

**Lone Star College
Internal Audit Department**

**Internal Audit Annual Report
Fiscal Year 2016**

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 2017 approved audit plan is posted on the Internal Audit Department's website at <http://www.lonestar.edu/internal-audit.htm>. The Fiscal Year 2016 Internal Audit Annual Report will be posted to the website within 30 days of submission.

II. Internal Audit Plan for Fiscal Year 2016

Report No.	Date	Project	Status
2016-01	03/10/16	Information Security Management	Complete
2016-02	06/30/16	ORP & TRS Reporting and Transmittal of Funds	Complete
2016-03	08/30/16	Compliance with Clery Act	Complete
2016-04	NA	User Account Management**	Reporting
2016-05	NA	Employee Travel**	Reporting
2016-06	NA	Student Activities Fee**	In Process
2016-07	NA	Financial Aid (Outsourced) **	Reporting
2016-MR01	02/09/16	LSC-CyFair Library Cash Handling	Complete
2016-MR02	08/18/16	Club Sports	Complete
2016-MR04	06/30/16	Ineligible High Schools	Complete
2016-MR05	06/09/16	SAP Overrides	Complete
2016-MR06	NA	Community Leadership and Engagement**	In Process
NA	NA	Executive Credit Cards*	Deferred
NA	NA	Construction Project Management*	Deferred
NA	NA	IT Operation Management*	Removed
NA	NA	Campus Solutions*	Removed
NA	NA	Student Account – Refund Processing*	Removed
NA	NA	Course Scheduling & Faculty Workload Management*	Removed
NA	NA	Educational Partnerships Office*	Removed
Note: MR indicates Management Request * - Project was added/removed ** - Report to be issued in fiscal year 2017			

The following are deviations from the fiscal year 2016 audit plan.

Executive Credit Cards – This project was not completed due to time constraints. This project is included in the fiscal year 2017 audit plan.

Construction Project Management – This project was postponed due to staffing changes in the facilities department. This project is included in the fiscal year 2017 audit plan.

IT Operation Management and Campus Solutions – These projects were not completed due to time constraints.

Student Activity Fee – This audit was conducted in place of the Student Accounting-Refund Processing.

Course Scheduling & Faculty Workload Management – This project was not performed to focus on a higher risk area.

Educational Partnerships Office – This project was initially requested by management and subsequently cancelled.

The following provides details of the deficiencies and the current implementation status of the recommendations related to the fiscal year 2016 audit plan. This information addresses requirements of Texas Government Code, Section 2102.008.

Report No.	Date	Project	Summary of Recommendation(s)	Summary of Corrective Action Plans	Status
2016-01	03/10/16	Information Security Management	1. Develop, document, and implement a system-wide information security program.	1. A system-wide program will be formalized.	Incomplete/ongoing
			2.a. Perform and document a system-wide risk assessment of LSC's information and information systems. 2.b. Require Security Officer verify security risks for each project & recommend controls.	2. The Office of Technology Services (OTS) will develop a risk assessment framework.	Incomplete/ongoing
			3. Establish a security reporting structure incorporating the Information Security Program Annual report and the Biennial Information Security Plan report.	3. OTS will establish the recommended security reports.	Incomplete/ongoing
			4.a. Revise LSC Policy or draft separate procedures to define management and staff responsibilities outlined in TAC 202. 4.b. Communicate security roles and responsibilities.	4. Management will review security roles and responsibilities and develop a communication plan.	Incomplete/ongoing
2016-02	06/30/16	ORP & TRS Reporting and Transmittal of Funds	1.a. Obtain an understanding of the OMS report methodologies and validate reports for completeness and accuracy. 1.b. Develop iStar queries to use in lieu of the OMS reports. 1.c. Correct the 90-Day New Employee Contribution report. 1.d. Reevaluate whether HRIS & Records Office should be responsible for the TRS retirement payments. 1.e. Determine any under or overpayments to the State for the new 90-Day employees.	1.a.-1.c. OMS reports being reviewed. Revisions to correct will be identified and tested. If revisions are too extensive, will develop new reports. 1.d. Payroll Department will be responsible for the TRS payment. 1.e. Human Resources will determine the under or overpayment.	Incomplete/ongoing
			2.a. Revise the query used to calculate the ORP reimbursable amount. 2.b. Determine the amount of ineligible reimbursements since September 2014 and submit a refund to the State. 2.c. Reevaluate whether the HRIS and Record Office should be responsible for the ORP reimbursement.	2.a. Revised the query. 2.b. Determined ineligible amount and mailed payment. 2.c. Beginning fiscal year 2017, Payroll to handle ORP reimbursement process.	Substantially implemented
			3.a. Establish a review/reconciliation process to verify the accuracy of all the retirement payments. 3.b. Require that supervisors review all retirement payments prior to disbursement.	3.a. As of 1/28/16, began reconciling the ORP employer contribution. Beginning fiscal year 2017, Payroll will be responsible for processing the TRS and TIAA CREF payment requests. Reconciliation procedures will be implemented. 3.b. All retirement payments will be reviewed by a supervisor prior to disbursement of funds.	Incomplete/ongoing
			4.a. Obtain the Employment Disclosure Form for the one employee missing the document. 4.b. Improve the current process for collecting and tracking documents required from new employees. 4.c. Consider centralizing Human Resource documents at the System Office and	4.a. Provided online retirement questionnaire. 4.b. Business process owner will verify the information through audit queries. 4.c. Once the needed scanning software is	Incomplete/ongoing

