



**Office of Governance, Audit, and Compliance
Audit and Consulting Services**

Internal Audit Annual Report Fiscal Year 2018

**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 Web site

The Fiscal Year 2019 approved audit plan is posted on the department’s website at <http://www.lonestar.edu/internal-audit.htm>. The Fiscal Year 2018 Internal Audit Annual Report will be posted to the website within 30 days of submission.

II. Internal Audit Plan for Fiscal Year 2018

No.	Date	Project	Status
2018-01	6/20/18	Tenant Leases (FY17 Rollover)	Complete
2018-02	7/12/18	Budget Process	Complete
2018-03	6/20/18	Bond Program (FY17 Rollover)	Complete
2018-04	4/12/18	Executive Credit Cards (FY17 Rollover)	Complete
2018-05	5/17/18	Cash Handling (FY17 Rollover)	Complete
2018-06		Institutional Reporting - Discovery Power BI*	Reporting
2018-07		Title IX Compliance*	Reporting
2018-08		Financial Aid*	Reporting
NA		Resource Development and Administration**	Deferred
NA		Janitorial Contract**	Removed
NA		Facilities Management Contract**	Removed
NA		Business Continuity and Disaster Recovery (Consulting)**	Removed
NA		Clery Reporting (Consulting)**	Removed
NA		Workforce Education & Corporate Partnerships (Consulting)**	Removed
Note: * - Project completed; report to be issued in fiscal year 2019 ** - Project was removed/deferred			

The following are deviations from the fiscal year 2018 audit plan.

Resource Development and Administration – This project was not completed due to loss of staff resources during the year. It is included in the fiscal year 2019 audit plan.

Janitorial Contract and Facilities Management Contract – These projects were not completed due to loss of staff resources. Contract audits are included in the fiscal year 2019 audit plan.

Business Continuity and Disaster Recovery, Clery Reporting, and Workforce Education & Corporate Partnerships – These consulting projects were not completed due to time constraints and loss of staff resources. The focus in 2018 was to establish the associated business processes for the performance of consulting projects.

The following provides details of the deficiencies and the current implementation status of the recommendations related to the fiscal year 2018 audit plan. This information addresses requirements of Texas Government Code, Section 2102.015 to post a detailed summary of the weaknesses and deficiencies and a summary of the action taken by management.

Report No.	Date	Project Name & Responsible Party	Summary of Recommendation(s)	Summary of Corrective Action(s)	Status
2018-01	6/20/18	Tenant Leases J. Mott	Sign a lease agreement with school that does not have one in place.	A signed lease agreement has been provided.	Implemented
			Establish a formal process to provide oversight and periodically evaluate the performance of the property management firm.	A formal annual evaluation will be conducted.	Incomplete/ ongoing
			Investigate and resolve the two concerns raised by the Executive Director of Real Estate & Strategic Planning.	The two noted concerns will be investigated and resolved.	
			Monitor and update certificates of insurance for the current tenants.	Obtained certificates of insurance for the five tenants.	Implemented
			Develop a comprehensive policy and procedures for the Tenant Lease process.	A comprehensive policy and procedures manual will be developed with input of best practices from the commercial real estate broker.	Incomplete/ ongoing
			Establish a centralized repository of educational and business lease files.	Currently, in the process of gathering all leases and filing them in the shared server.	
			Require the property management firm to revise the monthly operating reports to include a comparison of budget to actual as stipulated in the contract.	The monthly operating reports will be reviewed with the brokerage firm. Budget to actual comparison reporting will be included in the monthly operating report.	Incomplete/ ongoing
Develop monthly reports as required by the Administration and Finance Operations Manual (AFOM).	The reports required in the AFOM will be reviewed and adjusted if necessary.				
2018-02	7/12/18	Annual Budget Process J. Mott	Record the two identified security deposits in the appropriate liability account.	The two security deposits have been accurately coded to a liability account.	Implemented
			Collect the required remaining deposit from the business tenant and record it in the appropriate liability account.	The business tenant left in January 2018; therefore, the remaining security deposit was not collected.	
			Incorporate a zero-based budgeting model on a multi-year cycle.	Management declined this recommendation and has chosen to continue using the incremental budgeting process.	Declined
2018-02	7/12/18	Annual Budget Process J. Mott	Establish a comprehensive department procedures manual detailing the specific annual budget processes to complete the budget in accordance with legal requirements.	Budget agrees with this observation and will work to establish this document.	Incomplete/ ongoing
			Develop a strategy to address the missing criteria to achieve the GFOA Distinguished Budget Presentation Award.	The FY2019 Budget will be submitted to GFOA for review for the 'Best Practices in Community College Budgeting' award, since the criteria is more pertinent to community colleges.	Incomplete/ ongoing

