



Internal Audit Division

Annual Internal Audit Report Fiscal Year 2013

Table of Contents

I. Compliance with House Bill 16.....	3
II. Internal Audit Plan for Fiscal Year 2013	4
III. List of Consulting Engagements and Non-audit Services Completed	5
IV. External Quality Assurance Review.....	6
V. Internal Audit Plan for Fiscal Year 2014	9
VI. External Audit Services Procured in Fiscal Year 2013.....	12
VII. Reporting Suspected Fraud and Abuse.....	13

I. Compliance with House Bill 16

Internal Audit will post on the Texas Education Agency's Internet Website (www.tea.state.tx.us) an approved fiscal year 2014 audit plan, as provided by Texas Government Code, Section 2102.008; and the 2013 internal audit annual audit report as required by Texas Government Code, Section 2102.009. The two reports will be posted within 30 days of approval by the audit committee and the Commissioner of Education.

II. Internal Audit Plan for Fiscal Year 2013

The following audit plan was approved for FY 2013:

Audit No.	Audit Title	Budget Hours
13-01	LEA Intervention and Sanctions	500
13-02	IT Governance and Performance Review	600
13-03	Fingerprinting Administration (1)	
13-04	Review of LEA Self-Reported Data (3)	450
13-05	ESC Contracts and Grants (2)	450

Follow-up on Previous Audits		
11-08F	Agency Mobile Communication Devices	40
11-04F	Retirement of Agency Applications – Policies and Procedures Review	40
12-02F	Agency Contracts Compliance Review	40
12-05F	Implementation of Instructional Materials Allotment	40
12-04F	Virtual School Program Review (TXVSN)	40

(1) Postponed until FY 2014 due to agency reorganization and management changes.

(2) Approved by the Commissioner of Education in February 2013.

(3) In progress-Carried forward to FY 2014.

III. List of Consulting Engagements and Non-audit Services Completed

Internal Audit did not perform any formal consulting engagements and non-audit services for the Agency in FY 2013.

IV. External Quality Assurance Review

**REPORT ON THE
EXTERNAL QUALITY ASSURANCE REVIEW
OF THE TEXAS EDUCATION AGENCY
INTERNAL AUDIT DIVISION**



November 2010

PERFORMED BY

David J. MacCabe, CIA, CGAP, MPA
Internal Audit Consultant

Performed in accordance with the
State Agency Internal Audit Forum
Peer Review Policies and Procedures

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November 10, 2010

Mr. Bill Wilson, CPA, CIA, Director
Internal Audit Division
Texas Education Agency
1701 North Congress Avenue
Austin, TX 78701-1494

Re: External Peer Review

Dear Mr. Wilson:

Attached for your information is the final report of the External Peer Review of the Internal Audit function of the Texas Education Agency (TEA).

Congratulations to you and your staff members on a conscientious effort in preparing for this validation peer review. In my opinion, the TEA Internal Audit function fully complies with the *International Standards for the Professional Practice of Internal Auditing*, *Government Auditing Standards*, the *IIA Code of Ethics*, and the *Texas Internal Auditing Act*.

"Fully complies" means that the TEA Internal Audit Division has policies, procedures, and practices in place to comply with the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the Internal Audit function. This opinion is the highest of three possible ratings.

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,



David J. MacCabe, CIA, CGAP, 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) "fully complies" with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (*Texas Government Code*, Chapter 2102).

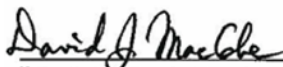
This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

I found that the IAD is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. 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.

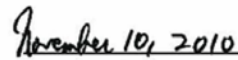
The IAD is well managed internally. In addition, the IAD has effective relationships with TEA management and is well respected. Surveys and interviews conducted during the quality assurance review indicate that management considers IAD a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

ACKNOWLEDGEMENTS

I appreciate the courtesy and cooperation extended to me by Commissioner Scott, TEA executive and operating management, the Director of Internal Audit, and Internal Audit staff members who participated in the survey and interview process. The feedback from the surveys and interviews provided valuable information regarding IAD operations and its relationship with the Commissioner, management, and staff.



