MIDWESTERN STATE UNIVERSITY

ANNUAL INTERNAL AUDIT REPORT

For the Fiscal Year Ended

AUGUST 31, 2015

Office of Internal Audits
3410 Taft Boulevard   Wichita Falls, Texas 76308

Leigh Kidwell, CPA, CGMA, Director
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I. Executive Summary

The purpose of this annual audit report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. Additionally, the annual report assists central oversight agencies with planning and coordinating their work efforts. It is submitted in compliance with the Texas Internal Auditing Act (Texas Government Code, Chapter 2102) and the rules and regulations of the Board of Regents of Midwestern State University.

The Office of Internal Audits provides independent, objective assessments and contributes to the University’s improvement of governance, risk management and internal controls. The primary objective is to assist the Board of Regents, the President, and university management in effectively discharging their responsibilities.

Fiscal year 2015 was a year of change for the Office of Internal Audits. The External Quality Assurance (Peer) Review report was issued containing multiple recommendations. All audit resources were focused during the second half of the year on implementing the peer review recommendations including updating the Office of Internal Audits’ Charter, giving the Board of Regents the authority to appoint and remove the internal auditor, increasing internal audit resources, and approving a three year plan for moving towards full compliance with audit standards. Personnel changes were also made due to the resignation of the internal auditor effective July 31, 2015.

Upon approval by the Board of Regents, this report will be distributed to the State Auditor’s Office, the Office of the Governor, the Legislative Budget Board, and the Sunset Advisory Commission.

II. Compliance with Texas Government Code, Section 2102.015

Texas Government Code, Section 2102.015, requires higher education institutions to post certain information on their internet websites within 30 days after approval. Both the fiscal year 2015 internal audit annual report and the fiscal year 2016 audit plan are required to be on the website. It also requires higher education institutions to update the website postings to include detailed summaries of weaknesses, deficiencies, wrongdoings, or other concerns, if any, raised by the audit plan or annual report, and summaries of the actions taken by the institution to address concerns, if any, that are raised by the audit plan or annual report.

In order to comply with Texas Government Code, Section 2102.015, the University’s fiscal year 2015 internal audit annual report will be posted within 30 days after Board of Regents’ approval, on www.mwsu.edu. The Office of Internal Audits does not currently have a separate page on the University’s website. However, building a separate page is in the planning stages.
III. Compliance with the Benefits Proportionality Audit Requirements

On May 29, 2014, Governor Rick Perry sent a letter requesting that all institutions of higher education have their internal auditor perform work to determine whether “proportionality is being applied according to the established guidelines” set forth in Article IX, Section 6.08 of the General Appropriations Act. The audit results were to be sent to the governor’s office.

The Office of Internal Audits performed this requested audit for fiscal years 2011, 2012 and 2013. Report 15-02, *Audit on Benefits Proportional by Fund*, was issued on November 14, 2014. It found the University complied with the provisions and guidelines for reporting benefits proportional by fund and that no excess General Revenue was received due to noncompliance with the proportionality requirements.

Rider 8, page III-39, General Appropriations Act (84th Legislature) requires each higher education institution to conduct an internal audit of benefits proportional by fund as well as the following:

- The audit must be conducted using the methodology approved by the State Auditor’s Office (SAO).
- The audit must examine fiscal years 2012 through 2014.
- A copy of the audit report must be submitted to the Legislative Budget Board, the Comptroller of Public Accounts and the SAO no later than August 31, 2016.
- If the audit identifies excess receipts of General Revenue due to noncompliance with the proportionality requirements provided by Section 6.08, page IX-27, the institution must submit a reimbursement payment to the Comptroller of Public Accounts within two years from the conclusion of the audit.
- Higher education institutions must consider audits of benefits proportionality when developing their annual internal audit plans for fiscal years 2016 and 2017.

The University engaged with SAO on July 17, 2015, for an Audit of Benefits Proportionality at Higher Education Institutions for fiscal year 2014. To avoid duplication of efforts, an internal audit of benefits proportionality was not included in the fiscal year 2016 audit plan.

A draft of the SAO’s Audit Report on Benefits Proportionality at Higher Education Institutions was received on April 14, 2016. They concluded the University complied with the State’s proportionality requirements during fiscal year 2014.

