

TEXAS GENERAL LAND OFFICE &
VETERANS LAND BOARD

2014

Internal Audit
Annual Report



Tracey Hall, CPA, CISA
Deputy Commissioner of Internal Audit

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I. Compliance with House Bill 16:

Posting the Internal Audit Plan, Internal Audit Report, and Other Audit Information on Internet Web-site

The 83rd Legislature (Regular Session) passed House Bill (HB) 16, which amends the Internal Auditing Act, to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans, internal audit annual reports, and any weaknesses or concerns resulting from the audit plan or annual report on the entities Internet Web site, at the time and in the manner provided by the SAO. Agencies and higher education institutions are also required to post a summary of actions taken to address issues raised by the audit plan or annual report.

In compliance with the mandate set forth by HB 16, the Internal Audit Office of the General Land Office and Veterans Land Board propose the following procedures for implementation regarding the agency's annual audit plan and annual report:

1. Within 30 days of approval, the following documents are posted to the General Land Office external and internal agency web-site:
 - a. Approved audit plan (for the current/ upcoming fiscal year), as provided by the Texas Government Code, Section 2102.008.
 - b. Internal Audit Annual Report for the current/prior fiscal year, as required by the Texas Government Code, Section 2102.009.
2. As part of the annual audit follow-up process the following information will be posted via external and internal agency web-sites:
 - a. A report of all recommendations resulting from audits along with actions taken by the agency in response to the recommendations.
3. The 2013 Annual Internal Audit report is currently posted to the external and internal agency web-site, as will the 2014 version of the report upon submission to the SAO. The Annual Internal Audit report contains additional summary information prescribed by the SAO.



II. Internal Audit Plan for Fiscal Year 2014

FY2014 AUDIT PLAN		
Audit Title	Audit Status	Date Issued
Audit of Compliance with TAC 202	Completed	5/30/2014
Audit of Selected Agency Performance Measures	Completed	9/30/2014
Audit of State Veterans Homes Quality Monitoring Processes	Completed	5/30/2014
Contract Management Process	Canceled due to inclusion of program in review of Single Audit	N/A
Procurement Card Management	Ongoing – This is part of a current procurement audit being conducted for FY2015.	TBD
Buy Speed Online (BSO)	Limited review conducted during FY2015 Audit Plan under Procurement Audit	TBD
Grant Contract Management	Ongoing – This audit is being conducted during FY2015.	TBD
Investment Management	Canceled, will seek to obtain contracted review	N/A



FY2014 FOLLOW-UP REVIEWS COMPLETED			
Audit Follow-Up Title	Program Area(s)	Division(s)	Implementation Status of Audit Recommendations
Audit of Payroll Process & Security	Financial Management	Budget & Planning	In Progress
Audit of Lease Sale Database Application	Information Systems	Business Automation Services	In Progress
Audit of Fixed Assets Processes	Administration	Administrative Services	In Progress
Alamo Audit of Controls	Executive Administration	Alamo Administrative Services	In Progress
Audit of Cost Allocation Processes – Federal Programs	Financial Management	Budget and Planning Financial Reporting and Accounting	In Progress
Audit of Allowability of Costs in the Disaster Recovery Program	Disaster Recovery	Disaster Recovery	In Progress
Audit of Veterans Land Board Type II Land Sales	VLB – Veterans Land and Housing Program	Loan Operations	Implemented
Audit of Fixed Assets Processes	Administration	Administrative Services	Implemented
Audit of Lease Sale Applications	Information Systems	Business Automation Services	Implemented
Audit of Coastal Impact Assistance Program (CIAP) Processes	Coastal Resources	Grant Programs and Support	Implemented
Tyler Veterans Home Construction Audit	Professional Services	Construction Services	Implemented
External Projects			
HNTB Corporation Processes	Disaster Recovery	Finance and Compliance	In progress



FY2014 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 2014 CONSULTING AND NON-AUDIT SERVICES

