

Fiscal Year 2016 Internal Audit Annual Report

Internal Audit Division



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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet 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, deficiencies, wrongdoings, or other concerns resulting from the audit plan or annual report on the entities Internet Web site, 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. Internal Audit Plan for Fiscal Year 2016

Audits included in the fiscal year 2016 audit plan were primarily identified through a risk assessment process, in collaboration with Board members, Executive Administration, and other key staff.

Review of Compliance with Public Funds Investment Act	Report #2016.05, Issued 1/2016
Review of Loan Collections & Debt Service Payments	Rescheduled to fiscal year 2017
Review of the Accounts Payable Process	Rescheduled to fiscal year 2017

Adjustments were made to the fiscal year 2016 audit plan to accommodate changes in the agency’s priorities and operations. This resulted in additional time necessary to address investigative reviews referred to the Division by the State Auditor’s Office and to complete management requests.

- Review of Loan Collections and Debt Service Payments and Review of Accounts Payable Process were not performed; however, these projects were carried forward to the fiscal year 2017 audit plan based on the results of a reassessment of risk in the related areas.
- Review of Clean Water State Revolving Fund was reclassified as a consulting engagement, and is in the reporting phase of the process.

III. Consulting Services and Nonaudit Services Completed

The Internal Audit Division performed the following consulting and non-audit services during fiscal year 2016:

Title	Objectives	Recommendations
Consulting Review of the Agricultural Water Conservation Loan Program #2016.08, Issued 9/2016	Reviewed processes and controls over the Agriculture Water Conservation Loan Program and identify recommendations for improvements.	Recommendations were made to strengthen controls and accountability over the application process, eligibility determination, loan closing, and monitoring activities.
Fraud, Waste, and Abuse Investigations	Administered the agency’s fraud hotline and performed multiple investigative reviews into allegations of fraud, waste, and abuse received through the hotline and/or 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 2016:

- Conducted the annual risk assessment using a risk-based methodology, which included gathering and analyzing information from risk assessment questionnaires and interview questionnaires.
- Developed the Annual 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 (centralized database).
- 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 abreast of applicable state and federal laws, rules and regulations and provide input on ways to enhance our internal audit activities.
- Participated in executive and senior management team meetings and workgroups in an advisory capacity to provide management with technical assistance and guidance in a variety of areas, and serve as an available resource on risk-related issues.

IV. 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

V. Internal Audit Plan for Fiscal Year 2017

A risk-based methodology was used to prioritize audit coverage for fiscal year 2017. 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, information systems and technology, operational complexity, strength of internal controls, prior audit coverage, 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.

The fiscal year 2017 audit plan was designed to ensure timely reviews of the highest overall risk ranked areas and includes coverage of both organizational units and agency-wide processes. Development of the plan was consistent with the agency’s strategic objectives and goals, and internal audit resources were allocated commensurately.

The fiscal year 2017 audit plan was approved by the Board on August 25, 2016. Audit projects and the approximate number of hours allocated for each are listed below:

Risk-based and Required Audits	Budgeted Hours
Review of Debt Service Payments*	675
Review of Accounts Payable Process	675
Review of Loan Collections Process*	675
Review of Quarterly Investment Reports	160
Follow-up on Prior Audits	
Assess the implementation status of corrective actions taken in response to prior internal and external audit findings and recommendations.	354
Consultations and Non-Audit Services	
Special projects and unanticipated evaluations or analysis requested by management.	600
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.	600
Administrative Audit Activities	
External Audit Coordination	220
Technical Assistance	125
Risk Assessment and Annual Audit Plan	295
Updating Division Policies & Procedures, Charter, Templates	262
Internal Audit Annual Report	140
Peer Review (Internal and External)	295

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

The specific scope and objectives of each audit project will be determined as part of the preliminary audit planning process, which consists of a more detailed risk assessment of the related area and activity. In addition, each audit will consider tests of select general and

application controls based on business risk, in accordance with state and agency information security standards.

Additional areas that ranked high, but had experienced audit coverage within the past year, were not included in the fiscal year 2017 audit plan. They include:

1. Operations and Administration, Information Technology
2. Operations and Administration, Application Services
3. Financial Services, Financial Compliance
4. Financial Services, Grants Management

VI. External Audit Services Procured in Fiscal Year 2016

The Internal Audit Division did not procure external audit services in fiscal year 2016.

VII. 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 July 2016.