

TEXAS GENERAL LAND OFFICE & VETERANS LAND BOARD



2017 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 Website

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 website 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 Office of Internal Audit 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 website:
 - a. Approved Internal Audit Annual Audit plan (for the forth-coming fiscal year), as provided by the Texas Government Code, Section 2102.008.
 - b. The Internal Audit Annual Report for the prior fiscal year as required by the Texas Government Code, Section 2102.009.
2. The 2016 Annual Internal Audit Report is currently posted to the external and internal agency website, as will the 2017 version of the report upon submission to the SAO. The Annual Internal Audit Report contains additional summary information prescribed by the SAO. The 2018 Internal Audit Plan and the 2017 GLO Internal Quality Assurance and Improvement Program (QAIP) report is also posted to the external and internal agency website.



II. Internal Audit Plan for Fiscal Year 2017

FY2017 AUDIT PLAN		
Audit Title	Audit Status	Date Issued
Audit of VLB Loan Processing	Completed	1/3/2017
Audit of VLB Veterans Homes Operations Contract	Completed	3/31/2017
Audit of VLB Veterans Cemetery Operations	Completed	TBD
Audit of Alamo Accounting Process	Completed	TBD
Audit of Compliance with the Fair Labor Standards Act (FLSA)	Cancelled due to inclusion of program in review by Texas Work Force Commission	N/A
Audit of Royalty/Minerals Audit Process	In Progress	TBD
Audit of Budget and Planning	Rescheduled – FY2019	TBD
External Projects		
Audit of T-Recs Enterprise System	Completed	5/5/2017
Contracted Co-Source Audit of Management of the Real Assets Portfolio and External Funds Portfolio: <i>(PSF Private Funds – Externally Managed)</i>	In Progress	TBD



FY2017 FOLLOW-UP REVIEWS COMPLETED			
Audit Follow-Up Title	Division(s)	Program Area(s)	Implementation Status of Audit Recommendations
Audit of Fixed Assets Processes (2011)	Financial Management	Cash Management	Ongoing
Review of Controls – The Alamo (2012)	Financial Management	Cash Management	Ongoing
Audit of Compliance with TAC 202 (2013)	Enterprise Technology Services Information Security	Integrated Services Information Security Officer	Substantially Implemented
Audit of Veterans' Land Board (VLB) Loan Processing (2015)	Veterans' Land Board	Land and Housing Loan Operations Enterprise	Ongoing
Audit of Health Insurance Portability and Accountability Act (HIPAA) (2015)	Information Security	Chief Privacy Officer	Substantially Implemented
Audit of the Veterans Homes Operations Contract (2016)	Veterans' Land Board	Veterans Homes	Ongoing
Audit of Procurement Processes (2014)	Financial Management	Procurement	Completed
Energy Inspection Processes (2015)	Asset Enhancement	Energy Resources	Completed
External Projects			
SAO - Contract & Financial Management Processes Audit (2015)	Financial Management	Various	Substantially Implemented
SAO - Permanent School Fund (PSF) FY2015 Financial Statements Audit (2016)	Investment Management / Financial Management	Various	Ongoing



FY2017 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
Peer Review of Texas Department of Parks and Wildlife	Internal Audit



III. Consulting Engagements and Non-Audit Services Completed

FY 2017 CONSULTING AND NON-AUDIT SERVICES

Project Title	Program Area/Division	Report Date(s)
Internal Audit Quality Assurance and Improvement Program	Internal Audit	October 20, 2017
<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)
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.


Eleazar Garcia, CIA, CRMA
Chief Auditor
Texas Juvenile Justice
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SAIAF Peer Review Team Leader


Date 8/20/15 Gary Leach, CIA, CISA, CQA Date 8/20/15
IT Audit Work Lead
Texas Commission on Environmental Quality
SAIAF Peer Review Team Member



