

# TEXAS GENERAL LAND OFFICE & VETERANS LAND BOARD

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## 2021 INTERNAL AUDIT ANNUAL REPORT

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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 2020 Annual Internal Audit Report is currently posted to the external and internal agency website, as well will the 2021 version of the report upon submission to the SAO. The Annual Internal Audit Report contains additional summary information prescribed by the SAO. The 2022 Internal Audit Plan and the 2021 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 2021

FY2021 AUDIT PLAN		
Audit Title	Audit Status	Date Issued
(21-01) Audit of Vendor Procurement for Community Development Block Grants – Disaster Recovery (CDBG-DR)	Completed	May 2021
(21-02) Audit of Vendor Management for the Veterans Land Board (VLB) Land and Housing Programs	Completed	October 2021
(21-06) Audit of Royalty Reporting	Completed	September 2021
(21-07) Audit of Vendor Management for CDBG-DR (Co-Sourced)	Completed	September 2021
* (21-08) Audit of Program Contract Management Processes	In Progress	TBD
(21-09) Audit of Agency Cloud Services Management	In Progress	TBD
Audit of Agency Business Continuity Planning	Postponed <i>Included in the FY2022 Audit Plan</i>	
Audit of Reporting Compliance for the Federal Funding Accountability and Transparency Act	Postponed <i>Forecasted for inclusion in the FY2023 Audit Plan</i>	
Audit of the Gulf of Mexico Energy Security Act (GOMESA) Grant Management	Postponed <i>Forecasted for inclusion in the FY2023 Audit Plan</i>	
Audit of Lease Accounting and Reporting Requirements for Government Accounting Standards Board – Statement No. 87	Postponed <i>Forecasted for inclusion in the FY2023 Audit Plan</i>	
Audit of Vendor Management for the Texas State Veterans Cemeteries	Canceled	
Audit of Cash Management for the Economic Revitalization Program (CDBG-DR) (Co-Sourced)	Postponed <i>Included in the FY2022 Audit Plan as Audit of Grant Compliance for CDBG-DR Economic Revitalization Program (ERP)</i>	
Audit of Privacy Controls for Community Development Block Grants (CDBG)	Canceled  <i>These audits were projected to be conducted as contracted co-sourced engagements. However, a co-sourced risk assessment of third-party vendors (including IT) was conducted and resulted in the commencement of audit project 21-07.</i>	
Audit of Vendor Performance (CDBG-DR) (Co-Sourced)		
Audit of Third-Party Risks Processes (CDBG-DR) (Co-Sourced)		



External Projects		
Audit Title	Audit Status	Date Issued
SAO – Permanent School Fund (PSF) FY 2020 Financial Statements Audit	Completed	December 2020
SAO – Audit of GLO Use of Alamo Complex Appropriations	Completed	January 2021
Texas Trustees Financial Audit of Deepwater Horizon Restoration Natural Resources Damage (NRD) Funds <i>Financial Audit Report No. 0553753-2035-20</i>	Completed	May 2021
Reviews conducted by Federal Entities of Community Development Block Grants for Disaster Recovery (CDBG-DR) Efforts Administered by the GLO	Ongoing	Ongoing

(\* ) Audit was subsequently added to the Audit Plan during FY 2021.



<b>FY2021 FOLLOW-UP REVIEWS COMPLETED</b>			
<b>Audit Follow-Up Title</b>	<b>Division(s)</b>	<b>Program Area(s)</b>	<b>Implementation Status of Audit Recommendations</b>
Audit of Fixed Assets (2011)	Financial Management	Cash Management	Substantially Implemented
Review of Controls – The Alamo (2012)	Financial Management	Cash Management	Completed
Audit of Compliance with Texas Administrative Code (TAC) 202 (2013)	Enterprise Technology Solutions	Integrated Services Information Security Officer	Completed
Audit of Health Insurance Portability and Accountability Act (HIPAA) (2015)	Information Security	Chief Privacy Officer	Completed
Audit of the Veterans Land Board Veterans Homes Operations Contract (2016)	Veterans' Land Board	Veterans Homes	Completed
Audit of Compliance with Texas Administrative Code (TAC) 202 (2016)	Information Security Enterprise Technology Services	Integrated Services Information Security Officer	Substantially Implemented
Audit of the PSF Externally Managed Portfolio (2017)	Investment Management	Real Assets Portfolio Management & External Funds Management	Substantially Implemented
Audit of Coastal Resources Beach Watch Program (2019)	Coastal Protection	Coastal Resources	Completed
Audit of Compliance with Texas Administrative Code (TAC) 202 (2019)	Information Security Enterprise Technology Services	Integrated Services Information Security Officer	Ongoing
Audit of Program Cash Management (2019)	Community Development & Revitalization Program	FEMA Individual Assistance Programs	Completed
Audit of Program Vendor Management (2020)	Community Development & Revitalization Program	Direct Assistance for Limited Home Repair Temporary Housing Program	Ongoing
Audit of Contract Management and Monitoring Process (2020)	Contract Management	Various	Ongoing
<b>External Projects</b>			
SAO – Audit on Hurricane Harvey Disaster Recovery Funds Administered by the General Land Office (2019)	Community Development & Revitalization Program	Various	Ongoing



