



# TEXAS STATE TECHNICAL COLLEGE

## Internal Audit Annual Report Fiscal Year 2021

Prepared by  
Jason D. Mallory, Director of Audits

## Table of Contents

	Section
Compliance with TGC, Section §2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the TSTC Website	I, page 3
Internal Audit Plan for FY 2021	II, pages 4-5
List of Consulting Engagements and Non-audit Services Completed in FY 2021	III, pages 6-7
External Audit Services Procured in FY 2021	IV, page 8
Internal Audit Plan for FY 2022	V, page 9
Reporting Suspected Fraud and Abuse	VI, page 10
External Quality Assurance Review	VIII, pages 11-13

## **I. 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 Annual Report includes the approved fiscal year 2022 audit plan. Furthermore, all Internal Audit reports are posted in the Board of Regents section of the TSTC website under the meeting agendas section. These are posted within 30 days after each meeting of the Board of Regents. These reports include detailed summaries of the weaknesses, deficiencies, wrongdoings, or other concerns found during each audit, if any, as well as summaries of the actions taken by the College to address those concerns. Information is available as far back as August 2015.

## II. Internal Audit Plan for FY 2021

The Board of Regents approved the original internal audit plan for FY 2021 on August 20, 2020, with Minute Order #29-20(c). There were two deviations from the original internal audit plan. Minute Order #09-21(c) on May 13, 2021, removed audits of the Concur system and of wireless networks. During FY 2021 the College was engaged in implementing Workday, the new ERP system. The resources originally intended for those two audits were redirected towards monitoring end to end testing of Workday implementation.

Texas Government Code §2102.005(b) requires a state agency to consider methods for ensuring compliance with contract processes and controls and for monitoring agency contracts. To comply with this provision, an internal audit of contract compliance is conducted annually. In FY 2021, the contract audit was still in progress at August 31, 2021.

No audit of benefits proportionality was conducted in FY 2021, but associated risks and controls were considered when establishing the audit plan. Audit #20-001A performed in FY 2020 addressed the benefits proportionality audit requirement prescribed in Rider 8, page III-48, of the General Appropriations Act of the 86th Legislature.

### Fiscal Year 2021 Internal Audit Plan

Project Description	Division/Campus	Report Number	Report Date	Status
Social Media Audit	Marketing	21-004A	11/20/20	Complete
Disbursements from Student Club Accounts	Student Life	21-007A	12/11/20	Complete
Internal Network Penetration Test	Marshall Campus	21-010A	12/14/20	Complete
Servion Contract Audit	Waco Campus Airport	21-005A	3/24/2021	Complete
Internal Network Penetration Test	West Texas Campuses	21-017A	3/26/2021	Complete
Informer Software Audit – TAC 202	OIT	21-016A	4/6/2021	Complete
Safety & Security Audit	All Campuses	21-002A	4/12/2021	Complete
TAC 202 Follow-up Audit	OIT	21-006A	7/8/2021	Complete
Internal & External Quality Assessment Review	Internal Audit	21-008A	5/17/2021	Complete
Coronavirus Aid, Relief, and Economic Security (CARES) Act Compliance Audit	Office of Sponsored Programs & Financial Aid	21-006A	7/6/2021	Complete

Administrative & Faculty Qualifications Audit	Instructional & HR	21-018A	5/20/2021	Complete
Accounts Receivable/Billing Audit	Finance and other departments	21-025A	08/27/2021	Complete
TEC 51.9337 (Contracting) Audit	Procurement	21-028A	9/23/2021	Complete
Concur Audit	OIT			Removed by MO #09-21(c)
Wireless Networks	OIT			Removed by MO #09-21(c)

Several FY 2020 audits were also completed in FY 2021. Those include an audit of the Waco Bookstore (report #20-003A), Harlingen Bookstore (report #20-033A), an audit of WinPrism (report #20-026A), and an audit of Onsite IT Support (report #20-032A).

Reports for all completed audits listed above are posted in the Board of Regents section of the TSTC website under the meeting agendas section at <https://www.tstc.edu/about/board-of-regents>. Each report contains detailed summaries of the weaknesses, deficiencies, wrongdoings, or other concerns found during each audit, if any, as well as summaries of the actions taken by the College to address those concerns.

