Internal Audit Annual Report
Fiscal Year 2015
in Accordance with the Texas Internal Auditing Act

Prepared by
Internal Audit Department
Jason D. Mallory, Director of Audits

Table of Contents

I.   Internal Audit Plan for Fiscal Year 2015

The Board of Regents approved the audit plan for fiscal year 2015 (see I-2) in August 2014, with a revision being made in February 2015. This audit plan was prepared using risk assessment techniques in accordance with the Texas Internal Auditing Act.

The audit plan was revised in February 2015 by removing planned Title IX audits at each location. In 2015, all TSTC campuses were being reorganized as one single institution with a single accreditation. As a result, numerous activities and responsibilities (including Title IX) were consolidated under one manager, with processes being changed in most cases. This change to the audit plan was necessary so as to not disrupt management's efforts in consolidating and improving its Title IX practices.   These audits were replaced with audits of VA benefits compliance in West Texas and Marshall, as well as an audit of purchases made at each location in which fraud schemes were tested. Finally, a surprise inspection of the police evidence room in Waco was also conducted.

Project Description	Location	Report Number	Report Date	Status
Safety & Security Audit	Harlingen	15-013A	12/12/14	Complete
Safety & Security Audit	Ingleside	15-022A	12/18/14	Complete
~~Title IX Sexual Assault and Harassment Audit**~~	Harlingen			Removed
VA Benefits Compliance Audit	Harlingen	15-029A	06/23/15	Complete
Quarterly External Port Scan	OIT	15-016A	03/11/15	Complete
Disaster Recovery of Colleague	OIT	15-015A	09/10/14	Complete
IT Security*	OIT			In Progress
Safety & Security Audit	Marshall	15-033A	06/15/15	Complete
Safety & Security Audit	North Texas	15-035A	06/16/15	Complete
~~Title IX Sexual Assault and Harassment Audit**~~	Marshall			Removed
Skills Development Grant Audit	Marshall	15-021A	03/09/15	Complete
VA Benefits Compliance Audit**	Marshall	15-041A	08/27/15	Complete
Internal Audit External Quality Assessment Review	System Operations	15-020A	04/29/15	Complete
Purchasing Fraud Audit**	Statewide	15-019A	01/09/15	Complete
Safety & Security Audit	Waco	15-012A	12/04/14	Complete
Safety & Security Audit	Ft. Bend	15-027A	03/18/15	Complete
Safety & Security Audit	EWCHEC	15-032A	03/18/15	Complete
~~Title IX Sexual Assault and Harassment Audit**~~	Waco			Removed
VA Benefits Compliance Audit	Waco	15-030A	06/23/15	Complete
Police Evidence Room**	Waco	15-024A	12/10/14	Complete
Safety & Security Audit	Sweetwater	15-026A	03/17/15	Complete
Safety & Security Audit	Abilene	15-028A	03/17/15	Complete
Safety & Security Audit	Breckenridge	15-038A	05/22/15	Complete
Safety & Security Audit	Brownwood	15-037A	05/22/15	Complete
~~Title IX Sexual Assault and Harassment Audit**~~	West Texas			Removed
Skills Development Grant	West Texas	15-006A	12/09/14	Complete
VA Benefits Compliance Audit**	West Texas	15-040A	08/27/15	Complete

* Report was not issued until FY 2016.

** Audit was added/removed.

II.   External Quality Assurance Review

An External Quality Assurance Review of the Internal Audit Department was performed on April 29, 2015, by Andrew Groover and Leticia Charbonneau. Mr. Groover is the Director of Internal Audits at Texas Woman's University, while Mrs. Charbonneau is the Executive Director of Internal Audit at the Lone Star College System. Their opinion states that the "Texas State Technical College Internal Audit Department generally conforms to the Standards for the period under review."   Recommendations for improvement were given, but none of the recommendations represented material non-compliance to the standards. See the attached report.