<b>FY2021 MANAGEMENT ASSISTANCE / SPECIAL PROJECTS</b>	
<b>Project Title</b>	<b>Program Area / Division</b>
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 Quality Assurance Peer Review	Internal Audit
Annual Report on the Internal Audit Quality Assurance and Improvement Program	Internal Audit
Complaints/Investigations	Internal Audit
Liaison for External Audits and Oversight Entities (Federal and State)	Internal Audit
Management Assistance & Other Activities	Internal Audit



### III. Consulting Engagements and Non-Audit Services Completed

#### FY2021 CONSULTING AND NON-AUDIT SERVICES

Project Title	Program Area/Division	Report Date(s)
<u>Management Assistant Project:</u> Agreed Upon Procedures Review for the Harvey Mitigation Program	Community Development & Revitalization	May 2021
<p><u>Objective:</u> To determine whether the GLO completed its applicant scoring procedures in accordance with its published criteria and methods.</p> <p><u>Conclusion:</u>            The GLO agreed to and acknowledged that the procedures performed were appropriate for the intended purpose of evaluating whether the GLO scored applications and allocated funding for the CDBG-MIT – Hurricane Harvey State Mitigation Competition Round 1 in accordance with the GLO’s published criteria and methods. The review identified that procedures were performed without exception for the following reviewed criteria:</p> <ol style="list-style-type: none"> <li>1. County Composite Disaster (CDI) Index</li> <li>2. Social Vulnerability (SoVI) Index</li> <li>3. Per Capita Market Value</li> <li>4. Low- to Moderate-Income (LMI) National Objective</li> <li>5. Project Type Identified in Local Adopted Plan</li> <li>6. Management Capacity</li> <li>7. Project Impact</li> <li>8. Leverage</li> <li>9. Mitigation/Resiliency Measures</li> <li>10. Tie-breaker: Higher Poverty Rate</li> <li>11. Total Application Score and Total Project Application Dollar Amount Tie-out to Scoring Workbook</li> <li>12. Total Application Score and Project Application Amount Tie-out to Final MIT Competition Scoring Summary</li> <li>13. Total Application Score and Project Application Amount Tie-out to MIT Competition Scoring Round One</li> <li>14. Final Scoring and Funding Eligibility</li> </ol>		





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

State Agency Internal Audit Forum (SAIAF)  
Peer Review Process

**Report on the External Quality Assurance Review of the  
General Land Office  
Internal Audit Department**

*June 29, 2021*



**Performed by**

**Chris Cirrito, CIA, CFE, CGAP  
Director of Internal Audit  
Texas Board of Criminal Justice**

**Marios Parpounas, CIA, CFE, CISA, CGFM  
Internal Auditor  
Office of the Governor**

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



General Land Office Internal Audit Department  
External Quality Assurance Review – June 29, 2021

**Overall Opinion**

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the General Land Office Internal Audit Department 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 Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

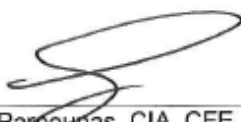
The Internal Audit Department is well managed internally. In addition, the Department has effective relationships with the Commissioner and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit 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 Department has reviewed the results of the peer review team’s work and has accepted them to be an accurate representation of the Department’s operations.

**Acknowledgements**

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, the Commissioner, Chief Clerk, and General Counsel. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Department and its relationship with management.

