

TEXAS GENERAL LAND OFFICE &
VETERANS LAND BOARD

2015 Internal Audit Annual Report



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Chief Auditor

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I. Compliance with Texas Government Code 2102.015: Posting the Internal Audit Plan, Internal Audit Report, and Other Audit Information on Internet Web-site

Texas Government Code 2102.015 requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports on the entities Internet Web site at the time and manner prescribed by the SAO. Agencies and higher education institutions are also required to post any weaknesses or concerns resulting from the annual plan or annual report and a summary of actions taken to address the issues raised by the audit plan or annual report.

The Internal Audit Division of the Texas General Land Office and Veterans Land Board (GLO) performs the following procedures for implementation and compliance with Government Code 2102.015, regarding the Internal Audit annual audit plan and annual report:

1. Within 30 days of approval, the following documents are posted to the GLO external and internal agency web-site:
 - a. Approved Internal Audit annual audit plan (for the current/ upcoming 2016 fiscal year), as provided by the Texas Government Code, Section 2102.008.
 - b. Internal Audit Annual Report for the current/prior 2015 fiscal year, as required by the Texas Government Code, Section 2102.009.

2. The 2014 Annual Internal Audit Report is currently posted to the external and internal agency web-site, as will the 2015 version of the report upon submission to the SAO. The Annual Internal Audit Report contains additional summary information prescribed by the SAO. The 2015 Internal Audit Plan and the 2014 GLO Internal Quality Assurance and Improvement Program report is also posted to the external and internal agency website.



II. Internal Audit Plan for Fiscal Year 2015

FY2015 AUDIT PLAN		
Audit Title	Audit Status	Date Issued
Procurement	Completed	3/24/2015
Grant Contract Management	Completed	6/2/2015
Natural Resources Damage Assessment (NRDA)	Rescheduled– FY2016.	TBD
Health Insurance Portability and Accountability Act (HIPAA) Compliance	In Progress – FY2016.	TBD
Royalty Audit	Canceled due to inclusion of program in review by SAO	NA
Surface Leasing	Canceled due to inclusion of program in review by SAO	NA
Loan Processing	In Progress – FY2016.	TBD
Fair Labor Standards Act (FLSA) Compliance	Rescheduled – FY2016	TBD
Energy Inspections	In Progress – FY2016.	TBD
External Quality Assurance Review	Completed	8/20/2015



FY2015 FOLLOW-UP REVIEWS COMPLETED			
Audit Follow-Up Title	Program Area(s)	Division(s)	Implementation Status of Audit Recommendations
Audit of Payroll Processes & Security	Financial Management	Budget & Planning	Fully Implemented
Audit of Lease Sale Database Applications	Enterprise Technology Services	Application Development	Ongoing
Audit of Fixed Assets Equipment Processes	Financial Management	Cash Management	Ongoing
Alamo Review of Controls	Alamo / Financial Management	Alamo Cash Management	Ongoing
Audit of Cost Allocation Processes – Federal Programs	Financial Management	Budget and Planning Financial Reporting and Accounting	Fully Implemented
Audit of Allowable Costs - Disaster Recovery Program	Disaster Recovery	Disaster Recovery	Ongoing
Audit of VLB Type II Land Sales	VLB – Veterans Land and Housing Program	Loan Operations	Fully Implemented
Audit of State Veterans Homes Quality Monitoring Processes	Veterans Programs	Veterans Homes	Fully Implemented
Audit of Compliance with TAC 202	Enterprise Technology Services	Office of Information Security	Substantially Implemented
Audit of Selected Agency Performance Measures	Various	Various	Substantially Implemented
Audit of Procurement Processes	Financial Management	Procurement	Substantially Implemented
External Projects			
HNTB Corporation Processes	Coastal Programs	Finance and Compliance	Substantially Implemented
SAO HUB Audit	Financial Management	HUB Outreach	In Progress



FY2015 MANAGEMENT ASSISTANCE / SPECIAL PROJECTS	
Project Title	Program Area / Division
Annual Risk Assessment and Internal Audit Plan	Internal Audit
Annual Report on Internal Audit	Internal Audit
Annual Report on the Internal Audit Quality Assurance and Improvement Program	Internal Audit
Special Projects/Investigations	Internal Audit
Liaison for external audits and oversight entities	Internal Audit
Management Assistance & Other	Internal Audit