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 2018

FY2018 AUDIT PLAN			
Audit Title	Division(s)	Program Area(s)	Projected Budgeted (Hours)
Audit of the Royalty-Minerals Audit Processes	Asset Enhancement	Energy Resources Minerals Audit	1000
Audit of the Agency Travel Processes	Financial Management	Procurement Travel	1000
Contracted Co-Source Audit of the Management of the Permanent School Fund (PSF) Internal Portfolio	Investment Management	Real Assets Portfolio Permanent School Fund	1500
Audit of VLB Debt Issuance & Derivatives, Cash Forecasting & Cash Management	Investment Management	Veterans Land Board Bonds	1500
Audits associated with the Intergovernmental Service Agreement between the United States Department of Homeland Security Federal Emergency Management Agency (FEMA), and the State of Texas - General Land Office (GLO) in response to Hurricane Harvey	Coastal Protection	Community Development & Revitalization Program Financial Management	2000
State Agency Internal Audit Forum (SAIAF) Quality Assurance Peer Review – Self Assessment	Office of Internal Audit	-	400



PLANNED FY2018 FOLLOW-UP REVIEWS		
Audit Follow-Up Title	Division(s)	Program Area(s)
Audit of Fixed Assets Processes (2011)	Financial Management	Cash Management
Review of Controls – The Alamo (2012)	Financial Management	Cash Management
Audit of Compliance with Texas Administrative Code (TAC) 202 (2013)	Enterprise Technology Services Information Security	Integrated Services Information Security Officer
Audit of Veterans' Land Board (VLB) Loan Processing (2015)	Veterans' Land Board	Land and Housing Loan Operations Enterprise
Audit of Health Insurance Portability and Accountability Act (HIPAA) (2015)	Information Security	Chief Privacy Officer
Audit of the Veterans Homes Operations Contract (2016)	Veterans' Land Board	Veterans Homes
Audit of Compliance with Texas Administrative Code (TAC) 202 (2016)	Information Security Enterprise Technology Services	Information Security Officer Integrated Services
Audit of the Alamo Accounting Processes (2016)	The Alamo Complex Financial Management	Alamo Complex Management (ACM) Revenue Administration/ Alamo
Audit of the Veteran Cemetery Operations (2017)	Veterans' Land Board	Veteran Cemeteries
Co-Sourced Audit of the PSF Externally Managed Portfolio (2017)	Investment Management	Real Assets Portfolio Management & External Funds Management
External Projects		
SAO - Contract & Financial Management Processes Audit (2015)	Financial Management	Various
SAO - Permanent School Fund (PSF) FY2015 Financial Statements Audit (2016)	Investment Management / Financial Management	Various



FY2018 MANAGEMENT ASSISTANCE / SPECIAL PROJECTS	
Project Title	Division/Program Area
Peer Quality Assurance Review	Internal Audit
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
Special Projects/Investigations	Internal Audit
Liaison for external audits and oversight entities.	Internal Audit
Management Assistance & Other Activities	Internal Audit



FY2018 RISK ASSESSMENT METHODOLOGY

The Office of Internal Audit has completed the Fiscal Year (FY) 2018 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 fourteen 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:

1. Management controls
2. Organizational Structure
3. Changes in Organization
4. Complexity of Operations
5. Extent of Government Regulation
6. Public Exposure & Sensitivity
7. Prior Audit Coverage
8. Information Systems Utilized
9. Outsourcing and Contracting
10. Recommendation Implementation Time
11. Budget
12. Potential for fraud
13. Management Interest
14. Overall Risk Matrix



VI. External Audit Services Procured in Fiscal Year 2017

FY2017 EXTERNAL AUDIT SERVICES	
Service Provider	Scope of Work
Weaver and Tidwell, L.L.P.	Agreed Upon Procedures of financial statements of the Permanent School Fund (PSF) real estate investment for Imperial Johnson.
KPMG (SAO)	Statewide Federal Single Audit
Weaver and Tidwell, L.L.P.	Audit of the T-RecS application to evaluate its design and effectiveness, which consisted of identifying and evaluating the application general and security risks and their controls.
Investment Training & Consulting Institute	Co-Sourced multi-year Investment Audit Services providing specialized skills, industry and subject matter knowledge in investment and information technology.



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:	
<ul style="list-style-type: none">• The GLO requires all staff to complete mandatory training on the prevention of fraud, waste and abuse.	
<ul style="list-style-type: none">• 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.	
<ul style="list-style-type: none">• 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.)	
<ul style="list-style-type: none">• 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.	
<ul style="list-style-type: none">• Suggestion boxes are located outside Internal Audit and Human Resources to allow employees the opportunity to submit information anonymously.	
<ul style="list-style-type: none">• The GLO requires all staff to complete mandatory ethics training.	
<ul style="list-style-type: none">• 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.<ul style="list-style-type: none">○ 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.	