



# MEMORANDUM

TEXAS GENERAL LAND OFFICE • GEORGE P. BUSH • COMMISSIONER

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**Date:** September 4, 2020

**To:** George P. Bush, Commissioner  
Mark Havens, Chief Clerk

**From:** Tracey Hall, Chief Auditor

**Subject:** 2020 Annual Report on the Internal Audit, Quality Assurance and Improvement Program

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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 *Generally Accepted 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 internal audit.

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* (effective January 2017) 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 external quality assessment in September of 2018. The Office of Internal Audit will undergo its next external quality assessment in 2021 (*see Appendix for excerpts from the 2018 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><b>IIA AS 1300<sup>1</sup>, Quality Assurance and Improvement Program</b></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"> <li>▪ The Internal Audit (IA) Policies and Procedures Manual has been developed and maintained on the IA shared drive. It is updated as needed, at a minimum of at least every three years with the most recent revision conducted in 2018.</li> <li>▪ A General Audit Program that consists of detailed procedures for ensuring compliance with the <i>Standards, GAGAS</i>, IA policies and procedures, and applicable legal and regulatory requirements are utilized during every audit engagement.</li> <li>▪ 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 of the <i>Standards, GAGAS</i> and audit objectives.</li> <li>▪ The Chief Auditor reviews and approves audit objectives, plans, testing programs, and reports for all audit engagements.</li> <li>▪ In its <i>Annual Report on the GLO Internal Audit – QAIP</i>, IA staff reviews the <i>Standards</i> and <i>GAGAS</i> for any updates to ensure the department’s QAIP is current and complies with all applicable requirements.</li> </ul>
<p><b>IIA AS 1310, Requirements of the Quality Assurance and Improvement Program</b></p>	<p>The quality assurance and improvement program must include both internal and external assessments.</p>	<ul style="list-style-type: none"> <li>▪ A QC Reviewer is assigned to every engagement to perform an internal review of all work papers to ensure adherence to the <i>Standards, GAGAS</i>, and applicable legal and regulatory requirements.</li> <li>▪ The Chief Auditor reviews and approves key audit plans, documents and samples of the QC work performed.</li> <li>▪ An external Quality Assurance Review (QAR)<sup>2</sup> is obtained every 3 years and performed by peers of the IA function. The QAR was completed in September of 2018.</li> </ul>

<sup>1</sup> 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.

<sup>2</sup> 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><b>IIA AS 1311, Internal Assessments</b></p>	<p>Internal assessments must include:</p> <ul style="list-style-type: none"> <li>▪ Ongoing monitoring of the performance of the IA activity; and</li> <li>▪ Periodic self-assessment or assessments by other persons within the organization with sufficient knowledge of internal audit practices</li> </ul>	<ul style="list-style-type: none"> <li>▪ The QC Reviewer for each audit reviews and signs off on every audit working paper.</li> <li>▪ The Chief Auditor meets with each audit team at least monthly or as needed to discuss the status of the audit and potential issues.</li> <li>▪ Time and resources for each audit are tracked by audit phase regarding to planning the audit, performing fieldwork, reporting, and quality control and supervisory review.</li> <li>▪ Auditors communicate to management through a project status report and with the Chief Auditor on an ongoing basis throughout the audits, identifying work performed and potential audit issues.</li> <li>▪ 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.</li> <li>▪ 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.</li> <li>▪ The QC Reviewer for each project reviews all working papers to ensure completeness and compliance with the <i>Standards</i>.</li> <li>▪ The Chief Auditor reviews key documents, including the audit plan, objectives, audit program, summary memo, and draft report.</li> <li>▪ The Chief Auditor reviews a sample of work for each audit to ensure the quality of the QC review function.</li> <li>▪ Customer Surveys are distributed to auditee management and other employees by the Chief Auditor immediately following the issuance of each audit report.</li> <li>▪ A comparison of budget-to-actual hours spent is conducted for all audits.</li> </ul>

