



# MEMORANDUM

Texas General Land Office • Jerry Patterson • Commissioner

---

**DATE:** July 23, 2014

**TO:** Larry Laine, Deputy Land Commissioner and Chief Clerk

**FROM:** Tracey Hall, Deputy Commissioner of Internal Audit

**SUBJECT:** Annual Report on the Internal Audit Quality Assurance and Improvement Program

---

The following report is presented in accordance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (*Standards*) and with Government Auditing Standards (GAGAS), both of which require internal audit divisions to develop and maintain a Quality Assurance and Improvement Program that includes both internal and external assessments of the internal audit division. The objective of the internal and external assessments is to evaluate the internal audit activity's conformance with the definition of internal auditing, the *Standards*, and the IIA Code of Ethics. The revised *Standards* require the results of these periodic assessments to be communicated to those charged with governance at least annually.

The GLO Internal Audit Division maintains an ongoing Quality Assurance and Improvement Program and performs ongoing monitoring of the quality of internal audit activities as well as periodic reviews performed through self-assessment and external quality assessment reviews. This report and the detailed results that follow are intended to satisfy both sets of *Standards* by demonstrating that an internal assessment was performed, listing all the relevant IIA and GAO requirements, and indicating the evidence of compliance with each requirement. The next external assessment is scheduled for May 2015.

If you have questions or comments about this report, please contact me at (512) 463-6078.

## DETAILED RESULTS

|    | Standard #   | Requirement  | Evidence of Compliance   |
|----|--|--|--|
| 1. | <p>IIA AS 1300<br/> Quality Assurance and Improvement Program</p> <p>NOTE:<br/> IIA is the Institute of Internal Auditors.</p> <p>AS stands for the IIA's Attribute Standards.</p> | <p>The Chief Audit Executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.</p> | <ul style="list-style-type: none"> <li>• An Internal Audit Policies and Procedures Manual has been developed and placed on the Internal Audit shared drive. It is updated as needed at a minimum of at least every three years. The last revision was conducted in 2012 with the next revision to be conducted during 2015.</li> <li>• A General Audit Program that includes detailed procedures for ensuring compliance with <i>Standards</i>, policies and procedures, and applicable legal and regulatory requirements is used during every audit.</li> <li>• A Quality Control (QC) Reviewer is assigned to every audit and performs a review of all audit working papers.</li> <li>• The Deputy of Internal Audit (IA) reviews and approves audit plans, objectives, work papers, audit programs, and reports.</li> </ul> |
| 2. | <p>IIA AS 1310<br/> Requirements of the Quality Assurance and Improvement Program</p>  | <p>The quality assurance and improvement program must include both internal and external assessments.</p>  | <ul style="list-style-type: none"> <li>• A QC Reviewer is assigned to perform an internal review of every audit working paper associated with an audit to ensure the <i>Standards</i> and applicable legal and regulatory requirements are met.</li> <li>• The Deputy of Internal Audit (IA) reviews key documents and samples of the QC work performed.</li> <li>• An external Quality Assurance Review is obtained every three years and performed by peers of the IA function. The next peer review is scheduled for May 2015.</li> </ul>   |

|           |   |   |  |
|-----------|---|---|--|
| <p>3.</p> | <p>IIA AS 1311<br/>Internal Assessments</p> | <p>Internal Assessments must include:</p> <ul style="list-style-type: none"> <li>➤ Ongoing monitoring of the performance of the internal audit activity; and</li> </ul> | <ul style="list-style-type: none"> <li>• The QC Reviewer for each audit reviews and signs off on every audit working paper.</li> <li>• The Deputy of IA meets with each auditor weekly to discuss the status of his/her audit and potential issues.</li> <li>• Time and resources for each audit is tracked in regards to planning the audit, performing fieldwork, reporting, and quality control and supervisory review.</li> <li>• Auditor communicates a project status report to management of the audited section and the Deputy of IA approximately every three weeks identifying the work performed and potential audit issues on an ongoing basis.</li> <li>• The Deputy of IA monitors the status of the Annual Internal Audit Plan and notifies the Deputy Land Commissioner/Chief Clerk of any deviations or recommended changes.</li> <li>• Internal Audit has developed performance measures that are prepared quarterly and discussed at weekly held team meetings.</li> <li>• At the conclusion of every project, IA staff completes a post audit analysis to communicate the quality of ongoing performance and any follow-up action needed to ensure appropriate improvements are implemented within the audit process.</li> </ul> |
|-----------|---|---|--|

