



MEMORANDUM

TEXAS GENERAL LAND OFFICE • GEORGE P. BUSH • COMMISSIONER

Date: October 26, 2016

To: George P. Bush, Commissioner
Anne Idsal, Chief Clerk

From: Tracey Hall, Chief Auditor

Subject: 2016 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 (QAIP) 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 Office of Internal Audit, for the Texas General Land Office (GLO) and Veterans Land Board (VLB), 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 Office of Internal Audit successfully passed its' prior external quality assessment in August of 2015. The next external quality assessment is scheduled for the Spring of 2018 (*see Appendix for excerpts from the 2015 External Quality Assurance Review*).

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

DETAILED RESULTS:

Standard No. and Title	Requirement(s)	Evidence of Compliance
<p>IIA AS 1300¹, Quality Assurance and Improvement Program</p>	<p>The Chief Audit Executive (CAE, <i>also referred to as the Chief Auditor</i>) 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"> ♣ An Internal Audit (IA) Policies and Procedures Manual has been developed and placed on the IA shared drive. It is updated as needed, at a minimum of at least every three years. The most recent revision was conducted in 2015. ♣ A General Audit Program that consists of detailed procedures for ensuring compliance with the <i>Standards</i>, IA policies and procedures, and applicable legal and regulatory requirements is utilized during every audit engagement. ♣ A Quality Control (QC) Reviewer, an auditor external to the project, is assigned to every audit and performs review of all audit work papers to ensure their integrity, compliance, and satisfaction to the <i>Standards</i> and audit objectives. ♣ The Chief Auditor reviews and approves audit objectives, plans, testing programs, and reports for all audit engagements.
<p>IIA AS 1310, 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"> ♣ A QC reviewer is assigned to every engagement to perform an internal review of all working papers to ensure adherence to the Standards and applicable legal and regulatory requirements. ♣ The Chief Auditor reviews and approves key audit documents and samples of the QC work performed. ♣ An external Quality Assurance Review (QAR)² is obtained every 3 years and performed by peers of the IA function.

¹ The International Professional Practices Framework (IPPF, commonly referred to as the Red Book) is the conceptual framework that organizes authoritative guidance promulgated by The Institute of Internal Auditors (IIA). Conformance with The IIA’s *International Standards for the Professional Practice of Internal Auditing* (Standards) is essential in meeting the responsibilities of internal auditors and the internal audit activity. The structure of the *Standards* is divided between Attribute and Performance Standards. Attribute Standards (AS) address the attributes of organizations and individuals performing internal auditing. The Performance Standards (PS) describes the nature of internal auditing and provides quality criteria against which the performance of the services can be measured. The Attribute and Performance Standards are provided to apply to all internal audit services.

² The IIA’s *International Professional Practices Framework* (IPPF), U.S Government Accountability Office (GAO) *Generally Accepted Government Auditing Standards* (GAGAS, commonly referred to as the Yellow Book), and the Texas Internal Audit Act require that IA 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 IA function is an essential part of a comprehensive quality assurance program. If the QAR is successfully fulfilled (passed) the Chief Auditor may state that the internal audit activity conforms to the *International Standards for the Professional Practice of Internal Auditing* only if the results of the quality assurance and improvement program support this statement (IIA AS 1321).

Standard No. and Title	Requirement(s)	Evidence of Compliance
<p>IIA AS 1311, Internal Assessments</p>	<p>Internal assessments must include:</p> <ul style="list-style-type: none"> – Ongoing monitoring of the performance of the IA activity; and – Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices. 	<ul style="list-style-type: none"> ♣ The QC Reviewer for each audit reviews and signs off on every audit working paper. ♣ The Chief Auditor meets with each auditor weekly to discuss the status of his/her audit and potential issues. ♣ Time and resources for each audit are tracked in regard to planning the audit, performing fieldwork, reporting, and quality control and supervisory review. ♣ Auditors communicate a project status report to management of the audited program and the Chief Auditor frequently during the audit, identifying the work performed and potential audit issues on an ongoing basis. ♣ The Chief Auditor monitors the status of the Annual Internal Audit Plan and notifies the Deputy Land Commissioner/Chief Clerk of any deviations or recommended changes. ♣ Internal Audit has developed performance measures that are prepared quarterly and discussed at during team meetings. ♣ At the conclusion of every project, auditors complete 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. ♣ The QC Reviewer for each project reviews all working papers to ensure completeness and compliance with <i>Standards</i>. ♣ The Chief Auditor reviews key documents, including the audit plan, objectives, and program, summary memo, and draft report. ♣ The Chief Auditor reviews a sample of work for each audit to ensure the quality of the QC review function.
<p>IIA AS 1312, External Assessments</p>	<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"> – The need for more frequent external assessments; and – The qualifications and independence of the external reviewer or review team, including any potential conflict of interest. 	<ul style="list-style-type: none"> ♣ 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. ♣ The engagement letter for the QAR, 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.

