

# **Internal Audit Annual Report Lamar Components**

**Fiscal Year Ending August 31, 2015**

**Lamar Institute of Technology**

**Lamar State College-Orange**

**Lamar State College-Port Arthur**

**Lamar University**

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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 Office of Audits & Analysis for the Lamar Components ensures compliance with Section 2102.015 through the following procedures:

- Posting the Annual Audit Plan for each of the Lamar Components to the Audits & Analysis page of the components' respective websites within 30 days after formal approval by the Board of Regents. The Fiscal Year 2016 Audit Plans have already been posted.
- Posting the Internal Audit Annual Report for Fiscal Year 2015 to the Audits & Analysis page of the Lamar Components' websites within 30 days of distributing the report to the Finance & Audit Committee of the Texas State University System (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 for the Lamar Components 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. Compliance with the Benefits Proportionality Audit Requirements for Higher Education Institutions**

Rider 8, page III-39, of the General Appropriations Act (84th Legislature, Conference Committee Report) requires each higher education institution, excluding public community/junior colleges, to conduct an internal audit of benefits proportional by fund using a methodology approved by the SAO. Below is a summary of the provisions of that rider.

The rider requires the following:

- The audit must be conducted using the methodology approved by the SAO.
- The audit must examine fiscal years 2012 through 2014.
- Higher education institutions must submit a copy of the audit report to the Legislative Budget Board, the Comptroller of Public Accounts, and the SAO no later than August 31, 2016.
- If the audit identifies that the institution received excess General Revenue due to noncompliance with the proportionality requirements provided by Section 6.08, page IX-27, the General Appropriations Act (84th Legislature, Conference Committee Report), the institution must submit a reimbursement payment to the Comptroller of Public Accounts within two years from the conclusion of the audit.
- If institutions have previously conducted reviews of benefits proportionality using a methodology approved by the State Auditor's Office, the State Auditor may waive the requirement that additional audits be conducted.
- Higher education institutions must consider audits of benefits proportionality when developing their annual internal audit plans for fiscal years 2016 and 2017.

In compliance with the rider requirements, the State Auditor's Office prescribed the following methodology for higher education institution internal audits of benefits proportional by fund, as follows:

*"These guidelines represent the minimum requirements and do not preclude an entity from incorporating additional procedures in its audit(s). The methodology for the higher education institution benefits proportional internal audit should, at a minimum, comply with Texas Government Code, Section 2102.011, and include the following areas:*

- *Ensuring that (a) payments for benefits that are paid from appropriated funds are made proportionately from the same source as the related salaries and (b) salaries paid from General Revenue funds are related to positions authorized for General Revenue funds.*
- *Reviewing salary expense transfers and refunds of expenditure transactions to verify that, if the higher education institution reduced salary expenditures from General Revenue, it also made a corresponding reduction in benefit expenditures from General Revenue.*
- *Disclosing in the audit report (a) the aggregate dollar amount of all instances of noncompliance with the proportionality requirements identified during the audit, regardless of materiality, and (b) the status of any resulting reimbursement payments to the Comptroller of Public Accounts.*
- *In addition, the audit report must include a statement certifying that the audit incorporated the methodology prescribed by the SAO.*

*The scope of the audit(s) should include fiscal years 2012 through 2014."*

In February 2014, prior to Governor Perry's letter requesting reviews of benefits proportionality, System Administration executive management began assessing its benefit proportionality practices and made inquiries of the Office of Audits & Analysis (OAA) about the feasibility of performing a benefits proportionality review as a "management request" project. The assessment and resultant request were the result of news reports regarding possible benefits proportionality issues at another Texas institution of higher education.

Work on benefits proportionality for fiscal years 2011, 2012, and 2013 commenced during fiscal year 2014 using the template below.

**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 <u>Rules and Regulations</u> , 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 INSTITUTION 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 request of the VC for Finance 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 EWP's.

