C H I E F
A U D I T O R ' S
O F F I C E

TCEQ

Chief Auditor's Office Annual Report

FY 2014

November 2014   Report SFR-082/14

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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 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.

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Bryan W. Shaw, Ph.D., P.E, Chairman
Toby Baker, Commissioner
Zak Covar, Commissioner
Richard A. Hyde, P.E., Executive Director

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PO Box 13087
Austin TX 78711-3087

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Chief Auditor's Office
Carlos Contreras, CIA, CISA, CGAP, CCSA, CICA, Chief Audit Executive
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Elizabeth Nichols, Executive Assistant

Audit Services Team
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Peter Mbanasor, CISA
George Stolard, PMP

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I. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Website

House Bill 16 (83rd Legislature, Regular Session) (HB 16) was signed into effect immediately by Governor Perry on June 14, 2013. House Bill 16 amended 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 websites.

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

- An approved fiscal year 2015 audit plan, as provided by Texas Government Code, Section 2102.008.

- A fiscal year 2014 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 website:

- 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 2015 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. Planned Work Related to the Proportionality of Higher Education Benefits

This section is only applicable to internal auditors for higher education institutions that conduct work related to the proportionality of benefits and related risks for compliance with Governor Perry's request.

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

Audit Services FY 2013 Carry-over Projects

An Audit of Selected Petroleum Storage Tank (PST) Contracts

An Audit of Capitalized and Controlled Assets

An Audit of Selected Water Supply Contracts

A Review of the TCEQ Contract Initiation Process

A Review of the TCEQ Contract Management Process

Waste Permits – Industrial Hazardous Waste (IHW) Facility Fees

Information Technology Audit FY 2013 Carry-over Projects

Management Control Audit of Established Information Technology Policies & Procedures

Texas Emissions Reduction Plan (TERP) – TERP DMS Database Review

TERP Application Controls Audit

Proposed and Alternative Projects for FY 2014

Proposed Internal Audit Projects:

An Audit of Alamo Council of Governments Grant Compliance

An Audit of Capital Area Council of Governments Grant Compliance

Area Administrative Review (Border/Permian Basin)

An Audit of Supplemental Environmental Projects Administration and Review of Selected Agreements

An Audit of the Public Information Request Process

Proposed External Audit Projects:

Agreed Upon Procedures – Cefe Valenzuela Landfill

Proposed Information Technology Audit Projects:

An Audit of Office-level GIS Policy Compliance

A Review of the Permit and Registration Information System (PARIS) Implementation

Proposed CAO Advisory Services Areas:

Advisory Service: Security of Personally Identifiable Information (PII)

Advisory Service: Physical Security of TCEQ Building E

Advisory Service: TCEQ Cost Recovery Efforts – Contracts, Grants, and AUPs

Proposed CAO Officewide Projects:

Audit Follow-ups (Fall and Spring)

CAO Quarterly Reports

TeamMate Version 10.3 Conversion

Client Assistance/Consulting

CAO Annual Internal Audit Report FY 2013

2015 Annual Audit Plan

External Quality Assurance Reviews

Proposed Alternative Projects:

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

Audit Services Completed Projects

Project Number & Name	Report Issued
#13-003: An Audit of Records Retention Policies and Procedures	October 2013
#12-003: Office of Water Management Control Audit	November 2013
#13-005: Petroleum Storage Tank Contract Compliance – Office of Compliance and Enforcement; Field Operations Support Section; Office of Waste: Remediation Division	December 2013
#13-008: Asset Management – Office of Administrative Services and Office of Compliance and Enforcement	December 2013
#14-501: Texas Emissions Reduction Plan (TERP) Application Controls Audit	January 2014
#13-006: An Audit of Selected Water Supply Division Contracts	March 2014
#14-004: Supplemental Environmental Projects Administration and Review of Selected Agreements – Office of Legal Services and Office of Compliance and Enforcement	May 2014
#14-003: Capital Area Council of Governments Grant Compliance – Office of Air and Office of Waste	July 2014
#14-001: Area Administrative Review – Border and Permian Basin Regional Offices	August 2014

Information Technology Completed Projects

Project Number & Name	Report Issued
#13-502: Management Control Audit of Established Information Technology Policies and Procedures	June 2014

Office-wide Completed Projects

Project	Completion Date
Chief Auditor's Office Annual Report FY 2013 (SFR-082/013)	November 2013
#14-811: CAO FY 2015 Annual Audit Plan	August 2014
CAO External Quality Assurance Review	June 2014

Deviations from the Chief Auditor's Office Audit Plan FY 2014

Internal Audit Approved Projects:

No deviations

External Audit Approved Projects:

No deviations

Information Technology Approved Projects:

The approved Plan contained an assignment to perform a data integrity review of the information contained in the Texas Emissions Reduction Plan (TERP) Database Management System (DMS). The original review was to examine TERP-DMS database performance and data integrity between source documentation and the information contained in the database.