April 29, 2015

Mr. Jason Mallory
Internal Audit Department
Texas State Technical College
3801 Campus Drive
Waco, TX 76705

Dear Mr. Mallory,

At your request, we performed an external quality assurance review (EQAR) of the Texas State Technical College Internal Audit Department (TSTCIAD) to assess compliance with the following:

- Texas Internal Auditing Act (Tex. Gov't. Code Chapter 2102);

- Institute of Internal Auditors *Code of Ethics* and *International Standards for the Professional Practice of Internal Auditing*; and

- U.S. Government Accountability Office *Generally Accepted Government Auditing Standards.*

These are collectively referred to as the *Standards* for purposes of this review.

The EQAR was performed by Andrew Groover, Director of Internal Audits for Texas Woman's University and Leticia Charbonneau, Executive Director of Internal Audit for Lone Star College System, with onsite fieldwork conducted April 6th and 7th 2015.

The review was conducted in accordance with the State Agency Internal Audit Forum Peer Review Guidelines using the Master Peer Review Program. It included audit activities from September 2011 – January 2015.

Rating System for Opinion

The rating system that was used for expressing an opinion for this review provides for three levels of conformance: generally conforms, partially conforms, and does not conform.

- *Generally conforms* means that the TSTCIAD has policies, procedures, and an audit charter that were judged to be in accordance with applicable standards; however, opportunities for improvement may exist.
- *Partially conforms* means deficiencies, while they might impair, did not prohibit the TSTCIAD from carrying out its responsibilities.

- *Does not conform* means deficiencies in practice were found that were considered so significant as to seriously impair or prohibit the TSTCIAD in carrying out its responsibilities.

Introduction

The Texas Internal Auditing Act requires TSTCIAD to conform to standards established by the Institute of Internal Auditors (IIA) and the U.S. Government Accountability Office (GAO). The *International Standards for the Professional Practice of Internal Auditing,* promulgated by the IIA, require external assessments to be performed at least once every five years by a qualified, independent reviewer or review team from outside the organization. The *Generally Accepted Government Auditing Standards* (GAGAS) issued by the GAO require an external assessment at least every three years. The Texas Internal Auditing Act also requires an external assessment every three years.

This report represents the results of the external quality assurance review that we conducted. The objectives were to assess the level of TSTCIAD's compliance with the *Standards* and identify opportunities to enhance its operations.

Scope

The scope of the review included:

- Review of self-assessment materials prepared by the Director, including the audit charter, audit manual, and other organizational materials;

- Interviews with the Chair of the Audit Committee, TSTC Chancellor, Vice Chancellor for Finance, Vice Chancellor and Chief Information Officer; State Auditor's Office Audit Manager for TSTCIAD, Director of Internal Audits and Internal Audit Staff members in Waco and Harlingen.

- Examination of four sets of work papers and the related audit report produced by the TSTCIAD during the EQAR period; and

- A comparison of the TSTCIAD's audit practices with the *Standards*.

- A survey of various TSTC administrative staff.

Overall Opinion

In our opinion, the Texas State Technical College Internal Audit Department **generally conforms** to *the Standards* for the period under review.

The following table contains our opinion of how the TSTCIAD activities conform to each section of the *International Standards for the Professional Practice of Internal Auditing,* IIA Code of Ethics, and Texas Internal Auditing Act. *GAGAS* areas are not specifically mentioned in the table but are similar to the *International Standards for the Professional Practice of Internal Auditing* attribute and performance standards*.* Recommendations for

areas of improvement for the TSTCIAD revealed as part of the EQAR process are included below.

