



Internal Audit Annual Report Lamar Components

Fiscal Year Ending August 31, 2014

Lamar Institute of Technology

Lamar State College-Orange

Lamar State College-Port Arthur

Lamar University

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I. Compliance with HB 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web Site

House Bill 16 amends Chapter 2102, Texas Government Code, by adding Section 2102.015, which requires state agencies and higher education institutions to post certain information on their Internet Web sites. The Texas State University System (TSUS) Office of Audits & Analysis ensures compliance with HB 16 through the following procedures:

- Posting its Annual Audit Plan to the Audits & Analysis page of the applicable Lamar component website within 30 days after formal approval by the Board of Regents. The Audit Plans for 2015 have already been posted.
- Posting its Internal Audit Annual Report for Fiscal Year 2014 to the Audits & Analysis page of the component's website within 30 days of distributing the report to the Finance & Audit Committee of the TSUS Board of Regents. The Internal Audit Annual Report contains a detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan and a detailed summary of the action taken by management to address concerns raised by the audit plan.
- 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. Planned Work Related to the Proportionality of Higher Education Benefits

Predicated by news reports regarding possible issues at another Texas institution of higher education, and prior to the issuance of Governor Perry's letter regarding benefits proportionality, System Administration executive management began assessing its benefit proportionality practices and made inquiries of the Office of Audits & Analysis about the feasibility of performing a benefits proportionality review as a "management request" project. We began planning such work in July and developed a program template, recognizing that each Component has different automated systems and processes in place and that certain variations to planned procedures would occur. The template appears below (certain identifying information has been redacted). Because we were unsure of how long it would take to complete the reviews, "Benefits Proportionality" appears as a separately designated project at System Administration and each institution in the 2015 TSUS Audit Plan. As of the date of this report, work on this project was in progress.

Program: Planning Steps

Procedure Title	Purpose	Planned Procedures
Understand Key Objectives and Risks of the Audit Area	Determine key objectives and key risks in the area that is being audited. The audit will cover Fiscal Years 2011, 2012, and 2013.	1. Review audit report to gain an understanding of the area and of any potential issue(s). 2. Review the Benefits Proportionality instructions on Comptroller's website (handouts provided to each Component Audit Director).
Clarify Business Operations/Processes	To gain a better understanding of processes and procedures in place for the area being audited.	1. Search for and review any UPPS, PPS, TSUS <i>Rules and Regulations</i> , Texas Government/Education Code, TAC, etc. that are applicable to the audit area (handouts provided to each Component Audit Director). 2. Obtain a description/narrative from the respective component describing how they ensure benefits proportionality by fund and evaluate for propriety.
Assess Management Control	Evaluating Management control will provide information about the formality of business processes and related internal controls and how these controls have been designed to meet business objectives. Develop an assessment of internal controls to document the actual risks related to the audit area's key objectives and the actual controls in place to mitigate the risks.	Meet with Management Team for the area (opening meeting): a. Summarize happenings at your institution from January 2014 to date. b. Document and review what your institution is doing per the Vice Chancellor for Finance's request at the CFO meeting in February 2014. c. Has any exposure(s) been identified by your institution? (System Office needs early warning of problems). If so, review what actions have been taken by the institution.
Communicate Audit Results	Document any closing meetings and/or discussions; management feedback; and any other relevant communications between Audits and Analysis and Management regarding the potential identified issues, and the Draft Report.	Suggested procedures for consideration to satisfy Purpose: Meet with appropriate management to discuss audit observations and obtain action plan, action plan owner, and date action plan will be implemented. This meeting or any meetings can occur throughout the audit or at the end of the audit, but for each meeting the auditor should document information obtained at meeting and complete steps in Wrap-up Steps of EWPs.

Program: Fieldwork

Procedure Title	Purpose	Planned Procedures
Determine accuracy and completeness of the benefits proportionality information	To determine the accuracy and completeness of information included in the reported documents prepared for benefits proportionality by fund.	<p>Request and obtain the following:</p> <ul style="list-style-type: none"> - data dump using the State Internet Reporting System (SIRS) including deposits and expenses for the Component's Fund 0001 and General Revenue Dedicated (GRD) Fund (ex. 0256 for Lamar). - detailed information on deposits to Fund 0001 from USAS (some will only be correcting entries) - detailed information on deposit to the GRD Fund (some will only be correcting entries) - Information about any dialogs with their Appropriations Control Officer (ACO) regarding any transactions to their GR and GRD accounts since the news story broke (approx. Jan. 2014), especially anything unusual. <p>Determine whether any local funds were deposited/transferred to Fund 0001.</p> <ul style="list-style-type: none"> - If not, this part of the review is considered complete. <p>If so, determine whether deposited/transferred funds were used for wages/salaries.</p> <ul style="list-style-type: none"> - If not, this part of the review is considered complete. <p>If so, determine whether the institution excluded these wages/salaries in calculating benefits due from State of Texas.</p> <p>Obtain and review USAS Reconciliations for completeness and accuracy. Identify reconciling items and ensure supporting documentation is available.</p> <p>Obtain the APS 011 Report for FY 2011, 2012, and 2013. Review the report for completeness and accuracy, according to the Comptroller's guidelines and GAA Article IX Sec 608.</p> <p>Compare general revenue report to the state appropriation in the General Appropriations Act.</p> <p>Compare the proportional benefits calculated in APS 011 to the SAP/Banner general ledger and USAS ledger. Investigate any differences. [Note: benefits calculated in the APS 011 report should agree with the appropriated amount and to actual benefits paid, as recorded in the general ledger.]</p> <p>Verify that appropriate adjustments were made to accomplish proportionality of benefits funding.</p> <p>Report any excess benefits paid by GR.</p>