Standard No. & Title	Requirement(s)	Evidence of Compliance
IIA AS 1320, Reporting on the Quality Assurance and Improvement Program	The Chief Audit Executive must communicate the results of the quality assurance and improvement program to senior management and the board.	<ul style="list-style-type: none"> ♣ 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 2015 report was communicated to the Chief Clerk in August of 2015. ♣ The Chief Auditor 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.
GAGAS 3.82³, Quality Control and Assurance	Each audit organization performing audits or attestation engagements in accordance with GAGAS must: <ol style="list-style-type: none"> 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 b. Have an external peer review performed by reviewers independent of the audit organization being reviewed at least once every 3 years. 	<ul style="list-style-type: none"> ♣ The Chief Auditor has established a system of quality control designed to provide reasonable assurance of compliance with standards and legal and regulatory requirements. <i>(See Standard No. IIA AS 1300 on prior page for details)</i> ♣ An external peer Quality Assurance Review (QAR) is obtained by the IA function every three years. The next QAR is scheduled for the Spring of 2018.

³ The Generally Accepted Government Auditing Standards (GAGAS) are professional standards and guidance developed by the U.S. Government Accountability Office. They provide the framework for conducting high quality audits with competence, integrity, objectivity, and independence. These standards are for use by auditors of government entities and entities that receive government awards and audit organizations performing GAGAS audits. GAGAS contains requirements and guidance dealing with ethics, independence, auditors' professional judgment and competence, quality control, performance of the audit and reporting (GAGAS 1.04, Purpose and Applicability).

Standard No. and Title	Requirement(s)	Evidence of Compliance
<p>GAGAS 3.85, System of Quality Control</p>	<p>An audit organization should establish policies and procedures in its system of quality control that collectively addresses:</p> <ul style="list-style-type: none"> a. Leadership responsibilities for quality within the audit organization, b. Independence, legal, and ethical requirements, c. Initiation, acceptance, and continuance of audits, d. Human resources, e. Audit performance, documentation, and reporting; and f. Monitoring of quality 	<ul style="list-style-type: none"> ♣ 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. ♣ Training requirements are addressed on each auditor’s annual performance evaluation. ♣ The General Audit Program used for every audit requires each auditor to assess and report any actual or potential independence issues. ♣ 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 Chief Auditor monitor the quality of their work.
<p>GAGAS 3.86, Leadership Responsibilities for Quality within the Audit Organization</p>	<p>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.</p>	<ul style="list-style-type: none"> ♣ The IA Policies and Procedures Manual provides' detailed information about how to perform and document audit planning, fieldwork, and reporting. ♣ The IA shared drive and TeamMate Team Store contain many forms and templates for internal auditors to use to help ensure engagements are performed in accordance with <i>Standards</i> and legal and regulatory requirements.

Standard No. and Title	Requirement(s)	Evidence of Compliance
<p>GAGAS 3.87, Leadership Responsibilities for Quality within the Audit Organization</p>	<p>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.</p>	<ul style="list-style-type: none"> ♣ The IA Policies and Procedures Manual specify that it is the goal of the Chief Auditor 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). ♣ All IA personnel have relevant degrees and professional certifications.
<p>GAGAS 3.88, Independence, Legal and Ethical Requirements</p>	<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> <ol style="list-style-type: none"> a. Communicate its independence requirements to its staff, and 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. 	<ul style="list-style-type: none"> ♣ 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 Chief Auditor monitor the quality of their work. ♣ All internal auditors are required to complete annual independence statements that include any possible impairment to their independence in regard to any auditable program of the agency. ♣ The Chief Auditor considers any potential conflicts of interest in determining audit assignments.

