

Fiscal Year 2015 Internal Audit Annual Report

Internal Audit Division

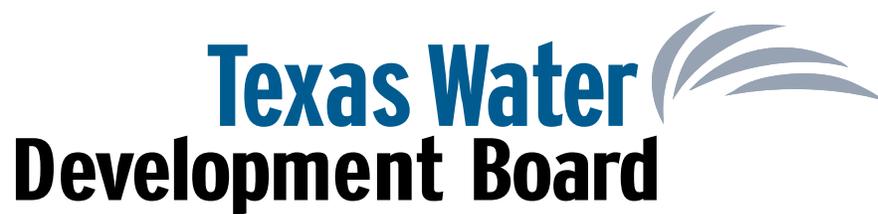


Table of Contents

I.	Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site.....	1
II.	Compliance with the Benefits Proportionality Audit Requirements for Higher Education Institutions	1
III.	Internal Audit Plan for Fiscal Year 2015	1
IV.	Consulting Services and Non-Audit Services Completed	2
V.	External Quality Assurance Review	4
VI.	Internal Audit Plan for Fiscal Year 2016	5
VII.	External Audit Services Procured in Fiscal Year 2015.....	7
VIII.	Reporting Suspected Fraud and Abuse	7

I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site

Texas Government Code, Section 2102.015 of the Internal Auditing Act requires state agencies and institutions of higher education to post agency internal audit plans, internal audit annual reports, and any weaknesses or concerns resulting from the audit plan or annual report on the entity's Internet website, at the time and in the manner provided by the State Auditor's Office. The Act also requires that state agencies update their posting to include a summary of actions taken by the agency to address concerns, if any, raised by the audit plan or annual report.

The Internal Audit Division ensures compliance with Texas Government Code, Section 2102.015, by posting the agency's approved annual audit plans, internal audit annual reports, individual internal audit reports, and semi-annual audit implementation status reports to the agency's Internet Website.

Each internal audit report provides information on individual audit findings, recommendations, and management's responses. In addition, semi-annual audit implementation status reports provide a summary of the action taken by management in addressing audit issues. These reports can be accessed by navigating from TWDB's home page to Home, selecting Transparency Portal, and then selecting Internal Audit at <http://www.twdb.texas.gov/about/transparency/audit/index.asp>.

II. Planned Work Related to the Proportionality of Higher Education Benefits

Texas Water Development Board is not an institution of higher education; therefore, this section of the report is not applicable.

III. Internal Audit Plan for Fiscal Year 2015

Audits included in the fiscal year 2015 audit plan were primarily identified through a risk assessment process, in collaboration with Board members, Executive Administration, and other key staff. The proposed audit plan included three risk-based audits and one reserve project. The reserve project was to be performed in the event that the hours allocated for contingencies (fraud, waste, and abuse investigations and special projects) were not fully expended.

Deviations from the Fiscal Year 2015 Audit Plan

Adjustments were made to the fiscal year 2015 audit plan to accommodate changes in audit resources and to the agency’s priorities and operations. This resulted in additional time necessary to complete audit and investigative work and address agency management requests.

- Review of Financial Reporting was postponed and ultimately not performed. Based on the results of the annual risk assessment, it was determined that this audit would not be carried forward to the fiscal year 2016 audit plan, as it was not identified as one of the highest overall risk ranked areas.
- Review of Contract Management, a reserve project, was not performed, as all hours allocated for contingencies (i.e. fraud, waste and abuse investigations and special projects) were fully expended.

IV. Consulting Services and Non-Audit Services Completed

The Internal Audit Division performed the following consulting and non-audit services during fiscal year 2015:

Title	Objectives	Recommendations
Review of Public Information Request Process #20150501, Issued 9/2015	Reviewed the agency’s process for responding to public information requests, and provide recommendations for improvements.	Recommendations were made to strengthen controls and accountability over the process through the establishment and/or enhancement of policies and procedures, training, and oversight.
Fraud, Waste, and Abuse Investigations	Administered the agency’s fraud hotline and investigated allegations of fraud, waste, and abuse received through the hotline and referred by the State Auditor’s Office.	None

External Audit Coordination	Coordinated information requests and management responses for external oversight activities to ensure information was provided timely, disruption to normal operating activities was minimized, and findings and recommendations were properly and completely addressed.	None
Technical Assistance	Provided counsel, advice, facilitation, and technical assistance to management in a variety of areas.	None

In addition to planned audits and consulting and non-audit services, the following administrative activities were also performed during fiscal year 2015:

- Conducted the annual risk assessment using a risk-based methodology, which included gathering and analyzing information from questionnaires and interviews.
- Developed the audit plan and prepared the Internal Audit Annual Report, as required by the Texas Internal Auditing Act.
- Tracked internal and external outstanding audit findings and recommendations, and trained agency staff to navigate, update implementation status, and upload supporting documentation using TeamCentral.
- Developed transition documents for the future Board member to serve as a comprehensive resource for information regarding the Internal Audit Division.
- Attended on-line and instructor led training throughout the year to ensure compliance with continuing professional education requirements.
- Updated internal audit processes, policy manuals, and EWP templates to ensure compliance with applicable auditing standards.
- Participated in various workgroups and committees as members of professional organizations, including the State Agency Internal Audit Forum (SAIAF) quarterly meetings, to stay informed of current practices and activities relating to the internal audit profession.
- Participated in executive and senior management team meetings and workgroups in an advisory capacity to provide management with technical assistance in a variety of areas, and serve as an available resource on risk-related issues.

