



Internal Audit Annual Report System Administration

Fiscal Year Ending August 31, 2016



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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 ensures compliance with Section 2102.015 through the following procedures:

- Posting its Fiscal Year 2017 Annual Audit Plan for System Administration to the Audits & Analysis page of the TSUS website within 30 days after formal approval by the Board of Regents. The Audit Plan was approved by the Board on August 19, 2016, and was posted to the website the same day.
- Posting its Internal Audit Annual Report for Fiscal Year 2016 to the Audits & Analysis page of the TSUS 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 TSUS 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 2016

The TSUS Office of Audits & Analysis prepares a consolidated audit plan for System Administration and its Components. The following is an excerpt applicable to System Administration, listing all projects (not only audits) included in the 2016 Audit Plan, amended to include the status of the projects, the report titles, report numbers (if applicable), and report dates. Not all completed projects resulted in the issuance of a report.

On March 17, 2016, the Chair of the Finance & Audit Committee approved a modification to the Fiscal Year 2016 Audit Plan to remove Benefits Proportionality audits of Fiscal Years 2012 and 2013 from the plan under waiver provisions granted by the General Appropriations Act, 84th Legislature, Article III, Paragraph 8(c), Page III-39. The modified plan was submitted to external oversight entities on March 17, 2016, and was also posted on the TSUS webpage.



System Administration Fiscal Year 2016 Audit Plan



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**Carole M. Fox, CPA
System Director, Office of Audits and Analysis**

**Charles H. Gregory, CISA, CGEIT
Chief Information Technology Auditor**

SYSTEM ADMINISTRATION FISCAL YEAR 2016 AUDIT PLAN

Audit/Activity	Status, Report Title, Report Number, and Date Issued to External Oversight Entities
Safety and Security Initiative	Completed. Emergency Management, 11-9-2015 Information Resources, 2-15-2016 Environmental Health & Safety, 5-24-2016 Continuity of Operations Plan, 8-16-2016
TAC 202 and Required Reporting Impact Analysis	Completed. Activity did not result in a formal report; the activity was performed for audit risk assessment purposes for the Fiscal Year 2017 Audit Plan.
Correspondence and Extension Courses	Project not performed. A "Tuition and Fee Rates" project has instead been included in the Fiscal Year 2017 Audit Plan to assess adherence to tuition and fee rates approved by the Board of Regents.
Compliance Universe	Ongoing. Activity does not result in a formal report.
Response to System Requests	On-going. Activity does not result in a formal report.
IDEA Pilot	Completed. Activity did not result in a formal report; the activity was performed to evaluate options for continuous auditing opportunities.
Construction Audits	Completed. Sam Houston State University - Student Health and Counseling Center Construction Audit, 8-8-2016
Benefits Proportionality	Completed. Benefits Proportionality, TSUS-16-002, 8-31-2016
SB 20 – Annual Review	Completed. Senate Bill 20, 8-31-2016
SB 20 – Contract Administration	Not completed; see Senate Bill 20 Report, issued 8-31-2016
Investments	Completed. Public Funds Investment Act, TSUS-16-001, 12-18-2015
Quality Assurance Review	Completed. QAR Self-Assessment Report, 9-30-2016
Yellow Book Revisions	Completed. Activity did not result in a formal report.
Follow-Up Procedures	On-going.

	Results of follow-up work are included in quarterly status reports presented to the Board via inclusion in Board meeting materials (November, February, May, and August).
Annual Risk Assessment and Audit Plan	Completed. Activity does not result in a formal report, rather it resulted in the Fiscal Year 2017 Audit Plan
Annual Internal Audit Report	Completed. Internal Audit Annual Report, 10-22-2015
Continuing Education	Completed. Activity does not result in a report.
Special Projects	Completed. HB 699 Compliance Review, 3-4-2016
Component Audit Assistance	Not applicable. Activity does not result in a report.
Audit Liaison Activities	Not applicable. Activity does not result in a report.

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 activities reported to the Chancellor and the Finance & Audit Committee in scheduled quarterly and ad hoc briefings during fiscal year 2016:

- Participating in on-going analysis of legislative changes, in particular, SB 20.
- Preparing a fraud presentation for the Finance & Audit Committee Chair.
- Traveling to components for audit and outreach-related activities.
- Reviewing and commenting on potential Rule changes for the Board's consideration.
- Reviewing and commenting on potential administrative policy changes.
- Preparing audit delegation requests for construction audit services. Performing weekly reviews of construction audit activities and audit issues; proofing travel expenses submitted in conjunction with contractors' reimbursable expenses; reviewed and edited reports; serving as direct POC for construction auditors.
- Communicating with Board of Regents and executive management on audit-related and other high-risk issues.
- Researching a variety of issues at management's request.
- Maintaining TSUS CPE Sponsorship with the Texas State Board of Public Accountancy as a registered CPE sponsor.
- Assisting components in re-accreditation 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

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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.

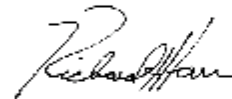
As an independent reviewer, I was engaged to conduct an independent validation of that self-assessment. The primary objective of the validation was to independently verify the assertions made in the System's attached self-assessment report regarding adequate fulfillment of the basic expectations of the 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 primarily 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 2017

The TSUS Office of Audits & Analysis prepares a consolidated audit plan for System Administration and its Components. 28,605 hours have been budgeted for audit activities/projects (including travel and administrative time) on a system-wide basis.

