the Sweetwater campus. For all other campuses in West Texas, our testing was limited to phishing select personnel. We approached the tests from the perspective of an unauthorized individual with limited knowledge of available assets and controls. To gain an understanding, we relied upon information available to the general public by performing internet searches and physically observing facilities to identify potential weaknesses. We tested end user training effectiveness (known as phishing) by calling and sending emails to select individuals requesting sensitive information that would never legitimately be sought. We attempted to access areas that should be restricted to determine what sensitive information or assets we could likely pilfer. We attempted to gain access to privileged systems and information by scanning the network to identify control flaws, testing wireless access, and searching for available ports that we could plug into. Finally, we accessed computers available to the public to determine whether we could gain access to sensitive information. Both manual and automated testing methods were used to detect and/or exploit vulnerabilities. Industry standards noted in the Scope & Methodology section of this report served as our basis.

We determined that employees are generally vigilant in protecting sensitive information during social engineering attempts, sensitive information was not exposed by them disposing of documents within recycle/trash bins or leave documents in public view, and they use password protected screensavers on their machines when they are not at their desks. Some employees did report our phishing attempts, and the IT Help Desk has established protocols for notifying the campus of current attacks to minimize success. We verified that wireless access signals are generally confined to the campus with minimal room to restrict that access, guest networks are segregated from internal networks, and access to internal networks and systems are protected through secured logon protocols and encryption; however there were two unsecured wireless connections allowing potential access to the internal network. We also found that access to server rooms was restricted by electronic locks that required a PIN and badge. Finally, IT personnel were unwilling to change passwords to systems without first verifying our actual identity.



We did find opportunities for improvement. We were able to obtain user credentials at each campus through our phishing attempts, indicating refresher training related to these types of risks is warranted. We identified two opportunities to potentially access an internal network server located on the Waco campus through two wireless connections that did not require logon credentials. And we were able to access some network devices, and gained entry to administrative offices after hours without ever being detected.

The majority of the vulnerabilities we identified in this project were the result of employees (non-IT) not following established protocols. Accordingly, we feel most of the gaps we identified could be easily resolved by informing the campus community of this project and its results, and re-educating employees on the risks they must help control. A confidential supplemental report is available describing the specific vulnerabilities we identified that need to be addressed.

## **Introduction**

The Office of Information Technology (OIT) Division, directed by the Vice Chancellor/Chief Technology Officer, consists of 3 departments – the IT Support Operations Department with a staff of 45, the Department of Infrastructure Operations with a staff of 22, and the Department of Cyber Security with a staff of 1. OIT assists the College with its operational needs by maintaining secure IT networks, providing end-user support and training, assisting with IT purchases, and maintaining critical databases and offering critical application support.

During this internal penetration test Internal Audit worked at times with the Director of Cybersecurity. Members of the IT Support Operations Department and the Department of Infrastructure Operations were only notified when accounts were compromised or immediate remediation was required. To ensure the integrity of the results, limited people were notified of our tests prior to us performing them.

Network penetration tests simulated attempts to access and/or disrupt IT operations and assets with the ultimate goal of obtaining sensitive information. In FY 2015, an external test was performed which simulated attacks from off-campus sites through the internet by a consultant. The internal test performed in this project simulated on-campus attacks by exploiting risks identified through first hand observations.

## **Objectives**

The objectives of the internal network penetration test were to:

- Ensure primary systems, and systems directly supporting the confidentiality, integrity, and accessibility of primary systems have the controls in place to detect and prevent attacks.
- Ensure unauthorized individuals on campus are unable to access privileged systems or sensitive data.
- Verify the effectiveness of end-user training on threats related to information security.

- Allow the College to gain insight into real-world attack vectors that may have not been previously considered or tested.

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

## **Scope & Methodology**

The scope of the penetration test included the physical and logical securities of core network equipment, access network equipment, and servers located on the Sweetwater campus. It also included the employee awareness and diligence of potential IT related attacks. The following industry standards served as our methodology:

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

## **General Observations**

Help Desk personnel utilized a robust procedure requiring call backs to verify identities before changing passwords. Most employees were unwilling to disclose personal information and passwords, and OIT was responsive to known attacks. Wired and wireless networks are segregated between privileged and guest accounts, with services generally being appropriate on each. Wireless access points are unlikely to emit signals that can be used by bad actors outside of the physical perimeters of the originating buildings.

## **Summary of Findings**

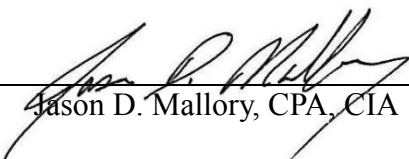
Security of information and assets could be improved by informing campus employees of the results of this project, and re-educating them on the risks we were able to exploit.

## **Opinion**

Based on the audit work performed, IT assets and information are generally well protected, but we identified some security issues that need to be improved. A confidential supplemental report is available describing the specific vulnerabilities that should be addressed.

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

Submitted by:

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

August 16, 2018

\_\_\_\_\_  
Date

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**AUDIT FINDING DETAIL**


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**Finding #1:** Security of information and assets could be improved by informing campus employees of the results of this project, and re-educating them on the risks we were able to exploit.

**Criterion:** Posing as a student, we walked through various buildings on each campus during and after business hours. We attempted to access buildings and rooms that contained IT equipment and potentially sensitive information. We took note whether people or other obstacles prevented access. We also made phishing telephone calls and sent emails to employees in an attempt to learn logon IDs and passwords. And we scanned the network searching for vulnerabilities that could potentially be exploited. Finally, we attempted to access privileged areas via wireless access.

While many controls are in place, we did identify areas that need to be improved. The details of this finding are included in the Supplemental Audit Report rather than here so as to not create further risk. Please refer to that report for the support of this finding.

**Consequences:** Failure to address the vulnerabilities exposes sensitive information to unauthorized access, and equipment to theft.

**Possible Solution:** We recommend all campus employees be informed of our project results, and everyone be reminded of their responsibilities to protect sensitive information and IT assets.

**Management Response:**

**Division:** Office of Information Technology  
**Senior Management:** Ricardo Herrera

Task	Brief Description	Responsible Individual	Completion Date
1.1 User Security	The Office of Information Technology, assisted by the Professional Development Department conducted west Texas information security training during Professional Development Day on June 13th, this specific audit and remediation's were discussed with attendees. The Office of Information Technology will continue working with our Professional Development Department to provide ongoing yearly and periodic training to all employees to ensure awareness of technology risks and how to protect the college	Donald LaForce	06/13/18

<b>Task</b>	<b>Brief Description</b>	<b>Responsible Individual</b>	<b>Completion Date</b>
1.2 Workstation Security	The Office of Information Technology is currently in the process of implementing a centralized computer management solution, Microsoft Active Directory, which will enable us to implement technical controls to enforce security on workstations. We anticipate this project will be complete in the 2019 calendar year	Richard Collatos	12/31/2019
1.3 Network Security	The Office of Information Technology has resolved the identified wired and wireless network issues and we will continue to evaluate additional security controls around network connectivity while still allowing productive access for students and employees.	Donald LaForce	Immediately
1.4 Campus Building Security	The Office of the Provost for West Texas campuses is currently working with the Sweetwater Campus Chief of Police to design and implement a daily building security check conducted by the on-duty patrol officer. This procedure will begin at the close of normal business hours (5pm) to verify all campus buildings external doors are locked and secured.	Rick Denbow	9/4/2018

## **Internal Audit Department**

### **Audit Report**

**Departmental Audit of Culinary Arts Program  
(18-044A)**

**TEXAS STATE TECHNICAL COLLEGE**  
**Waco Campus**

**August 16, 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 Culinary Arts Instructional Program (Program) on the Waco Campus as of May 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. We also reviewed items specific to the department such as catering events, health inspections, and food handler certificates. 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.
Travel	Legitimacy of travel, proper approval, correct State rates.	In compliance.
Inventory Control – Fixed Assets	Assets are secured, physical inventory was accurately completed within the last year, any transferred, missing, or disposed of items have the appropriate documentation on file.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Food Supply Inventory	Food supplies are controlled to ensure food is used for legitimate purpose and waste is limited.	Controls need enhancement. See Finding #2.
Catering	Invoices are paid timely, pricing is reasonable, catering agreements are in place, sales tax is collected and remitted, funds used to support catering events is appropriate, and operating results are monitored.	Controls need enhancement. See Finding #1.

