

TEXAS GENERAL LAND OFFICE & VETERANS LAND BOARD



2020 INTERNAL AUDIT ANNUAL REPORT

OFFICE OF INTERNAL AUDIT
TRACEY HALL, CPA, CISA
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 fourth-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 2019 Annual Internal Audit Report is currently posted to the external and internal agency website, as well the 2020 version of the report upon submission to the SAO. The Annual Internal Audit Report contains additional summary information prescribed by the SAO. The 2021 Internal Audit Plan and the 2020 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 2020

FY2020 AUDIT PLAN		
Audit Title	Audit Status	Date Issued
Audit of Program Vendor Management of DALHR Program (Co-Sourced)	Completed	June 2020
Audit of Program Vendor Management of the Temporary Housing Program (Co-Sourced)	Completed	September 2020
*Risk Assessment and Audit Plan Development for CDBG-DR Programs (Co-Sourced)	Completed	April 2020
*Risk Assessment and Audits of the Information Technology Environment of CDBG-DR Programs (Co-Sourced)	Completed	April 2020
Audit of Contract Management and Monitoring Process	In Progress	TBD
Audit of Contract Procurement Process	Not Started	Postponed
Audit of the Budget & Planning Process	Not Started	Postponed
External Projects		
SAO – Permanent School Fund (PSF) FY 2019 Financial Statements Audit	Completed	December 2019
Reviews conducted by Federal Entities of Hurricane Harvey Recovery Efforts Administered by the GLO	Ongoing	Ongoing

(*) Identified as non-audit projects conducted by the Office of Internal Audit for CDBG-DR risk assessment and audit planning purposes. No formal report was issued for executive management.



FY2020 FOLLOW-UP REVIEWS COMPLETED			
Audit Follow-Up Title	Division(s)	Program Area(s)	Implementation Status of Audit Recommendations
Review of Controls - The Alamo (2012)	Financial Management	Cash Management	Substantially Implemented
Audit of Compliance with Texas Administrative Code (TAC) 202 (2013)	Enterprise Technology Solutions	Integrated Services Information Security Officer	Substantially Implemented
Audit of Health Insurance Portability and Accountability Act (HIPAA) (2015)	Information Security	Chief Privacy Officer	Substantially Implemented
Audit of the Veterans Land Board, Veterans Homes Operations Contract (2016)	Veterans' Land Board	Veterans Homes	Substantially Implemented
Audit of Compliance with Texas Administrative Code (TAC) 202 (2016)	Information Security Enterprise Technology Services	Integrated Services Information Security Officer	Ongoing
Audit of the Veteran Cemetery Operations (2017)	Veterans' Land Board	Veteran Cemeteries	Completed
Audit of the TRECS Application (2017)	Community Development & Revitalization Program	Community Development Block Grants (CDBG)	Closed
Audit of the PSF Externally Managed Portfolio (2017)	Investment Management	Real Assets Portfolio Management & External Funds Management	Ongoing
Audit of Agency Travel Processes (2018)	Financial Management	Travel	Completed
Audit of Coastal Resources Beach Watch Program (2019)	Coastal Protection	Coastal Resources	Ongoing
Audit of Compliance with Texas Administrative Code (TAC) 202 (2019)	Information Security Enterprise Technology Services	Integrated Services Information Security Officer	Ongoing
External Projects			
SAO – Audit on Hurricane Harvey Disaster Recovery Funds Administered by the General Land Office (2019)	Community Development & Revitalization Program	Various	Ongoing



FY2020 MANAGEMENT ASSISTANCE / SPECIAL PROJECTS	
Project Title	Program Area / Division
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



III. Consulting Engagements and Non-Audit Services Completed

FY2020 CONSULTING AND NON-AUDIT SERVICES

Project Title	Program Area/Division	Report Date(s)
Review of the Agency's Implementation of Recommendations of the Sunset Advisory Commission	Veteran's Land Board (VLB) School Land Board (SLB)	February 2020
<p><u>Objective:</u> During the 2018-2019 Review cycle (86th Legislature), the Texas Sunset Advisory Commission conducted a review of the SLB and the VLB. The Texas Sunset Act requires a review of the implementation of both the statutory recommendations adopted by the Legislature and management recommendations adopted by the Commission. As part of the FY2020 Annual Internal Audit Plan, the Office of Internal Audit (IA) conducted a review to assess the agency's implementation of the Commissions' recommendations to the SLB and VLB, prior to the Commission's planned compliance review process. This included identifying and reporting the current progress of implementing the Commission's recommendations.</p> <p><u>Conclusion:</u> A memo was provided to GLO Executive Management detailing the implementation status of the Commission's statutory and management action recommendations.</p>		

Project Title	Program Area/Division	Report Date(s)
Review of Agency's Fixed Assets Inventory Processes (Federal and State Assets)	Internal Audit	April 2020
<p><u>Objective:</u> To assist the Building & Support Services and Property Management Division in identifying adequate and efficient controls, processes, and procedures for the tracking, management, and reporting of federally funded assets (including information technology equipment) in accordance with federal requirements.</p> <p><u>Conclusion:</u> Possible areas of risks were identified related to the purchase, managing, tracking, and reporting of federally funded assets that management will consider as it works to improve its property management controls.</p>		



Project Title	Program Area/Division	Report Date(s)
Internal Audit Quality Assurance and Improvement Program	Internal Audit	October 2020
<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 that 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 were 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 2021

