



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

**An Audit Report for:**  
*TCEQ Chairman Bryan W. Shaw, Ph.D., P.E.*  
*TCEQ Commissioner Toby Baker*  
*TCEQ Commissioner Zak Covar*  
*TCEQ Executive Director Richard A. Hyde, P.E.*

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# **Fiscal Year 2015 Annual Audit Plan**

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## ***Introduction***

The Chief Auditor's Office (CAO) appreciates the opportunity to provide our vision for audit activities at the Texas Commission on Environmental Quality (TCEQ) for Fiscal Year (FY) 2015.

This proposal is the result of a risk assessment process through which the Chief Auditor's Office conscientiously reviewed risks related to internal agency processes, agency expenditures and revenue, and agency information technology. This document presents our proposed internal, external, and information technology audit and advisory service project areas for FY 2015 and outlines our risk assessment methodology. We believe the areas identified for audit will result in the best return on the audit resource investment.

## ***Purpose and Mission***

This audit plan is required by the Texas Internal Auditing Act (Title 10, Texas Government Code, Chapter 2102), *Generally Accepted Government Auditing Standards*, and the *International Professional Practices Framework* promulgated by the Institute of Internal Auditors (IIA).

The Chief Auditor's Office provides 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.

## ***Audit Charter and Internal Auditing Definition***

The Chief Auditor's Office Audit Charter, approved by the Commission in January 2014, clearly defines the multiple focus of the Chief Auditor's Office on internal, external, and information technology audit services. The Charter also defines our vision and philosophy, mission, scope of activities, responsibilities, authority, independence, professional standards, quality assurance processes, continuing professional development, and reporting relationships.

As defined in the Charter, internal auditing encompasses 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. The Texas Internal Auditing Act adopts the IIA's definition of internal audit:

*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.*

The Chief Auditor's Office has been able to contribute additional value to the Agency by combining the efforts of our internal, external, and information technology audit teams. Many aspects of our Agency's programs and processes involve all three of these components. In numerous instances, our office has audited combinations of these components simultaneously with great success. Our goal is to continue to utilize this approach and leverage our audit resources to ensure that we are maximizing the value we add to the agency.

For more background information on Chief Auditor's Office, please see **Appendix A**.

## **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.*” The COSO<sup>1</sup> Internal Control – Integrated Framework<sup>2</sup> states, “Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives.”

In conducting our risk assessment, the Chief Auditor’s Office received input from TCEO Commissioners, Executive Management, Deputy Directors, and numerous Division Directors and Section Managers. Additionally, selected agency program areas had the opportunity to provide input into our risk assessment through formal facilitated sessions.

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 General 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. 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. The results of the process are presented in the following tables.

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.

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<sup>1</sup> The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is an initiative of five organizations that provide frameworks and guidance on enterprise risk management, internal control and fraud deterrence. The organizations include: American Accounting Association, American Institute of Certified Public Accountants, Financial Executives International, The Association of Accountants and Financial Professionals in Business, and The Institute of Internal Auditors. (source: [www.coso.org](http://www.coso.org))

<sup>2</sup> COSO, *Internal Control – Integrated Framework – Executive Summary* (May 2013), 4.

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.

## ***Proposed Audit Projects for Fiscal Year 2015***

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

### **Internal Audit Carry-over Projects**

- An Audit of the TCEQ Contract Initiation Process
- An Audit of Alamo Area Council of Governments Grant Compliance
- An Audit of the Public Information Request Process

### **External Audit Carry-over Projects**

- Agreed-Upon Procedures: Cefe Valenzuela Landfill (Corpus Christi)

### **Information Technology Audit Carry-over Projects**

- An Audit of Office-level GIS Policy Compliance
- An Audit of the Permit and Registration Information System (PARIS) Implementation

### **Advisory Service Carry-over Projects**

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

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 Projects**

- An Audit of the TCEQ Ethics Program
- Area Administrative Review: Coastal and East Texas
- An Audit of North Central Texas Council of Governments Grant Compliance
- An Audit of Selected Performance Measures for the Office of Water
- An Audit of Selected Performance Measures for the Office of Air
- An Audit of Selected Performance Measures for the Office of Waste