V. External Quality Assurance Review

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May 2014

The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (IIA Standards)*, the U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (TIAA) require that internal audit functions obtain external or self-assessment quality assurance reviews to assess compliance with auditing standards, the TIAA, and to appraise the quality of their operations. The Director of Internal Audit conducted a self-assessment quality assurance review of the internal audit (IA) activity at the Texas Water Development (TWDB) during April 2014.

The primary objective of an independent validation is to provide an objective opinion as to whether or not the assertions made in the Quality Assurance Self-assessment Report can be relied upon. Another objective is to provide any additional recommendations that the reviewer deems may be of value to the IA activity. Other matters that might have been included in the scope of a full independent assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation.

In acting as validator, I am fully independent of the TWDB and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during the period April 30 through May 2, 2014, consisted primarily of a review and testing of the procedures and documented results of the self-assessment. This included a review of a limited sample of the department's workpapers as well as conducting interviews with the TWDB's three Board Directors, the Executive Administrator, and the Director of Internal Audit. The review was conducted in accordance with a recommended methodology published by the State Agency Internal Audit Forum (SAIAF).

Based upon my interviews, the workpaper reviews, and a review of the work conducted by the Director of Internal Audit, I concur with her conclusion that the internal audit activity at the TWDB **generally conforms** to applicable internal auditing standards and the TIAA. A review of the workpapers documenting the review she performed showed that the results, including the opinion, were appropriately documented and they appear to have been objectively developed.

While I concur with the conclusion in the Self-assessment Report the following recommendations are intended to build on the foundation that is already in place with the objective of further improving the value, efficiency and efficacy of the audit work being performed at TWDB.

Recommendations

- Update the Internal Audit Charter to include a requirement that the Board annually and formally review the performance and compensation of the Director of Internal Audit.
- The Board should annually and formally review and set the budget and staffing resources for the internal auditing activity to ensure that the risks identified in the annual risk assessment are being adequately covered within a reasonable time frame, as required by the TIAA Sec. 2102.006 (d).
- The Director of Internal Audit should develop a new risk assessment model and from that model a new annual audit plan (reflecting risk perceptions of the new Board and senior management).
- Ensure that future plans give adequate attention to Information Technology (IT) risks.
- Consider implementing IDEA or ACL, for more efficient data analysis.
- The Chairman of the Board should consider being the administrative point person for the internal audit activity at TWDB.

Richard H. Tarr, CIA, CISA

VI. Internal Audit Plan for Fiscal Year 2016

A risk-based methodology was used to prioritize audit coverage for fiscal year 2016, and ensure timely reviews of the highest risk areas. Agency operations were analyzed based on multiple risk factors, including: financial activity, grant and contract management, legislative interest, changes in staffing and/or organizational structure, impact of information systems, operational complexity, internal controls, prior audits, and potential for fraud. Input from the Board members, Executive Administration, and other key staff regarding high risk areas was also incorporated into the analysis. This information was then used to determine the likelihood and impact of select risk factors, and an overall risk score was calculated for each auditable activity.

Planned audit projects for fiscal year 2016 continue to focus on the highest risk areas as identified through our risk assessment process. Each audit will also consider tests of select general and application controls in accordance with state and agency information security standards.

The proposed fiscal year 2016 audit plan was approved by the Board on September 22, 2015. Audit projects and the approximate number of hours allocated for each are listed below:

Risk-based and Statutorily Required Audits	Budgeted Hours
Review of Compliance with Public Funds Investment Act	600
Review of Loan Collections and Debt Service Payments *	1400
Review of the Accounts Payable Process	600
Carryover from FY2015	
Review of the Clean Water State Revolving Fund	340
Follow-up on Prior Audits	
Assess the implementation status of corrective actions taken in response to prior internal and external audit findings and recommendations.	360
Consultations and Non-Audit Services	
Special projects and unanticipated evaluations or analysis requested by management.	370
Investigations	
Administer the agency's fraud hotline and investigate allegations of fraud, waste, and abuse received through the hotline and referred by the State Auditor's Office.	325
Administrative Audit Activities	
External Audit Coordination	150
Technical Assistance	120
Risk Assessment and Annual Audit Plan	320
Self-Assessment and Updates	240
Internal Audit Annual Report	110
Periodic Reporting to Board and Executive Administration	100

* Review of Loan Collections and Debt Service Payments may involve limitations in the General Appropriations Act.

Additional areas that ranked high, which were not included in the fiscal year 2016 audit plan are listed below:

1. Financial Services, Loan and Grant Closings
2. Financial Services, Financial Reporting
3. Operations and Administration, Systems Analysis
4. Financial Services, Financial Compliance

VII. External Audit Services Procured in Fiscal Year 2015

The Internal Audit Division did not procure external audit services in fiscal year 2015.

VIII. Reporting Suspected Fraud and Abuse

The agency has several mechanisms for reporting fraud to the State Auditor's Office (SAO). These mechanisms satisfy the requirements of Article IX, Section 7.09, the General Appropriations Act (84th Legislature, Conference Committee Report), and the Texas Government Code, Section 321.022.

Fraud Reporting per Article IX, Section 7.09, the General Appropriations Act (84th Legislature, Conference Committee Report)

TWDB has a link for reporting fraud, waste, and abuse on the agency's website at <http://www.twdb.texas.gov/home/fraud.asp>. The link provides information on how to report suspected fraud, waste and abuse involving state resources. The link also includes information on SAO's fraud hotline and a further link to SAO's fraud, waste and abuse webpage.

Compliance with Texas Government Code, Section 321.022

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 the Office of General Counsel. The policy also requires the Executive Administrator to report suspected fraud or unlawful conduct to the State Auditor's Office.

In addition, the agency provides mandatory Ethics training annually to all employees. The most recent agency-wide Ethics training was provided in June 2015.