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Texas Facilities Commission

Internal Audit Annual Report

Fiscal Year 2018

September 2018

Submitted by

THE OFFICE OF INTERNAL AUDIT

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site

Texas Government Code, Section 2102.015 requires state agencies and institutions of higher education, as defined in the statute, to post agency internal audit plans and internal audit annual reports within 30 days of approval. The statute also requires entities to update the posting on the internet to include:

- a.) a detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and,
- b.) a summary of the actions taken to address concerns, if any, that are raised by the audit plan or annual report.

The Texas Facilities Commission (TFC) fully complies with Texas Government Code, Section 2102.015 by posting (on its Internet website) the agency’s approved annual audit plans, and annual internal audit reports. In addition, the Office of Internal Audit (OIA) posts individual audit reports and audit implementation status reports. The individual audit reports provide information on audit findings, recommendations, and management’s responses while the audit implementation status reports provide a summary update of the action taken by management in addressing the audit issues.

OIA reports to the Commission on the status of audit implementation on a semi-annual basis.

II. Internal Audit Plan for Fiscal Year 2018

The status of the Audit Plan for FY 2018 is shown in the table below.

Project	Current Status
(i) Review of Facilities Maintenance	Completed: Report issued – February 2018
(ii) Review of Internal Architecture, Engineering and Construction (AEC) Services	Completed: Report issued – April 2018
(iii) Review of Federals Surplus Freight Solicitation Process	Completed: Report issued – May 2018
(iii) Review of Contract Management (Phase III)	Completed: Report issued – July 2018
(iv) Audit of Construction Activity (Agreed-upon procedures)	Completed: Report issued – September 2018

Deviations from the original 2018 Audit Plan

None.

III. Consulting Services and Non-audit Services Completed

OIA performed several minor advisory services projects. OIA does not anticipate issuing reports on these projects.

IV. REVISED External Quality Assurance Review (Peer Review)



REVISED

EXTERNAL QUALITY ASSURANCE

REVIEW REPORT

OFFICE OF INTERNAL AUDIT

August 2017

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Executive Summary

Overview

Texas Government Code § 2102 (the Texas Internal Auditing Act) requires the program of internal audit at the Texas Facilities Commission (TFC) to be in conformance with the Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing (IIA Standards), the IIA's Code of Ethics, the IIA's Definition of Internal Auditing and with the Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards (GAGAS), to be collectively referred to in this report as the *Standards*. These *Standards* require the Office of Internal Audit (OIA) to develop and maintain a Quality Assurance and Improvement Program (QAIP). The QAIP requires both internal and external assessments of the internal audit division. The *Standards* require the results of these assessments to be communicated to those charged with agency governance at least annually for internal assessments and every three years for external assessments. This report presents the results of the external assessment that was conducted in June 2017.

The primary intent of the review was to provide reasonable and objective assurance that the internal audit work being performed meets the requirements of the *Standards*. A secondary objective was to identify whether or not there are opportunities that would enhance the economy and efficiency of the audit process and improve the value of what the internal auditing activity contributes to TFC.

The scope of the review included an evaluation of:

- OIA's reporting relationship and communication with TFC's Commission;
- The department's independence and the objectivity of the audit work performed;
- Existing internal audit policies and procedures;
- The department's risk assessment and annual audit planning process;
- The planning process for individual audit projects;

-
- The audit methodologies used in performing the work;
 - A representative sample of audit workpaper files and reports;
 - The workpaper documentation that supported the work performed;
 - The support for the conclusions and recommendations in the audit reports;
 - How the results of audit are communicated;
 - The procedures for following up on audit recommendations; and
 - The knowledge, skills, discipline, and training of the staff.

Interviews were conducted with, among others: the Chair and Vice Chair of the Commission and each of the Commission members; the Executive Director; the General Counsel; the Deputy Executive Director of Planning and Real Estate Management; the Deputy Executive Director of Facilities, Design and Construction; the Director of Procurement; the Director of Human Resources; the Director of Information Technology; the Director of Safety and Security, the Chief Auditor; and the audit staff.

