Meetings of the Board of Regents

August 26-27, 2026

Waco, Texas

TSTC
Texas State Technical College

TEXAS STATE TECHNICAL COLLEGE

Audit Meeting of the
Board of Regents

TSTC Waco Campus
John B. Connally Visitor Center
1651 E. Crest Drive
Waco, TX 76705*

Wednesday, August 26, 2026
1:00 pm

AGENDA

Ron Rohrbacher, Chair; Curtis Cleveland, Member; Eric Beckman, Member

I. MEETING CALLED TO ORDER BY AUDIT COMMITTEE CHAIR RON ROHRBACHER

II. COMMITTEE CHAIR COMMENTS

III. MINUTE ORDERS & REPORTS

1. Proposed Audit Plan for Fiscal Year 2027 — A-3
   Jason D. Mallory

2. Status of Fiscal Year 2026 Audit Schedule & Other Projects — A-8
   Jason D. Mallory

3. Status of Construction Audits — A-17
   Jason D. Mallory

4. Summary of Audit Reports — A-19
   Jason D. Mallory

**Presiding officer will be physically present at this address.*

(c) denotes Consent Agenda Item

5. Follow-up Schedule & Status A-21
Jason D. Mallory

6. Annual Contract Audit (26-041A) A-30
Jason D. Mallory

7. Audit of Element451 (26-031A) A-35
Jason D. Mallory

8. Admissions Audit (26-030A) A-40
Jason D. Mallory

9. Financial Aid - Audit of TPEG & TEOG (26-032A) A-47
Jason D. Mallory

10. TAC 202 Compliance – Quarterly Update (26-011A) A-53
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11. Audit of 2022 & 2023 W-2s (24-023A) A-58
Jason D. Mallory

12. Construction Audit - Technology Building in Abilene (26-009A) A-63
R.L. Townsend

13. A Report on Compliance With Investment and Reporting Requirements Under the Public Funds Investment Act and Special Provision § 6(5) A-69
State Auditor's Office

14. Attestation Disclosures A-83
Jason D. Mallory

IV. CHANCELLOR COMMENTS

V. BOARD COMMENTS

VI. ADJOURN

**Presiding officer will be physically present at this address.*

(c) denotes Consent Agenda Item

Board Meeting Date:	August 26, 2026	**Proposed Minute Order #:**	IA 01-26(c)

Proposed By: Jason D. Mallory, Chief Audit Executive

Subject: Proposed Internal Audit Plan for Fiscal Year 2027

Background: The Texas Internal Auditing Act, Chapter 2102 of the Texas Government Code, requires Board of Regents' approval for the annual audit plan and any revisions.

Justification: The guidelines of the Internal Auditing Act require that the internal auditor use risk assessment techniques to prepare an annual audit plan. The plan must identify the individual audits to be conducted during the year, and requires approval by the Board of Regents.

Additional Information: None.

Fiscal Implications: Funds available as budgeted for fiscal year 2027.

Attestation: The Minute Order is in compliance with all applicable laws and regulations to the best of my knowledge.

Attachment(s): Proposed Audit Plan for Fiscal Year 2027

Recommended Minute Order: "The Texas State Technical College Board of Regents approves the audit plan for fiscal year 2027."

Recommended By: [ORIGINAL SIGNED BY]

Jason D. Mallory, Vice Chancellor/Chief Audit Executive

Texas State Technical College Internal Audit

Fiscal Year 2027 Internal Audit Plan

Proposed on August 27, 2026

Executive Summary

The purpose of the Audit Plan (Plan) is to outline audits and other activities the Internal Audit Department will conduct throughout fiscal year 2027. The Plan was developed through collaboration with the Board of Regents, Executive Management, and managers who oversee the major processes and activities that are crucial to fulfilling the College's mission. Internal Audit staff also provided input.

Major processes and activities were risked assessed with consideration given to the following factors when selecting individual audits:

- Time since last audit
- Risk or impact of fraud
- Financial impact a process, Department, or activity has on the College
- Turnover of key personnel
- Request by management or the Board
- Significance of regulatory exposure
- Recent known issues within a process, Department, or activity
- Regulatory requirement
- Reputational risk

The results of the risk assessment, along with the input provided by the various stakeholders, guided the selection of individual audits. It intentionally includes audits in numerous divisions, and does not concentrate audits in one department or with one manager. The Plan, its development, and approval are intended to satisfy requirements under the College's Internal Audit Charter (SOS GA.1.4) and the Texas Internal Auditing Act (TGC Chapter 2102).

The Plan includes 21 full-scope internal audits, and 2 limited scope audits in numerous divisions. The Plan also anticipates follow-up audits, investigations, consulting type of projects, as well as administrative type of activities. It includes compliance and operational audits, audits of information technology assets and resources (IT), audits required by regulation, and those specifically requested by Regents and/or Executive Management.

Internal Audit Available Time

Total hours (5 Staff * 2,080 available man hours)	10,400	100%
Less: Estimated holidays, leave & training	2,160	21%
Total hours available for audits, other projects & administration	8,240	79%

Proposed 2027 Audit Plan

Operational Audits

1. **TEC 51.9337 (Contracting) Audit:** Required to be audited annually. This audit will test compliance to TEC 51.9337 related to contracting. Some of the tests that will be performed include policy requirements, training, conflict of interest disclosures, tracking of contracts, approval authority, and the availability and compliance to a contract handbook.

2. **Student Housing:** This audit will test lease agreements, occupancy rates, payments, maintenance, background checks of tenants, safety of facilities, and the financial impact.

3. **Scholarship Audit:** This audit will test awarding and compliance processes for one or more student scholarships.

4. **Customer Service Audit:** This audit will be the first of a series of audits which will validate internal controls and processes for ensuring customer service meets levels expected by management. Secret-shopping type of procedures will be part of the audit, and will include telephone calls, emails, employee interactions, and observations. The Admissions and Enrollment Services areas will be initial auditees.

5. **Testing Services Audit:** This audit will test the effectiveness and efficiency of testing services. Fee collection and recordation will be included in this audit.

6. **Satisfactory Academic Progress – Appeals Process:** This audit will test the appeal process for students receiving federal financial aid who have not met the College's satisfactory academic progress rules.

7. **Grant Audit:** This audit will test compliance for one grant (TBD).

8. **Student Accounting Audit:** This audit will test accounting procedures related to student billing and revenue collection.

9. **Facilities Development Project Compliance Audit – Waco Campus:** This audit will test compliance to Texas Administrative Code, Title 19, Part 1, Chapter 17 (TAC 17) related to construction projects, repair and renovation projects, and energy savings contracts, as well as purchases of improved real property, on the Waco campus. This audit is required as part of the Texas Higher Education Coordinating Board's (THECB) Institution Facilities Audit.

10. **Facilities Development Project Compliance Audit – Fort Bend Campus:** This audit will test compliance to Texas Administrative Code, Title 19, Part 1, Chapter 17 (TAC 17) related to construction projects, repair and renovation projects, and energy savings contracts, as well as purchases of improved real property, on the Fort Bend campus. This audit is required as part of the Texas Higher Education Coordinating Board's (THECB) Institution Facilities Audit.

11. **Construction Audits:** These audits will test contract compliance to ongoing construction projects to ensure all amounts paid to the contractors are appropriate. At least 3 will be conducted, with additional ones possible.

12. **Talent Acquisition Audit:** This audit will review recruiting and hiring processes.

13. **Continuous Audits:** These will be data-driven, limited scope audits intended to quickly verify a compliance requirement is met, or fraud is not present.

14. **Safety & Security Audit:** This is audit is required to be performed every 3 years. It will test various safety procedures and processes on each campus.

15. **External Quality Assessment Review:** This will be an audit of the quality processes in place within the Internal Audit Department. Compliance to Global Internal Audit Standards promulgated by the Institute of Internal Auditors will be a primary objective. It will be performed by a third party.

IT Audits

1. **Internal Network Penetration Test (Marshall campus):** This audit will test the security of sensitive information accessible through the College's network. It will also test manual procedures which safeguard sensitive information. Social engineering will be a key component in this project.

2. **Internal Network Penetration Test (West Texas campus):** This audit will test the security of sensitive information accessible through the College's network. It will also test manual procedures which safeguard sensitive information. Social engineering will be a key component in this project.

3. **StarRez Portal Audit:** This audit will test TAC 202 controls for software used to assist with managing student housing.

4. **Telephone System Audit:** This audit will test the reliability, functionality, and security of the College's telephone system.

5. **Compliance Audit of the Contract with the Texas Workforce Commission:** This audit is required every 2 years. It will test contractual requirements related to the use and security of sensitive data provided by the TWC for formula funding purposes.

6. **TAC 202 Follow-up:** This will be a quarterly follow-audit of TAC 202 controls that were found in prior audits to need improvement.

Other Projects

1. **Follow-up Audits on Past Audit Recommendations:** These will review the implementation status of corrective action plans on outstanding audit recommendations.

2. **Hotline Assessments and Investigations:** These will involve administering the anonymous ethics hotline, reviewing all reported complaints, and performing appropriate procedures to validate each complaint.

3. **Other projects:** These will include projects requested by management, and the preparation of the Annual Audit Report and the 2028 Audit Plan. The website dedicated to Internal Audit will also be refreshed.

Texas State Technical College
Internal Audit
Status of Fiscal Year 2026 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
INTERNAL AUDITS						
Public Funds Investment Act Compliance Audit	Finance	Complete	26-003A	9/26/2025	11/20/2023	Compliance
Eaglesoft Software Audit - TAC 202	OIT/Operations	Complete	26-001A	9/29/2025	-	Risk Based
Facilities Development Project Compliance Audit	Campus Expansion - Harlingen	Complete	26-002A	11/21/2025	10/28/2016	Compliance
Internal Network Penetration Test	Hutto	Complete	26-017A	12/10/2025	12/9/2022	Risk Based
Internal Network Penetration Test	Waco	Complete	26-013A	12/11/2025	12/9/2022	Risk Based
Internal Network Penetration Test	Harlingen	Complete	26-023A	2/13/2026	9/30/2022	Risk Based
Counseling Services Process Audit	Operations	Complete	26-005A	3/3/2026	-	Risk Based
Faculty Overload Pay	Operations	Complete	26-012A	3/4/2026	-	Risk Based
Dual Enrollment Audit	External Relations	Complete	26-010A	3/18/2026	-	Risk Based
TEC 51.9337 (Contracting) Audit	Contract Office	Complete	26-041A	6/15/2026	8/29/2025	Compliance
Element 451 Software Audit - TAC 202	OIT/Enrollment Services	Complete	26-031A	6/16/2026	-	Risk Based
Admissions Process Audit	Enrollment Services	Complete	26-030A	6/18/2026	9/30/2019	Risk Based
Financial Aid - TEOG, TPEG grants and other loans	Financial Aid	Complete	26-032A	6/26/2026	-	Compliance
TAC 202 Follow-up	OIT	Complete	26-011A	6/30/2026	3/31/2026	Risk Based
Audit of 2022 & 2023 W-2s	Payroll	Complete	24-023A	7/8/2026	-	Compliance
Advocacy and Resource Center Process Audit	Operations	In Progress			-	Risk Based
Construction Audits						
Marshall CCAP Construction Audit	Facilities, Planning & Construction	Complete	26-009A	2/19/2026	-	Risk Based
Abilene CCAP Construction Audit	Facilities, Planning & Construction	Complete	26-009A	6/26/2026	-	Risk Based
Waco CCAP Construction Audit	Facilities, Planning & Construction	In Progress			-	Risk Based
Fort Bend CCAP Construction Audit	Facilities, Planning & Construction	In Progress			-	Risk Based

Texas State Technical College
Internal Audit
Status of Fiscal Year 2026 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
Harlingen CCAP Construction Audit	Facilities, Planning & Construction	In Progress			-	Risk Based
Hutto CCAP Construction Audit	Facilities, Planning & Construction	In Progress			-	Risk Based

EXTERNAL AUDITS

Office of Civil Rights Audit performed by the THECB	Harlingen Campus	Complete		11/13/2025
Audit of Commercial Driver's License Training by the Federal Motor Carrier Safety Agency	Professional Driving Academy	Complete		No report issued: Auditor indicated the results were positive.
Review of Texas Education Code, Chapter 51, Subchapter E-3 performed by the THECB	Harlingen Campus	Complete		2/11/2026
A Report on Compliance With Investment and Reporting Requirements Under the Public Funds Investment Act and Special Provision § 6(5) by the State Auditor's Office	Finance	Complete		6/1/2026
Duplicate Payment Audit by the State Comptroller	Procurement	In Progress		

OTHER INTERNAL PROJECTS

Texas State Technical College
Internal Audit
Status of Fiscal Year 2026 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
Internal Hotline: Received an allegation from a student that her identity was stolen. She alleged someone in 2022 registered for classes and paid for classes under her name, which resulted in all classes being failed. This resulted in financial aid being suspended.. Results: Evidence suggests this was a frivolous complaint aimed at overriding financial aid suspension. In a conversation with the student, she indicated she did not intend on filing the complaint.	Harlingen	Complete	26-014I	No report issued.		
Internal Hotline: Received an allegation of financial aid fraud. Results: Determined the student last attended in Fall 2022 and Spring 2023. There were red flags on her FAFSA that were not verified because the Department of Education suspended that requirement. The matter was reported to the Department of Education for investigation.	Financial Aid	Complete	26-015I	No report issued.		
Internal Hotline: Received a concern that a hostile student was creating a safety issue for employees and other students. Results: Student was expelled from campus.	Marshall campus	Complete	26-018I	No report issued.		

