Internal Audit Annual Report

Texas State University

Fiscal Year Ending August 31, 2017
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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Website

Texas Government Code Section 2102.015 requires state agencies and higher education institutions to post certain information on their internet websites. The Texas State University System (TSUS) Office of Audits & Analysis, Texas State University (Texas State), ensures compliance with Section 2102.015 through the following procedures:

➢ Posting the annual audit plans to the Audits & Analysis page of the Texas State website within 30 days after formal approval by the Board of Regents. The Fiscal Year 2018 Audit and Compliance Plan was approved by the Board on August 17, 2017, and was posted to the Texas State website on August 23, 2017.

➢ Posting this Internal Audit Annual Report for Fiscal Year 2017 to the Audits & Analysis page on the Texas State website within 30 days of distributing the report to the Finance & Audit Committee of the TSUS Board of Regents.

➢ Including in the quarterly board materials, posted on the TSUS website, a detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by audit plan projects and a detailed summary of the action taken by management to address resultant recommendations.

The Office of Audits & Analysis retains the right to not post information contained in the internal audit plan, audit reports, or Internal Audit Annual Report if the information is exempt from public disclosure under Chapter 552 of the Texas Government Code.
II. Internal Audit Plan for Fiscal Year 2017

The TSUS Office of Audits & Analysis prepares a consolidated audit plan for System Administration and its Components. The following is an excerpt applicable to Texas State, listing all projects (not only audits) included in the 2017 Audit Plan, amended to include the status of the projects, the report titles, report numbers (if applicable), and report dates. The TSUS complied with the benefits proportionality audit requirement prescribed by the General Appropriations Act, Rider 8, Page III-39 in that audits of benefits proportionality for 2012, 2013, and 2014 were conducted in prior fiscal years, and were considered for inclusion in the audit plans for fiscal years 2016 and 2017.

TExAS STATE UNIVERSITY FISCAL YEAR 2017 AUDIT PLAN

<table>
<thead>
<tr>
<th>Audit/Activity</th>
<th>Status, Report Title/Report Number, and Date Issued to External Oversight Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Expenditures</td>
<td>Not performed. Carried forward to 2018 Audit and Compliance Plan.</td>
</tr>
<tr>
<td>Compliance with Research Grant Agreements</td>
<td>Completed TXST-17-003 MAL G-force Mentoring Program 3-1-2017</td>
</tr>
<tr>
<td>Clery Act</td>
<td>Not performed. This audit has been included as a system-wide initiative in the Fiscal Year 2018 Audit and Compliance Plan for System Administration.</td>
</tr>
<tr>
<td>Credentialing</td>
<td>In progress.</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>Not performed. Finite resources and higher-risk or mandated projects resulting from the 2018 Risk Assessment precluded carrying this project to the Fiscal Year 2018 Audit and Compliance Plan.</td>
</tr>
<tr>
<td>General Controls, SAP</td>
<td>In progress.</td>
</tr>
<tr>
<td>IT Security Controls</td>
<td>Not performed. Finite resources and higher-risk or mandated projects resulting from the 2018 Risk Assessment precluded carrying this project to the Fiscal Year 2018 Audit and Compliance Plan.</td>
</tr>
<tr>
<td>Multi-factor Authentication</td>
<td>Not performed. Finite resources and higher-risk or mandated projects resulting from the 2018 Risk Assessment precluded carrying this project to the Fiscal Year 2018 Audit and Compliance Plan.</td>
</tr>
<tr>
<td>PCI Data Security Standards</td>
<td>Not performed. Finite resources and higher-risk or mandated projects resulting from the 2018 Risk Assessment precluded carrying this project to the Fiscal Year 2018 Audit and Compliance Plan.</td>
</tr>
<tr>
<td>SB 20 – Annual Review</td>
<td>Completed. TSUS SB 20 MAL 8 30 2017, 8-30-2017. Note: This report addresses the assessment required by Texas Education Code, Section 51.9337(h) for all TSUS Components and System Administration. There were no findings resulting from this project.</td>
</tr>
<tr>
<td>Quarterly Investment Reports</td>
<td>Completed. TXST-17-002 MAL Annual Review of Managements Reporting on Investments for FY 2016, 12-16-2016</td>
</tr>
</tbody>
</table>
Nursing Shortage Reduction – Under 70 Program

Follow-Up Procedures

On-going.

Results posted in Board Book materials on a quarterly basis.

Annual Risk Assessment and Audit Plan

Completed.

Activity does not result in a formal report, rather it resulted in the Fiscal Year 2018 Audit Plan.

