



Zoi Kondis  
Director of Internal Audit  
Texas Education Agency  
1701 N. Congress Ave.  
Austin, TX 78701

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The Honorable Gregg Abbott, Governor  
State Auditor's Office  
Legislative Budget Board

We are pleased to present the Texas Education Agency's (TEA or Agency) Internal Audit Services Annual Report for Fiscal Year (FY) 2023. This report provides information on the Internal Audit activities from the last reporting date of September 2022 thru the fiscal year end of August 2023. This report fulfills the requirements set forth in the Texas Internal Auditing Act (Texas Government Code, Chapter 2102.009, 2102.016 and 2102.0091). As mandated in the Internal Auditing Act, the State Auditor's Office prescribes the minimum content. This report has been prepared in accordance with the State Auditor's requirements and is current through November 1, 2023.

Audit work completed during the last fiscal year focused on compliance with laws and regulations, and efficiency and effectiveness, while promoting process integrity. Recommendations, when made, focused on strengthening controls, and enhancing the accountability, efficiency, and effectiveness of the agency's operations.

Internal Audit Services (IAS) is committed to providing quality audit services using a systematic and disciplined approach. We will continue to pursue projects in Fiscal Year 2024 to assist the Agency and operations by improving the risk management, control structure, and governance processes.

For further information about the contents of this report or to request copies of individual audit reports, please feel free to contact me at (512) 463-9846.

Sincerely,

Zoi Kondis, CPA, CIA, CISA, CRMA  
Director of Internal Audit

# Internal Audit Services

## Fiscal Year 2023



### Annual Report

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

The Texas Education Agency (TEA) Internal Audit Services division has posted the Internal Audit Annual Report for fiscal year 2023 on the agency’s website at <https://tea.texas.gov/about-tea/internal-audit-services>. To comply with Texas Government Code, Section 2102 (Texas Internal Auditing Act), the annual audit report includes a summary of observations raised by the fiscal year 2023 audit plan, a summary of actions taken by the agency to address those observations and the audit plan for fiscal year 2024.

#### II. Internal Audit Plan for Fiscal Year 2023

Engagement Type	Description/Objectives	Status
Assurance	School Improvement Monitoring	Issued April 2023 /1
Assurance	Teacher Incentive Allotment (TIA) Program	Issued April 2023 /1
Assurance	Agencywide Investigation Processes	No Report Issued /2
Management Assistance	Reserve for Management Assistance in FY2023	Completed

/1 refer to the summary of observations raised by the fiscal year 2023 audit plan along with actions taken by the agency to address those observations (provided in **Appendix A**).

/2 The Internal Audit function was vacant from April 2023 – August 2023.

#### III. Consulting Services and Non-audit Services Completed

Consulting services are advisory in nature and performed at the specific request of management. The nature and scope of consulting engagements are subject to agreement with the engagement client, without internal auditors assuming management responsibility. TEA Internal Audit Department provided for one consulting service (as defined in the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing) and non-audit services (as defined in Government Auditing Standards, 2018 Revision, Sections 3.64 – 3.106) were conducted in fiscal year 2023. We cannot disclose the consulting engagement details as it is an agreed upon service provided to the management.

#### IV. External Quality Assurance Review

In accordance with Government Auditing Standards, Internal Audit Services completes an external peer review at least once every three years. The purpose of the review is to evaluate conformance with professional standards, and identify opportunities to improve the efficiency and effectiveness of audit activities. The most recent review was completed in October 2020. The Internal Audit function is currently in the process of scheduling the

<sup>1</sup> Management assistance projects typically do not result in formal deliverables.

Quality Assurance Review and will update the Annual Internal Audit Report once an opinion is formally issued. We have provided the prior Quality Assurance Review opinion for your reference at the executive summary at **Appendix B**.

