Texas State Technical College Internal Audit

# Internal Audit Annual Report
# Fiscal Year 2026

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

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

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

To comply with the requirements, the TSTC Internal Audit Annual Report is posted in the Internal Audit section of the College's website no later than 30 days after the TSTC Board of Regents approves the audit plan at its August meeting. See https://www.tstc.edu/about/governance/. This Annual Report includes the approved audit plan for fiscal year 2027. All Internal Audit reports are posted in the Board of Regents section of the TSTC website under the meeting agendas section. See https://www.tstc.edu/about/board-of-regents/. These are posted within 30 days after each meeting of the Board of Regents. These reports include detailed summaries of the weaknesses, deficiencies, wrongdoings, or other concerns found during each audit, if any, as well as summaries of the actions taken by the College to address those concerns. Information is available as far back as August 2015.

## II. Internal Audit Plan for Fiscal Year 2026

The Board of Regents approved the original internal audit plan for fiscal year 2026 on August 28, 2025, with Minute Order #IA 02-25(c). There were no deviations from the internal audit plan.

Texas Government Code §2102.005(b) requires a state agency to consider methods for ensuring compliance with contract processes and controls and for monitoring agency contracts. To comply with this provision, an internal audit of contract compliance is conducted annually. In fiscal year 2026, an audit of an $11 million contract related to media services was completed on June 15, 2026 (report #26-041A) and presented to the Board of Regents on August 26, 2026. There were no material exceptions identified in that audit. Furthermore, cost recovery audits were outsourced under delegation #719-2026-001. Under that delegation and ones in prior years, ten construction contracts with a combined value of $274 million were audited. Four of those audits were completed in prior years, with two being completed in fiscal year 2026. Four audits were still in progress on August 31. 2026. A combined recovery of $127 thousand was achieved for the two audits completed this fiscal year. As of August 31, 2026, total recoveries estimated $1.1 million for all completed audits and those still in progress.

### Fiscal Year 2026 Internal Audit Plan

| Project Description | Division/Campus | Report Number | Report Date | Status |
|---|---|---|---|---|
| TEC §51.9337 (Contracting) Audit – satisfies annual audit requirement of contracts | Finance | 26-041A | 6/15/2026 | Complete |
| Public Funds Investment Act Compliance | Finance | 26-003A | 9/26/2025 | Complete |
| Eaglesoft Software Audit | OIT/Operations | 26-001A | 9/292025 | Complete |
| Internal Penetration Test – Hutto campus | OIT/Security | 26-017A | 12/10/2025 | Complete |
| Internal Penetration Test – Waco | OIT/Security | 26-013A | 12/11/2025 | Complete |
| Internal Penetration Test – Harlingen | OIT/Security | 26-023A | 2/13/2026 | Complete |
| Facilities Development Project Compliance Audit – Harlingen | Campus Expansion | 26-002A | 11/21/2025 | Complete |
| Counseling Services Process Audit | Retention Services | 26-005A | 3/3/2026 | Complete |
| Faculty Overload Pay Audit | Operations | 26-012A | 3/04/2026 | Complete |

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|---|---|---|---|---|
| Element 451 Software Audit | OIT/Enrollment Services | 26-031A | 6/16/2026 | Complete |
| Admissions Process Audit | Enrollment Services | 26-030A | 6/18/2026 | Complete |
| Audit of TPEG & TEOG | Financial Aid | 26-032A | 6/26/2026 | Complete |
| Quarterly Follow-up of TAC 202 Controls | OIT | 26-011A | 6/30/2026 | Complete |
| Audit of 2022 & 2023 W-2s [Note 1] | Payroll | 24-023A | 7/08/2026 | Complete |
| Advocacy and Resource Center Audit | Operations | 25-050A | In Progress | In Progress |
| Marshall CCAP Construction Audit | Facilities, Planning & Construction | 26-009A | 2/19/2026 | Complete |
| Abilene CCAP Construction Audit | Facilities, Planning & Construction | 26-009A | 6/26/2026 | Complete |
| Waco CCAP Construction Audit | Facilities, Planning & Construction | 26-009A | In Progress | In Progress |
| Fort Bend CCAP Construction Audit | Facilities, Planning & Construction | 26-009A | In Progress | In Progress |
| Harlingen CCAP Construction Audit | Facilities, Planning & Construction | 26-009A | In Progress | In Progress |
| Hutto CCAP Construction Audit | Facilities, Planning & Construction | 26-009A | In Progress | In Progress |

**Note 1:** This audit was not on the original audit plan. It was performed in June due to resources being available.

Three fiscal year 2025 audits were completed in the first quarter of fiscal year 2026. Those included: Syllabi Audit (25-039A), TEC §51.9337 (Contracting) Audit (25-048A), and Federal Financial Aid Audit (25-038A).

