

# Meeting of the Board of Regents

## Audit Committee

November 11, 2021  
Waco, Texas



**TEXAS STATE TECHNICAL COLLEGE**

**Audit Committee Meeting  
of the Board of Regents**

**Texas State Technical College Connally  
Meeting & Conference Center**

**1651 E. Crest Drive  
Waco, TX 76705  
and  
Teleconference  
Dial In: 415-655-0003  
Access Code: 262 294 43664**

**Thursday, November 11, 2021**

**9:00 a.m.**

**AGENDA**

**Audit Committee**

[Tony Abad (Chair), Pat McDonald, Ron Widup]

**Minute Orders:**

**Proposed MO #**

- |   |     |
|---|-----|
| 1. Internal Audit Charter Review and Reapproval | A-3 |
|---|-----|

**Reports:**

- |   |                         |       |
|---|-------------------------|-------|
| 1. Status of Fiscal Year 2021 Audit Schedule & Other Projects | <i>Jason D. Mallory</i> | A-10  |
| 2. Status of Fiscal Year 2022 Audit Schedule & Other Projects | <i>Jason D. Mallory</i> | A-13  |
| 3. Summary of Audit Reports                                   | <i>Jason D. Mallory</i> | A-14  |
| 4. Follow-up Schedule & Status                                | <i>Jason D. Mallory</i> | A- 16 |

5. Internal Audit Annual Report Fiscal Year 2021	<i>Jason D. Mallory</i>	A-23
6. Annual Statement on Quality Control	<i>Jason D. Mallory</i>	A-36
7. Annual Confirmation of Organizational & Individual Independence	<i>Jason D. Mallory</i>	A-37
8. Accounts Receivable/Billing Audit (21-025A)	<i>Jason D. Mallory</i>	A-38
9. Annual Contract Audit (21-028A)	<i>Jason D. Mallory</i>	A-46
10. Public Funds Investment Act Audit (22-003A)	<i>Jason D. Mallory</i>	A-50
11. TAC 202 - Quarterly Update (22-009A)	<i>Jason D. Mallory</i>	A-55
12. Attestation Disclosures	<i>Jason D. Mallory</i>	A-59



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<b>Board Meeting Date:</b>	November 11, 2021	<b>Proposed Minute Order #:</b> 34-21(c)
<b>Proposed By:</b>	Jason D. Mallory, Director of Audits	
<b>Subject:</b>	Internal Audit Charter Review and Reapproval	
<b>Background:</b>	<p>The Texas Internal Auditing Act, Chapter 2102 of the Texas Government Code, requires all State agencies that have an operating budget that exceeds \$10 million, has more than 100 full-time equivalent employees, or receives and processes more than \$10 million in cash in a fiscal year have an internal audit function. Each internal audit function must be led by a person who is either a certified public accountant or certified internal auditor. The internal audit function shall also conform to the Standards for the Professional Practice of Internal Auditing, the Code of Ethics contained in the Professional Practices Framework as promulgated by the Institute of Internal Auditors, and generally accepted government auditing standards.</p> <p>The Professional Practices Framework requires a charter be adopted by the governing board which defines the responsibilities and authority of the internal audit function. This charter must be reviewed periodically for changes. Traditionally, this review has been performed annually at the Fall meeting of the TSTC Board of Regents, with reapproval only occurring if changes are made. In fiscal year 2021, the Board of Regents directed the charter be reviewed and reapproved annually, irrespective of changes. This review and reapproval was performed on February 11, 2021, at Minute Order #01-021(c).</p>	
<b>Justification:</b>	<p>This minute order is intended to satisfy the annual review and reauthorization requirement of the charter for fiscal year 2022. No changes were made to the charter since it was last reviewed and reapproved on February 11, 2021.</p>	
<b>Additional Information:</b>	None	
<b>Fiscal Implications:</b>	No significant fiscal impact.	
<b>Attestation:</b>	<p>The Minute Order is in compliance with all applicable laws and regulations to the best of my knowledge.</p>	
<b>Attachment(s):</b>	SOS GA 1.4 Internal Audit Function	

**Recommended Minute  
Order:**

"The Texas State Technical College Board of Regents approves SOS GA 1.4 Internal Audit Function which grants specific authority, responsibilities and limitations to the Internal Audit Department."

**Recommended By:**

A handwritten signature in black ink, appearing to read "Jason D. Mallory", is positioned above a horizontal line.

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Jason D. Mallory, Director of Audits

TEXAS STATE TECHNICAL COLLEGE  
**STATEWIDE OPERATING STANDARD**

<b>No. GA 1.4</b>	<b>Page 1 of 5</b>	<b>Effective Date: 02/11/2021</b>
<b>DIVISION:</b>	<b>General Administration</b>	
<b>SUBJECT:</b>	<b>Internal Audit Function</b>	
<b>AUTHORITY:</b>	<b>Minute Order #01-19(c)</b>	
<b>PROPOSED BY:</b>	<b>Jason D. Mallory</b>	
<b>TITLE:</b>	<b>Director of Audits</b>	<b>Date: 02/11/2021</b>
<b>RECOMMENDED BY:</b>	<b>Jason D. Mallory</b>	
<b>TITLE:</b>	<b>Director of Audits</b>	<b>Date: 02/11/2021</b>
<b>APPROVED BY:</b>	<b>Mike Reeser</b>	
<b>TITLE:</b>	<b>Chancellor</b>	<b>Date: 02/11/2021</b>

**STATUS:**      Approved by BOR 02/11/2021

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



**Texas State Technical College**  
**Internal Audit**  
**Status of Fiscal Year 2021 Audit Schedule & Other Projects**

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
<b>INTERNAL AUDITS</b>						
Social Media Audit	Marketing	Complete	21-004A	11/20/20	-	Risk Based
Audit of Disbursements from Student Club Accounts	Student Life	Complete	21-007A	12/11/20	-	Risk Based
Internal Network Penetration Test	Marshall Campus	Complete	20-010A	12/14/20	6/7/18	Risk Based
Servion Contract Audit	Airport	Complete	21-005A	3/24/21	-	Risk Based
Internal Network Penetration Test	West Texas Campuses	Complete	21-017A	3/26/21	8/16/18	Risk Based
Informer Software Audit - TAC 202	OIT	Complete	21-016A	4/6/21	-	Risk Based
Safety & Security Audit	All Campuses	Complete	21-002A	4/12/21	6/11/18	Required every 3 years
Internal & External Quality Assessment Review	Internal Audit	Complete	21-008A	5/17/21	8/30/18	Required every 3 years
Administrative & Faculty Qualifications Audit	Instructional & HR	Complete	21-018A	5/20/21	-	Risk Based
Coronavirus Aid, Relief, and Economic Security (CARES) Act Compliance Audit	Office of Sponsored Programs & Financial Aid	Complete	21-006A	7/6/21	-	Risk Based
TAC 202 Follow-up Audit	OIT	Complete	21-009A	7/8/21	4/15/21	Required Bi-annually
Accounts Receivable/Billing Audit	Finance and others	Complete	21-025A	8/27/21	-	Risk Based
TEC 51.9337 (Contracting) Audit	Procurement	Complete	21-028A	9/23/21	7/2/20	Required Annually
Description	Division/Campus	Status	Project No.	Report		