FY2021 AUDIT PLAN				
No.	Audit Title	Division(s)	Program Area(s)	Budgeted Hours
1	Audit of Vendor Procurement	Community Development & Revitalization Program	Community Development Block Grants – Disaster Recovery (CDBG-DR)	800
2	Audit of Reporting Compliance for the Federal Funding Accountability and Transparency Act	Financial Management	Federal Finance Financial Reporting & Accounting	800
3	Audit of Privacy Controls for Community Development Block Grants	Office of Information Security Community Development & Revitalization Program	Information Security CDR- Integration	TBD
4	Audit of Agency Cloud Services Management	Enterprise Technology Solutions	ETS Information Security	TBD
5	Audit of the Gulf of Mexico Energy Security Act (GOMESA) Grant Management	Coastal Protection	Coastal Resources	TBD
6	Audit of Vendor Management (VLB-Land and Housing)	Veterans Land Board Land and Housing	Loan Operations Enterprise	TBD
7	Audit of Vendor Management for the Texas State Veterans Cemeteries	Veterans Land Board	Texas State Veterans Cemeteries	TBD
8	Audit of Lease Accounting and Reporting Requirements for Government Accounting Standards Board – Statement No. 87	Financial Management	Financial Reporting & Accounting Asset Enhancement -Leasing Operations	TBD
9	Audit of Agency Business Continuity Planning	Enterprise Technology Solutions Human Resources	Agency Continuity of Operations Plan	TBD
10	Audit of Royalty Reporting	Asset Enhancement	Energy Resources	TBD



FY2021 AUDIT PLAN				
No.	Audit Title	Division(s)	Program Area(s)	Budgeted Hours
11	* Audit of Vendor Performance (CDBG-DR)	Community Development & Revitalization Program	Community Development Block Grants – Disaster Recovery (CDBG-DR)	TBD
12	* Audit of Vendor Management (CDBG-DR)	Community Development & Revitalization Program	Community Development Block Grants – Disaster Recovery (CDBG-DR)	TBD
13	* Audit of Third-Party Risks Processes (CDBG-DR)	Community Development & Revitalization Program	Community Development Block Grants – Disaster Recovery (CDBG-DR)	TBD
14	* Audit of Cash Management for the Economic Development Program (CDBG-DR)	Community Development & Revitalization Program	Community Development Block Grants – Disaster Recovery (CDBG-DR)	TBD

(*) Identified as a Contracted Audit



PLANNED FY2021 FOLLOW-UP REVIEWS

Audit Follow-Up Title	Division(s)	Program Area(s)
Audit of Fixed Assets (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 Solutions	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 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	Integrated Services Information Security Officer
Audit of the PSF Externally Managed Portfolio (2017)	Investment Management	Real Assets Portfolio Management & External Funds Management
Audit of Coastal Resources Beach Watch Program (2019)	Coastal Protection	Coastal Resources
Audit of Compliance with Texas Administrative Code (TAC) 202 (2019)	Information Security Enterprise Technology Services	Integrated Services Information Security Officer
Audit of Program Cash Management (2019)	Community Development & Revitalization Program	FEMA Individual Assistance Programs
Audit of Program Vendor Management (2020)	Community Development & Revitalization Program	Direct Assistance for Limited Home Repair Temporary Housing Program
Audit of Contract Management and Monitoring Process (2020)	Contract Management	Various

External Projects

SAO - Audit on Hurricane Harvey Disaster Recovery Funds Administered by the GLO (2019)	Community Development & Revitalization Program	Various
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FY2021 MANAGEMENT ASSISTANCE / SPECIAL PROJECTS	
Project Title	Division/Program Area
Internal Audit Quality Assurance Review	Internal Audit
Annual Risk Assessment and Internal Audit Plan	Internal Audit
Annual Report on Internal Audit (SAO)	Internal Audit
Internal Audit Self-Assessment and Independent Peer Review	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 (Federal and State)	Internal Audit
Management Assistance & Other Activities	Internal Audit



FY2021 RISK ASSESSMENT METHODOLOGY

The Office of Internal Audit completed the Fiscal Year (FY) 2021 Risk Assessment of the agency. The risk assessment is based upon a compilation of operational, financial, regulatory, internal and external data.

The identified risks were ranked based on the inherent impact and likelihood, and the strength of the known existing control. The resulting risk library is grouped into the following categories which were used to define the types of audit coverage:

- | | |
|---|--|
| 1. Governance and Oversight | 11. Potential for Fraud |
| 2. Contract Management and Monitoring | 12. Management Controls |
| 3. Financial | 13. Documentation of Policies and Procedures |
| 4. Regulatory Compliance | 14. Appropriate Access |
| 5. Information Security | 15. Supervision and Training |
| 6. Data Integrity | 16. Business Continuity |
| 7. Change Management | 17. Third Party Risks |
| 8. Complexity of Operations | 18. Operational Controls |
| 9. Public Exposure & Sensitivity | 19. Data Reliability |
| 10. Extent of Outsourcing and Contracting | |

This information, combined with the agency's auditable units, were used to identify the possible audit projects. Of the 19 risk categories evaluated, 12 were included in the proposed audit plan.



VI. External Audit Services Procured in Fiscal Year 2020

FY2020 EXTERNAL AUDIT SERVICES	
Service Provider	Scope of Work
State Auditor's Office (CliftonLarsonAllen)	Statewide Federal Single Audit
Ernst & Young	Audit planning, risk assessment, and audits of GLO administered Community Development Block Grant- Disaster Recovery activities



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 for 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.