

Texas Water Development Board

Internal Audit Annual Report

Fiscal Year 2011



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I. Internal Audit Plan for Fiscal Year 2011 – Revised October 2011

	Original	Revised
Total Weekday Hours	8320	6880
Leave and Holidays	1760	1760
Total Available Work Hours	6560	5120
Training	330	330
General Administration	660	550
	990	880
Audits		
Agricultural Water Conservation Demonstration Initiatives	550	550
ARRA	550	0
Fixed Assets	500	550
Human Resources	550	550
Loan Application Process	550	0
Quarterly Reports for PFIA Funds	50	50
Travel Advance Account	350	550
	3100	2250
Quality Assurance Review	300	300
Reserve for Contingencies	660	0
Transition to New IA Director	270	400
Audit Related Projects		
Annual Internal Audit Report	200	200
Consulting Services	400	400
External Audit Coordination for ARRA	100	100
External Auditor Coordination	200	200
Follow-Up to Previous Audits	200	200
Monthly Budget/Financial Analysis	40	40
Risk Assessment/Annual Internal Audit Plan	100	150
	1240	1290
	6560	5120

The Audit Committee approved the FY 2011 Audit Plan October 2010. The plan was subsequently revised to reflect changes in available audit hours due to agency Reduction in Force effective June 28, 2011.

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II. External Quality Assurance Review

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3035 Dawley Ave.
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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 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 workpapers 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.

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III. List of Audits Completed

Report Date	Name of Report	High-Level Audit Objectives	Observations and Recommendations	Current Status	Impact
01/12/11	Review of Quarterly Reports for compliance with Public Funds Investment Act (PFIA) for FY10.	Determine if TWDB is in compliance with the PFIA.	No recommendations.	N/A.	Reduce risk that TWDB does not comply with PFIA.
4/25/11	Audit of the Human Resources Process	Determine effectiveness of HR administration; effectiveness in ensuring accomplishment of TWDB's mission; adequate training and oversight provided to HR; data and information maintained by HR is accurate, timely, and secured; HR process meets regulatory requirements; and HR meets reporting requirements.	<p>All Forms I-9 are properly completed and signed, blank forms are copied on both sides, and a consistent policy concerning photocopying of support documents is created and enforced.</p> <p>HR and Finance management should determine official repository for payroll forms. HR and Payroll should develop and agree upon a formal policy for processing, securing, and managing the forms to include a disposition procedure upon employee separation from TWDB.</p> <p>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>Reduce risk that TWDB is not in compliance with federal requirements for Forms I-9.</p> <p>Specify responsibility for employee payroll records.</p>

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III. List of Audits Completed (continued)

Report Date	Name of Report	High-Level Audit Objectives	Observations and Recommendations	Current Status	Impact
4/25/11	Audit of the Travel Advance Account	Examination and evaluation of the adequacy and effectiveness of the internal controls and quality of performance in carrying out assigned responsibilities.	Finance management should consider whether access to travel advances should be expanded. The possibility of directly depositing travel advances and/or additional reimbursements should also be investigated.	Implemented.	Increase effectiveness and efficiency of process.
			Finance management should consider possibility of negotiating lower fees or using a credit card from another bank. They should also consider whether the Petty Cash Fund should be closed.	Implemented.	Increase effectiveness and efficiency of process.
			Finance management should work with the accountant who reconciles bank statements to ensure reconciliation procedures are complete, efficient and effective.	Implemented.	Increase effectiveness and efficiency of process.
			Finance management should clarify responsibility for determination of eligibility for travel advances. They should also consider adoption of rules for prompt depositing of checks and consequences for loss of checks.	Implemented.	Increase effectiveness and efficiency of process.
			Finance management should consider establishing and enforcing a policy for reimbursement of service charges less interest at least annually. Reconciliation documentation should list prior month's service charges and interest.	Implemented.	Increase effectiveness and efficiency of process.