  
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Chris Cirrito, CIA, CFE, CGAP  
Director of Internal Audit  
Texas Board of Criminal Justice  
SAIAF Peer Review Team  
Leader  
Date 6/29/21

  
\_\_\_\_\_  
Marios Pappoulias, CIA, CFE,  
CISA, CGFM  
Internal Auditor  
Office of the Governor  
SAIAF Peer Review Team Member  
Date 6/29/21



General Land Office Internal Audit Department  
External Quality Assurance Review – June 29, 2021

### **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 General Land Office or its Internal Audit Department.

The most recent quality assurance review for the General Land Office Internal Audit Department was performed in June 2021.

### **Objectives, Scope, and Methodology**

The primary objective of the quality assurance review was to evaluate the General Land Office Internal Audit Department's compliance with auditing standards and the Texas Internal Auditing Act. Additional objectives included identifying best practices as well as areas where improvement may be needed. The review covered all completed audit and management assistance projects performed by the General Land Office Internal Audit Department from September 2018 through May 2021.

The work performed during the review included:

- Review, verification, and evaluation of the self-assessment prepared by the Internal Audit Department according to SAIAF guidelines.
- Review and evaluation of e-mailed surveys completed by management.
- Interviews with the Internal Audit Director, Internal Audit Department staff, Commissioner, Chief Clerk, and General Counsel.
- 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

FY2022 AUDIT PLAN				
No.	Audit Title	Division(s)	Program Area(s)	Budgeted Hours
1	Audit of Grant Compliance for the CDBG-DR 2015 and 2016 Flood Programs	Community Development & Revitalization	Various	1000
2	Audit of Business Continuity Preparedness	Enterprise Technology Services (ETS) Human Resources	ETS Safety Officer	500
3	Audit of Sabine to Galveston Project Management	Coastal	Coastal Resources	800
4	Audit of Grant Compliance for the CDBG-DR Economic Revitalization Program (ERP)	Community Development & Revitalization	Various	1000
5	Audit of Cares Act Funding Compliance	Financial Management	Federal Finance	1000
6	Audit of The Receiver's Office Processes	Financial Management	Cash Management	300
7	Audit of Vendor Management for the State Energy Marketing Plan (SEMP)	Asset Enhancement	Energy Resources	500



<b>PLANNED FY2022 FOLLOW-UP REVIEWS</b>		
<b>Audit Follow-Up Title</b>	<b>Division(s)</b>	<b>Program Area(s)</b>
Audit of Fixed Assets (2011)	Financial Management	Cash Management
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 Compliance with Texas Administrative Code (TAC) 202 (2019)	Information Security Enterprise Technology Services	Integrated Services Information Security Officer
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
Audit of Vendor Procurement (2021)	Community Development & Revitalization Program	Community Development Block Grants – Disaster Recovery (CDBG-DR)
Audit of Vendor Management (2021)	Veterans Land Board Land and Housing	Loan Operations Enterprise
Audit of Royalty Reporting (2021)	Asset Enhancement	Energy Resources

<b>External Projects</b>		
SAO – Audit on Hurricane Harvey Disaster Recovery Funds Administered by the GLO (2019)	Community Development & Revitalization Program	Various
SAO – Audit of GLO Use of Alamo Complex Appropriations (2021)	Alamo Complex	Alamo Complex
SAO – Audit of VLB Texas State Veterans Homes Contract Functions (2022)	Veterans Land Board	Texas State Veterans Homes
Texas Trustees Financial Audit of Deepwater Horizon Restoration Natural Resources Damage (NRD) Funds (2021)	Coastal Resources	Resource Management



<b>FY2022 MANAGEMENT ASSISTANCE / SPECIAL PROJECTS</b>	
<b>Project Title</b>	<b>Division/Program Area</b>
Internal Audit 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 (Federal and State)	Internal Audit
Management Assistance & Other Activities	Internal Audit





## FY2022 RISK ASSESSMENT METHODOLOGY

The Office of Internal Audit completed the Fiscal Year (FY) 2022 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 2021

FY2021 EXTERNAL AUDIT SERVICES	
Service Provider	Scope of Work
State Auditor's Office <i>(CliftonLarsonAllen)</i>	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](http://recovery.texas.gov) website that allows individuals to report instances of fraud, waste, and abuse.