Texas State Technical College
Internal Audit
Status of Fiscal Year 2026 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
Internal Hotline: Received a concern that an HR employee acts hostile to other employees when conducting her work. Results: The matter was referred to VC/CHRO for review and action. She counseled the accused employee on the perception of her actions.	HR	Complete	26-020I	No report issued.		
Internal Hotline: Received a complaint that a supervisor hired a personal friend who was not as qualified as other candidates. Results: HR investigated. They determined no policy was violated, and the applicant that was hired met the requirements of the position. Also, they did not find any evidence that interview questions were shared to manipulate the results.	IT	Complete	26-021I	No report issued.		
Internal Hotline: Received a complaint from an employee that his annual review was not fair or accurate. Results: Forwarded to HR for review. HR and the employee's direct manager met to further discuss the results. Another discussion was held between the employee and his manager.	Operations	Complete	26-025I	No report issued.		
Management Referral: Received a concern related to training documents with a forged date. Results: Determined the concern had merit. Consequently, employment action was taken on 3 employees.	Professional Driving Academy	Complete	26-022I	12/4/2025		

Texas State Technical College
Internal Audit
Status of Fiscal Year 2026 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
Management Referral: Investigated a complaint that instructors in a certain program are not effective in their roles. Results: Allegation had merit. Multiple corrective actions were taken.	EPC Program - Fort Bend Campus	Complete	26-008I	12/12/2025		
Management Request: Risk assessed select processes within the Professional Driving Academy to help improve their control processes.	Professional Driving Academy	Complete	26-024P	No report issued. Risk assessment provided to management.		
Internal Hotline: Received a complaint that an employee is stealing time to pursue outside interests. This was previously reported and addressed by management in October 2024. Results: Determined the complaint had merit. The employee was separated from employment.	Waco Campus	Complete	26-007I	1/9/2026		
Internal Hotline: Received a complaint that approved work accommodations due to illness were not honored by a supervisor, creating a morale issue with employees. Results: Management and HR investigated the complaint, and determined it had merit. Employment action was taken as a result.	Financial Aid	Complete	26-035I	No Report		

Texas State Technical College
Internal Audit
Status of Fiscal Year 2026 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
Management Referral: Received a concern employees did not act as good stewards while on a business trip. Specifically, the costs of 2 meals were unreasonable. Results: The Police Department's internal affairs officer investigated the matter. He was able to obtain reliable information through subpoenas that pointed to restaurant employees adding unauthorized tips. It is more probable the officers did not act inappropriately.	Police	Complete	26-019I	No report, but evidence maintained as part of a Police investigation.		
Internal Hotline: Received a concern that certain procedures that impact enrollment activities are performed outside of Enrollment Services, creating bottlenecks , confusion for potential students and untimely actions. Results: This matter was forwarded to management to consider potential process improvements.	Enrollment Services/Student Rights	Complete	26-037I	No report		
Management Request: Reviewed salary, bonus and pay information to verify it was accurate. Results: Determined all salary, bonus and pay information was correct. Noted one small overpayment due to an error that was corrected in April 2025.	Compensation/Payroll	Complete	26-039P & 26-040P	No report.		
Internal Hotline: Received a complaint that an hourly employee is frequently away from her normal work location and no one can locate her. Results: See comments at 26-038I.	Retention Services	Complete	26-036I	No report		

Texas State Technical College
Internal Audit
Status of Fiscal Year 2026 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
Internal Hotline: Received 2 complaints that employees on the Waco campus are difficult to contact, and are rarely in their offices. Results: This matter was referred to management for action since the reports did not provide sufficient detail to reliably investigate. The VP/Retention Services communicated her expectations to all employees in an email on 3/20/26. Additionally, those expectations will be reiterated in face to face meetings. Some of the expectations include timeframes to answer calls, emails and chats, as well as standardized signage to be placed on doors when not in the office.	Retention Services	Complete	26-038I	No report		
Internal Hotline: Received a comment from an anonymous poster concerned with a recent safety issue on the Harlingen campus. The comments were directed to the Chancellor. Results: The comments were forwarded to the Chancellor to make him aware of the comments. Internal Audit did not perform any procedures on this matter since it was not related to fraud, waste, or abuse.	Harlingen	Complete	26-043I	No report		

Texas State Technical College
Internal Audit
Status of Fiscal Year 2026 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
Internal Hotline: Received a concern about the notification procedure that was sent during the recent safety issue in Harlingen. Specifically, the reporter questioned why the emergency notification system was not used. Results: Management, with input from Legal, weighed whether the situation warranted an emergency notification or timely warning using the emergency notification system under the requirements of the Clery Act. It was decided that the situation did not warrant either since the threat was neutralized. However, a communication was still sent via Element 451 in an attempt to quell concerns. We determined the notification was handled properly, and in compliance with governing rules.	Harlingen	Complete	26-044I	No report		
Anonymous Letter: Received a complaint of unfair and biased hiring practices, as well as questionable use of College vehicle. Results: Determined a conflict of interest was not disclosed, and identified personal use of a College vehicle. Employee was separated and additional controls implemented around vehicles used by select police officers.	Waco Campus/Police	Complete	26-045I	6/18/2026		

Texas State Technical College
Internal Audit
Status of Fiscal Year 2026 Audit Schedule & Other Projects

Description	Division/Campus	Status	Project No.	Report Date	Last Audit Date	Audit Reason
Internal Hotline: Received a complaint of unfair and biased hiring practices. This was investigated by HR. Results: Their investigation did not identify blatant bias, however, available improvements to the hiring process were identified. Those included the need to better manager perception, improve communication with candidates regarding their interview participation, and the increasing interviewee pool.	Waco Campus/Foundation	Complete	26-046I	No report		
Internal Hotline: Received 2 hotlines reports voicing concerns of Retention Services being ineffective and inefficient, overly focused on retention at the expense of quality instruction, and requiring too much assistance from instructors. Results: Both reports were turned over to Operations management for review & action. Both management and IA determined certain elements of the concerns were inaccurate.	Retention Services	Complete	26-047I	No report		

Glossary

EPC	Electrical Power and Controls
HR	Human Resources
IA	Internal Audit
OIT, IT	Office of Information Technology
SAO	State Auditor's Office
TAC	Texas Administrative Code
THECB	Texas Higher Education Coordinating Board

Construction Audits
Status Report
June 30, 2026

In Progress

TSTC - Project Name	Contractor	Estimated Substantial Completion	GMP	Agreed to Audit Issues/Cost Avoidance	Audit Cost	Status from R. L. Townsend Construction Audit Services
Harlingen CCAP	JT Vaughn	06/30/2025	$ 46,526,257	$ 292,435	$ 52,000	Audit Entrance Meeting 5/23/24 Audit Closeout in process
Fort Bend CCAP	JT Vaughn	08/01/2025	$ 42,000,000	$ 158,413	$ 48,000	Audit Entrance Meeting 2/22/2024 Audit Closeout in process
Waco CCAP	Rogers O'Brien	09/02/2025	$ 59,600,000	TBD	$ 65,000	Audit Entrance Meeting 11/17/2023 Parking Lot Add/AQ Log issued Audit Closeout in process - Subs reviewed for Retainage
Hutto CCAP	SpawGlass	04/30/2026	$ 32,500,000	TBD	$ 31,500	Audit Entrance Meeting 2/25/2025 April 2026 Pay App billed 52.67% - AQ Log in process
		Total	**$ 180,626,257**	**$ 450,848**	**$ 196,500**	

Complete

TSTC - Project Name	Contractor	Substantial Completion	Final Contract Value	Audit Recovery	Audit Cost	Status from R. L. Townsend Construction Audit Services
Griffith Hall	Lee Lewis	completed	$ 21,212,688	$ 278,281	$ 15,000	Final Report Issued 7/20/2022
FTB Welding	Bartlett Cocke	completed	$ 8,089,004	$ 55,977	$ 11,000	Final Report Issued 8/24/2023
JBC Remodel	Imperial	completed	$ 13,020,898	$ 111,275	$ 16,500	Final Report Issued 2/24/2025
EEC & TSC Reno (CSP)	Imperial	completed	$ 9,300,000	$ 26,510	$ 8,500	Final Report Issued 5/16/2025
Waco Worksite	Mazanec	completed	$ 12,000,000	$ 21,943	$ 16,500	Final Report Issued 5/16/2025
Marshall CCAP	Bartlett Cocke	completed	$ 8,947,003	$ 32,749	$ 16,500	Final Report Issued 2/19/2026
Abilene CCAP	**Imperial**	**completed**	**$ 20,452,926**	**$ 93,892**	**$ 22,000**	**Final Report Issued 6/26/2026**
		Total	**$ 93,022,518**	**$ 620,627**	**$ 106,000**	
		Grand Total	**$ 273,648,775**	**$ 1,071,475**	**$ 302,500**	
			Net Audit	**$**	**768,975**	

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
Annual Contract Audit (26-041A)		No exceptions noted.				
Audit of Element451 (26-031A)	1.	Thirteen of the 46 minimally controls required attention.	Controls related to access, audit logs, system configuration, and identity authentication needed enhancement.	1.1 IT will implement corrective actions to address users' access, training, and data management requirements identified in the audit. IT will also collaborate with appropriate stakeholders to strengthen administrative oversight and support compliance efforts for Element451.	Bernal	6/30/2027
Admissions Audit (26-030A)	1.	Required documents and the documentation of procedures, in some instances, were missing.	Some applicants were missing required documents, to include TSI scores and transcripts; some documents submitted by students were not reviewed within the 24 hours from receipt as required by process expectations; for applications flagged as potentially fraudulent, we found instances of face-to-face meetings not being documented as required, and instances photo IDs not being uploaded; we found one instance of a legitimate application in Element 451 that did not have a student profile in Workday, and one instance of a potentially fraudulent applicant that did have a Workday student profile.	1.1 Review existing training to ensure it reflects admissions requirements, system usage expectations, and customer service standards. Refresher training will be provided to all admissions and enrollment staff, including campus leadership. Training will be conducted biannually.	Pearson	8/1/2026

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
	2.	The protection of sensitive academic information needs to be improved to ensure unauthorized release does not occur.	We made phishing calls to admissions advisors, posing as both students and parents. We were able to reach 9 admission advisors by telephone. Six disclosed FERPA protected data without following the established protocol.	2.1 Review existing FERPA training to ensure expectations regarding the release of information are clear and consistently understood. Training materials will be enhanced to include scenario-based examples that clearly illustrate appropriate and inappropriate responses to request for student information received by phone. Training will be conducted biannually.	Pearson	8/1/2026
Financial Aid - Audit of TPEG & TEOG (26-032A)	1.	Controls to ensure eligibility and amounts are reasonable need enhancement.	4 and 6 students did not meet TPEG or TEOG requirements, respectively. TPEG award amounts are not standardized. Workday reports used to award were missing certain information.	1.1 Changes have already been made to the reports, but we will review them again, and make sure that no additional changes are needed. We will also create a folder for each term to store all reports created to determine award eligibility - along with any notes regarding those awards.	Adler	11/15/2026
TAC 202 Compliance – Quarterly Update (26-011A)	1.	3 more controls from the Workday and Eaglesoft audits were implemented this quarter . A total of 73 controls are pending re-verification.				

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
Audit of 2022 & 2023 W-2s (24-023A)	1.	W-2s for the 2022 and 2023 tax years included errors on lines 12 and 13.	Many employees' W-2s included errors on lines 12 & 13.	1.1 After recognizing and understanding the error, the Controller's Office developed and implemented an annual quality control process for W-2's, and executed the process for both 2024 and 2025. Further, the CFO's office worked with Human Resources and the Chancellor's office to communicate to all current and former employees whose W-2s included the errors, and offered assistance if an issue materialized. Additionally, the CFO's office engaged another independent CPA firm to review personal tax returns upon individual requests from employees to determine whether there was any impact on their tax returns.	C. Wooten	Immediately

Audit of Technology Building in Abilene (26-009A)	1.	Identified $93,892 in cost savings.	$24,366 overbilling on payroll burden; $17,855 overbilling on bond, insurance, and other expenses; $51,671 potential costs were avoided.	1.1 All amounts were credited on pay applications or included on a check that was received.	Wesson	Immediately

A Report on Compliance With Investment and Reporting Requirements Under the Public Funds Investment Act and Special Provision § 6(5) by the State Auditor's Office	Substantially Compliant with PFIA Due to the following finding by the College's Internal Auditor: An incorrect maturity date and interest rate was reported on the May 31, 2025, Quarterly Investment Report for one certificate of deposit.

Texas State Technical College
Internal Audit
Follow Up Schedule & Status

Completion Summary			
	3/31/26	**6/30/26**	**Audits cleared from (Added to) Schedule**
Audits from FY 2023	1	1	0
Audits from FY 2024	4	4	0
Audits from FY 2025	5	4	1
Audits from FY 2026	6	8	(2)
Net Total	16	17	(1)

Highlights:

Audit of IT General Controls (23-018A): One corrective action was completed.
CRIMES Software Audit (24-019A): Substantially completed. Vendor has been selected, with software to be implemented by 12/31/2026.
Fleet Management Audit (24-025A): Substantially completed.
Workforce Training Audit (25-006A): One corrective action was fully completed. The other will be completed by the end of August.
Payroll Process Audit (25-016A): Substantially completed. Final enhanced procedure will be available for review at 8/31/2026.
Student Conduct Audit (25-027A): All corrective actions completed.
Internal Network Penetration Test (26-023A) Harlingen Campus: Final corrective action implemented.
Audit of Student Counseling Services (26-005A): All corrective actions completed.