Report No.	Date	Project	Summary of Recommendation(s)	Summary of Corrective Action Plans	Status
			maintaining electronic copies of the documents.	available, all full-time Benefit files including the retirement forms will be scanned.	
2016-03	08/30/16	Compliance with Clery Act	1. Enhance the current timely warning process by disseminating notifications system wide.	The process was modified to disseminate notifications system-wide.	Fully Implemented
			2.a. Implement a process, with documentation retained, to support why LSC crimes are included/excluded from report disclosure. 2.b. Enhance review process to ensure information disclosed is accurate.	2.a. Establishing random sampling of incidents to confirm data. 2.b. Will request sign-off from internal data owners.	Incomplete/ongoing
			3.a. Develop a standard definition of an LSC campus security authority. 3.b. Review and revise LSC Policy Manual to clarify definition. 3.c. Notify personnel of their designation, responsibilities as a campus security authority and requirement to complete mandatory annual Clery Act training. 3.d. Hold mandatory annual Clery Act training and maintain records of completion.	3.a. To use campus security authority as defined in the U.S. Department of Education Security Handbook (2016). 3.b. Definition to match 3a.. 3.c. Coordinating with Human Resources and the Office of the General Counsel in updating /communicating with designated employee. 3.d. Coordinating with the Human Resources department to assist with mandatory training	Incomplete/ongoing
			4.a. Review and redesign the Campus Security Authority Crime/Sex Offenses Forms to consolidate with the Title IX forms. 4.b. Obtain administrative approval for redesigned forms to be used to report Title IX and Clery Act violations.	4. Coordinating redesign of forms with key stakeholders and will implement their use starting January 2017.	Incomplete/ongoing
2016-04		User Account Management	Audit was in progress at the end of fiscal year 2016.		
2016-05		Employee Travel	Audit was in progress at the end of fiscal year 2016.		
2016-06		Student Activities Fee	Audit was in progress at the end of fiscal year 2016.		
2016-07		Financial Aid (Outsourced)	Audit was in progress at the end of fiscal year 2016.		
2016-MR01	02/09/16	LSC-CyFair Library Cash Handling	1. The LSC-CyFair Library should: a. Strengthen internal controls over cash handling. b. Review waivers for compliance with waiver policy.	1.a. Will design and implement internal controls over cash handling. 1.b. Will review and enhance the waiver policy and monitor compliance.	Fully Implemented
			2. Administration and Finance should draft and propose a cash handling policy and procedure.	2.a. Administration and Finance will draft and propose a cash handling policy and procedure.	Incomplete/ongoing
2016-MR02	08/18/16	Club Sports	1. Establish a system-wide methodology for budgeting recreation/club sports. 2. Establish standard processes and practices and maintain necessary documentation to demonstrate compliance with Title IX §106.41. 3. Provide training and improve review processes to ensure compliance with Board policy and Chancellor's procedures.	A task force comprised of two representatives from each college has been established to address the issues identified in this report.	Incomplete/ongoing
2016-MR04	06/30/16	Ineligible High Schools	1. Establish monitoring to verify the S54 and S04 service indicator processes run as scheduled.	Statistics added to the admissions weekly report to ensure processes run as scheduled.	Fully Implemented

