

# Internal Audit Services

## Fiscal Year 2021



## Annual Internal Audit Report

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

The Texas Education Agency (TEA) Internal Audit Services division has posted the Internal Audit Report for fiscal year 2021 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 the audit plan for fiscal year 2022, summary of observations raised by the audit plan, and summary or action taken by the agency to address those observations.

### II. Internal Audit Plan for Fiscal Year 2021

Engagement Type	Description/Objectives	Status
Consulting	<b>Permanent School Fund (PSF) Consulting</b> (1) To examine and (if possible) enhance the general internal control environment of the PSF, especially as it relates to fraud prevention; (2) To obtain certain assurances regarding the integrity and transparency of, and access to, data related to fund performance and management fees; and (3) To ensure PSF and “mainline TEA” collaboratively achieve alignment and integration of contracting practices and compliance checks.	Project completed in December 2020.
Assurance	<b>Follow-up Audit of Special Education Corrective Action Plan</b> To determine the status of key components of the agency’s corrective action response to recommendations from the Office of Special Education Programs (OSEP) following OSEP’s monitoring visit to Texas conducted in February 2017.	Report issued in May 2021.
Assurance	<b>IT Governance Audit</b> To determine whether TEA has established information technology governance policies and processes that align with and support agency strategic priorities.	Report issued in October 2021.
Assurance	<b>Charter School Property and Asset Management Audit</b> To determine whether TEA has adopted and adheres to procedures to systematically administer closed charter school properties.	Carryforward to fiscal year 2022.
Assurance	Contract Administration and Procurement Processes	Cancelled due to SAO audit. <sup>1</sup>

A summary of observations raised by the fiscal year 2021 audit plan and actions taken by the agency to address those observations is provided in **Appendix A**.

<sup>1</sup> The State Auditor’s Office (SAO) released An Audit Report on Selected Contracting Functions at the Texas Education Agency in August 2021.

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### 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.

During fiscal year 2021, Internal Audit Services completed one formal consulting engagement as listed in section II. Additional management assistance projects were completed with no formal deliverables provided. These projects included the following topics: data management, Foundation School Program (FSP) allotments, Supplemental Special Education Services (SSES), and complaints management.

### IV. External Quality Assurance Review

In accordance with the Texas Internal Auditing Act, 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. See the executive summary in **Appendix B**.

### V. Internal Audit Plan for Fiscal Year 2022

Internal Audit Services developed a risk-based audit plan for fiscal year 2022. Auditors performed a comprehensive risk assessment to identify the agency's strategic priorities, operational objectives, and risks that could impact the agency's ability to achieve those objectives. Detailed risk information was obtained primarily through interviews with agency leadership, surveys completed by agency management, and analysis of relevant financial and non-financial data. Auditors evaluated the probability and impact of risks identified with consideration of existing control processes and prior internal and external audit coverage. Auditors classified individual risks to facilitate identification of agencywide trends and critical areas including information technology, contracting processes, and fraud. The audit plan outlined below was approved by the Commissioner of Education on October 19, 2021.

Engagement Type	Description	Budgeted Hours
Assurance	Charter School Property and Asset Management Audit (carryforward from FY21)	120
Assurance	School Improvement Monitoring	350
Assurance	Teacher Incentive Allotment (TIA) Program	350
Assurance	Agencywide Investigation Processes	350
Assurance	TEA Oversight of Educator Preparation Programs	350
Consulting	Reserve for Management Assistance and Consulting Services	150

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This plan adequately addresses the most critical agency risks; however, it does not, nor does it intend to, provide coverage for all agency programs, processes, and systems. The audit plan was developed based on a thorough analysis of agencywide risks and consideration of resource constraints. Through the risk assessment process, auditors identified critical and high risks that are not addressed in an audit plan engagement. Auditors identified risk mitigating factors for those risks as described in the table below.