Standard No. & Title	Requirement(s)	Evidence of Compliance
<p><b>IIA AS 1312, External Assessments</b></p>	<p>External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The Chief Audit Executive must discuss with the board:</p> <ul style="list-style-type: none"> <li>• The form and frequency of external assessment</li> <li>• The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Texas Internal Auditing Act (Act) requires internal auditors to comply with the Act as well as IIA and GAO <i>Standards</i>, including the Code of Ethics. IA follows the more restrictive requirement for external peer reviews, which is every three years.</li> <li>▪ 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.</li> </ul>
<p><b>IIA AS 1320, Reporting on the Quality Assurance and Improvement Program</b></p>	<p>The Chief Audit Executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:</p> <ul style="list-style-type: none"> <li>• The scope and frequency of both the internal and external assessments.</li> <li>• The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.</li> <li>• Conclusions of assessors.</li> <li>• Corrective action plans</li> </ul>	<ul style="list-style-type: none"> <li>▪ After the external Quality Assurance Review has been performed, the final report is provided to the Commissioner, the reporting authority of the Chief Auditor, and to the Deputy Land Commissioner/Chief Clerk. The 2018 report was communicated to them in September of 2018 (<i>see Appendix for excerpts from the 2018 External Quality Assurance Review</i>).</li> <li>▪ An external Quality Assurance Review (QAR) is obtained every 3 years and performed by peers of the IA function. The most recent QAR of GLO-IA was completed in September 2018. IA will undergo its next QAR in 2021.</li> <li>▪ The Chief Auditor prepares an annual report on the results of the Quality Assurance and Improvement Program (QAIP) which is provided to both the Commissioner and to the Deputy Land Commissioner/Chief Clerk.</li> </ul>
<p><b>IIA AS 1321, Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”</b></p>	<p>Indicating that the internal audit activity conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> is appropriate only if supported by the results of the quality assurance and improvement program.</p>	<ul style="list-style-type: none"> <li>▪ The IA activities conform with the Code of Ethics and the <i>Standards</i>.</li> <li>▪ The results of the quality assurance and improvement program include the results of both internal and external assessments (<i>see Standard No. IIA AS 1320 above for details</i>).</li> </ul>

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<p><b>IIA AS 1322, Disclosure of Nonconformance</b></p>	<p>When nonconformance with the Code of Ethics or the Standards impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.</p>	<ul style="list-style-type: none"> <li>▪ The IA activities conform with the Code of Ethics and the <i>Standards</i>.</li> <li>▪ The results of the quality assurance and improvement program include the results of both internal and external assessments of which any non-conformance was addressed. (<i>see Standard No. IIA AS 1320 above for details</i>).</li> </ul>
<p><b>GAGAS 5.02, Quality Control and Assurance</b></p>	<p>An audit organization conducting engagements in accordance with GAGAS must 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</p>	<ul style="list-style-type: none"> <li>▪ The Chief Auditor has established a system of quality control designed to provide reasonable assurance of compliance with the Standards, and legal and regulatory requirements (<i>see Standard No. IIA AS 1300 on page 2 for details</i>).</li> <li>▪ An external Quality Assurance Review (QAR) is obtained every 3 years and performed by peers of the IA function. The QAR was completed in September of 2018. IA will undergo its next QAR in 2021.</li> </ul>

Standard No. & Title	Requirement(s)	Evidence of Compliance
<p><b>GAGAS 5.04, System of Quality Control</b></p>	<p>An audit organization should document its quality control policies and procedures and communicate those policies and procedures to its personnel. The audit organization should document compliance with its quality control policies and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent to which the audit organization complies with its quality control policies and procedures.</p>	<ul style="list-style-type: none"> <li>▪ The IA Policies and Procedures Manual includes sections on:                             <ul style="list-style-type: none"> <li>✓ Rules and Regulations that IA is required to follow</li> <li>✓ Internal Auditing <i>Standards</i> (IIA and GAO, including the Code of Ethics)</li> <li>✓ Working Paper Standards</li> <li>✓ Standards of Conduct</li> <li>✓ Independence and Objectivity</li> <li>✓ Conflict of Interest</li> <li>✓ Confidentiality</li> </ul> </li> <li>▪ Each year IA completes an assessment of its quality assurance and improvement program (QAIP). The resulting report is provided to Executive Management.</li> <li>▪ Each IA employee must sign an Independence Form annually and for individual audits, which addresses actual and potential conflicts of interest.</li> <li>▪ The General Audit Program used for every audit requires each auditor to assess and report on any actual or potential independence issues.</li> <li>▪ All evidence of quality control reviews is documented by signoffs and coaching notes within the audit in the TeamMate auditing software.</li> <li>▪ The IA Policies and Procedures Manual requires all working papers for audits and other projects to be retained in accordance with the State of Texas Records Retention Schedule for a period of 7+ years after the final report is issued.</li> </ul>