Report Name &		Internal Audit Finding	Management's CAP(s)	Internal Audit Comments on	Management Comments on	Expect.
Audit of IT General Controls (23-018A), Fortner	1.	We identified 6 of 34 required TAC 202 controls that still need to be implemented. These controls relate to testing of the contingency and disaster recovery plans, physical and environmental access controls to the data centers, and the need to consider enhancements to controls related to mobile devices.	1.2 Update and test the disaster recovery plan by performing a tabletop exercise which will serve as training for those involved in the Disaster Recovery Plan. This plan will be updated and tested on an annual basis going forward.	**Ongoing:** At 7/1/26 A table top test is expected to be preformed by the end of July/early August to address required controls. A full scale recovery test is anticipated for FY27.		~~8/31/2025~~, ~~12/31/2025,~~ ~~6/30/2026~~, 12/31/2026
PCI Audit (24-002A), Fortner, Franke	1.	Twenty four of the 103 applicable controls we tested require attention. Primarily, those controls required better documentation. But, we did identify opportunities to improve anti-virus software implementation, multi-factor authentication, and the incident response plan.	1.1 Documentation and processes will be created to address the findings.	**Ongoing:** At 12/19/25 OIT was in the process of implementing Monday software. This will allow for better tracking of the action and status on outstanding audit issues. At 3/26/26, more controls were not yet implemented. OIT and Internal Audit will meet by 7/16/26 to review the controls requiring remediation.		~~12/31/2024~~ ~~12/31/2025~~ ~~5/31/2026,~~ TBD

Safety & Security Audit (24-007A), Various Managers	1.	There are safety processes and issues throughout the College that need to be improved.	1.1 All corrective actions will be implemented no later than August 31, 2024. Those will include improvements in monitoring of various processes, improved documentation and frequency of self-inspections, updated evacuation routes, more frequent performance of fire drills, and other necessary improvements to address the specific observations listed above.	**Partially Complete:** Improvements have been made to clear issues identified by external inspection, and enhance accident reporting. Still need to work on updating evacuation routes, improving inspection frequency at some campuses, fire drills. More testing of other issues will occur in the 2027 Safety Audit. Update: As of 3/19/26, outstanding findings from external inspections by SORM and SFMO Have been resolved. Accident reporting, Housing inspections, and Fire Drills have improved, however there was missing documentation for each of these. Each of these will be tested in a more thorough manner in the 2027 Safety Audit.		~~8/31/2024,~~ 12/31/2026
CRIMES Software Audit (24-019A), Semien	1.	We identified 13 of the 48 required TAC 202 controls managed by College personnel that either need to be implemented, or enhanced. Additionally, we were unable to test 15 of the 48 controls because the vendor failed to provide necessary information.	1.1 We will facilitate a meeting between the vendor and OIT personnel to help get a full understanding of those TAC 202 controls that could not be tested during the audit. If the answers are unsatisfactory, we will pursue another solution in which security can be fully verified. We will also request OIT take over the administration of the software, comparable to other software utilized by the college.	**Substantially Complete:** A new vendor was awarded on 6/17/26. Anticipated implementation is by 12/31/2026.		~~12/1/2024, 1/30/2025, 12/31/2025 03/31/2026, 6/30/2026~~, 12/31/2026

Fleet Management Audit (24-025A), Yepez	1.	Vehicles labeled as educational are generally not subject to the same controls applied to fleet vehicles, even though some are being used like fleet vehicles.	2.1 Will partner with Property Management to identify the use of current educational vehicles, and explore ways to manage them.	**Substantially Complete:** As of 5/21/26 Fleet management has developed a comprehensive master list of all non-fleet rolling stock for the State. They are in the process of getting this list formatted to upload these to the Fleet Commander application. In addition, they are putting a process in place to have an annual in-person review of these items to ensure their continued presence at the designate locations. They will also issue an attestation letter to the owners requesting confirmation of any changes and verification of adherence to all applicable state rules and regulations for these items.		~~11/1/2024~~ ~~12/31/2025~~ ~~3/31/2026,~~ ~~5/31/2026~~, 9/30/2026

Workforce Training Audit (25-006A), Howard	2.	Financial transactions and financial performance monitoring should be enhanced.	2.1 Meet on a monthly basis to collectively review recent activity, as opposed to regular individual review. Initial communication to outstanding balances will be performed by the Accounting team, with supporting communication for unsatisfied invoices beyond 90 days to be supported by the Workforce Training and Continuing Education department, assigned to the departmental teammate with the most regular contact with the invoice recipient.	**Substantially Complete:** In June 2026, it was determined that the Texas A&M Engineering Experiment Station $198,668 balance should have been written off. Due to the recent transition with Workforce from Colleague to Workday, all outstanding A/R will officially be moved over at the beginning of August. Once this occurs, this balance will be written off; management feels this will be a cleaner write-off process if initiated in Workday.		~~3/31/2025,~~ ~~7/31/2025,~~ ~~12/31/2025~~ ~~3/31/2026,~~ ~~5/31/2026~~, 8/31/2026

Workday Application Audit (25-025A), Bernal	1.	Controls and processes related to access, training, and records retention require enhancement. We identified 13 of the 49 TAC 202 controls that should be improved.	1.1 Implement a formal review of user accounts to validate access, verify onboarding and annual training requirements are met before access is granted, and start collaborating with the Records Management Officer to establish a comprehensive data retention plan for Workday.	**Ongoing** At 12/19/25 OIT was in the process of implementing Monday software. This will allow for better tracking of the action and status on outstanding audit issues. One more control was implemented as of 6/30/26.		12/18/26
Payroll Process Audit (25-016A), Mayfield, C. Wooten	1.	There are several opportunities to improve the effectiveness and efficiency of the payroll process by segregating activities that produce data used in that process, reducing system access, and improving guidelines and expectations of other employees and managers outside of the Payroll Department.	1.2 Over the next 90 days, HR and Finance will jointly assess and respond to the recommendation in the supplemental audit report which details specific observations to determine where further changes are needed. As part of this work, we are also evaluating the most appropriate alignment of payroll reporting responsibilities. Preliminary planning places external compliance reporting (e.g., W-2s, tax filings) with Finance, and internal reporting to support organizational decision-making with HR.	**Substantially Complete:** 6/16/26 The final remaining item is employee benefit elections acknowledgement. HR is working on getting this done through a Workday task. They plan to have this in place after open enrollment period closes this summer. Target date is August 2026.		~~8/31/2025~~ ~~3/31/2026,~~ ~~6/30/2026,~~ 8/31/2026
Syllabi Audit (25-039A), Flanagan	1.	There are isolated opportunities to more fully comply with TEC 51.947 to ensure all students are informed of expectations.	1.2 The automation of TSTC-internal core competencies is planned for implementation in Fall 2026 for PBE courses.	**Ongoing -** At 7/2/26, management indicated they are still sifting through and comparing data in WD to ensure that once the feature is turned automating accurate data will only be necessary. Still on track to launch on 9/1/26.		~~12/31/2025,~~ 9/30/2026

Eaglesoft Patterson Application Audit (26-001A), Bernal & Dorsey	1.	Significant improvement is required to implement the minimally required controls. We identified 25 of the 46 TAC 202 controls that need attention. Those related to access, logging of activity, system configuration, back-up and recovery, and general security.	1.1 OIT will enhance resource allocation, improve oversight mechanisms, and establish regular training sessions for staff to address these issues. The solution's endurance will be measured through quarterly reviews.	**Ongoing** At 12/19/25 OIT was in the process of implementing Monday software. This will allow for better tracking of the action and status on outstanding audit issues. As of 6/30/26, 2 more controls were implemented.		12/18/26

Instructional Quality Investigation (26-008I), Ballas, Bowling, Hoekstra	1.	There was a quality issue within EPC on the Ft. Bend campus that needs to be improved. We also determined the environment in which the instructors taught contributed to, and allowed, these issues to materialize and persist for an extended period of time.	1.8 An instructor academy is being developed and on track.	**Ongoing**		8/31/26
			1.10 By March 1, 2026, the statewide Operations Leadership Team will review the findings, points of failure, and vulnerabilities. By August 1, 2026, the Operations Leadership Team will implement the appropriate corrective actions applicable to statewide programs to mitigate the risk of negative impacts to instructional quality.	**Ongoing**		8/1/26

Audit of Faculty Overload Pay (26-012A), Getterman	1.	The calculation methodology that is actually being applied, as well as the timing of payments, are inconsistent. Simplifying and documenting the calculation methodology, providing standardized training, formalizing a review and approval process, and establishing hard deadlines for payments would improve the control structure around these payments, and ensure more transparency.	1.1 Establish simplified formal procedures for calculating overload, established timelines, consistent payment dates, and clarified review and approval requirements will be developed and implemented for the calculation of Spring 2026 overload. By May 1, 2026, standardized training will be developed and available prior to Summer 2026 overload calculations.	**Ongoing:** 6/17/26 - Developed a timeline with all due dates, a template to use when calculating overload, written instructions, and an attestation process. Faculty leave use was reviewed with adjustments made, as necessary. A post-payment review has been added to ensure accuracy. Still reviewing the overload calculation to determine how to simplify the calculation.		8/31/26
Dual Enrollment Audit (26-010A), Getterman	1.	There are opportunities to improve background checks and training for instructors who teach dual enrollment students on the College's campuses. Consideration should be given to performing periodic background checks beyond those performed at pre-employment, and to either follow or change the training requirement currently stated in the governing SOS.	1.1 Oversight of SOS GA 1.6.7 will be reviewed and the standard will be updated regarding the level of training and the frequency of background checks for dual enrollment instructors to meet legal requirements and reflect the College's values and risk appetite.	**Ongoing**		8/31/26
Audit of Element451 (26-031A), Bernal	1.	Thirteen of the 46 minimally controls required attention.	1.1 IT will implement corrective actions to address users' access, training, and data management requirements identified in the audit. IT will also collaborate with appropriate stakeholders to strengthen administrative oversight and support compliance efforts for Element451.	**Ongoing**		6/30/27

Admissions Audit (26-030A), Pearson	1.	Required documents and the documentation of procedures, in some instances, were missing.	1.1 Review existing training to ensure it reflects admissions requirements, system usage expectations, and customer service standards. Refresher training will be provided to all admissions and enrollment staff, including campus leadership. Training will be conducted biannually.	**Pending Review**		8/1/26
	2.	The protection of sensitive academic information needs to be improved to ensure unauthorized release does not occur.	2.1 Review existing FERPA training to ensure expectations regarding the release of information are clear and consistently understood. Training materials will be enhanced to include scenario-based examples that clearly illustrate appropriate and inappropriate responses to request for student information received by phone. Training will be conducted biannually.	**Pending Review**		8/1/26

Financial Aid - Audit of TPEG & TEOG (26-032A). Adler	1.	Controls to ensure eligibility and amounts are reasonable need enhancement.	1.1 Changes have already been made to the reports, but we will review them again, and make sure that no additional changes are needed. We will also create a folder for each term to store all reports created to determine award eligibility - along with any notes regarding those awards.	**Ongoing**		11/15/26

Audit of 2022 & 2023 W-2s (24-023A), C. Wooten	1.	W-2s for the 2022 and 2023 tax years included errors on lines 12 and 13.	1.1 After recognizing and understanding the error, the Controller's Office developed and implemented an annual quality control process for W-2's, and executed the process for both 2024 and 2025. Further, the CFO's office worked with Human Resources and the Chancellor's office to communicate to all current and former employees whose W-2s included the errors, and offered assistance if an issue materialized. Additionally, the CFO's office engaged another independent CPA firm to review personal tax returns upon individual requests from employees to determine whether there was any impact on their tax returns.	**Complete**		Immediately

Texas State Technical College Internal Audit

Internal Audit Report

Annual Contract Audit (26-041A)

June 15, 2026

This audit was conducted in accordance with the
Global Internal Audit Standards
of the Institute of Internal Auditors

Executive Summary

We completed a contract compliance audit of the media related contract the College has with Asher Media to ensure contract requirements contained within Texas Education Code (TEC) §51.9337 were met.

Background

TEC §51.9337 requires that a contract review checklist be reviewed and approved by legal counsel, policies governing contracting authority be approved by the Board, and an annual assessment of compliance be performed by Internal Audit. Statewide Operating Standards (SOS) FA 1.16 Purchasing Authority and FA 4.4 Contract Administration outline purchasing and contract policies and procedures. Those align to TEC §51.9337. A contract management handbook has also been created that includes ethical standards and expectations, solicitation guidelines, contract formation and administration procedures, as well as required forms to be used. This handbook helps ensure compliance along with a contract checklist that is completed during the contracting process to ensure all requirements are met.

Contracts valued at $1 million and more are required to be approved by the Board of Regents (Board). If an amendment, renewal, or extension causes the cumulative contract value to exceed $1 million, those also require approval. In addition, for all contracts valued over $1 million, any amendment, renewal or extension that exceeds 25% of the original contract value require approval. Approval to execute contracts reserved for the Board can be delegated if the delegation is expressly granted in writing. For contracts up to $1 million, approval authority is delegated to employees based on their roles and titles, with higher value contracts being reserved for Executive Management.

Audit Objectives

The contract with Asher Media complied with TEC §51.9337, which included:

a. Contract approval was appropriate based on the approved Delegation of Authority to sign contracts/agreements.
b. The contract was appropriately bid & awarded.
c. The contract was posted online in a timely manner.
d. All potential conflicts of interests with people involved in the procurement and contracting processes were disclosed.
e. All employees who participated in the contracting process received required training.
f. The contract is actively monitored for compliance.
g. Contracting processes followed the Contract Management Handbook.

