

TEXAS GENERAL LAND OFFICE & VETERANS LAND BOARD



2018 INTERNAL AUDIT ANNUAL REPORT

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CHIEF AUDITOR

Table of Contents

I.	Compliance with Texas Government Code	1
II.	Internal Audit Plan for Fiscal Year 2018	2
III.	Consulting Engagements and Non-Audit Services Completed	5
IV.	External Quality Assurance Review	7
V.	Internal Audit Plan for Fiscal Year 2019	10
VI.	External Audit Services Procured in Fiscal Year 2018	14
VII.	Reporting Suspected Fraud and Abuse	15

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 2017 Annual Internal Audit Report is currently posted to the external and internal agency website, as will the 2018 version of the report upon submission to the SAO. The Annual Internal Audit Report contains additional summary information prescribed by the SAO. The 2019 Internal Audit Plan and the 2018 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 2018

FY2018 AUDIT PLAN		
Audit Title	Audit Status	Date Issued
Audit of Royalty/Minerals Audit Process	Completed	9/2018
Audit of the Agency Travel Processes	Completed	10/2018
Audit of the Alamo Accounting Processes	Completed	5/2018
Contracted Co-Source Audit of the Management of the Permanent School Fund (PSF) Internal Portfolio	Postponed	TBD
Audit of VLB Debt Issuance & Derivatives, Cash Forecasting & Cash Management	Postponed	TBD
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	In Progress	Multiple Reports
State Agency Internal Audit Forum (SAIAF) Quality Assurance Peer Review – Self Assessment	Completed	8/2018
External Projects		
Contracted Co-Source Audit of Management of the Real Assets Portfolio and External Funds Portfolio: (PSF Private Funds – Externally Managed)	Completed	7/2018



FY2018 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	Substantially Implemented
Review of Controls – The Alamo (2012)	Financial Management	Cash Management	Substantially Implemented
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	Completed
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	Substantially Implemented
Audit of Compliance with TAC 202 (2016)	Enterprise Technology Services Information Security	Integrated Services Information Security Officer	Ongoing
Audit of Veterans Cemetery Operations (2017)	Veterans' Land Board	Veterans Cemeteries	Ongoing
Audit of TRECS Application (2017)	Enterprise Technology Services Community Development and Revitalization	Enterprise Technology Services Community Development and Revitalization	Ongoing
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



FY2018 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

FY2018 CONSULTING AND NON-AUDIT SERVICES

Project Title	Program Area/Division	Report Date(s)
Internal Audit Quality Assurance and Improvement Program	Internal Audit	October 31, 2018
<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 Office**

September 2018



**Performed by
Dale Hernandez
Director of Internal Audit
Texas State Preservation Board**

**Sandra Menjivar-Suddeath
Director of Internal Audit
Texas Department of Motor Vehicles**

**Performed in Accordance with the
State Agency Internal Audit Forum
Peer Review Policies and Procedures**



Texas General Land Office Internal Audit Office
External Quality Assurance Review – September 2018

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 Office (Office) receives a rating of **"Pass/Generally Conforms"** and is in compliance 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 (GAO) *Government Auditing Standards*, and the Texas Internal Auditing 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 Office 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 Office is well managed internally. In addition, the Office has effective relationships with the Texas Land Commissioner and Chief Clerk 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.

The Internal Audit Office has reviewed the results of the peer review team's work and has accepted them to be an accurate representation of the Office's operations.

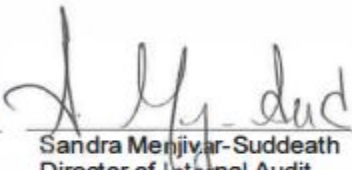
Acknowledgements

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 Office and its relationship with management.