Opinion

Based on the work outlined above and on the information received and evaluated during this external review, it is my opinion that the Office of Internal Audit at the Texas Facilities Commission **generally conforms** to the *Standards*.

This opinion, which is the highest of three possible ratings, means that there are relevant structures, policies, procedures, and processes in place that comply with the requirements of both the IIA International Professional Practices Framework and the GAO's Government Auditing Standards in all material respects. Any deviations found between the *Standards* and the OIA policies, procedures, and practices, or the work performed, were judged to be insignificant.

It is important to note that the *Standards* are expressed in terms of broad concepts and objectives rather than detailed procedures, and their application requires the exercise of

professional judgement. The extent of internal audit policies and procedures and the manner in which they are implemented will depend upon a number of factors such as an audit activity's size and organizational structure, the nature of its audit responsibilities, its philosophy with respect to the degree of operating autonomy appropriate for its staff, and the expectations of its governing body. Variances in individual performance and professional interpretation affect the degree of compliance with internal audit policies and procedures; therefore, adherence to all policies and procedures in every case may not be possible. However, compliance does require adherence to prescribed policies and procedures in the majority of situations.

While all the requirements of the *Standards* are in place, there are governance issues beyond the control of OIA that are significantly hindering it from providing independent and objective services to the agency and the Commission. These issues are discussed under Agency Observations that follow.

OIA Observations

The Office of Internal Audit at the TFC consists of the Chief Auditor and two staff positions. The Chief Auditor reports directly to the Commission. It has a well-crafted Audit Charter that defines the department's purpose, authority, and responsibility and establishes it as an independent activity that is in line with the fundamental requirements of the *Standards* and the Texas Internal Auditing Act.

The Chief Auditor has over 25 years of internal auditing experience, and has six certifications relating to the practice of internal auditing that include, CPA (Certified Public Accountant), CIA (Certified Internal Auditor), and CISA (Certified Information Systems Auditor). The audit staff has extensive audit experience and each have multiple certifications, both are CPAs. Interviews with the Chief Auditor and the audit staff indicated that they are committed to finding ways that OIA can better work with agency management in helping it identify how the agency can better achieve its goals and objectives more effectively and efficiently.

As required by the *Standards*, the Chief Auditor has developed an annual risk assessment that, along with input from Commission members, agency leadership, division directors, and staff, is used to create an annual audit work plan. In developing the plan, the Chief Auditor has identified key risks for consideration into the audit plan and has developed an identification model that is used to risk rank key business process / audit areas based on those key risk factors. This audit work plan is then presented to the Commissioners for their approval. Typically the projects on the risk based plan comprise the majority of the work that would be expected to be undertaken by the OIA. At each monthly TFC Commission meeting the Chief Auditor presents a Monthly Status Report that enables the Commission to stay informed on the status of audit projects and the implementation of audit recommendations.

A sample of workpapers were reviewed and showed that the staff is proficient and knowledgeable in the areas they audit. The documentation in the workpapers was professionally done and supports a level of professional care that is appropriate for the complexities of the work being performed. The detail in the workpapers shows that audit projects are well planned; the audit programs outline the audit steps to be performed and are referenced to the documentation that evidences the work was performed; and the work performed supports what is communicated in the audit reports. There was evidence that the workpapers and the audit reports are reviewed by the Chief Auditor before any reports are issued.

Agency Observations

The interviews conducted during this review identified several issues that are hindering the OIA in its efforts to provide independent and objective services to the agency and the Commission. These issues include:

- A belief that the OIA is not independent but is an instrument that is being used to further the political agenda of some Commissioners.

Let me be very clear about the basis for this first comment. This observation came from an interview I had with the Executive Director (ED).

The ED believes that the Commission Chair wants to remove him as the ED. I could not find any direct evidence that the Commission Chair is trying to push this agenda. I also could not find anything in my review of the planning and work performed by the OIA that supports the ED's belief that OIA is out to discredit or provide support for removing the ED. The OIA is operating within the Audit Charter which has been approved by the Commission.