Food Handler Certificates	All persons preparing food have a current food handler certificate.	Controls need enhancement. See Finding #2.
Health Inspection	Health inspections are performed and passing score is obtained.	In compliance.
Vent Hoods	Vent hoods are regularly cleaned to prevent fire hazards.	In compliance.
Grease Disposal	Used grease and oil is properly disposed of.	In compliance.
Cash Handling	Access to cash is properly restricted, all cash on hand is accounted for, and proper segregation of duties are in place.	Controls need enhancement. See Finding #2.
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 file for extended leaves of absences.	In compliance.
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.	Issued management recommendations because evidence was never presented.
Required Training	Driver Safety, Information Security Awareness, Active Shooter, Title IX	In compliance.
Time Keeping	Unusual entries, proper approval, timely submission,	Not applicable.



	and overtime amounts on timesheets.	
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 that terminated employees do not have IT access, inventory assigned, College keys were returned, and paychecks were stopped at the termination date.	In compliance.
Extra Pay Items	Extra pay items to employees beyond their regular salaries are appropriate.	All extra pay items are appropriate.

Overall, the Program is generally in compliance with the governing policies tested. Isolated exceptions were identified in some areas as noted, but those did not pose material risk to the College. Those incidences were discussed with management, with corrective actions being formulated. We did, however, identify the need to use different funds to support the catering operation, and enhance controls for food inventory, cash, and food handler certifications. We feel these issues warranted comment in this report to ensure future follow-up testing. They are detailed in Findings #1 and #2 later in the report.

### Introduction

The Culinary Arts Instructional Program in Waco offers an Associate of Applied Science (AAS) – Culinary Arts degree, a Certificate 1 – Culinary Assistant, a Certificate 1 – Culinary Specialist, and a Certificate 2 – Culinarian. The AAS degree requires 5 semesters and 60 credit hours. The Culinary Assistant Certificate requires 2 semesters and 18 credit hours. The Culinary Specialist Certificate requires 3 semesters and 29 credit hours. Finally, the Culinarian Certificate requires 4 semesters and 40 credit hours. Students get hands on experience in food preparation, menu planning, catering, butchering skills, and plate presentations. Career opportunities include restaurants, hotels and resorts, cruise lines, catering businesses, health spas, schools, hospitals, and as personal chefs.

There are six full time instructors, as well as two lab assistants. Currently, the Program has 53 students enrolled.

The Program had total expenditures of \$587,531 for fiscal year 2017 using both appropriated and local funds. Those expenditures were mostly comprised of \$401,228 in salaries, and \$184,690 in other operating cost such as food and other cooking supplies.

There was also \$1,612 in travel costs. As of June 30, 2018, the Program expended \$516,746 of its current fiscal year budgeted funds of \$601,650.

### **Objectives**

The objective of the audit was to ensure the Program acted in accordance to College policy in the select areas previously noted. Because the Program handles perishable food inventory and engages in catering services, controls related to those activities were also reviewed for appropriateness.

### **Scope & Methodology**

The scope of our audit included all Program 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 Program staffing levels, the campus clearance process, extra pay items, required training participation, and controls related to catering services.

### **General Observations**

The Program helps the College fulfill its State mandated mission of Placing More Texans by having 48 students currently enrolled in the AAS program and 5 students currently enrolled in the certificate programs. They graduated 28 students in the 2017 – 2018 academic year. In addition the Program supplements its operating costs by catering meals to College departments and other outside entities, and sells food prepared by students during class through its Gourmet-to-Go operation. Instructors from the Waco campus are also assisting the Hutto Culinary Arts Program by teaching classes in Hutto three days per week. Finally recent health inspection scores have been outstanding, and the facilities are impeccably maintained.

### **Summary of Findings**

1. Expenses related to the non-instructional part of the catering operation should be paid from a Fund 4 account, similar to other auxiliary operations.
2. Controls associated with food inventory, cash, and food handling certifications need to be improved.

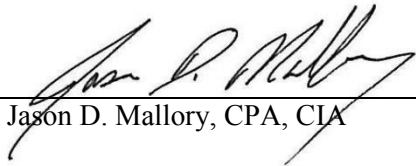
### **Opinion**

Based on the audit work performed, we determined the Program generally complies with the College policies tested in this audit. While we found opportunities to improve controls for food inventory, cash, and food handler certification, and the need to utilize another

funding source for the catering operation, we recognize the efforts the Program has made to operate in an efficient and effective manner to serve its students.

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

Submitted by:

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

August 16, 2018  
\_\_\_\_\_  
Date

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**AUDIT FINDING DETAIL**

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**Finding #1:** Expenses related to the non-instructional part of the catering operation should be paid from a Fund 4 account, similar to other auxiliary operations.

**Criterion:** The Program offers catering services to College departments and the general public. They also offer daily Gourmet-to-Go products in which food prepared during daily classes is sold to employees, students, and the general public. While Gourmet-to-Go always involves student participation, the catering services are handled primarily by employees with assistance from students who volunteer for extra credit. Revenues for fiscal year 2018 to date from these combined activities was \$93 thousand.

We determined that all food supplies used in the Program and catering operations are purchased through a Fund 3 account, while all salaries are paid from a Fund 1 account.

We reviewed catering activities, and determined that of 1,070 hours spent in Fall 2017 on this activity, 880 hours were spent by employees, with only 190 hours spent by students. We also determined through discussions with Program personnel that paid lab assistants are the personnel generally performing the catering services. The salaries of those lab assistants are paid through Fund 1. We feel catering is very similar to any other auxiliary endeavor, especially since it is not technically part of the Program requirements and students are not required to participate. While the purpose of the operations is to supplement Program funds, we feel the use of Fund 1 to pay salaries and Fund 3 to pay for the food costs are generally not appropriate.

**Consequences:** Funding sources may be used inappropriately.

**Possible Solution:** Split fund all employee positions that engage in the catering activities, and allocate a portion of the food cost budget to a Fund 4 account to cover catering operations.

**Management Response:**

**Division:** Instructional

**Executive Management:** Jeff Kilgore VC/Chief Academic Officer

Task	Brief Description	Responsible Individual	Completion Date
1.1	Meetings with Accounting and payroll have been accomplished and plan of splitting the Fund 1 and Fund 3 accounts will be presented in the near future.	Mark Schneider	TBD

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**AUDIT FINDING DETAIL**

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**Finding #2:** Controls associated with food inventory, cash, and food handling certifications need to be improved.