Reports are posted in the Board of Regents section of the TSTC website under the meeting agendas section. See https://www.tstc.edu/about/board-of-regents/. Each report contains detailed summaries of the weaknesses, deficiencies, wrongdoings, or other concerns found during each audit, as well as summaries of the planned actions to be taken to address those concerns.

## III. List of Consulting Engagements and Other Activities Completed in Fiscal Year 2026

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

| Report # | Date | Project Description | Division /Campus | Summary of Observations and Recommendations | Status & Summary of CAPs |
|---|---|---|---|---|---|
| 26-014I | No Report | Reviewed an allegation of identity theft reported by a student. | Harlingen | Determined this was a frivolous complaint in an attempt to override financial aid suspension. | **No action required.** |
| 26-015I | No Report | Reviewed allegation of financial aid fraud. | Financial Aid | Identified red flags on a 2022 FAFSA application. | **Complete.** The matter was reported to the Department of Education. |
| 26-018I | No Report | Reviewed a concern about a hostile student. | Marshall | Forwarded the concern to campus management. | **Complete.** Disciplinary action was taken. |
| 26-020I | No Report | Reviewed a concern about an employee being hostile. | Harlingen | Forwarded to HR. | **Complete**. The employee was coached to identify and manage this perception. |
| 26-021I | No Report | Reviewed a concern of unfair hiring practices | Waco | Forwarded to HR | **Complete.** Determined all hiring procedures were properly followed. |
| 26-025I | No Report | Reviewed a complaint from an employee about his annual performance review. | Operations | Forwarded it to HR and the specific manager. | **Complete.** There was nothing inappropriate about the appraisal. |
| 26-022I | 12/4/2025 | Investigated a complaint regarding training documents being forged. | Professional Driving Academy | Determined the concern had merit. | **Complete.** Employment action taken, and processes were improved to |

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| | | | | | include periodic self-audits. |
| 26-008I | 12/12/2025 | Investigated a complaint about instructor ineffectiveness. | Operations | Found multiple opportunities to improve instructional processes | **Partially Complete.** There are still processes being addressed, including evidencing lab work. |
| 26-024P | 1/15/26 | Assisted management with performing a risk assessment of the Professional Driving Academy. | Operations | Provided areas that needed to be improved. | **Complete.** |
| 26-007I | 1/09/2026 | Investigated theft of time by an instructor. | Operations | Determined the allegation had merit. | **Complete.** Employee was separated from employment. |
| 26-035I | No Report | Received allegation supervisor failed to provide FMLA accommodations. | Enrollment Services | Forwarded to HR. Allegation had merit. | **Complete.** Employee was separated from employment. |
| 26-019I | No Report | Received allegation that employees were wasteful on a business trip. | Police | Determined tips on receipts were forged by waitress. Matter was turned over to the Police for criminal investigation. | **Complete.** No action was necessary. |
| 26-037I | No Report | Received concern of inefficiencies. | Enrollment Services | Forwarded to management. | **No action required.** |
| 26-039P | No Report | Reviewed compensation at an employee's request. | Compensation | Identified one small error. | **Complete.** No action was taken to receive reimbursement due to the error being minor. |
| 26-038I | No Report | Received an allegation of employees being difficult to contact. | Retention Services | Forward to management for action | **Complete.** Management sent a reminder to employees of expectations. |
| 26-043I | No Report | Received comments directed at Leadership about a safety incident. | Housing | Comments were forwarded to the Chancellor. | **No action required.** |

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| 26-044I | No Report | Received a concern that communication was poor during a recent safety incident. | Harlingen | Determined communications were appropriate. | **No action required.** |
| 26-045I | 6/18/2026. | Received allegation of a conflict of interest. | Police | Determined the allegation had merit. | **Complete.** Employment action was taken. |
| 26-046I | No Report | Received a complaint of unfair hiring practices. | External Relations | Forwarded to HR. | **Complete.** Hiring process was followed, but recommendations were offered to reduce perception issues. |
| 26-047I | No Report | Received a concern of ineffective processes. | Retention Services | Forwarded to management. | **No action required.** |
| 25-046I | No Report | Received a concern about the criminal history of a current employee. | Operations | Forwarded to management. | **Complete.** Employment action taken. |
| 25-036I | No Report | Reviewed PayPal payments to ensure they were made to legitimate vendors. | Finance | Did not identify any concerns. | **No action required.** |
| 25-050A | 9/8/2025 | Conducted surprise cash counts. | Various | No shortages identified. | **No action required.** |
| 25-051I | No Report | Received complaint about politically charged comments made by an employee. | Waco | Forwarded to HR | **Complete.** Employee was counseled. |

# IV. External Audit Services Procured in Fiscal Year 2026

One delegated request (#719-2026-001) was approved on September 22, 2025, by the SAO to continue a series of cost recovery audits for construction projects underway on several College campuses. This delegated request was preceded by other requests approved in fiscal year 2023, 2024, and 2025. The following schedule summarizes the external audits that were completed and in progress.