The TERP-DMS data integrity review was to be conducted after the completion of the TERP Applications Control Audit. The objectives for the applications control audit were to examine the input, processing, and output controls related to the TERP-DMS system. During the course of this fiscal year, we began the initial applications control audit but closed the project and reported through a management letter during the scoping phase.

Since the TERP-DMS data integrity review was dependent on successful completion of the applications control review, CAO management cannot perform this assignment due to the lack of sufficient automated controls in the present TERP-DMS. Instead, the CAO redirected these resources to examine agency areas containing higher inherent risk.

Advisory Service Approved Projects:

The approved Plan contained an assignment to perform an advisory service to examine cost recovery efforts of outgoing funds related to TCEQ contracts, grants, and fee collections. The project was to determine the level of effort and monetary amounts of all questioned costs recovered by agency programs from the contracted external entities.

Both Executive management and the Commissioners have examined the current audit schedule and the potential impact to agency operations and provided clear direction to the CAO. The CAO will not conduct this advisory service during Fiscal Year 2014 as previously planned. However, the Commission and agency management is considering a future assignment based on the same objective. As a result, the CAO will redirect the resources to other ongoing projects within the agency.

Office-wide Approved Projects:

No deviations

IV. Consulting Engagements and Non-Audit Services Completed

Project Number and Name	Report Issued
#14-301: Physical Security of TCEQ Building E Objective: To determine whether existing security measures established to safeguard personnel attending agenda and work sessions can be improved to increase protection. Summary: The results, conclusions and recommendations contain sensitive information that was provided directly to management under separate cover.	March 2014
#14-302: Security of Sensitive Personal Information (SPI) Objective: To determine the extent to which the TCEQ's business processes adequately safeguard sensitive personal information held by the agency, and identify areas for improvement. Summary: The results, conclusions and recommendations contain sensitive information that was provided directly to management under separate cover.	June 2014

V. External Quality Assurance Review (Peer Review)

REPORT ON THE
EXTERNAL QUALITY ASSURANCE REVIEW
OF THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
CHIEF AUDITOR'S OFFICE

JUNE 2014

PERFORMED BY

ED BEST, CICA, CFE
SENIOR INTERNAL AUDITOR
TEXAS PARKS & WILDLIFE DEPARTMENT

TONY CHAVEZ, CIA, CGAP, CRMA
DIRECTOR OF INTERNAL AUDIT
EMPLOYEE RETIREMENT SYSTEM OF TEXAS

SANDRA MENJIVAR, CIA, CGAP
INTERNAL AUDIT SECTION DIRECTOR
TEXAS DEPARTMENT OF TRANSPORTATION

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's Chief Auditor's Office (CAO) receives a rating of "Pass" and is in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Audit 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.

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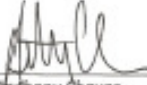
The CAO is well managed internally. In addition, the Office has effective relationships with the Commissioners and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the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

ACKNOWLEDGEMENTS

We appreciate the courtesy and cooperation extended to us by the Chief Audit Executive, the CAO staff, the Chairman and Commissioners, the Executive Director, 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 CAO and its relationship with agency management.

Ed Best   7/8/14
Senior Internal Auditor
Texas Parks & Wildlife Department
SAIAF Peer Review Team Leader

Anthony Chavez   6/24/14
Director of Internal Audit
Employee Retirement System of Texas
SAIAF Peer Review Team Member

Sandra Menjivar   7/2/14
Internal Auditor Section Director
Texas Department of Transportation
SAIAF Peer Review Team Member

CHIEF AUDITOR'S OFFICE

JUL 1 4 2014

Received

June 2014

TCEQ CAO External Quality Assurance Review

VI. Chief Auditor's Office Audit Plan for Fiscal Year 2015

Proposed Carry-over Audit Projects for FY 2015

The following audits in progress at the end of FY 2014 are expected to be carried over to FY 2015.