IIA Standard Type and Description	Opinion
Attribute Standards	
1000 – Purpose, Authority, and Responsibility	Generally conforms
1100 – Independence and Objectivity	Generally conforms
1200 – Proficiency and Due Professional Care	Generally conforms
1300 – Quality Assurance and Improvement Program	Partially conforms
Performance Standards	
2000 – Managing the Internal Audit Activity	Generally conforms
2100 – Nature of Work	Generally conforms
2200 – Engagement Planning	Generally conforms
2300 – Performing the Engagement	Generally conforms
2400 – Communicating Results	Generally conforms
2500 – Monitoring Progress	Generally conforms
IIA Code of Ethics	Generally conforms
Texas Internal Auditing Act	Generally conforms

During both the self-assessment performed by TSTCIAD and our external assessment, opportunities for enhancement were noted by both parties. Given our opinion that policies and procedures were in compliance with the Standards, the recommendations below do not represent observations of material non-compliance.

Recommendations identified by the TSTC Director of Internal Audit as a result of completing the self-assessment.

1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Working papers prepared by the Director of Audits are generally not reviewed by another member of the department prior to issuance of the audit report. Going forward, those will be subject to review by another staff member. This will not only ensure consistency in the performance of the procedure, but will assist with quality control.

1320 – Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

Internal quality control procedures have not been reported annually to the Audit Committee. While adequate quality control procedures are in place, annual reporting of those procedures and their results will assure the Audit Committee that audit quality is being monitored for compliance to Standards.

1230 – Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

Current procedures for continuing professional education do not require each auditor to obtain at least 40 hours per year. The internal policy requires 40 hours to be obtained by auditors in a 2-year period; however, the above standard is interpreted to mean 40 hours each year as a best practice. Internal policy will be changed to reflect the 40 hour standard and a more concerted effort will be given to achieve those hours.

The EQAR team concurs with the recommendations identified by the self-assessment.

Recommendations identified by the External Quality Assurance Review Team

1311 – Internal Assessments

Internal assessments must include:
- *Ongoing monitoring of the performance of the internal audit activity; and*

- *Periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.*

Ongoing monitoring of the performance of the internal audit activity is being conducted; however, periodic self-assessments should be completed more frequently to enhance compliance with the Standards. The only self-assessment that was conducted during the EQAR period was the one completed for the EQAR.

2110 – Governance

2110.A1 – *The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.*

In reviewing the Annual Audit Plans for FY 2013, FY 2014, and FY 2015 and related progress reports we noted that there was no audit scheduled or completed to evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities. An audit of TSTC's ethics program should be conducted periodically to enhance compliance.

2110.A2 – *The internal audit activity must assess whether the information technology governance of the organization supports the organization's strategies and objectives.*

In reviewing the Annual Audit Plans for FY 2013, FY 2014, and FY 2015 and related progress reports, we noted that there was no audit scheduled or completed to assess whether the information technology governance of the organization supports the organization's strategies and objectives. An audit of TSTC's information technology governance should be conducted periodically to enhance compliance.

Texas Government Code Section 2102.005. INTERNAL AUDITING REQUIRED

A state agency shall conduct a program of internal auditing that includes:
(2) periodic audits of the agency's major systems and controls, including:
*   (C) electronic data processing systems and controls.*

In reviewing the audit plans for FY 2013, FY 2014, and FY 2015 and related progress reports we noted that comprehensive IT audit coverage can be enhanced. The TSTCIAD should increase audit coverage to ensure periodic audits of major systems such as Colleague, learning management systems, and the required audit of Texas Administrative Code 202 (required every two years) are conducted. In discussions with administration and staff, there was a common theme that IT audit coverage should be increased. This could be accomplished by the addition of an IT Auditor position to the department.

We appreciate the opportunity to conduct the EQAR of the TSTCIAD. We confirm that we are independent and have no actual or potential conflicts of interest associated with the TSTCIAD.