Risk Area	Risk Mitigating Factors
Education Service Center Oversight	In accordance with Texas Education Code, §8.101, the Commissioner of Education establishes performance standards and indicators for regional education service centers to be used in the annual evaluation of each regional education service center and executive director.
Federal Grant Compliance	The agency is subject to periodic and recurring audits of federal grant programs conducted by the U.S. Department of Education and Texas State Auditor’s Office.
Employee Retention and Succession Planning	The TEA Human Resources division engaged the Institute of Organizational Excellence at the University of Texas at Austin to administer annual employee engagement surveys and evaluate organizational culture through focus groups.
Contracting Processes	The Texas State Auditor’s Office performed audits of TEA contracting practices in 2018 and 2021. Additionally, agency contracting activities are reported on annually through the Senate Bill 65 data collection.
Cybersecurity	The TEA Information Security division monitors and formally reports on the agency’s security posture and conformance with Texas Cybersecurity Framework to the Texas Department of Information Resources. Security assessments are performed by qualified, independent third-party contractors every two years.

## VI. External Audit Services Procured in Fiscal Year 2021

Internal Audit Services did not procure external audit services during fiscal year 2021. However, TEA is subject to periodic and recurring audits performed by the U.S. Department of Education, Office of the Comptroller, and the State Auditor’s Office.

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#### VII. Reporting Suspected Fraud and Abuse

In accordance with the fraud reporting requirements in Section 7.09, page IX-37, the General Appropriations Act (86th Legislature), and 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).

#### VIII. Contract Audit Reporting

To assist the State Auditor’s Office in assigning contract monitoring ratings to the 25 largest state agencies, Internal Audit Services prepared a listing of audit reports related to agency contracts and contract processes and controls completed in the last five years (fiscal years 2017 to current).

Report Date	Audit Report Title	Status of Follow-Up
September 2016	SAO 17-002: An Audit Report on the Texas Education Agency’s Procurement and Oversight of Texas Virtual School Network Contracts	All recommendations reported as implemented.
November 2016	SAO 17-013: An Audit Report on Selected Texas Education Agency Contracts and Grant with Education Service Centers	All recommendations reported as implemented.
August 2018	SAO 18-044: An Audit Report on Selected Contracts at the Texas Education Agency	Four of five recommendations reported as implemented.
October 2019	TEA 19-03: Follow-Up on Agency Contracting Processes	All recommendations reported as implemented.
August 2021	SAO 21-029: An Audit Report on Selected Contracting Functions at the Texas Education Agency	Anticipated implementation of corrective action by February 28, 2022.

# Appendix A

## Summary of Observations and Management Actions for Fiscal Year 2021 Audit Plan Engagements

Report Date	Observation	Management Action
<b>Permanent School Fund Consulting</b>		
May 2021	Internal report issued to management. Not for public release.	
<b>Follow-up of Special Education Corrective Action Plan</b>		
May 2021	No observations or recommendations.	
<b>IT Governance Audit</b>		
October 2021	TEA policies and procedures do not provide adequate guidance to ensure conformance with requirements for managing IT projects in Texas Administrative Code, Title 1, Chapter 10, Rule §216.10. While the Program Management Division tracks the existence of IT projects and demonstrates expertise in applying project management frameworks (PMF), it does not have full visibility into all IT projects to confirm appropriate PMF practices are being followed, particularly when projects are managed outside the Office of IT.	The Office of IT will update OP 10-04 to increase awareness and provide stronger guidance to agency staff regarding the process of submitting IT project proposals where the IT Governance Committee will review requests and assign appropriate IT resources to the project as needed. Additionally, the Project Management Division is implementing an IT needs assessment form in JIRA in which agency staff can submit IT project proposals. In the JIRA form there will be additional fields that will clearly define if an ITSR is required, classify IT projects from which appropriate PMF framework will then be completed, identify qualifications for an MIRP and clearly document if an IT resource will be assigned to the project or reasons why an IT resource is not assigned. (Implementation by January 2022.)
October 2021	Texas Education Code (TEC) §39.334 requires that TEA prepare a technology report on the status of the implementation of and revisions to the long-range technology plan every two years. However, TEA has not prepared a technology report in the last ten years.	The Office of IT is updating the 2018-2023 Long-Range Plan for Technology (LRPT) and is planning to include a section on the future of remote learning. Throughout the process of updating the LRPT, the advisory committee will work to obtain feedback from the Local Education Agencies on how well they were able to implement the guidance outlined in the LRPT and compile a report in compliance with TEC §39.334. (Implementation by January 2022.)