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<p><b>GAGAS 5.05, Leadership Responsibilities for Quality within the Audit Organization</b></p>	<p>The audit organization should establish policies and procedures on leadership responsibilities for quality within the audit organization that include designating responsibility for quality of engagements conducted in accordance with GAGAS and communicating policies and procedures relating to quality.</p>	<ul style="list-style-type: none"> <li>▪ The IA Policies and Procedures Manual provides detailed information about how to perform and document audit planning, fieldwork, and reporting.</li> <li>▪ 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 the <i>Standards</i>, and legal and regulatory requirements.</li> </ul>
<p><b>GAGAS 5.06, Leadership Responsibilities for Quality within the Audit Organization</b></p>	<p>The audit organization should establish policies and procedures designed to provide reasonable assurance that those assigned operational responsibility for the audit organization’s 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"> <li>▪ The IA Policies and Procedures Manual state that it is a 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), Certified Fraud Examiner (CFE) or Certified Government Auditing Professional (CGAP).</li> <li>▪ All IA personnel have relevant degrees and/or professional certifications.</li> <li>▪ The IA Policies and Procedures Manual includes requirements from the <i>Texas Internal Auditing Act- Texas Government Code 2102.006 (b)</i> for the Chief Audit Executive to have the Certified Public Accountant or Certified Internal Auditor designation with 3+ years of experience.</li> </ul>
<p><b>GAGAS 5.08, Independence, Legal, and Ethical Requirements</b></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.</p>	<ul style="list-style-type: none"> <li>▪ 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.</li> <li>▪ All internal auditors are required to complete annual independence statements that include any possible impairment to their independence regarding any auditable program of the agency.</li> <li>▪ The Chief Auditor considers any potential conflicts of interest in determining audit assignments.</li> </ul>

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<p><b>GAGAS 5.09, Independence, Legal, and Ethical Requirements</b></p>	<p>At least annually, the audit organization should obtain written affirmation of compliance with its policies and procedures on independence from all of its personnel required to be independent.</p>	<ul style="list-style-type: none"> <li>▪ All internal auditors are required to complete annual independence statements that include any possible impairment to their independence regarding any auditable program of the agency.</li> <li>▪ Each individual audit requires all assigned team members to complete an independence statement.</li> <li>▪ The Chief Auditor considers any potential conflicts of interest in determining audit assignments. The Chief Auditor will determine the appropriate actions to maintain independence in conducting internal audit work. Possible actions include but are not limited to assigning the auditor only to projects where independence is not an issue, reassigning the auditor to another project or to other tasks within the project, or increased supervision. The Chief Auditor must document these actions.</li> </ul>
<p><b>GAGAS 5.12, Initiation, Acceptance and Continuance of Audits</b></p>	<p>The audit organization should establish policies and procedures for the initiation, acceptance, and continuance of engagements that are designed to provide reasonable assurance that the organization will undertake engagements only if it:</p> <ol style="list-style-type: none"> <li>a. complies with professional standards, applicable legal and regulatory requirements, and ethical principles;</li> <li>b. acts within its legal mandate or authority; and</li> <li>c. has the capabilities, including time and resources, to do so.</li> </ol>	<ul style="list-style-type: none"> <li>▪ IA ensures current policies and procedures for the initiation, acceptance and continuance of audits are designed to provide reasonable assurance that the IA function will continually conduct only audits in which it can ensure compliance with professional standards, legal requirements, and ethical principles and that it is acting within the legal mandate or authority of the audit organization.</li> <li>▪ The IA function performs an extensive risk assessment process of the agency programs annually in order to select relevant audits that add value to the agency having been identified by areas of potential risk. An annual audit plan is developed from the risk assessment which takes into consideration the available audit resources. IA has developed and maintained an IA Policies and Procedures Manual. All internal auditors have relevant degrees and professional certifications.</li> <li>▪ Time budgets are established during the scoping phase of the audit and budget-to-actual-hours reports are completed during all audits.</li> </ul>



