

**Texas Water Development Board**

**Internal Audit Annual Report**

**Fiscal Year 2010**





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**I. Internal Audit Plan for Fiscal Year 2010**

Total Weekday Hours	8320
Leave and Holidays	<u>1760</u>
<b>Total Available Work Hours</b>	<b>6560</b>

	Approximate Hours	
<b>Training</b>	330	
<b>General Administration</b>	<u>660</u>	990
<b>Audits</b>		
Budget/Financial Analysis	500	
Cash Inflows	500	
Contract Management	550	
Federal Funds Justification	500	
Financial Monitoring	500	
Public Funds Investment Act Funds	120	
Surface Water Resources	500	
Texas Natural Resources Information System	<u>500</u>	3670
 <b>Reserve for Contingencies</b>		 660
 <b>Audit Related Projects</b>		
Annual Internal Audit Report	100	
ARRA Review/Audit Coordination	200	
Consulting Services	400	
External Auditor Coordination	200	
Follow-up to Previous Audits	200	
Monthly Budget/Financial Analysis	40	
Risk Assessment/Annual Internal Audit Plan	<u>100</u>	
		<u>1240</u>
		<u><b>6560</b></u>



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#### II. External Quality Assurance Review

Richard Tarr, CIA, CISA  
3035 Dawley Ave.  
Orlando, FL 32806  
January 2008

#### Overall Opinion

It is the opinion of the reviewer that the internal audit activity at the Texas Water Development Board generally conforms to professional standards and the Texas Internal Auditing Act. This opinion, representing the best possible evaluation, means that an internal audit charter, policies, procedures, and/or practices are in place at the TWDB that fosters compliance with professional standards and the Texas Internal Auditing Act.

#### Observations

The Internal Auditing Department 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 there is a commitment to professional certification and development.

The Director has over 20 years of audit experience, is a Certified Public Accountant (CPA), a Certified Internal Auditor (CIA), a Certified Fraud Examiner (CFE), and has a good working relationship with both senior executives and the Chair of the Audit Committee. She is well respected, has a good working relationship with the agency's senior management, and, as required by the Texas Internal auditing Act, reports to the Audit Committee.

The department's staff auditor has over 15 years of audit experience and is also a CPA, in addition to being a Certified Information Systems Auditor (CISA) and a Certified Government Financial Manager (CGFM). Both the Director and the staff are receiving the required annual continuing professional education to maintain their certifications.

The department's Audit Charter is strong and is being periodically reviewed by the Audit Committee. The Charter directs: the Board to appoint the Internal Audit Director; the Director to report to the Board; the Audit Committee to approve the annual audit plan and audit workload program; the department to have unrestricted access to all TWDB employees and records; and the department to conduct full scope financial and operational audits.

The interviews that were conducted indicated that the management at TWDB is strongly supportive of the internal audit function and that that the scope and type of work being performed by the department is addressing where management believes there are risks. A review of a sample of audit workpapers showed that they were professionally prepared and supported a high level of professional care that was appropriate for the complexities of the work that was undertaken. Audit projects are being well planned, and the work performed is being appropriately documented in the workpapers and the conclusions contained in the audit reports can be relied upon.



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**III. List of Audits Completed**

