

Fiscal Year 2019 Internal Audit Annual Report

Internal Audit Division

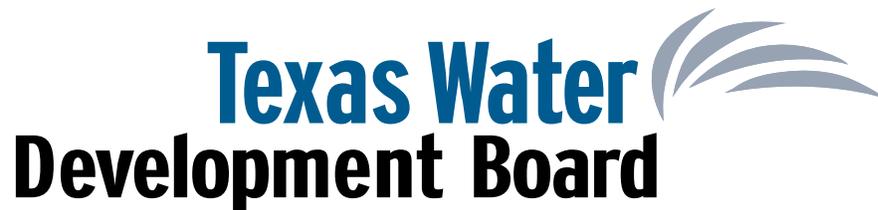


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I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE INTERNAL AUDIT PLAN, INTERNAL AUDIT ANNUAL REPORT, AND OTHER AUDIT INFORMATION ON INTERNET WEB SITE

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 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 detailed information on individual audit findings, recommendations, as well as management’s responses. In addition, semi-annual audit implementation status reports provide a summary of the actions taken by management in addressing audit issues. These reports can be accessed by navigating from TWDB’s homepage 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 2019

Engagements included in the fiscal year 2019 audit plan were identified through an agency-wide risk assessment process conducted in collaboration with each of the Board members, Executive Administration, and other key staff and management.

Review of State-Funded Grant Agreements & Contracts	Report #2018.08, Nov 2019
Review of Quarterly Investment Reports	Report #2019.05, Jan 2019
Review of Contract Management - SB20 Compliance (84R)	Report #2019.07, Reporting

The Review of State-Funded Grant Agreements & Contracts was carried forward from fiscal year 2018, and additional adjustments were made to the fiscal year 2019 audit plan in order to accommodate changes in the Division’s resource availability. As a result, the Review of the Purchasing Process was not performed in fiscal year 2019 and based on a reassessment of risk in the related area, the audit was not carried forward to the fiscal year 2020 audit plan.

Follow-up audit work was also conducted during fiscal year 2019 in order to verify the implementation status of corrective actions taken by management to address audit recommendations resulting from the following prior audit engagements, consultations, and other oversight activities:

Review of Project Monitoring Process	Report #20130101, July 2013
Review of the Revenue Management	Report #20130203, Feb 2014
Review of Loan Recipient Monitoring	Report #20140102, Aug 2014
Review of Debt Service Payments	Report #2017.05, Aug 2017
Consultations and Advisory Engagements	Various Reports
Audits Performed by External Oversight Agencies	Various Reports

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

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

III. CONSULTING SERVICES AND NONAUDIT SERVICES COMPLETED

The Internal Audit Division performed the following non-audit services during fiscal year 2019:

Title	Objectives	Recommendations
Fraud, Waste, and Abuse Investigations	Administered the agency's fraud hotline and performed 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 non-audit services, the following administrative activities were also performed during fiscal year 2019:

- Provided training and presentations on audit processes and internal controls to agency staff.
- 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 templates to ensure compliance with applicable auditing standards.
- Participated in various workgroups and committees as members of professional organizations, including the 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 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

Texas Water Development Board's Internal Audit Department
External Quality Assurance Review – June, 2017

Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Water Development Board's Internal Audit Department receives a rating of "**Pass/Generally Conforms**" and is in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* 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.

We found that 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.

Acknowledgements

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, the Chairman and members of the Board, the Executive Administrator, and the senior managers who participated in the interview process. We would also like to thank each person who completed surveys 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.


Darrell Carter, CPA, CIA, CRMA
Director of Internal Audit
Public Utility Commission of Texas
SAIAF Peer Review Team Leader

6/29/17
Date

V. INTERNAL AUDIT PLAN FOR FISCAL YEAR 2020

A risk-based methodology was used to prioritize audit coverage for fiscal year 2020. 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 each of the Board members, Executive Administration, and other key staff and management 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 2020 audit plan was designed to ensure timely reviews of the highest overall risk ranked areas and includes coverage of both 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 2020 audit plan was approved by the Board on August 13, 2019.

Risk-based and Required Audits	Budgeted Hours
Review of Compliance with Public Funds Investment Act	545
Review of Contract Solicitation Process*	545
Review of Financial Analysis of Loan Applications	835
Follow-up on Prior Audits	
Assess the implementation status of corrective actions taken in response to prior internal and external audit findings and recommendations.	475
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.	330
Administrative Audit Activities	
External Audit Coordination	265
Technical Assistance	292
Risk Assessment and Annual Audit Plan	250
Self-Assessment, External Quality Assurance Review, Reciprocal Review	435
Updating Internal Audit Policies and Procedures, Charter, Templates	404
Internal Audit Annual Report	100

* Review of Contract Solicitation Process will address contract management and other requirements.

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 risks that ranked high but were not included in the fiscal year 2020 audit plan will be considered through contingency audit engagements or addressed through other agency initiatives and oversight activities. They include:

1. Finance, Loan Recipient Monitoring
2. Governmental Relations, Fiscal Note Process
3. Texas Natural Resources Information Systems, Information Security
4. Operations & Administration, Cybersecurity

VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2019

The Internal Audit Division did not procure external audit services in fiscal year 2019.

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 the General Appropriations Act (86th Legislature), Article IX, Section 7.09, and Texas Government Code, Section 321.022 and include the following:

[Fraud Reporting Requirements of Section 7.09, General Appropriations Act \(86th Legislature\)](#)

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.

[Investigation Coordination Requirements of 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 October 2019.