

**Texas Higher  
Education  
COORDINATING BOARD**

**INTERNAL AUDIT  
ANNUAL REPORT**

**FOR**

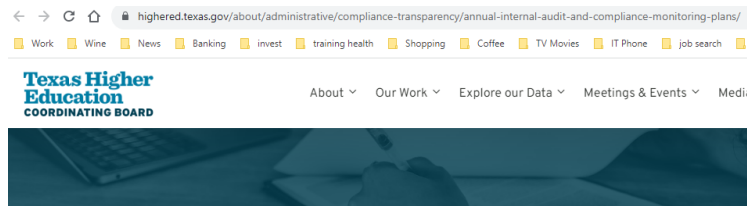
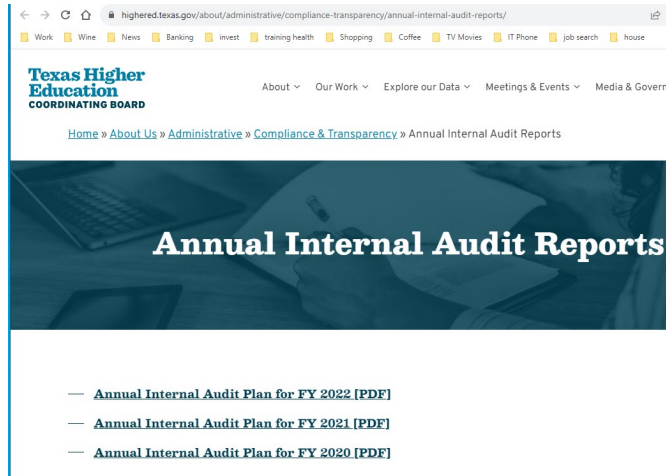
**FISCAL YEAR 2023**

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# Compliance with Texas Government Code, Section 2102.015

Texas Government Code, Section 2102.015 requires state agencies to post on the agency's Internet Web site its internal audit plan, internal audit annual report, and any weaknesses or concerns resulting from the audit plan or annual report. Please see [the Annual Internal Audit Reports](#) and [Annual Internal Audit & Compliance Monitoring Plans](#). The 2023 Internal Audit Annual Report will be posted following its presentation to the board in October 2023.



## Annual Compliance Monitoring Plans

### Annual Internal Audit Plans

- [Annual Internal Audit Plan for FY 2024 \[PDF\]](#)
- [Annual Internal Audit Plan for FY 2023 \[PDF\]](#)
- [Annual Internal Audit Plan for FY 2022 \[PDF\]](#)

## Internal Audit Plan for Fiscal Year 2023

Explanatory Information - The table below indicates the status of FY 22 planned audits, as shown on the approved audit plan, versus those accomplished during the year.

<b>Board-Approved FY 23 Audit Plan</b>	<b>Status of Audit at 8/31/23</b>
Follow Up of Prior Audits	<p>A Follow Up Review of The Audit of The Formula Funding of The Health-Related Institutions (HRI), Report No. THECB-IA-WP-233F Report date: September 19, 2022</p> <p>Internal Audit Corrective Action Status Report FY23 December 2022</p> <p>Internal Audit Follow Up Status Report April 2023</p> <p>IA Corrective Action Status Report - July 2023</p>
Federal Fund Administration-Review and Advisory Services	<p>GEER Funds Administration Review and Advisory Services - Interim Report March 2023 Continuing FY 23 work: In Progress</p>
Information Security - Review and Advisory Services	<p>Data Modernization Initiative Review and Advise -Interim Status Report March 2022 Continuing FY 23 work: In Progress</p>
Review of Purchasing/Procurement Cards,	<p>Review of Purchasing Cards, Report No. THECB-IA-WP-23-246 Report Date: August 31, 2023</p>
Review of Talent Strong Texas Strategic Plan, Report No. THECB-IA-WP-23-248	In Progress
Self-Assessment of Work Quality, Internal Audit, Report No. THECB-IA-WP-23-249	<p>Self-Assessment of Internal Audit Work Quality at THECB for Fiscal Year 2023 Report Date: August 31, 2023</p>

