



TEXAS STATE TECHNICAL COLLEGE

Internal Audit Annual Report Fiscal Year 2022

Prepared by
Jason D. Mallory, Director of Audits

Table of Contents

Section

Compliance with TGC, Section §2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the TSTC Website	I, page 3
Internal Audit Plan for FY 2022	II, pages 4-5
List of Consulting Engagements and Non-audit Services Completed in FY 2022	III, pages 6-7
External Audit Services Procured in FY 2022	IV, page 8
Internal Audit Plan for FY 2023	V, page 9
Reporting Suspected Fraud and Abuse	VI, page 10
External Quality Assurance Review	VIII, pages 11-13

I. Compliance with TGC, Section §2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the TSTC Website

TGC, Section §2102.015 requires the College to post certain information on its website. Specifically, the College must post the current year audit plan within 30 days of approval by the Board of Regents, and the following information to its website:

- The annual audit report for the previous fiscal year.
- A detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report.
- A summary of the action taken by the College to address concerns raised by the audit plan or annual report.

To comply with the requirements, TSTC Internal Audit will submit its Internal Audit Annual Report to the College's website coordinators to be posted on the Internal Audit section of the College's website no later than 30 days after the TSTC Board of Regents approves the current year audit plan at its August meeting. This Annual Report includes the approved fiscal year 2023 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 2022

The Board of Regents approved the original internal audit plan for FY 2022 on August 19, 2021, with Minute Order #24-21(c). There were no deviations from the original internal audit plan, but the audit for the bookstore on the Marshall campus was still in progress at 8/31/22.

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 2022, an audit related to grounds maintenance contracts was performed. This is listed below as Report # 22-028A that was completed on June 8, 2022. We identified minor billing, and opportunities to improve monitoring of background check and insurance requirements.

An audit of benefits proportionality was conducted in FY 2022 to address the benefits proportionality audit requirement prescribed in Rider 8, page III-50, of the General Appropriations Act of the 87th Legislature. Represented below as Report # 22-008A dated December 9, 2021, one finding was identified in which \$67,984.46 in disallowed benefits were paid from appropriated funds. That amount was refunded to the Comptroller's Office on November 8, 2021. For fiscal year 2023, another audit will be conducted on benefits proportionality.

Fiscal Year 2022 Internal Audit Plan

Project Description	Division/Campus	Report Number	Report Date	Status
TEC 51.9337 Contracting Audit	Procurement	22-028A	6/8/22	Complete
Public Funds Investment Act Audit	Finance	22-003A	9/24/21	Complete
Benefits Proportionality Audit	Finance, Payroll	22-008A	12/9/21	Complete
Coronavirus Aid, Relief, and Economic Security (CARES) Act Compliance Audit	Finance, OSP, Financial Aid	22-006A	12/20/21	Complete
Internal Network Penetration Test	North Texas campus	22-031A	6/9/22	Complete
Internal Network Penetration Test	Fort Bend campus	22-012A	1/4/22	Complete
Tuition Audit	Finance	22-015A	3/29/22	Complete
Bookstore Audit	Marshall Campus			In Progress
On-Line Learning Integrated Audit	OIT, Instruction	22-021A, 22-002A	5/20/22, 6/6/22	Complete

Surprise Cash Counts	Various departments, All campuses	22-017A	3/15/22, 6/6/22, 6/7/22, 6/10/22, 6/23/22	Complete
Surprise Police Evidence Room Inspections	Campus Police Departments	22-018A	12/15/21, 5/17/22	Complete
Virtual Private Network Audit	OIT	22-004A	11/22/21	Complete
Audit of the TWC Server	Business Intelligence, OIT	22-022A	5/16/22	Complete
Academic Records Management Audit	Instruction, Registrar	22-005A	12/17/21	Complete
TAC 202 Follow-up	OIT	22-009A	10/7/21, 3/10/22, 5/12/22, 6/30/22	Complete

Two FY 2021 audits were also completed in FY 2022. Those included the TEC 51.9337 Contracting Audit (report #21-028A), and an Accounts Receivable Billing Audit (report #21-003A).

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 2022

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
22-001A	In Progress	External Penetration Test Follow-up	OIT	Review actions taken on recommendations made in an external IT penetration test performed in FY 2021.	
22-016A	7/20/22	IA assisted the TSTC Foundation with procuring an audit of the newly constructed Griffith Hall. This was not a College audit.	TSTC Foundation	The audit identified \$278,281 in disallowed amounts billed and paid eligible for recovery.	Contractor agreed to the overpayments. Payments will be recovered on the final billing.
22-019I	6/3/22	Payment Fraud Investigation	Procurement Services	Investigated an \$87,400 payment made to a person who submitted fraudulent payment instructions. \$79,662.52 was recovered. This was a phishing scam.	Supplier identity verification has been outsourced, and quarterly training of procurement staff to recognize fraudulent requests.