**Criterion:** We reviewed controls around select business processes to ensure they were working effectively. For food inventory, we looked for a periodic count of food supplies as well as other controls to limit theft, waste and spoilage. We reviewed cash related controls to ensure all cash that is received is handled safely, and properly accounted for. And we verified the facilities, practices and persons handling food complied with Health Department requirements.

We feel the following controls should be added or enhanced.

- Frequent reconciliation of inventory records to inventory on hand. The Program does not specifically reconcile inventory records to food inventory. While they do take a physical inventory count annually, we do not feel this is sufficient, nor a standard practice within the food services industry. We did verify strong controls for food purchases, legitimate use of food, safe handling, and proper storage.
- Tracking food handler's certifications. We identified an instructor whose food handler certification was expired.
- Enhancing cash handling controls by having a person reconcile deposits who is different from the one preparing the deposit. We determined that is currently the same person.
- 

**Consequences:** Potential theft of food supplies, poor health inspection scores, potential theft of cash.

**Possible Solution:** We recommend inventory records for food be reconciled to food on hand as frequently as would typically be by restaurants in the food services industry. We recommend a tickler system for food handler certifications be maintained and reviewed periodically. Finally, we recommend segregation of duties be implemented in the cash deposit process.

**Management Response:**

**Division:** Instructional

**Executive Management:** Jeff Kilgore, VC/Chief Academic Officer

Task	Brief Description	Responsible Individual	Completion Date
2.1	Food Inventory: My office will issue a statewide mandate for Local Department Leads of recording and reporting a food inventory control to the	Mark Schneider	August 31, 2018

<b>Task</b>	<b>Brief Description</b>	<b>Responsible Individual</b>	<b>Completion Date</b>
	Statewide Department Chair on a semester by semester basis.		
2.2	Food Handler: This issue has been address and instructor in question will be taking the Coordinating exam the week of 8-11-18	Len Pawelek	August 31, 2018
2.3	Cash: Plan is being initiated for a two person system to be implement immediately	Len Pawelek	August 31, 2018

## **Internal Audit Department**

### **Audit Report**

**Departmental Audit of Culinary Arts Program  
(18-043A)**

**TEXAS STATE TECHNICAL COLLEGE**  
**Harlingen Campus**

**August 16, 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 Culinary Arts Instructional Program (Program) on the Harlingen Campus as of May 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. We also reviewed items specific to the department such as catering events, health inspections, and food handler certificates. 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.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Inventory Control – Fixed Assets	Assets are secured, physical inventory was accurately completed within the last year, any transferred, missing, or disposed of items have the appropriate documentation on file.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Food Supply Inventory	Food supplies are controlled to ensure food is used for legitimate purpose and waste is limited.	Controls need enhancement. See Finding #1.
Catering	Invoices are paid timely, pricing is reasonable, catering agreements are in place, sales tax is collected and remitted, funds used to support catering events is appropriate, and operating results are monitored.	Isolated exceptions and management recommendations, but no material exceptions.



Food Handler Certificates	All persons preparing food have a current food handler certificate.	In compliance.
Health Inspection	Health inspections are performed and passing score is obtained.	In compliance.
Vent Hoods	Vent hoods are regularly cleaned to prevent fire hazards.	In compliance.
Grease Disposal	Used grease and oil is properly disposed of.	In compliance. Isolated exceptions and management recommendations, but no material exceptions.
Cash Handling	Access to cash is properly restricted, all cash on hand is accounted for, and proper segregation of duties are in place.	Controls need enhancement. See Finding #1.
Work Study	Student workers schedules and duties, validity of timesheets, financial need of students.	In compliance.
Staffing Levels	Appropriateness of staffing levels.	Levels appeared appropriate.
Employee Leave	Approval for all leave, appropriate documentation on file for extended leaves of absences.	In compliance.
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. Isolated exceptions and management recommendations, but no material exceptions.
Minors on Campus	Appropriate training and background checks.	In compliance.
Required Training	Driver Safety, Information Security Awareness, Active Shooter, Title IX	In compliance.
Time Keeping	Unusual entries, proper approval, timely submission,	In compliance.

	and overtime amounts on timesheets.	
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 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	Extra pay items to employees beyond their regular salaries are appropriate.	Not Applicable.

Overall, the Program is generally in compliance with the governing policies tested. Isolated exceptions were identified in some areas as noted, but those did not pose material risk to the College. Those incidences were discussed with management, with corrective actions being formulated. We did, however, identify the need to enhance controls related to food inventory and cash handling. We feel these issues warranted comment in this report to ensure future follow-up testing. They are detailed in Finding #1 later in the report.

### Introduction

The Culinary Arts Instructional Program in Harlingen offers an Associate of Applied Science (AAS) – Culinary Arts degree, a Certificate 1 – Culinary Assistant, a Certificate 1 – Culinary Specialist, and a Certificate 2 – Culinarian. The AAS degree requires 5 semesters and 60 credit hours. The Culinary Assistant Certificate requires 2 semesters and 18 credit hours. The Culinary Specialist Certificate requires 3 semesters and 29 credit hours. Finally, the Culinarian Certificate requires 4 semesters and 40 credit hours. Students get hands on experience in food preparation, menu planning, catering, butchering skills, and plate presentations. Career opportunities include restaurants, hotels and resorts, cruise lines, catering businesses, health spas, schools, hospitals, and as personal chefs.

There are three full time instructors, as well as one lab assistant. Currently, the Program has 55 students enrolled.

The Program had total expenditures of \$251,452 for fiscal year 2017 using both appropriated and local funds. Those expenditures were mostly comprised of \$194,454 in salaries, and \$56,998 in other operating cost such as food and other cooking supplies. As

of June 30, 2018, the Program expended \$250,675 of its current fiscal year budgeted funds of \$278,101.

### **Objectives**

The objective of the audit was to ensure the Program acted in accordance to College policy in the select areas previously noted. Because the Program handles perishable food inventory and engages in catering services, controls related to those activities were also reviewed for appropriateness.

### **Scope & Methodology**

The scope of our audit included all Program 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 Program staffing levels, the campus clearance process, extra pay items, required training participation, and controls related to catering services.

### **General Observations**

The Program helps the College fulfill its State mandated mission of Placing More Texans by having 44 students currently enrolled in the AAS program and 10 students currently enrolled in the certificate programs. They graduated 25 students in the 2017 – 2018 academic year. Program personnel are passionate about making sure the students receive the appropriate training to enter the workforce, and provide students with the necessary supplies and hands on training. Recent health inspections have been excellent, and facilities are impeccably maintained. The instructors were very receptive to our recommendations during this audit.

### **Summary of Findings**

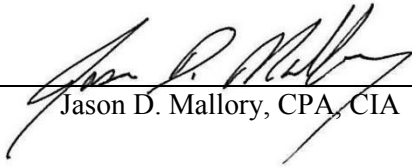
Controls associated with food inventory and cash handling need to be improved.

### **Opinion**

Based on the audit work performed, we determined the Program generally complies with the College policies tested in this audit. While we found opportunities to improve controls related to food inventory and cash handling, we recognize the efforts the Program has made to operate in an efficient and effective manner to serve its students.