III. Consulting Engagements and Non-Audit Services Completed

FY 2015 CONSULTING AND NON-AUDIT SERVICES		
Project Title	Program Area/Division	Report Date(s)
Contract Management Information	Agency wide	February 3, 2015
<p><u>Objective:</u> To provide management with data regarding the placement of contracting functions within various agencies.</p> <p><u>Conclusion:</u> Internal Audit provided management with informational assistance for possible organizational structures to incorporate additional controls over contracting.</p>		

Project Title	Program Area/Division	Report Date(s)
Internal Audit Quality Assurance and Improvement Program	Internal Audit	October 16, 2015
<p><u>Objective:</u> To allow Internal Audit management to perform on-going monitoring of the quality assurance process of the division and provide agency management the results of the assessment. (This is a requirement of the auditing standards.)</p> <p><u>Conclusion:</u> The Internal Audit Division maintains an ongoing Quality Assurance and Improvement Program and performs continuous monitoring of the quality of internal audit activities.</p>		



Project Title	Program Area/Division	Report Date(s)
Online Energy Lease Sale	PSF Income Division	Not applicable
<p><u>Objective:</u> To participate and provide recommendations in the walk-through and mock sale in order to review the new online sale application and processes relating to the online energy lease sales.</p> <p><u>Conclusion:</u> The Internal Audit Division reviewed the process prior to the initiation of online lease sale system, and was given the opportunity to make recommendations.</p>		

Project Title	Program Area/Division	Report Date(s)
Contract Management Data	Agency wide	Not applicable
<p><u>Objective:</u> To coordinate with others in the agency to provide management with current contract management data.</p> <p><u>Conclusion:</u> The Internal Audit Division provided expertise to assist other areas in the agency in order to provide management with complete contract expenditure data.</p>		



Project Title	Program Area/Division	Report Date(s)
Complaint Responses and Investigations	Internal Audit / Agency wide	Various
<p><u>Objective:</u> To ensure that public complaints are properly responded to and appropriate action is taken.</p> <p><u>Conclusion:</u> Complaints were investigated and actions were taken as were applicable to each situation.</p>		

Project Title	Program Area/Division	Report Date(s)
Liaison Activities – External Audits and Oversight Entities	Internal Audit / Agency wide	Various
<p><u>Objective:</u> To assist agency management with the effective discharge of its responsibilities related to fulfilling requests for assistance or information regarding various external or oversight projects.</p> <p><u>Conclusion:</u> Assistance and information was provided, in coordination with management, to complete external audits, reviews and oversight projects.</p>		



IV. External Quality Assurance Review

**REPORT ON THE
EXTERNAL QUALITY ASSURANCE REVIEW
OF THE TEXAS GENERAL LAND OFFICE
INTERNAL AUDIT DEPARTMENT
*AUGUST 2015***



PERFORMED BY

**ELEAZAR GARCIA, CIA, CRMA
CHIEF AUDITOR
TEXAS JUVENILE JUSTICE DEPARTMENT**

**GARY LEACH, CIA, CISA, CQA
IT AUDIT WORK LEAD
TEXAS COMMISSION ON ENVIRONMENTAL QUALITY**

**PERFORMED IN ACCORDANCE WITH THE
STATE AGENCY INTERNAL AUDIT FORUM
PEER REVIEW POLICIES AND PROCEDURES**



TEXAS GENERAL LAND OFFICE INTERNAL AUDIT DEPARTMENT
EXTERNAL QUALITY ASSURANCE REVIEW – AUGUST 2015

OVERALL OPINION

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas General Land Office Internal Audit Department receives a rating of “pass” 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 Audit 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 agency head, 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 Chief Auditor, Internal Audit staff, the Texas Land Commissioner, the Chief Clerk, 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.

	
<u>Eleazar Garcia, CIA, CRMA</u>	<u>Gary Leach, CIA, CISA, CQA</u>
Chief Auditor	IT Audit Work Lead
Texas Juvenile Justice	Texas Commission on Environmental Quality
Department	SAIAF Peer Review Team Member
SAIAF Peer Review Team Leader	



TEXAS GENERAL LAND OFFICE INTERNAL AUDIT DEPARTMENT
EXTERNAL QUALITY ASSURANCE REVIEW – AUGUST 2015

BACKGROUND

The Institute of Internal Auditors (IIA) *International Professional Practices Framework*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Audit Act require that internal audit functions obtain external quality assurance reviews to assess compliance with standards and the Act and to appraise the quality of their operations. Government auditing standards require these reviews at least every three years. A periodic external quality assurance review, or peer review, of the internal audit function is an essential part of a comprehensive quality assurance program. This quality assurance review was performed in accordance with State Agency Internal Audit Forum (SAIAF) Peer Review guidelines.