Standard No. and Title	Requirement(s)	Evidence of Compliance
<b>GAGAS 5.15, Human Resources</b>	The audit organization 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.	<ul style="list-style-type: none"> <li>▪ 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), Certified Fraud Examiner (CFE), or Certified Government Auditing Professional (CGAP).</li> <li>▪ All IA personnel have relevant degrees and/or professional certifications.</li> </ul>
<b>GAGAS 5.16, Human Resources</b>	The audit organization should establish policies and procedures to provide reasonable assurance that auditors who are performing work in accordance with GAGAS meet the continuing professional education (CPE) requirements, including maintaining documentation of the CPE completed and any exemptions granted. <i>(Due to COVID-19 pandemic GAGAS issued a CPE exception alert.)</i> <sup>3</sup>	<ul style="list-style-type: none"> <li>▪ The IA Policies and Procedures Training Policy requires auditors to complete 80 hours of continuing education within a two-year period, with at least twenty hours completed each year. Of the eighty hours required for a two-year period, twenty-four hours should be in government-related subjects, and two hours of Ethics.</li> <li>▪ All Internal Auditors track CPE hours utilizing the Training Tracking Sheet to ensure each employee completes required hours of CPE each year.</li> </ul>
<b>GAGAS 5.22, Engagement Performance</b>	The audit organization should establish policies and procedures for engagement performance, documentation, and reporting that are designed to provide the audit organization with reasonable assurance that engagements are conducted, and reports are issued in accordance with professional standards and applicable legal and regulatory requirements.	<ul style="list-style-type: none"> <li>▪ The IA Policies and Procedures Manual includes detailed requirements for work papers, documentation and reporting to be in conformance with the <i>Standards</i> and <i>GAGAS</i>.</li> <li>▪ Audits are reviewed at each stage of the audit, and the audit report is approved by the Chief Auditor prior to issuance.</li> </ul>

<sup>3</sup> COVID-19: GAGAS CPE Alert effective February 29, 2020: <https://www.gao.gov/yellowbook/overview>

The GAO provides three exceptions to the GAGAS CPE requirements for circumstances related to the COVID-19 pandemic and clarification of an existing exemption: (1) For the 2-year CPE periods that end February 29, 2020 through December 31, 2020, auditors who have not completed the 80-hour or the 24-hour CPE requirements may have up to 6 months immediately following the 2-year period to make up the deficiency; (2) Auditors are not required to complete at least 20-hours of CPE for a 1-year period that ends February 29, 2020 through December 31, 2020; and (3) From the audit organization’s 2-year period in effect February 29, 2020, auditors may carry over up to 40 hours of CPE, in excess of the 80 -hour requirement, to the next CPE measurement period. For 2-year measurement periods ending after December 31, 2020, only CPE hours earned through December 31, 2020 may be carried over. Clarification of Existing GAGAS paragraph 4.29 Exemption: If the auditor is working, including teleworking, audit organizations and auditors may not use the exemptions outlined in paragraph 4.29.

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<p><b>GAGAS 5.23, Engagement Performance</b></p>	<p>If auditors change the engagement objectives during the engagement, they should document the revised engagement objectives and the reasons for the changes.</p>	<ul style="list-style-type: none"> <li>▪ The IA Policies and Procedures Manual include procedures on determining audit objectives, staffing requirements, scheduling, time budgets, areas to be covered, detailed tests to be performed, and the extent to which a detailed examination is to be conducted during the initial planning phase. Each audit requires an Audit Plan which identifies the objectives and scope of the engagement.</li> <li>▪ If there is a change in audit scope or objective/s, the Chief Audit Executive will issue a “memo to file” to Executive Management and the program area being audited. The memo will provide justification for any changes in scope or objective. Any changes to an audit objective detailed in the Annual Internal Audit Plan require approval from the Commissioner.</li> </ul>
<p><b>GAGAS 5.24, Engagement Performance</b></p>	<p>The audit organization should establish policies and procedures designed to provide it with reasonable assurance that:</p> <ol style="list-style-type: none"> <li>a. appropriate consultation takes place on difficult or contentious issues that arise among engagement team members in the course of conducting a GAGAS engagement;</li> <li>b. both the individual seeking consultation and the individual consulted document and agree upon the nature and scope of such consultations; and</li> <li>c. the conclusions resulting from consultations are documented, understood by both the individual seeking consultation and the individual consulted, and implemented.</li> </ol>	<ul style="list-style-type: none"> <li>▪ The IA Policies and Procedures Manual contains procedures on conducting consulting, management assistance, and special project engagements. The Chief Auditor will obtain approval from the Chief Clerk for projects that may require a significant number of hours to impact the projects in the Annual Audit Plan. If a report is applicable to the special project or consultation engagement, the Chief Auditor will provide the requestor a report detailing the information gathered or observations made and will provide the report to executive management as appropriate.</li> <li>▪ <b>Process Improvement Recommendation:</b> IA will consider updating the IA Policies and Procedures Manual to include procedures on how to handle, resolve, and document difficult or contentious issues that arise among engagement team members while conducting a GAGAS engagement.</li> </ul>