Identify GR Eligible Employees	To identify employees who are paid from the general revenue fund during FY 2011, 2012, and 2013.	<p>Map the employees whose salary is paid by GR to the corresponding department. Determine whether these employees are GR eligible employees. Investigate any employees who are within ineligible departments (e.g., auxiliary services, athletics, and federally sponsored programs).</p> <p>Of the employees paid from the general revenue fund, select a sample of employees paid with GR funds and determine if the employee is actually eligible for state appropriated salaries.</p>
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III. Internal Audit Plan for Fiscal Year 2014 and Detailed Summary of Concerns Raised (Recommendations) by the 2014 Audit Plan and Action Taken by Management

III a. Internal Audit Plan for Fiscal Year 2014

The Office of Audits & Analysis prepares a consolidated audit plan for System Administration and its Components. The following is an excerpt applicable to the Lamar Components, listing all projects (not only audits) included in the 2014 Audit Plan, amended to include report numbers, report dates, report titles, and whether the projects were completed (if a project was not completed, the current status of the project is reported). Not all projects result in the issuance of a report.



Lamar Components

Fiscal Year 2014 Audit Plan



Higher Learning. Higher Return.

**Brian R. Biggin, CIA
Audit Director, Lamar Components**

LAMAR INSTITUTE OF TECHNOLOGY FISCAL YEAR 2014 AUDIT PLAN

AUDIT	Report Numbers, Report Dates, Report Titles	Current Status
Basic Business Process Review: Bank Reconciliations	Not applicable.	Did not perform due to other activities involving higher risk matters requiring immediate attention.
HIPAA Risk Assessment	Not applicable.	Did not perform due to other activities involving higher risk matters requiring immediate attention. Would not have resulted in an audit report.
Response to System Requests	Not applicable.	On-going. Information requests for 2014 included obtaining information from Components regarding concurrent enrollment, SCH counted/reported to the Coordinating Board, and applicable tuition and fee rates; a review of Board minutes to 2005 for approvals on concurrent waivers; use of GPS and methods to track fleet fuel consumption; sports camps and related compensation; and emergency management plans.
SACS Accreditation	No report required or issued	Audit department performed local financial reviews based upon work programs provided by the State Auditor's Office. Audit work was completed; the SACS accreditation board review is in progress, with completion of their review anticipated in Fall 2014.
Faculty Workload	None.	This work had by requested by Lamar Institute of Technology management, but this request was subsequently withdrawn and no audit was performed.
Hourly Payroll & One-Time Payments	None.	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
Scholarships	None.	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Support Services	Report in progress.	Fieldwork was completed and a report is being drafted. No significant opportunities for improvement were identified.
IT - Networking	None.	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Active Directory	None.	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Oracle	None	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Ongoing	None	No significant on-going events or projects arose during the year.
Construction	None	No significant construction arose during the year requiring local audit review.
Investments	Issued to Board on 12-29-2013: <i>Public Funds Investment Act Audit</i> , Audit Report LIT-14-002, Dated 12-20-2013	Completed, with follow-up work included in the 2015 Audit Plan.
Follow-up Procedures	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).	On-going.
Continuing Education	Not applicable.	Completed. This activity does not result in an audit report.
Special Projects	Not applicable.	Not applicable.
Audit Liaison Activities	Not applicable.	On-going. This activity does not result in an audit report.

LAMAR STATE COLLEGE-ORANGE FISCAL YEAR 2014 AUDIT PLAN

AUDIT	Report Numbers, Report Dates, Report Titles	Current Status
Basic Business Process Review: Bank Reconciliations	Not applicable.	Did not perform due to other activities involving higher risk matters requiring immediate attention.
HIPAA Risk Assessment	Not applicable.	Did not perform due to other activities involving higher risk matters requiring immediate attention. Would not have resulted in an audit report.
Response to System Requests	Not applicable.	On-going. Information requests for 2014 included obtaining information from Components regarding concurrent enrollment, SCH counted/reported to the Coordinating Board, and applicable tuition and fee rates; a review of Board minutes to 2005 for approvals on concurrent waivers; use of GPS and methods to track fleet fuel consumption; sports camps and related compensation; and emergency management plans.
SACS Accreditation	No report required or issued.	Audit department performed local financial reviews based upon work programs provided by the State Auditor's Office. Audit work was completed; the SACS accreditation board review is in progress, with completion anticipated in Fall 2014.
Hourly Payroll & One-Time Payments	None.	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
Student Services Fees	None	This audit was deferred pending the results of a system-wide review of the use of Student Service Fees performed by the Lamar Components Audit Director.
Scholarships	None.	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Support Services	Report in progress,	Fieldwork was completed and a report is being drafted. No significant opportunities for improvement were identified.
IT - Networking	None.	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Active Directory	None.	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Oracle	None	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Ongoing	None	No significant on-going events or projects arose during the year.
Construction	None	Performed at the System Office level by a third party construction audit firm. Report in progress.
Investments	Issued to Board on 12-29-2013: <i>Public Funds Investment Act Audit</i> , Audit Report LSCO-14-002, Dated 12-20-2013	Completed, with follow-up work included in the 2015 Audit Plan.
Follow-up Procedures	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).	On-going.
Continuing Education	Not applicable.	Completed. This activity does not result in an audit report.
Special Projects	Not applicable.	Not applicable.
Audit Liaison Activities	Not applicable.	On-going. This activity does not result in an audit report.

