

**Lone Star College
Internal Audit Department**

**Internal Audit Annual Report
Fiscal Year 2017**

In accordance with the Texas Internal Auditing Act



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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

The Fiscal Year 2018 approved audit plan is posted on the Internal Audit Department’s website at <http://www.lonestar.edu/internal-audit.htm>. The Fiscal Year 2017 Internal Audit Annual Report will be posted to the website within 30 days of submission.

II. Internal Audit Plan for Fiscal Year 2017

No.	Date	Project	Status
2017-01	7/19/17	Contract Bidding and Awards	Complete
2017-02		Construction Project Management*	Reporting
2017-03	10/16/17	Contract Management	Complete
2017-04	8/21/17	Information Technology (IT) Expenditures	Complete
2017-05		Bond Program**	In Progress
2017-06		Tenant Leases**	In Progress
2017-07		Cash Handling**	In Progress
SP-01	5/19/17	RFP Vending Services	Complete
MR-01	5/19/17	Conflict of Interest	Complete
MR-02	10/23/17	Facilities Management Contract Review (Confidential)	Complete
MR-03	9/25/17	Workers’ Compensation Claim (Confidential)	Complete
NA		Financial Reporting***	Removed
NA		IT – Service Continuity Management***	Removed
NA		IT – Network Infrastructure & Cybersecurity***	Removed
NA		Executive Credit Cards***	Deferred
Note: MR indicates Management Request SP indicates Special Project * - Project completed; report to be issued in fiscal year 2018 ** - Project in progress; rolled over to fiscal year 2018 *** - Project was added/removed/deferred			

The following are deviations from the fiscal year 2017 audit plan.

Financial Reporting – This project was not completed due to time constraints and loss of staff resources during the year.

IT-Service Continuity Management and Network Infrastructure & Cybersecurity – These projects were not completed due to loss of staff resources. A Business Continuity and Disaster Recovery project is included in the fiscal year 2018 audit plan.

Executive Credit Cards – This project was not completed due to time constraints and loss of staff resources. This project is included in the fiscal year 2018 audit plan.

The following provides details of the deficiencies and the current implementation status of the recommendations related to the fiscal year 2017 audit plan. This information addresses requirements of Texas Government Code, Section 2102.008.

Report No.	Date	Project Name & Responsible Party	Summary of Recommendation(s)	Summary of Corrective Action	Status
2017-01	7/19/17	Contract Bidding and Awards J. Olenick	Enhance controls to ensure work is not begun before final contract execution.	Will research current policies and procedures, proposing revisions or additional policies or procedures as needed.	Incomplete/ongoing
			Improve communications and require annual procurement and contract training for those with oversight or responsibility.	Will propose and develop additional training models.	
			Ensure repair and replacement projects comply with Board Policy.	Will research current policies and procedures, proposing revisions or additional policies or procedures as needed.	Incomplete/ongoing
			Discontinue use of letters of intent.	We will discontinue use.	Implemented
			Develop additional or expand the Chancellor's Procedure on the Purchasing of Architecture and Engineering Services to all types of competitively bid procurements.	Will develop and expand procedures to cover all competitively bid procurements.	Incomplete/ongoing
			Revise Board Policy or related Chancellor's Procedure to require: • Conflict of Interest Statement • Non-Disclosure Agreement	We will work with the Office of the General Counsel to amend the referenced Board Policy.	Incomplete/ongoing
Review and limit access to purchasing network share drive.	Reviewed and removed access as appropriate.	Implemented			
2017-02		Construction Project Management J. Olenick M. Castillo	Audit was in progress at the end of fiscal year 2017.		
2017-03	10/16/17	Contract Management J. Olenick	Implement criteria and guidelines for vendor performance and contract monitoring.	A contract management team will be established to ensure appropriate oversight of contract activities.	Incomplete/ongoing
			Establish requirements for support and justification for contract changes.		
			Establish a training program for all employees involved with contract execution or management. Develop a contract management handbook.	A contract management team will be established to ensure appropriate oversight of contract activities.	Incomplete/ongoing
2017-04	08/21/17	IT Expenditures L. Alander	No reportable exceptions.		
2017-05		Bond Program J. Olenick	Audit was in progress at the end of fiscal year 2017.		
2017-06		Tenant Leases J. Olenick	Audit was in progress at the end of fiscal year 2017.		
2017-07		Cash Handling J. Olenick S. Keshvala K. Persson R. Riley G. Napoles L. Nutt S. Ardalan	Audit was in progress at the end of fiscal year 2017.		

