

Texas Commission on Environmental Quality

INTEROFFICE MEMORANDUM

To:	TCEQ Commissioners	Date:	February 5, 2010
From:	Steve Goodson, Chief Auditor 		
Subject:	Consideration of the TCEQ Chief Auditor's Office Charter Docket #2010-0169-AUD		

Audit standards require audit charters to be presented to the governing board. The last time the audit charter was reviewed and approved by the TCEQ Commission was November 2006. This memorandum transmits a proposed updated charter for the TCEQ Chief Auditor's Office.

TCEQ CHIEF AUDITOR'S OFFICE AUDIT CHARTER

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY MISSION

The Texas Commission on Environmental Quality strives to protect our state's human 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

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.

CHIEF AUDITOR'S OFFICE VISION & PHILOSOPHY

WE ARE A WORLD-CLASS AUDIT DEPARTMENT.

- Leadership** We will lead our profession in the use of innovative audit techniques and will continue to update our audit approach to effectively address emerging risks, issues, and changes in the environment.
- Integrity** We will exemplify the highest degree of trust and integrity in our partnership with agency leadership and employees, and continually uphold professional standards.
- Innovation** We encourage initiative, creativity, and innovation, while recognizing the attendant risk. We benefit from diverse ideas. Recognition is bestowed upon those who are innovative and accept responsibility for their actions. Mistakes are considered challenges from which we learn.
- Prevention** We anticipate future issues and risks rather than merely report on past events. As agency operations change, we look ahead to address potential risks.
- Quality** We will excel by practicing continuous improvement. We enrich the agency's performance by delivering timely, value-added services and information to key customers.
- Teamwork** We create a participatory environment that challenges our staff and allows them to fully utilize their talents. We maintain a positive, productive relationship with agency management and staff. By working together and capitalizing on our strengths, we continually improve our services.

CHIEF AUDITOR'S OFFICE

The Texas Internal Auditing Act (Government Code 2102) requires certain Texas state agencies, including the Texas Commission on Environmental Quality (TCEQ), to conduct a program of internal auditing. The Chief Auditor's Office is established to meet these requirements. The Act also requires the Board to appoint an internal auditor. The Chief Auditor is the internal auditor required by the Act.

The Chief Auditor's Office work is guided by a risk-based audit plan which is approved by the Commission at least biennially. The approved audit plan is reviewed and updated on an annual basis to reflect the most current strategies and direction of the agency. The Chief Auditor will submit any interim changes to the audit plan to the Chairman for review and approval.

Professional Standards

The Chief Auditor's Office follows the Texas Internal Auditing Act. The Chief Auditor's Office must also adhere to the Institute of Internal Auditors' *International Professional Practices Framework* (Definition of Internal Auditing, the Code of Ethics, and the Standards) and the U.S. Government Accountability Office's *Government Auditing Standards*. This mandatory guidance provides the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Chief Auditor's Office.

Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Auditing Program

The auditing program of the Chief Auditor's Office includes both Assurance and Advisory Services conducted by staff in three sections: Internal Audit, External Audit, and Information Technology Audit. All of the work of the Chief Auditor's Office falls under the definition of internal auditing above and is performed in accordance with prescribed audit standards.

Assurance Services include the examination and evaluation of the adequacy and effectiveness of the agency's system of internal control and the quality of performance in carrying out the goals and objectives of the agency. Assurance Services also include evaluating compliance with established laws, rules, and contract provisions. Assurance activities of the Chief Auditor's Office may include, but are not limited to:

- Assessing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and determining whether the Commission is in compliance.

- Assessing and making recommendations for improving agency governance processes.
- Reviewing contractors, fee payers, grantees, vendors, and reimbursement recipients for compliance with established laws, rules and/or contract provisions.
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets.
- Appraising the economy and efficiency with which resources are employed.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Reviewing agency information systems throughout the system lifecycle.
- Monitoring and assessing management's actions taken in response to reported audit issues.
- Receiving and investigating allegations of fraud, waste, and abuse. On occasion, at the request of the Chief Auditor, investigations may be conducted under the supervision of an agency attorney.
- Reporting to the Texas State Auditor's Office, as required by Texas Government Code, Section 321.022, when there is reasonable cause to believe that fraudulent or unlawful conduct has occurred in relation to the agency.

Advisory Services are consultative services, the specific nature and scope of which are agreed upon with the client, and are intended to add value and improve an organization's operations. The Chief Auditor's Office does not provide any services which would require auditors to make decisions that are normally made by management. The Chief Auditor's Office performs three types of advisory services:

- **Assessment Services** are those in which the auditor examines/evaluates a past, present, or future aspect of operations, and renders information to assist management in making decisions. Assessments are provided as timely as possible and generally do not include specific recommendations for management.
- **Facilitation Services** are services in which the auditor assists management in examining organizational performance for the purpose of promoting change. In a facilitation role, the auditor does not judge organizational performance. Instead, the auditor guides management in identifying organizational strengths and opportunities for improvements.