<b>Report Date</b>	<b>Name of Report</b>	<b>High-Level Audit Objectives</b>	<b>Observations and Recommendations</b>	<b>Current Status</b>	<b>Impact</b>
12/21/09	Audit of Compliance with Public Funds Investment Act (PFIA) for FY 08/09.	Determine if TWDB is in compliance with the PFIA.	No recommendations.	N/A.	Reduce risk that TWDB does not comply with PFIA.
4/14/10	Audit of Cash Inflows from Outlays	Determine status of goals for drawing unliquified loans in Drinking Water federal grant, effectiveness of managing drinking water projects until completion, and timeliness of draws for federal Clean Water projects.	<p>Determine if additional efforts to ensure entity projects are progressing / remitting outlays timely would increase funds drawn for DWSRF projects.</p> <p>Review/consider whether to further implement suggestions from Northbridge report</p> <p>Develop/implement process to identify / follow up on DW commitments not viable / determine steps to remove them from all databases / applicable reports as active commitments.</p> <p>Consider how to automate tracking of DW projects during planning / design phase. Determine if working with entities more would encourage faster progress on projects / outlays are submitted promptly.</p> <p>Management to determine if they could draw as much of the funding as possible from the 2008 CW grant by using Tier III projects / if it would be possible to have more Tier III projects on future IUPs. Management should work with EPA to obtain clarification on drawing for Tier II projects that have not followed federal rules.</p>	<p>Fully implemented.</p> <p>Fully implemented.</p> <p>Fully implemented.</p> <p>Fully implemented.</p> <p>Fully implemented.</p>	Reduce risk that TWDB is not in compliance with federal and state requirements for project activity.



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**III. List of Audits Completed (continued)**

<b>Report Date</b>	<b>Name of Report</b>	<b>High-Level Audit Objectives</b>	<b>Observations and Recommendations</b>	<b>Current Status</b>	<b>Impact</b>
4/14/10	Audit of Budget and Financial Analysis Process	Determine if process is documented, monitoring process ensures accomplishment of spending goals, and agency has sufficient information for development and monitoring budgets.	<p>Development of internal procedures for the Budget Office should be given a high priority. Equally important is written documentation of the budget process on an agency level.</p> <p>Budget Office should consider providing management with menu of optional, proactive reports / analyses in addition to standard reporting package. Menu should contain brief description of each tool's function.</p> <p>Budget Office should prepare detailed budget process training session that could be presented to agency personnel on recurring basis.</p> <p>Chief Financial Officer should consider establishing forum for enhanced communication with management regarding budget target development.</p> <p>Policy regarding major changes to operating budget should be included in written procedures. Procedures should state management of affected area should be notified of major changes to their budget.</p>	<p>Substantially implemented.</p> <p>Substantially implemented.</p> <p>Substantially implemented.</p> <p>Fully implemented.</p> <p>Fully implemented.</p>	Reduce risk that TWDB is not effectively and efficiently managing the budget process.



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**III. List of Audits Completed (continued)**

<b>Report Date</b>	<b>Name of Report</b>	<b>High-Level Audit Objectives</b>	<b>Observations and Recommendations</b>	<b>Current Status</b>	<b>Impact</b>
7/15/10	Audit of Financial Monitoring (FM)	Determine if the mission to protect the financial health of the loan portfolio is being met.	<p>Management should consider a form of structure that provides better continuity, more equitable work distribution and contribution, and continued service to TWDB and its monitored entities.</p> <p>Management should work with executive management and Information Technology (IT) to increase the efficiency of entity tracking, stability reviews, and single audit reviews.</p> <p>FM management should work with executive management and IT to ensure that the conversion of FIS to TxWISE or the rewrite of FIS remains one of TWDB's highest priorities. FM management and staff should consider what preliminary steps in analyzing their business process and documenting their system requirements would be useful for future FIS/TxWISE development</p>	<p>Substantially implemented.</p> <p>Ongoing.</p> <p>Ongoing.</p>	Reduce risk that entities could default on loans without knowledge of the agency.



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**III. List of Audits Completed (continued)**

<b>Report Date</b>	<b>Name of Report</b>	<b>High-Level Audit Objectives</b>	<b>Observations and Recommendations</b>	<b>Current Status</b>	<b>Impact</b>
7/15/10	Audit of Texas Natural Resources Information System (TNRIS)	Determine if previous areas concerning communication and contracts have been addressed.	<p>TNRIS and TWDB management should explore options to protect the program’s deteriorating documents and photographs.</p> <p>TNRIS management should consult with Finance management to determine whether GEMSS should be capitalized as an intangible asset and for assistance in capturing the costs related to developing this software application. To avoid potential copyright infringement, TNRIS should also make a determination regarding a need to change the GEMSS name.</p> <p>TNRIS should complete the development of internal procedures. Written documentation of software coding for all applications should be further developed.</p> <p>Contract managers within TNRIS should attend and complete training for TWDB contract managers when it becomes available.</p>	<p>Ongoing.</p> <p>Fully Implemented</p> <p>Ongoing.</p> <p>Ongoing.</p>	Reduce risk that TNRIS will fail to act as the centralized information system incorporating all Texas natural resource data, socioeconomic data related to natural resources, and indexes related to that data that are collected by state agencies or other entities.