**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"><li>- 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).</li><li>- detailed information on deposits to Fund 0001 from USAS (some will only be correcting entries)</li><li>- detailed information on deposit to the GRD Fund (some will only be correcting entries)</li><li>- 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.</li></ul> <p>Determine whether any local funds were deposited/transferred to Fund 0001.</p> <ul style="list-style-type: none"><li>- If not, this part of the review is considered complete.</li></ul> <p>If so, determine whether deposited/transferred funds were used for wages/salaries.</p> <ul style="list-style-type: none"><li>- If not, this part of the review is considered complete.</li></ul> <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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A status report on the review for all TSUS components was provided to the Governor's Office on November 14, 2014, with a subsequent final report issued to the Governor's Office, the Legislative Budget Board, the State Auditor's Office, and the Sunset Commission on February 25, 2015. The report disclosed for Lamar University the dollar amount of one error impacting the proportionality requirements and included the status of reimbursement at the time the report was delivered. No exceptions were noted for LIT, LSC-O, and LSC-PA.

The 2016 Audit Plan approved by the Board of Regents in August 2015 includes reviews of benefits proportionality for fiscal years 2012, 2013, and 2014, even though reviews of 2012 and 2013 had been performed and a report issued. This was necessary because the deadline for submitting items (i.e., the 2016 Audit Plan) for inclusion in the August Board meeting materials occurred prior to communication from the State Auditor's Office (SAO) regarding its review methodology and waiver procedures. The SAO designated contact manager subsequently advised that the waiver provisions could be addressed by a certification in this report that the SAO's methodology was used for the benefits proportionality reviews for fiscal years 2012 and 2013. The contact manager also advised that the previously issued report on benefits proportionality did not need to be re-issued to include the certification prescribed by the methodology.

Therefore, this certifies that the reviews of benefits proportionality conducted for fiscal years 2012 and 2013 for the Lamar Components incorporated the methodology prescribed by the SAO. The 2016 Audit Plan will be modified to remove the benefits proportionality reviews for fiscal years 2012 and 2013.

### III. Internal Audit Plan for Fiscal Year 2015

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 2015 Audit Plan, amended to include report titles, report numbers, and dates issued to external oversight entities, and whether the projects were completed (if a project was not completed, the current status of the project is reported). Not all projects resulted in the issuance of a report.

There were no deviations from the Fiscal Year 2015 Audit Plan as submitted in the *Internal Audit Annual Report* for fiscal year 2014 on October 27, 2014.



**Lamar Institute of Technology**

**Lamar State College-Orange**

**Lamar State College-Port Arthur**

**Lamar University**

**Fiscal Year 2015 Audit Plans**

**Brian Biggin, CIA**  
**Component Director, Office of Audits and Analysis**

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## LAMAR INSTITUTE OF TECHNOLOGY FISCAL YEAR 2015 AUDIT PLAN

Audit/Activity	Report Titles, Report Numbers, and Dates Issued to External Oversight Entities	Current Status
Benefits Proportionality	Benefits Proportionality February 25, 2015	Report Issued (System-wide)
Follow-up on Public Funds Investment Act Compliance	TSUS-Follow-up on Public Funds Investment Act Compliance August 31, 2015	Report Issued (System-wide)
Response to System Requests	Not applicable. Activity does not result in a report.	On-going
Annual Financial Report Review	Annual Financial Report Review, Audit Report LIT-15-003 May 19, 2015	Completed, with follow-up work included in the 2016 Audit Plan.
Hourly Payroll & One-Time Payments	Not applicable.	Audit deferred to 2016 Audit Plan
Scholarships	Not applicable.	Audit deferred to 2016 Audit Plan
IT – Network Management	Technology Services Department Review, LIT-15-002 August 3, 2015	Report Issued
IT – Server Management	Technology Services Department Review, LIT-15-002 August 3, 2015	Report Issued
IT - Identity Access Management	Technology Services Department Review, LIT-15-002 August 3, 2015	Report Issued
IT- Active Directory	Technology Services Department Review, LIT-15-002 August 3, 2015	Report Issued
IT - On-Going	Not applicable.	On-going
Follow-Up Procedures	Not applicable. 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
Annual Internal Audit	Internal Audit Annual Report, Lamar	Report Issued

