



Internal Audit Annual Report
Sam Houston State University

Fiscal Year Ending August 31, 2017

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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 Texas State University System (TSUS) Office of Audits & Analysis, Sam Houston State University (SHSU), ensures compliance with Section 2102.015 through the following procedures:

- Posting the annual audit plans to the Audits & Analysis page of the SHSU website within 30 days after formal approval by the Board of Regents. The Fiscal Year 2018 Audit and Compliance Plan was approved by the Board on August 17, 2017, and was posted to the website on August 30, 2017.
- Posting this Internal Audit Annual Report for Fiscal Year 2017 to the Audits & Analysis page on the SHSU website within 30 days of distributing the report to the Finance & Audit Committee of the 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 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. Internal Audit Plan for Fiscal Year 2017

The TSUS Office of Audits & Analysis prepares a consolidated audit plan for System Administration and its Components. The following is an excerpt applicable to SHSU, listing all projects (not only audits) included in the 2017 Audit Plan, amended to include the status of the projects, the report titles, report numbers (if applicable), and report dates. Please note that the TSUS complied with the benefits proportionality audit requirement prescribed by the General Appropriations Act, Rider 8, Page III-39 in that audits of benefits proportionality for 2012, 2013, and 2014 were conducted in prior fiscal years, and were considered for inclusion in the audit plans for fiscal years 2016 and 2017.

SAM HOUSTON STATE UNIVERSITY FISCAL YEAR 2017 AUDIT PLAN

Audit/Activity	Status, Report Title/Report Number, and Date Issued to External Oversight Entities
Research Protocol Compliance	In progress.
Budget Process Review	Not performed. Finite resources and higher-risk or mandated projects resulting from the 2018 Risk Assessment precluded carrying this project to the Fiscal Year 2018 Audit and Compliance Plan.
Financial Reporting Processes & Controls – IT Integrated	Not performed. Carried forward to Fiscal Year 2018 Audit and Compliance Plan.
IT – Change Management Processes	Not performed. Carried forward to Fiscal Year 2018 Audit and Compliance Plan.
IT – Banner Data Classification and Segregation of Duties	Not performed. Carried forward to Fiscal Year 2018 Audit and Compliance Plan.
IT – Travel Expense Management Pre-implementation Review	Not performed. This project would not have resulted in a report being issued as the purpose was to gain an understanding of the processes and provide feedback as appropriate.
SB 20 – Annual Review	Completed. TSUS SB 20 MAL 8 30 2017, 8-30-2017. Note: This report addresses the assessment required by Texas Education Code, Section 51.9337(h) for all TSUS Components and System Administration. There were no findings resulting from this project.
SB 20 – Contract Administration	Completed. TSUS SB 20 MAL 8 30 2017, 8-30-2017.
Quarterly Investment Reports	Completed. SHSU-17-003 Review of FY 2016 Quarterly Investment Reports, 9-22-2017.
NCAA Agreed Upon Procedures	Completed. SHSU-17-001 NCAA Financial Statement Compilation Fiscal Year 2016, 1-25-2017.
Follow-Up Procedures	On-going. Results posted in Board Book materials on a quarterly basis.
Annual Risk Assessment and Audit Plan	Completed. Activity does not result in a formal report, rather it resulted in the Fiscal Year 2018 Audit and Compliance Plan.

Internal Audit Annual Report	Completed. SHSU 2016 IAAR 2016-10-26, 10-26-2016.
Continuing Education	Completed. Activity does not result in a report.
Special Projects	Multiple projects completed: SHSU-16-007 FLSA Coun Ed 2017 3 7 CF, 3-9-2017. SHSU-16-007 FLSA Mass Comm 2017 3 7 CF, 3-9-2017. SHSU-16-007 FLSA Nursing 2017 3 7 CF, 3-9-2017. SHSU-16-007 FLSA Investigation 2017 3 7 CF, 3-9-2017. SHSU-17-002 NSRP Under 70 060217 kb, 6-2-2017.
Response to System Requests	On-going. Activity does not result in a report.
Audit Liaison Activities	On-going. Activity does not result in a report.