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III. List of Audits Completed (continued)

Report Date	Name of Report	High-Level Audit Objectives	Observations and Recommendations	Current Status	Impact
4/25/11	Audit of the Travel Advance Account (cont.)	(see previous page)	<p>Finance management should consider creating review procedures that would ensure all important steps in the reconciliation have been accomplished.</p> <p>The Travel Advance Account has been replenished consistently for FY 2011. The bank account never diminished to the point where travel advances could not be made timely.</p>	<p>Implemented.</p> <p>No recommendation required.</p>	<p>Increase effectiveness and efficiency of process.</p> <p>Ensure compliance with laws, rules and regulations.</p>
7/13/11	Audit of Agricultural Water Conservation Demonstration Initiatives	Determine whether demonstration initiatives are properly administered; contract requirements for initiatives are being met; and contracts were awarded in accordance with appropriate laws and regulations.	<p>Based on review of contracts, observation of the process and testing of data, the contracts were properly solicited, reviewed and awarded and appear to be properly administered.</p> <p>Based on testing of sample invoices for the initiatives contracts, billings appear to have sufficient supporting documentation for justification of expenses. Testing also noted proper review of the billings by agency staff and contract managers.</p> <p>Contract ownership clause required clarification. Management took immediate action to modify the clause. Corrected language for ownership clause to be used in future research contracts.</p>	<p>No recommendation required.</p> <p>No recommendation required.</p> <p>No recommendation required.</p>	<p>Ensure compliance with laws, rules, and regulations.</p> <p>Determine effectiveness of review process and reliability and integrity of data.</p> <p>Ensure clarity of contract stipulations.</p>

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III. List of Audits Completed (continued)

Report Date	Name of Report	High-Level Audit Objectives	Observations and Recommendations	Current Status	Impact
04/25/11	Audit of Capital and Controlled Assets Inventory Process	Determine policies and procedures reflect state and federal standards; agency assets are properly recorded.	<p>TWDB inventory process appears to follow agency policies and procedures, are in compliance with applicable laws, rules and regulations, and addresses the addition and disposition of agency capital and controlled assets.</p> <p>The State Property Accounting System appears to accurately represent the description and value of agency capital and controlled assets and appropriately does not include assets that do not meet those definitions.</p> <p>As a result of observation and test counts of physical inventory, review of agency processes, and review of procedures, TWDB assets appear to be properly safeguarded.</p>	<p>No recommendation required.</p> <p>No recommendation required.</p> <p>No recommendation required.</p>	<p>Ensure compliance with applicable laws, rules and regulations.</p> <p>Ensure reliability and integrity of information and safeguarding of assets.</p> <p>Ensure safeguarding of assets.</p>