Report	Components, Fiscal Year Ending August 31, 2014 October 27, 2014	
Continuing Education	Not applicable. Activity does not result in a report.	Completed
Special Projects	Management Advisory Letter (MAL) Payment of Deaf Interpreters, LIT-15-001 February 10, 2015	Report Issued
Audit Liaison Activities	Not applicable. Activity does not result in a report.	On-going

## LAMAR STATE COLLEGE-ORANGE FISCAL YEAR 2015 AUDIT PLAN

Audit/Activity	Report Titles, Report Numbers, and Dates Issued to External Oversight Entities	Current Status
Benefits Proportionality	Benefits Proportionality February 25, 2015	Report Issued (System-wide)
Follow-up on Public Funds Investment Act Compliance	TSUS-Follow-up on Public Funds Investment Act Compliance August 31, 2015	Report Issued (System-wide)
Response to System Requests	Not applicable. Activity does not result in a report.	On-going
Hourly Payroll & One-Time Payments	Not applicable.	Audit deferred to 2016 Audit Plan
Student Services Fees	Not applicable. This project included a survey of the uses of Student Services Fees at all TSUS components.	A template for documenting (and presenting to the Board) sources and approved uses of Student Service Fees was implemented in August 2015.
Scholarships	Not applicable.	Audit deferred to 2016 Audit Plan
IT – Network Management	Not applicable.	Audit deferred to 2016 Audit Plan
IT – Server Management	Not applicable.	Audit deferred to 2016 Audit Plan
IT - Identity Access Management	Not applicable.	Audit deferred to 2016 Audit Plan
IT- Active Directory	Not applicable.	Audit deferred to 2016 Audit Plan
IT - On-Going	Not applicable.	On-going
Follow-Up Procedures	Not applicable. 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
Annual Internal Audit Report	Internal Audit Annual Report, Lamar Components, Fiscal Year Ending August 31, 2014 October 27, 2014	Report Issued
Continuing Education	Not applicable. Activity does not result in a report.	Completed

Special Projects	SAO Hotline Complaint 15-1824, LSCO-15-002 July 24, 2015	Completed
Audit Liaison Activities	Not applicable. Activity does not result in a report.	On-going

## LAMAR STATE COLLEGE-PORT ARTHUR FISCAL YEAR 2015 AUDIT PLAN

Audit/Activity	Report Titles, Report Numbers, and Dates Issued to External Oversight Entities	Current Status
Benefits Proportionality	Benefits Proportionality February 25, 2015	Report Issued (System-wide)
Follow-up on Public Funds Investment Act Compliance	TSUS-Follow-up on Public Funds Investment Act Compliance August 31, 2015	Report Issued (System-wide)
Response to System Requests	Not applicable. Activity does not result in a report.	On-going
Hourly Payroll & One-Time Payments	Not applicable.	Audit deferred to 2016 Audit Plan
Student Services Fees	Not applicable. This project included a survey of the uses of Student Services Fees at all TSUS components.	A template for documenting (and presenting to the Board) sources and approved uses of Student Service Fees was implemented in August 2015.
Scholarships	Not applicable.	Audit deferred to 2016 Audit Plan
IT – Network Management	Not applicable.	Audit deferred to 2016 Audit Plan
IT – Server Management	Not applicable.	Audit deferred to 2016 Audit Plan
IT - Identity Access Management	Not applicable.	Audit deferred to 2016 Audit Plan
IT- Active Directory	Not applicable.	Audit deferred to 2016 Audit Plan
IT - On-Going	Not applicable.	On-going
Follow-Up Procedures	Not applicable. 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
Annual Internal Audit Report	Internal Audit Annual Report, Lamar Components, Fiscal Year Ending August 31, 2014 October 27, 2014	Report Issued
Continuing Education	Not applicable. Activity does not result in a report.	Completed
Special Projects	Not applicable.	No special projects performed in Fiscal Year 2015.
Audit Liaison Activities	Not applicable. Activity does not result in a report.	On-going