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

August 16, 2018

\_\_\_\_\_  
Date

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**AUDIT FINDING DETAIL**

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**Finding #1:** Controls associated with food inventory and cash handling need to be improved.

**Criterion:** We reviewed controls around select business processes to ensure they were working effectively. For food inventory, we looked for a periodic count of food supplies as well as other controls to limit theft, waste and spoilage. We reviewed cash related controls to ensure all cash that is received is handled appropriately, and properly accounted for.

We feel the following controls should be added or enhanced.

- Frequent reconciliation of inventory records to inventory on hand. The Program does not specifically reconcile inventory records to food inventory. While they do take a physical inventory count monthly and prior to placing an order, this procedure is aimed more at simply identifying what needs to be ordered. We do not feel this is sufficient, nor a standard practice within the food services industry. We did verify strong controls for food purchases, legitimate use of food, safe handling, and proper storage.
- Enhancing cash handling controls. We determined the signature of the cashier and verifier were not consistently recorded on the daily deposit for four cash receipts, leaving us unable to verify the person preparing daily deposits is separate from a verifier. Additionally, cash overages and shortages are not recorded to provide an audit trail of these occurrences. Any overages are recorded as sales rather than in a separate general ledger account. Overage/shortage trends are not be readily identifiable.

**Consequences:** Potential theft of food supplies and cash.

**Possible Solution:** We recommend inventory records for food be reconciled to food on hand as frequently as would typically be by restaurants in the food services industry. Finally, we recommend segregation of duties be implemented in the cash deposit process and overages/shortages be recorded separately so that trends can be investigated.

**Management Response:**

**Division:** Instructional

**Executive Management:** Jeff Kilgore, VC/Chief Academic Officer

Task	Brief Description	Responsible Individual	Completion Date
1.1	My office will issue a statewide mandate for Local Department Leads of recording and reporting a food inventory control to the Statewide Department Chair on a semester by semester basis	Mark Schneider	August 31, 2018

<b>Task</b>	<b>Brief Description</b>	<b>Responsible Individual</b>	<b>Completion Date</b>
1.2	Plan is being set in place to ensure that a consistent reportable and verifiable system will be implemented immediately.	Emma Creps	August 31, 2018



August 30, 2018

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

Dear Mr. Andarza and Mr. Mallory,

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

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

### **Opinion Rating Definitions**

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

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

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

## **Scope and Work Performed**

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

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

## **Results and Opinion**

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

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

## **Best Practices Observed**

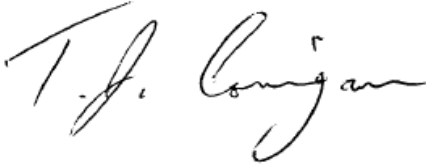
We commend the following best practices observed:

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



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

Sincerely,



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



Courtney Holden, CFE  
Houston Community College  
Internal Auditor

Copies:

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

**Internal Audit Department**

**Audit Report**

**Annual Compliance Audit of TEC §51.9337 (Contracting) (18-047A)  
of  
TEXAS STATE TECHNICAL COLLEGE**

**October 2, 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**

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 (TEC §51.9337); 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 2018. We scrutinized the code of ethics policy, approved contract delegation list and related training, and internal audit policies and protocols. We also reviewed the contract management handbook and related checklist. Finally, we tested Board of Regents (Board) approval of required processes and documents, compliance of contracts to the aforementioned handbook and checklist, and requirements not specifically listed in TEC §51.9337, but required by Senate Bill 20.

Our test work revealed a code of ethics containing all required provisions has been implemented with training conducted. Policies related to investigations of fraud and waste are in place, and have been approved by the Board. The required contracting handbook and checklist have been created, approved by the College's General Counsel, and implemented. An annual internal audit is being performed, with results communicated to the State Auditor's Office and the Board. Procedures forbidding personnel involved in the procurement of a vendor from working for that vendor for at least two years following employment with the College have also been adopted. And, best value requirements are generally being achieved, as are reporting standards. Finally, the contracts we reviewed complied with regulations and College policies.

We noted that intentional efforts were made in fiscal year 2018 to more fully comply with TEC §51.9337. Specifically, the Board received contract administration training and all employees with authority to execute contracts received ethics training. And while we recommended enhancements, contracts are also now being stored in a central repository for quick reference.

With that said, we determined that a single contracting policy noting specific requirements of TEC §51.9337 still needs to be approved by the Board. We also identified exceptions related to employee training, conflict of interest disclosures, language in the contract handbook, and contract execution/documentation. With the exception of the conflict of interest issue, all issues were previously cited in our 2017 audit. They are listed as outstanding items on our follow-up schedule. We feel turnover of key contracting and

purchasing personnel in fiscal year 2018 shifted focus from the outstanding exceptions, but we saw obvious efforts during our audit to address the issues.

### **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 established 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 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 Board, and that an annual assessment by the chief internal 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 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, Risk Management and the Office of General Counsel, collectively work to facilitate compliance. Individual managers having contracting authority throughout the College are responsible for following the processes and policies 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, 2017, through July 31, 2018. 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 personnel may execute. A state-wide ethics policy was revised to comply with the required provisions, conflict of interest training was made available to employees statewide and the Board received contract administration training. Audit protocols have also been established, as well as other required policies.

## Summary of Findings

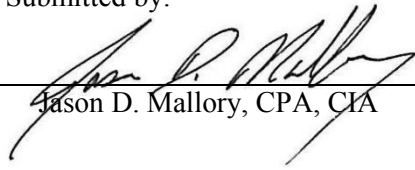
1. A single contracting policy noting specific requirements of TEC §51.9337 has been created, however, still needs to be adopted by the Board of Regents.
2. We identified exceptions related to employee training on contracting procedures, conflict of interest procedures, the contract management handbook missing some current procedures, and some other documentation exceptions.

## 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 several 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

October 2, 2018

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 has been created, however, still needs to be adopted by the Board of Regents.

**Criterion:** TEC §51.9337 requires the Board 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 Board. 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.

This finding was noted in last year's audit and is currently pending on the audit follow-up schedule. Since the last audit follow-up, a contracting policy has been created, however, not yet been submitted to the Board for approval.

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

**Possible Solution:** We recommend the single contracting policy be approved by the Board, and that it clearly states the requirements noted above, with particular emphasis given to the delegation to approve contracts.

**Management Response:**

**Division:** Finance, Risk Management

**Senior Management:** Jonathan Hoekstra, VC/CFO  
Chris Martin, Director/Enterprise Risk Management

Task	Brief Description	Responsible Individual	Completion Date
1.1	FA 4.4 Contract Administration and related documents (Handbook, Delegation of Authority Chart, Contract Review Checklist) will be revised and submitted for LT & BOR approval.	Shari Anz	11/8/2018

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### *AUDIT FINDING DETAIL*

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Finding #2: We identified exceptions related to employee training on contracting procedures, conflict of interest procedures, the contract management handbook missing some current procedures, and some other documentation exceptions.

**Criterion:** TEC §51.9337 requires periodic training for officers and employees authorized to execute contracts, that potential conflicts of interest be disclosed and certain contracts prohibited, and that the authority for executing contracts be clearly defined and followed.