|    |  |   |   |
|----|--|---|---|
|    | IIA AS 1311 – Internal Assessment, <i>cont.</i>                        | <ul style="list-style-type: none"> <li>➤ Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.</li> </ul>   | <ul style="list-style-type: none"> <li>● The QC Reviewer for each project reviews all working papers to ensure completeness and compliance with <i>Standards</i>.</li> <li>● The Deputy of IA reviews key documents, including the audit plan, objectives, and program, summary memo, and draft report.</li> <li>● The Deputy of IA also reviews a sample of work for each audit to ensure the quality of the QC review function.</li> </ul>  |
| 4. | IIA AS 1312 External Assessment  | <p>External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board:</p> <ul style="list-style-type: none"> <li>➤ The need for more frequent external assessments; and</li> <li>➤ The qualifications and independence of the external reviewer or review team, including any potential conflict of interest.</li> </ul> | <ul style="list-style-type: none"> <li>● The Texas Internal Auditing Act (Act) requires internal auditors to comply with the Act as well as IIA and GAO Standards. Internal Audit follows the more restrictive requirement for external peer reviews, which is every three years.</li> <li>● The engagement letter for the peer reviews, which is signed by the Deputy Land Commissioner/Chief Clerk, addresses the qualifications and independence of the review team members, including any potential conflicts of interest. The next peer review is scheduled for May 2015.</li> </ul> |
| 5. | IIA AS 1320 Reporting on the Quality Assurance and Improvement Program | <p>The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.</p>  | <ul style="list-style-type: none"> <li>● After the conduction of the External Quality Assurance Review, the final report is provided to the Deputy Land Commissioner/ Chief Clerk, who the Deputy of IA reports to. The 2012 report was communicated to the Chief Clerk in June of 2012.</li> <li>● The Deputy of IA prepares an annual report on the results of the Quality Assurance and Improvement Program (QAIP) and provides it to the Deputy Land Commissioner/Chief Clerk, who is the administrative head of the agency.</li> </ul>   |

Annual Report on the GLO Internal Audit  
Quality Assurance and Improvement Program  
July 23, 2014

|           |  |  |   |
|-----------|--|--|---|
| <p>6.</p> | <p>GAGAS 3.82<br/>Quality Control and Assurance</p> <p>NOTE:<br/>GAGAS is the Generally Accepted Government Auditing Standards issued by the Government Accountability Office (GAO).</p> | <p>Each audit organization performing audits or attestation engagements in accordance with GAGAS must:</p> <p>a. Establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and</p> <p>b. Have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years.</p>  | <ul style="list-style-type: none"> <li>• The Deputy of IA has established a system of quality control designed to provide reasonable assurance of compliance with standards and legal and regulatory requirements. See Requirement #1 above for details (IIA AS 1300).</li> <li>• An external peer Quality Assurance Review (QAR is obtained by the IA function every three years. The next QAR will be performed during 2015.</li> </ul> |
| <p>7.</p> | <p>GAGAS 3.83<br/>System of Quality Control</p>  | <p>An audit organization’s system of quality control encompasses the audit organization’s leadership, emphasis on performing high quality work, and the organization’s policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements. The nature, extent, and formality of an audit organization’s quality control system will vary based on the audit organization’s size, number of offices and geographic dispersion, knowledge and experience of its personnel, nature and complexity of its audit work, and cost benefit considerations.</p> | <ul style="list-style-type: none"> <li>• The IA Policies and Procedures Manual on the IA shared drive include sections regarding the Quality Assurance and Improvement Program and Quality Control Review responsibilities. These documents clarify that the Deputy of IA has the leadership responsibility for quality and specifies the duties involved in the quality assurance processes.</li> </ul>                                  |