Scope

The scope of our audit included the contract executed with Asher Media on September 1, 2024, as well as four amendments executed on April 1, 2025, July 21, 2025, September 1, 2025, and April 15, 2026. It also included all training and solicitation documentation, conflict of interest disclosures, and all other documentation related to monitoring the contract. To accomplish our audit objectives, we reviewed training and conflict of interest disclosures, as well as solicitation and bid documentation. We verified the contract was signed by someone with appropriate delegated authority. We reviewed contract amounts were reported to the Legislative Budget

Board, posted on the College's website, and that the solicitation request was posted. Additionally, we scrutinized the monitoring process to ensure the contract meets terms and expectations.

Methodology

The following policies, regulations, and related guidance formed the basis of this audit:

- SOS FA 1.16 Purchasing Authority
- SOS FA 4.4 Contract Administration
- TEC §51.9337 Purchasing Authority Conditional; Required Standards

Positive Observations and Strengths

The Office of Contract Administration (OCA) continues to enforce contract policy and procedures to ensure compliance with TEC §51.9337. Documentation and supporting records throughout the solicitation and contract processes were readily accessible and well organized.

The Marketing Department has established strong monitoring processes to ensure contract performance is achieved. Over the past 22 months, the vendor has consistently delivered high-quality results, and provided data to substantiate their performance.

During the procurement process, 536 vendors were contacted to provide bids. The winning bid was selected from 7 respondents to that request by a panel of employees who independently scored the vendors and their bids. OCA oversaw the bidding and awarding processes to ensure it was objective and fair.

The Office of General Counsel provided timely review and approval of the contract language to ensure the contract included all required language and protected the College's interests.

Summary of Audit Observations

Audit Objectives	Rating
The contract with Asher Media complied with TEC §51.9337.	
a. Contract approval was appropriate based on the approved Delegation of Authority to sign contracts/agreements.	
b. The contract was appropriately bid & awarded.	
c. The contract was posted online in a timely manner.	
d. All potential conflicts of interests with people involved in the procurement and contracting processes were disclosed.	
e. All employees who participated in the contracting process received required training.	
f. The contract is actively monitored for compliance.	
g. Contracting processes followed the Contract Management Handbook.	

Rating	Description
Priority	Exceptions were identified that pose a significant risk to the College that could create excessive costs, loss of revenue, material reporting errors, non-compliance that could result in fines, or ineffectiveness or inefficiency that is unreasonable.
Moderate	Exceptions were identified that pose a moderate risk to the College that could create unnecessary costs, minor reporting errors, minor compliance issues, or a level of ineffectiveness or inefficiency that is generally undesirable.
Pass	Significant exceptions were not identified. Controls were well designed and implemented.

Introduction

A contract with Asher Media was executed on September 1, 2024, to oversee advertising and media purchasing services to promote brand awareness. It provides for services to secure advertising space on platforms such as YouTube TV and Meta (Facebook and Instagram), to optimize Google search visibility for individuals seeking flexible skills courses, to obtain billboard advertising space, and to manage email marketing campaigns. The initial term of the contract was 12 months, with options to renew 4 successive terms, with each renewal term also being 12 months. The contract has been amended 4 times, with one of those amendments being the first renewal. The value of the original contract was $4.5 million. Amendments 1, 2, 3, and 4 increased the total contract value by $50 thousand, $400 thousand, $6.1 million, and $30 thousand, respectively. Currently, the total value of the contract is just over $11 million. It could increase to $24.1 million if the other 3 renewals are executed.

Asher Media conducts research to identify and target the primary audience for advertising efforts to help ensure marketing campaigns effectively reach targeted demographic groups. They meet monthly with the College's Marketing team to review campaign performance, discuss budget allocations, and plan or adjust future marketing strategies.

In fiscal year 2025, Asher Media reported a total estimated 205 million impressions were served through their advertising and media buying services. Through these efforts, there were 986,000 clicks across all online advertising mediums, 20,836 application starts, and 13,759 application submits, yielding a 66.04% conversion rate on applications. These led to Asher Media's ultimate purpose to deliver more qualified leads to assist with enrollment.

Opinion

Based on the audit work performed, the contract and amendments with Asher Media complied with TEC §51.9337 and internal policy. We would like to extend our appreciation for the time and assistance given by management and employees during this audit.

Submitted by:

[ORIGINAL SIGNED BY]

Jason D. Mallory, CPA, CIA, CCSA
Chief Audit Executive

June 15, 2026
Date

Audit performed by:

[ORIGINAL SIGNED BY]	June 15, 2026
Brandy Scott, CIA Audit Manager	Date
[ORIGINAL SIGNED BY]	June 15, 2026
Brandon Frazer Staff Auditor	Date

Copies of this report have been distributed to the following:
Daniel De La Garza, Director, Strategic Procurement
Eric Vogelsinger, Vice President, Procurement
Joyce Gorgan, Chief of Staff/ Marketing
Edward Vallejo, Deputy Vice Chancellor and General Counsel
TSTC Executive Management Team
TSTC Board of Regents
State Auditor's Office
Legislative Budget Board
Governor's Office

Texas State Technical College Internal Audit

Internal Audit Report

TAC 202 – Audit of Element451 (26-031A)

June 16, 2026

This audit was conducted in accordance with the
Global Internal Audit Standards
of the Institute of Internal Auditors

Executive Summary

We audited select TAC 202 controls as of April 30, 2026 for Element451, a cloud-based Software-as-a-Service (SaaS) platform used in the admissions process. This audit was conducted concurrently with a process audit of admissions.

Background

Element451 is a cloud-based software as a service (SaaS) advanced student engagement customer relationship management database (CRM), used in the admissions and enrollment processes. The software was purchased in August 2025 at a cost of $543,856 for an initial period of 3 years. Personnel in Enrollment Services and the Office of Information Technology perform administration functions. Currently, there are 534 active accounts and 270 inactive accounts, for a total of 804 accounts.

Audit Objectives

Our objective in this audit was to verify the minimally required TAC 202 controls are in place in the following control domains:

Control Domain	Number of Required Controls Tested
System Access	10
Employee Training and Awareness	4
Audit and Accountability	9
Configuration Management	4
Contingency Planning	2
Identification and Authentication	5
System Maintenance	2
Personnel Security	3
Risk Assessment	1
Acquisition	1
Communication Protection	2
System and Information Integrity	3
Total	46

Scope

The scope of our audit included all processes and procedures relevant to the TAC 202 that were implemented as of April 30, 2026. It also included controls managed by the vendor that were validated by an independent auditor in a SOC 2 Type II audit dated September 11, 2025.

Our tests included reviewing system access, training documentation, configuration files, identification and authentication configurations, and the SOC 2 report. We also reviewed OIT work tickets and various Statewide Operating Procedures.

Methodology

We utilized the Texas Department of Information Resources Security Control Standards Catalog, version 2.2, NIST 800-53r5, and NIST 800-66r2 for the basis of our testing. Various Statewide Operation Standards were also used to determine the College's expectations of certain controls.

Positive Observations and Strengths

Internal users and students are required to fully authenticate themselves prior to being granted access to Element451. Unauthenticated access is denied. Strong cryptographic protection and protocols are in place when connecting to the service. Prior to the purchase, a risk assessment was performed to ensure the software met minimum security standards.

Element451 also uses special AI-powered conversational teammates that serve as proactive assistants in the admissions processes. These Bolt Agents are not accessible to unauthenticated users. In fact, these demonstrated strong confinement controls by consistently refusing to disclose sensitive system configurations, internal data, or user records that fell outside our specific authorization level, indicating that the underlying Large Language Model has been properly tuned to prioritize data boundary enforcement. There are also strong identification and authentication controls that manage the application programming interface keys.

Summary of Audit Observations

Control Domain	Rating (# of implemented controls)	Rating (# of controls with recommendations)	Rating (# of controls not implemented) – See Audit Finding Detail
System Access	3	2	5
Employee Training and Awareness	3		1
Audit and Accountability	7	1	1
Configuration Management	3		1
Contingency Planning		2	
Identification and Authentication	4		1
System Maintenance	2		
Personnel Security			3
Risk Assessment	1		
Acquisition	1		
Communication Protection	2		
System and Information Integrity	1	1	1
Total	**27**	**6**	**13**

Rating Description

Priority	Controls were not implemented as required by TAC 202.
Moderate	Controls were implemented, but enhancements are available.
Pass	Controls were implemented as required by TAC 202.

Introduction

Element451 is a cloud-based SaaS advanced student engagement CRM database that provides the College an advantage in student admissions through the use of AI, student behavior data, and advanced marketing automation. Students primarily use it to apply for admission. It leverages AI-powered insights on student intent to make next-action recommendations. This gives the College's

admissions and enrollment teams the ability to elevate personalization and connectedness with potential students, and enhance their experiences during the admissions and enrollment processes.

The initial contract to license Element451 began on September 29, 2025 at a cost of $543,856.30. It runs 36 months from that date. The agreement provides access to Element Professional Services, Element Core, Element One, Element Dedicated Support, Element Workday Maintenance, and Element Usage Credits. There are several features of the software used by the College, to include marketing campaign automation, student engagement via chat and email, personalized student microsites, admission applications, and data integrations.

The vendor and OIT manage controls that ensure data is secured, available, and reliable. Personnel in both OIT and Enrollment Services currently share administrative responsibilities, with OIT having a designated Application Administrator.

Audit Finding Detail

Finding #1: Thirteen of the 46 minimally controls required attention.

Criterion: Internal Audit tested 46 controls detailed in the TAC 202 Security Control Standard Catalog and referred to the NIST SP 800-66r2 and SP 800-53r5 catalogs.

We determined that 13 controls of the 46 controls were not implemented. Those controls fall within the following TAC 202 domains:

Control Domain	Not Implemented
System Access	5
Employee Training and Awareness	1
Audit and Accountability	1
Configuration Management	1
Identification and Authentication	1
Personnel Security	3
System and Information Integrity	1
Total	**13**

Details of these controls and our results are included in a database shared with OIT. Those details are not included in this report because disclosure poses a security risk in which bad actors could exploit.

Consequences: Non-compliance to TAC requirements, which mostly result in system access issues.

Recommendations: We recommend the OIT implement the controls that are not yet implemented, with priority given to those related to system access. We also recommend more administrative functions be performed by OIT to ensure all requirements are being met. We feel the decentralized administration in place during this audit was a large contributor to the controls that were not implemented.

Management Response

Management of IT Operational Services and IT Security & Compliance agrees with the observations made in the Element451 audit. By June 30, 2027, IT will implement corrective actions to address users' access, training, and data management requirements identified in the audit. IT will also collaborate with appropriate stakeholders to strengthen administrative oversight and support compliance efforts for Element451. Carrie Bernal, Associate Vice President, IT Operational Services, and Brandon Fortner, Director, IT Security & Compliance will be responsible for implementation of this corrective action plan.

Opinion

The majority of required TAC 202 controls have been implemented for Element451. However, there were 13 controls not implemented which require attention. The most common control issues related to system access.

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

Submitted by:

[ORIGINAL SIGNED BY]

Jason D. Mallory, CPA, CIA, CCSA
Chief Audit Executive

June 16, 2026
Date

Audit performed by:

[ORIGINAL SIGNED BY]

Isidro Cruz, CISA
Senior IT Auditor

June 16, 2026
Date

Copies of this report have been distributed to the following:
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Brandon Fortner, Director, IT Security & Compliance
Chelsea Anfenson, Chief of Staff, Information Technology
Joyce Gorgan, Chief of Staff to the Chief Marketing Officer
Christine Stuart-Carruthers, AVC Enrollment Management
Trey Pearson, Senior Director, Enrollment
TSTC Executive Management Team
TSTC Board of Regents
State Auditor's Office
Legislative Budget Board
Governor's Office

Texas State Technical College Internal Audit

Internal Audit Report

Admissions Audit (26-030A)

June 18, 2026

This audit was conducted in accordance with the
Global Internal Audit Standards
of the Institute of Internal Auditors

Executive Summary

We recently completed an audit of the admissions process. The audit tested procedures and controls that ensure prospective students are admitted into the various programs of study in an effective and efficient manner. Applications submitted for the Fall 2025 and Spring 2026 semesters were within the scope of this audit.

Background

The College received approximately 31,000 applications for the Fall 2025 and Spring 2026 semesters. Those applications resulted in 6,206 and 1,699 new students in the Fall and Spring semesters, respectively. The process is managed by 69 admission advisors distributed throughout all 11 campuses. They are responsible for assisting potential students through the application and admissions process, ensuring all requirements have been met and all necessary documentation is obtained. Once all requirements and documentation have been met, the potential students are passed off to enrollment coaches to start the enrollment process.

Audit Objectives

1. The application process is easy to find and follow for prospective students.
2. Applications are processed timely.
3. Communications to applicants are clear, consistent, and accurate.
4. Prospective students meet admission requirements
5. Applicant data and documents are complete, accurate, secure, and consistent across systems used in the process.
6. Admission practices comply with institutional policies, accreditation standards, and applicable federal and state regulations.
7. The admissions process is efficient.
8. Additional admission requirements for the allied health and pilot training programs are met and consistently applied.
9. Fraudulent applicants are identified before being admitted.
10. Element 451 meets TAC 202 requirements.

Scope

The scope of our audit included all applications received for the submitted for the Fall 2025 and Spring 2026 semesters, and all processes and expectations currently in place. To accomplish our objectives, we reviewed admissions documents, to include applications, transcripts, immunization records, and test scores. We also reviewed employee training records, as well as communications sent to applicants. We verified fraud detection within Element 451 worked described to identify fraudulent applicants. Access to student documents and the accuracy of data and documents between systems used in the process were also tested. Finally, we made phishing telephone calls to admission advisors to test their awareness of FERPA requirements. We performed a concurrent audit of the Element 451 system to ensure security and other IT controls required by TAC 202 are met.