<b>EXTERNAL AUDITS</b>				
TWC: Monitoring review of SDF Contracts # 2418SDF002 & # 2418SDF003	OSP/Harlingen	Complete	21-012A	9/10/20
Statewide Single Audit - Financial Portion, Statewide Single Audit - Federal Portion, Compliance with Federal Requirements for SFA Cluster, Compliance with Education Stabilization Fund by the State Auditor's Office	State of Texas - Includes TSTC	Complete - reports available upon request		2/28/21
Recovery Audit by the State Comptroller's Office	Finance	Complete - no report issued.		
Financial Processes Audit by the State Auditor's Office	Finance	Complete	SAO 21-017	4/30/21
Texas Commission on Law Enforcement Agency Audit Report	Waco Campus - Police Department	Complete		4/20/21
AY 2020 A-133 Evaluation Management Letter by the THECB	Finance	Complete		6/23/21
Statewide Report on Compliance with Public Funds Investment Act and Rider 5, General Appropriations Act, Reporting Requirements by the State Auditor's Office	State of Texas - Includes TSTC	Complete - report is available upon request		6/30/21
Desk Review of Perkins Career and Technical Education – Basic Grants to States, CFDA#84.048, Award #20796 by the THECB	OSP/Harlingen	Complete		7/8/21
2020-2021 Perkins Basic Grant Programmatic Desk Review Notification by the THECB	OSP	Complete		7/12/21
Description	Division/Campus	Status	Project No.	Report Date

**OTHER INTERNAL PROJECTS**

Internal Hotline: Received an anonymous complaint on 10/2/20 that equipment purchased using a procurement card has been delivered to an employee's residence versus the College. The reporter was concerned the purchases was fraudulent. Results: The employee was able to produce all items that were purchased. The shipping to his house were side effects of the COVID-19 remote work.	Instructional	Complete	21-0111	11/4/20
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SAO Hotline: Received a complaint that scores provided during faculty evaluations were artificially low, with no opportunity to provide employee feedback during the review process. Results: The complaint was forwarded to HR for resolution. HR provided additional training on performing employee evaluations, and reminded supervisors and staff that employees can provide feedback to their evaluations, even though documentation in the current tool is not available.	Instructional	Complete	21-021	11/16/20
Report by management: We received a tip regarding unusual activities discovered in the bookstore in Sweetwater which may indicate theft. Results: Reviewed suspicious refunds, book buybacks, inventory shortages, and cash deposits. Identified control weaknesses, but nothing conclusive was identified which incriminates the suspected person. We relayed our results to the TSTC Police.	Sweetwater/Bookstore	Complete	21-019I	5/13/21
Report by management: Since February, Payroll has been receiving fraudulently filed unemployment claims from the Texas Workforce Commission. To file those claims, the fraudster has access to sensitive employee data. Results: We reviewed access to several systems and servers, as well as had a 3rd party perform a forensic scan. We found no evidence to suggest sensitive information used in the scams was obtained through the College.	OIT	Complete	21-020I	5/6/21
SAO Hotline: Received 2 separate complaints filed through the SAO. One alleged employees were unlawfully receiving CARES funds, and the other alleged an employee had awarded members of her family CARES funds. Results: Verified that employees who are students have received CARES funds. We did not identify anything unlawful about this practice, but recommended enhanced controls. We also identified one employee who, in fact, did approve her CARES funds for close relatives with out making anyone aware of the relationships. Employment was terminated and disbursed funds were moved to another funding source.	Student Services/OSP	Complete, both issues addressed in audit 21-006A.	21-006A	7/6/21
SAO & Internal Hotlines: Received 5 separate complaints regarding ineffective management and inadequate services within Retention Services. Results: Determined that this was primarily an HR matter. IA & HR partnered to resolve. Recommendations were offered to help improve employee relations and the quality of services that are being provided.	Student Services	Complete	21-027I	7/15/21
SAO Hotline: Received a complaint alleging unfair work practices. Referred the matter to HR for review and resolution. Results: HR did not find any evidence to substantiate the claim.	Student Services	Complete	21-032I	8/23/21

Assisted management with identifying location, physical state, and access to, all rooms and closets on every campus where IT network assets are located. The purpose of our involvement was to give them an independent assessment of the access and safety issues that may be present so that they can make informed decisions on what to better control. A formal report was not issued, but an assessment document was presented to them.	OIT/Safety	Report is being drafted	20-007P	
Consulting: Serving on Workday implementation. Role is limited to monitoring re-designed business processes for unmitigated risks, raising security concerns, monitoring end to end testing.	OIT/Finance/HR	In Progress		
Consulting: Serving on Waco Task Force for demolishing numerous building. Role is limited identifying potential risks and suggesting ways to mitigate those risks.	Facilities/Finance	Complete		

Glossary	
CFDA	Catalog of Federal Domestic Assistance
HR	Human Resources
IA	Internal Audit
IT	Information Technology
OIT	Office of Information Technology
SAO	State Auditor's Office
SDF	Skills Development Grant
TAC	Texas Administrative Code
TEC	Texas Education Code
THECB	Texas Higher Education Coordinating Board
TWC	Texas Workforce Commission



**Texas State Technical College  
Internal Audit  
Status of Fiscal Year 2022 Audit Schedule & Other Projects**

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
<b>INTERNAL AUDITS</b>						
Public Funds Investment Act Audit	Finance	Complete	22-003A	9/24/21	9/26/19	Required every 2 years
TAC 202 Follow-up Audit	OIT	In Progress	22-009A	10/7/21	7/8/21	Required Bi-annually
Benefits Proportionality Audit	Payroll	In Progress			12/6/19	Required every 2 years
Coronavirus Aid, Relief, and Economic Security (CARES) Act Compliance Audit	OSP/Financial Aid/Student Services	In Progress			7/6/21	Risk Based
Virtual Private Network Audit (TAC 202)	IT	In Progress			-	Risk Based
Academic Records Management Audit	Registrar/Instructional	In Progress			-	Risk Based
TEC 51.9337 (Contracting) Audit	Contract Office				9/23/21	Required Annually
Internal Network Penetration Test	North Texas Campus				2/13/19	Risk Based
Internal Network Penetration Test	Fort Bend Campus				3/29/19	Risk Based
Tuition Audit	Finance				7/8/14	Risk Based
Bookstore Audit	Marshall Campus				7/3/08	Risk Based
On-Line Learning Audit	Instructional				-	Risk Based
Canvas System Audit (TAC 202)	Instructional/IT				-	Risk Based
Cash Counts	Various				Fiscal Year 2013	Risk Based
Police Evidence Room Inspections	Police				Fiscal Year 2019	Risk Based
Audit of TWC Server	Business Analysis				-	Risk Based