|    |            |   |  |
|----|------------|---|--|
| 8. | GAGAS 3.84 | <p>Each audit organization should document its quality control policies and procedures for its personnel. The audit organization should document compliance with its quality control polices and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organizations compliance with it quality control policies and procedures. The form and content of such documentation are a matter of professional judgment and will vary based on the audit organization’s circumstances.</p> | <ul style="list-style-type: none"> <li>● The IA Policies and Procedures Manual includes sections on: <ul style="list-style-type: none"> <li>○ Laws and regulations that IA is required to follow</li> <li>○ Standards of Conduct</li> <li>○ Independence and Objectivity</li> <li>○ Conflict of Interest</li> <li>○ Confidentiality</li> </ul> </li> <li>● Each year IA completes an assessment of its quality assurance and improvement program. The resulting report is provided to Executive Management.</li> <li>● Each IA employee must sign an Independence Form annually, which addresses actual and potential conflict interest.</li> <li>● The General Audit Program used for every audit requires each Auditor to assess and report on any act or potential independence issues.</li> </ul>  |
| 9. | GAGAS 3.85 | <p>An audit organization should establish policies and procedures in its system of quality control that collectively address:</p> <ol style="list-style-type: none"> <li>a. Leadership responsibilities for quality within the audit organization,</li> <li>b. Independence, legal, and ethical requirements,</li> <li>c. Initiation, acceptance, and continuance of audits,</li> <li>d. Human resources,</li> <li>e. Audit performance, documentation, and reporting, and</li> <li>f. Monitoring of quality</li> </ol>   | <ul style="list-style-type: none"> <li>● The IA Policies and Procedures Manual includes a section on training which specifies that internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development and staying abreast of improvements and developments on internal auditing standards, procedures, and techniques.</li> <li>● Training requirements are addressed on each internal auditor’s annual performance evaluation.</li> <li>● The General Audit Program used for every audit requires each Auditor to assess and report any actual or potential independence issues.</li> <li>● The IA Policies and Procedures Manual section on the IA Quality Assurance and Improvement Program details many of the components that help ensure auditors perform quality work and specifies that the QC Reviewer and the IA Deputy Commissioner monitor the quality of their work.</li> </ul> |

|     |   |   |   |
|-----|---|---|---|
| 10. | GAGAS 3.86<br>Leadership Responsibilities for Quality within the Audit Organization | Audit organizations should establish policies and procedures on leadership responsibilities for quality within the audit organization that include the designation of responsibility for quality of audits performed in accordance with GAGAS and communication of policies and procedures relating to quality. Appropriate policies and communications encourage a culture that recognizes that quality is essential in performing GAGAS audits and that leadership of the audit organization is ultimately responsible for the system of quality control. | <ul style="list-style-type: none"> <li>• The IA Policies and Procedures Manual provides detailed information about how to perform and document audit planning, fieldwork, and reporting.</li> <li>• The IA shared drive and TeamMate Team Store contain many forms and templates for internal audit staff to use to help ensure engagements are performed in accordance with <i>Standards</i> and legal and regulatory requirements.</li> </ul>           |
| 11. | GAGAS 3.87  | The audit organization should establish policies and procedures designed to provide it with the reasonable assurance that those assigned operational responsibility for the audit organizations system of quality control have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.   | <ul style="list-style-type: none"> <li>• The IA Policies and Procedures Manual specifies that it is the goal of the IA Deputy that all members strive to attain an appropriate certification, such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), or Certified Fraud Examiner (CFE).</li> <li>• All IA personnel have relevant degrees and professional certifications.</li> </ul> |

|     |   |  |  |
|-----|---|--|--|
| 12. | GAGAS 3.88<br>Independence,<br>Legal and Ethical<br>Requirements        | <p>Audit organizations should establish policies and procedures on independence, legal, and ethical requirements that are designed to provide reasonable assurance that the audit organization and its personnel maintain independence and comply with applicable legal and ethical requirements. Such policies and procedures assist the audit organization to;</p> <p>a. Communicate its independence requirements to its staff, and</p> <p>b. Identify and evaluate circumstances and relationships that create threats to independence, and take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards, or, if considered appropriate, withdraw from the audit where withdrawal is not prohibited by law or regulation.</p> | <ul style="list-style-type: none"> <li>• The IA Policies and Procedures Manual section on the IA Quality Assurance and Improvement Program details many of the components that help ensure auditors perform quality work and specifies that the QC Reviewer and the IA Deputy Commissioner monitor the quality of their work.</li> </ul>   |
| 13. | GAGAS 3.89<br>Initiation,<br>Acceptance and<br>Continuance of<br>Audits | <p>Audit organization should establish policies and procedures for the initiation, acceptance and continuance of audits that are designed to provide reasonable assurance that the audit organization will undertake audits only if it can comply with professional standards, legal requirements, and ethical principles and is acting within the legal mandate or authority of the audit organization.</p>   | <ul style="list-style-type: none"> <li>• The IA function takes great strides to ensure current policies and actions iterate that the initiation, acceptance and continuance of audits are designed to provide reasonable assurance that the IA function will continually conduct audits in which it can ensure that professional standards, legal requirements, and ethical principles are complied with and that it is acting within the legal mandate or authority of the audit organization.</li> </ul> |
| 14. | GAGAS 3.90<br>Human Resources   | <p>Audit Organizations should establish policies and procedures for human resources that are designed to provide the audit organization with reasonable assurance that it has personnel with the capabilities and competence to perform its audits in accordance with professional standards and legal and regulatory requirements.</p>  | <ul style="list-style-type: none"> <li>• The IA Policies and Procedures Manual specifies that it is the goal of the IA Deputy that all members strive to attain an appropriate certification, such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), or Certified Fraud Examiner (CFE).</li> <li>• All IA personnel have relevant degrees and professional certifications.</li> </ul>  |

