

Internal Audit Division

Annual Internal Audit Report Fiscal Year 2016

Annual Internal Audit Report FY 2016

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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.texas.gov) an approved fiscal year 2017 audit plan, and the 2016 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 2017 audit plan by the Commissioner of Education.

II. Internal Audit Plan for Fiscal Year 2016

The following audit plan was approved with amendments for FY 2016:

Report Number	Report Date	Audit Title	Budget Hours
15-01 (1)	May 2016	Protecting Confidentiality of Educator Data	600
16-03 (2)		Alternative Educator Preparation Program	500
16-02	May 2016	Charter School Revocations & Closure	500
16-04 (4)		Audit of Contract Payments – ensure Delivery of Goods and Services Prior to Payment	300
16-05 (2)	In Progress	Audit of Implementation of Sunset Recommendations	350
16-01 (5)		Student Success Initiative Grant	500
16-06 (6)		Graduation Rate and Leaver Codes	400
16-07 (6)		Special Education Student Classifications	350
16-08 (3)	Nov. 2016	Reporting Educator Disciplinary Data	350

- 1) In progress last quarter FY 2015 and carried forward to the 2016 audit plan.
- 2) Audits to be carried over to 2017 schedule.
- 3) Audits added to the FY 2016 schedule in January 2016 by new Commissioner Mike Morath.
- 4) Audit suspended – FY 2016 SAO audits of agency contracts covered contract payments.
- 5) Audit suspended – Funding reduced by 10% and possible phase out next biennium.
- 6) Audits suspended – Commissioner substituted with higher priority audits for FY 2017

III. List of Consulting Engagements and Non-Audit Services

Internal Audit did not perform any formal consulting engagements in FY 2016. Non-audit services conducted in FY 2016 consisted of performing two investigations on SAO hotline complaints referred to the agency and conducting a survey on contracts at the request of the Commissioner's Office.

IV.External Quality Assurance Review

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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.

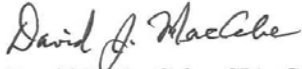
In my opinion the TEA Internal Audit Division's internal quality control system receives a rating of "PASS" and is suitably designed and operating effectively to provide reasonable assurance of conformance with the Institute of Internal Auditors' *International Professional Practices Framework*, the *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,

A handwritten signature in cursive script that reads "David J. MacCabe".

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.

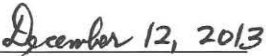
The IAD is well managed internally. In addition, the IAD has effective relationships with TEA management, is well respected, and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management appreciates the IAD's counsel and advice that is important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



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



Date

V. Internal Audit Plan for Fiscal Year 2017

The following 2017 Audit Plan was approved by the Commissioner on December 9, 2016.

Audit Title	Budget Hours
Follow-up on Sunset Recommendations (Carryover from 2016)	350
Educator Preparation Program (Carryover from 2016)	450
Early Learning Grant Program and Initiatives	500
Financial (FIRST) Ratings of Schools	400
Agency Mailroom Procedures-Cash Receipts	300
Federal Administrative Funding Review	400
Federal Fiscal Monitoring Compliance	400

NOTE: None of the above audits address expenditure transfers, capital budget controls, or limitations in the General Appropriation Act.

Risk Assessment Methodology

The FY 2017 Audit Plan was developed through management interviews, review of outside audit reports, and auditor judgment in ranking of risk indicators as follows:

- Interviews with Deputy and Associate Commissioners to obtain an overview of any administrative or program changes this past year, and to discuss agency controls/vulnerabilities and audit suggestions.
- Review of state and federal external audit reports to identify audit findings and areas that need improvement in programs and agency processes.
- Development of risk indicators and ranking by internal audit staff.
- Review of applicable technology risks related to Title I, TAC, Chapter 202 and implementation of recommendations from the Information Security Assessment report performed last year.

Summary of risk raised by the FY 2017 audit plan:

- New executive leadership, strategic reorganization of agency functions, and significant loss of institutional knowledge through retirement and resignations.
- Agency staffing levels reduced since 2011. Agency staffing is substantially lower compared to other large state agencies with significant responsibilities to disperse more than \$54.5 billion in education funding each biennium.
- A 4% biennial based reduction appropriations request (10% base reduction plan also required) for fiscal years 2018 and 2019. The reduction could further impact agency administrative expenses and staffing levels, and either reduce or eliminate funding for some programs, which will have a negative effect on the population of students benefiting from the services provided.
- Sufficient IT funding to secure and protect student and educator information maintained in agency information systems and to retire legacy applications or

integrate with the agency's new systems.

- Restructuring of agency contracts management and school governance and intervention procedures as a result of new requirements in state legislation. Both of these areas have experienced significant turnover within the last year.

Management has taken steps to ensure that all major functions, activities, and requirements are covered during the reorganization. Also, the agency has taken steps to hire additional personnel and fill vacant positions to ensure key operations are properly staffed.

VI. External Audit Services Procured in Fiscal Year 2016

No external audit services were procured by the agency during FY 2016.

VII. 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.