

TEXAS GENERAL LAND OFFICE & VETERANS LAND BOARD



2019 INTERNAL AUDIT ANNUAL REPORT

OFFICE OF INTERNAL AUDIT
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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 2018 Annual Internal Audit Report is currently posted to the external and internal agency website, as will the 2019 version of the report upon submission to the SAO. The Annual Internal Audit Report contains additional summary information prescribed by the SAO. The 2020 Internal Audit Plan and the 2019 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 2019

| FY2019 AUDIT PLAN | | |
|--|---------------------|--------------------|
| Audit Title | Audit Status | Date Issued |
| Audit of Beach Watch Quality Management Plan | Completed | October 2019 |
| Audit of Coastal Resources – Grants Management | Completed | June 2019 |
| Audit of Compliance with Texas Administrative Code (TAC) 202 | In Progress | TBD |
| Audit of Program Vendor Management of the Direct Assistance for Limited Home Repair (DALHR) Program (Co-Sourced) | In Progress | TBD |
| Audit of Program Vendor Management of the Temporary Housing Program (Co-Sourced) | In Progress | TBD |
| Co-Sourced Audit of Program Cash Management for the Direct Housing Programs | In Progress | TBD |
| External Projects | | |
| SAO – Audit of Incentive Compensation at Selected Agencies (2019) | Completed | August 2019 |
| SAO – Audit on Hurricane Harvey Disaster Recovery Funds Administered by the General Land Office (2019) | Completed | October 2019 |
| SAO – An Audit of the Permanent School Fund’s (PSF) Financial Statement for FY2019 | In Progress | TBD |
| CPA – Audit of Post-Payments (2019) | In Progress | TBD |



| FY2019 FOLLOW-UP REVIEWS COMPLETED | | | |
|--|---|---|---|
| Audit Follow-Up Title | Division(s) | Program Area(s) | Implementation Status of Audit Recommendations |
| Audit of Fixed Assets Equipment Processes (2011) | Financial Management | Property Accounting | Substantially Implemented |
| Audit of Controls – The Alamo (2012) | Financial Management | Financial Management | Substantially Implemented |
| Audit of Compliance with TAC 202 (2013) | Enterprise Technology Solutions | Technology Analysis Services Technology Integration Services | Substantially Implemented |
| Audit of Health Insurance Portability and Accountability Act (HIPAA) Compliance (2015) | Enterprise Technology Solutions | Technology Integration Services | Substantially Implemented |
| Audit of Compliance with TAC 202 (2016) | Enterprise Technology Solutions Information Security | Application Services Technology Integration Services Information Security | Ongoing |
| Audit of the Veterans Land Board (VLB) Veterans Homes Operations Contract (2016) | Financial Management | Property Accounting | Substantially Implemented |
| Audit of the T-RecS Application (2017) | Coastal Protection Enterprise Technology Solutions Information Security | Various | Ongoing |
| Audit of the VLB Veterans Cemetery Program (2017) | Veterans Land Board | Texas State Veterans Cemeteries | Substantially Implemented |
| Audit of The Alamo Accounting Processes (2016) | Financial Management | Financial Management | Completed |
| Audit of the PSF Externally Managed Portfolio (2017) | Financial Management Investment Management | Financial Reporting and Accounting Investment Management | Ongoing |
| Audit of the Royalty Audit Processes (2017) | Asset Enhancement | Energy Resources | Completed |
| Audit of Agency Travel Processes (2018) | Financial Management General Counsel | Cash Management Procurement General Counsel | Ongoing |
| External Projects | | | |
| SAO – Contract & Financial Management Processes Audit (2015) | Financial Management | Procurement | Completed |
| SAO – Audit of FY2015 PSF Financial Statements (2016) | Financial Management | Cash Management Financial Reporting and Accounting | Completed |



| FY2019 MANAGEMENT ASSISTANCE / SPECIAL PROJECTS | |
|---|--------------------------------|
| Project Title | Program Area / Division |
| 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/Complaints/Investigations | Internal Audit |
| Liaison for External Audits and Oversight Entities | Internal Audit |
| Management Assistance & Other Activities | Internal Audit |