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**III. List of Audits Completed (continued)**

<b>Report Date</b>	<b>Name of Report</b>	<b>High-Level Audit Objectives</b>	<b>Observations and Recommendations</b>	<b>Current Status</b>	<b>Impact</b>
10/6/10	Audit of Contract Administration Process	Determine effectiveness, documentation, training, monitoring, and adherence to regulatory requirements.	<p>Management should ensure the policies and procedures manual are distributed to, and reviewed by, all pertinent contracting personnel.</p> <p>TWDB should continue with its planned training of contract managers. Contract Administration should meet with contract managers on a section-wide basis at least annually to discuss the contract process.</p> <p>Within budget constraints, TWDB management should ensure the functionality of the Contract Administration System (CAS) is maintained, and improved where necessary, upon the transition to TxWISE (the new project tracking system).</p>	<p>Substantially implemented.</p> <p>Substantially implemented.</p> <p>Ongoing.</p>	Reduce risk that the Contract Administration Process is not effective.
10/6/10	Audit of Federal Funds Justification	Determine if a process for the justification of use of federal funds is in place, properly document and reviewed.	The analyses of the State Revolving Funds (SRFs) should be continued so that a designated position will be responsible for monitoring and initiating any needed changes in the funding of activities and agency staff positions from CWSRF and DWSRF.	Substantially implemented.	Reduce risk that federal funds are improperly used for the administration of projects.



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**III. List of Audits Completed (continued)**

<b>Report Date</b>	<b>Name of Report</b>	<b>High-Level Audit Objectives</b>	<b>Observations and Recommendations</b>	<b>Current Status</b>	<b>Impact</b>
10/6/10	Audit of Surface Water Resources	Determine sufficiency of budgetary resources for monitoring state water resources, providing staff training, and qualified staff.	<p>Management should consider how to provide for potential future needs for monitoring Texas surface water resources.</p> <p>Surface Water Resources (SWR) management and staff should work to assure coordination and cooperation with IT staff is accomplished during the life cycle of computer related projects. SWR should consider what projects need to be on the priority list of IT projects and how to ensure that DIR, SAO, DCS, and other state requirements are met.</p> <p>SWR management should consider preparing special policies and providing additional safety training for staff. All staff should be advised to read the boating and field safety policy in the <i>Risk Management Program Manual</i> prior to engaging in field work.</p>	<p>Ongoing.</p> <p>Substantially implemented.</p> <p>Ongoing.</p>	Reduce risk that Senate Bill 3 compliance is not being met.



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**IV. List of Consulting Engagements and Non-Audit Services Completed Showing High-Level Objectives, Observations/Results, Recommendations and Implementation Status**

Report Date	Name of Report	High-Level Consulting Engagement/ Non-Audit Services Objectives	Observations/ Results and Recommendations	Current Status	Fiscal Impact/Other Impact
None. *					

**\* Management consulting is completed on request as needed, although not conducted as formal engagements. The Audit Committee Chairman is informed about these activities as they occur. See VI. Report on Other Internal Audit Activities.**