The most recent quality assurance review for the Texas General Land Office Internal Audit Department was reported in June 2012. The Internal Audit Department has made significant progress in implementing the recommendations made in the report on the previous quality assurance review.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of the quality assurance review was to evaluate the Texas General Land Office Internal Audit Department's compliance with auditing standards and the Texas Internal Auditing Act. Additional objectives included identifying best practices as well as areas where improvement may be needed. The review covered all completed audit and management assistance projects performed by the Texas General Land Office Internal Audit Department from *September 2011 through August, 2014* as well as the Audit Charter, agency organizational chart, and internal audit's policies and procedures manual in place as of May 2015.

The work performed during the review included:

- Review, verification, and evaluation of the self-assessment prepared by the Internal Audit Department according to SAIAF guidelines.
- Review and evaluation of e-mailed surveys completed by management.
- Interviews with the Chief Auditor, Internal Audit Department staff, the Executive Director, the Chief Clerk, and seven senior managers, along with four staff that joined the senior manager interviews.
- Review and evaluation of audit working papers.
- Review of Internal Audit's policies and procedures, annual risk assessment, annual audit plan, and other relevant documents.



V. Internal Audit Plan for Fiscal Year 2016

FY2016 AUDIT PLAN			
Audit Title	Program Area(s)	Division(s)	Projected Budget (Hrs)
Audit of Compliance with Texas Administrative Code (TAC) 202	Enterprise Technology Solutions	Information Security Officer	700
¹ Audit of Veterans' Land Board - Veterans Homes Operations Contract	Veterans Programs	Veterans Homes / Operations Contract	2800
Audit of Natural Resources Damage Assessment (NRDA)	Coastal Protection	Coastal Resources / NRDA Program	700
² Audit of the Agency's Budget & Planning Process	Financial Management	Budget, Planning and Payroll	700
Contracted Co-Source Audit of Management of the Real Assets Portfolio and External Funds Portfolio	Funds Management	Real Assets Portfolio Management & External Funds Management	1400
Audit of the Agency's Energy Inspections	Asset Enhancement	Energy / Inspections	700
Audit of the State Energy Marketing Program (SEMP)	Asset Enhancement	Energy Resources / SEMPER	700
² Audit of the Revenue Administration Processes	Financial Management	Revenue Administration	700

¹ Scope has not been finalized. This audit may include an evaluation of compliance with SB 20.

² Scope has not been finalized. This audit may include expenditure transfers, capital budget controls, and other restrictions in the General Appropriations Act.



PLANNED FY2016 FOLLOW-UP REVIEWS		
Audit Follow-Up Title	Program Area(s)	Division(s)
Alamo Review of Controls	Alamo Financial Management	Alamo Cash Management
Audit of Allowability of Costs in the Disaster Recovery Program	Coastal Protection	Disaster Recovery Program
Audit of Fixed Assets Processes	Financial Management	Cash Management
Audit of Lease Sale Applications	Enterprise Technology Services (ETS)	Application Development
Audit of Veterans Land Board Type II Land Sales	VLB – Veterans Land and Housing Program	Loan Operations
Audit of Selected Agency Performance Measures	Various	Various
Audit of State Veterans Homes Quality Monitoring Processes	VLB – Veterans Homes and Cemeteries	Veterans Homes
Audit of Compliance with TAC 202	Enterprise Technology Services	Information Security Officer And Network Services
Audit of Procurement Processes	Financial Management	Procurement
Health Insurance Portability and Accountability Act (HIPAA) Compliance	Veterans Homes, Compliance and Ethics, Financial Management, ETS	Veterans Homes, Compliance and Ethics, Financial Management, ETS
Grant Contract Management	Asset Enhancement	Asset Management / Construction Services
External Projects		
SAO HUB and State Use Compliance	Financial Management	HUB/Procurement
SAO Contracting and Financial Management	Financial Management and Asset Enhancement	Financial Management and Asset Enhancement
KPMG - Statewide Federal Single Audit	Coastal Resources	Disaster Recovery