IV. Internal Audit Plan for Fiscal Year 2015

The FY 2015 internal audit plan was approved by the Board of Regents on November 6, 2014. It is intended to be flexible and updated if necessary. The available hours are approximately 1,840 accounting for one full time auditor after reductions for university holidays, vacation and sick leave. Audit activities will be conducted in a way to ensure independence for the Office. An annual risk assessment will also be conducted. Any special projects will be conducted if requested by the Board of Regents, the President or management.
<table>
<thead>
<tr>
<th>Audit Plan FY 2015</th>
<th>Estimated Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consulting Activities:</strong></td>
<td></td>
</tr>
<tr>
<td>In an effort to leverage human resources, Internal Audit will spend a significant amount of time this year to educate and train various high risk departments on campus. This will include: NCAA, VAWA, Cyber Security, Construction Auditing, etc.</td>
<td>500</td>
</tr>
<tr>
<td><strong>Compliance Activities:</strong></td>
<td></td>
</tr>
<tr>
<td>Texas Administration Code requires an assessment of IT every two years. We plan to conduct this review in house with internal audit, although external consultants may also be used. IT and Cyber Security will be a strong focus this year.</td>
<td>400</td>
</tr>
<tr>
<td><strong>Quarterly Investment Reports:</strong></td>
<td></td>
</tr>
<tr>
<td>This audit is statutorily required for all entities that invest in other than money market mutual funds, investment pools, and certificates of deposit.</td>
<td>200</td>
</tr>
<tr>
<td><strong>External Auditor Coordination:</strong></td>
<td></td>
</tr>
<tr>
<td>The State Auditor’s Office and State Comptroller routinely depends and relies on internal auditors to accomplish their annual audit plans. Hours are being reserved to assist them as requested.</td>
<td>200</td>
</tr>
<tr>
<td><strong>Annual Risk Analysis/Audit Plan:</strong></td>
<td></td>
</tr>
<tr>
<td>Ongoing activities, such as interviews with management, distribution of internal control questionnaires, and reviews of management reports from throughout the university will be done to ensure adequate identification and consideration of all risks for future review.</td>
<td>200</td>
</tr>
<tr>
<td><strong>Participation in Board Meetings and Management Committees:</strong></td>
<td></td>
</tr>
<tr>
<td>The internal auditor will attend all Board of Regents meetings and participate in selected committees as requested or deemed appropriate. Regular meetings are also held with the President.</td>
<td>100</td>
</tr>
<tr>
<td><strong>Administrative:</strong></td>
<td></td>
</tr>
<tr>
<td>Hours are being accounted for and reserved for such matters as ensuring compliance with auditing standards, involvement with professional organizations, training, annual reports, and general administrative duties.</td>
<td>240</td>
</tr>
<tr>
<td><strong>Total Hours Budgeted</strong></td>
<td>1,840</td>
</tr>
</tbody>
</table>

The audits completed during fiscal year 2015 are listed below. The hours spent on each focus area have been estimated. All internal audit resources during the second half of the fiscal year were spent reviewing and implementing the peer review recommendations. No resources were allocated to the Texas Administration Code (TAC) 202 Assessment to determine if the University’s information security program was in compliance. A TAC 202 audit will be performed during fiscal year 2016.
The Office of Internal Audits did not perform any consulting services as defined by the Institute of Internal Auditors’ (IIA) standards or non-audit services as defined by Generally Accepted Governmental Auditing Standards (GAGAS).