Internal, External & IT Audit Carry-over Projects

Project Name	Current Status	Hours
#13-004: A Review of the TCEQ Contract Initiation Process	Fieldwork	200
#13-007: A Review of the TCEQ Contract Management Process	Fieldwork	100
#14-002: An Audit of Alamo Area Council of Governments Grant Compliance	Reporting	100
#14-005: An Audit of the Public Information Request Process	Fieldwork	600
#14-101: Agreed-Upon Procedures: Cefe Valenzuela Landfill (Corpus Christi)	Planning	200
#14-102: Chief Auditor's Report on Agreed-Upon Procedures for Clean Harbors-Deer Park	Report Issued September 2014	N/A
#14-502: A Review of the Permit and Registration Information System (PARIS) Implementation	Fieldwork	140
#14-503: An Audit of Office-level GIS Policy Compliance	Fieldwork	200

Below are the Proposed Internal Audit Projects.

Proposed Internal Audit Project Areas	Hours
An Audit of the TCEQ Ethics Program	600
Area Administrative Review (Coastal and East Texas) Tyler and Beaumont Regional Offices – 480 hours Corpus Christi Regional Office – 120 hours Houston Regional Office – 550 hours	1,150
An Audit of North Central Texas Council of Governments Grant Compliance	600
An Audit of Selected Performance Measures for the Office of Water	600
An Audit of Selected Performance Measures for the Office of Air	480
And Audit of Selected Performance Measures for the Office of Waste	480

Below are the Proposed External Audit Projects.

Proposed External Audit Project Areas	Hours
Agreed-Upon Procedures – Selected Waste Facility	280

Below are the Proposed Information Technology Audit Projects.

Proposed Information Technology Audit Project Areas	Hours
An Audit of the Agency's Implementation of the System Development Life Cycle (SDLC)	800
An Audit of the Agency's Change Management Process in Maintenance Phase	800
An Audit of the Agency's Implementation of the Continuity of Operations Plan (COOP)	600

Below are the Proposed Advisory Services Projects.

Proposed CAO Advisory Services Areas	Hours
Advisory Service: A Review of Physical Security at Selected Locations	360
Advisory Service: A Review of Regional Office Administrative Training Opportunities	280

Below are the Proposed Office-wide Projects.

Proposed CAO Office-wide Project Areas	Hours
Audit Follow-ups (Fall and Spring)	160
CAO Quarterly Reports	160
TeamMate-activating additional modules	120
Client Assistance/Consulting	300
CAO Annual Internal Audit Report FY 2015	150
FY 2016 Annual Audit Plan	400

Proposed CAO Office-wide Project Areas	Hours
External Quality Assurance Reviews	400
Special Requests from the Commissioners or Executive Director	1,500

Below are the Proposed Alternative Projects.

Proposed Alternative Project Areas
An Audit of Fees Recorded for the Low-Level Radio Active Waste Site
Advisory Service: Program Review of the Emergency Management Support Team
An Audit of Allocations and Uses of Fund 5000
Advisory Service: A Review of Agency-Wide Electronic Data Standards and Use
Agreed-Upon Procedures: Clint Municipal Landfill (El Paso)
An Audit of Selected Texas Emissions Reduction Plan (TERP) Agreements

Risk Assessment

Our FY 2014 & FY 2015 audit plans are based on agency-wide risk assessments. These risk assessments identify a variety of risks including contract management and information technology risks. The FY 2014 audit plan included projects to address contract management and information technology risks; contract management and information technology audits were performed in addition to other assignments as noted above in Section III of this report. We included additional information technology audits in the FY 2015 audit plan. No additional risks were identified and ranked as "high" that have not been included in the FY 2015 audit plan.

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.

VII. External Audit Services Procured in Fiscal Year 2014

During Fiscal Year 2014, the Chief Auditor's Office did not have any ongoing external audit services, nor were any services procured for the time period.

VIII. 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 through the TCEQ 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.

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. A link to the internal reporting tools is available on the agency's intranet site, "Employee Ethics and Fraud Awareness/Prevention."

In compliance with Texas Government Code, Section 321.022, Coordination of Investigations, the TCEQ 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.