22-027I	3/24/22	Dental Hygiene Investigation	Dental Hygiene Program	Reviewed controls governing fees charged to students. Determined controls needed to be improved to segregate responsibilities over the collection and disbursement of these fees.	All payments will be made to the Cashier's Office, with funds being recorded in a Departmental account.
22-037A	9/9/22	Audit of Foundation Controls	Accounting/ Foundation	Reviewed controls to ensure a married couple's responsibilities do not create a control problem. All controls are appropriate. No concerns were noted.	

IV. External Audit Services Procured in FY 2022

There was one delegated request in FY 2022 for an audit to be performed by a third-party provider. The following schedule summarizes that project.

Auditor	Date of Delegation	Project Description
Workforce Talent Educators Association	5/10/22	Perform an audit designed to help TSTC understand and communicate its strengths and opportunities of its instructional programs in regards to career building. Workforce outcomes, quality management processes, and instructional program competency assessments will be within the scope of the audit. All of this work is to leverage areas of strength and identify opportunities to improve processes to better serve the employers of the State of Texas in line with TSTC's charter outlined in Chapter 135. The audit was ongoing at 8/31/2022.

V. Internal Audit Plan for FY 2023

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, workforce development, dual enrollment, fleet management, and audits of the various construction contracts.

A limited scope audit related to benefits proportionality is scheduled again for FY 2023, 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 2023:

Audit Name	Budgeted Hours
TEC §51.9337 (Contracting) Audit – satisfies annual audit requirement of contracts	350
American Rescue Plan Act – Higher Education Emergency Relief Fund III	350
Audit of Remote Work Processes and Procedures	350
Accounts Payable Audit	300
Audit of the Waco Physical Plant	500
Audit of the Harlingen Physical Plant	500
Payroll and Benefits Proportionality Audit	500
Fixed Asset Verification	1400
Sick Leave Administration	400
Internal Network Penetration Test (Harlingen campus)	160
Internal Network Penetration Test (East Williamson County campus)	160
Internal Network Penetration Test (Waco campus)	160
Audit of General IT Controls - satisfies audit requirements related to technology risks and TAC 202	450
T-Drive Audit - satisfies audit requirements related to technology risks and TAC 202	400
Quarterly Follow-up of TAC 202 Controls	100
Construction Project Audits	Will be outsourced

The FY 2023 Audit Plan was approved by the Board of Regents on August 18, 2022, by Minute Order #IA 01-22(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 87th Legislature's General Appropriations Act, and Texas Government Code, Section 321.022:

- The College's website describes how to report suspected fraud, waste and abuse to the State Auditor's Office. A link to the State Auditor's Office fraud hotline is included, as is the hotline telephone number.
- A confidential *internal* fraud hotline is also available for people to report suspected fraud, waste and abuse. This hotline is administered by Internal Audit.
- Statewide Operating Standards GA 1.15, GA 1.16, and GA 1.17 have been adopted that detail responsibilities to prevent/detect fraud, how to report suspected fraud, and describe the College's other expectations in regard to fraud, waste, and abuse. Those Standards are available through the College's website.
- In compliance with the reporting requirements of fraud, waste, and abuse, the College reports all instances of confirmed fraud, waste, and abuse to the SAO.

VIII. External Quality Assurance Review

An External Quality Assurance Review of the Internal Audit Department was completed on May 17, 2021, by Carole M. Fox, CPA. Ms. Fox is the Chief Audit Executive for the Texas State University System. She is entirely independent from all auditors employed by the TSTC Internal Audit Department.

The results of the review indicated that TSTC Internal Audit Department generally conforms to standards. The Department was also commended for its well-crafted audit charter, and the level of accessibility to the Board of Regents and the Chancellor. A copy of the original report is attached.

May 17, 2021

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

Dear Mr. Mallory,

At your request, I performed an external quality assurance review on the Internal Audit Department of the Texas State Technical College (TSTC). The review included an independent validation of the assertions and conclusions made in the *Internal Quality Assessment Review Report* issued by Ms. Tahlia Pena, Audit Manager, on November 6, 2020.

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

Opinion Rating Definitions

The rating system used for expressing an opinion for this review is defined by the *Standards*, and provides for three levels of conformance: generally conforms, partially conforms, and does not conform.

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

Scope and Work Performed

The review was performed in accordance with the State Agency Internal Audit Forum *Peer Review Guidelines* using the *Master Peer Review Program*. The scope included all TSTC internal audit activities from September 2017 through August 2020, and consisted of the following:

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

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

Results and Opinion

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

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

Key Observations

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

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

Sincerely,



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