Project Title	Program Area/Division	Report Date(s)
Disaster Recovery Program – Preparation for Single Audit	Disaster Recovery	No Report Issued
<p><u>Objective:</u> To assist the Disaster Recovery Program in assessing their status in demonstrating compliance with federal requirements for the Disaster Recovery program (CFDA 14.228) as well as preparedness for the A-133 audit. The program was in the process of developing a new automated system and designing a risk assessment for sub-recipient monitoring.</p> <p><u>Conclusion:</u> Internal Audit provided the program with assistance in preparing for the forthcoming A-133 Single Audit.</p>		

Project Title	Program Area/Division	Report Date(s)
Internal Audit Quality Assurance and Improvement Program	Internal Audit	July 23, 2014
<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.</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>		



FY 2014 CONSULTING AND NON-AUDIT SERVICES

Project Title	Program Area/Division	Report Date(s)
Complaint Responses and Investigations	Internal Audit	Various
<p><u>Objective:</u> Conducted investigations in response to public complaints received regarding various agency programs.</p> <p><u>Conclusion:</u> Investigations were conducted in order to substantiate the allegations presented by the complaints received.</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 GENERAL LAND OFFICE
INTERNAL AUDIT DEPARTMENT**

June, 2012



PERFORMED BY

**Karin Hill, CIA, CGAP, CRMA
Chief Internal Auditor
Texas Juvenile Justice Department**

**Jaye Stepp, CPA, CIA, CGAP
Director of Internal Audit
Texas School for the Blind and Visually Impaired**



**GENERAL LAND OFFICE - INTERNAL AUDIT DEPARTMENT
EXTERNAL QUALITY ASSURANCE REVIEW – June 2012**

OVERALL OPINION

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the General Land Office Internal Audit Department “fully complies” with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*, the United States Government Accountability Office’s (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.

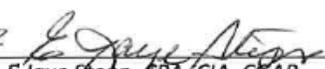
The Internal Audit Department is well managed internally. In addition, the Department has effective relationships with the agency head, and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit an integral 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 Deputy Commissioner of Internal Audit, Internal Audit staff, the Deputy Land Commissioner and Chief Clerk, and the Deputy Commissioners 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.



Karin Hill, CIA, CGAP, CRMA
Chief Internal Auditor
Texas Juvenile Justice Department
SAIAF Peer Review Team Leader

6/25/2012  6/25/12
Date E'Jaye Stepp, CPA, CIA, CGAP Date
Director of Internal Audit
Texas School for the Blind & Visually Impaired
SAIAF Peer Review Team Member



GENERAL LAND OFFICE - INTERNAL AUDIT DEPARTMENT
EXTERNAL QUALITY ASSURANCE REVIEW – June 2012

BACKGROUND

The Institute of Internal Auditors (IIA) *Standards for the Professional Practice of Internal Auditing*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Audit Act (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 General Land Office Internal Audit Department was performed in May 2009. Since that time, leadership of the department has changed.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of the quality assurance review was to evaluate the 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 General Land Office Internal Audit Department from September, 2009 through August, 2011.

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 surveys completed by management;
- Interviews with the Deputy Commissioner of Internal Audit, Internal Audit Department staff, the Deputy Land Commissioner/Chief Clerk, and ten Deputy Commissioners;
- Review and evaluation of audit working papers; and
- Review of Internal Audit's policies and procedures, annual risk assessment, annual audit plan, and other relevant documents.

This peer review was performed in accordance with the State Agency Internal Audit Forum Peer Review Process.