<table>
<thead>
<tr>
<th>Actual Audit Focus Areas FY 2015</th>
<th>Estimated Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Compliance Activities:</strong></td>
<td></td>
</tr>
<tr>
<td>Report No. 15-01, Audit of Joint Admission Medical Program (JAMP) was issued in November 2014. Expenditures for fiscal years 2013 and 2014, made on behalf of the Joint Admission Medical Program were found to be appropriate in accordance with JAMP expenditure guidelines. No other findings or recommendations were reported.</td>
<td>100</td>
</tr>
<tr>
<td>Report No. 15-02, Audit on Benefits Proportional by Fund was issued in November 2014. No excess General Revenue was received by the University due to noncompliance during fiscal years 2011, 2012 or 2013. No other findings or recommendations were reported.</td>
<td>200</td>
</tr>
<tr>
<td>Report No. 14-01, Audit of Compliance with the Public Funds Investment Act was issued in September 2014. The majority of audit work was performed in the previous fiscal year but reported to the Board of Regents during FY 2015. The University’s controls were found to be effective in safeguarding assets, ensuring proper conduct over investment activities, preventing conflicts of interest, and limiting political or personal interference with investment decisions. No other findings or recommendations were reported.</td>
<td>40</td>
</tr>
<tr>
<td><strong>Participation in Board Meetings:</strong></td>
<td></td>
</tr>
<tr>
<td>Attended all Board of Regents meetings, and met regularly with the President.</td>
<td>100</td>
</tr>
<tr>
<td><strong>Administrative:</strong></td>
<td></td>
</tr>
<tr>
<td>Involvement with professional organizations, training, preparation of annual reports, and general administrative duties.</td>
<td>240</td>
</tr>
<tr>
<td><strong>Total Hours Actual Audit Focus Areas FY 2015</strong></td>
<td><strong>680</strong></td>
</tr>
</tbody>
</table>

V. Consulting Services and Non-audit Services

The Office of Internal Audits did not perform any consulting services as defined by the Institute of Internal Auditors’ (IIA) standards or non-audit services as defined by Generally Accepted Governmental Auditing Standards (GAGAS).
Other services performed are listed below.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attend various management meetings and committee meetings.</td>
<td>Provide guidance on strengthening internal controls, report independent observations and provide expertise.</td>
</tr>
<tr>
<td>Other Special Projects</td>
<td>Provide information and analysis.</td>
</tr>
</tbody>
</table>

VI. External Quality Assurance (Peer) Review

Internal audit departments are required to comply with auditing standards consistent with those established by the Institute of Internal Auditors (IIA), Generally Accepted Governmental Auditing Standards (GAGAS) and The Texas Internal Auditing Act (the Act). These established auditing standards require the performance of an external assessment at least once every three years by a qualified, independent reviewer from outside the university.

The University has undergone peer reviews in the past but the last one was longer than three years ago. To get into compliance, the Office of Internal Audits requested a peer review during FY 2014. The onsite fieldwork began in July 2014 and the final report was issued in October 2014.

The peer review rating system uses three levels of conformance: generally conforms, partially conforms and does not conform.

- *Generally conforms* means the university has policies, procedures, and an audit charter that were judged to be in accordance with applicable standards; however, opportunities for improvement may exist.

- *Partially conforms* means deficiencies, while they might impair, did not prohibit the university from carrying out its responsibilities.

- *Does not conform* means deficiencies in practice were found that were considered so significant as to seriously impair or prohibit the university in carrying out its responsibilities.

The 2014 peer review was performed by the Director of Audit Services for Stephen F. Austin State University, and the Director of Internal Audits for Texas Woman’s University. It was conducted in accordance with the State Agency Internal Audit Forum peer Review Guidelines using the Master Peer Review Program. They reviewed audit activities for the three year period ended December 31, 2013.

In the reviewer’s opinion, the Office of Internal Audits *partially conforms* to the Standards for the period under review. The entire report is copied in Appendix A.
Peer review findings and recommendations for each section of the *International Standards for the Professional Practice of Internal Auditing*, IIA Code of Ethics, and Texas Internal Auditing Act are listed below along with the current status of each recommendation.