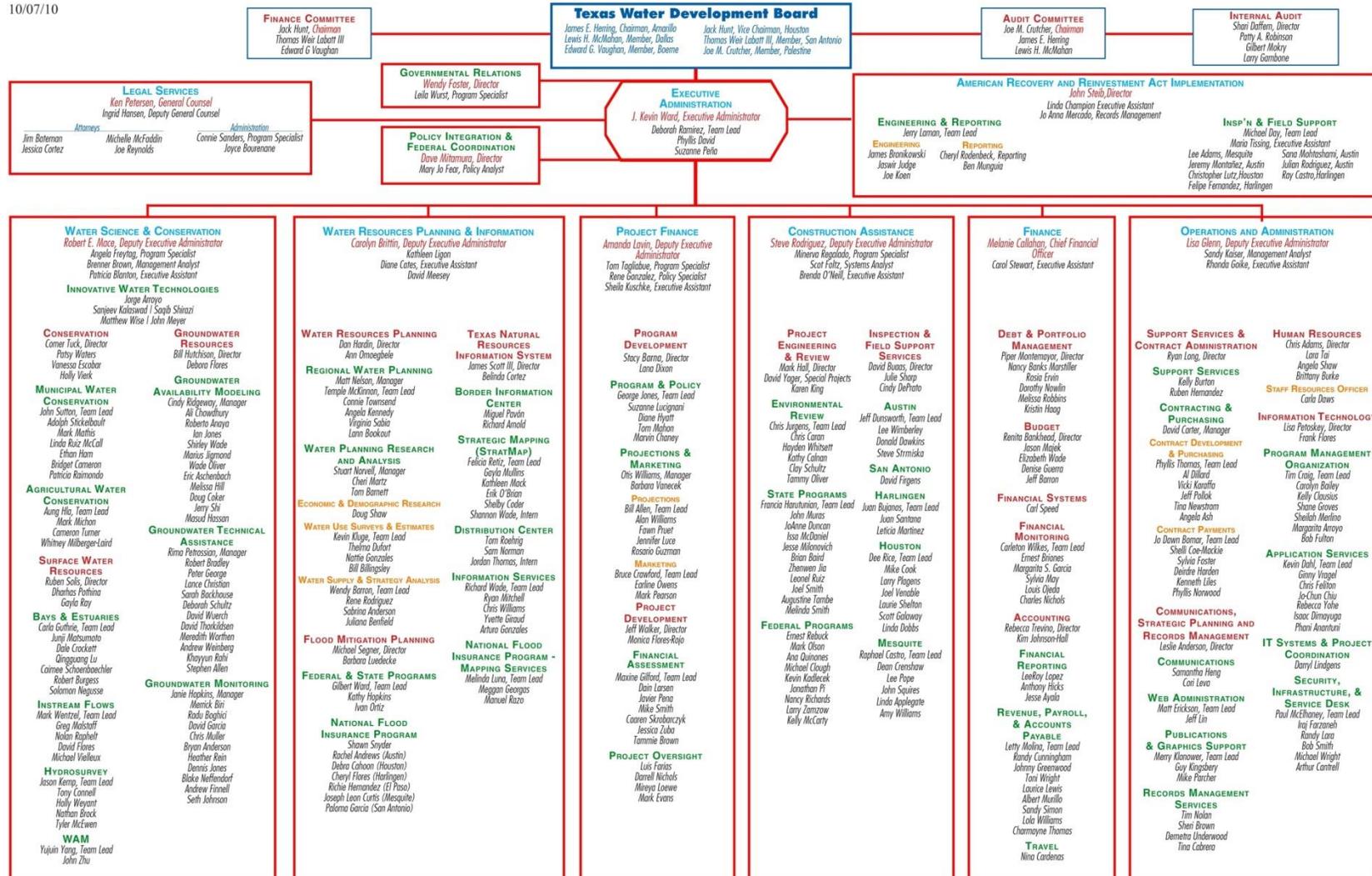


# Texas Water Development Board

## Internal Audit Annual Report for Fiscal Year 2010

### V. Organizational Chart

10/07/10





## Texas Water Development Board

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#### VI. Report on Other Internal Audit Activities