However, because the ED believes this to be the case, the ED has taken the position that the OIA is not independent and has encouraged his staff to not cooperate with the OIA. While there is some antidotal evidence that suggests that this negative attitude towards the OIA existed before the Commission Chair joined the agency, this is the ED's current expressed motivation for discrediting the OIA whenever it makes a comment or observation that could be interpreted to reflect negatively upon the ED's leadership. The ED's strategy appears to be, "When you don't like the message, attack and discredit the messenger". This attitude appears to be at the root of many of the negative observations expressed in the report.

TFC has a very good OIA. Unfortunately the OIA is not getting the cooperation it needs from agency management, and the Commission is not providing the OIA the support it needs to overcome this handicap.

- There is no clear guidance as to what the responsibilities are of the Commission Audit Work Group since the Chief Auditor reports to the Commission as a whole.
- Line management is usually cooperative and collaborative during an audit, agreeing with findings and recommendations. This changes when the Executive Director has management's responses redrafted changing the tone to be

defensive and adversarial. These adversarial management responses to reports are fueling a negative reputational risk for the agency.

- The anti-audit culture appears to be growing, fueled by the recent pushbacks from the Executive Director.
- There is a belief by employees in the agency that information shared with OIA is not confidential. This is being reinforced by a lack of reliable information from senior management addressing what information will be confidential when it is shared with OIA. The fear is that sharing information with OIA may jeopardize an employee's job if management thinks it reflects poorly on them.

Recommendation Summary

While the OIA at TFC generally conforms with the *Standards*, the following comments and recommendations are intended to build on the foundation that is already in place with the objective of improving the value of the audit work being performed by addressing the issues above.

The recommendations are divided into two groups; 1) recommendations made to the Texas Facilities Commission that would strengthen the Commission's governance over the internal audit activity; and 2) recommendations that relate specifically to the OIA and the Chief Auditor that would increase the efficiency and efficacy of the audit work that is performed. An outline of these recommendations is set forth below, followed by a discussion of each.

Part I - Recommendations for the Texas Facilities Commission

1. All requests to the Chief Auditor for information or projects from Commissioners should be approved by the seven-member Commission.
2. The Commission should document the purpose and responsibilities of the Audit Work Group.
3. Commission should have the General Counsel research and document a policy on what information from employees, when shared with OIA, can be expected to be kept confidential.
4. The Commission, working with the Executive Director, the General Counsel and the Chief Auditor, needs to identify and approve procedures the agency and OIA will follow when accessing electronic information considered confidential.
5. The Commission should receive reports regularly from the Chief Auditor on the support and cooperation OIA receives when conducting audit projects and hold the Executive Director accountable when personnel are uncooperative.

Part II - Recommendations for the Office of Internal Audit

1. Continue to define how the TeamMate software tool can be better incorporated into the OIA's work flow.
2. Consider using automated data analysis tools in planning and conducting audit work.



Richard H. Tarr, CIA, CISA

V. Internal Audit Plan for Fiscal Year 2019 (Approved: August 16, 2018)



Texas Facilities Commission (TFC) Office of Internal Audit (OIA)

Audit Plan for Fiscal Year 2019

August 16, 2018

Amanda Jenami, CPA, CISA, CIA, CFE
Chief Audit Executive

Robert D. Thomas
Chair, TFC Commission





Executive Summary

The purpose of the Audit Plan is to outline audits and other activities the Office of Internal Audit (OIA) will conduct during fiscal year 2019. The Plan is developed to satisfy responsibilities established by the Texas Facilities Commission's (TFC) Internal Audit Charter, Texas Internal Auditing Act (Chapter 2102, Title 10, Texas Government Code), Government Auditing Standards, and the Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA).

The Office of Internal Audit (OIA) is independent of management and provides objective assurance and consulting services designed to add value and improve TFC operations.