<table>
<thead>
<tr>
<th>Peer Review Objective</th>
<th>Findings &amp; Recommendations</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attribute Standard 1000 - Purpose, Authority, and Responsibility &amp; 1100 - Independence and Objectivity.</td>
<td>Partially Conforms: update needed to internal audit charter, it should reflect Regents authority to appoint and remove internal auditor, add consulting and non-assurance services to charter.</td>
<td>Fully Implemented</td>
</tr>
<tr>
<td>Attribute Standard 1100 - Independence and Objectivity.</td>
<td>Partially Conforms: internal auditor should annually confirm the organizational independence, document policies and procedures for independence, legal and ethical requirements.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Attribute Standard 1200 - Proficiency and Due Professional Care.</td>
<td>Partially Conforms: audit plans did not include an information technology related audit, auditor should also document a risk assessment of key information technology risks.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Attribute Standard 1300 - Quality Assurance and Improvement Program</td>
<td>Does Not Conform: An external quality assurance review is required every three years.</td>
<td>Fully Implemented</td>
</tr>
<tr>
<td>Attribute Standard 1300 - Quality Assurance and Improvement Program with information technology risks.</td>
<td>Does Not Conform: internal auditor should regularly perform an internal quality assessment review.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Performance Standard 2000 - Managing the Internal Audit Activity.</td>
<td>Partially Conforms: internal audit department does not have written policies and procedures to guide the internal audit activity.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Performance Standard 2000 - Managing the Internal Audit Activity</td>
<td>Partially Conforms: the fiscal year 2013 annual report as required by the Texas Internal Auditing Act was not submitted.</td>
<td>Fully Implemented</td>
</tr>
<tr>
<td>Performance Standard 2100 - Nature of Work.</td>
<td>Partially Conforms: should increase audit coverage to ensure periodic audits of major systems and controls; governance processes, ethics related objectives; and information technology governance.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Performance Standard 2300 - Performing the Engagement</td>
<td>Partially Conforms: internal audit department needs a process for work paper supervision and review. Audit work paper review could be enhanced by the use of electronic audit work paper system.</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Performance Standard 2500 - Monitoring Progress.</td>
<td>Does Not Conform: should establish and maintain a follow-up system to monitor the disposition of results communicated to management.</td>
<td>Ongoing</td>
</tr>
</tbody>
</table>

The internal auditor, the University President and the Board of Regents had multiple discussions to address the peer review recommendations. All audit resources were focused for the remainder of the fiscal year on implementing the recommendations and making the changes necessary to move towards full compliance with audit standards.
The Board of Regents increased the internal audit resources and approved a three year plan to implement all recommendations including outsourcing technical or complex audits, changing the audit department structure and purchasing audit software. Not all of the plan’s first year items were fully implemented due to the resignation of the internal auditor effective July 31, 2015. The plan’s remaining first year items and the second year items are ongoing with implementation through the remainder of 2016.

VII: Internal Audit Plan for Fiscal Year 2016

At their August 6, 2015 meeting, the Board of Regents delayed taking action on a FY 2016 audit plan until the vacant internal audit position was filled.

A Director of Internal Audits was hired mid-February 2016. This audit plan for the remainder of FY 2016 will be presented to the Board of Regents at the May 12, 2016 meeting. Allocable time after consideration of University holidays, vacation and sick leave is approximately 1,100 hours. One audit has been scheduled, The Texas Administration Code (TAC) 202 Assessment.

<table>
<thead>
<tr>
<th>Project</th>
<th>Description</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance Audit</td>
<td>TAC 202 – information security program audit; includes meetings with IT, consultations with external auditors, report review, and monitoring disposition of any findings</td>
<td>300</td>
</tr>
<tr>
<td>Special Projects</td>
<td>Compliance and Ethics Program – facilitate creation of policies, creation of compliance matrix &amp; calendars, attending committee meetings as required by SB 20 (84th Legislature).</td>
<td>200</td>
</tr>
<tr>
<td>Special Projects</td>
<td>Others – based on requests from Board of Regents, the President or management</td>
<td>60</td>
</tr>
<tr>
<td>Meetings</td>
<td>Board of Regents – preparation and attendance</td>
<td>40</td>
</tr>
<tr>
<td>Meetings</td>
<td>Others – attend meetings and events as deemed necessary</td>
<td>24</td>
</tr>
<tr>
<td>Department Activities</td>
<td>Preparation of Annual Audit Plan and Report</td>
<td>100</td>
</tr>
<tr>
<td>Department Activities</td>
<td>Creation of an internal audit mission statement, web page, and policies.</td>
<td>200</td>
</tr>
<tr>
<td>Department Activities</td>
<td>Research and purchase audit software.</td>
<td>40</td>
</tr>
<tr>
<td>Department Activities</td>
<td>Professional development, maintain certifications, training and travel.</td>
<td>96</td>
</tr>
<tr>
<td>Department Activities</td>
<td>General and administrative tasks; planning, purchasing, scheduling, etc.</td>
<td>40</td>
</tr>
<tr>
<td><strong>TOTAL ALLOCATED HOURS</strong></td>
<td></td>
<td><strong>1,100</strong></td>
</tr>
<tr>
<td><strong>TOTAL ANNUAL HOURS</strong></td>
<td></td>
<td>1,144</td>
</tr>
<tr>
<td>Less estimated hours for:</td>
<td>University holidays, vacation, sick time</td>
<td>(44)</td>
</tr>
<tr>
<td><strong>TOTAL AVAILABLE HOURS</strong></td>
<td></td>
<td><strong>1,100</strong></td>
</tr>
</tbody>
</table>
VIII:  External Audit Services