Report No.	Date	Project Name & Responsible Party	Summary of Recommendation(s)	Summary of Corrective Action(s)	Status
			Allocate enough time to discuss and evaluate the Request for Budget Allocation received. Perform and document a self-evaluation for the budget process at the end of each budget cycle.	The deadlines for new budget requests for FY2019 were set earlier. The review for the FY2019 budget process is scheduled for 8/27/18.	Implemented
2018-03	6/20/18	Bond Program J. Mott	Establish a process for obtaining information needed from Facilities & Construction management regarding cash flow needs and planned construction. Conduct periodic analysis of the College's investments and cash flow needs, taking into consideration the legal requirements and limitations, LSCs prioritized investment objectives, and the arbitrage rebate threshold.	Treasury will work with Facilities & Construction to establish a process as recommended. Treasury agrees to establish a formal business process as recommended.	Incomplete/ongoing
			Establish department procedures to monitor Private Business Use (PBU) and ensure it stays within the allowable limitations.	Treasury will work with Facilities & Construction to establish procedures to monitor PBU. Treasury will contract with the systems bond counsel, if necessary, to provide an updated Private Activity Calculation.	Incomplete/ongoing
			Formalize guidance into a policy and procedures document accessible to executive management team in a secured SharePoint site.	The Accounts Payable team will update the SharePoint site to provide a clear description for executive cardholders of their responsibilities.	Incomplete/ongoing
2018-04	4/12/18	Executive Credit Card Expenses J. Mott	Develop comprehensive business office cash handling procedures. Implement monitoring activities to ensure compliance with newly established procedures.	Treasury is developing comprehensive cash handling procedures for distribution to all the campuses. Treasury personnel will monitor cash handling activities by the campus personnel to ensure compliance on a quarterly basis through onsite visits and record reviews.	Incomplete/ongoing
2018-05	5/17/18	System wide Cash Count – Campus Business Offices J. Mott	Post the required notice in a prominent and conspicuous location at every point-of-sale location where check information may be used to process an EFT transaction.	Treasury will post prominent and visible notices at all point-of-sale locations as recommended.	Incomplete/ongoing
2018-06		Institutional Reporting - Discovery Power BI L. Alander	Audit was in progress at the end of fiscal year 2018.		
2018-07		Title IX Compliance M. Castillo	Audit was in progress at the end of fiscal year 2018.		
2018-08		Financial Aid J. Mott	Audit was in progress at the end of fiscal year 2018.		

III. Consulting Services and Nonaudit Services Completed

The executive director served on the committee to select the new external audit vendor. No other consulting services or nonaudit services were completed in fiscal year 2018.

IV. External Quality Assurance Review (Peer Review)

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

V. Internal Audit Plan for Fiscal Year 2019

The audit plan was prepared using a risk assessment methodology. Audit also considered the College's top five strategic priorities 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
Cybersecurity Assessment	Understand the College's cybersecurity risks and perform a benchmark of current and future capabilities against a standard framework.	480
Bond Construction Project	Determine that financial transactions relating to construction activity for a bond construction project complied with the terms of the contract.	480
Recruiting and Hiring Process	Evaluate the adequacy and effectiveness over the recruitment and hiring processes to ensure compliance with relevant regulations and local policies and procedures.	480
Student Enrollment Changes	Determine whether controls are adequate to ensure changes to student enrollment records are authorized, supported by appropriate documentation and in compliance with relevant regulations and local policies and procedures.	480
Accessibility Audit	Determine if the College's electronic and information technology is effectively architected and administered to ensure continuous compliance with federal, state accessibility regulations.	480
Overtime and Supplemental Pay	Evaluate the adequacy and effectiveness of the controls and processes for administering overtime and supplemental pay.	460
Resource Development & Administration	Review grant development and monitoring processes.	300
Small Contracts	Review small contract awards for conflict of interest or favoritism.	300
Review of Safety and Security Audit	Review the Office of Emergency Management processes for conducting the School Safety and Security Audit to ensure compliance with Texas Education Code §37.108.	200
Vendor Maintenance	Determine the effectiveness of operations and internal controls to manage risk within the vendor maintenance process.	200
Follow Ups and Special Projects	Follow up, consulting services, and investigations.	410
Total		4,270

Risk areas ranked as “high” but not selected to be audited during fiscal year 2019 included investments and distance learning/online. The external auditors provide a report on compliance with the Public Funds Investment Act every other year. In addition, the State Auditor’s Office completed a biannual project of investment compliance in fiscal year 2018 and reported the College as fully compliant. Distance learning will be re-evaluated for possible inclusion in the fiscal year 2020 audit plan.

VI. External Audit Services Procured in Fiscal Year 2018

In fiscal year 2018, Lone Star College hired Weaver and Tidwell, L.L.P. to perform the annual financial statement audit, including the A-133 Single Audit. In addition, the College hired Weaver and Tidwell, L.L.P. in November 2017 to conduct agreed upon procedures relating to the 2012-2013 Nursing Shortage Reduction Program Grant Award. Audit and Consulting Services is not aware of any other external audit services procured in fiscal year 2018.

VII. Reporting Suspected Fraud and Abuse

- A. Fraud Reporting. Article IX, Section 7.09. Fraud Reporting, General Appropriations Act (85th Legislature).

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

The audit department’s website includes a link to the incident reporting 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.