LAMAR STATE COLLEGE-PORT ARTHUR FISCAL YEAR 2014 AUDIT PLAN

AUDIT	Report Numbers, Report Dates, Report Titles	Current Status
Basic Business Process Review: Bank Reconciliations	Not applicable.	Did not perform due to other activities involving higher risk matters requiring immediate attention.
HIPAA Risk Assessment	Not applicable.	Did not perform due to other activities involving higher risk matters requiring immediate attention. Would not have resulted in an audit report.
Response to System Requests	Not applicable.	On-going. Information requests for 2014 included obtaining information from Components regarding concurrent enrollment, SCH counted/reported to the Coordinating Board, and applicable tuition and fee rates; a review of Board minutes to 2005 for approvals on concurrent waivers; use of GPS and methods to track fleet fuel consumption; sports camps and related compensation; and emergency management plans.
Hourly Payroll & One-Time Payments	None.	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
Student Services Fees	None	This audit was deferred pending the results of a system-wide review of the use of Student Service Fees performed by the Lamar Components Audit Director.
Scholarships	None.	Due to other priorities (including those at other components), this audit was deferred to the 2015 plan.
IT - Support Services		Fieldwork was completed and a report is being drafted. No significant opportunities for improvement were identified.
IT - Networking	None.	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Active Directory	None.	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Oracle	None	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Ongoing	None	No significant on-going events or projects arose during the year.
Construction	None	No significant construction arose during the year requiring local audit review.
Investments	Issued to Board on 12-29-2013: <i>Public Funds Investment Act Audit</i> , Audit Report LSCPA-14-001, Dated 12-20-2013	Completed, with follow-up work included in the 2015 Audit Plan.
Follow-up Procedures	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).	On-going.
Continuing Education	Not applicable.	Completed. This activity does not result in an audit report.
Special Projects	Issued to Board on 2-28-14: <i>Nursing Shortage Reduction Program Under 70 Awards</i> , Audit Report LSCPA-14-004, Dated 2-25-14	Completed. This audit was added in response to a request from the component to audit expenditures made under this statute-based Texas program.

	Issued to Board on 2-28-14: <i>Alcohol Reimbursement Complaint Management Advisory Letter,</i> Audit Report LSCPA-14-002, Dated 2-24-14	Completed. This project was added following a complaint to the State Auditor's Office subsequently referred to Audits & Analysis for review.
Audit Liaison Activities	Not applicable.	On-going. This activity does not result in an audit report.

LAMAR UNIVERSITY FISCAL YEAR 2014 AUDIT PLAN

AUDIT	Report Numbers, Report Dates, Report Titles	Current Status
Basic Business Process Review: Bank Reconciliations	Not applicable.	Did not perform due to other activities involving higher risk matters requiring immediate attention.
HIPAA Risk Assessment	Not applicable.	Did not perform due to other activities involving higher risk matters requiring immediate attention. Would not have resulted in an audit report.
Response to System Requests	Not applicable.	On-going. Information requests for 2014 included obtaining information from Components regarding concurrent enrollment, SCH counted/reported to the Coordinating Board, and applicable tuition and fee rates; a review of Board minutes to 2005 for approvals on concurrent waivers; use of GPS and methods to track fleet fuel consumption; sports camps and related compensation; and emergency management plans.
Recreational Sports	None	In progress at year-end.
Hourly Payroll & One-Time Payments	None	In progress at year-end.
Student Services Fees	None	This audit was deferred pending the results of a system-wide review of the use of Student Service Fees performed by the Lamar Components Audit Director.
Scholarships	None	In progress at year-end.
IT - Support Services		Fieldwork was completed and a report is being drafted with opportunities to improve using applicable "best practices."
IT - Networking	None	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Active Directory	None	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Oracle	None	Due to other priorities (including those at other Lamar components), this audit was deferred to the 2015 plan.
IT - Ongoing	None	No significant on-going events or projects arose during the year.
Construction	None	Construction audits are performed through the System Office. Construction projects at Lamar University were not selected for review in fiscal year 2014.
Investments	Issued to Board on 12-29-2013: <i>Public Funds Investment Act Audit,</i> Audit Report LU-14-003, Dated 12-20-2013	Completed, with follow-up work included in the 2015 Audit Plan.
Joint Admission Medical Program (JAMP) grants	Issued to Board on 11-4-13: <i>Joint Admission Medical Program (JAMP) Grant Audit Report,</i> Audit Report LU-14-001, Dated 10-29-13	Completed.
KVLU Radio Station	Issued to Board on 10-27-14:	Completed.