One external audit service was procured during fiscal year 2015. Schultz & Company, PC, performed an agreed-upon procedures engagement as required by the National Collegiate Athletic Association (NCAA) as of August 31, 2014.

IX:  Reporting Suspected Fraud and Abuse

To comply with the fraud reporting requirements of Section 7.09, page IX-37, the General Appropriations Act (84th Legislature), and the investigation coordination requirements of Texas Government Code, Section 321.022, the University has taken the following actions:

- The University’s website has a Fraud Reporting web page with instructions for reporting suspected fraud, waste, and abuse.
- The Fraud Reporting web page provides the phone number for the State Auditor’s Office and a direct link to their hotline.
- New employee orientation includes a review of University policies on standards of conduct for state employees and ethics.

A new, anonymous hotline reporting system for the University went live in December 2015, providing another tool to detect fraud and helping to create and maintain an ethical workplace. The NAVEX Global hotline service, EthicsPoint, offers toll free telephone and internet reporting 24/7. The University’s Fraud Reporting web page provides the EthicsPoint phone number and a direct link to their website.

X:  Appendices
Appendix A: Peer Review Report

October 23, 2014

Mr. Mike Taylor
Office of the Internal Auditor
Midwestern State University
3410 Taft Boulevard
Wichita Falls, TX 76308

Dear Mr. Taylor:

At your request, we performed a quality assurance review of the Midwestern State University Internal Audit Department (MSUIA) to assess compliance with the following in effect at the time the audits were conducted:

- Texas Internal Auditing Act (Tex. Gov't. Code Chapter 2102);
- Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing; and
- U.S. Government Accountability Office Generally Accepted Government Auditing Standards.

These are collectively referred to as the Standards for purposes of this review.

The quality assurance review was performed by Gina Oglesbee, Director of Audit Services for Stephen F. Austin State University, and Andrew S. Groover, Director of Internal Audits for Texas Woman's University, with onsite fieldwork conducted July 21-23, 2014.

The review was conducted in accordance with the State Agency Internal Audit Forum Peer Review Guidelines using the Master Peer Review Program. It included audit activities for the three year period ended December 31, 2013.

Overall Opinion

The rating system that was used for expressing an opinion for this review provides for three levels of conformance: generally conforms, partially confirms, and does not conform.
Generally conforms means that MSUIA has policies, procedures, and an audit charter that were judged to be in accordance with applicable standards; however, opportunities for improvement may exist.

Partially conforms means deficiencies, while they might impair, did not prohibit MSUIA from carrying out its responsibilities.

Does not conform means deficiencies in practice were found that were considered so significant as to seriously impair or prohibit MSUIA in carrying out its responsibilities.

In our opinion, Midwestern State University Internal Audit Department partially conforms to the Standards for the period under review.

Introduction

The Texas Internal Auditing Act requires MSUIA to conform to standards established by the Institute of Internal Auditors (IIA) and the U.S. Government Accountability Office (GAO). The International Standards for the Professional Practice of Internal Auditing, promulgated by the IIA, require external assessments to be performed at least once every five years by a qualified, independent reviewer or review team from outside the organization. The Generally Accepted Government Auditing Standards (GAGAS) issued by the GAO require an external assessment at least every three years. The Texas Internal Auditing Act also requires an external assessment every three years.

This report represents the results of the external quality assurance review that we conducted. The objectives were to assess the level of MSUIA's compliance with the standards and identify opportunities to enhance its operations.