We identified the following exceptions that need to be resolved:

- Contract management training: We were unable to verify that 28 of 44 employees requiring contract training actually completed it.
- Ethics training: While all individuals with authority to execute contracts completed training, there is not a reliable process for tracking employees who have not taken the mandatory conflict of interest/ethics training.
- Conflict of Interest: There is not a Conflict of Interest form on almost ½ of all employees. During the training mentioned above, employees are expected to either disclose potential conflicts, or indicate that none exist.

- Of the Conflicts of Interest forms that were submitted, 19 potential conflicts were reported. We could not verify that 12 of the reported potential conflicts were reviewed and resolved. And for 3 potential conflicts that were reviewed and resolved, communication back to the employees referenced another employee's conflict.

Turnover in the Risk Management Office as well as on the COI Committee certainly contributed to these errors.

- Delegation of Authority: The chart is not current. An additional approver for Sponsored Programs was authorized to sign contracts in June 2016 but was not reflected on the chart. Furthermore, title(s) of those authorized to approve for OIT are not listed.
  - We noted two contracts that we felt were not executed by the appropriate levels of authority. One related to a contract valued at \$64,000. We felt the contract represented a grant, and should have been executed by the Office of Sponsored Programs. However, it was executed by the Provost. The other was a contract originally valued at \$42,300, but later amended to \$109,800. The amendment needed to be executed by someone with more authority than the person who signed the original contract. The original person executed the amendment.
- Contract Management Handbook: We noted forms being used by procurement and the Office of Sponsored Programs that are not authorized in the Contract Management Handbook. For example, the Handbook currently requires all contracts over \$14,000 include a completed contract review checklist (a specific document). However, other forms are also/instead being used, to include a Transmittal Sheet for Reporting Contracts and Purchase Order, a Transmittal Sheet for Reporting PO's and BPO's over \$50,000, and/or a Transmittal Sheet for Reporting Grants over \$50,000.



- **Risk Analysis Procedures:** The College is required to develop and implement periodic monitoring procedures for contracts posing significant risk due to complexity or amount. While the procedures are addressed in the SOS mentioned in finding #1, some of the verbiage and current processes and forms need to be updated in the contract management handbook.
- **Other:** Several debarred vendor lists were not printed and attached to contracts to evidence review.

**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 employees with contracting responsibilities be trained on an annual basis, with evidence being maintained. We recommend acknowledgments of potential conflicts of interests be required on an annual basis for every employee, a reliable tracking system be established, and any potential conflicts be reviewed and resolved timely by the COI Committee. And we recommend the delegation of authority chart and contract management handbook be updated and followed, along with risk analysis procedures for contracts that pose significant risk to the College. We also recommend a process be implemented to ensure all amendments to existing contracts are executed by a person with authority based upon the revised total contract amount.

**Management Response:**

**Division:** Finance, Governance

**Senior Management:** Jonathan Hoekstra, VC/CFO  
Chris Martin, Director/Enterprise Risk Management

Task	Brief Description	Responsible Individual	Completion Date
2.1	Contract Management Training - Training for procurement staff and departments, as well as those with delegated authority to execute contracts will be conducted in November/December, following approval of statewide policy.	Shari Anz	12/31/18
2.2	Conflict of Interest/Ethics Training is coordinated as a mandatory training topic carried out annually by Human Resources/Professional Development and administered as well as tracked on Moodle under the title "TSTC Workplace Ethics and Conflict of Interest". The Office of Risk Management will coordinate with HR/PD to make sure that any employees with deficient scores or no record of taking the training session and associated	Chris Martin	11/30/18

<b>Task</b>	<b>Brief Description</b>	<b>Responsible Individual</b>	<b>Completion Date</b>
	quiz/tests will be set into a management plan to ensure accountability of the mandatory training.		
2.3	Delegation of Authority - Recommended changes have been made to the Delegation of Authority Chart and the chart will adhered to for all purchases.	Shari Anz	9/30/18
2.4	Contract Management Handbook - Additional forms needed to transmit contracts and POs to the Contract Compliance Manager for retention and reporting will be specified in the policy (SOS) and the Handbook.	Shari Anz	10/31/18
2.5	Risk Analysis Procedures - Procedures outlined in the policy (SOS) will be included in the Handbook.	Shari Anz	10/31/18
2.6	Debarred Vendor Verification - For contracts, the Contract Compliance Manager will attach a current debarred vendor list as a step of the contract review process. The exceptions related to purchases that don't have a contract. In those cases, procurement staff will attached a current debarred vendor list for POs over the reporting threshold (usually \$50,000) so that the CCM will have the list on file.	Shari Anz	9/30/18



To: Shelli Scherwitz, Sr. Director of IT Support Operations  
Rick Collatos, Sr. Director of IT Infrastructure Operations

From: Jason D. Mallory, Audit Director

Subject: TAC 202 Compliance – Quarterly Update

Date: October 5, 2018

The purpose of this memo is to provide you the implementation statuses of IT controls required by TAC 202. The chart below provides a summary of the statuses, and indicates controls that your office has addressed, but my office has not yet had an opportunity to verify. Once verified, we will provide you detailed results, and update the chart for the next report out.

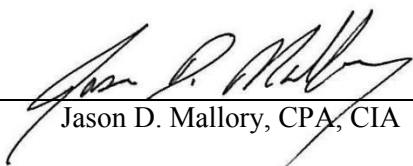
### CURRENT RESULTS

TAC 202 Control Family	Implemented	Implemented with Recommendations	Not Implemented	Total Required Controls	Pending Verification by IA
Access Control	6	1	5	12	1
Authority and Purpose	0	0	0	0	0
Accounting, Audit, Risk Management	0	0	0	0	0
Awareness and Training	3	1	0	4	0
Audit and Accountability	3	4	3	10	1
Security Assessment and Authorization	3	2	2	7	0
Configuration Management	2	0	6	8	0
Contingency Planning	4	2	1	7	0
Data Quality and Integrity	0	0	0	0	0
Data Minimization and Retention	0	0	0	0	0
Identification and Authentication	5	0	2	7	0
Individual Participation and Redress	0	0	0	0	0
Incident Response	4	2	1	7	0
Maintenance	3	0	1	4	0

Media Protection	2	1	1	4	1
Physical and Environmental Protection	7	2	1	10	1
Planning	1	0	2	3	0
Program Management	10	5	1	16	0
Personnel Security	2	4	2	8	0
Risk Assessment	2	1	1	4	0
System and Services Acquisition	3	1	3	7	0
System and Communications Protection	4	1	6	11	4
Security	0	0	0	0	0
System and Information Integrity	2	1	3	6	0
Transparency	0	0	0	0	0
Use Limitation	0	0	0	0	0
<b>Total</b>	<b>66</b>	<b>28</b>	<b>41</b>	<b>135</b>	<b>8</b>
	<b>48.89%</b>	<b>20.74%</b>	<b>30.37%</b>	<b>100%</b>	

We appreciate your efforts, and encourage you to continue with the obvious progress you are making.