Report No.	Date	Project	Summary of Recommendation(s)	Summary of Corrective Action Plans	Status
			<p>2.a. Improve current processes to detect students whose Free Application for Federal Student Aid (FAFSA) indicate ineligible high schools and document in the Business Process.</p> <p>2.b. Run the cleanup queries to ensure established controls are working as intended.</p> <p>2.c. Return the financial aid disbursed to ineligible students to the Department of Education.</p>	<p>2.a. The Business Process will be updated to reflect how the Financial Aid Office identifies students deemed ineligible based on what is reported on the FAFSA.</p> <p>2.b. The Financial Aid Office runs three queries weekly to ensure controls are working as intended. An additional query is undergoing revision.</p> <p>2.c. The Financial Aid Office will calculate the amount owed to the Department of Education for aid distributed in the summer.</p>	Incomplete/ongoing
			<p>3.a. Consider adding a representative from the Office of the General Counsel to the committee tasked with reviewing suspected ineligible high schools.</p> <p>3.b. Collaborate with the Office of the General Counsel to review the current list of ineligible high schools and to evaluate and revise, as necessary, the process for designating a school as ineligible. Document evaluation and need for any revisions to current process for future reference.</p>	<p>3.a. Office of the General Counsel representative added to the committee.</p> <p>3.b. The committee met in early April to review and update the list. The committee also determined the criteria to evaluate and update the list and described appeal process. The Business Process will be adjusted to reflect an annual March meeting.</p>	Substantially complete
2016-MR05	06/09/16	SAP Overrides	<p>1.a. Revise internal procedures to clarify and enhance process and provide training to personnel.</p> <p>1.b. Implement a workflow process to require a supervisory review of overrides.</p> <p>1.c. Limit update access to the iStar Maintain SAP Data screen.</p> <p>1.d. Address any underlying iStar system issues relating to SAP calculations.</p> <p>1.e. Enhance the current SAP Overrides Review process.</p> <p>1.f. Determine whether the incident involving the Financial Aid Analyst II should be referred to the U.S. Attorney General per LSC Board Policy VI.C.1.04.</p>	<p>1.a. Financial Aid will clarify the SAP override process.</p> <p>1.b. Financial Aid will develop a process.</p> <p>1.c. Financial Aid will develop a consistent strategy that address access to SAP Data screen, a timeline for review and update of access privileges, and a strategy for access during peak periods.</p> <p>1.d. The batch override problems will be resolved.</p> <p>1.e. Financial Aid will ensure that the considerations above are addressed to enhance the SAP Overrides Review business process</p> <p>1.f. The Associate Vice Chancellor of Student Success will discuss the incident with the Office of the General Counsel according to policy.</p>	Incomplete/ongoing
2016-MR06		Community Leadership and Engagement	Audit was in progress at the end of fiscal year 2016.		

III. Consulting Services and Nonaudit Services Completed

No consulting services or non-audit services were completed in fiscal year 2016.

IV. External Quality Assurance Review

The Lone Star College Internal Audit Department continues to rebuild the function; therefore, an external quality assurance review has not been performed. Annual self-assessments will be conducted beginning in fiscal year 2017. An external quality assurance review is planned for fiscal year 2018.

V. Internal Audit Plan for Fiscal Year 2017

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. Due to the lack of information technology audit coverage in the past, a separate information risk assessment was conducted. 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

Risk factors included in the information technology assessment included confidentiality, availability, integrity, and degree of incidents/changes.

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
Bond Program	Assess internal controls over bond program funds.	700
Construction Project Management	Review processes, controls, and documentation.	700
Contract Bidding and Awards	Ensure open and fair purchasing and bidding practices.	700
Vendor Contracts – Contract Management	Review for adoption of rules and policies per Senate Bill 20 (84th Legislature).	600
Purchasing – IT Expenditures	Review controls, processes to ensure expenses are properly authorized, valid, and in compliance.	600
Tenant Leases	Evaluate management of tenant leases.	600
Financial Reporting	Examine internal financial reporting quality.	600
IT – Service Continuity Management	Evaluate business continuity and disaster recovery programs.	550
IT – Network Infrastructure & Cybersecurity	Assess security-control adequacy.	550
Executive Credit Cards	Review expenses for appropriateness and compliance.	400
Cash Handling	Assess campus controls to ensure cash is secured.	400
Follow Ups	Follow up on open recommendations.	200
Special Projects/Investigations	Other projects and investigations as necessary.	530
Total		7,130

Risk areas ranked as “high” but not selected to be audited during fiscal year 2017 included:

- Investment Management and Strategies
- Budget Process
- Title IX
- Cash Management
- IT Operation Management
- Campus Solutions – Student Records

The Fiscal Year 2017 Plan includes an audit to address Senate Bill 20, 84th Legislature. This project will focus on determining whether Lone Star College has adopted the stated rules and policies. Capital budget controls will be considered in the Construction Project Management audit scheduled for fiscal year 2017.

The Fiscal Year 2016 Audit Plan included an Information Security Management project that determined whether the College’s procedures align with Texas Administrative Code 202.

VI. External Audit Services Procured in Fiscal Year 2016

In fiscal year 2016, Lone Star College hired Whitley Penn to perform the annual financial statement audit, including the A-133 Single Audit. The College also hired Financial Aid Services, Inc., to conduct a financial aid audit.

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 external 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.