Standard No. and Title	Requirement(s)	Evidence of Compliance
<p>GAGAS 3.89, Initiation, Acceptance and Continuance of Audits</p>	<p>The 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"> ♣ 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.
<p>GAGAS 3.90, Human Resources</p>	<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"> ♣ The IA Policies and Procedures Manual specify that it is the goal of the Chief Auditor 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). ♣ All IA personnel have relevant degrees and professional certifications.
<p>GAGAS 3.91, Audit Performance, Documentation, and Reporting</p>	<p>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.</p>	<ul style="list-style-type: none"> ♣ IA Procedures manual includes requirements for work papers, documentation and reporting. ♣ Audits are reviewed at each stage of the audit and the report is approved by the Chief Auditor prior to release.

Standard No. and Title	Requirement(s)	Evidence of Compliance
<p>GAGAS 3.92, Audit Performance, Documentation, and Reporting</p>	<p>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.</p>	<ul style="list-style-type: none"> ♣ All work papers are produced electronically in TeamMate. The software provides an audit trail for every document and access to each audit is restricted. ♣ All other audit documents are maintained either on the restricted network or in locked file cabinets. ♣ IA conducts an annual assessment of its files to ensure compliance with agency records retention requirements.
<p>GAGAS 3.93, Monitoring of 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> <ol style="list-style-type: none"> a. Professional standards and legal and regulatory requirements have been followed. b. Quality control system has been appropriately designed, and c. Quality control policies and procedures are operating effectively and complied with in practice. 	<ul style="list-style-type: none"> ♣ The IA function has policies and procedures that ensure the continued monitoring of quality within the worked performed by the IA function. ♣ This analysis (Annual Report on the QAIP) constitutes as the annual quality assessment. ♣ An external peer review is conducted every 3 years. The next review is scheduled for the Spring of 2018.

Standard No. and Title	Requirement(s)	Evidence of Compliance
<p>GAGAS 3.94, Monitoring of Quality</p>	<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"> ♣ The IA function has policies and procedures that ensure the continued monitoring of quality within the worked performed by the IA function. ♣ This analysis (Annual Report on the QAIP) constitutes as the annual quality assessment. ♣ An external peer review is conducted every 3 years. The next review is scheduled for the Spring of 2018. ♣ The IA Policies and Procedures Manual specifies that it is the goal of the Chief Auditor 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). ♣ All internal auditors have relevant degrees and professional certifications.
<p>GAGAS 3.95, Monitoring of Quality</p>	<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"> ♣ The IA function has policies and procedures that ensure the continued monitoring of quality within the worked performed by the IA function. ♣ This analysis (Annual Report on the QAIP) constitutes as the annual quality assessment.

APPENDIX:

Excerpts of the 2015 External Quality Assurance Review of the Texas General Land Office, Internal Audit Department

**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>
Date	Date
8/20/15	8/20/15
Chief Auditor	IT Audit Work Lead
Texas Juvenile Justice Department	Texas Commission on Environmental Quality
SAIAF Peer Review Team Leader	SAIAF Peer Review Team Member



Internal Audit Department
of the Texas General Land Office receives a rating of
“Pass”

In compliance with the Institute of Internal Auditors’
International Professional Practices Framework, Government Auditing
Standards, and the Texas Internal Auditing Act

This opinion is based on a quality assessment review conducted by members of the
Texas State Agency Internal Audit Forum (SAIAF) and completed August 2015.
The review was based on the methodology developed by the
Texas State Agency Internal Audit Forum.

A handwritten signature in black ink, appearing to read "Eleazar Garcia".

Eleazar Garcia, CIA, CRMA
Chief Audit Executive
Texas Juvenile Justice Department

A handwritten signature in black ink, appearing to read "Gary Leach".

Gary Leach, CIA, CISA, CQA
IT Audit Work Lead
Texas Commission on Environmental Quality