### LAMAR UNIVERSITY FISCAL YEAR 2015 AUDIT PLAN

Audit/Activity	Report Titles, Report Numbers, and Dates Issued to External Oversight Entities	Current Status
Benefits Proportionality	Benefits Proportionality February 25, 2015	Report Issued (System-wide)
Follow-up on Public Funds Investment Act Compliance	TSUS-Follow-up on Public Funds Investment Act Compliance August 31, 2015	Report Issued (System-wide)
Response to System Requests	Not applicable. Activity does not result in a report.	On-going
Recreational Sports	Recreational Sports, LU-14-008 August 14, 2015	Report Issued
Residence Life	Not applicable.	Audit deferred to 2016 Audit Plan
Hourly Payroll & One-Time Payments	Not applicable.	Audit deferred to 2016 Audit Plan
Scholarships	Not applicable.	Audit deferred to 2016 Audit Plan
Setzer Student Center	Not applicable.	This audit was not performed due to higher risk activities and resource limitations.
Athletics	Not applicable.	This audit was not performed due to higher risk activities and resource limitations.
IT – Network Management	Not applicable.	Audit deferred to 2016 Audit Plan
IT – Server Management	Not applicable.	Audit deferred to 2016 Audit Plan
IT - Identity Access Management	Not applicable.	Audit deferred to 2016 Audit Plan
IT- Active Directory	Not applicable.	Audit deferred to 2016 Audit Plan
IT - On-Going	Not applicable.	Audit deferred to 2016 Audit Plan
Joint Admission Medical Program (JAMP) Grants	Not applicable.	This audit was not performed as Lamar University was not selected for an audit for Fiscal Year 2015.
KVLU-FM Radio Station	Audited Financial Statements for the Years Ended August 31, 2014 and 2013, September 28, 2015	Completed (Third Party Audit)
NCAA Athletics	Agreed Upon Procedures Related to the	Completed

	Statement of Revenues and Expenses for the Year Ended August 31, 2014 October 9, 2015	
Follow-Up Procedures	Not applicable. 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
Annual Internal Audit Report	Internal Audit Annual Report, Lamar Components, Fiscal Year Ending August 31, 2014 October 27, 2014	Report Issued
Continuing Education	Not applicable. Activity does not result in a report.	Completed
Special Projects	Three EthicsPoint complaint reports were filed during fiscal year 2015. No audit reports were issued as a result of these reviews.	One complaint was researched and resolved by management; one complaint did not contain enough information to investigate fully; one resolved itself when a particular employee resigned.
Audit Liaison Activities	Not applicable. Activity does not result in a report.	On-going

#### **IV. 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 performed during fiscal year 2015:

- Participating in quarterly TSUS Component audit directors’ meetings.
- Participating in the annual Texas Association of College and University Auditors conference.
- Participating in on-going analysis of legislative changes, in particular, SB 20.
- Performing a high-level recruiting process review at Lamar University. This review provided general observations related to recruiting metrics, web page review, continuing follow up with prospects, and procedures.
- Preparing audit delegation requests for audit services at Lamar University.
- Evaluating risks and researching audit procedures for upcoming audits.



## **V. External Quality Assurance Review (Peer Review)**

The following is the executive summary of the report resulting from the most recent 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.

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

March 2013

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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 2016**

The Office of Audits & Analysis prepares a consolidated audit plan for System Administration and its Components. 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 2016 Audit Plan on August 14, 2015. The Audit Plan includes audits and reviews related to Benefits Proportionality, Contracting, TAC 202 compliance, and analysis of the impact associated with legislative changes occurring to the current TAC 202 framework.