Annual Report on the GLO Internal Audit  
Quality Assurance and Improvement Program  
July 23, 2014

|     |  |   |   |
|-----|--|---|---|
| 15. | GAGAS 3.91<br>Audit<br>Performance,<br>Documentation,<br>and Reporting | Audit organizations should establish policies and procedures for audit performance, documentation, and reporting that are designed to provide the audit organization with reasonable assurance that audits are performed and reports are issued in accordance with professional standards and legal and regulatory requirements.  | <ul style="list-style-type: none"> <li>● IA Procedures manual includes requirements for work papers, documentation and reporting.</li> <li>● Audits are reviewed at each stage of the audit and the report is approved by the Deputy Commissioner prior to release.</li> </ul>  |
| 16. | GAGAS 3.92   | When performing GAGAS audits, audit organizations should have policies and procedures for the safe custody and retention of audit documentation for a time sufficient to satisfy legal, regulatory, and administrative requirements for records retention. Whether audit documentation is in paper, electronic, or other media, the integrity, accessibility, and retrievability of the underlying information could be compromised if the documentation is altered, added to, or deleted without the auditors' knowledge, or if the documentation is lost or damaged. For audit documentation that is retained electronically, the audit organization should establish effective information systems controls concerning accessing and updating the audit documentation. | <ul style="list-style-type: none"> <li>● All work papers are produced electronically in TeamMate. The software provides an audit trail for every document and access to each audit is restricted.</li> <li>● All other audit documents are maintained either on the restricted network or in locked file cabinets.</li> <li>● IA conducts an annual assessment of its files to ensure compliance with agency records retention requirements.</li> </ul> |

|            |   |   |  |
|------------|---|---|--|
| <p>17.</p> | <p>GAGAS 3.93<br/>Monitoring of<br/>Quality</p> | <p>Audit organizations should establish policies and procedures for monitoring of quality in the audit organization. Monitoring of quality is an ongoing, periodic assessment of work completed on audits designed to provide management of the audit organization with reasonable assurance that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice. The purpose of monitoring compliance with quality control policies and procedures is to provide and evaluation whether the:</p> <p>a. Professional standards and legal and regulatory requirements have been followed.</p> <p>b. Quality control system has been appropriately designed, and</p> <p>c. Quality control policies and procedures are operating effectively and complied with in practice.</p> | <ul style="list-style-type: none"> <li>● The IA function has policies and procedures that ensure the continued monitoring of quality within the worked performed by the IA function.</li> <li>● This analysis (Annual Report on QAIP) along with the accompanying report constitutes the annual quality assessment.</li> <li>● An external peer review is conducted every 3 years. The next review is scheduled for May 2015.</li> </ul> |
|------------|---|---|--|

|     |            |   |   |
|-----|------------|---|---|
| 18. | GAGAS 3.94 | <p>Monitoring procedures will vary based on the audit organizations facts and circumstances. The audit organization should perform monitoring procedures that enable it to assess compliance with applicable professional standards and quality control policies and procedures fro GAGAS audits, Individuals performing monitoring should collectively have sufficient expertise and authority for this role.</p>                      | <ul style="list-style-type: none"> <li>● The IA function has policies and procedures that ensure the continued monitoring of quality within the worked performed by the IA function.</li> <li>● This analysis (Annual Report on QAIP) along with the accompanying report constitutes the annual quality assessment.</li> <li>● An external peer review is conducted every 3 years. The next review is scheduled for May 2015.</li> <li>● The IA Policies and Procedures Manual specifies that it is the goal of the IA Deputy that all members strive to attain an appropriate certification, such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), or Certified Fraud Examiner (CFE).</li> <li>● All IA personnel have relevant degrees and professional certifications.</li> </ul> |
| 19. | GAGAS 3.95 | <p>The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systematic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action.</p> | <ul style="list-style-type: none"> <li>● The IA function has policies and procedures that ensure the continued monitoring of quality within the worked performed by the IA function.</li> <li>● This analysis (Annual Report on QAIP) along with the accompanying report constitutes the annual quality assessment.</li> </ul>  |