**EXTERNAL AUDITS**

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**OTHER INTERNAL PROJECTS**

SAO Hotline: Received a complaint of HR issues in a College department. The complaint was forwarded HR for review and action. Results: The complaint was forwarded to HR for resolution. Pending results of HR's findings.				
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Glossary	
HR	Human Resources
IA	Internal Audit
IT	Information Technology
OIT	Office of Information Technology
SAO	State Auditor's Office
TEC	Texas Education Code
TAC	Texas Administrative Code
TWC	Texas Workforce Commission



**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
Accounts Receivable/Billing Audit (21-025A)	1. We identified systemic issues related to the timely recording of revenue and receipt of payments. Additionally, we identified some instances of payments being different from the contractual amounts.	<p>* Of the 9 different vendors we reviewed, 6 vendors had payments that were not received by the due date.</p> <p>* Revenue is not consistently recorded in the same manner.</p> <p>* We identified 5 vendors with \$56,732.74 payments that have not yet been received.</p>	1.1 By Spring 2022, TSTC plans to have fully implemented Workday, a new ERP system that should greatly enhance the visibility, efficiency and consistency of billing processes and payment collection. Potential non-compliance by lessees will continue to remain a known, but manageable risk. A combination of regular aging reports from Workday and an automated tickler system utilized by the Office of Contract Management will aid significantly reducing reliance on manual controls.	C. Wooten	5/31/22
Annual Contract Audit (21-028A)	1.	No findings identified.			

Report Name & No.	Audit Finding	Summary of Finding Support	Management's CAP(s)	Resp. Sr Mgr	Expect. Complete Date
Public Funds Investment Act Audit (22-003A)	1. We identified one minor exception related to an interest rate reported on the May 31, 2021, Quarterly Investments Report in which the reported interest was .03% higher than the actual rate.	The TexPool account had a value of \$20,765,235 on May 31, 2021. The Quarterly Investment Report indicated the account had an interest rate at the time of .04%. However, the actual interest rate was .01%. While this difference is not material, we are required to cite it. This was just an error on the Quarterly Investment Report, and not an accounting error. The proper interest revenue was recorded.	1.1 The incorrect interest rate reported on the May 31, 2021 quarterly report was a typing error and an isolated incident. At this time, Anju Motwani, VP & Controller, respectfully recommends that Executive Leadership and the Board of Regents accept the risk because of the immaterial difference.		Immediately

TAC 202 Compliance – Quarterly Update (21-009A)	1.	2 more controls were identified as being implemented.			
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**Texas State Technical College  
Internal Audit  
Follow Up Schedule & Status**

Completion Summary			
	6/30/21	9/30/21	Cleared from (Added to) Schedule
Audits from FY 2017 & Earlier	4	4	0
Audits from FY 2018	1	1	0
Audits from FY 2019	1	0	1
Audits from FY 2020	1	1	0
Audits from FY 2021	8	6	2
Audits from FY 2022	0	0	0
<b>Net Total</b>	<b>15</b>	<b>12</b>	<b>3</b>

**Highlights:**

TAC 202 Audits: 2 more controls were implemented.
Fixed Asset Findings: SPA is no longer being used, and the CIAAG is now reviewing lost/stolen assets to standardize accountability.
PCI Audit: 20 more controls were implemented.
Admissions Process Audit (19-017A) : Final CAP cleared.
Safety & Security Audit (21-002A): All CAPs cleared.
Faculty Credentials Audit (21-018A): 1 CAP cleared.
Audit of HEERF Grant as part of CARES ACT (21-006A): 4 of 6 CAPs cleared.
West Texas Bookstore Investigation (21-019): All CAPs cleared
Financial Processes Audit by the State Auditor's Office (21-001A): 3 CAPS cleared.

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), C. Wooten, Boykin	1. We identified numerous exceptions related to inventory control in the Welding Department. In 2021, the SAO also cited the following issues: The College's process was not adequate to ensure that donated assets were added to its inventory and SPA, the College's process was not adequate to ensure that it accounted for auctioned and disposed assets; the College does not perform a reconciliation between its financial record system and SPA for all assets; Law enforcement is not always notified within 48 hours of the College determining that an asset has been stolen; The College did not consistently determine employee negligence when investigating stolen assets.	1.1 SPA will no longer be used after 8/31/21, therefore, no reconciliation will be necessary. 1.2 Implement enhance fixed asset training that includes awareness to report donated assets. 1.3 Implementation of Workday 1.4 Utilize a cross divisional committee to review negligence related to stolen assets.	<b>Partially Complete:</b> At 9/30/21, SPA is not longer being used (1.1) , and the CIAG Committee has held its first meeting to review negligence related to missing assets (1.4).		1.1 8/31/21 1.2 12/31/21 1.3 2/28/22 1.4 8/31/21

TAC §202 Compliance Audits (17-002A) (21-017A), McKee, Scherwitz	1. Several required controls were not yet 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 10/7/21, 8 systems and the IT general controls have been audited. A total of 0 general controls and 11 (total for all systems audited) application controls were not yet implemented. In this quarter, 2 controls were improved to implemented status.		Ongoing
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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
PCI Compliance Audit (18-009A), Herrera	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> Follow-up testing began on 4/12/21 and is continuing. At 9/30/21, 20 more controls had cleared.		Ongoing

Airport Operations Audit (20-008A), Herrera, Semien	1. Contract management procedures should be enhanced to ensure all contract provisions are met.	1.2 Insurance Requirements: Blanca Guzman will provide oversight of the insurance requirements and coordinate with the Kevin Semien, Interim Airport Operations Tenant Management, to ensure all insurance requirements are complied with. Together, they will validate insurance requirements annually. Blanca Guzman will be responsible and this task will be completed by September 30, 2020.	<b>Substantially Complete:</b> On 10/1/20 we reviewed evidence that a method for tracking insurance requirements has been developed. IA reviewed the documentation and found some insurance gaps still exist. We forwarded our findings to management, who continue to address the gaps. PENDING FURTHER REVIEW.		12/30/20
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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
			1.3 Use of Taxiway: L3 was made aware of the need for them to halt using the taxiway and begin to remove their equipment. We will establish a timeline for them to remove the equipment in coordination with L3. Kevin Semien will be responsible for this task and timeline will be complete no later September 30, 2020.	<b>Pending Review:</b> Followed up on 10/5/21. Boneyard will be cleaned up by 12/31/21.		<del>12/30/2020</del> 8/31/2021
			1.4 UHI: Kevin Semien worked with UHI Executives on the payment balance. UHI Executives agreed to pay their balance prior to their expiration and termination of their lease. Kevin Semien is responsible for this task and the task should be resolved by July 31, 2020.	<b>Substantially Complete:</b> As of October 5, 2021, one payment is still outstanding. Kevin Semien will speak to his supervisor about whether we will continue to try to collect from UHI.		12/30/20