## V. Internal Audit Plan for Fiscal Year 2024

Internal Audit Services (IAS) developed a risk-based audit plan for fiscal year 2023. Auditors performed an assessment to identify the risks potentially impacting the agency's strategic priorities and operational objectives. IAS obtained detailed information from agency leadership through surveys, interviews, and analysis of relevant financial and non-financial data related to the following risk categories: financial, fraud, demographic, operations and complexity, organizational, human capital, information technology, regulatory/compliance, and reputational. All subjects were assigned a risk score for each category along with an assessment of magnitude and likelihood. The overall risk rating (High, Medium or Low) was assigned to each significant activity based on the activity's average overall score. IAS proposes an annual IAS audit plan based on the risk assessment described above and obtains final approval from the Commissioner of Education.

The following audit plan for fiscal year 2024 was approved by the Commissioner of Education on October 16, 2023.

Description	Objective	Budgeted Hours	Classification
TCLASS Application Development Audit /1	Assess compliance and development of IT project TCLASS system for ESSER Grant management, process and controls to requirements. (Part 1 of 3)	640	<b>Audit Projects</b>
TAC 202 Compliance Audit /1	Assess TEA compliance with TAC 202 requirements	600	<b>Audit Projects</b>
ESSER Funds Application and Eligibility Process Audit (planning and fieldwork) /2	Assess compliance of application and eligibility process of ESSER applicants to the Grant requirements. (Part 2 of 3)	250	<b>Audit Projects</b>
Audit of Management Action Plans Implemented	Test Management actions reported for effectiveness. (Ongoing)	260	<b>Audit Projects</b>
Investigations	Internal Audit serves as a central point of contact for hotline complaints forwarded to the Agency by the SAO, and special complaints received through the agency hotline.	350	<b>Special Investigatory Assistance - EEO, OIG, SAO Hotline</b>
External Audit Facilitation	Internal Audit serves as a liaison for all external audits/reviews of the Agency. The Agency is routinely audited by entities such as the State Auditor's Office (SAO) and the US Department of Education. The Agency underwent several external audits and reviews during FY2023.	200	<b>External Audits / Reviews</b>
FY23 Annual Internal Audit Report	Comply with statutory requirements and best practices for the administration of internal audit services.	50	<b>Internal Audit Administration</b>
Risk Assessment Processes (FY24)	Comply with statutory requirements and best practices for the administration of internal audit services.	400	<b>Internal Audit Administration</b>
Quality Assurance Review / Peer Review / QAIP	Comply with statutory requirements and best practices for the administration of internal audit services.	750	<b>Internal Audit Administration</b>

Risk Assessment Processes (FY25)	Comply with statutory requirements and best practices for the administration of internal audit services.	750	<b>Internal Audit Administration</b>
Strategy Development	Comply with statutory requirements and best practices for the administration of internal audit services.	100	<b>Internal Audit Administration</b>
On Boarding	Comply with statutory requirements and best practices for the administration of internal audit services.	200	<b>Internal Audit Administration</b>
Continuing Professional Education	Comply with statutory requirements and best practices for the administration of internal audit services.	200	<b>Internal Audit Administration</b>
<b>Total</b>		<b>4,750</b>	

/1 IT Audit, /2 Grant Process

The 2024 Internal Audit Risk Assessment resulted in six significant activities rated as “High”.

- Three of the high-risk areas were selected for audit in the FY24 audit plan.
- One of the six activities, targeted monitoring of school Local Education Agencies (LEAs), was not included in the Fiscal Year 2024 Internal Audit Plan because IAS concluded an internal audit over School Improvement Monitoring in FY2023 covering similar processes.
- The remaining two of the six risks not included in the audit plan were continuous improvement of high-quality instructional materials and support of Texas instructional leadership and were not included due to capacity constraints.
- Any areas not included in the current year audit plan are considered for future audit activities based on the risk assessment process.

While this plan addresses risk areas where the average overall score was rated high, the risk assessment is a tool where management and the auditors evaluate the audit universe and select the audit plan activities to consider the highest risk areas at that defined point in time. The audit plan is not designed to provide audit coverage for all agency programs, processes, and systems at that point in time.