Audit Plan Development and Scope

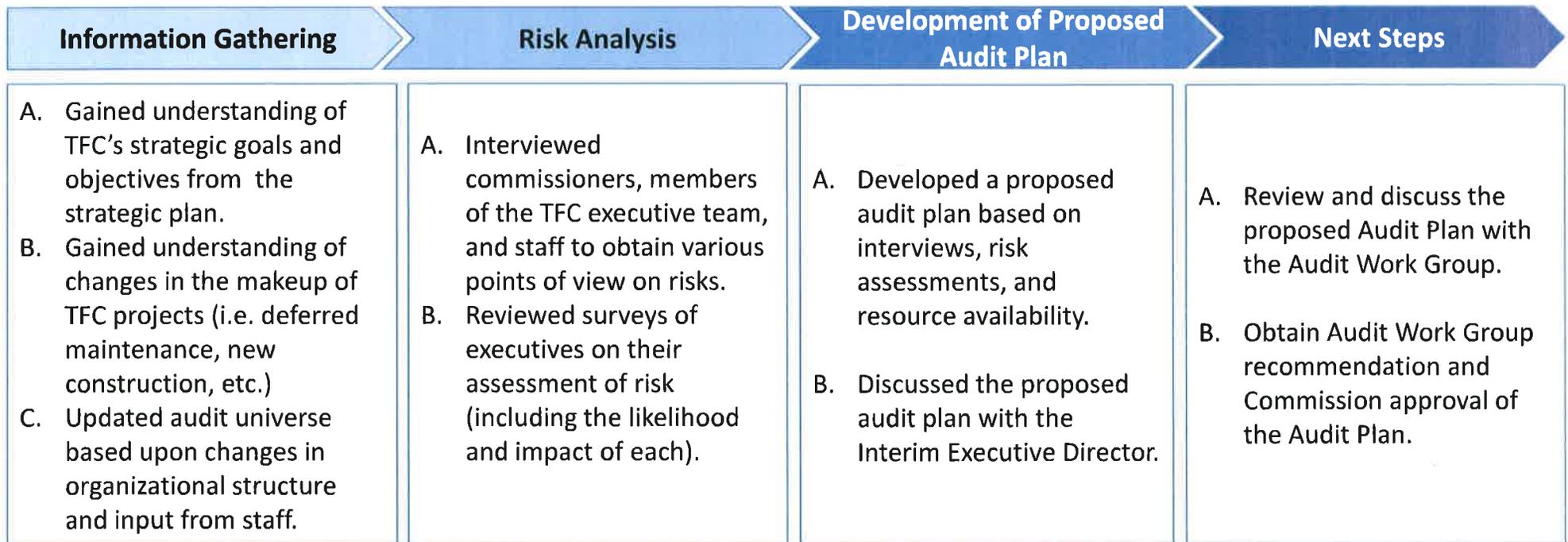
Our Audit Plan is designed to provide coverage of key risks, given the existing and approved budget.





Risk Assessment & Audit Planning Approach

Interviews and risk assessment surveys of Commissioners and executives were used to identify areas of risk and potential internal audit projects. This information was combined into an overall audit plan designed to address critical risks to achieving TFC objectives. The Audit Plan also includes hours for ad hoc projects and special requests. The following approach was taken in creating the Audit Plan:





Types of Projects to Cover Risk Areas

An important part of the Audit Plan is that the identified processes, systems, and initiatives should receive differing types and levels of review based on their importance, perceived risk, and most efficient approach. The different levels of review activities are as follows:

Audit

- **Audit Focus:** Assess evidence available in order to provide assurance on an audit objective
- **Deliverable:** Audit report for public distribution unless protected by statute
- **Estimated level of effort per project:** 400 – 500 hours

Agreed-Upon Procedures

- **Agreed-Upon Procedures Focus:** Determine specific steps to test with management's agreement and report on results; used for data analytics and quarterly testing of specific data and transactions.
- **Deliverable:** Agreed-upon procedures report for public distribution (use is limited to those with understanding of procedures performed).
- **Estimated level of effort per project:** 100 – 300 hours

Formal Consulting

- **Consulting Focus:** Respond to requests for formal study or assessment with recommendations; no assurance provided
- **Deliverable:** Consulting report or memo for limited distribution; significant material weaknesses identified would be reported to executive management and the Audit Work Group

Informal Consulting

- **Advisory Focus:** Participate in activities in a non-voting capacity e.g. provide training and input on policies and procedures.
- **Deliverable:** Verbal discussion or a brief memo to management
- **Estimated level of effort per year:** 10-100 hours





Proposed Audits

The following table provides the name of each audit and preliminary scope of work to be performed. Scope of work will be finalized as part of each project's formal planning phase.

