



**Internal Audit Division**

**Annual Internal Audit Report  
Fiscal Year 2015**

# Annual Internal Audit Report FY 2015

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## **I. Compliance with Texas Government Code, Section 2102.015**

Internal Audit will post on the Texas Education Agency's Internet Website ([www.tea.state.tx.us](http://www.tea.state.tx.us)) an approved fiscal year 2016 audit plan, and the 2015 internal audit annual audit report as required by Texas Government Code, Section 2102.015. The two reports will be posted within 30 days of approval of the 2016 audit plan by the Commissioner of Education.

## **II. Compliance with Benefits Proportionality Audit Requirements for Higher Education Institutions**

Benefits Proportionality audit requirements do not apply to the Texas Education Agency.

### III. Internal Audit Plan for Fiscal Year 2015

The following audit plan was approved for FY 2015:

Report Number	Report Date	Audit Title	Budget Hours
14-01 (1)	January 2015	Protecting Confidential Student Data	600
14-02 (1)	January 2015	Financial Compliance Division Performance Review	600
15-01 (2)		Protecting Educators' Confidential Data Processed in the Educator Leadership and Quality Department	600
15-02	September 2015	HUB Contracting Requirements	500
15-03 (3)		Bilingual/Limited English Proficiency Program	500
15-04 (4)		Student Success Initiative (SSI) Contracts	500
<b>Follow-up on Previous Audits</b>			
13-01F	April 2015	LEA Intervention and Sanctions	40
13-02F	August 2015	IT Governance and Performance Review	40
13-05F	May 2015	ESC Contracts and Grants	40

- 1) In progress last quarter FY 2014 and carried forward to the 2015 audit plan.
- 2) Currently in progress with report scheduled to be issued in November 2015.
- 3) Dropped from schedule due to KPMG's review of this grant in their federal single audit last two years.
- 4) Carried forward to FY 2016 audit plan

## **IV. List of Consulting Engagements and Non-audit Services Completed**

Internal Audit did not perform any formal consulting engagements in FY 2015. Non-audit services conducted in FY 2015 consisted of performing investigations on two SAO hotline complaints referred to the Agency and an investigation of an employee's grievance.

## V. External Quality Assurance Review

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Internal Audit Consultant  
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Austin, TX 78757-6914  
(512)-567-1593

December 12, 2013

Mr. Bill Wilson, CPA, CIA, Director  
Internal Audit Division  
Texas Education Agency  
1701 North Congress Avenue  
Austin, TX 78701-1494

RE: External Validation Peer Review  
of the Internal Audit Division

Dear Mr. Wilson:

Attached is the final report of the external validation peer review of the Internal Audit function of the Texas Education Agency (TEA). I followed guidelines established by the Texas State Agency Internal Audit Forum in conducting this quality assurance review.

I reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system operated to provide reasonable assurance of conformance with the *Government Auditing Standards* issued by the Comptroller General of the United States and the Institute of Internal Auditors' *International Professional Practices Framework*. Our procedures included:

- Reviewing the audit organization's written policies and procedures;
- Reviewing internal quality assurance and monitoring procedures;
- Reviewing a sample of audit engagements and working papers;
- Reviewing documents related to auditor independence, training, and development;
- Interviewing the TEA Commissioner, executive and operating management, and Internal Audit staff to obtain input on the services provided by the audit function.

Based on the results of this work, I concur with the Internal Audit Division's overall self-assessment rating.

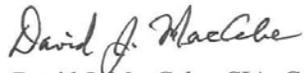
In my opinion the TEA Internal Audit Division's internal quality control system receives a rating of "PASS" and is suitably designed and operating effectively to provide reasonable assurance of conformance with the Institute of Internal Auditors' *International Professional Practices Framework*, the *Government Auditing Standards*, and the *Texas Internal Auditing Act* for audit engagements conducted during the period September 1, 2010 through August 31, 2013. This opinion is the highest of three possible ratings.

Attached are the opinion statement and the validation peer review report that includes background, objective, qualifications, scope and methodology, commendable areas, opinion as to conformity with Standards, and two observations and recommendations.

Congratulations to you and your staff on a conscientious effort in preparing for this In conducting this review, validation peer review.

Thank you for the courtesy and assistance provided by you and TEA management and staff members during this review. Please let me know if I can provide further information.

Sincerely,



David J. MacCabe, CIA, CGAP, CRMA, MPA  
Internal Audit Consultant  
Independent Validator

**Texas Education Agency Internal Audit Division  
Self-Assessment Report for Independent Validation**

**OVERALL OPINION**

Based on the information received and evaluated during this external validation quality assurance review, it is my opinion that the Texas Education Agency (TEA) Internal Audit Division (IAD) internal quality control system receives a rating of “PASS” and was suitably designed and operating effectively to provide reasonable assurance of conformance with:

- the Institute of Internal Auditors (IIA) *International Professional Practices Framework*,
- 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 for ensuring the independence, objectivity, and proficiency of the internal audit function.