FY2016 MANAGEMENT ASSISTANCE / SPECIAL PROJECTS	
Project Title	Program Area/Division
Annual Risk Assessment and Internal Audit Plan	Internal Audit
Annual Report on Internal Audit (SAO)	Internal Audit
Annual Report on the Internal Audit Quality Assurance and Improvement Program	Internal Audit
TeamMate Enhancement Project - TeamRisk	Internal Audit
Special Projects/Investigations	Internal Audit
Liaison for external audits and oversight entities.	Internal Audit
Management Assistance & Other	Internal Audit



FY2016 RISK ASSESSMENT METHODOLOGY

The Office of Internal Audit has completed the Fiscal Year (FY) 2016 Risk Assessment for the agency. The risk data was obtained from the most recent self-assessments completed by each division, as well as from management interviews. Internal Audit considered management's interest based on input from the Commissioner and the Chief Clerk. This assessment also incorporates data from the agency's strategic plan, appropriated budgets, prior audit issues, as well as input from the audit staff.

The resulting information for all auditable units was analyzed according to fifteen risk factors. The results of that assessment were quantified and used to rank the agency divisions. The division ratings were based on the following risk factors:

- Management controls
- Degree of centralization
- Changes in organizational structure
- Complexity of operations
- Extent of government regulation
- Public exposure/sensitivity
- Prior audit coverage
- Information systems utilized
- Extent of outsourcing and contracting
- Average time of outstanding recommendations
- Budget
- Number of key objectives
- Potential for fraud
- Executive interest/concerns
- Overall risk



VI. External Audit Services Procured in Fiscal Year 2015

FY2015 EXTERNAL AUDIT SERVICES	
Service Provider	Scope of Work
CliftonLarsonAllen, LLP	Audit of financial statements of the Permanent School Fund (PSF) real estate investment, including the following: <ul style="list-style-type: none"> ▪ Galveston Preserve at West Beach, Ltd. ▪ Imperial Johnson ▪ RS New Braunfels
KPMG (SAO)	Statewide Federal Single Audit
MLHubbard, PLLC	Agreed Upon Procedures (AUP) review of the State Power program regarding the accuracy of remittances made by Reliant and Cavallo to the State of Texas for fiscal year 2014 pursuant to contract obligations.
State Auditor's Office	Audit of the Permanent School Fund (PSF), Contract and Financial Management Audit, and Real Estate Audit (ongoing into FY 2016)
Grant Thornton, LLP	Contracted royalty audit reviews of Anardarko, Black Pool, Occidental Permian, and ConocoPhillips.



VII. Reporting Suspected Fraud and Abuse

FRAUD AND ABUSE

In efforts to implement the fraud-related requirements of the General Appropriations Act and the Texas Government Code, the following has occurred:

- Internal Audit conducts a mandatory fraud training for the agency. All employees are required to attend or watch a recorded version via web portal from the agency intranet site.
- The Fraud Prevention Policy is maintained on-line in the agency's Employee Handbook, which includes how, when, and where to report possible fraud and abuse.
- The agency's website is currently under revision, when the changes are completed it is planned that the SAO hotline number and a link to its website for reporting fraud will be included. (It had been posted previously.)
- The agency maintains a fraud hotline and posts the access information throughout the agency, intranet and field offices about methods of reporting fraud, waste, or abuse.
- Suggestion boxes are located outside Internal Audit and Human Resources to allow employees the opportunity to submit information anonymously.
- The GLO requires all staff to annually attend a mandatory ethics training presented by the Office of Compliance and Ethics. All employees are required to attend or watch a recorded version via a web portal from the agency intranet site.
- Internal audit has written procedures for investigations which require that any fraud or abuse is reported to the SAO as well as any applicable Federal oversight entities.
 - In regards to Texas Government Code, Section 321.022; the Internal Audit Procedures Manual references this requirement and includes a section on Investigations which provides guidance in regards to coordinating with SAO.
- The GLO has established an Office of Compliance and Ethics which provides monitoring and training for agency operations.
- The GLO website also includes a Compliments/Complaints section which can be used for reporting potential fraud.