	<i>Audited Financial Statements for the Years Ended August 31, 2013 and 2012, Dated February 27, 2014</i>	
NCAA Athletics	Issued to Board on 10-27-14: <i>Agreed Upon Procedures Related to the Statement of Revenues and Expenses for the Year Ended August 31, 2013,</i> Dated August 29, 2014	Completed.
Follow-up Procedures	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).	On-going,
Continuing Education	Not applicable.	Completed. This activity does not result in an audit report.
Special Projects	Issued to Board on 12-3-13: <i>Management Advisory Letter – Women's Soccer Camps,</i> Audit Report LU-13-006, Dated 11-25-13	Completed. This review resulted from a disclosure by management of a breach in procedures for handling funds received for camps.
	Issued to Board on 8-8-14: <i>Police Department Incidents Review Report,</i> Audit Report LU-14-004, Dated 8-4-14	This review was requested by the LU President.
Audit Liaison Activities	Not applicable.	On-going. This activity does not result in an audit report.

III b. Detailed Summary of Concerns Raised (Recommendations) by the 2014 Audit Plan and Action Taken by Management

LAMAR INSTITUTE OF TECHNOLOGY

Audit Report	Recommendation	Management Action	Management's Reported Status
Public Funds Investment Act (PFIA) Audit, December 2013	LIT should ensure investment reports and procedures fully comply with requirements articulated by the PFIA, the SAO, Rider 5, and the TSUS investment policies for operating and endowment funds.	Corrective Action Plan – LIT corrected all issues during calendar year 2014	Implemented
Banner Security Follow-up (from fiscal year 2013 audits)	Issues, recommendations, and management action plans for this audit are actively being addressed. The details are not presented here due to exemptions allowed for information that relates to computer network security or to the design, operation, or defense of a computer network (Texas Government Code 552.139). Formal reports were not issued for this work. Instead, results were presented in Board Book materials for the quarterly meetings in November, February, May, and August. A summary of the status as reported for August 2014 is presented below. One recommendation is in progress of being implemented.		
IT Policy Guideline Compliance Audit, Status Reports, February 2014	Issues, recommendations, and management action plans for this audit are actively being addressed. The details are not presented here due to exemptions allowed for information that relates to computer network security or to the design, operation, or defense of a computer network (Texas Government Code 552.139). A summary of the status as reported for August 2014 is presented below. Policy: 68% complete (compared to 68% in May) Procedure: 64% complete (compared to 64% in May) Demonstrable Procedure: 50% complete (compared to 50% in May)		

LAMAR STATE COLLEGE-ORANGE

Audit Report	Recommendation	Management Action	Management's Reported Status
Public Funds Investment Act (PFIA) Audit, December 2013	LSC-O should ensure investment reports and procedures fully comply with requirements articulated by the PFIA, the SAO, Rider 5, and the TSUS investment policies for operating and endowment funds.	Corrective Action Plan – LSC-O corrected all issues during calendar year 2014	Implemented
IT Policy Guideline Compliance Audit, Status Reports, February 2014	Issues, recommendations, and management action plans for this audit are actively being addressed. The details are not presented here due to exemptions allowed for information that relates to computer network security or to the design, operation, or defense of a computer network (Texas Government Code 552.139). A summary of the status as reported for August 2014 is presented below. Policy: 100% complete Procedure: 61% complete (compared to 61% in May) Demonstrable Procedure: 43% complete (compared to 39% in May)		

LAMAR STATE COLLEGE-PORT ARTHUR

Audit Report	Recommendation	Management Action	Management's Reported Status
Public Funds Investment Act (PFIA) Audit, December 2013	LSC-PA should ensure investment reports and procedures fully comply with requirements articulated by the PFIA, the SAO, Rider 5, and the TSUS investment policies for operating and endowment funds.	Corrective Action Plan – LSC-PA corrected all issues during calendar year 2014	Implemented
Management Advisory Letter-Alcohol Reimbursement Complaint, February 2014	All travel vouchers for his direct reports should be approved by the President and approved purchase order signatories should not approve reimbursements to themselves.	Corrective Action Plan – both recommendations were implemented immediately.	Implemented
Special Project - Nursing Shortage Reduction Program Under 70 Awards, February 2014	This audit was required under the terms of the award. LSC-PA was awarded \$650,000 for its nursing program. The audit verified that award expenditures, as reported to the THECB, were in compliance with award requirements.	Not Applicable	Not Applicable
IT Policy Guideline Compliance Audit, Status Reports, February 2014	<p>Issues, recommendations, and management action plans for this audit are actively being addressed. The details are not presented here due to exemptions allowed for information that relates to computer network security or to the design, operation, or defense of a computer network (Texas Government Code 552.139). A summary of the status as reported for August 2014 is presented below.</p> <p>Policy: 100% complete Procedure: 93% complete (compared to 93% in May) Demonstrable Procedure: 86% complete (compared to 82% in May)</p>		

