



TEXAS STATE TECHNICAL COLLEGE

Internal Audit Annual Report Fiscal Year 2025

**Prepared by
Jason D. Mallory, Chief Auditor**



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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 audit plan at its August meeting for the upcoming fiscal year. This Annual Report includes the approved audit plan for fiscal year 2026. 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 Fiscal Year 2025

The Board of Regents approved the original internal audit plan for fiscal year 2025 on August 8, 2024, with Minute Order #IA 01-24(c). There was one deviation from the internal audit plan. On May 15, 2025, Minute Order #IA 01-25(c) was approved to remove an audit of the hiring process, and replace it with an audit of payroll.

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 fiscal year 2025, an audit related to a compliance audit of a construction contract currently in progress on the Hutto campus was completed on August 29, 2025. That audit will be presented to the Board of Regents in November 2025, and will be listed as Report #25-048A. There were no material exceptions identified in that audit. Furthermore, cost recovery audits were outsourced under delegation #719-2024-001. Audits of 9 construction contracts with a combined value of \$244 million were audited under that delegation at an audit cost of \$277 thousand. Three of those audits were completed, with a combined recovery of \$160 thousand, with audit costs of those 3 being \$42 thousand. Six audits were still in progress at August 31, 2025.

Fiscal Year 2025 Internal Audit Plan

| Project Description | Division/Campus | Report Number | Report Date | Status |
|--|-----------------------|---------------|-------------|--------------------|
| TEC §51.9337 (Contracting) Audit – satisfies annual audit requirement of contracts | Finance | 25-048A | 8/29/2025 | Complete Note 1 |
| SB 17 Compliance Audit | Human Resources/Legal | 25-001A | 8/19/2024 | Complete |
| TWC Contract Audit | Business Intelligence | 25-002A | 9/12/2024 | Complete |
| Internal Penetration Test – North Texas campus | OIT/Security | 25-011A | 11/19/2024 | Complete |
| Internal Penetration Test – Fort Bend campus | OIT/Security | 25-013A | 11/21/2024 | Complete |
| Internal Penetration Test – New Braunfels campus | OIT/Security | 25-012A | 11/25/2024 | Complete |
| Clery Act Audit | Safety & Security | 25-003A | 12/12/2024 | Complete |
| Travel Expense Audit | Procurement | 25-010A | 12/16/2024 | Complete |
| Workforce Training Audit | Workforce Training | 25-006A | 2/24/2025 | Complete |

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|---|-------------------------------------|---------|---|--------------------|
| Workday Audit – TAC 202 | OIT | 25-027A | 5/16/2025 | Complete |
| Payroll Audit | Payroll/HR | 25-016A | 5/27/2025 | Complete |
| Tuition Audit | Finance | 25-022A | 5/28/2025 | Complete |
| Student Conduct Audit | Retention Services | 25-025A | 5/28/2025 | Complete |
| Quarterly Follow-up of TAC 202 Controls | OIT | 25-007A | 6/30/2025, 3/31/2025, 12/31/2024, 10/31/2024 | Complete |
| Syllabi Audit | Operations | 25-039A | 8/29/2025 | Complete Note 1 |
| Audit of Federal Financial Aid | Financial Aid | 25-038A | In Progress | In Progress |
| JBC Remodel Construction Audit | Facilities, Planning & Construction | 24-004A | 2/24/2025 | Complete |
| Waco Worksite Construction Audit | Facilities, Planning & Construction | 24-004A | 5/16/2025 | Complete |
| EEC & TSC Renovation Construction Audit | Facilities, Planning & Construction | 24-004A | 5/16/2025 | Complete |
| Marshall CCAP Construction Audit | Facilities, Planning & Construction | 24-004A | In Progress | In Progress |
| Abilene CCAP Construction Audit | Facilities, Planning & Construction | 24-004A | In Progress | In Progress |
| Waco CCAP Construction Audit | Facilities, Planning & Construction | 24-004A | In Progress | In Progress |
| Fort Bend CCAP Construction Audit | Facilities, Planning & Construction | 24-004A | In Progress | In Progress |
| Harlingen CCAP Construction Audit | Facilities, Planning & Construction | 24-004A | In Progress | In Progress |
| Hutto CCAP Construction Audit | Facilities, Planning & Construction | 24-004A | In Progress | In Progress |

Note 1: This report will be forward to agencies in November 2025 after it is presented to Board of Regents

Three fiscal year 2024 audits were completed in the first quarter of fiscal year 2025. Those were: Internal Penetration Test – West Texas Campuses (25-029A), Fleet Management Audit (24-025A), and TEC §51.9337 (Contracting) Audit (24-038A).