III. 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 services conducted during fiscal year 2017:

- Presenting a fraud presentation at the SHSU Professional Development Conference.
- Preparing audit delegation request for the SHSU College of Osteopathic Medicine.
- Participating in TSUS Component audit directors’ meetings.
- Participating in first quarterly TSUS Component IT auditors’ meeting.
- Participating in the annual Association of College and University Auditors Conference.
- Participating in the annual Information Security Forum.
- Participating in the Analytic Interviewing seminar.
- Obtaining a Certified Fraud Examiner certification.
- Researching a variety of issues at management’s request.
- Evaluating risks and researching audit procedures for upcoming audits.
- Performing procedures to determine compliance with policies and procedures relating to a study abroad program.
- Communicating with executive management on audit-related and other high risk issues.
- Participating in IT workgroup to discuss cloud computing implications and considerations for SHSU.
- Performing liaison duties relating to the State Auditor’s Office, including the statewide single audit and the student financial aid A-133 audit. Liaison duties also included those relating to the Texas Comptroller of Public Accounts post-payment audit.
- Conducting multiple reviews into complaints regarding potential waste, fraud, or abuse and summarizing results of those reviews.

IV. External Quality Assurance Review (Peer Review)

The following is the independent external validator's statement from the most recent quality assurance review.

Texas State University System

INDEPENDENT VALIDATION OPINION REPORT QUALITY ASSURANCE SELF-ASSESSMENT REVIEW

September 2016

Prepared by:
Richard Tarr, CIA, CISA
3035 Dawley Avenue
Orlando, FL 32806
Ph: 407.896.2760
E-mail: rtarr@racar.com

Overview

As required by the Texas Internal Auditing Act (article 6252-5d, V.A.C.S.) and the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* (IIA Standards), a quality assurance review (QAR) was conducted of The Texas State University System (System) internal audit activity. The IIA Standards *require* that internal audit activities obtain an assessment either through an external review or a self-assessment quality assurance review, with an independent validation. The Texas State University System internal audit activity (IA) had an external review in 2013 and chose to conduct a self-assessment quality assurance review with an independent validation in 2016.

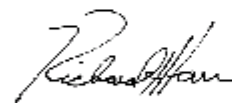
As an independent reviewer, I was engaged to conduct an independent validation of that self-assessment. The primary objective of the validation was to independently verify the assertions made in the System's attached self-assessment report regarding adequate fulfillment of the basic expectations of the IA activity and its conformity to the *IIA Standards*. An additional objective was to provide recommendations that the reviewer deems may be of value to the System IA activity. Matters that might have been reviewed and reported on in an external review, such as an in-depth analysis of best practices, governance, and use of advanced technology, were excluded from the scope of this review.

In acting as validator, I am fully independent of the System and have the necessary knowledge and skills to undertake this engagement. The validation was conducted from August 29th through September 1st, 2016. It consisted primarily of a review and testing of the procedures and documented results of the self-assessment conducted by the System's IA review team. It also included a review of a limited sample of various audit workpapers, an evaluation of responses to surveys distributed to System Administration executives, component Presidents and management, and audit staff, and interviews with the

Finance and Audit Committee Chair of the Board of Regents and the Texas State University System Chancellor.

Opinion

Based upon my interviews, workpaper reviews, and a review of the work conducted by the IA review teams, I concur with the conclusion that the internal audit activity at the System Office of Audits and Analysis (OAA) and the component institutions, **generally conforms** to the applicable IIA Standards and the Texas Internal Auditing Act. This opinion, representing the best possible evaluation, means that there are in place the relevant structures, policies, and procedures, including the processes by which they are applied, that comply with the IIA Standards and the Texas Internal Auditing Act in all material respects. A review of the workpapers documenting the self-assessment conducted by the System's IA review team showed that the review was appropriately documented by the team and the opinion appears to have been objectively developed.



Richard H. Tarr, CIA, CISA

V. Internal Audit Plan for Fiscal Year 2018

The TSUS Office of Audits & Analysis prepares a consolidated audit plan for System Administration and its Components. 29,306 hours have been budgeted for audit activities/projects (including travel and administrative time).

The following is an excerpt applicable to SHSU, followed by a brief description of the risk assessment used to develop the audit plan. The TSUS Board of Regents approved the 2018 Audit Plan on August 17, 2017.