Submitted by:

  
 Jason D. Mallory, CPA, CIA

October 5, 2018

Date

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

**Institution:** Texas State Technical College System

Topic	Desk Review Documentation	Desk Review Observations	Staff Recommendations	Institutional Response
<b>Performance on Core Indicators</b>	Perkins Performance Improvement/Evaluation Plan; Budget Sheets; Perkins Local Plan	The institution system wide has met core indicators for 1P1, 2P1, 3P1 and 4P1 at target or 90% level for the past three years. At campus level, Marshall has not met standard 1P1 in 2016-17. System-wide 5P1 and 5P2 indicators have not been met for the past three years. The institution seems to have the policies and procedures in place to focus attention on the campus and programs that need additional strategies and support to improve their outcomes. Tutors and coaches, including Gender Equity Advocates, are a major strategy for indicator improvement, along with technology and tool upgrades, and textbook/tool lending programs. Multiple campuses are stepping up recruitment for nontraditional programs, including specialized conferences. Marketing material is being upgraded.	<b>Recommendation:</b> the Institution must continue to meet or exceed indicator targets, with an emphasis on meeting 5P1 and 5P2. <b>Suggestion:</b> Consider consulting the upcoming guide to best practices for 5P1 and 5P2 by Temple College.	TSTC will continue its efforts to meet all Perkins' core indicators. TSTC will look to implement strategies from the "best practices guide", developed by Temple College, into the upcoming Perkins proposal. These efforts will begin on Sept 1, 2018.
<b>Capital and Non-Capital Equipment</b>				
Purchases	TSTC Operating Standards on Purchasing Authority, Fiscal Affairs/Real and Personal Property Accountability; Purchase paperwork (6/17, 8/18, 9/17)	Purchase policies are clear and detailed. Office of Sponsored Programs has the role of grant funded purchase oversight. Purchase paperwork is clearly labeled with Department and Perkins grant source.	No recommendations.	N/A
Inventory, Labeling and Tracking	Grant Management Guide, TSTC Operating Standards on Purchasing Authority, Fiscal Affairs/Real and Personal Property Accountability; Inventory of Perkins purchases	Institutional policies and Office of Sponsored Programs Manual provide very specific policies and procedures for tagging, tracking and labeling. Annual inventory counts and reviews of physical inventory take place.	<b>Suggestion:</b> If not already doing so, consider utilizing distinctive Perkins tagging on inventory items.	This practice is in existence. TSTC uses distinctive tags to identify all grant funded inventory items including Perkins Basic grant inventory items.
Disposal	TSTC Operating Standards on Fiscal Affairs/Disposal of Surplus Property and Real and Personal Property Accountability	Explicit reference to federal guidelines and approval of the Office of Sponsored Programs required in the detailed procedures.	No recommendations.	N/A
<b>Travel (In-State)</b>	Statewide Operating Standard: Official TSTC Employee Travel; Example of travel to Austin (2/17)	Clear policies, clear labeling on documentation.	No recommendations.	N/A
<b>Travel (Out-of-State)</b>	N/A	N/A	N/A	N/A

**Institution:** Texas State Technical College System

Topic	Desk Review Documentation	Desk Review Observations	Staff Recommendations	Institutional Response
<b>Childcare/Transportation Vouchers</b>				
Distribution & Eligibility	Child Care Assistance Program Guidelines; Transportation Vouchers Program Guidelines; Childcare/Transport application form; TSTC Perkins Application	Childcare assistance offered through Student Support Services. Funding is provided directly to providers. Limit of eight semesters of support; amount varies by type of program the student wants to enroll their child in. Approximately 13 students are funded at 3 campuses. Transportation vouchers are monthly for 20 miles or more distance from classes or labs for students eligible for other federal and state services. Students must reapply each semester for transportation assistance. Approximately 11 students at a single campus are funded. The textbook and tool lending programs at seven campuses serve over 375 students.	No recommendations. <b>Suggestion:</b> If these support programs are found to be effective for retention and completion, consider prioritizing them in Perkins spending.	These Support Programs are essential to providing CTE students with persistence towards retention and completion. They will continue to be a priority under the Perkins Basic grant.
<b>Consultants/ Subcontractors</b>				
	Service agreement, contract, references, payment documentation, RFP, consultant policies	Thorough documentation of consultant transaction.	No recommendations.	N/A
<b>Advisory Committees</b>				
Frequency of Meetings	Documentation of consolidation of advisory boards across system campuses and campus-based meetings	Reorganization means no current comprehensive membership tallies and the reorganization of system-wide meeting schedules. It also entails election of new chairs. One of the three meetings was chaired by a TSTC member and there was no evidence of an election of a new chair.	<b>Recommendation:</b> Ensure that all advisory committees meet at least once annually. <b>Suggestions:</b> Once reorganization is complete, consider maintaining a consolidated and comprehensive list of all advisory council members and their affiliations and ensure that advisory committees are chaired by a business or industry member per GIPWE guidelines.	Advisory committees are led by statewide Programs Chairs for each program of study. The Program Chairs ensure that, at a minimum, one Advisory Committee meeting is held each year and that each meeting is chaired by an industry partner. A comprehensive and consolidated list of all advisory council members will be established by 11/15/2018.
Format of Agendas, Minutes	Minutes of Electromechanical Technology, Dental Assisting and Industrial Maintenance	Minutes are in uniform templates along GIPWE guidelines.	No recommendations.	N/A
<b>THECB Audits</b>	Email correspondence with THECB Internal Audit Team (5/17)	No findings.	No recommendations.	N/A

**Institution:** Texas State Technical College System

Topic	Desk Review Documentation	Desk Review Observations	Staff Recommendations	Institutional Response
<b>Supplanting</b>	Grant Management Guide (2/17)	Policy addresses supplanting directly as a cost principle governing use of grant funds.	No recommendations.	N/A

**Part II - Institutional Self-Review**

<b>Q1</b>	Institutional response	Office of Sponsored Programs convenes executive leaders, statewide department leads, faculty & staff to discuss core indicators, review local plans and discussion funding priorities. Funding was tied to unmet core indicators. A technology plan by division was devised. The indicator priorities and technology priorities were then aligned.	No recommendations.	N/A
<b>Q2</b>	Institutional response	Perkins grant management team and administrators from instruction and student development review core indicators and discuss strategies, priorities and new ideas. Funding is allocated to support the activities and approaches that will help increase performance. This process is the basis for Performance Improvement/Evaluation plans.	No recommendations.	N/A
<b>Q3</b>	Institutional response	The institution's Office of Sponsored Programs reviews cost items for compliance with the Perkins RFA and federal and state requirements. Clarifying questions are referred to the THECB.	No recommendations.	N/A
<b>Q4</b>	Institutional response	The institution's budget process gathers information on needs which go through intermediate approval processes and then to a budget committee. Perkins funding is used for partial coverage of vital needs uncovered by appropriated and local funds. A grant accounting team does an annual analysis of budget and expenditures to monitor project progress and adherence to policies.	No recommendations.	N/A