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<p><b>GAGAS 5.25, Engagement Performance</b></p>	<p>If an engagement is terminated before it is completed and an audit report is not issued, auditors should document the results of the work to the date of termination and why the engagement was terminated.</p>	<ul style="list-style-type: none"> <li>▪ If an engagement is terminated before it is completed and an audit report is not issued, the Chief Audit Executive will issue a “memo to file” to Executive Management and the program area being audited. The memo will provide justification for terminating the engagement. Any changes to an audit objective detailed in the Annual Internal Audit Plan must be approved by the Commissioner.</li> <li>▪ <b>Process Improvement Recommendation:</b> IA will consider updating the IA Policies and Procedures Manual to include procedures for the termination of an audit before completion of which a report will not be issued.</li> </ul>
<p><b>GAGAS 5.36, Engagement Performance</b></p>	<p>The audit organization should establish policies and procedures that require engagement team members with appropriate levels of skill and proficiency in auditing to supervise engagements and review work performed by other engagement team members.</p>	<ul style="list-style-type: none"> <li>▪ The IA Policies and Procedures Manual contains detailed Quality Control Review procedures required for each audit and establishes criteria for acceptable working papers.</li> <li>▪ A QC Reviewer is assigned to every engagement to perform an internal review of and sign off on all work papers to ensure adherence to the <i>Standards</i> and applicable legal and regulatory requirements.</li> <li>▪ The Chief Auditor reviews and signs off on key working papers, including, but not limited to, the audit plan, audit program, and referenced draft report.</li> <li>▪ All IA personnel have relevant experience and degrees and/or professional certifications such as CPA, CIA, CISA, CFE, CGAP, CRMA.</li> <li>▪ IA’s standard audit program in TeamMate includes a planning step in which management and the Chief Auditor selects audit team members based on an evaluation of team competencies and qualifications required to perform assigned roles for each project.</li> </ul>

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<p><b>GAGAS 5.37, Engagement Performance</b></p>	<p>The audit organization should assign responsibility for each engagement to an engagement partner or director with authority designated by the audit organization to assume that responsibility and should establish policies and procedures requiring the organization to:</p> <ul style="list-style-type: none"> <li>a. communicate the identity and role of the engagement partner or director to management and those charged with governance of the audited entity and</li> <li>b. clearly define the responsibilities of the engagement partner or director and communicate them to that individual.</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Chief Auditor is assigned responsibility for each engagement and reviews and signs off on key working papers, including, but not limited to, the audit plan, audit program, and referenced draft report. The final report and management responses to corrective actions are reviewed and approved by the Chief Auditor.</li> <li>▪ The Chief Auditor meets with each audit team weekly to discuss the status of the audit and potential issues.</li> </ul>
<p><b>GAGAS 5.42, Monitoring of Quality</b></p>	<p>The audit organization should establish policies and procedures for monitoring its system of quality control.</p>	<ul style="list-style-type: none"> <li>▪ The IA function has policies and procedures that ensure the continued monitoring of quality within the work performed by the IA function.</li> <li>▪ This analysis (Annual Report on the QAIP) constitutes the annual quality assessment.</li> </ul>
<p><b>GAGAS 5.43, Monitoring of Quality</b></p>	<p>The audit organization should perform monitoring procedures that enable it to assess compliance with professional standards and quality control policies and procedures for GAGAS engagements. Individuals performing monitoring should have sufficient expertise and authority within the audit organization.</p>	<ul style="list-style-type: none"> <li>▪ The IA function has policies and procedures that ensure the continued monitoring of quality within the work performed by the IA function.</li> <li>▪ This analysis (Annual QAIP report) constitutes the annual quality assessment.</li> <li>▪ An external Quality Assurance Review (QAR) is obtained every 3 years and performed by peers of the IA function. The QAR was completed in September of 2018. IA will undergo its next QAR in 2021.</li> <li>▪ 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), Certified Fraud Examiner (CFE) and/or Certified Government Auditing Professional (CGAP).</li> <li>▪ All internal auditors have relevant degrees and professional certifications.</li> </ul>

