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CHIEF
AUDITOR'S
OFFICE

An Audit Report for:
TCEQ Chairman Bryan W. Shaw, Ph.D.
TCEQ Commissioner Toby Baker
TCEQ Executive Director Zak Covar

Chief Auditor's Office Annual Report

FY 2013

November 2013

Report SFR-082/13

Chief Auditor’s Office

Annual Report

Fiscal Year 2013

Prepared by
Chief Auditor’s Office

SFR-82/13
November 2013

TCEQ Mission Statement

The Texas Commission on Environmental Quality strives to protect our state's public health and natural resources consistent with sustainable economic development. Our goal is clean air, clean water, and the safe management of waste.

Chief Auditor's Office Mission Statement

The mission of the Chief Auditor's Office (CAO) is to provide assurance and advisory services that help the Commissioners and management meet agency goals and objectives. We provide independent and objective information, analyses, and recommendations to assist management in effecting constructive change, managing business risk and/or improving compliance and accountability of the regulated community and business partners.

Bryan W. Shaw, Ph.D., Chairman
Toby Baker, Commissioner
Zak Covar, Executive Director

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Compliance with House Bill 16:

Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site

As a result of this year's Legislative session, House Bill 16 (83rd Legislature, Regular Session) was signed into effect immediately by Governor Perry on June 14, 2013. House Bill 16 amends Chapter 2102, Texas Government Code, by adding Section 2102.015, which requires state agencies and higher education institutions, as defined in the bill, to post certain information on their Internet Web sites.

Within 30 days of approval, an entity should post the following information on its Internet Web site:

- An approved fiscal year 2014 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2013 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The above reports are considered to be approved if they are approved by an entity's governing board or by the chief executive if the entity does not have a governing board.

House Bill 16 requires entities to update the posting to include the following information on the Web site:

- A "detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report."
- A "summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report."

The TCEQ has complied with HB 16 by posting the approved FY 2014 Audit Plan on the agency's public website. We will post the mandated internal audit annual report as required by HB 16 and the Texas Internal Auditing Act.

Updates, as required by HB 16, will also be done that include summaries of the pertinent information contained in the two documents.

II. Chief Auditor’s Office Audit Plan for Fiscal Year 2013

Internal Audit Carry-over Projects:

Division Administrative Review – Monitoring Division

Office of Water – Management Control Audit

An Audit of Payroll and Related Expenditures

An Audit of Capitalized and Controlled Assets

Division Administrative Review (2 additional engagements)

TCEQ Procurements and Contracts - Contract Initiation Process

TCEQ Procurements and Contracts - Contract Management Process

External Audit Carry-over Projects:

Water Supply – Contracts

Waste Permits - Hazardous Waste Facility Fees

Waste Permits - Class V audit (medical waste)

Waste Permits - Class V audit (cooking oil collection/disposal)

Information Technology Audit Carry-over Projects:

An Audit of the Budget, Accounting, & Monitoring System (BAMS)

Proposed and Alternative Projects for FY 2013

Proposed Internal Audit Projects:

An Audit of Records Retention Policies and Procedures

An Audit of the Dry Cleaner Remediation Program

Proposed External Audit Projects:

Contract Compliance - Remediation Division Contractors

Contract Compliance - Selected Outsourcing & 3rd party agreements

Proposed Information Technology Audit Projects:

Management Control Audit of Established Information Technology Policies and Procedures

Database Integrity Audits (2 engagements)

Texas Emissions Reduction Program Application Controls Audit

Proposed CAO Officewide Projects:

Fraud, Waste, and Abuse Investigations

Quality Assurance Reviews of Other Agencies (2 engagements)

Special Requests from the Commissioners or Executive Director

Proposed Alternative Projects:

An Audit of Agency Disbursements

An Audit of Public Information Request Processes

Texas Emissions Reduction Program Grant Compliance

Texas Emissions Reduction Program Alternative Fueling Facilities

Texas Emissions Reduction Program Natural Gas Vehicle Plan

Permit and Registration Information System (PARIS) Application Controls Audit

An Audit of State Implementation Plan Compliance

Contract Compliance Audit – Texas State University

Chief Auditor's Office Audit Plan for FY 2013 with Status as of August 2013

Audit Services Completed Projects

Project Number & Name	Report Issued
#11-005: Review of Procurement Card Processes & Controls	September 2012
#12-103: Chief Auditor's Report on Agreed-Upon Procedures for Middle Rio Grande Development Council	September 2012
#12-007: Superfund Contract Audit – Remediation Division	October 2012
#12-004: Audit of American Recovery and Reinvestment Act Contract Compliance and Reporting – Water Quality Planning Division	January 2013
#12-104: Chief Auditor's Report on Agreed-Upon Procedures for Liquid Environmental Solutions (LES)	January 2013
#12-105: Chief Auditor's Report on Agreed-Upon Procedures for Stericycle, Inc.	January 2013
#12-008: Division Administrative Review – Monitoring Division	February 2013