Scope

The scope of the review included:

- Review of self-assessment materials prepared by the current Internal Auditor, including the internal audit charter and other organizational materials;

- Interviews with the President; Chair of the Board of Regents Audit and Compliance Committee; General Counsel; Vice President for Business Affairs and Finance; Chief Information Officer; Controller; State Auditor’s Office Audit Manager for MSUIA, and the current Internal Auditor.
Examination of one set of work papers and the related audit report produced by MSUIA; and

A comparison of MSUIA's audit practices with the Standards.

Our review was limited in scope in that the Internal Auditor employed during the three year period under review had retired prior to our engagement. We did not interview the retired Internal Auditor. In addition, we were only able to examine one set of audit work papers that resulted in an audit report; thus, the conclusions reached from that review may not necessarily be reflective of all audit work performed.

Opinion

In our opinion, Midwestern State University Internal Audit Department partially conforms to the Standards for the period under review.

The following table contains our opinion of how MSUIA activities conform to each section of the International Standards for the Professional Practice of Internal Auditing, IIA Code of Ethics, and Texas Internal Auditing Act. GAGAS areas are not specifically mentioned in the table but are similar to the International Standards for the Professional Practice of Internal Auditing attribute and performance standards. Recommendations for MSUIA to increase compliance are included below.

<table>
<thead>
<tr>
<th>IIA Standard Type and Description</th>
<th>Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Attribute Standards</strong></td>
<td></td>
</tr>
<tr>
<td>1000 - Purpose, Authority, and Responsibility</td>
<td>Partially conforms</td>
</tr>
<tr>
<td>1100 - Independence and Objectivity</td>
<td>Partially conforms</td>
</tr>
<tr>
<td>1200 - Proficiency and Due Professional Care</td>
<td>Partially conforms</td>
</tr>
<tr>
<td>1300 - Quality Assurance and Improvement Program</td>
<td>Does not conform</td>
</tr>
<tr>
<td><strong>Performance Standards</strong></td>
<td></td>
</tr>
<tr>
<td>2000 - Managing the Internal Audit Activity</td>
<td>Partially conforms</td>
</tr>
<tr>
<td>2100 - Nature of Work</td>
<td>Partially conforms</td>
</tr>
<tr>
<td>2200 - Engagement Planning</td>
<td>Generally conforms</td>
</tr>
<tr>
<td>2300 - Performing the Engagement</td>
<td>Partially conforms</td>
</tr>
<tr>
<td>2400 - Communicating Results</td>
<td>Generally conforms</td>
</tr>
<tr>
<td>2500 - Monitoring Progress</td>
<td>Does not conform</td>
</tr>
<tr>
<td><strong>IIA Code of Ethics</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Generally conforms</td>
</tr>
<tr>
<td><strong>Texas Internal Auditing Act</strong></td>
<td>Partially conforms</td>
</tr>
</tbody>
</table>

www.sfasu.edu
**Recommendations**

1000-Purpose, Authority, and Responsibility

- The internal audit charter was last approved by the Board of Regents in 1988. The internal audit charter should be updated and approved by the Board of Regents.

- Consulting and non-assurance services should be added to the internal audit charter.

1100-Independence and Objectivity

- The internal audit charter and other documents should be updated to reflect that the Board of Regents has the authority to appoint and remove the internal auditor.

- MSUIA should annually confirm the organizational independence.

- MSUIA should document policies and procedures for independence, legal, and ethical requirements.

1200-Proficiency and Due Professional Care

- MSUIA lacked an information technology skill set during the period under review. There appeared to be no information technology related audits conducted including the required Texas Administrative Code Section 202 information security audit. The university should perform an information security audit using internal or external resources.

- MSUIA should document a risk assessment of key information technology risks.

1300-Quality Assurance and Improvement Program

- Per the current internal auditor, an external quality assurance review has not been performed of MSUIA since 1996. An external review is required every three years.

- MSUIA should perform internal quality assessment activities on a regular basis.

2000-Managing the Internal Audit Activity

[Link: www.sfasu.edu]
• MSUIA resource limitations should be communicated to senior management and the Board of Regents.

• MSUIA is lacking written policies and procedures to guide the internal audit activity.