LAMAR UNIVERSITY

Audit Report	Recommendation	Management Action	Management's Reported Status
Management Advisory Letter – Women's Soccer Camps, November 2013	Remuneration agreements should be in writing, procedures for the operation of camps should be improved. And appropriate training of coaches provided.	Procedures will be strengthened as recommended.	In progress
Public Funds Investment Act (PFIA) Audit, December 2013	LU should ensure investment reports and procedures fully comply with requirements articulated by the PFIA, the SAO, Rider 5, and the TSUS investment policies for operating and endowment funds.	Corrective Action Plan – LU corrected all issues during calendar year 2014	Implemented
Special Project - Joint Admission Medical Program (JAMP), October 2013	This audit, required by the JAMP committee, determined that the University was in compliance with the JAMP agreement and expenditure guidelines.	Not Applicable	Not Applicable
Special Project-Police Department Incidents Review August 2014	<p>At management's request, a brief, limited review of the Lamar University Police Department (LUPD) incident log from the Computer Aided Dispatch system for the six month period September 25, 2013 through April 7, 2014, and of measures in place to control and reduce inherent risk in Lamar's police operations was performed.</p> <p>The scope included officer turnover, jurisdictional area, incidents, traffic citations, policies and procedures, training, recruiting, discipline, and supervision.</p> <p>It concluded that the biggest adverse impact on inherent risks may be the inexperience of patrol officers caused by recent resignations and their replacement with rookies.</p>	Not Applicable (The limited scope of this review precluded detailed recommendations.)	Not Applicable
Banner Security Follow-up (from fiscal year 2013 audits)	<p>Issues, recommendations, and management action plans for this audit are actively being addressed. The details are not presented here due to exemptions allowed for information that relates to computer network security or to the design, operation, or defense of a computer network (Texas Government Code 552.139). Formal reports were not issued for this work. Instead, results were presented in Board Book materials for the quarterly meetings in November, February, May, and August. A summary of the status as reported for August 2014 is presented below.</p> <p>One recommendation is in progress of being implemented.</p>		
IT Policy Guideline Compliance Audit, Status Reports, February 2014	<p>Issues, recommendations, and management action plans for this audit are actively being addressed. The details are not presented here due to exemptions allowed for information that relates to computer network security or to the design, operation, or defense of a computer network (Texas Government Code 552.139). A summary of the status as reported for August 2014 is presented below.</p> <p>Policy: 57% complete (compared to 57% in May) Procedure: 75% complete (compared to 68% in May) (Pending Verification) Demonstrable Procedure: 71% complete (compared to 61% in May) (Pending Verification)</p>		

IV. High-Level Consulting Engagement/Non-Audit Service Objective(s), Observations, and Results

- Performed a survey of the use of Student Services Fees (per Texas Education Code 54.503) by all Texas State University System (TSUS) Components. This survey was in progress at year-end.
- Executed year-end rollover of risk assessments for all TSUS components using the TeamMate software.

V. External Quality Assurance Review (Peer Review) Executive Summary

The following is the executive summary of the report resulting from the external quality assurance review (peer review) performed by Richard Tarr. The text is verbatim; the formatting has been changed to accommodate inclusion in this section of the Internal Audit Annual Report.

Quality Assurance Review Report for the Internal Audit Function at The Texas State University System

March 2013

Prepared by:
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Executive Summary

Objectives and Scope

As required by the Texas Internal Auditing Act (article 6252-5d, V.A.C.S.) and the Institute of Internal Auditors' (IIA) Standards for the Professional Practice of Internal Auditing (IIA Standards), an external quality assurance review (QAR) was conducted of The Texas State University System (TSUS) internal audit function. The principal objectives of the review were to assess whether the internal audit (IA) activities at the Office of Audits and Analysis (OAA) System Office and the four component locations, the Texas State University, Lamar University, Sam Houston State University, and Sul Ross State University, were conforming to the IIA Standards and the Texas Internal Auditing Act (TIAA). A secondary objective was to evaluate the effectiveness of each institution's internal auditing activity in carrying out its mission, and where applicable, identify opportunities that would enhance the audit practices that are in place to improve the value of the services being provided to each of the universities and the System.

The scope of the review included an evaluation of:

- The department's reporting relationship and its communication with the Finance and Audit Committee, the Chancellor, and component Presidents;
- The independence and the objectivity of the audit work performed;
- Existing internal audit policies and procedures;
- The Component and System-wide risk assessment and annual audit planning process;
- The planning process for individual audit projects;
- The audit methodologies used in performing the work;
- A representative sample of audit workpaper files and reports;
- The workpaper documentation that supported the work performed;
- The support in the workpapers for the conclusions and recommendations in the audit reports;
- How the results of audits are communicated;
- The procedures for following up on audit recommendations; and
- The knowledge, skills, discipline, and training of the staff.

As part of the preparation for the review, the System Audit Director and the IA Directors at each component location prepared a self-study document with detailed documentation on their policies and procedures. In addition, the System Audit Director and the IA Directors at each component location sent out confidential surveys to a representative sample of their audit customers and management. The responses to the survey were returned to the reviewer and a summary of the survey results and accompanying comments (without identifying the respondents) have been furnished to the System Audit Director.

Interviews were conducted with the current and former Chairmen and Chairs of the Finance and Audit Committee of the Board of Regents; the Chancellor of the Texas State University System; the Vice Chancellor and General Counsel; the Vice Chancellor for Finance; the Presidents and the Vice Presidents for Finance at each university; the System Audit Director, the Chief IT Auditor, and the IA Directors and audit staffs at each component location.

Overall Opinion

The rating system that was used for expressing an opinion for this review provides for three levels of conformance:

- “Generally Conform” (the best) means that the OAA and its components have policies, procedures, and a charter in place, and follow practices that were judged to be in accordance with applicable IIA Standards and the TIAA; however, opportunities for improvement may exist.
- “Partially Conform” means deficiencies in practice were found that deviated from professional standards; however, these deficiencies, while they might impair, did not prohibit, the OAA and its components from carrying out its responsibilities.
- “Does Not Conform,” means there were deficiencies in practices found that were considered so significant, as to seriously impair or prohibit the OAA and its components from carrying out its responsibilities.