Report No.	Date	Project Name & Responsible Party	Summary of Recommendation(s)	Summary of Corrective Action	Status
SP-01	5/19/17	RFP Vending Services	Enhance controls over preparation of the Board Action items and the RFP process to ensure accuracy of data.	These undergo several reviews. This was an oversight.	Implemented
		J. Olenick	Reconcile sales and commission data and rebid to ensure a fair and transparent process.	Reconciliation will be performed and contract rebid.	Implemented
MR-01	05/19/17	Conflict of Interest J. Olenick	Revise Board Policy and vendor application to clarify what constitutes a conflict of interest. Provide training.	Payment was made. Will research current policies and procedures, proposing revisions or additional policies or procedures where needed.	Incomplete/ongoing
MR-02	10/23/17	Facilities Management Contract Review (Confidential)	Collaborate with General Counsel to determine course of action to obtain documentation and recover identified questionable invoiced amounts.	Will assign personnel to obtain documentation and calculate possible recoverable amount.	Incomplete/ongoing
		J. Olenick	Establish an independent oversight function that periodically reviews contracts to ensure compliance. Consider enhancing the records retention and right-to-audit clauses.	A contract management team will be established to ensure appropriate oversight of contract activities. Will review future contracts and include if applicable.	Incomplete/ongoing
MR-03	09/25/17	Workers' Compensation Claim (Confidential) J. Olenick	Consider requiring employee take a fitness-for-duty examination.	Under consideration.	Incomplete/ongoing

III. Consulting Services and Nonaudit Services Completed

No consulting services or nonaudit services were completed in fiscal year 2017.

IV. External Quality Assurance Review

The Lone Star College's audit and compliance functions continue to develop with the creation of the Office of Governance, Audit, and Compliance. An external quality assurance review has not been performed.

V. Internal Audit Plan for Fiscal Year 2018

The audit plan was prepared using a risk assessment methodology. Internal Audit also considered the top five strategic priorities of Financial Responsibility & Accountability, Student Success, Academic & Workforce Program Quality, Partnerships, and Culture when assessing risk. The risk factors included:

- Financial
- Compliance
- Susceptibility to Fraud
- Reputation
- Third Party Involvement or Reliance
- Change in People, Systems, Policies, Procedures
- Management Interest
- Complexity of Operations
- Decentralized Operations
- Potential for Litigation
- Potential to Disrupt Operations
- Audit History

The audits were chosen from high, moderately high, and medium risk areas, with greater emphasis given to higher risk areas. As a result, the following areas were chosen for audit.

Project	Description	Hours
Budget Process	Evaluate the annual budget process.	550
Bond Program (FY 2017 Rollover)	Assess internal controls over bond program funds.	550
Tenant Leases (FY 2017 Rollover)	Evaluate management of tenant leases.	550
Title IX Compliance	Assess controls over processes to ensure compliance.	550
Financial Aid	Assess controls to ensure compliance with regulations.	500
Resource Development & Administration	Review grant development and monitoring processes.	500
Institutional Reporting - Discovery PowerBI	Evaluate internal controls over PowerBI tool.	450
Janitorial Contract	Assess compliance with contract terms and conditions.	400
Facilities Management Contract	Assess compliance with contract terms and conditions.	400
Business Continuity and Disaster Recovery (FY17 Rollover)	Provide consulting services.	360
Clery Reporting (Consulting)	Provide Clery Act compliance consulting services.	300
Workforce Education & Corporate Partnerships (Consulting)	Provide controls and processes consulting services.	250
Executive Credit Cards (FY17 Rollover)	Review expenses for appropriateness and compliance.	150
Cash Handling (FY17 Rollover)	Assess campus controls to ensure cash is secured.	150
Follow Ups and Special Projects	Follow ups and other projects or investigations.	420
Total		6,080

Risk areas ranked as “high” but not selected to be audited during fiscal year 2018 included construction. A Construction Project Management audit was conducted in fiscal year 2017, with report to be issued shortly. The Fiscal Year 2018 Plan includes two audits of contracts that will address contract management and other requirements.

VI. External Audit Services Procured in Fiscal Year 2017

In fiscal year 2017, Lone Star College hired Whitley Penn to perform the annual financial statement audit, including the A-133 Single Audit. Internal Audit is not aware of any other external audit services procured in fiscal year 2017.

VII. Reporting Suspected Fraud and Abuse

A. Fraud Reporting. Article IX, Section 7.09. Fraud Reporting, General Appropriations Act (83rd Legislature, Conference Committee Report).

A “Report Ethics Violations” link on the bottom of the banner page for the Lone Star College website takes users to the EthicsPoint site, which includes instructions on how to report fraud, waste, and abuse.

The Internal Audit Department website also includes a link to the EthicsPoint site and instructions on reporting fraud, waste, and abuse directly to the State Auditor’s Office. A link to the State Auditor’s Office website and hotline number is provided.

B. Texas Government Code, Section 321.022 Coordination of Investigations.

Lone Star College has procedures regarding fraud incorporated into its Board Policy III.H.3.