### Contract Audits Performed since Fiscal Year 2015:

1. Fiscal Year 2015:
  - a. Review of Contract Management at The Higher Education Coordinating Board, THECB-IA-WP-14-173, Report date: April 23, 2015.
2. Fiscal Year 2016:
  - a. A Review of Contract Administration, THECB-IA-WP-16-184, Report date: September 14, 2016.
  - b. An Internal Audit Follow Up of Contract Management, THECB-IA-WP-16-185, Report date: September 16, 2016.
3. Fiscal Year 2017:
  - a. An Internal Audit of Contract Administration, THECB-IA-WP-17-195, Report date: December 20, 2017.
4. Fiscal Year 2019:
  - a. A Follow Up Audit of Contract Administration, THECB-IA-WP-19-211, Report date: January 8, 2019.
5. Fiscal Year 2020:
  - a. Complaint Regarding Access to Research Data and Regarding Competitive Grant Vendor Selection, THECB-IA-WP-19-216C, Report date: June 3, 2019.
6. Fiscal Year 2021:
  - a. A Follow Up Audit of Contract Administration, THECB-IA-WP-20-228, Report date: September 18, 2020.
  - b. A Review of Contract Management Administration THECB-IA-WP-20-227, Report date: December 1, 2020.
7. Fiscal Year 2022:
  - a. Contracts related to GEER project was reviewed as part of the Governor's Emergency Education Relief (GEER) Funds Review and Advisory Services-Ongoing, Report No. THECB-IA-WP-22-236.
8. Fiscal Year 2023:
  - a. Contracts related to the GEER project were reviewed as part of GEER Funds Administration Review and Advisory Services - Interim Report March 2023, Report No. THECB-IA-WP-22-236.  
Review of Purchasing Cards, Report No. THECB-IA-WP-23-246, Report date: August 31, 2023.

## **Consulting Engagements and Non-Audit Services Completed**

The Texas Higher Education Coordinating Board internal audit function performed consulting or non-audit services in fiscal year 2023.

### **1. Information Security - Review and Advisory Services**

Reviewed and advised management on the state of governance, risk and controls within and around Information Security.

### **2. Federal Funds Administration - Review and Advisory Services**

Reviewed and advised management on the state of governance, risk and controls within and around federal funds administration.

# External Quality Assurance Review (Peer Review)



## Texas Higher Education Coordinating Board

EXTERNAL QUALITY ASSURANCE REVIEW REPORT

INTERNAL AUDIT  
and  
COMPLIANCE DEPARTMENT

August 2022

Prepared by:  
Richard Tarr, CIA, CISA  
P.O. Box 560716  
Orlando, FL 32856  
Ph/Fax: 407.896.2760  
E-mail: [rtarr@racar.com](mailto:rtarr@racar.com)



## OVERVIEW

A virtual External Quality Assurance (EQA) review was conducted at the Texas Higher Education Coordinating Board (THECB), located in Austin, Texas from July 25 to July 29, 2022, for audits conducted from September 1, 2019, to June 30, 2022.

Texas Government Code § 2102 (Texas Internal Auditing Act) requires an internal audit activity to be in conformance with the Standards for the Professional Practice of Internal Auditing, the Code of Ethics, contained in the Professional Practices Framework as promulgated by the Institute of Internal Auditors (IIA), and with the Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards (GAGAS). These are collectively referred to as the *Standards* in this report.

The overall objective of the EQA review was to determine the extent to which the Internal Audit and Compliance Department (IACD) at THECB is in conformance with the *Standards* and the requirements of the Texas Internal Auditing Act.

The review was performed by Richard Tarr, CIA, CISA, and Elizabeth Stepp, CPA, CIA, CGAP, CRMA who attest that they are fully qualified to conduct this EQA review, and are independent in all respects from THECB and the IACD. The reviewers utilized guidance from both the State Agency Internal Audit Forum (SAIAF) Peer Review Program's assessment tool and the IIA's 2017 "Quality Assessment Manual" which includes the scope of the work evaluations and assessments of the following areas:

- The Internal Audit and Compliance's reporting relationship and the communication the Assistant Commissioner has with the Agency Operating Committee and the Commissioner of Higher Education;
- Existing internal audit policies and procedures;
- The independence and the objectivity of the audit work performed;
- The risk assessment and annual audit planning process;
- The planning process for individual audit projects;



- The audit methodologies used in performing the work;
- A review of a representative sample of audit workpaper files and reports;
- The workpaper documentation that supports the work performed;
- The support 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.