Based on the work outlined above, it is the opinion of the reviewer that the internal audit activities at the System Office and at each of the component locations **generally conform** to the IIA’s Standards and the Texas Internal Auditing Act. This opinion, representing the best possible evaluation, means that an internal audit charter, policies, procedures, and/or practices are in place that implements the IIA Standards and comply with the requirements of the Texas Internal Auditing Act.

Observations

The internal audit function at each of the TSUS components reports to the System Director of Audits and Analysis (System Director), who has sole responsibility for all of the audit activities and functions at the System and component levels. The System Director is a CPA (Certified Public Accountant) with over 20 years of internal auditing experience and 10 years of external auditing experience; reports administratively to the Texas State University System Chancellor; and reports functionally to the Board of Regents through the Finance and Audit Committee, as required by the TIAA. She is well respected and has a good working relationship with the System’s senior management. This reporting structure provides the System Director and the Component Directors and staff with the independence and ability to be objective and render impartial and unbiased judgments essential to the proper planning and conduct of audit work.

As required by the IIA Standards, TSUS has a well-crafted Audit Charter that establishes the audit activity for the System as an independent and objective activity and clearly defines its purpose, authority and responsibility. The System Director and the Component Directors and audit staff have unrestricted access to all functions, records, property, and personnel. It also authorizes the System Director: to allocate departmental resources; set audit frequencies; select subjects; determine the scope of work; and apply the techniques necessary to accomplish the System- wide Audit Plan as approved by the Board. The System Director has full and free access to the Board Chairman, the Finance and Audit Committee Chair, and the Chancellor. The Chairman, the Finance and Audit Committee Chair, and the Chancellor are very knowledgeable of the internal audit function; they articulated audit’s duties and responsibilities and its value to the organization; additionally, they afford the System Director a level of accessibility which is commendable and which greatly contributes to an enhanced governance structure at the TSUS. The accessibility of the Presidents to the Component Directors is likewise to be commended.

The System has four component audit staff locations each headed by a Component Director. The Component Directors have excellent professional credentials. All are either CPAs and/or CIAs (Certified Internal Auditor), who collectively have over 80 years of auditing experience. All are viewed by the presidents of their respective universities to be independent and objective. The audit staffs at the System Office and at each of the components also have

extensive audit experience and, with one exception, have at least one audit related professional certification. The exception is close to obtaining a CIA certification.

The IIA Standards require that workpapers be maintained to document the audit work conducted by the audit staff. While there have been challenges in implementing the TeamMate automated workpaper tool that the auditors use for this purpose, there was sufficient evidence that the audit work is being appropriately documented. See the recommendation that addresses this below.

A review of a sample of audit workpapers verified that the audit work is being appropriately planned and supports the conclusions and opinions communicated in the audit reports that are issued. The workpapers contained evidence that the work was conducted with a level of professional care that was appropriate for the objectives of the work that was undertaken. The audit projects were well planned and the work performed was appropriately documented in accordance with IIA Standards. The audit programs in the workpapers were appropriately referenced to the audit steps. The tests performed during the audits and the conclusions contained in audit reports were supported by the work documented in the workpapers and the audit work was appropriately reviewed before audit reports were issued.

A confidential survey of audit customers conducted at the System Office and four component locations during the review indicated that 93% of those surveyed rated overall the internal audit activity either excellent or good on 18 different criteria. This is a very positive rating for an audit activity and speaks well of the professionalism and the ability of the System and Component Directors and the audit staffs.

A handwritten signature in black ink, appearing to read "Richard Tarr", written over a horizontal line.

Richard Tarr, CIA, CISA

VI. Internal Audit Plan for Fiscal Year 2015 and Risk Assessment Methodology

The Office of Audits & Analysis prepares a consolidated audit plan for System Administration and its Components. The following is an excerpt applicable to the four Lamar components, followed by a brief description of the risk assessment used to develop the audit plan. The TSUS Board of Regents approved the 2015 Audit Plan on August 29, 2014. The budget for all projects and the associated administrative activities is 8,320. The Audit Plan includes audits and reviews related to Benefits Proportionality, general business process compliance for select departments, and various IT-related processes. Additionally, the TSUS System Administration Audit Plan includes a system-wide initiative addressing TAC 202 compliance and analysis on the impact associated with legislative changes occurring to the current TAC 202 framework.

The plans for each of the four Lamar components are detailed below.