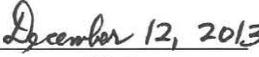
The IAD is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The two professional staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The IAD is well managed internally. In addition, the IAD has effective relationships with TEA management, is well respected, and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management appreciates the IAD’s counsel and advice that is important in improving agency operations.

**ACKNOWLEDGEMENTS**

I appreciate the courtesy and cooperation extended to me by Commissioner Michael Williams, TEA executive and operating management, the Internal Audit director, and all TEA staff members who participated in the survey and interview process. The feedback from the surveys and interviews provided valuable information regarding IAD operations and IAD’s relationship with the Commissioner, management, and staff members.

  
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David J. MacCabe, CIA, CGAP, CRMA, MPA  
Independent Validator

  
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Date

## VI. Internal Audit Plan for Fiscal Year 2016

The following 2016 Audit Plan was approved by the Commissioner on November 3, 2015.

Audit Title	Budget Hours
Charter School Revocations & Closure	500
Alternative Educator Preparation Program	500
Audit of Contract Payments – Ensure Delivery of Goods and Services Prior to Payment	300
Audit of Implementation of Sunset Recommendations	350
Student Success Initiative Grant	500

Note: None of the above audits address expenditure transfers, capital budget controls, or limitations in the General Appropriations Act. An audit of requirements of Senate Bill 20 (84<sup>th</sup> Legislature) is planned for FY 2017.

The following methodology was used in developing the FY 2016 audit plan:

### Risk Assessment Methodology

The FY 2016 Audit Plan will be developed through management interviews, review of outside audit reports, and auditor judgment in ranking of risk indicators as follows:

- Executive management (Deputy and Associate Commissioners) interviews to obtain an overview of any administrative or program changes this past year, and to discuss agency controls/vulnerabilities and audit suggestions.
- State and federal external audit report reviews to identify audit findings and areas of weakness in programs and agency processes.
- Development of risk indicators and ranking by internal audit staff.
- Interviewed the Agency's Information Security Officer concerning applicable technology risks related to Title I, TAC, Chapter 202. The Agency had an independent consultant (Gartner Consulting) perform an Information Security Assessment this year and the Agency is addressing recommendations made in the Assessment.

Risk Indicator*	Definition
Impacted by reorganization	Operations significantly restructured as a result of reorganization.
\$ Amount	Operations impacted by changes in amounts of program and/or administration funding.
Compliance with regulation	Operations impacted by changes to state/federal requirements.
Management interest	Operations of management interest indicated during planning interviews.
Legislative interest	Operations of legislative interest indicated through inquiries.
Public interest	Operations impacting public knowledge and trust.
Litigation risk	Operations impacted through ongoing or risk of lawsuits.
Staff reduction	Operations significantly impacted by reduction in staff.
Key management changes	Operations with a change in management through retirement or restructuring.

New/Never audited	Operations that are new and those that have not been audited for five years.
Internal/external audits	Operations previously audited and the materiality of any findings.

**\*The key operations are rated using auditor judgment based on knowledge of agency operations.**

Summary of risk raised by the FY 2016 audit plan:

- Sufficient resources and administrative funding to properly implement new education legislation.
- Implementation of new requirements for SB 20 on state agency contracts, purchasing and accounting procedures. (Reporting requirements, monitoring and oversight, resources etc.)
- Transition and implementation of new EDGAR federal accountability requirements for federal program funding passed through the agency.
- Legislation affecting how schools and charters account for attendance reporting. Legislation changes attendance formula from days per year to minutes of instruction.

## **VII. External Audit Services Procured in Fiscal Year 2015**

No external audit services were procured by the agency during FY 2015.

## VIII. Reporting Suspected Fraud and Abuse

In meeting the applicable statutes in fraud prevention and reporting suspected fraud and abuse, the TEA has implemented the following Operating Policies:

- *OP 02-03 Agency Fraud Prevention*  
This policy provides guidance in the prevention and detection of fraud, waste and misuse of agency assets and to provide avenues for employees in reporting suspected violations to the Internal Auditor and to the State Auditor's Office in accordance with Texas Government Code, Section 321.022.
- *OP 02-04 Reporting Fraud*  
This policy provides guidance and procedures to agency employees for reporting any actions that they suspect are fraudulent. TEA's Intranet and Internet contain web pages with information and links for reporting suspected fraud, waste, and abuse to the Agency's Special Investigations Office and/or the State Auditor's Office. The Special Investigations Office is staffed to follow up on complaints from the public and State Auditor's Office. OP 02-04 also provides guidance for the reporting to the SAO, in accordance with Texas Government Code, Chapter 321, if the Agency has reasonable cause to believe that money received from the state may have been lost or misused or if fraudulent or unlawful activity has occurred.