Interviews were also conducted with selected individuals, who included, among others: the THECB Board Chair; the Chair of the Agency Operating Committee (AOC); the Commissioner of Higher Education; the Assistant Commissioner of Internal Audit and Compliance; and the IACD staff.

It is important to note that the *Standards* are expressed in terms of broad concepts and objectives rather than detailed procedures, and their application requires the exercise of professional judgment by the review team. The extent of internal audit policies and procedures and how they are implemented will depend upon several factors such as the expectations of the organization's board or governing body and senior management, the audit activity's size and organizational structure, the nature of its audit responsibilities, and its philosophy concerning the degree of operating autonomy appropriate for its staff.

The *Standards* require that this report must be sent to the Chair of the Board, the Chair of the Agency Operating Committee, and The Commissioner of Higher Education.

OPINION

Based on the work outlined above, it is the review team's opinion concerning:

The IIA Standards:

For the period under review, the internal audit activity at the THECB "Generally Conforms" to the IIA Standards, and the Code of Ethics. This is the top rating provided within the IIA guidance, with the others being "Partially Conforms" and "Does Not Conform". The review team has also identified opportunities for further enhancing the internal audit activity, the details of which are provided in this report.

The GAO Standards:

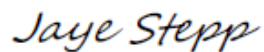
For the period under review, the IACD at the THECB has in place, in all material respects, appropriate processes and procedures to receive a Peer Review Rating of "Pass". This rating is the highest of the three ratings provided within the GAO Standards, with the other ratings being "Pass with Deficiencies", and "Fail".

The Texas Internal Auditing Act:

As of July 29, 2022, the internal auditing activity at the THECB conforms to all requirements of the Texas Internal Auditing Act.



Richard H. Tarr, CIA, CISA  
External Quality Assurance Team Lead



Elizabeth J. Stepp, CPA, CIA, CGAP, CRMA  
External Quality Assurance Team Member

## OBSERVATIONS

The Assistant Commissioner of Internal Audit and Compliance is a CPA (Certified Public Accountant), a CIA (Certified Internal Auditor), a CISA (Certified Information Systems Auditor), and a CFE (Certified Fraud Examiner) with extensive auditing experience in higher education; is effectively managing the IACD; has a good working relationship with the AOC and is well respected by senior executives at the agency. He is also well respected by the IACD staff. He reports functionally to the AOC and administratively to the Commissioner for Higher Education as required by the Texas Internal Auditing Act.

The IACD has a strong Internal Audit Charter that authorizes the staff to: have full, free, and unrestricted access to all functions, records, property, and personnel; allocate resources; have full and free access to the AOC; set audit frequencies; select audit subjects; determine the scope of work and apply the techniques required to accomplish audit objectives. All of these are requirements of the *Standards*. Also, the AOC must approve decisions regarding the appointment and removal of the IACD Assistant Commissioner. This enables the IACD to be very independent and capable of rendering objective assessments and conclusions when conducting their work. The department also has a very well-thought-out, risk-based annual audit planning process that is approved by the AOC for both internal agency audits and compliance audits at the higher educational components.

The interviews conducted with the Board Chair, the AOC Chair, and the Commissioner of Higher Education, indicated that there is strong support for the scope and type of audit work the IACD conducts. A confidential survey of IACD audit customers conducted during the review rated the department excellent and good on 18 different criteria. This is a very positive rating and speaks well of the professionalism and ability of the Assistant Commissioner and the audit staff.

A sample of audit workpapers was reviewed and verified that the conclusions and opinions communicated in the audit reports that are issued are appropriately supported. The audit projects were appropriately planned and the work performed was adequately documented following the *Standards*. There was evidence in the workpapers that the audit work was conducted at a very professional level. The audit programs were appropriately referenced in the audit steps. The tests performed during the audits and the conclusions contained in the audit reports were supported by the work documented in the workpapers. There was evidence that the workpapers are thoroughly reviewed by someone other than the person who performed the work. The Assistant Director reviews all the workpapers and the audit reports and the Assistant Commissioner reviews audit reports before they are issued.

#### OPPORTUNITIES FOR IMPROVEMENT

While the internal audit activity at THECB generally conforms to the *Standards*, the following comments and recommendations are intended to build on the foundation that is already in place to further improve the efficacy and value of the audit work being performed. These are not intended to correct any lack of conformance with the *Standards*. They are operational ideas based on the experiences of the external review team from working with other internal audit activities.