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
Audit of Disbursements from Student Club Accounts (21-007A), Stuart-Carruthers, C. Wooten	1.	Controls are not consistently applied to ensure disbursements from Club Accounts are authorized and appropriate.	1.1 The College will cease the practice of administering club accounts by Fall of 2021 as clubs transition their funds. Student Life and Student Accounting staff will encourage student clubs to house their student club funds in a bank account off campus that is opened specifically and exclusively for the registered and recognized TSTC club. The new bank accounts will be 100% legally owned and controlled by the clubs themselves (not TSTC), and the club funds will no longer be accounted for in TSTC systems.	<b>Pending Review:</b> Contacted management on 10/1/21 for follow-up. Clubs are still in the process of switching the accounts.		8/31/21

Audit of Contracts with Servion (21-005A), Semien, Guzman	1.	Both contracts associated with the fuel services provided on the airport need to be better monitored.	1.1 Invoicing & Receivables: Blanca Guzman and Elvira Reyna, Budget Analyst will work with Accounting to ensure our invoicing and receivables are done timely and as scheduled for each individual lease. They will also be generating their own monthly reports and tracking activities.	<b>Pending Retest</b>		4/30/21
			1.3 We are currently investigating the charge back of the annual rent adjustment for the current agreement effective April 7, 2007.	<b>Pending Review:</b> Followed up with Kevin Semien on 10/5/21. He stated this has not yet been resolved. He will determine whether this will be pursued.		4/7/21

Report Name & No., Resp. Sr Mgr	Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on Status	Management Comments on Status	Expect. Complete Date
		1.4 We will notify Servion of the insurance requirement by 3/31/21, with further action taken based upon his response.	<b>Pending Review:</b> Followed up with Kevin Semien on 10/5/21. He stated that he is waiting for the owner of Servion to provide additional insurance documentation.		3/31/21

<b>Faculty Credentials Audit (21-018A), DeLeon</b>	1. While the system of controls for faculty credentialing have been appropriately designed, full implementation is still ongoing.	1.2 Implement the Strategic Planning Online system.	<b>Ongoing</b>		12/31/21
		1.3 Finish self-audits of all instructors hired before 3/1/2020.	<b>Ongoing</b>		5/31/22
		1.4 Finish self-audits of all instructors hired after 3/1/2020.	<b>Ongoing</b>		12/1/21

<b>Audit of HEERF Grant as part of CARES ACT (21-006A), Stuart-Carruthers</b>	1. We found isolated instances of non-compliance in some student disbursements and reporting requirements.	1.2 Update website	<b>Pending Review</b>		7/6/21
	2. Internal controls need to be improved.	2.2 Perform weekly self-audits of random awards.	<b>Being retested in the current audit</b>		Immediately

<b>Financial Processes Audit by the State Auditor's Office (21-001A), C. Wooten, Schervitz</b>	1. The College had weaknesses in its asset recording and disposal processes.	See Fixed Asset Issues	<b>See Fixed Asset Issues</b>		See Fixed Asset Issues
	2. The College should strengthen its access controls and maintenance processes to help ensure the reliability of its financial data.	1.3 Workday will make assigning and managing access easier to eliminate such issues.	<b>Ongoing</b> - At 10/7/21, implementation was still ongoing.		2/28/22

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
Accounts Receivable/Billing Audit (21-025A), C. Wooten	1.	We identified systemic issues related to the timely recording of revenue and receipt of payments. Additionally, we identified some instances of payments being different from the contractual amounts.	1.1 TSTC plans to have fully implemented Workday, a new ERP system that should greatly enhance the visibility, efficiency and consistency of billing processes and payment collection. Potential non-compliance by lessees will continue to remain a known, but manageable risk.	Ongoing		5/31/22



# **TEXAS STATE TECHNICAL COLLEGE**

## **Internal Audit Annual Report Fiscal Year 2021**

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



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## **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	EWCHCEC	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.

<b>Agency</b>	<b>Date</b>	<b>Project Description</b>
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.

July 15, 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 indicates 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



November 11, 2021

Mr. Tony Abad, TSTC Audit Committee Chairman  
Texas State Technical College  
Waco, Texas 76705

SUBJECT: Information on Internal Audit's Program of Quality Control

Mr. Abad:

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 2021, all staff obtained at least 40 hours of professionally relevant continuing education.
- Professional certification(s) and Education: Departmental staff hold undergraduate degrees in Accounting, Management, and Cybersecurity. Two staff also hold an MBAs. Professionally recognized licenses and certifications held include 1 CPA, 2 Certified Internal Auditors, and a certification in control self-assessment. Additionally, recognitions as Certified Information System Auditors are also being pursued.
- Internal and external quality assessment reviews: Internal and external reviews were performed in FY 2021 that resulted in "Generally Conforms to Standards" opinions. The external review was performed by Carole Fox, CPA. She is the Chief Audit Executive for the Texas State University System.
- Reliable and sufficient documentation for all audit reports and opinions: I supervised all FY 2021 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 2021, 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 (IIA)*, the *Association of College and University Auditors (ACUA)*, and the *Texas Association of College and University Auditors (TACUA)*. One staff member still serves as the Secretary for the Board for TACUA.
- Client surveys. In FY 2021, client opinions of our work were sought after each audit. All responses were generally good to exceptional.

Sincerely,

A handwritten signature in black ink, appearing to read "Jason D. Mallory", is written over the typed name and title.

Jason D. Mallory  
Director of Audits



November 11, 2021

Mr. Tony Abad, Audit Committee Chairman  
Texas State Technical College  
Waco, Texas 76705

SUBJECT: Annual Confirmation of Organizational & Individual Independence

Mr. Abad:

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



## **Internal Audit Department**

### **Audit Report**

**Accounts Receivable/Billing Audit (21-025A)**

## **TEXAS STATE TECHNICAL COLLEGE**

**Statewide**

**August 27, 2021**

**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 completed an audit of the amounts owed to the College under a sample of current revenue-generating contracts as of May 31, 2021. In recent contract audits, we identified billing and collections exceptions that we felt warranted further review to determine how pervasive the issues may be since manual controls are primarily relied upon right now. The implementation of Workday and the recent implementation of other contract related software are moving reliance away from these controls to automated ones. This audit was also requested by Executive Management in fiscal year 2021 Audit Planning.