**Institution:** Texas State Technical College System

Topic	Desk Review Documentation	Desk Review Observations	Staff Recommendations	Institutional Response
<b>Q5</b>	Institutional response	Advisory committees convene annually to discuss degree offerings, technical and academic course requirements, entry requirements, and objectives/evaluations for courses. They review lab equipment and training practices for fidelity to industry standards and review compliance to accreditation standards for some programs.	<b>Recommendation:</b> See comments from Part I, Advisory Committees.	Advisory committees are led by statewide Programs Chairs for each program of study. The Program Chairs ensure that, at a minimum, one Advisory Committee meeting is held each year and that each meeting is chaired by an industry partner. A comprehensive and consolidated list of all advisory council members will be established by 11/15/2018.
<b>Q6</b>	Institutional response	Along with advisory committees, faculty and personnel from Talent Management and Career Services interact with businesses and industry partners on and off campus. Activities include job placement, preparation for new graduates for entry-level technical positions, job fairs and coop arrangements. Some technical programs utilize employer surveys to evaluate graduate performance and create improvement plans.	No recommendations.	N/A
<b>Q7</b>	Institutional response	Aircraft Pilot training, Gaming and Dental Hygiene report the lowest completion rate averages. Perkins funds equipment and tools, an early alert system for academically struggling students, tutors, and success coaches.	No recommendations. <b>Suggestion:</b> Consider seeking out Temple College's upcoming work on best practices in 5P1 and 5P2 indicators.	TSTC will implement strategies from the "best practices guide", developed by Temple College, into the upcoming Perkins proposal.
<b>Q8</b>	Institutional response	HVAC, Electrical Lineworking and Solar Energy Technology have the lowest number of non-traditional student enrolled. Equipment and tool purchases, a lending library, early alert system, success coaches, tutors and a Gender Equity Advocate/Success Coach are utilized to improve enrollment and retention. The institution organizes multiple "Women in Technology" events across campuses. HVAC instructors have had gender specialized training and been given specialized association memberships.	No recommendations. <b>Suggestion:</b> Consider seeking out Temple College's upcoming work on best practices in 5P1 and 5P2 indicators.	TSTC will implement strategies from the "best practices guide", developed by Temple College, into the upcoming Perkins proposal.



**Institution:** Texas State Technical College System

Topic	Desk Review Documentation	Desk Review Observations	Staff Recommendations	Institutional Response
<b>Q9</b>	Institutional response	The institution's "special populations" category mirrors Perkins. Services set up to assist include test, notetaking and audio accommodations, interpreter services, tutoring, referrals for counseling, book lending library, daycare assistance and transportation assistance.	No recommendations.	N/A
<b>Q10</b>	Institutional response	Student retention and completion is measured to determine the effectiveness of childcare and transportation assistance .	No recommendations.	N/A

August 27, 2018

Mr. Michael L. Reeser  
Chancellor and CEO  
Texas State Technical College System  
3801 Campus Dr.  
Waco, Texas 76705

Dear Mr. Reeser:

We have completed a desk audit of Texas State Technical College System (System) relating to the Citibank Charge Card Program. This desk audit was conducted in accordance with Texas Government Code, Section 403.011(13) and assists Expenditure Audit with the annual risk assessment for the post-payment audit process.

Our purpose was to determine whether the System has adequate procedures governing the use of the invoice number field which prevent rebate losses from the Citibank Charge Card Program. A draft of this desk audit report was sent to Executive Vice President – Accounting & Reporting, Mr. Chad Wooten, on Aug. 2, 2018. The System's response to the draft is included in this report.

We intend for this report to be used by the System's management and certain state officials and agencies as listed in Texas Government Code, Section 403.071. However, this report is a public record and its distribution is not limited.

Thank you for your cooperation. If we can be of any further assistance, please contact [somaia.farag@cpa.texas.gov](mailto:somaia.farag@cpa.texas.gov) or 512-475-0479.

Sincerely,



Rob Coleman  
Director of Fiscal Management

#### Attachments

cc: Chad Wooten, Executive Vice President – Accounting & Reporting, Texas State Technical College System  
Somaia Farag, Expenditure Audit Supervisor, Texas Comptroller of Public Accounts



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Fiscal Management Division  
Statewide Fiscal Services Dept.  
Expenditure Audit Section

August 27, 2018  
Final

# **Desk Audit – Charge Card Program 719 – Texas State Technical College System**



**Glenn Hegar**  
Texas Comptroller of Public Accounts

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## Executive Summary

Audit best practices indicate that data analytics has a critical role in uncovering fraud, waste, abuse and monitoring risks. The Comptroller's Fiscal Management Division, Expenditure Audit (EA) section now uses data mining techniques to:

- Run statewide systems reports to identify instances of possible fraud, waste, abuse and/or noncompliance.
- Follow up on any instances found by performing desk audits.

The desk audits are conducted in accordance with Texas Government Code, Section 403.011(13) and assist EA with the annual risk assessment for the post-payment audit process.

In this instance, auditors conducted desk audits of certain agencies' activities based on ad hoc reports from the Uniform Statewide Accounting System (USAS) and the Citibank reporting system. These desk audits help determine if state agencies and institutions of higher education have adequate monitoring controls over the purchase and travel cards payment process, which prevents rebate losses from the Citibank Charge Card Program.

Texas State Technical College System (System) was identified as an agency with 327 credit card payments for \$209,065.46 using the incorrect billing account number in violation of the Comptroller's policy requirements prescribed by [\*Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements \(FPP A.043\)\*](#) and [\*USAS and CAPPs Financial Invoice Number Field Requirements \(FPP E.023\)\*](#).

In a letter dated Aug. 11, 2017, auditors requested the System provide its written policies and procedures relating to the recording of purchase and travel card payment transactions in USAS.

The detailed results of the completed review of the System's policies, procedures and supporting documentation are described in this report's Detailed Issues and Findings and cover the System's following issues:

- System used the full 16 digits of central billing account (CBA) numbers to process 327 credit card payments (consisting of 968 line items) instead of just the last 10 digits.
- Did not append additional information to the CBA number using the correct separator according to the instructions in the Comptroller's related policies.

## Detailed Issues and Findings

Below is a summary of the System's policies, procedures and supporting documentation review:

The System stated in its audit response that the issue of using the incorrect invoice number for purchase/travel card payments was brought to its attention a few years back, and asserted that the System's procedures were updated at that time to ensure compliance with the Comptroller's guidelines. In addition, the System provided a meeting agenda from April 18, 2016, which shows that the issue of invoice numbers was discussed. The System stated that all 327 credit card payment transactions noted by auditors as having used the full 16 digits of CBA numbers were from 2014–2015, and were isolated to only the System's West Texas campus. Upon further review of the ad hoc reports, auditors found that two payments (consisting of 10 line items) had payment issue dates in 2016, but the rest were from 2014–2015.

The System provided its most recent written policies and procedures for processing transactions, which was dated July 5, 2017. Auditors reviewed these policies and procedures and determined that they were updated to comply with FPP A.043 and FPP E.023, which specify the 10-digit master statement numbers to use in the invoice number field, and indicate that the statement date should be added to the 10 digits separated by a dash (-), without spaces before or after the dash.

Per FPP E.023, payees must be able to identify and reconcile payments they receive from state agencies and institutions of higher education. The invoice number field in USAS should be used to provide payees with the payment-related information needed to reconcile payments.

Entering procurement and travel card transactions in USAS requires special considerations for timely reconciliation of payments. If FPP A.043 and FPP E.023 are not consistently followed, the risk exists that payments that do not include the correct information in the invoice number field will not post to the correct account(s), leading to the account(s) becoming delinquent and ultimately resulting in lost rebate dollars. Citibank's system posts payments received from the State Treasury based on information in USAS. The automated interface expects the last 10 digits of the CBA number, with no spaces or dashes. If Citibank's system retrieves an unexpected value due to incorrect entry in the invoice number field, it will be unable to post the payment automatically. Citibank must then manually research the rejected entry and post the payment to the correct account, which could cause delays in posting.