### **Proposed External Audit Projects**

- Agreed Upon Procedures: Selected Waste Facility

### **Proposed Information Technology Audit Projects**

- An Audit of the Agency's Implementation of the System Development Life Cycle (SDLC)
- An Audit of the Agency's Change Management Processes in Maintenance Phase
- An Audit of the Agency's Implementation of the Continuity of Operations Plan (COOP)

## **Proposed Advisory Service Projects**

- Advisory Service: A Review of Physical Security at Selected Locations
- Advisory Service: A Review of Regional Office Administrative Training Opportunities

## **Proposed CAO Office-wide Projects**

- Audit Follow-ups (Fall and Spring)
- CAO Quarterly Reports
- TeamMate – activating additional modules
- Client Assistance/Consulting
- CAO Annual Internal Audit Report FY 2014
- FY 2016 Annual Audit Plan
- External Quality Assurance Reviews
- Special Requests from the Commissioners or Executive Director
- Fraud, Waste, and Abuse Investigations

## **Proposed Alternative Projects**

- An Audit of Fees Recorded for Low-Level Radioactive Waste Site
- Advisory Service: Program Review of 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 Procedure: Clint Municipal Landfill (El Paso)
- An Audit of Selected Texas Emissions Reduction Plan (TERP) Agreements

## ***Acceptable Level of Risk***

We believe that completing the projects proposed above, or appropriate alternatives, will reasonably cover the risks identified by the risk assessment.

While the list of proposed projects results from our consideration of a wide-ranging scope of auditable activities, it does not address or provide coverage for all TCEQ components or systems. Our goal is to optimize our resources to provide reasonable coverage in the areas we believe require the most attention.

Due to a variety of factors, some significant activities that might warrant review may not be carried forward to the list of proposed audit projects, but they did receive consideration.

Ultimately, we cannot address every risk area. It is important for the Commission and executive management to understand the limitations of the audit coverage and the attendant risks for areas not audited. In our opinion, this listing of proposed projects allocates audit resources to the most important priorities and significant risks of TCEQ and allows flexibility to address other risk areas that may become known during the fiscal year.

However, according to the Texas Internal Auditing Act, it is the governing board's responsibility to conclude whether resources are adequate to address the identified risks. Specifically, Senate Bill 1694 of the 78th legislative session amended the Texas Internal Auditing Act to require the governing board of a state agency to periodically review the

resources dedicated to the audit program and determine if adequate resources exist to ensure that risks identified in the annual risk assessment are adequately covered within a reasonable time frame.

The Chief Auditor asserts that staff resources are adequate to address the high risk areas linked to proposed audit projects. Any additional audit coverage would require additional staff resources.

Besides staff resources, the Chief Auditor's Office is provided with an operating budget to cover administrative costs. While all state agencies are suffering under the budget shortfall, these limitations are not expected to have a great impact on our ability to address the risks identified in this plan. In the past, when additional resources have been requested for specific audit needs, those resources have generally been made available. The Chief Auditor is confident that if it becomes necessary to request additional resources that our request will be addressed in good faith.

## ***Contingency***

While we will always work to address any appropriate special requests, we have specifically set aside resources for special requests from the Commission and/or the Executive Director.

## ***Planning, Administrative & Other***

A percentage of the total available audit hours are allocated to planning, administrative and other special projects. These projects include advisory services, follow-up, and external auditor liaison duties.

## ***Advisory Services***

We plan to continue to have audit staff members participating ex-officio in agency committees and work groups as needed and directed by the Commission or requested by executive management. We provide advice and suggestions on management issues, concerns, and draft policies and procedures upon request.

## ***Follow-Up***

Follow-up is an important part of our audit effort and is required by professional standards. The status of all recommendations is presented in mid-year and annual follow-up reports to the Commissioners and executive management. Follow-up reporting continues until all recommended actions and management action plans are implemented or the specific risk reported is otherwise mitigated or accepted.

## ***External Auditor Liaison***

The Chief Audit Executive serves as the liaison with the Texas State Auditor's Office (SAO), the Environmental Protection Agency's Office of the Inspector General (EPA-OIG), and other external audit groups having oversight responsibility for TCEQ activities. Audit staff will assist these external entities on their projects, as appropriate. Our goal in the role of liaison is to provide assistance to the extent that professional and organizational reporting responsibilities allow. The Chief Auditor's Office will conduct examinations in a manner that allows for maximum audit coordination and efficiency.