Sincerely,

Andrew S. Groover, M.Ed., CPA, CIA, CICA, CISA, CFE
Director of Internal Audits
Texas Woman's University
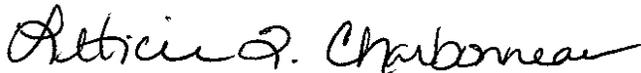
Leticia T. Charbonneau, CPA, CIA, CGAP
Executive Director-Internal Audit
Lone Star College System

cc:
Regent Ellis M. Skinner II, Chair
Regent Joe M. Gurecky, Vice Chair
Regent Linda McKenna
Regent Penny Forrest
Regent Ivan Andarza
Regent John K. Hatchel
Regent Joe K. Hearne
Regent Keith Honey
Regent James Virgil (J.V.) Martin
Chancellor Mike Reeser

3801 Campus Dr. | Waco, TX 76705
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April 29, 2015

Mr. Joe Gurecky, Audit Committee Chair
Texas State Technical College System
Waco, Texas 76705

Mr. Gurecky:

SUBJECT: Response to the Recommendations offered in the 2015 External Quality
Assessment Review

I have formulated responses to the recommendations offered in the Internal Quality Self-Assessment conducted by me and the External Quality Assessment Review conducted by Andrew Groover of Texas Woman's University and Leticia Charbonneau of Lonestar Colleges.

As noted in both reports, the TSTC Internal Audit Department achieved the highest rating possible of "generally conforms to the standards." Those standards include the *International Standards for the Professional Practice of Internal Auditing* issued by the IIA, *Generally Accepted Government Auditing Standards* (GAGAS) issued by the GAO, and the Texas Internal Auditing Act.

Both of those audits resulted in recommendations for my consideration. While the recommendations are intended simply as opportunities to enhance my current processes and are not compliance related, I formulated responses so that you could be aware of my planned actions.

Sincerely,

Jason D. Mallory
Director of Audits

Division: Internal Audit
Senior Management: Jason Mallory, Director of Audits

Task	Brief Description	Responsible Individual	Completion Date
1.1	The working papers prepared by the Director will be reviewed by another person in the Department.	Tahlia Pena	Immediately
1.2	An annual report to the Board will be prepared that lists the quality control procedures that are in place over the internal audit process.	Jason Mallory	August 13, 2015
1.3	I did not realize the different standards conflicted on this requirement. In practice everyone in the Department has obtained close to 40 hours or more of education annually, however our departmental policy only requires 20 hours. That policy will be updated to require at least 40 hours annually rather than 20.	Tahlia Pena	Immediately
1.4	The standards only require <u>periodic</u> self-assessments, which we perform. The term "periodic" is not defined. But to further demonstrate our commitment to quality, we will begin performing and documenting a self-assessment every 1.5 years, and reporting the results to the Board.	Tahlia Pena	Immediately
1.5	The ethics and IT governance audit recommendation implies that performing specific audits every 3 years is a requirement. But in fact compliance guidance included in the actual standards clearly state that we must be familiar with these processes, and that an understanding is most likely obtained through several different audits and processes. We will include these individual audits in our annual audit planning process, and perform them only if the risk rating is high in comparison to other auditable areas.	Jason Mallory	Immediately
1.6	In the past, specific IT audits similar to those listed in the peer review team's recommendation were performed because a dedicated IT auditor was on staff. After losing that resource, we have gradually been rebuilding that capacity through training and outsourcing, and will continue down that path. In 2015, four specific IT audits were scheduled which demonstrates our commitment to performing IT audits. Going forward, IT specific audit will continue to be included in the annual audit plan.	Jason Mallory	Immediately