Internal Audit Annual Report

Completed.

Texas State University 2016 IAAR 2016-10-26, 10-26-2016.

Continuing Education

Completed. Activity does not result in a report.

Special Projects

Multiple projects completed:

Response to SAO Hotline 16-2995, 12-16-2016.


TXST-17-004 MAL for Biology Event Hours 2017 05 23, 5-23-2017.


Response to System Requests

On-going. Activity does not result in a report.

Audit Liaison Activities

On-going. Activity does not result in a report.

PRIOR YEAR AUDIT PLAN PROJECTS COMPLETED DURING FISCAL YEAR 2017

<table>
<thead>
<tr>
<th>Audit/Activity</th>
<th>Report Title/Report Number, and Date Issued to External Oversight Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Entry Access Controls</td>
<td>TXST-16-003 Physical Entry Access Controls Audit 2016 12 06, 12-22-2016.</td>
</tr>
<tr>
<td>Student Health Center</td>
<td>TXST-16-005 Student Health Center 2017 03 08, 3-9-2017.</td>
</tr>
<tr>
<td>Endowments</td>
<td>TXST-16-006 Distributions from Endowed Funds 2017 08 03, 8-4-2017.</td>
</tr>
<tr>
<td>Controls Audit of the Data Center</td>
<td>TXST-16-008 Controls Audit of the Data Center 2017 02 16, 2-16-2017.</td>
</tr>
</tbody>
</table>
III. Consulting Services and Nonaudit Services Completed

Per the *International Standards for the Professional Practice of Internal Auditing*, “consulting services” are advisory in nature, and are generally performed at the specific request of an engagement client. The *Government Auditing Standards* define nonaudit services as those activities which are not financial audits, attestation engagements, or performance audits.

The following bulleted list represents consulting and nonaudit services conducted during fiscal year 2017:

- Responded to internal requests to address: purchasing policies and procedures regarding export controls, a proposal for new phone billing to departments, and policies and procedures regarding goods receipting.
- Provided assistance to departments in responding to request for CPRIT audit.
- Provided assistance to departments in responding to: a request for documentation needed for SACS reaccreditation and a request to review determination of disposition of deposit funds.
- Performed liaison procedures in connection with the THECB’s follow up on a special project, as well as desk reviews and audits from TDFPS, THECB, Governor’s Office, NSF, and TxDOT.
- Participated in TSUS component audit directors’ meetings.
- Participated in the annual Association of College and University Auditors and the annual Texas Association of College and University Auditors conferences.
- Evaluated risks and researched audit procedures for upcoming audits.
- Communicated with executive management on audit-related and other high risk issues.
- Performed liaison duties relating to State Auditor’s Office including student financial aid A-133 audit and the follow-up to prior year’s A-133 audit.
- Reviewing and commenting on potential administrative policy changes.
- Assisting reaccreditation efforts, and in particular, assessing audit requirements and the timing of required audits.
IV. External Quality Assurance Review (Peer Review)

The following is the independent external validator’s statement from the most recent quality assurance review.

Texas State University System

INDEPENDENT VALIDATION OPINION REPORT
QUALITY ASSURANCE
SELF-ASSESSMENT REVIEW

September 2016

Prepared by:
Richard Terr, CIA, CISA
3035 Cawley Avenue
Orlando, FL 32806
Ph: 407.996.2760
E-mail: rtarr@rscar.com
Overview

As required by the Texas Internal Auditing Act (article 6252-5d, V.A.C.S.) and the Institute of Internal Auditors’ (IIA) *International Standards for the Professional Practice of Internal Auditing* (IIA Standards), a quality assurance review (QAR) was conducted of the Texas State University System (System) internal audit activity. The IIA Standards require that internal audit activities obtain an assessment either through an external review or a self-assessment quality assurance review, with an independent validation. The Texas State University System internal audit activity (IA) had an external review in 2013 and chose to conduct a self-assessment quality assurance review with an independent validation in 2016.

As an independent reviewer, I was engaged to conduct an independent validation of that self-assessment. The primary objective of the validation was to independently verify the assertions made in the System’s attached self-assessment report regarding adequate fulfillment of the basic expectations of the IA activity and its conformity to the *IIA Standards*. An additional objective was to provide recommendations that the reviewer deems may be of value to the System IA activity. Matters that might have been reviewed and reported on in an external review, such as an in-depth analysis of best practices, governance, and use of advanced technology, were excluded from the scope of this review.