• MSUIA did not submit an annual report for fiscal year 2013 as required by the Texas Internal Auditing Act.

2100-Nature of Work

• MSUIA should increase audit coverage to ensure periodic audits of major systems and controls; governance processes; ethics related objectives, programs, and activities; and information technology governance.

• MSUIA should document assessment of fraud risks in audits.

2300-Performing the Engagement

• MSUIA had only one employee so there is not a work paper supervision and review process. MSUIA should investigate a process for supervision and review.

• MSUIA audit work paper evidence appeared to be sufficient for the one set of work papers reviewed but could be enhanced by using an electronic audit work paper system such as TeamMate.

2500-Monitoring Progress

• MSUIA should establish and maintain a follow-up system to monitor the disposition of results communicated to management.

Conclusion

We are confident that with the university's commitment to conform to the Texas Internal Auditing Act, International Standards for the Professional Practice of Internal Auditing, and Generally Accepted Government Auditing Standards, changes will be enacted to ensure that the MSUIA internal audit department moves toward compliance. A new internal auditor was hired in December 2013 that appears knowledgeable and enthusiastic to lead the way.
We appreciate the cooperation and assistance provided to us throughout the course of this review by the Board of Regents, President, Internal Auditor, and MSU management.

Sincerely,

Gina Ogleebee, CPA, CFE
Director of Audit Services
Stephen F. Austin State University

Andrew S. Groover, M.Ed., CPA, CIA, CICA, CISA, CFE
Director of Internal Audits
Texas Woman's University

CC:
Regent Shawn G. Hessing, Chairman
Regent Michael Bernhardt, Vice Chairman
Regent J. Kenneth Bryant
Regent Tiffany D. Burks
Regent R. Caven Crosnoe
Regent F. Lynwood Givens
Regent Jeff Gregg
Regent Nancy Marks
Regent Samuel M. Sanchez
Student Regent Jesse Brown
President Jesse W. Rogers

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Appendix B: Office of Internal Audits Charter

MIDWESTERN STATE UNIVERSITY
OFFICE OF INTERNAL AUDITS CHARTER

ORGANIZATIONAL STRUCTURE
The Office of Internal Audits (OIA) is a vital part of Midwestern State University and functions in accordance with the policies established by the Board of Regents. The Director of Internal Audits is appointed by the Board of Regents and reports functionally (directly) to the Board of Regents and administratively to the President. All Office of Internal Audits personnel shall report directly to the Director of Internal Audits. The organizational status and the support accorded to the Director of Internal Audits by the executive management are major determinants of the scope and value of the internal audit function to the institution.

PURPOSE
The OIA provides independent, objective assurance, and consulting services designed to add value and improve the University’s operations. The OIA was established within the University to bring a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes as a service to the Board of Regents and the President to assist all entities in accomplishing their objectives.

The OIA is responsible for providing executive management with information about the adequacy and effectiveness of the institution’s system of internal administrative and accounting controls and the quality of operating performance when compared with established standards.

INDEPENDENCE
To provide for the independence of the Director of Internal Audits, she or he reports directly to the Board of Regents (through its Audit, Compliance, and Management Review Committee) and administratively to the President and must be free of all operational and management responsibilities that would impair the internal auditor’s ability to review independently all aspects of the University’s operation (per the Texas Internal Auditing Act – Texas Government Code, Chapter 2102).

AUTHORITY
The Director of Internal Audits must have a high degree of independence and not be assigned duties or engage in any activities that the OIA would normally be expected to review or appraise. To accomplish these activities the Director of Internal Audits is authorized to have full, free, and unrestricted access to all functions, activities, property, information systems, personnel, and records (including medical). The examination of patient medical records must serve a genuine audit need, and individual patients will not be identified in any audit report.

The Director of Internal Audits is not authorized to perform any operational duties, initiate or approve accounting transactions external to the OIA, or direct the activities of any employee not appropriately assigned to auditing teams or to otherwise assist the OIA.

SCOPE OF ACTIVITIES
The scope of work of the OIA is to determine whether the University’s network of risk management, control, and processes, as designed and represented by management, is adequate and functioning in a manner to help ensure:

- Risks, including strategic risks, are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.

Office of Internal Audits Charter (revised 11/13/2015)
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the University's control process.