The primary objectives of the project were to verify the correct amounts owed to the College under revenue contracts are billed and received timely, with revenue and accounts receivable being properly recorded in the accounting records. To accomplish our objectives, we selected 20 current revenue contracts. We reviewed and documented the major payment terms for each contract, including the frequency of payment, the payment amount, and any rate adjustments that applied. We reviewed accounting records to determine whether the payment terms are being met. For contracts with monthly payments, we reviewed all fiscal year 2021 transactions. For contracts with less frequent payments (annual payments, quarterly, semi-annually), we reviewed all transactions from fiscal years 2019 through 2021. Our audit tested \$3.7 million in payments on contracts that have yielded \$5.7 million in revenue. A summary of the contracts we audited is below:

Contract	Purpose	Current Payment	# of Payments Tested & Amount	Results
#505 SpeedConnect 2/5/18-2/4/28 \$165,120	Educational broadband service	Monthly \$1,275 (Sept 20-Dec 20) Monthly \$1,310 (Jan 20-June 20)	10, \$12,920	Missing one payment of \$1,268. \$10,305 worth of payments not invoiced timely.
#1689 BattleSpace1 1/1/19-10/31/21 \$1,156,000	Rental of 1IME Hangar and 400,000 square feet of airport space	Semi Annually \$108,000	4, \$1,156,000	\$1,048,000 in payments were received late. \$470,000 in payments not invoiced timely.
#1691 L3 9/1/12-8/13/22 \$2,382,620	Rental of 180,610 Square feet of Airport building space	Quarterly \$59,565.50	11, \$1,650,786	Missing 2 partial payments with a combined amount of \$1,560. Unapplied rate adjustments valued at \$46,023.30 not billed. \$643,247.34 worth of payments not invoiced timely.



#1849 L3 9/1/12- 8/31/32 \$7,263,995	Rental of 3,419,982 square feet of Airport ramp space	Quarterly \$86,549.96	11, Combined with contract above	See above.
#1652 Educators Credit Union 6/1/20- 5/31/22 \$82,134	Rental of 3,159 square feet of building and land	Monthly \$3,159 (Sept 20-May 21) Monthly \$3,658.50 (June 21)	13, \$41,593.50	Late payments totaling \$31,108.74
#1905 Texas Parks and Wildlife 10/1/20- 9/30/12 \$2,160	Rental of 3 boat storage spaces	Monthly \$180	8, \$2,520	Late payments totaling \$1,620
#1992 NSAC- Sprint 9/3/19-9/3/49 \$599,450.16	Educational broadband service	Monthly \$1,081.50	9, \$334,635.73	Missing one payment of \$6,861.68. Late payments totaling \$69,566.65. \$129,394.13 in payments not invoiced timely.
#1993 NSAC- Sprint 9/13/19- 9/13/49 \$599,450.16	Educational broadband service	Monthly \$1,081.50		
#1998 NSAC- Sprint 2/2/08-2/1/18 \$2,340,000	Educational broadband service	Monthly \$6,000		
#1989 NSAC- Sprint 9/3/19-9/3/49 \$570,904.92	Educational broadband service	Monthly \$1,030		
#1990 NSAC- Sprint 9/3/19-9/3/49 \$1,479,171.12	Educational broadband service	Monthly \$2,755.25		
#1994 NSAC- Sprint 9/13/19-	Educational broadband service	Monthly \$2,143.43		

9/13/49 \$1,186,976.28				
#1995 NSAC-Sprint 9/3/19-9/3/49 \$868,917.24	Educational broadband service	Monthly \$1,567.66		
#1996 NSAC-Sprint 12/7/07-12/7/37 \$3,780,000	Educational broadband service	Monthly \$10,000		
#1999 NSAC-Sprint 12/17/07-12/17/37 \$1,170,000	Educational broadband service	Monthly \$3,000		
#2000 NSAC-Sprint 2/4/18-2/4/28 \$165,120	Educational broadband service	Monthly \$1,275 (Sept 20-Jan 21) Monthly \$1,310 (Feb 21-June 21)		
#2324 NSAC-Sprint 3/19/21-3/19/51 \$2,268,000	Educational broadband service	Monthly \$6,300		
#1690 STAG III Inc. 4/3/08-4/2/48 \$5,503,731.35	Rental of 1,1131,253 square feet of Airport space	Annually \$125,923.22	3, \$377,770.54	All payments tested were late.
#2206 Abilene ISD 8/1/20-12/31/21 \$17	Rental of 28,000 square feet of building space.	Monthly \$1	12, \$12	While insignificant, no revenue has been billed or received.
#1229 UT-RGV 8/1/18-7/31/21 \$374,258.74	Rental of 7,978 square feet of building space.	Monthly \$9,833.33	9, \$88,499.97	\$29,499.99 in payments received late.

Overall, the correct amounts owed on contracts are being received by the College, but we found approximately \$56 thousand in missed payments that can potentially be recovered. The systemic untimely invoicing and late payments are indicative of the largely ineffective manual processes that have been relied upon because of limitations of Colleague. These issues further support the decision to a transition to Workday, as it will be more capable of applying automated controls to help manage accounts receivable.

## **Introduction**

Revenue contracts are entered into, and performance managed, by several different College departments. The Office of Contract Administration assists with contract executions and renewals to ensure all legal and compliance rules are met. They also maintain a database of all contracts. The Student Accounting department oversees the accounting processes for the contracts, which includes recordation of transactions, billing, and receipt of payments. Most of the revenue contracts the College has are to either provide educational broadband services across the State or rent facilities to various vendors and State agencies. The contracts we tested were associated with the Waco, Harlingen, Abilene, and Brownwood campuses, and related to the Airport, OIT, other campus facilities and administrative functions. We identified 37 current revenue contracts.

Our audit included 20 contracts with that have generated \$1,395,015 in combined revenue from September 1 through May 31, 2021.

## **Objectives**

The objectives of the audit were to:

- Verify the correct contractual revenue is received timely.
- Accounting records accurately and timely reflect amounts owed and received.

## **Scope & Methodology**

The scope of the audit included all current revenue contracts and related Colleague invoice and payment records. For contracts with monthly payment terms, all fiscal year 2021 transactions were tested. For contracts with quarterly, semi-annual, or annual payment terms, all transactions for fiscal years 2019 through 2021 were tested. To accomplish our objectives we reviewed and documented the major payment terms for each revenue contract, including the frequency, amount, and any rate changes. We then used Colleague invoicing and payment records to verify if the terms are being met.

## **General Observations**

Revenue contracts are managed by several different College departments. In previous audits, identifying revenue contracts was challenging because they were not maintained in one space. Since then, the Office of Contract Administration has established a database to track contracts. This allowed us to identify and access the contracts more efficiently. They also work with Student Accounting and functional College departments to manage contracts. The various departments work together to ensure contract provisions are being met.

### **Summary of Findings**

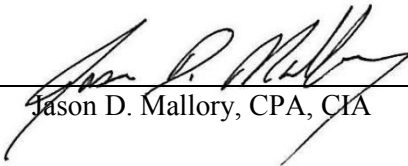
We identified systemic issues related to the timely recording of revenue and receipt of payments. Additionally, we identified some instances of payments being different from the contractual amounts.

### **Opinion**

Based on the audit work performed, amounts owed under revenue contracts are generally being paid. However, we noted issues related to the timely recording of revenue and receipt of payments. These are primarily due to the manual controls that are currently relied upon. The implementation of Workday, and other contract management software will help with these issues. We also identified some payments that were different than amounts owed under the contracts.