III. Audit Plan: Summary of Audit Findings and Corrective Action Plans

Report #	Report Date	Audit Name	Location	Summary of Audit Findings	Summary of Corrective Action Plans	Current Status of Corrective Action Plans
12/12/14	15-013A	Safety & Security Audit	Harlingen	We identified three areas we feel warrant management's consideration. These areas are detailed in a confidential, supplemental report.	Improve chemical handling and storage processes, implement safety training, implement Minor's on Campus policy.	Fully Implemented
12/18/14	15-022A	Safety & Security Audit	Ingleside	We identified two areas we feel warrant management's cosideration. These areas are detailed in a confidential, supplemental report.	Implement safety training and a Minor's on Campus policy.	Fully Implemented
06/23/15	15-029A	VA Benefits Compliance Audit	Harlingen	A centralized and standardized method for maintaining and monitoring documentation, and reporting enrollment data to the VA needs to be implemented. The processes currently on both campuses varies, with documentation and reporting exceptions noted at both.	Centralize files that contain all required documents for every student by scanning all documents for safekeeping in ImageNow; Because some offices do not have scanners, equipment will need to be purchased as resources permit; All school certifying officials will begin using curriculum information obtained from the THECB to evaluate courses and programs of study; Obtain access to required documents maintained by other departments and determine a way to organize these.	Substantially Implemented
03/11/15	15-016A	Quarterly External Port Scan	OIT	No reportable exceptions noted.		
09/10/14	15-015A	Disaster Recovery of Colleague	OIT	No reportable exceptions noted.		
		IT Security	OIT	Audit was in progress at the end of FY 2015.		
06/15/15	15-033A	Safety & Security Audit	Marshall	We identified one area we feel warrants management's consideration. These areas are detailed in a confidential, supplemental report.	Continue with safe storage of chemicals while attempting to properly dispose of them.	Substantially Implemented
06/16/15	15-035A	Safety & Security Audit	North Texas	We identified one area we feel warrants management's consideration. These areas are detailed in a confidential, supplemental report.	Implement Everbridge system; enhance police procedures; update the safety link on the website; standardize safety training.	Substantially Implemented
03/09/15	15-021A	Skills Development Grant Audit	Marshall	No reportable exceptions noted.		
08/27/15	15-041A	VA Benefits Compliance Audit	Marshall	Documentation and reporting processes need to be improved.	Centralize files that contain all required documents for every student by scanning all documents for safekeeping in ImageNow; Because some offices do not have scanners, equipment will need to be purchased as resources permit; All school certifying officials will begin using curriculum information obtained from the THECB to evaluate courses and programs of study; Obtain access to required documents maintained by other departments and determine a way to organize these.	Substantially Implemented
01/09/15	15-019A	Purchasing Fraud Audit	Statewide	No reportable exceptions noted.		
12/04/14	15-012A	Safety & Security Audit	Waco	We identified four areas we feel warrant management's consideration. These areas are detailed in a confidential, supplemental report.	Implement a monitoring committee to adess all audit issues.	Substantially Implemented

Report #	Report Date	Audit Name	Location	Summary of Audit Findings	Summary of Corrective Action Plans	Current Status of Corrective Action Plans
03/18/15	15-027A	Safety & Security Audit	Ft. Bend	We identified two areas we feel warrant management's consideration. These areas are detailed in a confidential, supplemental report.	Training and emergency notification will be improved.	Substantially Implemented
03/18/15	15-032A	Safety & Security Audit	EWCHEC	We identified one area we feel warrants management's consideration. These areas are detailed in a confidential, supplemental report.	Training and monitoring will be performed by Waco personnel.	Substantially Implemented
06/23/15	15-030A	VA Benefits Compliance Audit	Waco	A centralized and standardized method for maintaining and monitoring documentation, and reporting enrollment data to the VA needs to be implemented. The processes currently on both campuses varies, with documentation and reporting exceptions noted at both.	Centralize files that contain all required documents for every student by scanning all documents for safekeeping in ImageNow; Because some offices do not have scanners, equipment will need to be purchased as resources permit; All school certifying officials will begin using curriculum information obtained from the THECB to evaluate courses and programs of study; Obtain access to required documents maintained by other departments and determine a way to organize these.	Substantially Implemented
12/10/14	15-024A	Police Evidence Room	Waco		No reportable exceptions noted.	
03/17/15	15-026A	Safety & Security Audit	Sweetwater		No reportable exceptions noted.	
03/17/15	15-028A	Safety & Security Audit	Abilene		No reportable exceptions noted.	
05/22/15	15-038A	Safety & Security Audit	Breckenridge		No reportable exceptions noted.	
05/22/15	15-037A	Safety & Security Audit	Brownwood		No reportable exceptions noted.	
12/09/14	15-006A	Skills Development Grant	West Texas	We identified several exceptions related to this specific grant that should be addressed prior to it being closed out. Going forward, the processes which allowed these exceptions to occur should be enhanced.	Correct all reporting errors; award credit to all course completers; ensure all contracts have been executed; obtain a grant extenstion.	Substantially Implemented
08/27/15	15-040A	VA Benefits Compliance Audit**	West Texas	Documentation and reporting processes need to be improved.	Centralize files that contain all required documents for every student by scanning all documents for safekeeping in ImageNow; Because some offices do not have scanners, equipment will need to be purchased as resources permit; All school certifying officials will begin using curriculum information obtained from the THECB to evaluate courses and programs of study; Obtain access to required documents maintained by other departments and determine a way to organize these.	Substantially Implemented