1. IACD would benefit from assigning direct supervision of the Compliance Monitoring, and Federal Compliance functions.

Currently, there is an Assistant Director that provides oversight over five Compliance Monitoring staff and two Internal Audit staff positions. The Assistant Director also provides direct supervision to three Federal Compliance Specialists. The Assistant Director position was created when the Senior Internal Auditor was promoted to allow the Assistant Commissioner the time to focus on higher-level concerns at the Board, Commissioner, and Agency levels.

However, while this has worked well in ensuring the quality of the audit and compliance work as required by the *Standards*, it has reduced the staff resources available for internal audit projects and increased the span of control and oversight responsibilities for the Assistant Director.

With a compliance monitoring staff of five, consideration should be given to alternatives to enhance oversight over the Compliance Monitoring team, to better balance the management and oversight of the internal audit and compliance functions. This would also free up time for the Assistant Director, who is a Certified Internal Auditor, to provide additional consulting assistance, as well as, provide someone in the department the opportunity to gain experience overseeing the Compliance Monitoring team.

*Response:*

*We agree that further consideration should be given to enhance oversight over the Compliance Monitoring team, to better balance the management and oversight of the internal audit and compliance functions.*

*We will continue to provide additional leadership and management responsibilities to others on the team, particularly senior members of the Compliance Monitoring team.*

**2. Provide the Agency Operations Committee and the Commissioner with a periodic summary report on the status of audit recommendations.**

Currently, IACD creates and distributes individual follow-up reports on the status of previous audit recommendations for audits and compliance projects conducted at the agency and the institutions of higher education. While the *Standards* require that the IACD follow up and report on the disposition of audit and compliance reports, preparing and distributing individual follow-up reports to the Agency Operations Committee and the Commissioner is time-consuming for the IACD.

These reports make it difficult for the board and Commissioner to get an oversight view of where there may be delays or issues that would need their attention.

It would be more efficient and effective if IACD maintained and distributed an ongoing status report that tracked all outstanding recommendations either from compliance reviews, desk reviews or agency audits to the Agency Operations Committee and the Commissioner.

This status report could be used in conjunction with individual reports as warranted, and would better enable the committee to know whether agreed-to audit recommendations are being implemented. Important elements that could be communicated include a brief description of the recommendation; the date the recommendation was agreed to be implemented; whether or not it has been implemented; and the name of the person directly responsible for implementation. Color coding could be used for the status of the implementation. "Completed" recommendations could be color coded as green, "in process" coded as yellow, and "past due" coded as red. This report would make it easier for the Agency Operations Committee and the Commissioner to stay current overall on the status of recommendations at both the agency level and at the institution of higher education level without having to read through numerous individual reports.

*Response:*

*We agree that a status report that tracks outstanding recommendations would be beneficial.*

*We are currently reviewing alternatives for reporting, with one option of including an additional section in the Internal Audit update and Compliance Monitoring update.*

**3. The THECB needs to add additional staff with information technology (IT) skills to the IACD internal audit staff.**

THECB relies heavily on its information systems, which manage and support the infrastructure of practically all of the agency's major business and program processes. As this reliance continues to grow, the agency continues to move forward with its Data Modernization Project and continues to make sizable investments in both new IT systems as well as the maintenance of legacy systems. The IACD needs to grow its ability to conduct audits of this technology. IACD presently has two experienced internal audit staff, however, considerable time is spent administering the TeamMate software tool used by the department to manage the staff's workpaper files.

To adequately audit the current and future scope of IT risks that exist throughout the agency, additional experienced internal audit staff with information technology skills need to be added. While it is a challenge for an internal audit department to attract and maintain auditors with IT audit skills, knowledge, and experience, the department should endeavor to do so.