- Liaison Services are generally those activities required to coordinate or facilitate activities of external entities that oversee the work of the TCEQ, e.g., the Texas State Auditor's Office, the Environmental Protection Agency, and the Government Accountability Office.

The Chief Auditor's Office will not perform Remediation Services. Remediation services are those in which the auditor assumes a direct role designed to prevent or remediate known or suspected problems on behalf of management. Remediation services require the making of management type decisions and are thus inappropriate according to the Government Auditing Standards.

Responsibilities

Auditors have no direct responsibilities for, or authority over, the activities or operations they review. They should not develop and install procedures, prepare records, or engage in activities that would normally be reviewed by auditors. This does not preclude auditors from serving in an advisory capacity in the implementation of improvements or the establishment or redesign of activities, policies, procedures, or information systems. Additionally, this restriction shall not prevent auditors from performing analyses and recommending alternative courses of action to management.

Authority

Authorization is granted for full and free access to any of the Commission's records (electronic and manual), physical properties, activities, and personnel relevant to a review. Access to records belonging to contractors, fee payers, grantees, vendors and reimbursement recipients is dependent on authority established in contract provisions, laws and rules. Documents and information provided to auditors will be handled in the same prudent manner as by those employees normally accountable for them.

Audit working papers are excepted from disclosure under the Public Information Act per the Texas Government Code Section 552.116.

Organizational Independence

The Chief Auditor reports directly to the Commissioners with access to the Executive Director. This allows the internal audit activity the organizational independence necessary to fulfill its responsibilities. The Chief Auditor is responsible for communicating and interacting directly with the Commissioners. Furthermore, the Chief Auditor shall brief the Commissioners on audit issues (in person or in writing) at least quarterly.

Individual Objectivity

The Chief Auditor's Office will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Audit assignments are reviewed and organized to prevent potential and/or actual conflict of interest.

Proficiency

The Chief Auditor's Office will possess or obtain the knowledge, skills, and other competencies needed to perform the audit activities. Continuing professional development is essential to help ensure internal audit staff remains proficient. The Chief Auditor's Office will obtain competent assistance, through contracting or partnering, if audit staff lacks the knowledge, skills, or other competencies needed to accomplish an approved audit engagement.

Continuing Professional Development

Each fiscal year, the Chief Auditor's Office will be allocated a budget for training and educational materials to ensure staff meet the continuing education requirements established in *the Standards* as well as have access to current audit techniques, policies, and practices.

Quality Assurance and Improvement Program

The Chief Auditor's Office will maintain a quality assurance and improvement program to ensure conformance with applicable audit standards, policies, and audit programs. The program includes appropriate supervision, periodic internal assessments, and ongoing monitoring of work performed. In addition, an external quality assurance review will be performed at least once every three years.

CHIEF AUDITOR'S OFFICE REPORTS

Internal Audit reports, which may include management's responses, are issued to the Commissioners and Executive Director following the conclusion of each audit. Internal Audit reports are submitted to the Audit Contact Commissioner for review and comment prior to final distribution.

External Audit reports may include issues to be addressed by TCEQ management and/or the management of the external entity. These reports may also include management's responses as well as those of the external entity. When potential ex-parte issues exist, the reports will not be addressed to the Commissioners. Instead, the reports will be copied to the Commissioners' Executive Assistants.

As required by the Texas Internal Auditing Act, audit reports are distributed to the State Auditor's Office, Legislative Budget Board, Sunset Advisory Commission, and the Governor's Office.

Investigation reports are generally addressed to the Division Director over the area of investigation with copies going to the Deputy Director, Executive Director's Office, the General Counsel, and the Commissioners' Executive Assistants. When there is reasonable cause to believe that fraudulent or unlawful conduct has occurred in relation to the agency, the report will be distributed to the Texas State Auditor's Office as required by Texas Government Code, Section 321.022.

In all cases, management is responsible for reviewing audit conclusions and recommendations and deciding what actions, if any, are warranted.

Reports resulting from advisory services are generally provided only to the manager who requested and received the advisory service. However, significant risks identified during an advisory service will be communicated to the appropriate level of management and, if warranted, to the Commission.

In certain instances, audit reports may be of limited interest or of a sensitive nature. In these circumstances, the report will be sent only to those persons designated by the Commissioners.

Presented and approved on February 24, 2010.

Bryan W. Shaw, Ph.D.
Chairman

Buddy Garcia
Commissioner

Carlos Rubinstein
Commissioner

Mark R. Vickery, P.G.
Executive Director