Project Number & Name	Report Issued
#12-010: Budget, Accounting & Monitoring System (BAMS) Audit	March 2013
#13-001: An Audit of the Dry Cleaner Remediation Program	March 2013
#13-002: An Audit of Selected Outsourcing and 3rd Party Agreements – Financial Administration, Intergovernmental Relations, and Water Quality Divisions	August 2013

Information Technology Completed Projects

Project Number & Name	Report Issued
#13-501: Audit of the Water Rights Database and Water Use Reporting – Water Availability Division	April 2013

Chief Auditor's Officewide Completed Projects

Project Name	Report Issued
Chief Auditor's Office Annual Report FY 2012 (SFR-082/12)	October 2012
FY 2011 Audit Plan Revisions	December 2011
#13-811: Chief Auditor's Office FY 2014 Annual Audit Plan	August 2013
Fraud, Waste, and Abuse Investigations	Various

Chief Auditor's Office FY2013 Carry-over Projects

Project Name	Current Status
#12-009: Office of Water – Management Control Audit	Reporting
#13-004: A Review of the TCEQ Contract Initiation Process	Pending
#13-007: A Review of the TCEQ Contract Management Process	Pending
#13-008: An Audit of Controlled Assets	Fieldwork

Deviations from the Chief Auditor's Office Revised Audit Plan FY 2013

Internal Audit Approved Projects
The approved FY 2013 Audit Plan included three assignments to perform Division Administrative Reviews; the CAO performed one assignment in FY 2013. The two remaining assignments will be utilized to perform four Regional Office (RO) Administrative reviews. Each assignment to be conducted will examine two ROs. During the course of conducting the agency-wide risk assessment, a proposed method of reviewing the regions was discussed with Office of Compliance and Enforcement management. In order to facilitate planning and other administrative issues, it was mutually agreed that grouping Regional Office reviews by Area would be beneficial for the agency. Reporting is enhanced and streamlined by conducting the reviews of all Offices under the Area Director and ultimately reporting through the OCE chain to Deputy Garcia. CAO travel plans will require less effort, travel resources are better utilized, and coordination is enhanced. CAO management feels these resources, originally devoted to division reviews, would be better utilized conducting TCEQ Regional Office reviews.
The approved FY 2013 Audit Plan included an Audit of Payroll and Related Expenditures. During the course of FY 2013, external oversight entities have or are conducting work addressing the original FY 2013 Audit Plan risk exposures. CAO management asserts that the work being conducted provides assurance for those previously identified objectives, and that CAO resources would be better utilized conducting work on FY 2014 Audit Plan identified risks.

External Audit Approved Projects
No deviations

Information Technology Approved Projects
No deviations

Officewide Approved Projects
No deviations

III. Consulting Engagements and Non-audit Services Completed

Chief Auditor’s Office Consulting Engagements Performed in FY 2013

No formal advisory services were performed in FY 2013

Chief Auditor’s Office Non-audit Service Projects FY 2013

TCEQ Ethics Advisory Committee	The Chief Auditor serves as a non-voting member of the Ethics Advisory Committee.
State Auditor’s Office (SAO) Liaison	The Chief Auditor’s Office served as liaison to the SAO for audits and meetings related to TCEQ programs.
ITWG/ITSC Committees	The Chief Auditor’s Office participated as a non-voting member on the Information Technology Steering Committee (ITSC), Information Technology Work Group (ITWG), GIS Subcommittee, Information Security Subcommittee (ISSC), and Technical Architecture Committee (TAC).
Operating Policy & Procedure Reviews	The Chief Auditor’s Office reviewed proposed revisions to agency operating policies and procedures and newly proposed operating policies and procedures.

IV. External Quality Assurance Review (Peer Review)

REPORT ON THE
EXTERNAL QUALITY ASSURANCE REVIEW OF
THE TEXAS COMMISSION ON
ENVIRONMENTAL QUALITY

CHIEF AUDITOR'S OFFICE

April 2011

PERFORMED BY

Paul G. Morris, Director of Internal Audit
Texas Department of Family and Protective Services

Edwin Santiago, Internal Auditor
Texas Department of Family and Protective Services

Jack Rayburn, Internal Auditor
Texas Attorney General's Office

Dace Ward, Internal Auditor
Texas Facilities Commission

Performed In Accordance With the State Agency Internal Audit Forum Peer Review Policies and Procedures

OVERALL OPINION

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Commission on Environmental Quality Chief Auditor's Office (CAO) *fully complies* with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (*Texas Government Code*, Chapter 2102). This opinion is the highest of the three possible ratings and means that the Chief Auditor's Office has achieved their major objectives in the provision of the internal audit function.