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<p><b>GAGAS 5.44, Monitoring of Quality</b></p>	<p>The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to the relevant engagement partner or director, and other appropriate personnel, any deficiencies noted during the monitoring process and recommend appropriate remedial action. This communication should be sufficient to enable the audit organization and appropriate personnel to take prompt corrective action related to deficiencies, when necessary, in accordance with their defined roles and responsibilities. Information communicated should include the following:</p> <ul style="list-style-type: none"> <li>a. a description of the monitoring procedures performed;</li> <li>b. the conclusions reached from the monitoring procedures; and</li> </ul> <p>when relevant, a description of systemic, repetitive, or other deficiencies and of the actions taken to resolve those deficiencies.</p>	<ul style="list-style-type: none"> <li>▪ The IA function has policies and procedures that ensure the continued monitoring of quality within the work performed by the IA function.</li> <li>▪ This analysis (Annual Report on the QAIP) constitutes the annual quality assessment. Process improvement recommendations noted in the QA&amp;IP report will be considered during the update of the IA Policies and Procedures Manual.</li> </ul>


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<p><b>GAGAS 5.45, Monitoring of Quality</b></p>	<p>The audit organization should evaluate the effects of deficiencies noted during monitoring of the audit organization’s system of quality control to determine and implement appropriate actions to address the deficiencies. This evaluation should include assessments to determine if the deficiencies noted indicate that the audit organization’s system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that accordingly the reports that the audit organization issues are not appropriate in the circumstances.</p>	<ul style="list-style-type: none"> <li>▪ During its Annual Quality Assurance and Improvement Program Report, IA evaluates existing policies, procedures, and processes to note any deficiencies and review compliance with professional standards and applicable legal and regulatory requirements. Process improvement recommendations noted in the QA&amp;IP report will be considered during the update of the IA Policies and Procedures Manual.</li> <li>▪ The IA function has policies and procedures that ensure the continued monitoring of quality within the work performed by the IA function.</li> <li>▪ An external Quality Assurance Review (QAR) is obtained every 3 years and performed by peers of the IA function. The last QAR was completed in September of 2018. IA will undergo its next QAR in 2021.</li> <li>▪ Process Improvement Recommendation: The IA function should review the policies, procedures, and processes and give consideration for alignment with COSO framework.</li> </ul>
<p><b>GAGAS 5.46, Monitoring of Quality</b></p>	<p>The audit organization should establish policies and procedures that require retention of engagement documentation for a period of time sufficient to permit those performing monitoring procedures and peer review of the organization to evaluate its compliance with its system of quality control or for a longer period if required by law or regulation.</p>	<ul style="list-style-type: none"> <li>▪ The IA Policies and Procedures Manual requires all working papers for audits and other projects to be retained in accordance with the State of Texas Records Retention Schedule for a period of 7+ years after the final report is issued.</li> </ul>

Standard No. and Title	Requirement(s)	Evidence of Compliance
<p><b>GAGAS 5.60, External Peer Review</b></p>	<p>Each audit organization conducting engagements in accordance with GAAS must obtain an external peer review conducted by reviewers independent of the audit organization being reviewed. The peer review should be sufficient in scope to provide a reasonable basis for determining whether, for the period under review, (1) the reviewed audit organization’s system of quality control was suitably designed and (2) the organization is complying with its quality control system so that it has reasonable assurance that it is performing and reporting in conformity with professional standards and applicable legal and regulatory requirements in all material respects.</p>	<ul style="list-style-type: none"> <li>▪ An external Quality Assurance Review (QAR) is obtained every 3 years and performed by peers of the IA function. The last QAR was completed in September of 2018. IA will undergo its next QAR in 2021.</li> </ul>

**APPENDIX:**

**Excerpts of the 2018 External Quality Assurance Review of the Texas General Land Office, Office of Internal Audit**

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.

9/26/18	Date	9/26/18	Date
Dale Hernandez		Sandra Menjivar-Suddeath	
Director of Internal Audit		Director of Internal Audit	
Texas State Preservation Board		Texas Department of Motor Vehicles	
SAIAF Peer Review Team		SAIAF Peer Review Team Member	
Leader			





Internal Audit Office 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 September 2018.

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 "Dale Hernandez", written over a horizontal line.

*Dale Hernandez, CIA, CFE, CGAP, CCSA  
Internal Audit Director  
Texas State Preservation Board*

A handwritten signature in black ink, appearing to read "Sandra Menjivar-Suddeath", written over a horizontal line.

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