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. Reports with Note 1 will be posted after they are presented to the Board of Regents in November 2025.

III. List of Consulting Engagements and Non-audit Services Completed in Fiscal Year 2025

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 |
|----------|----------|--|--------------------------|--|---|
| 25-009I | 9/20/24 | Validated a concern related to surplus property being used for personal reasons. | Waco | Determined 2 employees were misusing property, but there was a misunderstanding due to a language barrier. | Complete. Manager clearly communicated purpose of surplus property. Surplus Property Department also improved procedures for employees obtaining it. |
| 25-014I | 11/15/24 | Reviewed travel for certain faculty members to determine whether it was legitimate and reasonable. | Operations | Noted excessive and questionable travel. | Complete. Travel ended, and employees were disciplined. |
| 25-015I | 11/5/24 | Asked to validate theft of time. | Waco | Determined an employee was leaving early from work without inputting leave. | Complete. Manager established boundaries and expectations. |
| 25-023I | 3/7/25 | Investigated allegation of funds being disbursed to a student under a false pretense. | Advocacy Resource Center | Determined allegation had merit. | Substantially Complete. More guidance was developed for appropriate use of funds, and the request form was improved. |
| 25-028I | 6/24/25 | Investigated the use of sick time and sick leave pool. | Counseling | Unable to conclude whether the usage was inappropriate but additional controls were implemented. | Complete. Sick leave pool now requires VC approval. |

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|---------|---------|--|---------------------|--|--|
| 25-029I | 1/6/25 | Assisted with pursuing criminal action against a former employee who failed to return equipment. | HR | A former employee refused to return computer and other equipment when he separated from employment. | Complete. Criminal charges were filed by the TSTC Police, with a warrant being issued for his arrest. |
| 25-031I | 2/11/25 | Investigated a complaint that a student was using a college email to phish people. | OIT | Determined the person was not a student. Suggest to the person who voiced the concern to block the email address, and not act on any requests. | |
| 25-032P | 2/17/25 | Recalculated the Chancellor's base salary due to a request. | HR | The base salary was recalculated and reconciled to HR records. | |
| 25-033I | 3/28/25 | Investigated the cause for several attempts to obtain financial aid fraudulently. | Financial Aid | Recommend a more robust identification check be implemented, along with know your customer verification before aid is refunded. | Complete. Front-end and back-end fraud verifications are being done, and all students are required to obtain student IDs. |
| 25-034P | 3/28/25 | Provided several records related to a request from a State legislature. | College-wide | All records were provided. | |
| 25-036I | 3/31/25 | Reviewed payments made to PayPal to verify the associated vendors were legitimate. | Procurement | Did not identify any issues or exceptions. | |
| 25-041I | 5/16/25 | Investigated a complaint related to travel expenses that were denied for repayment. | Enrollment Services | Validated that the expenses were appropriately denied. | |

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|---------|---------|---|------------------------------|--|--|
| 25-043I | 6/26/25 | Investigated whether contraceptive pills were being distributed to students at the Advocacy Resource Center. | ARC | Determined the pills were provided by Planned Parenthood, but were never made available to students. | |
| 25-045I | 6/25/25 | Investigated a complaint that an employee used release time from work intended to attend college classes, she was not enrolled. | Enrollment Services | Found the complaint to have merit. | Complete. Employee was separated from employment, and additional controls were implemented. |
| 25-046I | 7/2/25 | Validated a concern related to the past criminal history of an employee. | Operations | Determined the concern had merit. | Complete. Employee was separated from employment. |
| 25-049I | 7/2/25 | Investigated whether a news article featuring a graduate was misleading. | Marketing | Determined allegation had no merit. | |
| 25-050A | 9/8/25 | Performed surprise cash counts on all campuses. | Finance/ Student Services | No material exceptions noted. | |