We found that overall, the Chief Auditor's Office is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. Staff members are qualified, proficient, and knowledgeable in the areas they audit. 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. These findings are based on the preponderance of data and the comments gathered during the peer review process. We note here that there was a significant level of turnover during the most recent 12 months. We also note that some members of governance and management listed some concerns with the audit function.

The Chief Auditor's Office is well managed internally. In addition, the audit function has effective relationships with the agency Commissioners and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management overall considers the Chief Auditor's Office 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. As noted above, management expressed some concerns, but the Chief Auditor is aware and has acknowledged opportunities to address the concerns with management.

ACKNOWLEDGEMENTS

We appreciate the courtesy and cooperation extended to us by the Chief Auditor, Chief Auditor's Office staff, agency Chairman and Commissioners, the executive team, and the senior managers who participated in the interview process. We would also like to thank staff who completed surveys for the quality assurance review. The feedback from the process provided valuable information regarding the operations of the Chief Auditor's Office and its relationship with management.

Paul Morris 4/28/11
Paul Morris, CPA, CIA *Date*
Director of Internal Audit
Texas Department of Family and Protective Services
SAIAF Peer Review Team Leader

4/28/11
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BACKGROUND

The Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*, 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.

The most recent quality assurance review for the Texas Commission on Environmental Quality Chief Auditor's Office was performed in 2008. The 2008 report assigned a rating of "fully complies." The agency complies with standards and timelines for required peer review.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of the quality assurance review was to evaluate the Texas Commission on Environmental Quality Chief Auditor's Office'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 Texas Commission on Environmental Quality Chief Auditor's Office from April 2008 to February 2011.

The work performed during the review included:

- Review, verification, and evaluation of the self-assessment prepared by the Chief Auditor's Office according to SAIAF guidelines
- Review and evaluation of electronic surveys completed by management
- Interviews with the Chief Auditor, Chief Auditor's Office staff, agency Chairman and Commissioners, the agency Executive Director, and senior managers
- Review and evaluation of audit working papers
- Review of Chief Auditor's Office's policies and procedures, annual risk assessment, annual audit plan, and other relevant documents

V. Chief Auditor's Office Audit Plan for Fiscal Year 2014

Proposed Carry-over Audit Projects for FY 2014

The following audits in progress at the end of FY 2013 are expected to be carried over to FY 2014.

Internal, External & IT Audit Carry-over Projects

Project Name	Current Status	Hours
#12-009: Office of Water – Management Control Audit	Reporting	-
#13-003: An Audit of Records Retention Policies and Procedures	Published in September 2013	-
#13-004: A Review of the TCEQ Contract Initiation Process	Pending	400
#13-005: An Audit of Selected Petroleum Storage Tank (PST) Contracts	Fieldwork	-
#13-006: An Audit of Selected Water Supply Contracts	Fieldwork	240
#13-007: A Review of the TCEQ Contract Management Process	Pending	300
#13-008: An Audit of Controlled Assets	Fieldwork	200
#13-502: Management Control Audit of Established Information Technology Policies and Procedures	Fieldwork	520
#14-102: Agreed Upon Procedures: Waste Permits – Industrial Hazardous Waste (IHW) Facility Fees	Pending	300
#xx-xxx: Texas Emissions Reduction Plan (TERP) – TERP DMS Database Review	Pending	400
#14-501: Texas Emissions Reduction Plan Application Controls Audit	Scoping	600

Below are the proposed and alternative projects for Internal Audit, External Audit, Information Technology Audit, and the Chief Auditor's Officewide Audit Projects.