Methodology

The following policies, regulations, and related guidance were used in the audit:

- SOS/SOP ES 4.07 Admissions of Students
- TSTC Student Handbook, 01. Eligibility Requirements

- TAC Title 19, 21.24, Determination of Resident Status

Positive Observations and Strengths

The admissions process utilizes Element 451 to manage College admission applications. The introduction of that system has made the process more streamlined, and added elements such as AI technology to help identify fraudulent applicants by identifying several red flags that are followed up on by staff before an application proceeds in the process.

Since the last audit conducted in fiscal year 2019, we found the application process to be easier to follow. One particular observation is the more timely communications that originate from the admission advisors, and the reliability of the data. We feel the current enrollment numbers are partially attributable to the improvements made since that last audit. Additionally, the robust training program management has cultivated for admission advisors has helped ensure staff are familiar with their roles and responsibilities. Management was easy to work with, and receptive to our observations. We noted a culture in which the process is constantly under scrutiny to identify available improvements, and an awareness of how the work directly impacts enrollment.

Summary of Audit Observations

Audit Objectives	Rating
The application process is easy to find and follow for prospective students.	
Applications are processed timely.	
Communications to applicants are clear, consistent, and accurate.	
Prospective students meet admission requirements	
Applicant data and documents are complete, accurate, secure, and consistent across systems used in the process.	
Admission practices comply with institutional policies, accreditation standards, and applicable federal and state regulations.	Finding #1 & Finding #2
The admissions process is efficient.	
Additional admission requirements for the allied health and pilot training programs are met and consistently applied.	
Fraudulent applicants are identified before being admitted.	
Element 451 meets TAC 202 requirements.	See Audit 26-031A

Rating Descriptions

Priority	Exceptions were identified that pose a significant risk to the College that could create excessive costs, loss of revenue, material reporting errors, non-compliance that could result in fines, or ineffectiveness or inefficiency that is unreasonable.
Moderate	Exceptions were identified that pose a moderate risk to the College that could create unnecessary costs, minor reporting errors, minor compliance issues, or a level of ineffectiveness or inefficiency that is generally undesirable.
Pass	Significant exceptions were not identified. Controls were well designed and implemented.

Introduction

The admission process is overseen by a Senior Director of Enrollment, and an AVC/Enrollment Management. They oversee 69 admission advisors distributed across all 11 campuses who guide prospective students through the admissions process. Their work includes helping students identify a program of study that best aligns with their career goals, ensuring admission requirements are met, and collaborating with other departments, such as enrollment services, financial aid, and the Registrar's Office. They also promote TSTC to prospective students by attending high school and other events.

In the period we tested, over 31,000 applications were submitted through Element 451. Of those, 21,000 were submitted for the Fall semester, 5,800 for Spring, and 3,200 for Summer.

Audit Finding Detail

Finding #1: Required documents and the documentation of procedures, in some instances, were missing.

Criterion: We reviewed applicant profiles in Element 451 and Workday to ensure all admission requirements were complete, and all required documentation was received. We also verified additional verification protocols were followed for applications flagged as potentially fraudulent. Finally, we verified that applicant data in Element 451 reconciled to what was migrated to Workday.

The following exceptions were identified:

- Some applicants were missing required documents, to include TSI scores and transcripts.
- Some documents submitted by students were not reviewed within the 24 hours from receipt as required by process expectations.
- For applications flagged as potentially fraudulent, we found instances of face-to-face meetings not being documented as required, and instances photo IDs not being uploaded.
- We found one instance of a legitimate application in Element 451 that did not have a student profile in Workday, and one instance of a potentially fraudulent applicant that did have a Workday student profile.

Consequences: Increased risks of enrolling students who have not met all admission requirements or submitted all required documentation.

Recommendations: We recommend using these results as a training tool, as well as increases monitoring in focused areas that were identified in this audit.

Management Response

Management of the Enrollment Management Department agrees with the observations. Certain admissions documents and procedures were not documented due to staff not consistently following established and documented procedures. The Enrollment Support Services team will review all existing training materials by August 1, 2026, and make revisions as necessary to ensure they accurately reflect admissions requirements, system usage expectations, and customer service

standards. In addition, refresher training will be provided to all admissions and enrollment staff, including campus leadership. That training will cover:
- Expectations for reviewing and responding to submitted documents within established timelines.
- Procedures for identifying and verifying potentially fraudulent applicants.
- Documentation requirements and expectations within approved institutional systems.
- Admissions requirements and associated processing procedures.

Additionally, our Records and Processing Department has oversight on maintaining student records and provides quality assurance that all required documentation for students is on file and appropriate for their degree. Enrollment Management will continue to coordinate with them during each term to ensure the requirements are followed, and that any incomplete student records, as it relates to admissions documents, are corrected.

Following the initial review and training effort, this process with be repeated biannually to ensure staff remain properly trained and informed of current procedures and expectations. The Enrollment Support Services Department, in partnership with Enrollment Management leadership, will be responsible for implementing and maintaining this process. Trey Pearson, Senior Director of Enrollment, will be responsible for overseeing and ensuring completion of this corrective action plan.

Finding #2: The protection of sensitive academic information needs to be improved to ensure unauthorized release does not occur.

Criterion: We made phishing calls to admissions advisors, posing as both students and parents. We asked for information that is protected data under the Family Educational Rights and Privacy Act (FERPA). Established protocol is in place, and must be followed before releasing any information.

We were able to reach 9 admission advisors by telephone. Six disclosed FERPA protected data without following the established protocol.

Consequences: Monetary penalties associated with FERPA violations, reputational impacts, and reduced confidence by students and parents that sensitive information is protected.

Recommendations: We recommend additional training for admissions staff, along with periodic self-audits similar to what we conducted.

Management Response

Management of the Enrollment Management Department agrees with the observations. The Enrollment Support Services team will review existing departmental FERPA training, which is provided in addition to TSTC's annual FERPA training requirement, to ensure expectations regarding the release of information are clear and consistently understood. The review will be conducted in partnership with the Records and Processing Department to align Enrollment Management practices with institutional standards and established procedures for information

release. In addition, training materials will be enhanced to include scenario-based examples that clearly illustrate appropriate and inappropriate responses to request for student information received by phone. This review and enhancement process is currently underway and is expected to be completed by August 1, 2026.

Following this initial review and training effort, this process will be repeated biannually to ensure staff remain properly trained and informed of current FERPA requirements and institutional procedures. Additionally, local Enrollment Management leaders will receive training on monitoring and auditing compliance with these expectations. Campus leadership will be responsible for conducting biannual quality assurance reviews, including simulated calls, to verify adherence to established FERPA procedures and information-release standards. The Enrollment Support Services Department, in partnership with local campus Enrollment Management leadership, will be responsible for implementing and maintaining this process. Trey Pearson, Senior Director of Enrollment, will be responsible for overseeing and ensuring completion of this corrective action plan.

Opinion

Based on the audit work performed, the application process is easy to find and follow, special program admissions are appropriate, and communication with applicants is clear and consistent. The processes are effective, as demonstrated by current enrollment figures. We did identify select opportunities to improve documentation and training, and a need for periodic self-monitoring. We would like to extend our appreciation for the time and assistance given by management and employees during this audit.

Submitted by:

[ORIGINAL SIGNED BY]

Jason D. Mallory, CPA, CIA, CCSA
Chief Audit Executive

June 18, 2026
Date

Audit performed by:

[ORIGINAL SIGNED BY]

Brandy Scott, CIA
Audit Manager

June 18, 2026
Date

[ORIGINAL SIGNED BY]

Brandon Frazer
Staff Auditor

June 18, 2026
Date

Copies of this report have been distributed to the following:
Trey Pearson, Senior Director Enrollment
Christine Stuart – Carruthers, AVC Enrollment Management
Joyce Gorgan, Chief of Staff to the Chief Marketing Officer
TSTC Executive Management Team
TSTC Board of Regents
State Auditor's Office
Legislative Budget Board
Governor's Office

Texas State Technical College Internal Audit

Internal Audit Report

Financial Aid - Audit of TPEG & TEOG (26-032A)

June 26, 2026

This audit was conducted in accordance with the
Global Internal Audit Standards
of the Institute of Internal Auditors

Executive Summary

Internal Audit has completed a compliance audit on the Texas Public Educational Grant (TPEG) and Texas Educational Opportunity Grant (TEOG) offered to eligible students through the Financial Aid Department. The purpose of the audit was to ensure funds awarded through both programs comply with the specific criteria for each one. TPEG funds are available to all students who meet specific criteria. These funds are derived from statutory and designated tuition revenue. The College is required to set aside certain percentages of this tuition to award to students as financial aid. TEOG funds are also available to all students. These funds are allocated to the College from the Texas Higher Education Coordinating Board (THECB). It too has specific qualifying criteria. The significant criteria for both include the student having an unmet financial need after all other forms of aid have been applied.

Audit Objectives

1. TPEG awards complied with the awarding criteria.
    a. The correct percentages of tuition are set aside for TPEG.
    b. TPEG recipients meet all eligibility criteria.
    c. TPEG award amounts are appropriate.
2. TEOG awards complied with the awarding criteria.
    a. TEOG funds drawn down are legitimate.
    b. TEOG recipients meet all eligibility criteria.
    c. TEOG award amounts are appropriate.
    d. TEOG renewal students are prioritized over initial year students, as required.
3. Controls relied on to award both TPEG and TEOG work as intended.
    a. Workday reports that determine eligibility are correct.
    b. System access is restricted when drawing down funds from GAPP.
    c. Available TPEG and TEOG funds are monitored for usage.

Scope

The scope of our audit included TPEG and TEOG funds awarded during the Fall 2025 and Spring 2026 semesters. Our tests included verifying student eligibility and the appropriateness of award amounts. . Workday reports were relied upon to determine eligibility. We also reviewed processes around monitoring funds for usage, as well as scrutinized access to the system used to draw funds.

Methodology

The basis of work for our TPEG testing came from information published by on the Texas Comptroller's website, SOS FA 3.3 Texas Public Educational Grants, and Texas Education Code Chapter 56, Subchapter C. For TEOG, our testing was based on the related 2025-2026 Program Guidelines promulgated by the THECB.

Positive Observations and Strengths

We made several observations. Financial Aid staff were very accommodating by answering our questions and providing necessary documentation in a timely manner. In the course of this audit they lost a member of the staff who assisted with these awards. The processes in place allowed for, what appeared to us, a seamless transition without undue interruption. Staff were receptive to our observations requiring attention. Examples include changes they made during the audit to

employee access to the system used to drawdown funds, and enhancements they made to Workday reports used to award funds. Finally, the implementation of Workday has required significant effort and collaboration to move away from the legacy system. They recognize there are still areas needing improvement. They consistently demonstrated a proactive approach to addressing those needs.

Summary of Audit Observations

Audit Objectives	Rating
TPEG awards complied with the awarding criteria.	
a. The correct percentages of tuition are set aside for TPEG.	
b. TPEG recipients meet all eligibility criteria.	**See Finding #1**
c. TPEG award amounts are appropriate	**See Finding #1**
TEOG awards complied with the awarding criteria.	
a. TEOG funds drawn down are legitimate.	
b. TEOG recipients meet all eligibility criteria.	**See Finding #1**
c. TEOG award amounts are appropriate.	
d. TEOG renewal students are prioritized over initial year students, as required.	
Controls relied on to award both TPEG and TEOG work as intended.	
a. Workday reports that determine eligibility are correct.	**See Finding #1**
b. System access is restricted when drawing down funds from GAPP.	
c. Available TPEG and TEOG funds are monitored for usage.	

Rating Description

Priority	Exceptions were identified that pose a significant risk to the College that could create excessive costs, loss of revenue, material reporting errors, non-compliance that could result in fines, or ineffectiveness or inefficiency that is unreasonable.
Moderate	Exceptions were identified that pose a moderate risk to the College that could create unnecessary costs, minor reporting errors, minor compliance issues, or a level of ineffectiveness or inefficiency that is generally undesirable.
Pass	Significant exceptions were not identified. Controls were well designed and implemented.

Background

There are various types of financial aid available to students, including grants, loans, scholarships and sponsorships from both federal, State, and private entities. Students must first complete a Free Application for Federal Student Aid (FAFSA) to begin the process of obtaining any type of financial aid.

TEOG is state-funded aid administered by the THECB. In fiscal year 2026, TSTC had $12,329,291 available to award. This was an increase of over 42 percent from last fiscal year. TEOG has several eligibility requirements, including being a Texas resident, having financial need, being enrolled at least half time and within the first 45 semester credit hours of their studies, not already holding an associate or bachelor's degree, being registered with Selective Service, unless exempt, and not having a felony conviction. There is a semester maximum award amount of $4,493 per student.

TPEG is funded by tuition funds set aside by the College. Specifically, 15 percent of statutory tuition revenue from resident students is set aside and available for award to resident students. Three percent of statutory tuition from non-resident students are set aside and available for award to non-resident students. In addition, no less than 15 percent of designated tuition in excess of $46 per semester credit hour is set aside and available for additional aid. The total amount of statutory tuition set aside for TPEG during Fall 2025 and Summer 2026 was $722,880.29, and $6,184,078.85 for designated tuition. TPEG has less eligibility requirements than TEOG. Those include being a Texas resident, non-resident or foreign student, having financial need and being registered for Selective Service, unless exempt. TPEG award amounts vary, but should not exceed more than the students' unmet financial need.