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 27, 2021  
Date

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## **AUDIT FINDING DETAIL**

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**Finding #1:** We identified systemic issues related to the timely recording of revenue and receipt of payments. Additionally, we identified some instances of payments being different from the contractual amounts.

**Criterion:** We selected a sample of 20 current revenue contracts and documented the major payment terms for each. This included the frequency of the payment, the payment amount, and any periodic payment adjustment. We used Colleague records, including ARTB reports, invoices, and payment receipts, to verify payment terms for each contract are being met. Generally, we focused on fiscal year 2021 transactions. However, for contracts with quarterly, semi-annual, or annual payment frequency, we included fiscal years 2019 and 2020 transactions. We tested \$3,664,737.74 in payments.

Our tests yielded the following results that need to be addressed:

- Of the 9 different vendors we reviewed, 6 vendors had payments that were not received by the due date. The days late ranged from 12 – 136 days late, depending on the vendor. These late payments represented \$2,785,530.44 of the \$3,664,737.74, or 76%, of the payments we tested.
- Revenue is not consistently recorded in the same manner. We noted instances of revenue being recorded late. Additionally, we noted instances of payments being received prior to an invoice being created. It appears that we are receiving payments, and then creating invoices to apply those payments to. Ideally, invoices should be created based on the contract terms several days before payments are received. Combined, we identified \$1,663,314.01 in this category, or 45%, of the payments we tested.
- We identified 5 vendors with \$56,732.74 payments that have not yet been received. Some of these payments dated back to early 2019. The majority of this was related to an unapplied contractual payment increase for one vendor. This represented about 1.5% of the payments we tested. One of these vendors currently has 11 active revenue contracts. All contracts are billed as one lump sum amount, and Colleague records do not have any detailed information about which contract is being billed and/or paid.

**Consequences:** Increased risks of late and lost revenue under contracts.

**Possible Solutions:** We recommend the College proceed with full implementation of Workday to assist with the billing and timely recordation of contractually earned revenue. We also recommend attempts be made to validate and collect missed payments we cited.

### **Management Response**

Management of Student Accounting, the Office of Contract Administration, and the various functional departments of the College which manage and oversee the noted contracts and leases,

agree with the observations made in the audit. Systemic issues related to the timely recording of revenue and receipt of payments were the result of several factors, both internal and external. Internal factors include inconsistency in the effectiveness of manual controls due in part to system constraints, and a lack of full synergy among the various departments involved in lease transactions. External factors affecting timeliness of payment include sporadic non-compliance to payment terms and conditions by lessees. By Spring 2022, TSTC plans to have fully implemented Workday, a new ERP system that should greatly enhance the visibility, efficiency and consistency of billing processes and payment collection. Potential non-compliance by lessees will continue to remain a known, but manageable risk. A combination of regular aging reports from Workday and an automated tickler system utilized by the Office of Contract Administration will aid significantly reducing reliance on manual controls. Chad Wooten, Associate Vice Chancellor for Finance, along with leaders from the various other departments involved in contract management and billing processes, will be responsible for implementation of this corrective action plan.



## **Internal Audit Department**

### **Audit Report**

#### **Annual Contract Audit (21-028A)** **TEXAS STATE TECHNICAL COLLEGE**

**September 23, 2021**

**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 compliance audit of the Incline Alchemy contract (Contract) executed on September 29, 2020, currently valued at \$3,150,460. The primary purpose of this audit was to verify compliance to the requirements of TEC §51.9337 added by SB 20 of the 84<sup>th</sup> Texas Legislature, as well as compliance to the processes and requirements stated in the College's Contract Management Handbook (Handbook).

We verified the authorized persons within the College executed the contract, bidding for the services were performed appropriately to ensure a competitive, a fair selection process was utilized to procure the related services, and other requirements were met. The other requirements include evidence that no conflict existed between the persons executing the contract and the vendor, appropriate training of these people, regulatory reporting was met, and other necessary procedural type steps were taken.

Our testing confirmed the Contract materially complied with the rules stated in TEC §51.9337 and the Handbook. The contract was approved by the appropriate level of authority, a contract checklist was completed, a competitive bid process was properly performed, and the people engaged in the contracting process were generally trained. We identified isolated exceptions related to a document needing to be completed and some personnel involved in the solicitation process needing to complete training, but we did not feel these represented significant compliance failures. They were communicated to management to verify for future contracts. With the implementation of RSolution, a contract management software that controls the workflow of solicitation of contracts, and acts as a central repository for related contract documents, compliance has moved from a manual oversight process to more automated. We commend management for their efforts in implementing this system.

## **Introduction**

Incline Alchemy, a company based in California, was selected from 6 vendors who submitted proposals to assist with implementation of Workday, the new ERP system. The selected vendor was also expected to provide end user training on that system. Currently, the project is in the testing phase, with deployment of the Human Capital Management, Payroll and Financials functions by the end of February 2022. Minute Order #41-19(c) approved by the Board of Regents on 8/15/19 allowed for up to \$15,000,000 to be utilized. The current contracted amount of \$3,150,460 represents the amount contracted obligated to date, with possible future costs being incurred under this or separate contracts.

TEC §51.9337 requires that a contract review procedures/checklist be reviewed and approved by legal counsel, policies governing contracting authority be approved by the Board, and 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. Additionally, Statewide Operating Standard (SOS) FA 1.16 Purchasing Authority and FA



4.4 Contract Administration outlines the purchasing and contract requirements, referencing SB20 requirements and other required processes in the Handbook. The Handbook includes ethical standards and policies, solicitation guidelines, contract formation and administration.

Contracts \$1 million and more, including amendments, potential extensions or renewals, are required to be approved by the Board of Regents per the delegation of authority guidelines, and the Board must approve any amendment, extension or renewal of a contract with a value that exceeds 25 percent of the value of the original contract approved by them. This approval can be delegated to the Chancellor after specific authority is granted by the Board. For contracts up to \$1 million, statewide leadership has authority to execute those contracts, depending on their types value. Prior to signing a contract, a contract review checklist is required for most contracts with a value of \$14,000 or more. The checklist is generated in RSolution. It identifies department and vendor information, contract terms, procurement information, evidence of review by the Office of Contract Administration, and approvals from OIT (if applicable), General Counsel, or others.

The Office of Contract Administration maintain the depository of all contracts, and assists with procuring contracted services. They are instrumental in ensuring all compliance aspects of contracts are achieved. An Executive Director, 3 contract managers, and a project manager, overseen by and Executive VP of Procurement comprise this group.

### **Objectives**

The primary purpose of this audit was to verify compliance to TEC §51.9337, internal policy, the Handbook, and the contract review checklist for the Incline Alchemy contract.