*Response:*

*We agree that the agency would benefit from additional experienced internal audit staff with information technology skills to audit the current and future scope of IT risks that exist throughout the Agency. The immediate need due to significant changes in the agency's information technology landscape is well apparent. We also agree that the agency's information technology landscape will not diminish and will continue to be a driver of the agency's strategies moving forward*

*We will coordinate with the Commissioner and executive staff to identify resources for an additional position.*

4. **IACD needs to acquire automated file extract and analysis tools and develop the ability to conduct continuous monitoring/auditing and data analytic techniques.**

One of the most significant changes that have occurred in the internal auditing profession in the last decade is the extent to which auditors now recognize the importance of data analysis and the automation of audit and control testing procedures through the use of information technology (IT) tools. Traditionally, an auditing department's testing of controls and compliance has been performed on a retrospective and cyclical basis, often months after business activities have occurred. Testing procedures are often based on a sampling approach and have included activities such as manual reviews of transactions, policies, procedures, approvals, and reconciliations. This approach has only afforded auditors a narrow scope of evaluation and can be late in heading off errors in business performance or regulatory compliance.

Continuous auditing and data analysis are methods that can be used to perform control and risk assessments automatically on a more frequent basis. The use of IT tools, like the IDEA extract software tool, is the key to enabling this approach. Using continuous auditing will allow auditors to more fully understand critical control points, rules, and exceptions. Data analysis will enable auditors to perform control and risk assessments on a timelier basis. Auditors will be able to analyze key business systems for both anomalies at the transaction level and data-driven indicators of control deficiencies and emerging risks. Continuous auditing will enable the integration of analysis results into the risk assessment process, from the development and maintenance of audit plans to the follow-up of specific audits.

IACD currently uses Microsoft Excel to analyze and evaluate data sets. While this tool has been used successfully in many circumstances, there are limitations to



its usefulness. These limitations include the size of data sets that can be analyzed and the lack of built-in functions that are specifically designed to make audit-oriented data analysis easier to perform.

*Response:*

*We agree that the agency would benefit from additional information technology (IT) tools for data analysis and automation of audit and control testing procedures. The use of IT tools, like the IDEA extract software tool, would allow auditors to better understand critical control points, rules, and exceptions, enabling auditors to perform improved control and risk assessments.*

*We have initiated additional reviews of capabilities and costs of available information technology software, including the IDEA extract tool.*

**5. IACD's Internal Audit Charter should be updated and approved by the Agency Operations Committee.**

IIA Standard 1000 – Purpose, Authority, and Responsibility requires that the Internal Audit Charter that defines the internal audit activity's purpose, authority, and responsibility must be periodically reviewed and approved by senior management and the governing board. The current Internal Audit Charter was last reviewed and approved by the THECB Board Chair, the Commissioner of Higher Education, and the IACD Assistant Commissioner in 2018.

*Response:*

*We agree that IACD's Internal Audit Charter should be updated and approved by the Agency Operations Committee.*

*We are preparing an updated Charter for review and will schedule the Charter to be reviewed periodically, for example, either annually or once every three years.*

**6. IACD should explore developing an incentive program that would encourage its staff to be certified in internal auditing.**

While the Assistant Commissioner, the Assistant Director, and the internal audit staff all have audit certifications, some more than one, only two of the eight compliance staff have audit certifications. Generally Accepted Government Auditing Standards state that “The audit organization should have a process for recruitment, hiring, continuous development, assignment, and evaluation of personnel so that the workforce has the essential knowledge, skills, and abilities necessary to conduct the engagement. Acquiring a professional certification verifies someone’s knowledge, skills, and abilities to perform a specific job, and underscores the confidence that can be placed on the work that is performed.

An incentive program would encourage the staff to obtain an audit certification that would not only attest to their competency and integrity but also support a commitment by IACD to ongoing professional development.

*Response:*

*We agree that staff needs to be further encouraged to obtain audit certifications that would not only attest to their competency and integrity but also support a commitment by IACD to ongoing professional development.*

*We will continue to explore ways to encourage staff to obtain audit certifications that work within the current professional development and performance review process or other possible reimbursement pathways.*

# Internal Audit Plan for Fiscal Year 2024

## TEXAS HIGHER EDUCATION COORDINATING BOARD

### INTERNAL AUDIT & COMPLIANCE MONITORING

#### Annual Internal Audit Plan for Fiscal Year (FY) 2024

The Texas Internal Auditing Act requires state agency internal auditors to conduct a program of auditing that includes an annual audit plan, is prepared using risk assessment techniques, and identifies the individual audits to be conducted during the year. The following proposed plan meets the requirements of the Texas Internal Auditing Act.

Specific risk factors were considered as they apply to the agency's significant operational activities. These risk factors included:

- financial significance;
- reputational significance and visibility;
- complexity, inherent risk, and the potential for abuse;
- prior audit and compliance monitoring results as an indicator of control effectiveness;
- audit recency – internal audit, compliance monitoring (as applicable), KPMG, SAO, and/or Federal auditors; and
- changes in mission or key management.