Activity	Impact
Performed a risk assessment of the Board's auditable units and processes.	Internal Audit interviewed management, staff, and Board members for input used to update the relative risk rankings. The list was used in formulating the annual audit plan.
Attended 281 hours of continuing professional education.	Received valuable information on internal auditing and networked with other internal auditors, fraud examiners, and security professionals. Completed educational hours required to remain certified as CPA, CIA, CISA, CGFM and CFE.
Consulted with executive leadership in areas such as ARRA, agency budget reductions, IT priorities, and TxWISE (project tracking system).	Provided management with independent view of how agency would be impacted by various issues.
Participated in weekly meetings with executive management.	Learned and shared information about special issues and daily operations of agency.
Attended State Agency Internal Audit Forum (SAIAF) meetings.	Kept up with legislation implications and impact on our agency. Networked with other internal audit shops.
Served on the ARRA subcommittee of SAIAF.	Learned and shared information with management about requirements of ARRA.
Attended monthly Board meetings, Board work sessions, Finance Committee meetings, and quarterly Audit Committee meetings. Performed formal and informal follow-up activities with managers.	For the Audit Committee, Internal Audit staff presented completed audits, gave updates on status of outstanding audit issues, and discussed other audit activities. Staff acquired valuable information to enhance the risk assessment process by attending Board meetings, work sessions, and committee meetings.
Participated in quarterly senior management operations meetings.	Learned and shared information about agency activities and issues.
Investigated complaints when referred by SAO.	Informed management of potential risk-related issues.



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#### VI. Report on Other Internal Audit Activities (continued)

Activity	Impact
Served as liaison for several complex external audits of TWDB base and ARRA programs.	Coordinated activities to ensure that requested information was provided to external auditors and that management was aware of any issues.
Served on the Board of the Austin Area Chapter of Certified Fraud Examiners.	Helped organization to continue to provide training and information in the prevention and detection of fraud.
Maintained web site for Internal Audit on the TWDB Intranet.	Provided staff and Board members with access to reports, audit plan, links to audit related web sites, and access to other audit data.
Consulted with the Executive Administrator at least monthly.	Provided Executive Administrator with information to enhance agency performance and discussed potential risk issues.
Served on Committee to select contractor for ARRA.	Provided insight on fraud prevention criteria.
Served on committee for Survey of Employee Engagement.	Coordinated activities to ensure staff needs are being recognized.
Served on Steering Committee for the development of TxWISE. TxWISE is a system being developed to combine several databases that will track construction project activities.	Provided insight to ensure the new system will have the proper controls.
Discussed Internal Audit activities and agency issues with the Chairman of the Audit Committee on a monthly basis.	Provided Audit Committee Chairman with update of the status of agency issues.
Hired an additional auditor.	Increased ability to review units and processes of TWDB.



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**VII. Internal Audit Plan for Fiscal Year 2011**

<b>Total Available Work Hours</b>	<b>6560</b>
	Approximate Hours
Training	330
General Administration	660
	<hr/>
	990
Audits	
Agriculture Water Conservation	550
Demonstration Initiatives	
ARRA	550
Fixed Assets	500
Human Resources	550
Loan Application Process	550
Quarterly Reports for Public Funds	50
Investment Act Funds	
Travel Advance Account	350
	<hr/>
	3100
Quality Assurance Review	300
Reserve for Contingencies	660
Transition to new IA Director	270
Audit Related Projects	
Annual Internal Audit Report	200
Consulting Services	400
External Audit Coordination for ARRA	100
External Auditor Coordination	200
Follow-up to Previous Audits	200
Monthly Budget/Financial Analysis	40
Risk Assessment/Annual Internal Audit Plan	100
	<hr/>
	1240
	<hr/>
	<b>6560</b>



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**VIII. External Audit Services Procured in Fiscal Year 2010**

<b>External Auditor</b>	<b>Service</b>
Grant Thornton LLP	Audit ARRA projects for fraud, waste and abuse



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**IX. Reporting Suspected Fraud and Abuse**

During each audit the risks of fraud are assessed.

When complaints are received through the SAO, they are assessed for fraud implications and resolved.

All instances of suspected cases of fraud are reported to the SAO by Internal Audit or through the Legal Services Division.

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

The TWDB Fraud, Waste and Abuses policy requires that all suspected fraudulent or dishonest conduct be reported to Internal Audit.