IV. External Audit Services Procured in Fiscal Year 2025

One delegated request (#719-2024-001) was approved on August 28, 2024 to continue a series of cost recovery audits for construction projects underway on several College campuses. This delegated request preceded other requests in fiscal year 2023 and 2024 for the same audits. The following schedule summarizes the external audits that were completed and in progress.

| Auditor | Date of Report | Project Description |
|-------------|----------------|---|
| RL Townsend | Complete | JBC Remodel: TSTC recovered \$101,587 and avoided costs of \$9,688. Cost of audit was \$16,500. |
| RL Townsend | Complete | Waco Worksite: TSTC recovered \$21,943. Cost of audit was \$16,500. |
| RL Townsend | Complete | EEC & TSC Renovation: TSTC recovered \$26,910. Cost of audit was \$8,500. |
| RL Townsend | In progress | Marshall CCAP: Cost of audit is \$16,500. Nearing completion. |
| RL Townsend | In progress | Harlingen CCAP: Cost of audit is \$52,500. Nearing completion. |
| RL Townsend | In progress | Abilene CCAP: Cost of audit is \$22,000. Nearing completion. |
| RL Townsend | In progress | Waco CCAP: Cost of audit is \$65,000. |
| RL Townsend | In progress | Hutto CCAP: Cost of audit is \$31,500. |
| RL Townsend | In progress | Fort Bend CCAP: Cost of audit is \$48,000. |

V. Internal Audit Plan for Fiscal Year 2026

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 the presence of sensitive information. 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 plan. Other than the areas actually selected for audit, consideration was given to risks associated with student access and accommodation, leave administration, compensation, retention and enrollment services, airport maintenance, student housing, and numerous software applications other than the ones selected for audit.

As is done every year, benefits proportionality was considered for an audit. It was not selected because it was audited in both fiscal year 2022 and fiscal year 2023, as well as numerous other times within the last 13 years. The TEC §51.9337 (Contracting) Audit is intended to satisfy the annual contracting audit requirement, but we feel the numerous recovery audits of ongoing construction contracts also meets this requirement. Our planning process yielded the following audit plan for fiscal year 2026:

| Audit Name | Budgeted Hours |
|--|------------------|
| TEC §51.9337 (Contracting) Audit – satisfies annual audit requirement of contracts | 500 |
| Process Audit of the Advocacy and Resource Center | 525 |
| Audit of State Grants offered by Financial Aid | 500 |
| Process of Audit of Student Counseling | 450 |
| Compliance Audit of the Public Funds Investment Act | 340 |
| Audit of Instructor Overload Pay | 600 |
| Admissions Audit | 625 |
| Dual Enrollment Audit | 600 |
| THECB Facilities Audit | 400 |
| Internal Network Penetration Testing (3 campuses) | 750 |
| TAC 202 Audit – Eaglesoft Software | 400 |
| Tac 202 Audit of Element 451 | 600 |
| Construction Project Audits (6 audits) | External Auditor |
| Quarterly Follow-up of TAC 202 Controls | 200 |

The fiscal year 2026 Audit Plan was approved by the Board of Regents on August 28, 2025, by Minute Order #IA 02-25(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-43 of the 89th 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. A link to that hotline is also included on the College's website. 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 June 14, 2024, by Amanda Wallace, CPA. Ms. Wallace is the Chief Audit Officer for Baylor University. She is 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 high level of confidence expressed by senior management and the Board of Regents. A copy of the original report is attached.



June 14, 2024

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

Dear Mr. Mallory,

We have completed an external quality assurance review on the Internal Audit Department of the Texas State Technical College (TSTC). In conducting our review, we followed the standards and guidelines contained in the Peer Review Manual published by the State Agency Internal Audit Forum.

The primary objective of the review was to provide an opinion on whether the internal auditing program 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, we collectively refer to these as "the Standards".

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.

Results and Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the TSTC Internal Audit Department receives a rating of *Generally Conforms*.

Key Strengths

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. Additionally, interviews with senior leaders and members of the board revealed a high degree of confidence in the audit function, with many complimenting the professionalism, thoroughness, and transparency of the audit team.

We would like to thank the TSTC Internal Audit staff as well as other TSTC representatives for their assistance during the review.

Sincerely,



Amanda R. Wallace, CPA
Chief Audit Officer
Baylor University