### **Scope & Methodology**

The scope of our audit included the Incline Alchemy contract executed on September 29, 2020. Our methodology consisted of verifying requirements stated in TEC §51.9337, SOS FA 1.16 Purchasing Authority and FA 4.4 Contract Administration were met in the execution and performance of these contracts. Training and conflict of interest disclosures of personnel involved in these contracts were also tested. The Handbook and contracting review checklist were included in our testing as were other documents specified in the guidance that we used as a basis for the audit. To accomplish our objectives, we reviewed the contract, and verified the appropriate documents, approvals, and training were in place. The Office of Contract Administration was our primary contact.

### **General Observations**

Controls to achieve contract compliance requirements have matured significantly since our first similar audit performed in fiscal year 2015. An office dedicated to contract oversight and compliance has been created that assists managers throughout the College to properly procure and contract services. The Office of Contract Administration implemented

RSolution in April 2020, which has automated many aspects of oversight and compliance requirements. Prior to that implementation, manual processes that often fell short were heavily relied upon.

### **Summary of Findings**

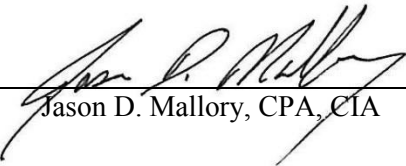
No material compliance exceptions were identified.

### **Opinion**

Based on the audit work performed, the Incline Alchemy contract reviewed in this audit materially complied with TEC §51.9337 and the Contracting Handbook. The College has developed processes, and continues to improve those processes, to achieve compliance with TEC §51.9337. Since the implementation of RSolution, we noted several improvements to the processes and records management of solicitation and contract documentation.

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

Submitted by:

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

September 23, 2021  
\_\_\_\_\_  
Date



## **Internal Audit Department**

### **Audit Report**

#### **Public Funds Investment Act Audit (22-003A)** **TEXAS STATE TECHNICAL COLLEGE**

**September 24, 2021**

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

## **Executive Summary**

Chapter 2256 of the Texas Government Code, commonly referred to as the Public Funds Investment Act (PFIA), provides guidance on the authority and responsibilities the College has when making investment decisions. The PFIA requires a biennial compliance audit to ensure all rules are followed. In addition, Article III, Rider 5 of the General Appropriations Act, 87<sup>th</sup> Legislature (Rider 5), also specifies various investment reporting requirements. The purpose of this audit was to satisfy the biennial audit requirement by verifying the College has complied with the PFIA and Rider 5 during fiscal years 2020 and 2021.

Our audit was conducted to ensure all major provisions within the PFIA and Rider 5 were followed. Specifically, we tested the College's investment policy to ensure it includes all required elements of the PFIA, and to determine whether it is reviewed and approved by the Board of Regents (Board) annually. We also reviewed training records, conflict of interest disclosures, and bidding procedures. Quarterly investment and collateral reports were tested to determine their validity, accuracy and timeliness. The investment portfolio was scrutinized to ensure all investments were allowable by both policy and regulation. Finally, we determined various reports and investment information is published on the College's website, and that an "annual tracking report" was submitted to the State Auditor's Office by December 31.

Our test revealed that all investments and related collateral are within PFIA guidelines, required training is being performed, and conflicts of interest disclosures were obtained with no conflicts being reported. The quarterly investment and collateral reports report valid and accurate information in a timely manner. Written policies in compliance with the PFIA have been implemented, and those policies were approved by the Board in both fiscal years under audit. The investment strategy as demonstrated by the make-up of the current investment portfolio is managed to, in order of priority, preserve principal, achieve liquidity, and then maximize yield. The annual tracking report was submitted to the State Auditor's Office timely and all required information per Rider 5 was posted on the College's website.

In our opinion, the College substantially complied with the PFIA and Rider 5 during fiscal years 2020 and 2021. We identified one minor exception related to an interest reported on the May 31, 2021, Quarterly Investments Report in which the reported interest was .03% higher than the actual rate. Typically, this exception would be passed on due to it not representing a significant issue, however, the guidelines for this audit require all instances of non-compliance, irrespective of materiality, to be reported to the State Auditor.

## **Introduction**

Chapter 2256 of the Texas Government Code outlines the rules State entities must follow when investing its funds. Its primary investment objective is preservation of principal. Maximizing yield, while addressed, is not its ultimate concern. To achieve the primary

objective, it specifies the type of investments that are allowable, outlines training requirements, addresses conflict of interest procedures, and mandates policy and reporting guidelines.

Within the College, the Vice Chancellor for Finance/CFO has been designated as the College's Investment Officer, with the Vice President/Controller being designated as the alternate. They are primarily responsible for the College achieving PFIA and Rider 5 compliance.

Currently, the investment portfolio is very conservative, being largely comprised of demand deposits, certificates of deposit and money market accounts. As of May 31, 2021, the collective balance of all demand and time deposits totaled \$74,237,662. Of that balance, \$50,986,588 was deposited at the State Treasury, or other government pools (TexTerm and TexPool), which do not require collateral. There was sufficient collateral of \$35,159,234 for the remaining deposits.

### **Objectives**

The objectives of the audit were to determine whether:

1. The College has achieved compliance with the PFIA and Rider 5 in fiscal years 2020 and 2021.
2. Adequate controls were designed/implemented for continuing compliance.

### **Scope & Methodology**

The scope of our audit included all investments and collateral, policies, and related training, disclosures, and reports in fiscal years 2020 and 2021. We audited to Chapter 2256 of the Texas Government Code, Article III, Rider 5 of the General Appropriations Act, 87<sup>th</sup> Legislature, and SOS FA 2.03 Investments to ensure compliance of all College investment activities in those years.

### **General Observations**

Management has established strong controls to ensure investments are appropriately maintained, with practices in accordance with established guidelines. Internal policy parallels regulatory guidance and addresses the College's investment strategy. Management does a commendable job in documenting related activity and reporting it timely to the Board.

### **Summary of Finding**

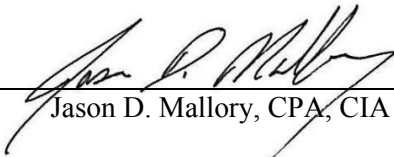
We identified one minor exception related to an interest rate reported on the May 31, 2021, Quarterly Investments Report in which the reported interest was .03% higher than the actual rate.

### **Opinion**

Based on the audit work performed, TSTC complied with Chapter 2256 of the Texas Government Code and Article III, Rider 5 of the General Appropriations Act, 87<sup>th</sup> Legislature, in fiscal year 2020 and 2021. We identified one minor exception that is detailed in this report because of a requirement by the State Auditor to report all exceptions, irrespective of their materiality.

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

Submitted by:

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

\_\_\_\_\_  
September 24, 2021  
Date

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### **AUDIT FINDING DETAIL**

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Finding #1: We identified one minor exception related to an interest rate reported on the May 31, 2021, Quarterly Investments Report in which the reported interest was .03% higher than the actual rate.

**Criterion:** We selected a sample of investments reported on the May 31, 2021, Quarterly Investments Report. We reconciled the values and interest rates to related bank statements to ensure the amounts reported were reliable. We also attempted to confirm the information directly with the banks.