IV. List of Consulting Engagements and Non-audit Services Completed

Report #	Report Date	Project Purpose	Location	Summary of Observations and Recommendations	Summary of Corrective Action Plans	Corrective Action Plans
15-014I	10/7/2014	Investigation of fraudulent awards of financial aid.	Harlingen	Determined that all financial aid was awarded properly. Address employee morale issue; develop consistent guidance for TPEG and scholarship awards; communicate, as needed, financial disputes to the financial aid office; submit abandoned mustang bucks as escheatable items; address housing maintenance more timely; improve accounting controls over debt forgiveness for rent.	Team development activities were conducted; follow appropriate SOS; better train financial aid staff to document comments to allow for a better audit trail; students agree to the practice allowing abandoned mustang bucks to be used for scholarships; improve timeliness and communication of repairs in housing; create guidelines to address housing debt forgiveness.	Complete
15-025I	1/27/2015	Review all transactions of person who has misused her travel card to determine whether fraudulent activity occurred.	Harlingen	Determined that all transactions were appropriate.	Not applicable.	
15-034I	3/26/2015	Investigation of alleged theft of hay and cattle at the farm.	Waco	Determined that the allegation did not have merit. All hay and cattles were present when inventoried.	Not applicable.	
15-042I	7/31/2015	Investigation of misuse of time and assets.	West Texas	Unable to offer a reliable opinion based upon lack of information.	Not applicable.	
15-043A	6/2/2015	External Penetration Testing	Statewide	A TSTC web site was vulnerable to a SQL injection attack. MainNerve executed the SQL injection and subsequently retrieved student registration data, including full names, home addresses, email addresses, and telephone numbers. Other data of interest included TSTC staff-related information that contained contact information and work roles.	The site www.waco.tstc.edu was found to be vulnerable to SQL injection. The code that allowed this was immediately isolated and removed. Our Information Security personnel validated the correction by attempting to repeat the injection without success. Additionally, on July 1st 2015 the Waco.tstc.edu site will be deactivated in favor of the single tstc.edu website. We consider this item resolved, however, MainNerve will verify our assertion in follow-up testing.	Complete
				There are many systems exposed to the Internet with services that could be accessed and enumerated easily using clear text protocols, such as SNMP. By exploiting this misconfiguration, MainNerve downloaded specific details regarding the target system. Most of the systems detected were printers whose value lay in the fact that the internal IP address was disclosed. This information allows an attacker to profile the internal network for potential future attacks.	The ability to access select printers via the internet has never been an intended practice. We have eliminated the ability to access through the internet the specific printers identified by MainNerve. We are currently unaware of any printers with the same vulnerability, but will immediately eliminate the risks if they present themselves in the future. We consider this item resolved, however, MainNerve will verify our assertion in follow-up testing.	Complete