Through 5/26/26, $473,494.08 was awarded from TPEG-Resident, $136,820.24 from TPEG-Non-Resident, and $2,912,574.63 from TPEG designated tuition set aside funds, also known as TSTC Grant. Additionally, $8,380,400 in TEOG was awarded. If all TEOG funds are not awarded by the end of the fiscal year, they roll over to the next fiscal year. The College has historically used all of those funds each year. For TPEG, funds from statutory tuition are only allowed a carryforward balance equal to, or less than 150% of the total amount set aside in the current year; any excess is sent to the THECB. Funds set aside from designated tuition do not have carry forward limitations.

The Financial Aid Department administers these programs.

Audit Finding Detail

Finding #1: Controls to ensure eligibility and amounts are reasonable need enhancement.

Criterion: We reviewed a sample of students who were awarded TPEG and TEOG and verified they met eligibility requirements under the respective rules and criteria.

We noted the following observations for TPEG:

- 4 of 60 students tested did not meet all eligibility criteria. Discrepancies included a non-resident student receiving a TPEG Resident award, two resident students receiving TPEG Non-Resident awards, and one student not registered for Selective Service receiving an award. For the latter, the student failed to properly disclose his status.
- TPEG award amounts are not standardized and vary from some students receiving a flat amount, to others receiving an amount equal, less than, or greater than their outstanding balance. As such, it was difficult for us to determine whether the award amounts were appropriate.

We noted the following observations for TEOG:

- 6 of 80 students tested did not meet all eligibility criteria. Those discrepancies included one student not being registered with Selective Service, and not properly disclosing his status. One student received an award, but had already taken more than 45 semester credit hours. And, four students received awards even though they had previously earned an Associate's degree.

We determined the cause for these exceptions were due to Workday reports relied upon to determine eligibility did not include all relevant information to obtain a list of students who meet TPEG and TEOG requirements. *During the audit, the missing eligibility rules were immediately corrected in those Workday reports to provide a more accurate listing of eligible students moving forward. Additionally, 3 students who incorrectly received TPEG and 5 who incorrectly received TEOG had their awards reclassified to another form of aid.*

We also determined the Workday reports include criteria to select students with an unmet need greater than $0. But, because that need changes as aid is awarded, it was difficult for us to determine with no uncertainty that the students we tested actually had unmet need at the time of their awards.

Consequences: Noncompliance could result in the need to return funds.

Recommendations: The Workday reports were corrected during the audit. We recommend those reports continue to be reviewed and adjusted as necessary. We also recommend documentation be maintained which evidences unmet need at the time the awards were granted.

Management Response

Management of the Financial Aid Processing Center/Enrollment Services Division agrees with the observations made in the audit. The cause for the exceptions was due to problems with Workday reports which did not include all relevant information. By November 15, 2026, we will have disbursement rules in place which will prevent disbursement if a student does not meet all relevant criteria. Changes have already been made to the reports, but we will review them again, and make sure that no additional changes are needed. We will also create a folder for each term to store all reports created to determine award eligibility - along with any notes regarding those awards. Johann Martinez, Temporary Supervisor, Financial Aid – Harlingen, will be responsible for implementation of this corrective action plan.

Opinion

Based on the audit work performed, both TPEG & TEOG funds generally comply with the rules that govern each. We found some instances of non-compliance as detailed in Finding #1, but management agreed to enhance controls. We would like to extend our appreciation for the time and assistance given by management and employees during this audit.

Submitted by:

[ORIGINAL SIGNED BY] — June 26, 2026

Jason D. Mallory, CPA, CIA, CCSA
Chief Audit Executive

Date

Audit performed by:

[ORIGINAL SIGNED BY] — June 26, 2026

Tahlia Pena
Audit Manager

Date

Copies of this report have been distributed to the following:
Johann Martinez, Temporary Supervisor – Financial Aid
Jackie Adler, Financial Aid Director
Christine Stuart-Carruthers, AVC-Enrollment Management
Joyce Gorgan, Chief of Staff to the Chief Marketing Officer
TSTC Executive Management Team
TSTC Board of Regents
State Auditor's Office
Legislative Budget Board
Governor's Office

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

August 2026

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, VC/CAE
Subject: TAC 202 Compliance – Quarterly Update
Date: June 30, 2026

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 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 April 1 through June 30, 2026, 3 outstanding controls were implemented (1 for Workday, 2 for Eaglesoft). In addition, a recent audit of Element451 was added to this report. There are currently 73 controls from past audits to test. 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 Note 1	Total
As of December 2021	63	19	0	4	86

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
As of March 2022	38	11	0	0	49

Perceptive Content — Original Audit: June 28, 2017

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted Note 2	Total
As of March 2022	33	15	0	1	49

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
As of December 2021	46	3	0	0	49

Google Suite

Original Audit: December 10, 2018

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted Note 3	Total
As of December 2021	38	9	0	2	49

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 logs 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
As of December 2021	48	1	0	0	49

Informatica Server

Original Audit: September 30, 2019

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
As of December 2021	49	0	0	0	49

PrismCore

Original Audit: September 21, 2020

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted Note 4	Total
As of December 2021	42	6	0	1	49

Note 4: *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	Total
As of June 2022	38	11	0	0	49

VPN

Original Audit: November 22, 2021

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted Note 5	Total
As of September 2022	50	0	0	2	52

Note 5: *AU-5 requires monitoring of audit log failures. Implementing this control would require a 3rd party software add-on, which we do not feel the benefit of doing so outweighs the cost. We have a compensating control where we monitor logs monthly. CP-4 requires periodic back-up testing. The testing of this control would cause a disruption to services provided to employees working remotely. There are compensating controls of stored backup configurations. OIT tests the backups before completing any upgrades or updates to the appliance.*

Canvas LMS

Original Audit: May 20, 2022

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
As of December 2022	43	10	0	0	53

TWC Server

Original Audit: May 16, 2022

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
As of March 2023	47	4	0	0	51

T Drive Original Audit: March 17, 2023

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted Note 3	Total
As of March 2026	41	0	0	0	41

IT General Controls Original Audit: June 23, 2023

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted Note 6	Total
April 2026 – June 2026	24	6	2	2	34
January 2026 – March 2026	24	6	2	2	34
Difference	0	0	0	0	

Note 6: *In Note 1 for the General Controls Audit conducted in FY 2017, management elected to not fully implement CM-11 related to end-user installed software. They feel compensating controls such as malware and the ability to restrict specific downloads from the internet assist with mitigating associated risks. They continue to accept this risk to the extent it is not fully controlled by completely restricting administrator rights on laptops and PCs.*

Additionally, OIT has recommended accepting the risk (AC-19) associated with managing mobile devices owned by employees due to the cost and difficulty to enforce. There is a policy, though, outlining expectations when those devices are used to access College information. There are controls in place for devices owned by the College.

CRIMES Original Audit: March 17, 2023

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
April 2026 – June 2026	24	1	23	0	48
January 2026 – March 2026	24	1	23	0	48
Difference	0	0	0	0	

Workday Original Audit: May 16, 2025

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
April 2026 – June 2026	38	0	11	0	49
January 2026 – March 2026	36	0	13	0	49
Difference	+2	0	-2	0	

Eaglesoft Original Audit: September 29, 2025

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
April 2026 – June 2026	17	5	24	0	46
January 2026 – March 2026	16	5	25	0	46

Difference	+1	0	-1	0

Element451 Original Audit: June 16, 2026

Period	Implemented	Implemented with Recommendations	Not Implemented	Risk Accepted	Total
April 2026 – June 2026	27	6	13	0	46
January 2026 – March 2026					
Difference	+27	+6	+13	+0	

Submitted by:

[ORIGINAL SIGNED BY]

Jason D. Mallory, CPA, CIA
Chief Audit Executive

June 30, 2026
Date

Audit performed by:

[ORIGINAL SIGNED BY]

Isidro Cruz, CISA
Senior IT Auditor

June 30, 2026
Date

Copies of this report have been distributed to the following:
Mike Reeser, Chancellor/CEO
Dale Bundy, VC/CIO
TSTC Board of Regents
State Auditor's Office
Legislative Budget Board
Governor's Office

Texas State Technical College Internal Audit

Internal Audit Report

Audit of 2022 & 2023 W-2s (24-023A)

July 8, 2026

This audit was conducted in accordance with the
Global Internal Audit Standards
of the Institute of Internal Auditors

Executive Summary

Internal Audit reviewed certain errors noted on the 2022 and 2023 W-2s issued to employees after an error was identified by an employee. The review was limited to those 2 years because subsequently issued W-2s were quality control tested prior to issuance, with no issues found. The audit determined the following:

- 1,793 employees and 1,876 employees received W-2s for tax years 2022 and 2023, respectively, which had amounts and a code E on line 12. Because those employees did not contribute to elective 403b retirement accounts, the amounts and code should not have been included. Additionally, 59 employees in each tax year who did contribute to a 403b retirement account received W-2s that included the wrong amounts on that line. The amount actually listed on line 12 was the employee contributions to their TRS/ORP accounts instead of the 403b contributions. While unlikely, these errors could have created very small tax credits for some employees who did not contribute to the accounts, and a small penalty for 2 employees who did contribute. Because the individual tax situation of each employee is unique, the actual impact of these errors is unknown.
- 538 employees and 1,781 employees received W-2s for tax years 2022 and 2023, respectively, which were missing an "X" in the retirement box on line 13. While also unlikely, this error could have also resulted in small tax credits that were not warranted.
- 22 employees and 25 employees received W-2s for tax years 2022 and 2023, respectively, which omitted an amount and code G on line 12, even though they contributed to an elective 457b retirement account. We did not identify any potential impact this would have on the tax returns filed by employees.
- The root cause for these errors was due to certain amounts mapped incorrectly when Workday was implemented. The mapping was corrected before the 2024 W-2s were issued.
- We determined the taxable, Social Security, and Medicare wages on the W-2s were correct, as were their related tax withholdings. This is especially significant because these are primary numbers used to calculate the tax liability on personal tax returns.
- An independent tax expert reviewed the matter, and concluded the errors were unlikely to impact most employees. He further concluded any impact that did occur would likely be very minor. He recommended any corrective action be done on an ad hoc basis.

Audit Objectives

1. Identify all errors made on the W-2s issued for the 2022 and 2023 tax years, the root cause, and the potential tax implications on individual employees.
2. Determine whether all taxable wage lines and their related tax withholdings were correctly stated on the W-2s for the 2022 and 2023 tax years.

Scope

The scope of the audit included all W-2s issued to employees for the 2022 and 2023 tax years. To accomplish the objectives, we reviewed data mapping from Workday to ADP's system (the vendor who prepared the W-2s), and compared the data presented on the W-2s to end of year payroll records to ensure the amounts included in each box of the W-2s were correct. We consulted IRS

guidance and an independent CPA who was a tax expert to understand the potential impact any errors could have on employees. He was also consulted with to recommend a reasonable corrective action plan.

Methodology

The following policies, regulations, and related guidance were used in this audit:

- 2022 & 2023 General Instructions for Forms W-2 and W-3 published by the IRS
- IRS Publication 15
- IRS guidance related to the Retirement Savings Contributions Credit
- Independent review by FORVIS, a nationally recognized accounting firm.

Positive Observations and Strengths

Once these errors were identified and disclosed, the Payroll Department immediately changed data mapping to ensure the likelihood of future errors was significantly reduced. Management thoughtfully approached the finding through a collaborative effort between Finance, General Counsel, and the Chancellor's Office. They sought to be transparent while minimizing negative impacts to employees. The impact on employees was a significant consideration when they formulated their corrective action plan.

Summary of Audit Observations

Objectives	Rating
Identify all errors made on the W-2s issued for the 2022 and 2023 tax years, the root cause, and the potential tax implications on individual employees.	See Finding #1
Determine whether all taxable wage lines and their related tax withholdings were properly stated on the W-2s for the 2022 and 2023 tax years.	

Rating Description

Priority	Exceptions were identified that pose a significant risk to the College that could create excessive costs, loss of revenue, material reporting errors, non-compliance that could result in fines, or ineffectiveness or inefficiency that is unreasonable.
Moderate	Exceptions were identified that pose a moderate risk to the College that could create unnecessary costs, minor reporting errors, minor compliance issues, or a level of ineffectiveness or inefficiency that is generally undesirable.
Pass	Significant exceptions were not identified. Controls were well designed and implemented.

Background

W-2s for the 2022 and 2023 tax years were prepared by ADP based on information the College's payroll department provided them. In 2021, the College implemented Workday, a new ERP system. The implementation changed payroll processing procedures, which included ones related to the preparation of end of year tax documents. Fields in Workday not mapped correctly during

implementation resulted in certain errors on the W-2s. The mapping was corrected once the error was identified.

Internal Audit obtained all W-2 information for both years to scrutinize their accuracy. The errors that we identified related to codes and/or amounts on lines 12 and 13 of the W-2s. We researched the potential impacts of those errors. An independent tax expert was also engaged by management to verify the probable impacts of the errors, and to recommend reasonable a corrective action plan.

Audit Finding Detail

Finding #1: W-2s for the 2022 and 2023 tax years included errors on lines 12 and 13.

Criterion: We determined 2,115 employees in 2022, and 2,272 employees in 2023, received W-2s from the College. Those W2s were prepared by a third-party using data the College provided to them. We analyzed all of these W-2s to identify any errors. All errors were researched to determine probable impacts. An independent CPA was also engaged to consult on the matter.