The TexPool account had a value of \$20,765,235 on May 31, 2021. The Quarterly Investment Report indicated the account had an interest rate at the time of .04%. However, the actual interest rate was .01%. While this difference is not material, we are required to cite it. This was just an error on the Quarterly Investment Report, and not an accounting error. The proper interest revenue was recorded.

**Consequences:** No material risk.

**Possible Solutions:** Review all reported amounts and interest rates on each Quarterly Investment Report by comparing them to the related bank statements.

### **Management Response**

Management of Accounting and Reporting agrees with the observations made in the audit. The incorrect interest rate reported on the May 31, 2021 quarterly report was a typing error and an isolated incident. At this time, Anju Motwani, VP & Controller, respectfully recommends that Executive Leadership and the Board of Regents accept the risk because of the immaterial difference.

# An Executive Summary of TAC-202 at Texas State Technical College

November 2021

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The *Texas Administrative Code, Section 202* (commonly known as TAC-202) creates the minimum standards for IT security at state agencies. TSTC is subject to these requirements.

The *Texas Department of Information Resources*, the chief IT agency in Texas, provides agencies with a resource for fulfilling TAC-202. These guidelines are published in a *controls catalog* that classifies controls as either required or recommended.

There are 135 required controls that agencies must apply to the general IT environment and/or their individual systems. Such required controls relate to access, change management, audit logging, back-up & recovery, maintenance, and various physical safeguards.

TAC-202 is so broad and so comprehensive that agencies across the state struggle to comply with the daunting scope of the rules. Indeed, reaching full compliance can take many years for some while other agencies may never reach the goal.

Since the work cannot possibly be completed all at once, the TSTC approach to TAC-202 has been to first target the high-risk and/or mission critical systems. Then, in turn, the various requirements are addressed in a logical sequence of declining risk levels. This work is ongoing today.

While an internal audit is required biennially, TSTC has elected to practice a higher degree of audit frequency in TAC-202. In a collaboration between Internal Audit Department and the TSTC IT staff, the college has a *continuous* audit process. This approach exceeds the minimum requirements and ensures a better pace of continuous improvement toward final completion.

As a result of these continuous efforts, a detailed database of controls shared by both IT and Internal Audit has been built that memorializes the required controls that have been audited, as well as the current status of their implementation. This database is invaluable in managing and documenting the extensive efforts to comply and ensure IT security.

An executive summary of the progress made by TSTC in TAC-202 is presented quarterly by Internal Audit to the Board of Regents in a report called: ***TAC 202 Compliance – Quarterly Update***. This report follows.







To: Audit Committee  
 From: Jason D. Mallory, Audit Director  
 Subject: TAC 202 Compliance – Quarterly Update  
 Date: October 7, 2021

The purpose of this memo is to provide you the current implementation statuses of IT controls required by TAC 202 tested in numerous internal audits of systems conducted since 2017. Annually, the list of audits of systems will increase as we continue to audit. Each quarter we test select controls which were previously not implemented. From July 1 through September 30, 2021, **2** more required controls were implemented. Both of these controls were related to Colleague. For the systems that are lightly shaded, all controls have been implemented.

## RESULTS

### General Controls

Original Audit: June 28, 2017

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted <sup>Note 1</sup>	Total
July 2021 – September 2021	63	19	0	4	86
April 2021 – June 2021	63	19	0	4	86
Change	0	0	0	0	

*Note 1: Management has elected to not implement controls SC-20 & SC-21 because implementing is too costly, and does not provide additional risk mitigation. Furthermore, they have researched other agencies and institutions of higher education, and no one else has implemented the controls. IA-7 relates to cryptographic modules. There are no systems or environments that use these. Finally, they have elected to accept risks with not fully implementing CM-11 related to fully restricting software from being installed by end-users. They feel that compensating controls such as malware, and the ability to restrict specific downloads from the internet assist with mitigating associated risks.*

### Colleague

Original Audit: June 28, 2017

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
July 2021 – September 2021	35	11	3	0	49
April 2021 – June 2021	33	11	5	0	49
Change	+2	0	-2	0	

**Perceptive Content**

Original Audit: June 28, 2017

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted <sup>Note 2</sup>	Total
July 2021 – September 2021	30	15	3	1	49
April 2021 – June 2021	30	15	3	1	49
Difference	0	0	0	0	

**Note 2:** AU-5 requires the system to send an alert when an audit log fails. This system does not have that capability.

**Maxient**

Original Audit: February 25, 2019

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
July 2021 – September 2021	46	3	0	0	49
April 2021 – June 2021	46	3	0	0	49
Difference	0	0	0	0	

**Google Suite**

Original Audit: December 10, 2018

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted <sup>Note 3</sup>	Total
July 2021 – September 2021	38	9	0	2	49
April 2021 – June 2021	38	9	0	2	49
Difference	0	0	0	0	

**Note 3:** AC-7 requires the system to lock for at least 15 minutes after 10 failed logon attempts. AC-8 requires a banner to be displayed that indicates unauthorized access is prohibited before a user signs on. This system does support either of these requirements. The risk of unauthorized access is mitigated by other compensating controls.

**Target X**

Original Audit: September 30, 2019

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
July 2021 – September 2021	48	1	0	0	49
April 2021 – June 2021	48	1	0	0	49
Difference	0	0	0	0	

**Informatica Server**

Original Audit: September 30, 2019

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
July 2021 – September 2021	49	0	0	0	49
April 2021 – June 2021	49	0	0	0	49

Difference	0	0	0	0	
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### PrismCore

Original Audit: September 21, 2020

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted <small>Note 4</small>	Total
July 2021 – September 2021	42	6	0	1	49
April 2021 – June 2021	42	6	0	1	49
Difference	0	0	0	0	

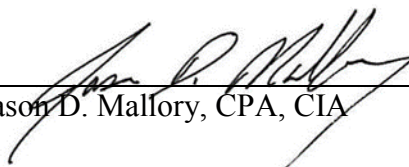
*Note 2: AU-5 requires the system to send an alert when an audit log fails. This system does not have that capability.*

### Informer

Original Audit: April 6, 2021

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted <small>Note 4</small>	Total
July 2021 – September 2021	35	9	5	0	49
April 2021 – June 2021	35	9	5	0	49
Difference	0	0	0	0	

Submitted by:

  
 Jason D. Mallory, CPA, CIA

October 7, 2021  
 Date

cc: Mike Reeser, Chancellor/CEO  
 Ricardo Herrera, VC/CSSO  
 Shelli Scherwitz, Executive Vice President/OIT  
 Larry McKee, Executive Director/OIT Compliance



Texas State Technical College  
Internal Audit  
Attestation Disclosures

Responsible Management	Issue Reported by Management	Report Date	Management's Corrective Action Plan	Internal Audit Assistance/Follow-up
No new reports were made.				

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.