| Auditor | Date of Report | Project Description |
|---|---|---|
| RL Townsend | In progress | Marshall CCAP: Cost of audit is $16,500. Nearing completion. |
| RL Townsend | In progress | Harlingen CCAP: Cost of audit is $52,500. Nearing completion. |
| RL Townsend | In progress | Abilene CCAP: Cost of audit is $22,000. Nearing completion. |
| RL Townsend | In progress | Waco CCAP: Cost of audit is $65,000. |
| RL Townsend | In progress | Hutto CCAP: Cost of audit is $31,500. |
| RL Townsend | In progress | Fort Bend CCAP: Cost of audit is $48,000. |

# V. Internal Audit Plan for Fiscal Year 2027

The plan was developed through a collaborative effort between Internal Audit, Executive Management, Senior Management, and the Board of Regents. Multiple activities and functions throughout the College were assessed for financial, fraud, regulatory/compliance, and the presence of sensitive information. TAC 477 and technology risks were also considered in the planning. Management and the Board were also requested to provide a list of specific audits they wanted performed. All regulatory-required audits were included in the plan. Other than the areas actually selected for audit, consideration was given to risks associated with student access to computer systems, compensation and raises, lab safety, third party affiliations, and enrollment services. Additionally numerous software applications other than the ones selected for audit were considered.

As is done every year, benefits proportionality was considered for an audit. It was not selected because it was audited in both fiscal years 2022 and 2023, as well as numerous other times within the last 14 years. Additionally, processes have not changed since the last audit. The TEC §51.9337 (Contracting) Audit is intended to satisfy the annual contracting audit requirement, but we feel the four recovery audits of ongoing construction contracts also meet this requirement. Our planning process yielded the following audit plan for fiscal year 2027:

| Audit Name | Budgeted Hours |
|---|---|
| TEC §51.9337 (Contracting) Audit – satisfies annual audit requirement of contracts | 250 |
| Scholarship Audit | 200 |
| Housing Audit | 300 |
| Customer Service Audit | 650 |
| Audit of Testing Services | 150 |
| Satisfactory Academic Progress – Appeals | 240 |
| Grant Audit | 200 |
| Student Accounting | 350 |
| Talent Acquisition | 350 |
| Safety & Security Audit | 650 |
| Continuous Audits | 150 |
| THECB Facilities Audit – Waco | 100 |
| THECB Facilities Audit – Fort Bend | 100 |
| Internal Penetration Test – Marshall | 175 |
| Internal Penetration Test – West Texas | 175 |
| Construction Project Audits (4 audits) | External Auditor |
| TWC Contract - Compliance Audit | 250 |
| TAC 477 – StarRez System | 350 |
| TAC 477 – Telephone System | 200 |
| External Quality Assessment Review | 300 |
| Quarterly Follow-up of TAC 477 Controls | 155 |

The fiscal year 2027 Audit Plan was approved by the Board of Regents on August 26, 2026, by Minute Order #IA 01-26(c).

# VI. Reporting Suspected Fraud and Abuse

TSTC has taken the following actions to implement the fraud detection and reporting requirements of Section 7.09, page IX-41 of the 89th Legislature's General Appropriations Act, and Texas Government Code, Section 321.022:

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

# VIII. External Quality Assurance Review

An External Quality Assurance Review of the Internal Audit Department was completed on June 14, 2024, by Amanda Wallace, CPA. Ms. Wallace is the Chief Audit Officer for Baylor University. She is independent from all auditors employed by the TSTC Internal Audit Department.

The results of the review indicate that TSTC Internal Audit Department generally conforms to standards. The Department was commended for its well-crafted audit charter, and the elevated level of confidence expressed by senior management and the Board of Regents. A copy of the original report is attached.

# Baylor University

June 14, 2024

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

Dear Mr. Mallory,

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

The primary objective of the review was to provide an opinion on whether the internal auditing program achieves the basic requirements expected of internal auditing activities at all State of Texas institutions of higher education. Those requirements are set forth in the Texas Internal Auditing Act (Texas Government Code, Chapter 2102), the Institute of Internal Auditors' Code of Ethics and International Standards for the Professional Practice of Internal Auditing, and the U.S. Government Accountability Office's Generally Accepted Government Auditing Standards. For purposes of this review, we collectively refer to these as "the Standards".

**Opinion Rating Definitions**

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

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

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

**Key Strengths**
As required by the Standards, TSTC has a well-crafted audit charter that clearly defines the audit function's purpose, authority, and responsibility. The Director and audit staff have unrestricted access to all TSTC personnel, records, and property. Additionally, interviews with senior leaders and members of the board revealed a high degree of confidence in the audit function, with many complimenting the professionalism, thoroughness, and transparency of the audit team.

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

Sincerely,

Amanda R Wallace

Amanda R. Wallace, CPA
Chief Audit Officer
Baylor University