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We determined:

- 1,793 employees and 1,876 employees received W-2s for tax years 2022 and 2023, respectively, which had amounts and a code E on line 12, even though employees did not contribute to an elective 403b retirement account. 59 employees in each tax year did contribute to a 403b retirement account, but the amounts reported as code E on line 12 were incorrect. All of the amounts reported were actually compulsory contributions to TRS/ORP.
- 538 employees and 1,781 employees received W-2s for tax years 2022 and 2023, respectively, which were missing an "X" in the retirement box on line 13 of each W-2.
- 22 employees and 25 employees received W-2s for tax years 2022 and 2023, respectively, which did not include an amount and a code G on line 12, even though they did contribute to an elective 457b retirement account.

Consequences: Potential for minor errors on some employee's personal tax returns, reduced confidence from employees in future W-2s, reputational impacts.

Recommendations: We recommend a quality control process be implemented to ensure all W-2s are prepared correctly before being issued. The independent CPA also opined that it would be reasonable to not unilaterally amend all affected W-2s, but instead assist individual employees who come forward after receiving notice from the IRS. We recommend this course of action be considered.

Management Response

Management in the Finance Division agrees with the observations and recommendations. After recognizing and understanding the error, the Controller's Office developed and implemented an annual quality control process for W-2's, and executed the process for both 2024 and 2025. Further, the CFO's office worked with Human Resources and the Chancellor's office to communicate to all current and former employees whose W-2s included the errors, and offered

assistance if an issue materialized. Additionally, the CFO's office engaged another independent CPA firm to review personal tax returns upon individual requests from employees to determine whether there was any impact on their tax returns. Chad Wooten, CFO, led the implementation of the corrective actions with input and assistance from Human Resources and the Chancellor's office.

Note from Internal Audit: Before this report was finalized, Internal Audit verified the corrective actions noted above were implemented.

Opinion

The 2022 and 2023 W-2s included errors on lines 12 and 13, lines generally used only for informational purposes. We feel these errors are unlikely to affect the personal tax returns of most employees. For those employees who feel an impact, we concur with the independent CPA who concluded that impact would likely be insignificant.

We feel the action taken by management to notify current and former employees, their offer to provide assistance in reviewing personal tax returns, and the open-ended offer to assist if an impact is identified, are both fair and reasonable.

Performed and submitted by:

[ORIGINAL SIGNED BY]

Jason D. Mallory, CPA, CIA, CCSA
VC/Chief Audit Executive

July 8, 2026
Date

Copies of this report have been distributed to the following:
Mike Reeser, Chancellor & CEO
Chad Wooten, VC/CFO
Pamela Mayfield, VC/CHRO
Ed Vallejo, Deputy VC/General Counsel
Jennifer Tindell, Chief of Staff to the Chancellor
TSTC Board of Regents
State Auditor's Office
Legislative Budget Board
Governor's Office

Final Construction Audit Report
Rev 1

Texas State Technical College

Construction Manager at Risk – Imperial Construction, Inc.

PROJECT # 3797
Capital Construction Assistance Projects (CCAP)
TSTC in Abilene

Construction Audit Report Submitted By:

R. L. Townsend & Associates, LLC

June 26, 2026

The contents of this report are based on our understanding of documents and other information provided to us as of the date of this report. If anyone has any questions regarding the contents of this report, please contact our office for clarification. A revised report will be issued with a revised date if any material representation needs to be corrected.

EXECUTIVE SUMMARY

Audit Background

As a part of an overall program of controlling construction costs, Texas State Technical College (TSTC) engaged R. L. Townsend & Associates to perform a review of the contract and billing records associated with the Capital Construction Assistance Projects (CCAP) – TSTC in Abilene project.

The new facility was constructed to house the technology programs for Diesel Equipment, Line Worker and Management, HVAC, and Plumbing and Pipefitting.

Imperial Construction, Inc. (Imperial) was contracted for services under a Construction Manager at Risk agreement.

The objective of the audit was to ensure the project was billed in accordance with the contract terms. The following key financial terms were included in the contract:

- Construction Phase Fee was 4.19% of the sum of the Cost of Work and General Conditions
- P&P Bonds were included at a fixed rate of 0.90% based on the total contract sum
- Builder's Risk, General Liability, and other insurances were billed at a fixed rate of 0.842% based on the total contract sum
- The final GMP included Alternates 1 and 2 that were not used and returned to Buyout Savings

The procedures used during the audit were in accordance with the Proposal submitted March 1, 2024, and included a review of labor, materials, equipment, subcontracts, and change orders.

Summary of Final GMP and Billing as of Payment Application 20, April 2, 2026

Document	Precon	General Conditions	BR & GL	P&P Bond	COW	Owner Contingency	ICI Contingency	Owner's Special Cash Allowance (#1 - #9)	Construction Phase Fee	Accepted Alternates (#1 - #2)	Total Construction
Contract	$ 25,000										$ 25,000
Amendment 1 - GMP		$1,606,672	$178,089	$190,356	$16,184,383	$ 200,000	$ 600,000	$ 1,305,000	$ 886,215	$ 137,644	$21,288,358
Net PCOs					$ 546,662	$ 33,380		$ (580,042)			$ -
Net ICOs					$ 397,023		$ (349,931)	$ (47,092)			$ -
Budget Transfers 1 - 18		$ (87,980)			$ 363,029		$ (81,900)	$ (55,505)		$(137,644)	$ -
Allowance Transfers to Buyout Savings					$ 300,000			$ (300,000)			$ -
Amendment 3 PCO 35 Savings					$ (414,514)	$ (233,380)	$ (168,169)		$ (32,422)		$ (848,486)
Amendment 3 PCO 35 GMP Credit			$ (5,775)	$ (6,172)							$ (11,947)
Total GMP	**$ 25,000**	**$1,518,691**	**$172,314**	**$184,184**	**$17,376,582**	**$ -**	**$ -**	**$ 322,361**	**$ 853,793**	**$ -**	**$20,452,926**
Billed PA 20 Final 2/28/2026	$ 25,000	$1,518,691	$172,314	$184,184	$17,376,582	$ -		$ 322,361	$ 853,793	$ -	$20,452,926
Previous Payment PA 19 Retainage 10/31/2025											$20,464,872
Difference											**$ (11,947)**

Notes

- As a result of the audit TSTC realized an audit credit of $24,672 and cost avoidance of $51,671.

- The payment difference of ($11,947) is a result of the audited P&P Bond and Insurance costs reconciled in Payment Application 19 that resulted in an overpayment of the final GMP. The credit is to be issued to TSTC via check from Imperial Construction.

Observation

- The project was not designed as a line item GMP, and Budget Transfers (BTs) were issued within the payment applications to adjust funds as needed. Specifically, within Exhibit F, the GMP Qualifications noted that the general contractor can move money within the individual general condition line items as needed.

  BT #7 and BT #17 moved $32,971 from General Conditions into Cost of Work. Due to overall project savings, this did not have an impact on the project.

  General conditions were established as a not-to-exceed amount and contractually any unused General Conditions would be returned to the project.

AUDIT DISCUSSION ITEMS

The following chart shows amounts billed which did not comply with the terms of the contract.

Note	Description	Status	Questioned Cost	Audit Credit	Credit Realized
1	P&P Bond	Agreed	$ 6,397	$ 6,172	PCO 35 Check
2	BR & GL Insurance	Agreed	$ 5,985	$ 5,775	PCO 35 Check
3	Arijet - Sub Bond	Agreed	$ -	$ 1,398	PA 8/PCO 18
4	Batjer - OH&P	Agreed	$ 2,288	$ 2,288	PA 8/PCO 18
5	Robert Kent - Supervisor	Agreed	$ 2,222	$ 2,222	PA 8/PCO 18
6	Buffalo Gap - Labor Rates	Agreed	$ 71,056	$ 24,366	PA 8/PCO 18 Check
	Total Audit Credit		**$ 87,948**	**$ 42,221**	
7	Cost Avoidance			$ 51,671	
	Total Audit Savings			**$ 93,892**	

The detailed notes are discussed on the following pages of the report.

AUDIT NOTES

1. P&P Bond

Per Exhibit F, GMP Qualifications, P&P Bond was to be billed at a fixed rate of 0.90% based on the total contract sum. P&P Bond was billed based on the original contract value. Imperial agreed to credit P&P Bond $6,172 based on the final contract value

Status: Closed. A check was issued from Imperial to TSTC for $6,172.

2. Builder's Risk & GL Insurance

Per Exhibit F, GMP Qualifications, Builder's Risk and General Liability Insurances were to be billed at a fixed rate of 0.842% based on total contract sum. Insurance was billed based on the original contract value. Imperial agreed to credit Builder's Risk and GL Insurance $5,775 based on the final contract value.

Status: Closed. A check was issued from Imperial to TSTC for $5,775.

3. Arijet Communications – Subcontractor Bond

As part of the audit process, subcontractor bond documentation was requested for subcontractors noted to be bonded. Arijet was found to be over bonding capacity and issued credit for the bond cost.

Status: Closed. $1,398 was credited in PA 8/PCO 18.

4. Batjer – Change Order OH&P

During the initial audit review, Batjer was noted to have overstated change order OH&P. Contractually, OH&P was allowed at 10% for change orders. Initially Batjer applied 10% OH&P for work performed and an additional 10% on the change order subtotal that included both OH&P and 2nd tier subcontracted work.

Imperial agreed and issued a deductive change order to Batjer for $2,288 and corrected the OH&P for the duration of the project. The correction resulted in cost avoidance of $11,589 included in Audit Note #9.

Status: Closed. $2,288 was credited in PA 8/PCO 18.

5. Robert Kent – Supervisor

During the initial audit review, Robert Kent was found to include a supervisor position in change orders. The position is covered by OH&P. Imperial agreed and issued a deductive change order of $2,222 to remove the position. Supervisor was not billed in subsequent change orders.

The initial change orders included supervision at 25% of the labor cost. Based on additional change orders, it is estimated $25,000 in cost was avoided by removing the Supervisor.

Status: Closed. $2,222 was credited in PA 8/PCO 18.

6. Buffalo Gap – Change Order Labor Rates

During the initial audit review, Buffalo Gap was found to include a Project Manager in change orders at 6% of labor hours. The position is covered by OH&P. They also appeared to overstate labor rates by applying an additional 35% Payroll Tax and Insurance to rates that seemed to be fully burdened.

Imperial agreed and issued a deductive change order to Buffalo Gap for $6,817 to remove the Project Manager and 35% labor burden. The removal of the Project Manager resulted in cost avoidance of $15,082 included in Audit Note #7.

Additional change orders were reviewed at project closeout. Based on an analysis of certified payroll provided by Buffalo Gap, change order base labor rates were found to be overbilled $17,549. A check was issued by Imperial to resolve the issue.

Status: Closed. $6,817 was credited in PA 8/PCO 18 for the initial change order review. A check was issued from Imperial to TSTC for $17,549.

7. Cost Avoidance

Note	Subcontractor	Description	Amount
4	Batjer	Change Orders Correction of OH&P	$ 11,589
5	Rober Kent	Change Orders Removal of Supervisor	$ 25,000
6	Buffalo Gap	Change Orders Removal of Project Manager	$ 15,082
	Total		**$ 51,671**

A Report on Compliance With Investment and Reporting Requirements Under the Public Funds Investment Act and Special Provision § 6(5)

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

Most agencies, higher education institutions, and community colleges subject to the Public Funds Investment Act (PFIA) provided compliance audit reports that demonstrated full or substantial compliance with PFIA. However, one higher education institution provided a report that demonstrated minimal compliance.

In addition, all higher education institutions and community colleges fully complied with Special Provision § 6(5)—*Special Provisions Relating Only to State Agencies of Higher Education*, Section 6, Subsection 5, pages III-293 through III-294, the General Appropriations Act (89th Legislature)—and State Auditor's Office requirements.

Figure 1 on the next page summarizes compliance and defines the compliance ratings.

This project was conducted in accordance with Texas Government Code, Section 2256.005 and Special Provisions Relating Only to State Agencies of Higher Education, Section 6, Subsection 5, pages III-293 through III-294, General Appropriations Act (89th Legislature).

COMPLIANCE WITH PFIA

All entities subject to PFIA submitted the required compliance audit reports. In addition, all but one entity fully or substantially complied with PFIA.

Agency Compliance | p. 4

Higher Education Institution Compliance | p. 6

Community College Compliance | p. 8

COMPLIANCE WITH SPECIAL PROVISION § 6(5) REQUIREMENTS

All higher education institutions and community colleges complied with Special Provision § 6(5) and State Auditor's Office requirements.

Higher Education Institution Compliance | p. 6

Community College Compliance | p. 8

For more information about this project, contact Audit Manager Kelley Ngaide or State Auditor Lisa Collier at 512-936-9500.

June 2026 | Report No. **26-030**

Summary of Compliance Status

Figure 1

Entity	Compliance with PFIA			Special Provision § 6(5)
	Full Compliance	Substantial Compliance	Minimal Compliance	Full Compliance
Agencies	9	2	0	N/A
Higher Education Institutions	0	1	1	2
Higher Education Institutions (Subject to Special Provision § 6(5) and not PFIA)		N/A		7
Community Colleges	50	0	0	50

Ratings for Compliance with PFIA

Full Compliance: No findings were reported by internal or external auditors.

Substantial Compliance: Few findings were reported that may include one significant finding related to management controls or adherence to investment policies.

Minimal Compliance: Some findings were reported that were significant to management controls or adherence to investment policies.

Non-compliance: The required compliance report was not provided or contained many findings that were significant to management controls or adherence to investment policies.

Ratings for Compliance with Special Provision § 6(5)

Full Compliance: Investment reports, policies, and disclosures met all reporting requirements.