Dale Hernandez
Director of Internal Audit
Texas State Preservation Board
SAIAF Peer Review Team
Leader

9/26/18
Date



Sandra Menjivar-Suddeath
Director of Internal Audit
Texas Department of Motor Vehicles
SAIAF Peer Review Team Member

9/26/18
Date



Texas General Land Office Internal Audit Office
External Quality Assurance Review – September 2018

Background

The Institute of Internal Auditors (IIA) *International Professional Practices Framework*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing 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. No member of the review team had a conflict of interest with the Texas General Land Office or its Internal Audit Office.

The most recent quality assurance review for the Texas General Land Office Internal Audit Office was reported in August 2015. The Internal Audit Office has made 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 Office'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 Office from July 2015 through July 2018.

The work performed during the review included:

- Review, verification, and evaluation of the self-assessment prepared by the Internal Audit Office according to SAIAF guidelines.
- Review and evaluation of e-mailed surveys completed by management.
- Interviews with the Chief Auditor, Internal Audit Office staff, the Texas Land Commissioner, the Chief Clerk, and six senior managers.
- 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 2019

FY2019 AUDIT PLAN			
Audit Title	Division(s)	Program Area(s)	Budgeted Hours
Audit of Data Governance and Third Party Personal Identifiable Information (PII)	Community Development & Revitalization Program	Community Development Block Grants (CDBG)	TBD
Audit of Program Vendor Management	Community Development & Revitalization Program	Community Development Block Grants (CDBG)	TBD
Audit of Program Vendor Management	Community Development & Revitalization Program	Federal Emergency Management Agency (FEMA)	TBD
Audit of Program Cash Management	Community Development & Revitalization Program	Partial Repair & Essential Power for Sheltering (PREPS)	TBD
Assessment of Cybersecurity Program Framework	Community Development & Revitalization Program	Federal Emergency Management Agency (FEMA)	TBD
Audit of Third Party Performance and Compliance – Horne, LLC	Community Development & Revitalization Program	Federal Emergency Management Agency (FEMA)	TBD
Audit of Third Party Performance and Compliance Management	Community Development & Revitalization Program	Partial Repair & Essential Power for Sheltering (PREPS)	TBD
Audit of Beach Watch Quality Management Plan	Coastal Protection	Coastal Resources	1000
Audit of Information Technology Compliance	Enterprise Technology Solutions	Enterprise Technology Solutions	1000
Audit of Information Technology and Information Security Governance	Enterprise Technology Solutions	Enterprise Technology Solutions Office of Information Security	1000
Audit of Program Policy Management and Compliance	Community Development & Revitalization Program	Federal Emergency Management Agency (FEMA)	TBD
Audit of Costal Resources – Grants Management	Coastal Protection	Coastal Resources	1000
Audit of the Internal Investment Portfolio	Asset Enhancement	Asset Management	1000



PLANNED FY2019 FOLLOW-UP REVIEWS		
Audit Follow-Up Title	Division(s)	Program Area(s)
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 Health Insurance Portability and Accountability Act (HIPAA) (2015)	Information Security	Chief Privacy Officer
Audit of the Veterans Land Board (VLB) 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 VLB Veterans Cemetery Operations (2017)	Veterans Land Board	Veterans Cemeteries
Audit of the TRECS Application (2017)	Community Development & Revitalization Program	Community Development Block Grants (CDBG)
Audit of the PSF Externally Managed Portfolio (2017)	Investment Management	Real Assets Portfolio Management & External Funds Management
Audit of the Royalty Audit Processes (2018)	Asset Enhancement	Energy Resources Minerals Audit
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



FY2019 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



FY2019 RISK ASSESSMENT METHODOLOGY

The Office of Internal Audit has completed the Fiscal Year (FY) 2019 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 2018

FY2018 EXTERNAL AUDIT SERVICES	
Service Provider	Scope of Work
Weaver and Tidwell, L.L.P.	Audits of PSF Real Estate Investments for FY 2016 and 2017
KPMG (SAO)	Statewide Federal Single Audit
Various	Audit planning, risk assessment and audits of FEMA Hurricane Harvey Response and Recovery Efforts.
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.	