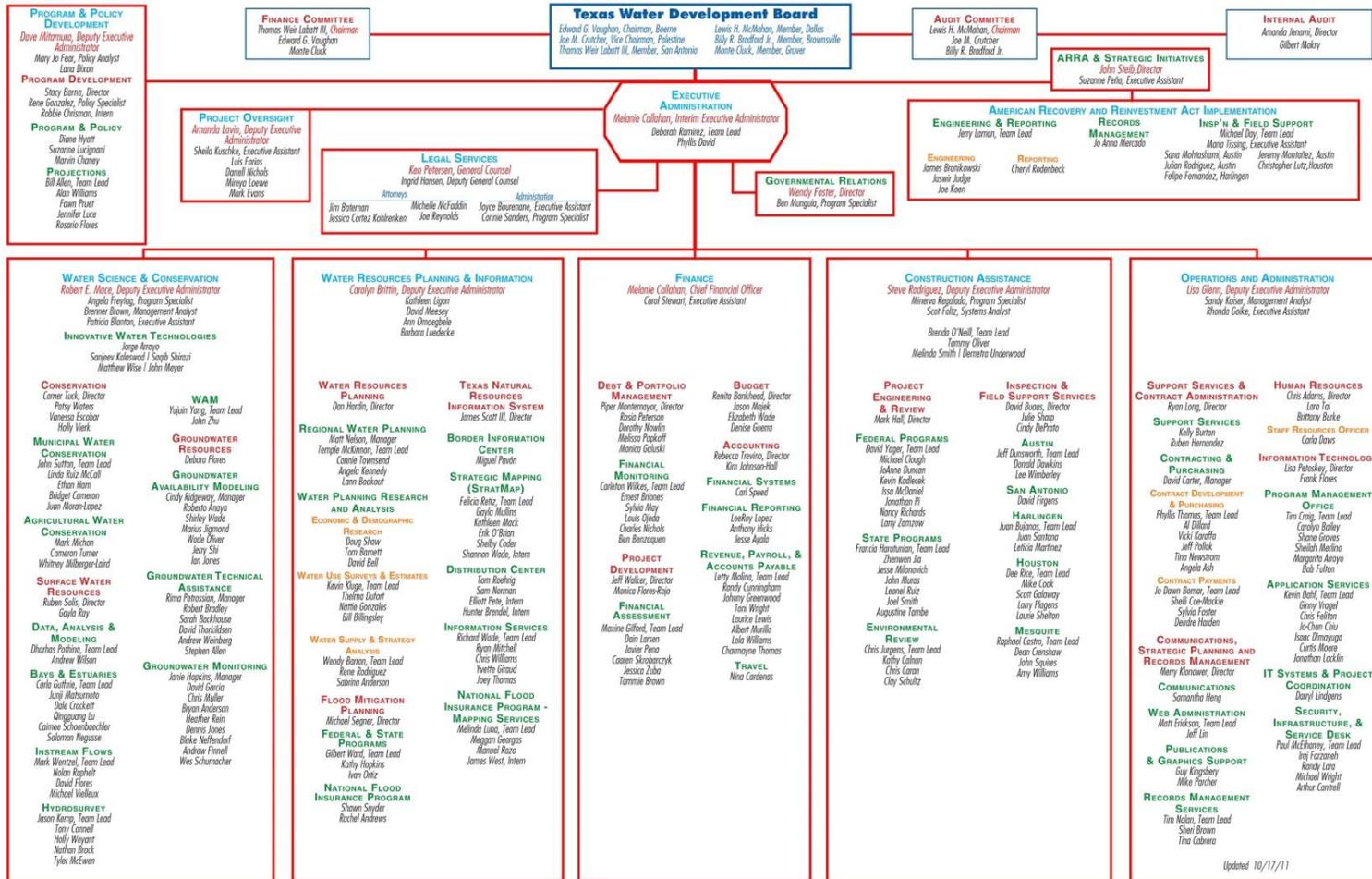
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IV. List of Consulting Engagements and Non-Audit Services Completed Showing High-Level Objectives, Observations/Results, Recommendations and Implementation Status

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.

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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 approximately 200 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.

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VII. Internal Audit Plan for Fiscal Year 2012

Total Weekday Hours	4160
Leave and Holidays	<u>740</u>
Total Available Work Hours	3420

	Percentage of Total Hours	Approximate Hours	
Training	4	120	
General Administration	<u>10</u>	<u>330</u>	
	13		450
Audits			
Review of Communications		400	
Review of Desired Future Conditions		400	
Review of the Loan Application Process		500	
Public Funds Investment Act Review of the State Water Planning Process		<u>450</u>	
	55		1870
Reserve for Contingencies	10		330
Audit Related Projects			
Annual Internal Audit Report	1	50	
Consulting Services	9	300	
External Auditor Coordination	3	100	
Follow-up to Previous Audits	4	140	
Monthly Budget/Financial Analysis	1	40	
Risk Assessment/Annual Internal Audit Plan	<u>4</u>	<u>140</u>	
	23		770
	<u>100</u>		<u>3420</u>

VIII. External Audit Services Procured in Fiscal Year 2011

External Auditor	Service
Grant Thornton LLP	Audit ARRA projects for fraud, waste and abuse

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.