The following is an excerpt applicable to System Administration, followed by a brief description of the risk assessment used to develop the audit plan. The TSUS Board of Regents approved the 2017 Audit Plan on August 19, 2016.



System Administration Fiscal Year 2017 Audit Plan



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**Carole M. Fox, CPA
System Director, Office of Audits and Analysis**

**Charles H. Gregory, CISA, CGEIT
Associate Director**

SYSTEM ADMINISTRATION FISCAL YEAR 2017 AUDIT PLAN

AUDIT	DESCRIPTION
SYSTEM-WIDE INITIATIVES	
Safety and Security Initiative	Continuation of a multi-year activity designed to assist component management in identifying opportunities to enhance existing safety and security activities and processes. The modules for 2017 include: Policies, Communication, Residential Facilities, and Athletics-Concussion Management.
Cybersecurity Reporting Requirements	To review components' compliance with applicable provisions of SB 1597 and 1134, 83 rd Legislature.
Cloud Services	Review components' utilization of cloud services.
RISK-BASED AUDITS	
Construction Audits	Joint venture with the Office of Contract Administration for third-party construction audits. (OUTSOURCED)
Prudent Person Investment Thresholds	Assess selected components' compliance with investment thresholds established under the TSUS <i>Investment Policy</i> .
Commercial Paper	Review internal controls surrounding utilization of the TSUS Commercial Paper Program.
Public Art Program	Assess selected components' compliance with provisions of the Public Art Program rule in Chapter III, Paragraph 1.52 of the TSUS <i>Rules and Regulations</i> .
Title IX	Review of implementation and ongoing activities related to components' compliance with Title IX requirements.
Mental Health Resources	Review components' compliance with the resources required by HB 197 and SB 1624, 84 th Legislature, to be offered in relation to mental health.
Minors on Campus	Review components' practices/safety precautions taken for minors on campus.
Tuition and Fee Rates	Assess adherence to tuition and fee rates approved by the Board of Regents.
REQUIRED AUDITS AND ACTIVITIES	
SB 20 – Annual Review	Annual review as to whether rules and policies required under SB 20, 84 th legislature, have been adopted.
SB 20 – Contract Administration	Risk-based testing of contract administration required under SB 20, 84 th legislature.
Follow-Up Procedures	Follow-up on management's progress in implementing outstanding audit recommendations as required by auditing standards.
Annual Risk Assessment and Audit Plan	Conduct risk assessment activities and prepare the 2018 Audit Plan as required by auditing standards.
Internal Audit Annual Report	Prepare/submit prescriptive report outlining specific audit activities for the preceding fiscal year as required by Government Code 2102.
Continuing Education	Required by Government Code 2102 and auditing standards.
OTHER	
Special Projects	Perform management requested reviews; audits/reviews predicated by unanticipated risks, oversight-entity mandates, EthicsPoint/SAO Special Investigations Unit referrals, and other activities.

SACSOC Assistance	Provide assistance with audit-related requirements for components' re-accreditation activities.
Response to System Requests	Gather information requested by System Administration.
Component Audit Assistance	Supplement and assist component audit staff on component-based audits.
Audit Liaison Activities	Coordinate activities with external audit entities conducting audits within the Texas State University System.
Compliance Newsletter	Distribute quarterly newsletter highlighting "hot topics" and resources in compliance-related areas.
Compliance Risk Universe	Update and expand (as needed) the compliance universe for future risk assessment and review purposes.
State Due Date Database	Create and update a database outlining all required (state) statutory reports and activities.

Risk Assessment Methodology

The TSUS Audit 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). The risk assessments included consideration of fraud risks, contract management risks, benefits proportionality risks, and information technology risks related to Title 1, Texas Administrative Code, Chapter 202, Information Security Standards.

The collective risk assessments at the Components and System Administration 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" initiatives that should be considered;
- Networking with other college and university internal audit directors regarding emerging issues/concerns;
- Reviewing the Components' and the System's consolidated annual financial reports for the most current fiscal year to identify significant financial items;
- Considering the impact of public scrutiny; and
- Utilizing professional judgment and knowledge gained from prior audits (including benefits proportionality audits) regarding the effectiveness of governance, internal control, and risk assessment processes in mitigating risk.

Finite resources, coupled with an increase in mandated projects, precluded the inclusion of all identified high-risk projects in the Audit Plan. Such high-risk projects encompassed, but were not limited to, several manual and automated controls/processes and reviews of selected financial and operating data.

VI. External Audit Services Procured in Fiscal Year 2016

The TSUS System Office extended its contracts with Deloitte and Touche for consulting services related to internal audit services (none deployed), and with McGladrey, LLC to complete construction audit services at Texas State University and Sam Houston State University.

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 (84th Legislature), Article IX, Page IX-37:

- 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:
https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=12867

The link also appears on each TSUS Component's homepage.

Additionally, there is a link to the State Auditor's fraud reporting hotline on the TSUS webpage and each Component's webpage.

- 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 TSUS 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.