Audit Title	Preliminary Scope
A. Review of Enterprise-Wide Risk Management (ERM)	Determine the extent to which the agency's processes to identify, evaluate and manage risks are sufficient to ensure all key risks are addressed. Further, determine the extent to which resource allocation is aligned with the agency's risk profile.
B. Review of Selected Construction Contracts	Determine the extent to which agency contract development, performance monitoring, and oversight processes sufficiently ensure contractors perform in accordance with the contract and that expenditures are adequately supported. Further, determine the extent to which the agency's construction project expenditures monitoring ensures contractor billings are in compliance with the contract.
C. Review of Property Management and Tenant Services	Determine the extent to which agency processes ensure property management and tenant services goals are accomplished efficiently and effectively, in compliance with relevant regulations, interagency agreement and procedures.





Agreed-Upon Procedures

The following table provides the name of each agreed-upon procedures and preliminary scope of work to be performed. Scope of work will be finalized with collaboration from executive management.

Project Title	Preliminary Scope
A. Recovery audit of the North Austin Complex Construction Project	Perform a recovery audit to ensure that contractor billings are adequately supported and that any overcharges are identified and recovered. (This project will be ongoing for the life of the construction project).
B. Data Analytics Initiative	Utilize data analysis to identify opportunities for continuous process improvement across the agency.





Key Internal Audit Activities

Title	Project Description
A. Follow-up on Implementation of Prior Audits	Follow-up and report on status of outstanding audit recommendations.
B. Quality Assurance and Improvement Program	OIA maintains an ongoing Quality Assurance and Improvement Program (QA&IP) and performs ongoing monitoring of the quality of internal audit activities as well as periodic reviews performed through self-assessment.
C. Annual Internal Audit Report	Prepare annual report of audit activities in accordance with SAO guidelines.
D. Commission and Audit Work Group Meetings	Prepare communication and attend Commission and Audit Work Group meetings
E. Coordination with External Audit Groups	Coordinate with external auditors.
F. Contingencies	To ensure OIA has the flexibility to meet changing needs of TFC and address high priority issues as they arise, time has been allocated for unplanned special projects and investigations, as needed.



Additional High Risks Not Included in the FY 2019 Audit Plan:

A couple of additional processes/programs were ranked as “high risk” during the annual risk assessment due to their impact on the agency’s mission. An explanation for their exclusion is shown in the table below.

Project Name	Reason Project Was Excluded From The FY 2019 Plan
Talent Recruitment	The audit is tentatively scheduled for FY 2020 to allow the human resources function to staff up.
Employee Retention	The audit is tentatively scheduled for FY 2021 to allow the new human resources function to staff up.

VI. External Audit Services Procured in Fiscal Year 2018

During Fiscal Year 2018, OIA did not have any ongoing external audit services, nor were any such services procured for the time period.

VII. Reporting Suspected Fraud, Waste, and Abuse

The agency has several mechanisms for reporting fraud to the State Auditor's Office (SAO). These mechanisms satisfy the requirements of Article IX, Section 7.09, the General Appropriations Act (83rd Legislature, Conference Committee Report), and the Texas Government Code, Section 321.022.

[Fraud Reporting per Article IX, Section 7.09, the General Appropriations Act \(83rd Legislature, Conference Committee Report\)](#)

TFC has a link for reporting fraud, waste, and abuse on the agency's website. The link includes definitions of fraud, waste, and abuse, and provides information on how to report suspected fraud, waste, and abuse involving state resources. The link also provides information on how to report fraud, waste, and abuse to the SAO, including a direct link to SAO's fraud, waste, and abuse webpage.

[Compliance with Texas Government Code, Section 321.022](#)

The agency's Fraud, Waste and Abuse policy and OIA's fraud procedures define fraud, waste, and abuse and provide staff with guidance on how to report fraud and/or suspected fraud. The policy assigns OIA the primary responsibility for the investigation of all suspected fraudulent acts and for coordinating investigative activities. The policy also requires the Executive Administrator to report suspected fraud or unlawful conduct to the State Auditor's Office.

The agency provides new hires with Ethics training as part of new employee orientation.