Report #	Report Date	Project Purpose	Location	Summary of Observations and Recommendations	Summary of Corrective Action Plans	Corrective Action Plans
				Various Polycom telecom systems were detected with some being video enabled. Unauthenticated telnet sessions was permitted on one system wherein remote dialing over POTS (Plain Old Telephone System) call to a MainNerve facility was possible.	MainNerve was able to utilize default vendor credentials to access a video conferencing device, and were able to make phone calls from the device. We will remove the default credentials. This will also be verified in the upcoming MainNerve follow-up testing.	Complete
				A host containing a critical vulnerability related to MS14-066 which could allow remote code execution by a remote user. MainNerve attempted to exploit this vulnerability on several occasions without success.	MainNerve detected and successfully exploited the Heartbleed vulnerability on a video conference type device in Harlingen. We updated the software which allowed this vulnerability, and will continue to work with all vendors to ensure software/firmware is always up to date. We consider this item resolved, however, MainNerve will verify our assertion in follow-up testing.	Complete
				A system containing critical vulnerabilities related to the Novell eDirectory software was detected on a different TSTC web site.	Four SMTP servers discovered by MainNerve send emails from limited internal devices and applications. Even though SMTP servers are publicly visible, and our security safeguards were able to restrict MainNerve from doing anything. We consider this issue properly controlled.	Complete

V.   Internal Audit Plan for Fiscal Year 2016

A comprehensive risk-based methodology was used in developing the Plan. That methodology included ranking potential audits using the ten risks listed below:
1. Asset Liquidity/Fraud
2. Regulatory Compliance
3. Quality of Internal Control
4. Financial Statement Impact
5. Importance and Integrity of Data and Reports
6. Management/Board Interest
7. Frequency, Complexity, and Volume of Transactions
8. Changes in Systems, Processes, or Procedures
9. Results and Time Since Last Audit
10. Customer Impact

Once all potential audits were ranked, a list of audit candidates (the Plan) was developed based upon the risk rankings.

The list of potential audits that were risk ranked are stored in a database that was created by reviewing past audit work, flowcharts, organizational charts, and general industry processes. Input from management and the audit staff was also used in developing the database. It is updated frequently to reflect recently completed audits, and new auditable activities.

The Plan is considered in light of significant activities occurring at the College and in the industry. Some of those activities this year included single accreditation efforts, performance based funding, increased marketing efforts, and actions aimed at building a culture of philanthropy. Other's included management's stated intent to maximize alternative funding sources such as grants and auxiliary business profits, specific actions aimed at operating more efficiently in administrative functions, increased IT security efforts, and legislative requests. The most recent year-end financial statements, industry related news and events, recent legislation, and past audit plans from other colleges (particularly those in Texas) were also considered.

Areas that were considered for audit, but not selected due to resource limitations, included various application audits (Colleague, ImageNow, Informer), employee leave administration, Texas Public Education Grant compliance, Student Health Center, FCC Contract management, travel, and cloud computing.

Specific information technology risks considered in the plan included regulatory compliance, sensitivity of information, impact to the organization should an interruption occur, value of the asset, and the time since the last audit. Two related audits are scheduled – a Internal Network Penetration Test and an application audit of the TSTC Portal.

Currently, there are not any projects in the plan related to expenditure transfers, capital budget controls, or other restrictions. An audit of the contract management requirements of Senate Bill 20 from the 84th Legislature is included in the Plan, as is another audit of Benefits Proportionality using the methodology recently developed by the SAO.