A risk-ranked listing of significant operational activities became the basis for the audits proposed for consideration herein.

<b>Required and Risk-Based Audits</b>	<b>Prior Year Hours</b>	<b>Estimated FY24 Hours</b>	<b>%</b>
1. Follow-Up of Prior Audits: <i>Assess the implementation status of previously reported recommendations by Internal Audit, including the CRAFT application, DMI, GEER, and the status of recommendations made by other external auditors, as necessary.</i>	160	160	5%
2. Carry Forward of Remaining 2023 Projects: <i>Carry forward of remaining work for FY 2023 projects.</i>	160	160	5%

<b>Required and Risk-Based Audits, Continued</b>	<b>Prior Year Hours</b>	<b>Estimated FY24 Hours</b>	<b>%</b>
3. Internal Audit Performance Measures and Quality Assurance: <i>Monitor performance measures for Internal Audit and perform ongoing quality assurance measures.</i>	200	200	6%
4. Self-Assessment of Work Quality, Internal Audit: <i>Perform a self-assessment of Internal Audit work quality, in accordance with the requirements of professional auditing standards.</i>	160	160	5%
5. Investigations: <i>Texas Government Code, Chapter 321.022, Coordination of Investigations, requires the coordination of investigations between the agency and the Texas State Auditor's Office. If the administrative head of an agency that is subject to audit by the state auditor has reasonable cause to believe that money received from the state by the agency or by a client/department of the agency may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the agency, the administrative head shall report the reason and basis for the belief to the state auditor. The state auditor may investigate the report or may monitor any investigation conducted by the agency.</i>	300	300	9%
6. Provide Assistance - External Audit of Agency Financial Statements: <i>Internal Audit provides 80 hours of audit support to reduce external audit fees and to increase the level of knowledge of external auditors' assessment of the agency's financial statements and associated risks.</i>	80	80	3%
7. Grant Funds Administration - Review and Advisory Services: <i>Review and advise management on the state of governance, risk, and controls within and around grant funds administration including a review of implementation of new or revised grants.</i>	450	450	14%

<b>Required and Risk-Based Audits, Continued</b>	<b>Prior Year Hours</b>	<b>Estimated FY24 Hours</b>	<b>%</b>
8. Information Security - Review and Advisory Services: <i>Review and advise management on the state of governance, risk, and controls within and around information security for selected initiatives, programs, or applications. Areas of significant change include the Data Modernization Initiative, the student loan system, and implementation of the CAPPs financial module.</i>	650	650	21%
9. Audit of Contract Management Administration: <i>Audit of agency contract administration process for compliance with laws, regulations, policies, and procedures. (Prior Year Hours were from Review of purchasing cards project)</i>	490	500	16%
10. Audit of Grant Research funding: <i>Audit of TRIP program with a focus on review of supporting documentation at two or more institutions. (Prior Year Hours were from Review of Building a Talent Strong Texas project)</i>	460	500	16%
<b>Total Hours - Required and Risk-Based Audits</b>	<b>3110</b>	<b>3160</b>	<b>100%</b>

## **External Audit Services Procured in Fiscal Year 2023**

The agency contracted with KPMG, LLP, to perform an independent audit of the agency's Fiscal Year 2022 and Fiscal Year 2023 Financial Statements. As part of the agreement, the agency provided 80 hours per year of internal audit staff support to KPMG, LLP.

### **Reporting Suspected Fraud and Abuse**

Actions taken by the agency to address the requirements of Section 7.10. Fraud Reporting, General Appropriations Act (82nd Legislature), Article IX and Government Code, Section 321.022.Coordination of Investigations, include:

- 1) Established a fraud prevention policy and posted the policy on the agency intranet for the employees. The policy encourages reporting of suspected violations to the State Auditor's Office Fraud Hotline.
- 2) Established a link to the State Auditor's Office Fraud Hotline on the agency's home page to enable the general public or employees to report suspected fraud or misconduct directly to the State Auditor's Office.
- 3) Coordinated with the Special Investigations Unit of the State Auditor's Office to investigate suspected fraud.
- 4) Provided ethics-related information to all new employees as part of the orientation process.