In acting as validator, I am fully independent of the System and have the necessary knowledge and skills to undertake this engagement. The validation was conducted from August 29th through September 1st, 2016. It consisted principally of a review and testing of the procedures and documented results of the self-assessment conducted by the System’s IA review team. It also included a review of a limited sample of various audit workpapers, an evaluation of responses to surveys distributed to System Administration executives, component Presidents and management, and audit staff, and interviews with the
Finance and Audit Committee Chair of the Board of Regents and the Texas State University System Chancellor.

Opinion

Based upon my interviews, workpaper reviews, and a review of the work conducted by the IA review teams, I concur with the conclusion that the internal audit activity at the System Office of Audits and Analysis (OAA) and the component institutions, generally conforms to the applicable IIA Standards and the Texas Internal Auditing Act. This opinion, representing the best possible evaluation, means that there are in place the relevant structures, policies, and procedures, including the processes by which they are applied, that comply with the IIA Standards and the Texas Internal Auditing Act in all material respects. A review of the workpapers documenting the self-assessment conducted by the System’s IA review team showed that the review was appropriately documented by the team and the opinion appears to have been objectively developed.

Richard H. Tarr, CIA, CISA
V. Internal Audit Plan for Fiscal Year 2018

The TSUS Office of Audits & Analysis prepares a consolidated audit plan for System Administration and its Components. 29,306 hours have been budgeted for audit activities/projects (including travel and administrative time).

The following is an excerpt applicable to Texas State, followed by a brief description of the risk assessment used to develop the audit plan. The TSUS Board of Regents approved the 2018 Audit Plan on August 17, 2017.

Texas State University

Fiscal Year 2018 Audit Plan

Steven R. McGee, CPA, CIA, CFE
Component Director, Office of Audits and Analysis
<table>
<thead>
<tr>
<th>AUDIT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RISK-BASED AUDITS</strong></td>
<td></td>
</tr>
<tr>
<td>Travel Expenditures</td>
<td>Assess compliance with in-state, out-of-state, and international travel policies and regulations.</td>
</tr>
<tr>
<td>Compliance with Research Agreements</td>
<td>Evaluate compliance with requirements stipulated in selected research agreements.</td>
</tr>
<tr>
<td>Leave Reporting</td>
<td>Assess compliance with leave reporting requirements.</td>
</tr>
<tr>
<td>SaaS Applications</td>
<td>Review of general procedures and controls over vendors hosting SaaS (on-demand) applications.</td>
</tr>
<tr>
<td>EHSRM Key Positions</td>
<td>Review of key positions that relate to safety in various educational and operational areas at the University.</td>
</tr>
<tr>
<td>Compliance with NCAA Bylaws</td>
<td>Review to assess compliance with selected requirements in NCAA Bylaws.</td>
</tr>
<tr>
<td>Monitoring of Electronic Access to Physical Structures</td>
<td>Review to assess the adequacy and appropriateness of procedures to monitor electronic access to University buildings/rooms.</td>
</tr>
<tr>
<td><strong>REQUIRED AUDITS AND ACTIVITIES</strong></td>
<td></td>
</tr>
<tr>
<td>SB 20 – Annual Review</td>
<td>Annual review as to whether rules and policies required under SB 20, 84th legislature, have been adopted.</td>
</tr>
<tr>
<td>SB 20 – Contract Administration</td>
<td>Risk-based testing of contract administration required under SB 20, 84th legislature.</td>
</tr>
<tr>
<td>Investments</td>
<td>Biennial review of compliance with the requirements of the Texas Public Funds Investment Act. (Report due December 31st, 2017)</td>
</tr>
<tr>
<td>Follow-Up Procedures</td>
<td>Follow-up on management’s progress in implementing outstanding audit recommendations as required by auditing standards.</td>
</tr>
<tr>
<td>Annual Risk Assessment and Audit Plan</td>
<td>Conduct risk assessment activities and prepare the 2019 Audit Plan as required by auditing standards.</td>
</tr>
<tr>
<td>Internal Audit Annual Report</td>
<td>Prepare/submit prescriptive report outlining specific audit activities for the preceding fiscal year as required by Government Code 2102.</td>
</tr>
<tr>
<td>Continuing Education</td>
<td>Required by Government Code 2102 and auditing standards.</td>
</tr>
<tr>
<td><strong>OTHER</strong></td>
<td></td>
</tr>
<tr>
<td>Special Projects</td>
<td>Perform management requested reviews; audits/reviews predicated by unanticipated risks, oversight-entity mandates, and EthicsPoint / SAO Special Investigations Unit referrals; and other activities.</td>
</tr>
<tr>
<td>Response to System Requests</td>
<td>Gather information requested by System Administration.</td>
</tr>
<tr>
<td>Audit Liaison Activities</td>
<td>Coordinate activities with external audit entities conducting audits within the Texas State University System.</td>
</tr>
</tbody>
</table>
Risk Assessment Methodology