Sam Houston State University

Fiscal Year 2018 Audit Plan

**Kelly R. Bielamowicz, MBA, CPA
Component Director, Office of Audits and Analysis**

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SAM HOUSTON STATE UNIVERSITY FISCAL YEAR 2018 AUDIT PLAN

AUDIT	DESCRIPTION
RISK-BASED AUDITS	
SHSU Online & Correspondence Course Review	Assess the online and correspondence course offerings and related academic advisement procedures.
Other Revenue Sources in Agriculture & Engineering Technology	Assess the sources of other revenue and determine whether processes and controls are in place to help ensure proper accounting for other revenue within the Department of Agriculture & Engineering Technology.
Financial Reporting Processes & Controls – IT Integrated	Determine whether processes and controls are in place to help ensure the accuracy and completeness of financial reporting, and that information systems supporting financial reporting are secure and contain accurate and complete data.
IT – Change Management Processes	Evaluate policies and procedures used to make changes to applications, reports, interfaces, databases, and operating systems; evaluate the controls in place to ensure all changes are authorized, tested, and approved.
IT – Banner Data Classification and Segregation of Duties	Evaluate the processes used to classify critical and sensitive data; assess whether adequate segregation of duties exists.
REQUIRED AUDITS AND ACTIVITIES	
SB 20 – Annual Review	Annual review to determine if rules and policies required under SB 20, 84 th Legislature, have been adopted.
SB 20 – Contract Administration	Risk-based testing of contract administration required under SB 20, 84 th Legislature.
Investments	Biennial review of compliance with the requirements of the Texas Public Funds Investment Act. (Report due December 31 st , 2017)
Benefits Proportionality	Audit of benefits proportionality for fiscal year 2015, 2016, 2017 as required by the General Appropriations Act (Report due August 31 st , 2018).
NCAA Agreed-Upon Procedures	Assist the external auditor with a review of the University's NCAA Athletic financial statement for the fiscal year ended August 31, 2017, as required by the NCAA. (PARTIALLY OUTSOURCED)
Follow-Up Procedures	Follow-up on management's progress in implementing outstanding audit recommendations as required by auditing standards.
Annual Risk Assessment and Audit Plan	Conduct risk assessment activities and prepare the 2019 Audit Plan as required by auditing standards.
Internal Audit Annual Report	Prepare/submit prescriptive report outlining specific audit activities for the preceding fiscal year as required by Government Code 2102.
Continuing Education	Required by Government Code 2102 and auditing standards.
OTHER	
Special Projects	Perform management requested reviews; audits/reviews predicated by unanticipated risks, oversight-entity mandates, and EthicsPoint / SAO Special Investigations Unit referrals; and other activities.
Response to System Requests	Gather information requested by System Administration.

Audit Liaison Activities	Coordinate activities with external audit entities conducting audits within the Texas State University System.
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Risk Assessment Methodology

The Plan was developed through risk assessments deployed at the Components and System Administration. 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 considered a myriad of risks, including, but not limited to, fraud, contract management, benefits proportionality, and information technology risks related to Title 1, Texas Administrative Code, Chapter 202, *Information Security Standards*. We also considered work performed by external auditors, such as the State Auditor's Office in its annual Statewide Single Audit (which includes an audit of Student Financial Aid). Lastly, we considered institutional risk appetites in allocating finite resources to risk-based activities.

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" concerns;
- Networking with other college and university internal auditors and compliance officers regarding emerging issues;
- Reviewing the Components' and the System's consolidated annual financial reports for the most current fiscal year to identify significant financial items;
- Assessing the impact of negative public scrutiny; and
- Utilizing professional judgment and knowledge gained from prior audits regarding the effectiveness of governance, internal control, and risk assessment processes.
- Coordinating with management to identify the risks associated with the University's goals and objectives, in combination with auditor judgement to perform risk-scoring based on several criteria;
- Identifying the applications, IT processes, infrastructure, facilities, locations, and IT major projects that support the key functions at the University and associated risks.

Finite resources precluded the inclusion of all identified high-risk projects in the Plan. Across the TSUS, such high-risk projects encompassed, but were not limited to, certain athletic activities, faculty workloads and overload pay, charter school contracts and activities, safety training, ADA compliance, certain automated controls/processes, health-care programs, recruiting activities, and compliance with various state and federal regulations.

VI. External Audit Services Procured in Fiscal Year 2017

SHSU contracted with Bickley, Prescott, Webb & Wells, PC for the NCAA Agreed Upon Procedures for the Statement of Revenues and Expenditures for the year ended August 31, 2016.

VII. Reporting 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 (85th Legislature), Article IX, Page IX-38:

- 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 SHSU's homepage.

Additionally, there is a link to the State Auditor's fraud reporting hotline on the TSUS webpage and on SHSU's webpage.

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