**Lamar Institute of Technology**

**Lamar State College-Orange**

**Lamar State College-Port Arthur**

**Lamar University**

**Fiscal Year 2016 Audit Plans**

**Ramona Stricklan, CIA, CFE  
Component Director, Office of Audits and Analysis**

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## LAMAR INSTITUTE OF TECHNOLOGY AUDIT PLAN FOR FISCAL YEAR 2016

AUDIT	DESCRIPTION
<b>SYSTEM-WIDE INITIATIVES</b>	
Response to System Requests	To gather information as requested by System Administration.
<b>RISK-BASED AUDITS</b>	
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 - On-Going	Maintain on-going review of significant activities such as disaster recovery tests and new application implementation.
<b>REQUIRED AUDITS AND ACTIVITIES</b>	
Benefits Proportionality	Audit of benefits proportionality for fiscal years 2012, 2013, and 2014 as required by the General Appropriations Act (Report due August 31 <sup>st</sup> , 2016).
SB 20 – Annual Review	Annual review as to whether rules and policies required under SB 20, 84th legislature, have been adopted.
SB 20 – Contract Administration	Risk-based testing of contract administration required under SB 20, 84th legislature.
Investments	Biennial review of compliance with the requirements of the Texas Public Funds Investment Act. (Report due December 31 <sup>st</sup> , 2016)
Quality Assurance Review	Third-party review of the audit function as required by auditing standards.
Follow-Up Procedures	Follow-up on management's progress in implementing outstanding internal and external audit recommendations.
Annual Risk Assessment and Audit Plan	Conduct risk assessment activities and prepare the 2017 Audit Plan as required by auditing standards.
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.
<b>OTHER</b>	
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 AUDIT PLAN FOR FISCAL YEAR 2016

AUDIT	DESCRIPTION
<b>SYSTEM-WIDE INITIATIVES</b>	
Response to System Requests	To gather information as requested by System Administration.
<b>RISK-BASED AUDITS</b>	
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 and fund accounting for scholarships.
IT – Network and Server Management	Evaluate network management practices including segmentation, device registration, firewall configurations, wireless environment, access controls, change and patch management, disaster recovery and monitoring. 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 - On-Going	Maintain on-going review of significant activities such as disaster recovery tests and new application implementation.
<b>REQUIRED AUDITS AND ACTIVITIES</b>	
Benefits Proportionality	Audit of benefits proportionality for fiscal years 2012, 2013, and 2014 as required by the General Appropriations Act (Report due August 31st, 2016).
SB 20 – Annual Review	Annual review as to whether rules and policies required under SB 20, 84th legislature, have been adopted.
SB 20 – Contract Administration	Risk-based testing of contract administration required under SB 20, 84th legislature.
Investments	Biennial review of compliance with the requirements of the Texas Public Funds Investment Act. (Report due December 31 <sup>st</sup> , 2016)
Quality Assurance Review	Third-party review of the audit function as required by auditing standards.
Follow-Up Procedures	Follow-up on management's progress in implementing outstanding internal and external audit recommendations.
Annual Risk Assessment and Audit Plan	Conduct risk assessment activities and prepare the 2017 Audit Plan as required by auditing standards.
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.
<b>OTHER</b>	
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 AUDIT PLAN FOR FISCAL YEAR 2016