V. Internal Audit Plan for Fiscal Year 2015

FY2015 AUDIT PLAN			
Audit Title	Program Area(s)	Division(s)	Projected Budget (Hrs)
Procurement	Administration	Procurement	600
Construction Grants	Professional Services Financial Management	Construction Services	600
Natural Resources Damage Assessment (NRDA)	Oil Spill Prevention & Response	NRDA	600
Health Insurance Portability and Accountability Act (HIPAA) Compliance	VLB – Homes & Cemeteries Information Systems	VLB – Veterans Homes	600
Royalty Audit	Financial Management	Financial Subsidiary Operations	600
Surface Leasing	Professional Services	Asset Inspection	600
Loan Processing	VLB – Land & Housing	Loan Operations	600
Fair Labor Standards Act (FLSA) Compliance	Human Resources	Human Resources	600
Energy Inspections	Energy Resources	Mineral Leasing	600
External Quality Assurance Review	Internal Audit	Internal Audit	N/A



PLANNED FY2015 FOLLOW-UP REVIEWS

Audit Follow-Up Title	Program Area(s)	Division(s)
Alamo Audit of Controls	Executive	Alamo Administrative Services
Audit of Allowability of Costs in the Disaster Recovery Program	Disaster Recovery Program	Disaster Recovery Program
Audit of Federal Compliance	Administration	Administrative Services
Audit of Cost Allocation Processes – Federal Programs	Financial Management	Budget and Planning Financial Reporting and Accounting
Audit of Fixed Assets Processes	Administration	Administrative Services
Audit of Lease Sale Applications	Information Systems	Business Automation Services
Audit of Payroll Process & Security	Financial Management	Budget and Planning
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	Information Systems	Information Security Officer Network Services
External Projects		
HUB and State Use Compliance	Administration	HUB/Procurement
HNTB Corporation Processes	Disaster Recovery	Finance and Compliance

FY2015 MANAGEMENT ASSISTANCE / SPECIAL PROJECTS



Project Title	Program Area/Division
2015 Peer Review Self -Assessment	Internal Audit
Annual Risk Assessment and Internal Audit Plan	Internal Audit
Annual Report on Internal Audit (SAO)	Internal Audit
GLO Annual Report on Internal Audit	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



FY2015 RISK ASSESSMENT METHODOLOGY

Internal Audit completes an annual audit plan based on a risk assessment which considers all agency operations. The methodology used for the development of the FY2015 risk assessment is as follows:

1. The auditable units were analyzed on twelve risk factors. The risk factors included:
 - Management controls
 - Changes in organizational structure
 - Complexity of operations
 - Extent of government regulation
 - Public exposure/sensitivity
 - Prior audit coverage
 - Information systems utilized
 - Extent of outsourcing
 - Budget
 - Executive interest/concerns
 - Strategic priority, and
 - Potential for fraud.
2. The program areas rated themselves on nine of the twelve factors.
3. Internal Audit evaluated the auditable units on all of the risk factors.
4. Internal Audit considered Executive Management's interest based on feedback provided by the Chief Clerk.
5. The average ratings from Internal Audit were added to the division and agency data. The results were broken into tiers, weighted, and sorted in descending order.
6. The units with the highest scores were considered for inclusion in the annual audit plan.

Internal Audit used the division rankings along with its knowledge of the agency, consideration of recent audit activity, and organizational changes, to compile the audit plan.



VI. External Audit Services Procured in Fiscal Year 2014

FY2014 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
MLHubbard, PLLC	Audit of four El Paso area rock producers on Public School Fund (PSF) land to determine if “fair market value” is properly used to calculate production royalties.
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 2013 pursuant to contract obligations.
State Auditor’s Office	Audit of the Permanent School Fund (PSF), Historically Underutilized Business (HUB) and State Use Programs, and Compensation Audit
U.S. Department of Housing and Urban Development	Monitor General Land Office’s performance of program objectives.
Grant Thornton, LLP	Contracted Royalty Audit reviews.
Tsakopulus, Brown, Schott & Anchors	Audit of financial statements of the Alamo Complex.



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 SAO hotline number and a link to its website for reporting fraud is posted on the agency website.
- The agency maintains a fraud hotline and posts the access information on the agency website and posts signs throughout the agency and field offices about methods of reporting fraud, waste, or abuse.
- Suggestions 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 Legal Services. All employees are required to attend or watch a recorded version via 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.