



Fiscal Year 2024 Internal Audit Annual Report

Project #2025.01
November 2024

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I. **Compliance with Posting Requirements**

Texas Government Code, Sec. 2102.015 requires state agencies and institutions of higher education to post 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.

TWDB's Internal Audit Division ensures compliance with provisions of Texas Government Code, Sec. 2102.015 by posting the agency's approved annual audit plans, internal audit annual reports, individual internal audit reports, and semi-annual implementation status reports to the agency's Internet web site.

Each individual internal audit report provides detailed information regarding the audit findings, recommendations, and management responses. Semi-annual implementation status reports provide a summary of actions taken by management to address the audit issues. These reports can be accessed by navigating from TWDB's homepage to Home, selecting Transparency Portal, and Internal Audit at:

<http://www.twdb.texas.gov/about/transparency/audit/index.asp>.

II. **Internal Audit Plan for Fiscal Year 2024**

Audits included in the fiscal year 2024 audit plan were identified through an agency-wide risk assessment process conducted in collaboration with Executive Administration, each of the Board members, and other key staff and management.

Internal Audit Plan for Fiscal Year 2024	Status
Review of Select Cybersecurity Processes – Phase II	Report 2022.07, Jun 2024
Review of Select Hiring, Recruitment, & Retention Processes	Report 2023.06, Oct 2024
Biennial Review of Compliance with the PFIA ¹	Report 2024.05, Dec 2023
Review of Select Cybersecurity Processes – Phase III	Project 2024.06, Planning
Review of the UTA Contract for Engineering Related Services ²	Project 2024.07, Planning

¹ Public Funds Investment Act, Texas Government Code, Chapter 2256

² University of Texas at Arlington

Two additional audits included in the fiscal year 2024 plan had not been initiated by year-end. Those audits were:

- Follow-up Audit of Review of State-Funded Grant Agreements & Contracts
- Review of Select Budget Processes

Both audits were carried forward to the fiscal year 2025 plan based on a reassessment of risk in the related areas. Section V of this report provides additional information on these carryforward audits to the fiscal year 2025 plan.

Additionally, follow-up audit work was conducted during fiscal year 2024. Follow-up audit work is performed in order to verify the implementation status of corrective actions taken by management to address recommendations resulting from prior audit engagements. Those engagements included the following:

Follow-up on Prior Audits	Status
Review of Select Cybersecurity Processes – Phase I	Report 2021.06, Aug 2022
Biennial Review of Compliance with the PFIA ³	Report 2024.05, Dec 2023

As outlined in Section I, a summary of actions taken by management in addressing prior audit issues can be accessed on the agency's web site.

III. **Consulting Services and Nonaudit Services Completed**

TWDB's Internal Audit Division did not perform consulting services during fiscal year 2024; however, the following nonaudit services were performed:

Fraud, Waste, and Abuse Investigations

Administer the agency's fraud hotline and review allegations of fraud, waste, and abuse received through the hotline and referred by the State Auditor's Office.

External Audit Coordination

Coordinated requests for information, documentation, walk-throughs and other meetings, 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.

Technical Assistance

Provided counsel, advice, facilitation, and technical assistance to management in a variety of areas.

Additionally, other responsibilities and administrative activities were also performed during the fiscal year and included the following:

- Migrated from Teammate AM to TeamMate+.

³ Public Funds Investment Act, Texas Government Code, Chapter 2256

- Provided ad-hoc training and presentations on audit processes and internal controls to agency management and staff.
- Performed internal review activities as part of the Division's quality assurance and improvement program.
- Conducted the agency's annual risk assessment using a risk-based methodology.
- Developed the Annual Audit Plan and prepared the Internal Audit Annual Report, as required by the Texas Internal Auditing Act.
- Tracked internal and external prior audit findings and recommendations, and trained agency management and 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 policies, procedures, and templates, as needed, 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 leadership meetings and agency work groups 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 Audit Services Procured

The Internal Audit Division did not procure external audit services in fiscal year 2024.

V. External Quality Assurance Review (Peer Review)

Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is my opinion that the Texas Water Development Board's (TWDB) Internal Audit Department receives a rating of **"Pass/Generally Conforms"** and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

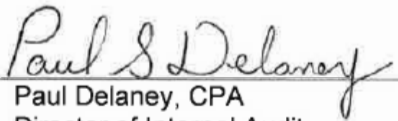
The Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The Internal Audit Department is well managed internally. In addition, the department has effective relationships with the Board and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

The Internal Audit Department has reviewed the results of the peer review team's work and has accepted them to be an accurate representation of the department's operations.

