

Texas Water Development Board

Internal Audit Annual Report

Fiscal Year Ended October 31, 2013



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I. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web site

As a result of this year's Legislative session, House Bill 16 (83rd Legislature, Regular Session) was signed into effect immediately by Governor Perry on June 14, 2013. House Bill 16 amends Chapter 2102, Texas Government Code, by adding Section 2102.015, which requires state agencies and higher education institutions, as defined in the bill, to post certain information on their Internet Web sites. Within 30 days of approval, an entity should post the following information on its Internet Web site:

- An approved fiscal year 2014 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2013 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The above reports are considered to be approved if they are approved by an entity's governing board or by the chief executive if the entity does not have a governing board. House Bill 16 requires entities to update the posting to include the following information on the Web site:

- A "detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report."
- A summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report."

The TWDB has complied with HB 16 by posting the approved FY 2014 Audit Plan and copies of individual audit reports issued in the last three years. We will post the mandated internal audit annual report as required by HB 16 and the Texas Internal Auditing Act.

II. Internal Audit Plan for Fiscal Year 2013

List of Audits Completed

Texas Water Development Board (TWDB)
Internal Audit Annual Report for Fiscal Year 2013

Review of the Outlay Payment and Escrow Release processes (Report # 20130601) - Issued: January 2013			
Audit Issue Report Reference	Audit Recommendations	Current Status of Implementing Recommendations	Impact (Fiscal/ Compliance/ Operational Efficiency)
1. Escrow Release Communications	This section of the report has been provided to Board members under separate, confidential cover. It has not been included in the public report due to network security concerns.	Completed April 2013.	Improved operational effectiveness.
2. Escrow Release Authorizations	As part of the escrow release authorization communication, management should consider enhancing communication documents regarding escrow releases by providing more contextual information.	Completed April 2013.	Improved operational effectiveness.
3. Uninterrupted Time-Off	Financial management should consider enhancing the financial control environment by either implementing a practice that ensures key staff takes uninterrupted time off or requiring a strictly enforced rotation of duties in the positions or roles that are considered most vulnerable to material financial error or fraud.	N/A	N/A
4. User Access Reviews	Financial management should ensure that all access reviews are performed, approved, and retained according to agency standards. Business areas should work closely with IT to ensure compliance with standards.	Completed April 2013	Improved compliance and operational effectiveness.

Review of the Procurement and Accounts Payable Processes (Report # 20130202) - Issued: April 2013			
1. Small-dollar purchases	Consider improving the efficiency of the purchasing process by implementing a simple more streamlined process for individual purchases of up to \$500 that takes advantage of the efficiencies of the procurement card. Procurement cards would include appropriate limits per transaction, month and year.	Ongoing	Improved operational efficiency.
2. Efficiency of the Purchasing Process	Management should consider improving operational efficiency by performing business process redesign. As part of the BPR, management should consider taking advantage of new technologies and using document work-flow routing, approval, and storage.	Ongoing	Improved operational efficiency.
Review of the Project Monitoring Process (Report # 20130101) - Issued: July 2013			
1.1 Project Monitoring Strategy and Process	Consider improving the timeliness of monitoring reviews by implementing different levels of monitoring and oversight based on a formal risk assessment, and providing staff with clear direction on the results.	Ongoing	Improved operational efficiency.
1.2 Information Management and Documentation	Consider improving information and document management by implementing a document workflow system.	Ongoing	Improved operational efficiency.
2.1 Operational Effectiveness: Roles and Responsibilities	Consider improving operational effectiveness by clarifying the roles, responsibilities and authorities for both Project Oversight and Project Engineering & Review divisions, and developing a formal set of performance measures and targets for Project Oversight.	Ongoing	Improved operational effectiveness.
2.2 Operational Effectiveness: Stakeholder Feedback	Consider improving operational effectiveness by implementing a formal stakeholder feedback program to seek client feedback on the quality of the project monitoring process.	Ongoing	Improved operational effectiveness.

List of Completed Projects

Project Name	Current Status
20130601 Review of the Outlay Payment and Escrow Release Processes	Issued: January 2013
20130202 Review of the Procurement and Accounts Payable Processes	Issued: April 2013
20130901 Review of the Project Monitoring Process	Issued: July 2013

List of Carry-over Audits

Project Name	Current Status
20130203 Review of Revenue Management	Reporting
20130801 Review of the Drinking Water State Revolving Fund	Reporting
20130901 Review of Research & Planning Fund	On-hold

Deviations from the FY 2013 Audit Plan

Project Name	Postponed to
Review of Information Security (Note (i))	FY 2015
Review of Loan Recipient Monitoring (Note (ii))	FY 2014

Notes

(i) The Review of Information Security was postponed to FY 2015 because of Texas Department of Information Resources' Information Security Review which took place around the same time as the audit was scheduled to begin. With the approval of the Audit Chair, this audit was replaced by the Review of Procurement and Accounts Payable Processes, which was completed and issued in April 2013.