Proposed Internal Audit Project Areas	Hours
An Audit of Alamo Council of Governments Grant Compliance	600
An Audit of Capital Area Council of Governments Grant Compliance	600
Area Administrative Review (Border/Permian Basin) El Paso and Midland Regional Offices – 600 hours Harlingen and Laredo Regional Offices – 600 hours	1,200
An Audit of Supplemental Environmental Projects Administration and Review of Selected Agreements	1,200
An Audit of the Public Information Request Process	600

Proposed External Audit Project Areas	Hours
Agreed Upon Procedures – Cefe Valenzuela Landfill	400

Proposed Information Technology Audit Project Areas	Hours
An Audit of Office-level GIS Policy Compliance	600
A Review of the Permit and Registration Information System (PARIS) Implementation	480

Proposed CAO Advisory Services Areas	Hours
Advisory Service: Security of Personally Identifiable Information (PII)	480
Advisory Service: Physical Security of TCEQ Building E	240
Advisory Service: TCEQ Cost Recovery Efforts – Contracts, Grants, and AUPs	240

Proposed CAO Officewide Project Areas	Hours
Audit Follow-ups (Fall and Spring)	150
CAO Quarterly Reports	160
TeamMate Version 10.3 Conversion	160
Client Assistance/Consulting	300
CAO Annual Internal Audit Report FY 2013	150
2015 Annual Audit Plan	400
External Quality Assurance Reviews	400
Special Requests from the Commissioners or Executive Director	1,500

Proposed Alternative Project Areas
An Audit of North Texas Commission Grant Compliance
Agreed Upon Procedures Clint Municipal Landfill
An Audit of Selected Texas Emissions Reduction Plan (TERP) Agreements
An Audit of North Central Texas Council of Governments Grant Compliance

Risk Assessment

Risk assessment, as defined by the IIA, is a *"systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events."*

In conducting our risk assessment, the Chief Auditor's Office received input from TCEQ Commissioners, Executive Management, Deputy Directors and numerous Division Directors and Section Managers. Selected agency employees were provided the opportunity to provide input into our risk assessment through a formal facilitated session led by CAO staff.

For **internal audit** purposes, the Chief Auditor's Office identified the universe of auditable activities primarily as those activities conducted to address the strategies funded by the Appropriations Act.

We then risk ranked all identified activities within each category using specific elements of risk related to that category, including fraud risk as appropriate. From this ranking, specific project topics were identified for each of the high risk areas. Lastly, we prioritized each potential project to determine which projects should be included in the proposed audit plan.

For **external audit** purposes, the universe of auditable activities included all fees collected and all contracts entered into by the agency. Only those fees that are self-reported and/or self-paid were included in the risk ranking process. Other types of fees, such as application fees, were determined to have insufficient risk to warrant consideration and were omitted from the process.

Each of the fees and contracts included in the assessment was ranked using specific elements of risk related to that category, including fraud risk as appropriate. The high risk fees and contracts identified were selected as areas for audit projects. These projects were then prioritized to determine which fees and contracts should be included in the proposed audit plan.

We will update our risk assessment as additional information is obtained and expenditures occur throughout the coming fiscal year. Our continuous evaluation of contracts will ensure the most efficient use of audit resources.

For **information technology audit** purposes, the universe of auditable activities included both organizational units with IT functions and specific IT systems.

Both the organizational units and systems were ranked using specific elements of risk related to that category, including fraud risk as appropriate. These units were then ranked and specific project topics were developed based on the high risk units. These projects were then prioritized to determine which projects should be included in the proposed audit plan.

The risk assessment process included review of the project areas by the Chief Auditor to assure adequate coverage of risk and to avoid inappropriate duplication of coverage.

Alternative projects are additional areas that we believe could potentially benefit from the use of audit resources, but did not rise to the top of the list of potential audit areas. We seek approval to use them as alternative projects in circumstances where additional or substitute projects are required.

We will consult with the Commission and executive management to adjust the plan as needed based on priorities, management requests, workloads, changes in operations, and availability of audit resources. Through approval of this proposal, the Commission authorizes the Chairman to approve any amendments to the audit plan that become necessary.

VI. External Audit Services Procured in Fiscal Year 2013

During Fiscal Year 2013, the Chief Auditor’s Office did not have any ongoing external audit services, nor were any services procured for the time period.

VII. Reporting Suspected Fraud and Abuse

The TCEQ and the Chief Auditor’s Office offer both internal and external means for agency employees and the public to report allegations of suspected fraud, waste, and abuse related to TCEQ operations. Reporting can be done openly or anonymously either by phone or through on-line reporting via links located on both the TCEQ internal and external websites. A link to the internal reporting tools is also available on the agency’s intranet site, “Employee Ethics and Fraud Awareness/Prevention.”

The TCEQ also has a link on its public website that allows individuals a choice in reporting suspected violations internally to the Chief Auditor’s Office or directly to the State Auditor’s Office Fraud Hotline.

TCEQ Operating Policy and Procedure 3.10, Reporting Allegations of Fraud, Waste, and Abuse, provides the policy and procedure for reporting to the Chief Auditor’s Office and/or to the State Auditor’s Office when employees suspect fraud, waste, and/or abuse have occurred.