LAMAR INSTITUTE OF TECHNOLOGY FISCAL YEAR 2015 AUDIT PLAN

AUDIT	DESCRIPTION
SYSTEM-WIDE INITIATIVES	
Benefits Proportionality	A review of state benefit practices as mandated by the Governor's Office.
Follow-up on Public Funds Investment Act Compliance	Follow-up activities to ascertain resolution of previously reported instances of non-compliance with the Public Funds Investment Act and Rider 5 requirements.
Response to System Requests	To gather information as requested by System Administration.
RISK-BASED AUDITS	
AFR Review	Review compliance of the FY2014 Annual Financial Report with all reporting requirements.
Hourly Payroll & One-Time Payments	Evaluate controls, efficiency, and effectiveness of payments to hourly workers and use of one-time payments for all employees.
Scholarships	Evaluate approvals, administration, and fund accounting for scholarships.
IT – Network Management	Evaluate network management practices including segmentation, device registration, firewall configurations, wireless environment, access controls, change and patch management, disaster recovery and monitoring.
IT – Server Management	Evaluate server management practices including discovery and identification, current OS and version, purpose, configuration, locations, account listing, content and associated protections, administration, and access management.
IT - Identity Access Management	Evaluate Identity Management methodology and practices related to the user identity, authentications and authorization data.
IT- Active Directory	Evaluate the configuration and management of Active Directory including the application of the Identity Access Management Methodology, design and topology, memberships (user and groups), data protection (transit and at rest).
IT - On-Going	Maintain on-going review of significant activities such as disaster recovery tests and new application implementation.
REQUIRED AUDITS AND ACTIVITIES	
Follow-Up Procedures	Follow-up on management's progress in implementing outstanding internal and external audit recommendations.
Annual Internal Audit Report	This report, required by Government Code 2102, summarizes all audit activities of the preceding fiscal year.
Continuing Education	Required by Government Code 2102 and auditing standards.
OTHER	
Special Projects	Management requested reviews; audits/reviews predicated by unanticipated risks, oversight-entity mandates, EthicsPoint/SAO Special Investigations Unit referrals, and other activities.
Audit Liaison Activities	Coordinating with external audit entities when they perform audits within the Texas State University System.

LAMAR STATE COLLEGE-ORANGE FISCAL YEAR 2015 AUDIT PLAN

AUDIT	DESCRIPTION
SYSTEM-WIDE INITIATIVES	
Benefits Proportionality	A review of state benefit practices as mandated by the Governor's Office.
Follow-up on Public Funds Investment Act Compliance	Follow-up activities to ascertain resolution of previously reported instances of non-compliance with the Public Funds Investment Act and Rider 5 requirements.
Response to System Requests	To gather information as requested by System Administration.
RISK-BASED AUDITS	
Hourly Payroll & One-Time Payments	Evaluate controls, efficiency, and effectiveness of payments to hourly workers and use of one-time payments for all employees.
Student Services Fees	Evaluate appropriateness of expenditures from the Student Services Fees Fund.
Scholarships	Evaluate approvals and fund accounting for scholarships.
IT – Network Management	Evaluate network management practices including segmentation, device registration, firewall configurations, wireless environment, access controls, change and patch management, disaster recovery and monitoring.
IT – Server Management	Evaluate server management practices including discovery and identification, current OS and version, purpose, configuration, locations, account listing, content and associated protections, administration, and access management.
IT - Identity Access Management	Evaluate Identity Management methodology and practices related to the user identity, authentications and authorization data.
IT- Active Directory	Evaluate the configuration and management of Active Directory including the application of the Identity Access Management Methodology, design and topology, memberships (user and groups), data protection (transit and at rest).
IT - On-Going	Maintain on-going review of significant activities such as disaster recovery tests and new application implementation.
REQUIRED AUDITS AND ACTIVITIES	
Follow-Up Procedures	Follow-up on management's progress in implementing outstanding internal and external audit recommendations.
Annual Internal Audit Report	This report, required by Government Code 2102, summarizes all audit activities of the preceding fiscal year.
Continuing Education	Required by Government Code 2102 and auditing standards.
OTHER	
Special Projects	Management requested reviews; audits/reviews predicated by unanticipated risks, oversight-entity mandates, EthicsPoint/SAO Special Investigations Unit referrals, and other activities.
Audit Liaison Activities	Coordinating with external audit entities when they perform audits within the Texas State University System.

LAMAR STATE COLLEGE-PORT ARTHUR FISCAL YEAR 2015 AUDIT PLAN

AUDIT	DESCRIPTION
SYSTEM-WIDE INITIATIVES	
Benefits Proportionality	A review of state benefit practices as mandated by the Governor's Office.
Follow-up on Public Funds Investment Act Compliance	Follow-up activities to ascertain resolution of previously reported instances of non-compliance with the Public Funds Investment Act and Rider 5 requirements.
Response to System Requests	To gather information as requested by System Administration.
RISK-BASED AUDITS	
Hourly Payroll & One-Time Payments	Evaluate controls, efficiency, and effectiveness of payments to hourly workers and use of one-time payments for all employees.
Student Services Fees	Evaluate appropriateness of expenditures from the Student Services Fees Fund.
Scholarships	Evaluate approvals and fund accounting for scholarships.
IT – Network Management	Evaluate network management practices including segmentation, device registration, firewall configurations, wireless environment, access controls, change and patch management, disaster recovery and monitoring.
IT – Server Management	Evaluate server management practices including discovery and identification, current OS and version, purpose, configuration, locations, account listing, content and associated protections, administration, and access management.
IT - Identity Access Management	Evaluate Identity Management methodology and practices related to the user identity, authentications and authorization data.
IT- Active Directory	Evaluate the configuration and management of Active Directory including the application of the Identity Access Management Methodology, design and topology, memberships (user and groups), data protection (transit and at rest).
IT - On-Going	Maintain on-going review of significant activities such as disaster recovery tests and new application implementation.
REQUIRED AUDITS AND ACTIVITIES	
Follow-Up Procedures	Follow-up on management's progress in implementing outstanding internal and external audit recommendations.
Annual Internal Audit Report	This report, required by Government Code 2102, summarizes all audit activities of the preceding fiscal year.
Continuing Education	Required by Government Code 2102 and auditing standards.
OTHER	
Special Projects	Management requested reviews; audits/reviews predicated by unanticipated risks, oversight-entity mandates, EthicsPoint/SAO Special Investigations Unit referrals, and other activities.
Audit Liaison Activities	Coordinating with external audit entities when they perform audits within the Texas State University System.