Report Date	Observation	Management Action
October 2021	<p>Auditors made the following observations related to execution of IT resource management activities:</p> <ol style="list-style-type: none"> <li>For 10 of 24 IT purchases tested, there was no documentation of approval from the Office of IT. This included five contract renewals and three emergency procurements for which IT approval was not requested and two purchases for which approval was obtained after the purchase was made. TEA personnel believed that renewals and emergency procurements were exempt from the IT approval process.</li> <li>For 3 of 10 contractors tested, IT management did not retain documentation that contractor progress of assigned tasks and deliverables was monitored. TEA human resources policies do not require or provide guidance for evaluating contractor performance; however, TEA contract monitoring policies do require that contract managers complete vendor performance evaluations for contracts exceeding \$25,000 as part of the close-out process.</li> </ol>	<ol style="list-style-type: none"> <li>The Contracts and Purchasing division implemented a review utilizing an Information Technology Review Form for all procurements. This form must be completed and if applicable, reviewed by IT prior to any procurement. An approved form must be attached to requisitions where IT review is required. The Requisition Form has been updated with the following instructions to guide users: "Include additional information, quote number(s), approved IT form (if applicable) and other relevant information for the purchase." This new process is documented in the FY22 updates to the Purchasing Manual and became effective as of October 2021.</li> <li>The IT Business Operations division will ensure that at the end of every fiscal year vendor performance evaluations for contracted services over \$25,000 are completed for contractors who provide outsourced IT services once the last invoice has been received. This process became effective as of September 2021.</li> </ol>
October 2021	<p>Auditors made the following observations related to performance of IT risk management activities:</p> <ol style="list-style-type: none"> <li>Senior IT leadership indicated that third-party assessments provided valuable recommendations to TEA but did not retain documentation supporting its evaluation of recommendations or the decision to implement or forgo implementation of recommendations made.</li> <li>TEA did not perform annual reviews of the COOP as described in agency Operating Procedure 09-01 in 2020 or 2021. Additionally, TEA did not submit the required disaster recovery exercise summary to SORM by the April 2021 due date.</li> <li>As of April 2021, approximately 10% of employees had not completed IT training required by Operating Procedure 07-22. Except for Security Awareness Training (which is monitored and enforced by the Information Security team), compliance with mandatory training requirements is not effectively monitored or enforced by supervisors or Human Resources.</li> </ol>	<ol style="list-style-type: none"> <li>The Office of IT will develop a process/policy outlining the necessity to retain documentation supporting decisions made to either implement or forgo recommendations resulting from independent assessments performed on IT resources and operations. (Implementation by January 2022.)</li> <li>As the spread of COVID-19 continues to decrease, the Operations division will realign with Operating Procedures and execute the required disaster recovery exercise and submit a summary to SORM. TEA will also complete a full and thorough review of the current COOP and submit any updates to SORM. (Implementation by April 2022.)</li> <li>The Human Resources division will implement a revised process to ensure compliance of mandatory trainings. This will include additional notifications for individuals with expired retrain dates, and prompting supervisors when employees are out of compliance. (Implementation by June 2022.)</li> </ol>

# 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 blow, 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.

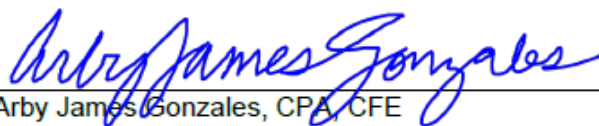
We found that the Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. Generally, the staff members are qualified, proficient, and knowledgeable in the areas they audit; individual audit projects are planned using risk assessment 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.

### Acknowledgements

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.



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