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



Date

V. Internal Audit Plan for Fiscal Year 2014

The following audit plan was approved for FY 2014:

Audit Title	Budget Hours
Review of LEA Self-Reported Data(1)	200
Protecting Confidential Student Data	400
Process Review of Financial Compliance Division	400
Fingerprinting Administration	300
Student Success Initiative (SSI) Contracts	300
HUB Compliance	200
Bilingual/Limited English Proficiency Program	200

Follow-up on Previous Audits	
LEA Intervention and Sanctions	40
IT Governance and Performance Review	40
Review of LEA Self-Reported Data	40
ESC Contracts and Grants	40

(1) Carry forward from FY 2013 Audit Schedule.

Agency Risk and Methodology

Agency Risk

In 2013, the Texas Education Agency reorganized and changes in executive management occurred. Some functions and programs were restructured and/or merged into new departments under new management. The agency continues to work with a reduced FTE cap since the 2011 RIF (265 positions lost). In addition, the 83rd Legislative Session enacted HB 5 (which restructured high school graduation and school accountability requirements) and SB 2 (which implements new requirements for charter schools). The agency is also reorganizing functions for monitoring and investigating school activities and programs. These changes present a risk along with the number of resources needed to implement mandated requirements in new legislation.

The agency's perceived risks will be addressed through concentrating audit work on evaluating and utilizing available agency resources in high-risk areas as well as identifying opportunities to streamline functions to gain efficiency. With more than 50 divisions and units in the agency, it is not possible to cover all areas that may present a risk as a result of reorganization. The FY 2014 audit schedule was prepared based on knowledge of the above risk, concerns of executive management, and taking into

consideration findings from outside audits performed by the State Auditor's Office and Federal Agencies.

Risk Assessment Methodology

The FY 2014 Audit Plan was developed through management interviews, review of outside audit reports, and auditor judgment in ranking of risk indicators as follows:

- Executive management (Deputy and Associate Commissioners) interviews to obtain an overview of any administrative or program changes this past year, and to discuss agency controls/vulnerabilities and audit suggestions. A total of 18 interviews were conducted.
- State and federal external audit report reviews to identify audit findings and areas of weakness in programs and agency processes. The SAO and USDE audits from December 2012 through October 2013 were reviewed. Areas previously audited with no significant findings were rated a lower score. If the agency was in the process of addressing recommendations from an audit, the cost center was rated depending on materiality and timelines for implementation as indicated in the management responses to the recommendation.
- Development of risk indicators and ranking by internal audit staff.

Agency key operations were assessed through the following risk indicators:

Risk Indicator*	Definition
Impacted by reorganization	Operations significantly restructured as a result of reorganization.
\$ Amount	Operations impacted by changes in amounts of program and/or administration funding.
Compliance with regulation	Operations impacted by changes to state/federal requirements.
Management interest	Operations of management interest indicated during planning interviews.
Legislative interest	Operations of legislative interest indicated through inquiries.
Public interest	Operations impacting public knowledge and trust.
Litigation risk	Operations impacted through ongoing or risk of lawsuits.
Staff reduction	Operations significantly impacted by reduction in staff.
Key management changes	Operations with a change in management through retirement or restructuring.
New/Never audited	Operations that are new and those that have not been audited for five years.
Internal/external audits	Operations previously audited and the materiality of any findings.

*The key operations were rated using auditor judgment based on knowledge of agency operations.

The risk assessment process and proposed audit plan was presented to the Agency Fraud Prevention Committee (FPC) on October 23, 2013 and approved by the Commissioner on October 29, 2013.

VI. External Audit Services Procured in Fiscal Year 2013

No external audit services were procured by the agency during FY 2013.

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 02-01 Agency Fraud Prevention Committee**

This policy establishes a committee that provides agency management with a structure to receive information and to propose actions regarding the agency's investigations and internal audit activities and prevention policies and practices regarding fraud, risk assessment and legal compliance.

- **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.