Also, FPP A.043 and FPP E.023 are consistent with the current Payment Card Industry (PCI) Data Security Standard (DSS). The DSS requirement "Protect stored cardholder data" (Requirement 3) dictates that the primary account number be rendered unreadable anywhere it is stored. This can be done by truncating a portion of the account number. The FPPs require truncating the first six digits of the CBA number. Therefore, the FPPs should be fully and consistently followed for every payment transaction.



## Incorrect Billing Account Number

### Finding

The System processed 327 card payments (consisting of 968 line items) for \$209,065.46 using the full 16 digits of the CBA number instead of just the last 10 digits. Using the full 16 digits may result in the vendor (Citibank) not being able to directly or timely post payments to the System's purchase and travel card accounts.

### Recommendation/Requirement

1. The System must comply with [FPP A.043](#), when processing card payments. When travel or procurement card charges are paid, only the last 10 digits of the System's CBA number are to be entered in the invoice number field. It should be noted that while the CBA number happens to be 16 digits, it is not an actual credit card number. Also, any additional information the System wishes to add to the 10 digits as a suffix must be separated by a dash with no spaces before or after.
2. The System must use and reference [FPP E.023](#) when processing CBA and Corporate Liability Individual Billed Account invoices. FPP A.043 and FPP E.023 comply with the current PCI DSS requirements and therefore should be fully and consistently followed for every payment transaction.
3. The auditors acknowledge that the System updated its policies and procedures for processing payment transactions on travel and procurement cards on July 5, 2017, and that these updated procedures are consistent with FPP A.043 and FPP E.023. However, the System should ensure the policies and procedures are enforced and followed.

### System Response


*Responsible Division/Department: Finance - Procurement and Travel Services*

*Responsible Individuals: Senior Executive Director, Procurement and Travel Services;  
Executive Director, Travel and PCard Services*

*The System will continue to comply with FPP A.043 and FPP E.023, as stated in the audit report. The System will continue to follow policies and procedures, which have been in place since July 5, 2017, to assure ongoing compliance.*

*The implementation of these procedures are as follows to ensure the use of only the last 10 digits of the System's master CBA number, a dash (no spaces) and statement date are entered into the invoice field during voucher creation, reviewed on printed voucher by two people and reviewed again in USAS before the batch is released:*

- *Internal review of procurement/travel card packet charges - Invoice number is entered into the imaging software system based upon the last 10 digits depending on which CBA is used (**charge card review**).*

- 
- *Voucher creation and issuance of payment - Invoice number, a dash (no spaces) and statement date are entered into the ERM system as the invoice number and reviewed to ensure the correct digits, dash and statement date are used (**voucher creation**).*
  - *Voucher review and approval of payment - Prior to approving payment and prior to upload into USAS, the printed voucher payment will be reviewed to ensure the correct information is entered into the Invoice field (**voucher QA**).*
  - *USAS batch release - Final review of the invoice field that is in the USAS transaction has the correct digits, dash (no comma) and statement date, prior to balance/release of batches.*



## Appendices





## Appendix 1 — Desk Audit Process Overview

Desk audits are conducted by the Expenditure Audit (EA) section of the Comptroller's Statewide Fiscal Services Department within the Fiscal Management Division in accordance with Texas Government Code, Section 403.011(13).

### Audit objectives

Desk audits use data mining techniques and reports from statewide systems to:

- Identify instances of possible fraud, waste, abuse and/or noncompliance.
- Follow up on any instances found by performing desk audits.

### Comptroller's office responsibilities/supporting statute

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher in accordance with Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis in accordance with Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

### Methodology

1. Run ad hoc reports from USAS and Citibank.
2. Use one or more of the following audit criteria:
  - [State of Texas Charge Card Program](#)
  - [State of Texas Procurement and Contract Management Guide](#), Commercial Charge Card section
  - [Procurement Rules](#)
  - [Travel Policies](#)
  - [Processing Third-Party Transactions in USAS for Payment/Travel Cards, Direct Bill Payments and Reimbursements](#) (FPP A.043)
  - [USAS and CAPPS Financial Invoice Number Field Requirements](#) (FPP E.023)



## Fieldwork

For each entity listed on the ad hoc report, auditors must perform the following:

1. Review the invoice number field on credit card reports. Indicate all payments where incorrect information was entered into this field.
2. Obtain and review the agency's written policies and procedures to gain understanding of how the agency enters credit card payments in USAS.
  - a. Do the agency's procedures comply with FPP A.043 and FPP E.023?
  - b. Were the procedures followed?

## Reporting

The audit findings are reported formally to the audited agency in the form of a report. The audit report includes recommendations and requirements for implementing or improving preventive controls that help reduce associated risks.

Responsible Management	Issue Reported by Management	Report Date	Management's Corrective Action Plan	Internal Audit Assistance/Follow-up
VC Hoekstra	Education Code, Chapter 51, Subchapter Z, Section 51.9337 (f) states that TSTC "may not enter into a contract with a value of more than \$1 million, including amendment, extension, or renewal of the contract that increases the value of the original contract to more than \$1 million, unless the institution's board of regents approves the contract, expressly delegates authority to exceed that amount, or expressly adopts a exception for that contract." During the past quarter, management became aware of two vendor agreements that exceeded \$1 million in total contract value when additional services were added during the contract period including extensions, and prior approval was not requested from the Board of Regents (BOR). BOR approval will be requested for these contracts at the next scheduled meeting on November 8, 2018.	9/30/2018	Management will ensure that all contracts with an expected total value of \$1 million or more over the contract period including extensions, amendments or renewals are monitored for compliance with these statutes.	In our recently completed audit of contract compliance, one of the areas we identified requiring improved monitoring controls related to contract amounts with particular consideration given to subsequent amendments. Specifically, we recommended contract amendments be better monitored to ensure they are also executed by the appropriate levels of authority. We found 2 other instances of contracts (less than those identified in the attestation) in which amendments were not executed by the appropriate levels of authority. The contracts included in this attestation were identified by management while improving the controls we recommended. Our audit also identified other processes needing improvement. All of these items, including this specific report, will be included in our quarterly follow-up process. And, we will continue to annually audit contract compliance processes as required by the regulation cited in the attestation.
	The two service contracts are with Asher Media Inc. (Asher) and Enterprise FM Trust (Enterprise). Asher provides advertising and media buying services under a contract that allows annual extensions for three years beyond the initial contract period. The company charges hourly fees for their advertising services and the total fees over the past three years were less than \$250,000. As the company places advertising to various media outlets, the media purchases are billed by Asher under the contract. When the service fees and media purchases are aggregated over time, the total contract value exceeds \$1 million each year, which requires BOR approval or delegation of authority. Enterprise leases fleet vehicles to TSTC under a master lease agreement which was executed in 2015, and the total value of all the vehicles over their entire lease did not exceed \$1 million until the most recent vehicles were added to the fleet in early 2018.			
	Government Code, Title 10, Subtitle F, Chapter 2252, Subchapter Z, Section 908(d) states that TSTC may not enter into a contract with a value of at least \$1 million with a business entity unless the business entity submits a disclosure of interested parties to TSTC. Texas Ethics Commission rules require the disclosure to be obtained if a change made to an existing contract results in a total value of at least \$1 million. While publicly traded entities are exempt from the requirement, both Asher and Enterprise are privately-held, and therefore, management will obtain the companies' disclosures since the aggregate contract values reached the \$1 million threshold after the contracts were executed.			

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.