## VI. External Audit Services Procured in Fiscal Year 2023

The Texas Education Agency (TEA) did procure agreed upon external audit services on behalf of the Texas Council of Developmental Disabilities (TCDD) during fiscal year 2023 in association with the existing Executive Order RP-37 and the related Memo of Understanding executed August 13, 2021. No additional audit services were procured by TEA or the TEA Internal Audit Department.

## VII. Reporting Suspected Fraud and Abuse

In accordance with the fraud reporting requirements in Section 7.09, page IX-38, the General Appropriation Act (87th Legislature), TEA provides instructions to the public for reporting fraud, waste, or abuse to the State Auditor’s Office or submitting a formal complaint through the agency’s Complaints Management website. These instructions are found at <https://tea.texas.gov/about-tea/contact-us/reporting-fraud-waste-or-abuse-in-texas>.

Additionally, TEA requires all employees and contractors to comply with *Operating Procedure 02-03: Agency Fraud Prevention and Reporting* and provides detailed guidance for reporting unethical and illegal activity on the Internal Audit Services intranet site. All employees are required to complete Fraud Awareness Training and Ethics Training within thirty days of hire and every two years thereafter.

Internal Audit Services is primarily responsible for investigating all suspected fraudulent acts and coordinating investigative activities with the General Counsel’s Office, Human Resources, and appropriate outside

enforcement/prosecutorial agencies (including the State Auditor's Office as required by Texas Government Code, Section 321.022).

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## Appendix A

### Summary of Observations and Management Actions for Fiscal Year 2023 Audit Plan Engagements

Report Date	Observation	Management Action	Classification
April 2023	Internal audit discussed a potential opportunity for improvement with Division management involving the establishment of a policy and supporting procedures that prescribe and govern its monitoring process. This observation does not merit an audit finding that requires a formal management response, however the auditors encouraged management to develop a policy and supporting procedure statements that identify process-level objectives. These objectives can serve as the basis for risk mitigation efforts and continuous improvement.	Management agreed to amend current procedures responsive to internal audit recommendation.	<b>School Improvement Monitoring</b>
April 2023	The TIA program should update its procedures to reflect current processes and in doing so, incorporate content to address: <ul style="list-style-type: none"> <li>• Management’s approval of procedure including date or revision number</li> <li>• Documentation requirements for district application files (e.g., application, parent scoresheets, individual scores from each scorer, final scoresheet secured file etc.)</li> <li>• Process to approve exceptions or deviations from procedures.</li> </ul>	Management agreed to amend current procedures responsive to internal audit recommendations.	<b>Teacher Incentive Allotment (TIA) Program</b>
April 2023	The TIA program should secure the final scoring of districts files in a format that cannot be edited.	Management agreed to amend current procedures responsive to internal audit recommendations.	<b>Teacher Incentive Allotment (TIA) Program</b>
April 2023	Operating procedures did not provide for the use of a standardized complaint form.	Management agreed to amend current procedures responsive to internal audit recommendations.	<b>Teacher Incentive Allotment (TIA) Program</b>

# Appendix B

## External Peer Review Executive Summary

Texas Education Agency Internal Audit Department  
External Quality Assurance Review — October 2020

### Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Education Agency Internal Audit Department receives a rating of "Pass with Deficiencies/Partially Conforms." It is our opinion that, except for the deficiencies noted in the report below, the Texas Education Agency internal quality control system was suitably designed and operating effectively to provide reasonable assurance of conformance with the Standards for assurance and consulting engagements during January 1, 2017, through July 31, 2020.

We found that the Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. Generally, 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, Internal Audit has effective relationships with the Commissioner of Education (Commissioner) and senior management 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 Internal Audit's operations.

### Acknowledgments

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, the Commissioner, 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 Department and its relationship with management.

  
Arby James Gonzales, CPA, CFE  
Director of Internal Audit  
Texas Department of Insurance  
SAIAF Peer Reviewer