AUDIT	DESCRIPTION
<b>SYSTEM-WIDE INITIATIVES</b>	
Response to System Requests	To gather information as requested by System Administration.
<b>RISK-BASED AUDITS</b>	
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 and fund accounting for scholarships.
IT – Network and Server Management	Evaluate network management practices including segmentation, device registration, firewall configurations, wireless environment, access controls, change and patch management, disaster recovery and monitoring. 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 - On-Going	Maintain on-going review of significant activities such as disaster recovery tests and new application implementation.
<b>REQUIRED AUDITS AND ACTIVITIES</b>	
Benefits Proportionality	Audit of benefits proportionality for fiscal years 2012, 2013, and 2014 as required by the General Appropriations Act (Report due August 31st, 2016).
SB 20 – Annual Review	Annual review as to whether rules and policies required under SB 20, 84th legislature, have been adopted.
SB 20 – Contract Administration	Risk-based testing of contract administration required under SB 20, 84th legislature.
Investments	Biennial review of compliance with the requirements of the Texas Public Funds Investment Act. (Report due December 31 <sup>st</sup> , 2016)
Quality Assurance Review	Third-party review of the audit function as required by auditing standards.
Follow-Up Procedures	Follow-up on management's progress in implementing outstanding internal and external audit recommendations.
Annual Risk Assessment and Audit Plan	Conduct risk assessment activities and prepare the 2017 Audit Plan as required by auditing standards.
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.
<b>OTHER</b>	
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 AUDIT PLAN FOR FISCAL YEAR 2016

AUDIT	DESCRIPTION
<b>SYSTEM-WIDE INITIATIVES</b>	
Response to System Requests	To gather information as requested by System Administration.
<b>RISK-BASED AUDITS</b>	
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.
Scholarships	Evaluate approvals and fund accounting for scholarships.
Minors on Campus	Evaluate controls and processes in place and compliance with policies, procedures, and regulations for minors on campus.
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- 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.
<b>REQUIRED AUDITS AND ACTIVITIES</b>	
Benefits Proportionality	Audit of benefits proportionality for fiscal years 2012, 2013, and 2014 as required by the General Appropriations Act (Report due August 31st, 2016).
SB 20 – Annual Review	Annual review as to whether rules and policies required under SB 20, 84th legislature, have been adopted.
SB 20 – Contract Administration	Risk-based testing of contract administration required under SB 20, 84th legislature.
Investments	Biennial review of compliance with the requirements of the Texas Public Funds Investment Act. (Report due December 31 <sup>st</sup> , 2016)
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, 2014, 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, 2014, as required by the NCAA. (OUTSOURCED)
THECB Facilities Audit	Required audit per Texas Education Code 61.0583 to determine compliance with THECB project approval, application, and reporting processes.
Quality Assurance Review	Third-party review of the audit function as required by auditing standards.
Follow-Up	Follow-up on management's progress in implementing outstanding

Procedures	internal and external audit recommendations.
Annual Risk Assessment and Audit Plan	Conduct risk assessment activities and prepare the 2017 Audit Plan as required by auditing standards.
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.
<b>OTHER</b>	
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 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 included consideration of fraud risks, risks associated with contract management, and information technology risks related to Title 1, Texas Administrative Code, Chapter 202, Information Security Standards. Given our limited resources, and the SAO's expertise in auditing SFA, we excluded SFA from our risk assessment.

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" 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;
- Utilizing professional judgment and knowledge gained from prior audits regarding the effectiveness of governance, internal control, and risk assessment processes in mitigating risk; and
- Continuous risk evaluation of the management and security of Component-based information resources and related activities.

Finite resources, coupled with an increase in mandated projects, most of which must be performed at each of the four Lamar Components, precluded the inclusion of all identified high-risk projects in the Audit Plan. Such high-risk projects encompassed, but were not limited to, certain departments' operations, new programs and third-party partnerships.

## VII. External Audit Services Procured in Fiscal Year 2015

Lamar University contracted with Gayle Botley Associates for the audit of the KVLU public radio station and the agreed upon procedures review of the Intercollegiate Athletic Department's statement of revenues and expenses required by the NCAA.

## VIII. Reporting Suspected Fraud and Abuse

The Lamar Components have 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](https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=12867)

The link also appears on the homepage of each Lamar Component's website.

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