LAMAR UNIVERSITY FISCAL YEAR 2015 AUDIT PLAN

AUDIT	DESCRIPTION
SYSTEM-WIDE INITIATIVES	
Benefits Proportionality	A review of state benefit practices as mandated by the Governor's Office.
Follow-up on Public Funds Investment Act Compliance	Follow-up activities to ascertain resolution of previously reported instances of non-compliance with the Public Funds Investment Act and Rider 5 requirements.
Response to System Requests	To gather information as requested by System Administration.
RISK-BASED AUDITS	
Recreational Sports	Evaluate cash controls, safety, and conformance with rules and statute over Recreational Sports.
Residence Life	Evaluate controls over Cardinal Village housing arrangements and meal plans.
Hourly Payroll & One-Time Payments	Evaluate controls, efficiency, and effectiveness of payments to hourly workers and use of one-time payments for all employees.
Student Services Fees	Evaluate appropriateness of expenditures from the Student Services Fees Fund.
Scholarships	Evaluate approvals and fund accounting for scholarships.
Setzer Student Center	Evaluate controls, compliance with statute and applicable rules, operations, and safety for the Setzer Student Center.
Athletics	Review Athletics administrative procedures (including pay, benefits, contracts, and box office) for compliance with statute, applicable rules, and University policies and procedures.
IT – Network Management	Evaluate network management practices including segmentation, device registration, firewall configurations, wireless environment, access controls, change and patch management, disaster recovery and monitoring.
IT – Server Management	Evaluate server management practices including discovery and identification, current OS and version, purpose, configuration, locations, account listing, content and associated protections, administration, and access management.
IT - Identity Access Management	Evaluate Identity Management methodology and practices related to the user identity, authentications and authorization data.
IT- Active Directory	Evaluate the configuration and management of Active Directory including the application of the Identity Access Management Methodology, design and topology, memberships (user and groups), data protection (transit and at rest).
IT - On-Going	Maintain on-going review of significant activities such as disaster recovery tests and new application implementation.
REQUIRED AUDITS AND ACTIVITIES	
Joint Admission Medical Program (JAMP) Grants	Assess the University's compliance with the Joint Admission Medical Program (JAMP) grant conditions and requirements.
KVLU-FM Radio Station	Assist the external auditor with a review of KVLU-FM Radio Station financial statement for the fiscal year ended August 31, 2012, as required by the Corporation of Public Broadcasting. (OUTSOURCED)
NCAA Athletics	Assist the external auditor with a review of the University's NCAA Athletic financial statement for the fiscal year ended August 31, 2012, as required by the NCAA. (OUTSOURCED)

Follow-Up Procedures	Follow-up on management's progress in implementing outstanding internal and external audit recommendations.
Annual Internal Audit Report	This report, required by Government Code 2102, summarizes all audit activities of the preceding fiscal year.
Continuing Education	Required by Government Code 2102 and auditing standards.
OTHER	
Special Projects	Management requested reviews; audits/reviews predicated by unanticipated risks, oversight-entity mandates, EthicsPoint/SAO Special Investigations Unit referrals, and other activities.
Audit Liaison Activities	Coordinating with external audit entities when they perform audits within the Texas State University System.

Risk Assessment Methodology

The Audit Plan was developed through risk assessments deployed at the Lamar Components and System Administration. The Lamar Component Audit Director developed the Plans for the four Lamar Components, while the System Audit Director developed the Plan for System Administration (including system-wide initiatives). The risk assessment process included consideration of fraud risks as required by state law and auditing standards, as well as consideration of information technology risks as evidenced by projects included in the Plan. In addition, anticipated work by the State Auditor's Office on federal programs (particularly Student Financial Aid) was likewise considered.

The collective risk assessment activities at the Lamar Components and System Administration included the following:

- Soliciting input from the Board of Regents, the Chancellor and Vice-Chancellors, and the Lamar Component Presidents and management.
- Consulting with the Governor's Office, State Auditor's Office, and the Texas Higher Education Coordinating Board regarding "hot topic" initiatives.
- 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 reputational risks.
- Utilizing professional judgment and knowledge gained from prior audits regarding the effectiveness of governance, internal control, and risk assessment processes (historical risk perspective).
- Risk evaluation of the management and security of Component-based information resources.

VII. External Audit Services Procured in Fiscal Year 2014

Lamar University contracted with Gayle Botley Associates for audits of the KVLU public radio station and the financial audit required by the NCAA.

VIII. Reporting Suspected Fraud and Abuse and Coordination of Investigations

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 (83rd Legislature, Conference Committee Report), Article IX:

- 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 Lamar Component's webpage.

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

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

Coordination of Investigations

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.