The Plan was developed through risk assessments deployed at the Components and System Administration. Component Audit Directors develop plans for their respective institutions; the System Audit Director develops a plan for System Administration (which includes system-wide initiatives). As required by auditing standards and state law, the risk assessments considered a myriad of risks, including, but not limited to, fraud, contract management, benefits proportionality, and information technology risks related to Title 1, Texas Administrative Code, Chapter 202, Information Security Standards. We also considered work performed by external auditors, such as the State Auditor’s Office in its annual Statewide Single Audit (which includes an audit of Student Financial Aid). Lastly, we considered institutional risk appetites in allocating finite resources to risk-based activities.

The collective risk assessments included, but were not limited to, the following activities:

- Soliciting input from the Board of Regents, the Chancellor, Vice-Chancellors, and Component Presidents and management;
- Consulting with oversight entities regarding “hot topic” concerns;
- Networking with other college and university internal auditors and compliance officers regarding emerging issues;
- Reviewing the Components’ and the System’s consolidated annual financial reports for the most current fiscal year to identify significant financial items;
- Assessing the impact of negative public scrutiny; and
- Utilizing professional judgment and knowledge gained from prior audits regarding the effectiveness of governance, internal control, and risk assessment processes.

Finite resources precluded the inclusion of all identified high-risk projects in the Plan. Across the TSUS, such high-risk projects encompassed, but were not limited to, certain athletic activities, faculty workloads and overload pay, charter school contracts and activities, safety training, ADA compliance, certain automated controls/processes, health-care programs, recruiting activities, and compliance with various state and federal regulations.
VI. External Audit Services Procured in Fiscal Year 2017

The TSUS System Office extended its contract with McGladrey to perform construction audit services at Texas State University. Additionally, external audit services were procured for the University’s Athletics Department for an audit required by the NCAA Bylaws.

VII. Reporting Suspected Fraud and Abuse

The TSUS has taken the following actions to ensure compliance with requirements of Section 7.09, Fraud Reporting, General Appropriations Act (85th Legislature), Article IX, Page IX-38:

➢ The TSUS contracts with EthicsPoint, an internet-based fraud reporting hotline. The following link provides information on the TSUS website for reporting suspected fraud, waste or abuse:


The link also appears on Texas State’s homepage.

Additionally, there is a link to the State Auditor’s fraud reporting hotline on the TSUS webpage and on Texas State’s webpage.

➢ Texas State University’s University Policy and Procedure (UPPS) 01.04.40 – Reporting Criminal Offenses

The UPPS directs employees who believe that a criminal offense has been committed to notify the University Police. The University Police will notify the Director, Audit and Analysis. It also indicates that the Director of Audit and Analysis will report criminal offenses to the University Police. This policy also indicates that the University Police will use an internal auditor to determine whether university assets have been misappropriated and, if so, the amount of the loss.

➢ Texas State University’s University Policy and Procedure (UPPS) 04.04.01 – Miscellaneous Human Resource Policy and Procedures, Section 11 – Criminal Offense Reporting Obligations

This section outlines the responsibility of all Texas State employees to report actual or suspected crimes (including fraud). It also notes that the employee is expected to cooperate with police and internal audit investigations. The preceding UPPS (01.04.40) is also referenced.

➢ Texas State also has a local hotline that is monitored by the Office of Audits and Analysis.

➢ The TSUS Rules and Regulations place specific requirements for employees to report suspected waste, fraud, or abuse and delegates responsibility to the System Audit Director to report such matters to the State Auditor’s Office.

➢ The Office of Audits & Analysis, Texas State University, is aware of and complies with the requirements of Texas Government Code, Section 321.022, regarding reporting to the State Auditor’s Office those situations where a reasonable cause to believe that money received from the state may have been lost, misappropriated, or misused, or that
other fraudulent or unlawful conduct has occurred. The TSUS *Rules and Regulations* explicitly state: “*Texas State University System, through the Director of Audits and Analysis, will report suspected fraud or unlawful conduct to the State Auditor’s Office (SAO) if he or she knows of facts pointing to fraud or unlawful conduct.*” The Office of Audits & Analysis conducts reviews into complaints regarding potential waste, fraud, or abuse (including complaints forwarded to the TSUS by the State Auditor’s Office) and provides a written response summarizing the results of those reviews.