Acknowledgements

I appreciate the courtesy and cooperation extended to me by the Internal Audit Director, Internal Audit staff, the Board and the Executive Administrator who all participated in the interview process. I would also like to thank each person who completed a survey for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Department and its relationship with management.


Paul Delaney, CPA
Director of Internal Audit
Railroad Commission of Texas
SAIAF Peer Review Team Leader

July 2, 2020
Date

VI. Internal Audit Plan for Fiscal Year 2025

A risk-based methodology was used to prioritize audit coverage for fiscal year 2025. 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 technology and compliance with state information security standards⁴, operational complexity, strength of internal controls, prior audit coverage, and potential for fraud. Input from Board members, Executive Administration, and other key staff and management regarding high-risk areas was also incorporated into the analysis. This information was used to determine the likelihood and impact of select risk factors, and an overall risk score was calculated for each auditable activity.

Texas Government Code, Sec. 2102.005(b) requires Internal Audit to consider methods used by the agency to ensure compliance with contract processes and controls, and for monitoring agency contracts. The Internal Audit Division ensures compliance with this provision by considering these methods throughout the agency-wide annual risk assessment process. Information on contract-specific risk factors, and the strength of internal controls, is collected from key staff and management and reviewed to determine whether certain contract-related processes, including contract monitoring, warrant inclusion in the proposed audit plan for the fiscal year.

The fiscal year 2025 audit plan was designed to ensure timely reviews of the highest overall risk ranked areas and includes coverage of program-specific 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 2025 audit plan was approved by the Board on October 17, 2024.

⁴ Title 1, Texas Administrative Code, Chapter 202 (Information Security Standards)

Risk-based & Required Audits	Budgeted Hours
Review of Quarterly Investment Reports	220
Review of RWPD's ⁵ Application Review Process	770
Review of Flood Infrastructure Fund's (FIF) Category 1 Projects	770
In Progress & Carry-forward Audits	
Review of Select Budget Processes	770
Follow-up Audit of the Review of State-Funded Grant Agreements & Contracts	770
Review of Select Hiring, Recruitment, & Retention Processes	400
Review of Select Cybersecurity Processes – Phase III	640
Review of the UTA ⁶ Contract for Engineering Related Services	640
Follow-up on Prior Audits	
Assess the implementation status of corrective actions taken in response to prior internal and external audit findings and recommendations.	380
Consultations & Non-Audit Services	
Perform special projects and unanticipated evaluations or analysis requested by the Board and management.	320
Investigative Reviews	
Administer the agency's fraud hotline and review allegations of fraud, waste, and abuse received through the hotline and referred by the State Auditor's Office.	280
Administrative Audit Activities	
External Audit Coordination	120
TeamMate+ Migration	395
Self-Assessment, External Peer Review	480
Risk Assessment & Annual Audit Plan	243
Internal Audit Annual Report	60
	7,258

⁵ Regional Water Project Development

⁶ University of Texas at Arlington

In the event that hours allocated towards these projects are not fully expended, or the agency's priorities change, the following contingency projects will be performed:

- Review of Select Grant Coordination Processes
- Review of RWPD's Environmental Review Process

The specific scope and objectives for each 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 of risk that ranked high, but were not included in the fiscal year 2025 audit plan are addressed through recent and/or routine external audit and/or oversight activities, and/or contingency audit engagements. Those include:

- Water Supply and Infrastructure, Program Administration and Reporting, Outlays and Escrow
- Water Science and Conservation, Grant Coordination
- Water Supply and Infrastructure, Program Administration and Reporting, Disbursement Review

VII. Reporting Suspected Fraud and Abuse

The agency has several mechanisms for reporting fraud to the State Auditor's Office (SAO), which satisfy the requirements of Section 7.09, page IX-40, General Appropriation Act (88th Legislature), and Texas Government Code, Section 321.022 and include the following:

Section 7.09, page IX-40, General Appropriation Act (88th Legislature)

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

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, in coordination with the Office of General Counsel, and Human Resources Division, as needed. The policy also requires the Executive Administrator to report suspected fraud or unlawful conduct to the SAO.

In addition, the agency requires annual mandatory Ethics training for all employees. The most recent training was completed September 2023 and will be offered again November 2024.