Substantial Compliance: Investment reports, policies, and disclosures met most reporting requirements with minor omissions.

Minimal Compliance: Investment reports, policies, and disclosures had some significant omissions.

Non-compliance: Investment reports, policies, and disclosures omitted all or most of the requirements.

Background Information

Public Funds Investment Act (PFIA)

PFIA requires certain agencies, higher education institutions, and community colleges to implement controls related to investment management and oversight, including controls related to investment policies, training, reporting, and investment-related contracts. The entities' internal or external auditors must test compliance with those requirements every two years and provide those audits to the State Auditor's Office.

The State Auditor's Office reviews those biennial compliance reports and assigns ratings to each entity based on the findings.

Special Provision § 6(5) in the General Appropriations Act (89th Legislature)

Higher education institutions (including universities, university systems, and community colleges) are subject to investment reporting requirements established in Special Provision § 6(5)—*Special Provisions Relating Only to State Agencies of Higher Education*, Section 6, Subsection 5, pages III-293 through III-294, General Appropriations Act (89th Legislature)—and those prescribed by the State Auditor's Office. Specifically, Special Provision § 6(5) and the State Auditor's Office requirements include the following:

- Submitting an annual investment report (prepared as prescribed by the State Auditor's Office).
- Publishing and disclosing investment information on its website, including investment reports, investment policies, investment advisors/managers, soft dollar agreements or other commission-based brokerage agreements[1], and associations with independent endowments or foundations.

[1] Those arrangements typically involve using brokerage commissions as a means of paying for other related investment services through credits of a portion of brokerage commissions paid, rather than through direct payments or using selected brokers who rebate a portion of the commission they receive on trades for the investor.

Chapter 1

Entities' Compliance with PFIA and Special Provision § 6(5) Requirements

All compliance reports that were due by the statutory due date of January 1, 2026, were provided to the State Auditor's Office. All entities except one fully or substantially complied with the Public Funds Investment Act (PFIA).

Some higher education institutions and community colleges were not in full compliance with Special Provision § 6(5)—*Special Provisions Relating Only to State Agencies of Higher Education*, Section 6, Subsection 5, pages III-293 through III-294, General Appropriations Act (89th Legislature)—at the beginning of the project. However, the entities were able to make corrections that met all reporting requirements prior to completion of this report.

The investment and deposit amounts reported are based on information the entities provided, and procedures were not performed to verify the accuracy of those amounts.

Agency Compliance with PFIA

Of the 11 agencies subject to PFIA, 9 submitted reports that demonstrated **full compliance**. Two submitted reports that demonstrated **substantial compliance**:

- School for the Blind and Visually Impaired.
- Texas Access to Justice Foundation (nonprofit established by the Supreme Court of Texas).

Figure 2 on the next page contains each agency's compliance and total market value of investments and deposits, as well as detailed findings for the two agencies that demonstrated substantial compliance with PFIA.

Figure 2

Agencies' Compliance and Market Value of Investments and Deposits as of August 31, 2025

Agency	Market Value of Investments and Deposits
Full Compliance with PFIA	
Board of Law Examiners	$5,342,759
Department of Criminal Justice[2]	$63,775,994
Department of Housing and Community Affairs	$3,577,601,035
Department of Transportation[2]	$699,990,000
State Bar of Texas[3]	$88,815,887
State Affordable Housing Corporation	$206,856,498
Treasury Safekeeping Trust Company	$50,015,081,080
Trusteed Programs Within the Office of the Governor	$12,189,035
Water Development Board	$3,901,509,631
Substantial Compliance with PFIA	
School for the Blind and Visually Impaired	$1,507,847
Substantially Compliant with PFIA Due to the following Findings by Agency's Internal or External Auditor: 1. *The Certificate Deposit (CD) rates template did not include interest rate quotes related to the CD purchased on September 27, 2024. Therefore, it could not be determined whether more than one quote was obtained.* 2. *The Investment Officer nor the Alternate Investment Officer completed the required training during the state fiscal biennium under audit (September 2023 through August 2025).*	
Texas Access to Justice Foundation (nonprofit established by the Supreme Court of Texas)	$181,515,326
Substantially Compliant with PFIA Due to the following Findings by Agency's Internal or External Auditor: 1. *One investment officer did not attend a training session* [on responsibilities related to PFIA] *within six months of assuming duties.* 2. *A report on section 2256.007* [on required investment training] *was not delivered to the Board of Directors within 180 days of the last day of the 2025 regular session of the legislature.* 3. *The December 2024 quarterly investment report was submitted to the Board of Directors more than one quarter after issuance.* 4. *Deposits in one bank account exceeded* [Federal Deposit Insurance Corporation] *FDIC limits at 31 January 2025 and 31 August 31 2025.*	
Total Market Value of Investments and Deposits	**$58,754,185,092**

Sources: Annual financial reports or bank statements and investment holdings reports. See Appendix 1 for details.

[2] Amount includes investments and deposits that are subject to PFIA and exclude investments held in TexPool Prime that are managed by the Texas Treasury Safekeeping Trust Company and included in that agency's total investment amount.

[3] Investment amounts for the State Bar of Texas are reported as of May 31, 2025, which is the end of the agency's fiscal year.

For definitions of compliance ratings, see Figure 1.

Higher Education Institution Compliance

The nine higher education institutions subject to Special Provision § 6(5) were all compliant. Additionally, 2 of those higher education institutions were subject to PFIA because they had total endowments of less than $150 million in book value as of September 2017. Specifically:

- Texas State Technical College System provided a report that demonstrated **substantial compliance** with PFIA.
- Texas Southern University provided a report that demonstrated **minimal compliance** with PFIA.

Figure 3 on the next page contains nine higher education institutions' compliance and market value of investments and deposits, as well as detailed findings for the two higher education institutions that demonstrated substantial and minimal compliance with PFIA.

Figure 3

Higher Education Institutions' Compliance and Market Value of Investments and Deposits as of August 31, 2025[4]

University	Market Value of Investments and Deposits
Full Compliance with Special Provision § 6(5); Not Subject to PFIA Requirements	
Texas A&M University System	$8,557,006,781
Texas State University System	$970,497,639
Texas Tech University System	$4,774,397,489
Texas Woman's University System	$401,582,925
The University of Texas System	$99,439,804,564
University of Houston System	$2,727,978,461
University of North Texas System	$1,232,155,370
Full Compliance with Special Provision § 6(5); Substantial Compliance with PFIA	
Texas State Technical College System	$157,274,094
Substantially Compliant with PFIA Due to the following Finding by the University's Internal or External Auditor: • *[For one CD] an incorrect maturity date and interest rate was reported on the May 31, 2025, Quarterly Investment Report.*	
Full Compliance with Special Provision § 6(5); Minimal Compliance with PFIA	
Texas Southern University	$120,214,952
Minimally Compliant with PFIA Due to the following Findings by University's Internal or External Auditors: • *Management did not fully complete [two] quarterly investment summary reports.* • *Monthly reconciliations were not performed in a timely manner to adjust the general ledger and reflect activity in the endowment funds held at US Bank. Texas Southern University did not provide Chase Bank, US Bank, or Atlantic Consulting Group statements/reports and did not provide all of the quarterly investment reports requested. General ledger accounting records were also not provided. [Internal auditors] were unable to perform audit procedures required to ensure compliance with the PFIA.* • *One of the four quarterly summary investment reports prepared by management did not include the required statement of compliance with Generally Accepted Accounting Principles.*	
Total Market Value of Investments and Deposits	**$118,380,912,275**

Source: Annual investment reports as of August 31, 2025, provided by the higher education institutions.

For definitions of compliance ratings, see Figure 1.

[4] Amounts exclude investments held in TexPool and TexPool Prime that are managed by the Texas Treasury Safekeeping Trust Company (those are reported in Figure 2).

Community College Compliance

All 50 community college compliance reports demonstrated **full compliance** with PFIA. In addition, all community colleges were in **full compliance** with Special Provision § 6(5) related to posting investment information on their websites. Figure 4 identifies community colleges' compliance and total market value of investments and deposits.

Figure 4

Community Colleges' Compliance and Market Value of Investments and Deposits as of August 31, 2025[5]

Community College	Market Value of Investments and Deposits
Full Compliance with PFIA and Special Provision § 6(5)	
Alamo Colleges District	$289,776,895
Alvin College	$36,843,320
Amarillo College	$10,937,633
Angelina College	$19,508,821
Austin Community College District	$404,744,435
Blinn College District	$77,168,295
Brazosport College	$106,870,841
Central Texas College	$8,596,157
Cisco College	$12,580,352
Clarendon College	$23,524,213
Coastal Bend College	$17,937,979
College of the Mainland	$506,881,849
Collin College	$597,187,861
Dallas College	$78,796,111
Del Mar College	$134,633,125
El Paso Community College	$2,366,836
Frank Phillips College (Borger Junior College District)	$32,940,847
Galveston College	$29,529,761
Grayson College	$150,995,148
Hill College	$18,870,550

[5] Amounts exclude investments held in TexPool and TexPool Prime that are managed by the Texas Treasury Safekeeping Trust Company (those are reported in Figure 2).

Community College	Market Value of Investments and Deposits
Houston City College	$393,887,159
Howard College	$34,688,263
Kilgore College	$24,311,054
Laredo College	$125,372,707
Lee College	$69,754,756
Lone Star College System	$426,348,729
McLennan Community College	$34,908,271
Midland College	$72,189,695
Navarro College	$34,009,230
North Central Texas College	$11,287,183
Northeast Texas Community College	$14,278,584
Odessa College	$71,396,450
Panola College	$59,073,716
Paris Junior College	$9,347,375
Ranger College	$7,912,481
San Jacinto College	$127,803,299
South Plains College	$32,109,745
South Texas College	$451,227,132
Southwest Texas College	$17,880,086
Tarrant County College	$954,756,266
Temple College	$67,171,012
Texarkana College	$40,551,593
Texas Southmost College	$107,341,017
Trinity Valley Community College	$38,590,148
Tyler Junior College	$24,924,412
Vernon College	$11,209,158
Victoria College	$2,013,900
Weatherford College	$103,815,684
Western Texas College	$41,692,321
Wharton County Junior College	$38,945,492
Total Market Value of Investments and Deposits	**$6,009,487,947**

Source: Annual investment reports as of August 31, 2025, provided by the community colleges.

For definitions of compliance ratings, see Figure 1.

Appendix 1

Objectives, Scope, and Methodology

The following members of the State Auditor's staff performed the project:

- Alex Franklin, CFE, MPP (Project Manager)
- Makoa Shibuya
- Bianca F. Pineda, CIA, CISA, CFE, CGAP (Quality Control Reviewer)
- Kelley Ngaide, CIA, CFE (Audit Manager)

Objectives

The objectives of this project were to:

- Determine whether state agencies and higher education institutions complied with the Public Funds Investment Act (PFIA) requirement to submit a compliance report to the State Auditor's Office (SAO) by January 1, 2026.
- Determine whether higher education institutions complied with Special Provision § 6(5)—*Special Provisions Relating Only to State Agencies of Higher Education*, Section 6, subsection 5, pages III-293 through III-294, the General Appropriations Act (89th Legislature)—and reporting requirements as prescribed by the SAO on its website.

Scope

The scope of this project included PFIA compliance audit reports required to be submitted by January 1, 2026. In addition, the scope included investment reports, policies, and disclosures required by Special Provision § 6(5) and the SAO for fiscal year 2025.

Methodology

The project methodology included:

- Identifying entities subject to PFIA (Texas Government Code, Chapter 2256) and investment reporting requirements (Article III, Special Provision § 6(5)) of the General Appropriations Act (89th Legislature).
- Reviewing entities' most recent compliance audit reports and evaluating the reported results.
- Reviewing higher education institutions' and community colleges' websites to determine if they included the required investment reports, policies, and disclosures.
- Compiling entities' investment and deposit balances as of August 31, 2025. Agencies subject to PFIA provided the following financial reporting information:
    - Unaudited annual financial reports: Department of Criminal Justice, School for the Blind and Visually Impaired, Trusteed Programs Within the Office of the Governor, and Water Development Board.
    - Audited annual financial reports: Board of Law Examiners, Department of Housing and Community Affairs, Department of Transportation, State Bar of Texas, Texas State Affordable Housing Corporation, and Treasury Safekeeping Trust Company.
    - Bank statements and investment holdings reports: Texas Access to Justice Foundation.

Auditors did not perform any information technology work. It is important to note that the entities provided the information reviewed in this report and that the State Auditor's Office did not independently verify that information.

This project was not an audit, and the information in this report was not subject to all the tests and confirmations that would be performed in an audit. However, the information in this report was subjected to certain quality control procedures to ensure accuracy.

Appendix 2

Related State Auditor's Office Reports

Figure 5

Report Number	Report Name	Release Date
24-020	*A Report on Agencies', Higher Education Institutions', and Community Colleges' Compliance with Public Funds Investment Act and Rider 5, General Appropriations Act, Reporting Requirements*	August 2024
22-034	*A Report on Agencies', Higher Education Institutions', and Community Colleges' Compliance with Public Funds Investment Act and Rider 5, General Appropriations Act, Reporting Requirements*	June 2022
21-023	*A Report on Agencies', Higher Education Institutions', and Community Colleges' Compliance with Public Funds Investment Act and Rider 5, General Appropriations Act, Reporting Requirements*	June 2021

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dustin Burrows, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Entities Listed in Report

This report was distributed to the boards, chancellors, presidents, and executive directors of the agencies, higher education institutions, and community colleges listed in this report.

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.