Internal Audit Department
Fiscal Year 2016 Audit Plan

Project Description	Budgeted Hours
External	
A-133 Audit Follow-up	100
A-133 Audit Follow-up	100
A-133 Audit Follow-up	100
A-133 Audit Follow-up	100
Internal	
Benefits Proportionality Audits	450
Public Funds Investment Act Audit	300
Violence Against Women Act & Campus Sexual Violence Elimination Act Compliance Audit	600
College Assistance Migrant Program (CAMP) Grant Audit	400
Developmental Education Scaling and Sustaining Success Grant	400
Portal Application Audit	450
Discretionary Purchases Audit	500
Student Workers Audit	600
50th Anniversary Celebration Audit	150
Ft. Bend Construction Audit	350
Contract Management (Senate Bill 20) Audit	300
Safety & Security Follow-up Audits	150
Employee Time Reporting Follow-up Audit	150
West Texas Skills Development Grant Follow-up Audit	200

VI.   External Audit Services – Fiscal Year 2015

In FY 2015, the following audits were performed by auditors external to TSTC:

- TSTC Harlingen:
  - A-133 Audit – State Auditor's Office

- TSTC Waco
  - A-133 Audit – State Auditor's Office

- TSTC West Texas
  - A-133 Audit – State Auditor's Office

- TSTC Marshall
  - A-133 Audit – State Auditor's Office

- TSTC Central Administration
  - FY 2013 & 2014 Financial Statement Reviews – Patillo, Brown & Hill, LLP

VII.   Reporting Suspected Fraud and Abuse

TSTC has taken the following actions to implement the fraud detection and reporting requirements of Section 7.09 of the 83rd Legislature's General Appropriations Act, and Texas Government Code, Section 321.022:

- The TSTC website describes how to report suspected fraud 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. The hotline is administered by Internal Audit.
- Statewide Operating Standards 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 also available on the College's website.
- In compliance with the reporting requirements of fraud, waste, and abuse, TSTC reports all instances of confirmed fraud, waste, and abuse to the SAO.

VIII. 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 was added by House Bill 16 (83rd Legislature, Regular Session) on June 14, 2013. It requires the College to post certain information on its website. Specifically, the College must post the following information within 30 days of approval by the Board of Regents:
- The approved audit plan for the current fiscal year.
- The annual audit report for the previous fiscal year.

It must also post:
- A detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report.
- A summary of the action taken by the College to address concerns raised by the audit plan or annual report.

To comply with the requirements, TSTC Internal Audit will submit its Internal Audit Annual Report to the website coordinators to be posted on the Internal Audit section of the College's website no later than 30 days after the TSTC Board of Regents approves the current year audit plan at its August meeting. This report includes all the required elements required by TGC, Section 2102.015.

IX. Compliance with the Benefits Proportionality Audit Requirements for Higher Education Institutions

Rider 8, page III-39, of the General Appropriations Act of the 84th Legislature, Conference Committee Report requires TSTC to conduct an internal audit of benefits proportionality by fund using methodology approved by the SAO. Below is a summary of the procedures TSTC will follow to comply with this requirement.

1. The audit will test compliance to Section 6.08, page IX-27 of the General Appropriations Act of the 84th Legislature, Conference Committee Report. The methodology of the audit, at a minimum, will:
   - ensure benefits paid from appropriated funds are made proportionately from the same source as the related salaries,
   - ensure salaries paid from the General Revenue funds are related to positions authorized for General Revenue,
   - review salary expense transfers and refunds of expenditure transactions to verify any salary expenditure reductions from General Revenue have corresponding benefit reductions, and
   - disclose in the audit report the aggregate dollar amount of all instances of noncompliance with the proportionality requirements, and detail the status of any resulting payments to the Comptroller of Public Accounts.

2. The audit will examine fiscal years 2012 through 2014.

3. A copy of the audit report will be submitted to the Legislative Budget Board, the Comptroller of Public Accounts, and the SAO no later than August 31, 2016.

If the audit identifies any excess revenue the College received, a reimbursement payment must be made within two years from the conclusion of the audit. Additionally, similar audits will be considered for fiscal year 2016 and 2017.

A similar internal audit in response to Governor Perry's letter dated May 29, 2014, was conducted in July 2014. While it included most elements included in the recently developed methodology listed above, any procedures not previously performed in the FY 2014 audit will be incorporated in the audit to be performed in FY 2016.