### III. List of Consulting Engagements and Non-audit Services Completed in FY 2021

The following schedule summarizes projects, other than planned audits, that were completed or nearing completion.

Report #	Date	Project Description	Division /Campus	Summary of Observations and Recommendations	Status & Summary of CAPs
21-003P	9/1/20	Records Retention Risk Assessment	GRM	Assisted management in risk assessing critical records retention requirements.	
21-011I	11/4/20	Purchasing Investigation	EWCHEC	Instructor was storing equipment and using his computer at his home as part of the pandemic related work from home requirements. We did not find any wrong-doing.	
21-015RA	11/20/20	A/P Risk Assessment	Accounts Payable	Assisted management with risk assessing accounts payable processes.	
21-019I	05/16/21	Bookstore Investigation	Sweetwater Campus	Investigated book buy back anomalies. Determined theft could have occurred, but reliable controls to prevent or detect were not in place.	<b>Substantially Implemented:</b> Cameras needed to be installed, accurate inventory taken, and refunds blocked by the POS should not be overridden without manager approval.

21-020I	5/6/21	Unemployment Fraud Investigation	Payroll	Investigated whether leaks of sensitive information came from within the College. Found no evidence of a data leak or breach.	
21-027I	7/15/21	Retention Services Investigation	Student Services	Investigated allegation of ineffective management and inadequate services being provided.	<b>In Progress:</b> Recommended job descriptions and training be updated, a quality control process be implemented, and improved hiring practices.
21-031P	Pending Report	MDF/IDF Review	OIT	Reviewed all MDF & IDF closets for access and general housekeeping.	
21-035P	No Report	Workday End to End Testing	OIT	Observing business process testing for the new ERP.	

#### IV. External Audit Services Procured in FY 2021

There were no delegation requests in FY 2021 for audits to be performed by third party providers. There were 7 audits and reviews performed by external State agencies that were completed. The following schedule summarizes those projects.

Agency	Date	Project Description
Texas Workforce Commission	9/10/20	Monitoring review of SDF Contracts # 2418SDF002 & # 2418SDF003.
Texas Comptroller's Office	No Report Issued	Recovery audit of accounts payable.
State Auditor's Office	4/30/21	Audit of select financial processes, to include asset tracking and ERP controls.
Texas Commission on Law Enforcement	4/20/21	Agency audit of TSTC Waco Police.
Texas Higher Education Coordinating Board	6/23/21	A-133 evaluation.
Texas Higher Education Coordinating Board	7/8/21	Desk review of Perkins Career and Technical Education – Basic Grants to States, CFDA#84.048, Award #20796.
Texas Higher Education Coordinating Board	7/12/21	2020-2021 Perkins Basic Grant Programmatic desk review.



## V. Internal Audit Plan for FY 2022

The plan was developed through a collaborative effort between Internal Audit, Executive Management, Senior Management, and the Board of Regents. Multiple activities and functions throughout the College were assessed for financial, fraud, regulatory/compliance, and sensitive information, and COVID-Related risks. TAC 202 and technology risks were also considered in the planning. Management and the Board were also requested to provide a list of specific audits they wanted performed. All regulatory-required audits were included in the Audit Plan. Other than the areas actually selected for audit, consideration was given to risks associated with purchasing and procurement card use, remote work, facilities and ground maintenance contracts, workforce development, dual enrollment, fleet management, and audits of the various construction contracts.

An audit related to benefits proportionality is scheduled for FY 2022, as is another contract audit. The TEC §51.9337 (Contracting) Audit is intended to satisfy the annual contracting audit requirement. Our planning process yielded the following audit plan for FY 2022:

<b>Audit Name</b>	<b>Budgeted Hours</b>
TEC §51.9337 (Contracting) Audit – satisfies annual audit requirement of contracts	270
TAC 202 (IT Security) Audit – satisfies biennial audit requirement	380
Public Funds Investment Act Compliance Audit	320
Benefits Proportionality Audit	390
Audit of CARES funds	550
Internal Penetration Test - North Texas Campus	170
Internal Penetration Test – Fort Bend Campus	170
Tuition Audit	600
Bookstore Audit (Marshall Bookstore)	370
On-Line Learning Audit	575
Canvas Software Audit – TAC 202 controls	430
Surprise Cash Counts	260
Surprise Police Evidence Room Inspections	160
Virtual Private Network Audit – TAC 202 controls	580
Audit of TWC Server – TAC 202 controls and contract	430
Academic Records Management Audit	380
PCI- Follow-up Audit	270
Follow Audit of External Penetration Test Recommendations	210

The FY 2022 Audit Plan was approved by the Board of Regents on August 19, 2021, by Minute Order #24-21(c).

## VI. Reporting Suspected Fraud and Abuse

TSTC has taken the following actions to implement the fraud detection and reporting requirements of Section 7.09, page IX-38 of the 87<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. This 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.

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

An External Quality Assurance Review of the Internal Audit Department was completed on May 17, 2021, by Carole M. Fox, CPA. Ms. Fox is the Chief Audit Executive for the Texas State University System. She is 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 its well-crafted audit charter, and the level of accessibility to the Board of Regents and the Chancellor. A copy of the original report is attached.

May 17, 2021

Mr. Jason D. Mallory, Director of Internal Audit  
Texas State Technical College  
3801 Campus Drive  
Waco, Texas 76705

Dear Mr. Mallory,

At your request, I performed an external quality assurance review on the Internal Audit Department of the 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, Audit Manager, on November 6, 2020.

The primary objective of the review was to provide an opinion on whether the internal auditing program, overseen by you, achieves the basic requirements expected of internal auditing activities at all State of Texas institutions of higher education. Those requirements are set forth in the *Texas Internal Auditing Act* (Texas Government Code, Chapter 2102), the Institute of Internal Auditors' *Code of Ethics* and *International Standards for the Professional Practice of Internal Auditing*, and the U.S. Government Accountability Office's *Generally Accepted Government Auditing Standards*. For purposes of this review, I collectively refer to these as "the *Standards*". In acting as a validator, I am fully independent of TSTC and have the necessary knowledge and skills to undertake this engagement.

### **Opinion Rating Definitions**

The rating system used for expressing an opinion for this review is defined by the *Standards*, and 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, and procedures in place and an audit charter that complies 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*. The scope included all TSTC internal audit activities from September 2017 through August 2020, and consisted of the following:

- A review of the self-assessment documents,
- Discussions with you,

- Interviews with the Board Chairman (also the former Audit Committee Chair), the former Chairman of the Board, the Chancellor, and members of the TSTC Leadership Team,
- A survey of a sample of managers who recently participated in internal audits;
- A survey of all internal audit staff, including you, and
- A review of the audit working papers for four audit projects completed during the review period.

### **Results and Opinion**

Based upon the self-assessment documents, interviews, survey results, and the review of audit working papers, I concur with the assertions and conclusions stated in the *Quality Assurance Review Self-Assessment Report* dated November 6, 2020 that the internal audit activity at TSTC generally conforms to the *Standards*.

In my opinion, the TSTC Internal Audit Department **generally conforms** to the *Standards* for the period under review and no significant opportunities for improvement were observed. This opinion, representing the best possible evaluation, means that there are in place the relevant structures, policies, and procedures, including the processes by which they are applied, that comply with the *Standards* in all material respects.

### **Key Observations**

As required by the *Standards*, TSTC has a well-crafted audit charter that clearly defines the audit function's purpose, authority, and responsibility. The Director and audit staff have unrestricted access to all TSTC personnel, records, and property. Results of a confidential survey of auditees indicate a high degree of confidence in the audit function, with many respondents commenting on the professionalism of the audit team. The Director has full and free access to the Board Chairman, the Audit Committee Chair, and the Chancellor; in fact, the level of accessibility is commendable and noteworthy, as it contributes to an enhanced governance structure at the TSTC.

I would like to express my thanks for the time and assistance given by you and your staff and other representatives of the TSTC during the review.

Sincerely,



Carole M. Fox, CPA  
Chief Audit Executive  
Texas State University System