(ii) With the approval of the Audit Committee Chair, the audit hours assigned to the Review of Loan Recipient Monitoring were diverted to the implementation of the audit management system, TeamMate. The Review of Loan Recipient Monitoring is scheduled to be performed in FY 2014.

III. Consulting Services and Non-audit Services Completed

Internal Audit's Consulting Engagements Performed in FY 2013

Project Description	Report # and Date	Recommendations	Status of Implementation
Legal Services:			
Execute an agreed-upon work plan to determine Legal Services' operational effectiveness and efficiency, including a review of procedures and obtaining feedback from key customers.	Report # 20130901; Issued January 2013	The report provided several recommendations in the areas of accountability, customer service, teamwork and operational consistency.	Ongoing
Provide Operations and Administration management with ongoing advice on information systems development.	Ongoing	n/a	n/a

IV. External Quality Assurance Review

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3035 Dawley Ave.
Orlando, FL 32806
February 2011

Overall Opinion

It is the opinion of the reviewer that the internal audit activity at the Texas Water Development Board **fully complies** with the professional standards and the Texas Internal Auditing Act. This opinion, representing the best possible evaluation, means that an internal audit charter, policies, procedures, and processes by which they are applied, that foster compliance with professional standards and the Texas Internal Auditing Act in all material respects.

Observations

Internal Auditing at TWDB is independent, objective and capable of rendering impartial and unbiased judgments essential to the proper conduct of audit work. It is well-staffed, well-managed, and the Director has a strong commitment to professional certification and development. Since the last review IA has added two additional audit staff.

The Director has over 30 years of audit experience in State agencies, is a Certified Public Accountant (CPA), a Certified Internal Auditor (CIA), a Certified Fraud Examiner (CFE). She has a well-respected and effective working relationship with both senior executives and the Chair of the Audit Committee, and reports to the Audit Committee as required by the Texas Internal Auditing Act.

IA's three staff auditors are very experienced and knowledgeable, and in addition to all being CPAs, two are Certified Fraud Examiners (CFE), and one is a Certified Information Systems Auditor (CISA) and a Certified Government Financial Manager (CGFM). The Director and the staff are all receiving the required annual continuing professional education to maintain their certifications.

IA's Audit Charter is strong and is being periodically reviewed by the Audit Committee. The Audit Committee appears to be engaged and very supportive of the internal audit activity. As required by the Texas Internal Auditing Act, the Internal Audit Charter directs the Board to appoint the Internal Audit Director; the Director to report directly to the Board; IA to have unrestricted access to all TWDB employees and records; to conduct full scope financial and operational audits; and to follow professional standards in conducting their audit activities.

The interviews that were conducted indicated that TWDB management are strongly supportive of the internal audit function and that the scope and type of work being performed by IA is addressing where management believes there are risks. A review of a sample of audit work papers showed that they were well prepared and supported an appropriate level of professional care for the complexities of the work that was undertaken.

Recommendation

At the end of the planning phase of a project, communicate the specific objectives to the auditee.

V. Internal Audit Plan for Fiscal Year 2014

Project Name	Hours
Review of Debt & Portfolio Management	800
Review of Loan Recipient Monitoring	500
Review of Financial Assistance – Closing Process	480
Review of the Economically Distressed Areas Program (EDAP)	450
Review of Compliance with the Public Funds Investment Act (PFIA)	160

Risk Assessment

Audits included in the 2014 Plan were primarily identified through a risk assessment process, in collaboration with Board members, the Executive Administrator, Deputy Executive Administrators, Division Managers, and staff. Risk assessment is a systematic process for assessing and integrating professional judgments about probable adverse conditions and events. The IIA defines risk as “the possibility of an event occurring that will have an impact on the achievement of objectives.” The audit planning process considered both the impact and likelihood of such events occurring. The TWDB’s auditable activities include both organizational units and Agency-wide processes, each of which was risk-ranked using specific elements including relative size of the unit, potential impact on operations, regulatory compliance, public exposure, work complexity, audit history, and other factors deemed relevant by Internal Audit and Executive Management.

Units and processes which were risk-ranked “high” were selected as audit projects. The specific scope of each audit in the plan will be determined once the audit team has completed its audit planning process.

VI. External Audit Services Procured in Fiscal Year 2013

During Fiscal Year 2013, Internal Audit did not have any ongoing external audit services, nor were any services procured for the time period.

VII. Reporting Suspected Fraud and Abuse

The agency’s Fraud, Waste and Abuse policy defines fraud, waste and abuse and provides staff with guidance on how to report fraud and/or suspected fraud. The policy assigns Internal Audit the primary responsibility for the investigation of all suspected fraudulent acts and for coordinating investigative activities along with the Human Resources Division, and Legal Services. The policy also requires the Executive Administrator to report suspected fraud or unlawful conduct to the State Auditor’s Office.

The TWDB web site section pertaining to the American Recovery and Reinvestment Act (ARRA) provides a link to the SAO for use in reporting suspected fraud, waste and abuse.