III. Consulting Engagements and Non-Audit Services Completed

FY2019 CONSULTING AND NON-AUDIT SERVICES

| Project Title | Program Area/Division | Report Date(s) |
|--|-----------------------|----------------|
| Internal Audit Quality Assurance and Improvement Program | Internal Audit | October 2019 |
| <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 2020

| FY2020 AUDIT PLAN | | | | |
|-------------------|---|--|--|----------------|
| No. | Audit Title | Division(s) | Program Area(s) | Budgeted Hours |
| 1 | Audit of Program Vendor Management of the DALHR Program (Co-Sourced) | Community Development & Revitalization Program | Community Development Block Grants – Disaster Recovery (CDBG-DR) | 1000 |
| 2 | Audit of Program Vendor Management of the Temporary Housing Program (Co-Sourced) | Community Development & Revitalization Program | Community Development Block Grants – Disaster Recovery (CDBG-DR) | 1000 |
| 3 | Risk Assessment and Audit Plan Development for CDBG-DR Programs (Co-Sourced) | Community Development & Revitalization Program | Community Development Block Grants – Disaster Recovery (CDBG-DR) | TBD |
| 4 | <i>Conduction of identified Audits Resulting from the Developed Audit Plan for CDBG-DR Programs</i> | | | TBD |
| 5 | Audit of Contract Management and Monitoring Process | Contract Management | Agency Wide | 1000 |
| 6 | Audit of Contract Procurement Process | Financial Management | Procurement | 1000 |
| 7 | Audit of the Budget & Planning Process | Financial Management | Budget & Planning | 1000 |
| * | Audit of VLB Pharmacy Contract | Veterans Land Board | Texas State Veterans Homes | TBD |
| * | Audit of the Gulf of Mexico Act (GOMESA) Grant Management | Coastal Protection | Coastal Resources | TBD |

(*) Identified as “optional” audit project(s), to be conducted by the Office of Internal Audit during the specified audit plan given the availability of time and audit resources.



PLANNED FY2020 FOLLOW-UP REVIEWS

| Audit Follow-Up Title | Division(s) | Program Area(s) |
|--|---|---|
| Audit of Fixed Assets Equipment Processes (2011) | Financial Management | Property Accounting |
| Audit of Controls – The Alamo (2012) | Financial Management | Financial Management |
| Audit of Compliance with TAC 202 (2013) | Enterprise Technology Solutions | Technology Analysis Services Technology Integration Services |
| Audit of HIPAA Compliance (2015) | Enterprise Technology Solutions | Technology Integration Services |
| Audit of Compliance with TAC 202 (2016) | Enterprise Technology Solutions Information Security | Application Services Technology Integration Services Information Security |
| Audit of the VLB Veterans Homes Operations Contract (2016) | Financial Management | Property Accounting |
| Audit of the T-RecS Application (2017) | Coastal Protection Enterprise Technology Solutions Information Security | Various |
| Audit of the VLB Veterans Cemetery Program (2017) | Veterans Land Board | Texas State Veterans Cemeteries |
| Audit of the PSF Externally Managed Portfolio (2017) | Financial Management Investment Management | Financial Reporting and Accounting Investment Management |
| Audit of Agency Travel Processes (2018) | Financial Management General Counsel | Cash Management Procurement General Counsel |
| Audit of Beach Watch Quality Management Plan (2019) | Coastal Protection | Coastal Resources |
| Audit of Compliance with TAC 202 (2019) | Enterprise Technology Solutions Information Security | Technology Integration Services Information Security |

External Projects

| | | |
|--|--|---------|
| SAO – Audit on Hurricane Harvey Disaster Recovery Funds Administered by the General Land Office (2019) | Community Development & Revitalization Program | Various |
| SAO – An Audit of the FY2019 PSF Financial Statements (2019) | Investment Management/Financial Management | Various |



| FY2020 MANAGEMENT ASSISTANCE / SPECIAL PROJECTS | |
|--|---|
| Project Title | Division/Program Area |
| Review of the Agency's Implementation of Recommendations of the Sunset Advisory Commission | Veteran's Land Board (VLB) School Land Board (SLB) |
| Review of Agency's Fixed Assets Inventory Processes (Federal and State Assets) | Financial Management Property Management |
| 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 |
| Complaints/Investigations | Internal Audit / Agency-wide |
| Liaison for External Audits and Oversight Entities. | Internal Audit / Agency-wide |
| Management Assistance & Other Activities | Internal Audit / Agency-wide |



FY2020 RISK ASSESSMENT METHODOLOGY

The Office of Internal Audit has completed the Fiscal Year (FY) 2020 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 2019

| FY2019 EXTERNAL AUDIT SERVICES | |
|--|--|
| Service Provider | Scope of Work |
| State Auditor's Office (KPMG, CliftonLarsonAllen) | Statewide Federal Single Audit |
| Ernst & Young | Audit planning, risk assessment, and audits of FEMA Hurricane Harvey Response and Recovery Efforts |



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:

- The GLO requires all staff to complete mandatory training on the prevention of fraud, waste and abuse.
- 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 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.)
- 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.
- Suggestion boxes are located outside Internal Audit and Human Resources to allow employees the opportunity to submit information anonymously.
- The GLO requires all staff to complete mandatory ethics training.
- 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.
 - In accordance with the 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 the SAO.
- The GLO established a fraud hotline and reporting mechanism for the State's disaster recovery efforts available online at the agency's recovery.texas.gov website that allows individuals to report instances of fraud, waste, and abuse.