Opportunities for improving internal control may be identified during audits. These opportunities will be communicated to the appropriate level of management.

Consulting services means advisory and related client service activities, the nature and scope of which are agreed upon with the client and are intended to add value and improve the University's operations. Consulting services include counseling, advice, facilitation, and training, and may range from formal engagements with defined scope and objectives, to advisory activities, such as participating in standing or ad hoc committees or project teams; consulting may also include informal guidance on an as needed basis. In all cases, the OIA functions only as an advisor, with the University's management deciding on final direction.

RESPONSIBILITY

The Office of Internal Audits has responsibility to:

- Ensure compliance with the Texas Internal Auditing Act.
- Develop a flexible annual audit plan using an appropriate risk-based methodology and that identifies the individual audits to be conducted during the year, including any risks or control concerns identified by management, and submit that plan to the President for review and to the Board of Regents for approval, and submit any changes in the approved annual audit plan to the President for review and to the Board of Regents for approval.
- Implement the annual audit plan, as approved, including as appropriate any special projects requested by the Board of Regents or the President and time to follow-up on significant findings from previous audits; deviations shall be documented.
- Perform periodic audits of the University's major systems and controls, including accounting systems and controls; administrative (governance) systems and controls; and electronic data processing systems and controls. In accordance with the Public Information Act (PFLA), Texas Government Code Section 2255.005(a), at least once every two years the University is required to audit management controls on investments and adherence to its established investment policies.
- Annually assess whether the University has adopted the rules and policies relating to state agency contracting as required by S.B. 20 (2015), and shall submit a report of findings to the State Auditor. Such annual assessment shall be a systematic, disciplined approach to evaluate and improve the effectiveness of the University's risk management, control, and governance processes related to contracts and to require risk-based testing of contract administration. The Director of Internal Audits shall have full and unrestricted access to all institutional property, personnel, and records.
- Have and maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this charter and the Texas Internal Auditing Act, and submit an annual staffing plan to the Board of Regents and the President reviewing the resources dedicated to the internal audit program to determine if adequate resources exist to ensure that risks identified in the annual risk assessment are adequately covered within a reasonable time frame.
- Communicate the results of engagements promptly and to the appropriate individuals.
• Issue periodic reports (on at least a quarterly basis) to the President and the Board of Regents summarizing results of audit activities, including progress on the annual audit plan, audit accomplishments, and highlights of any significant audit findings and recommendations.

• Conduct special audits and special consultations requested by the Board of Regents or the President (e.g., economy and efficiency audits and program results audits).

• Ensure that an appropriate internal quality control system (quality assurance review) is in place and undergoes a comprehensive external peer review of its auditing and attestation engagement practices at least once every three years by reviewers independent of the audit organization.

• Provide consulting and advisory services as appropriate.

• Guide the University on control self-assessments by assisting managers with self-assessments and conducting self-audits.

• Manage and direct the implementation of Enterprise Risk Management by assisting in the process of identifying and analyzing risk from an integrated, University-wide perspective, including assessing the potential risk of fraud, abuse, or waste (e.g., in the contractor selection process, contract provisions, and payment and reimbursement rates and methods for the different types of goods and services for which the University contracts) and the management of such risk.

• Assist in the investigation of suspected fraudulent activities at the University (e.g., defalcation, misappropriation, and other fiscal irregularities), including possible improvements (e.g., policies, procedures, and compliance reviews) to prevent the likelihood of potential frauds occurring, and notify the President and the Board of Regents of the results.

• File internal audit reports and related responses or action plans as required with the Office of the Governor, the State Auditor’s Office, the Sunset Advisory Commission, and the Legislative Budget Board within thirty days after presenting such reports for review by the University’s Board of Regents and President.

• Prepare the annual report required by the Texas Internal Auditing Act and submit the report before November 1 of each year to the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor, and the University’s Board of Regents and President.

STANDARDS OF AUDIT PRACTICE

In performing its internal audit activities, the Office of Internal Audits is required by the Texas Internal Auditing Act to conform to the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing and the Code of Ethics, and generally accepted governmental auditing standards of the Government Accountability Office.

Approved by the Midwestern State University Board of Regents on: November 13, 2015