## ***Management Controls***

Management is responsible for establishing a system of internal/management controls adequate to reasonably assure that established objectives are accomplished. The COSO Internal Control – Integrated Framework states, “Internal Control is a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives...”<sup>3</sup> During FY 2015, the Chief Auditor’s Office will continue to provide agency managers with information on internal control processes and procedures. We have used, to good response, a model developed by the UT System Audit Office. The Levels of Internal Control Model contains the following control tiers:

- Level 1 Controls (Operating Controls)
- Level 2 Controls (Monitoring Controls)
- Level 3 Controls (Oversight Controls)
- Level 4 Controls (Internal Audit)

This model identifies the four levels of internal control and relates them to the three dimensions of transactions, time, and involvement in the process. The model and its application within TCEQ are shown in **Appendix B**.

Management controls are most effective when they are built into the organization’s infrastructure and are a fundamental part of management’s philosophy. Use of the model supports quality and empowerment initiatives, avoids unnecessary costs, and enables a quick response to changing conditions.

## ***Closing***

The Chief Auditor’s Office thanks the TCEQ Commission for their consideration of this proposal. We look forward to helping the TCEQ meet its objectives during this upcoming fiscal year.

For further information on the Chief Auditor’s Office or the FY 2015 Annual Audit Plan, please contact Chief Audit Executive Carlos Contreras at (512) 239-0780 or by email at [carlos.contreras@tceq.texas.gov](mailto:carlos.contreras@tceq.texas.gov).

## **Project Team**

Gary L. Leach, CIA, CISA, COA, Project Manager and IT Audit Work Lead  
Gail L. Zambie, CPA, Project Team Member  
Carlos Contreras, CIA, CISA, CGAP, CCSA, CICA, Chief Audit Executive

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<sup>3</sup> COSO, *Internal Control – Integrated Framework – Executive Summary* (May 2013), 3.

# Appendix A

## *About the Chief Auditor's Office*

### **Organization and Staffing**

In FY 2015, the Chief Auditor's Office (CAO) was authorized 16 full-time equivalent positions: a Chief Audit Executive, three Audit Work Leads, one senior investigator, one Executive Assistant, and 10 auditors. Our FY 2015 Annual Audit Plan is developed based on the assumption that these staff resources would continue to be available for the remainder of the fiscal year.

CAO staff members collectively have 64 years of agency experience, 182 years of auditing experience, 4 postgraduate degrees, and 26 professional certifications including:

- Certified Internal Auditor (CIA)
- Certified Public Accountant (CPA)
- Certified Information Systems Auditor (CISA)
- Certified Fraud Examiner (CFE)
- Certified Government Auditing Professional (CGAP)
- Certification in Control Self-Assessment (CCSA)
- Certified Internal Controls Auditor (CICA)
- Certified Law Enforcement Auditor (CLEA)
- Certified Quality Auditor (CQA)
- Project Management Professional (PMP)

### **Professional Organizations**

CAO staff members actively participate in professional auditing and information systems organizations. These groups are excellent sources for obtaining information on auditing, accounting, and other professional issues:

- Institute of Internal Auditors (IIA)
- ISACA (formerly known as the Information Systems Audit and Control Association)
- Association of Certified Fraud Examiners (ACFE)
- Texas State Agency Internal Audit Forum (SAIAF)
- International Law Enforcement Auditors Association (ILEAA)
- American Society for Quality (ASQ)
- Project Management Institute (PMI)

### **Quality Assurance**

Quality assurance is an important component in providing high quality auditing services. We conduct supervisory and quality assurance reviews of each project and the resulting audit report.

Additionally, professional standards require audit departments to have a periodic external quality assurance (peer) review. The Chief Auditor's Office was reviewed in June 2014 and received the rating of "pass." 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. Our next review will occur in FY 2017.

### **Performance Measures**

Chief Auditor's Office performance measures include the following:

- Completion of 100% of the approved audit plan, allowing for appropriate project substitutions and amendments (Output).
- Percentage of prior audit recommendations that are in the process of being implemented or have been implemented. Combined performance target is 89% (Outcome).

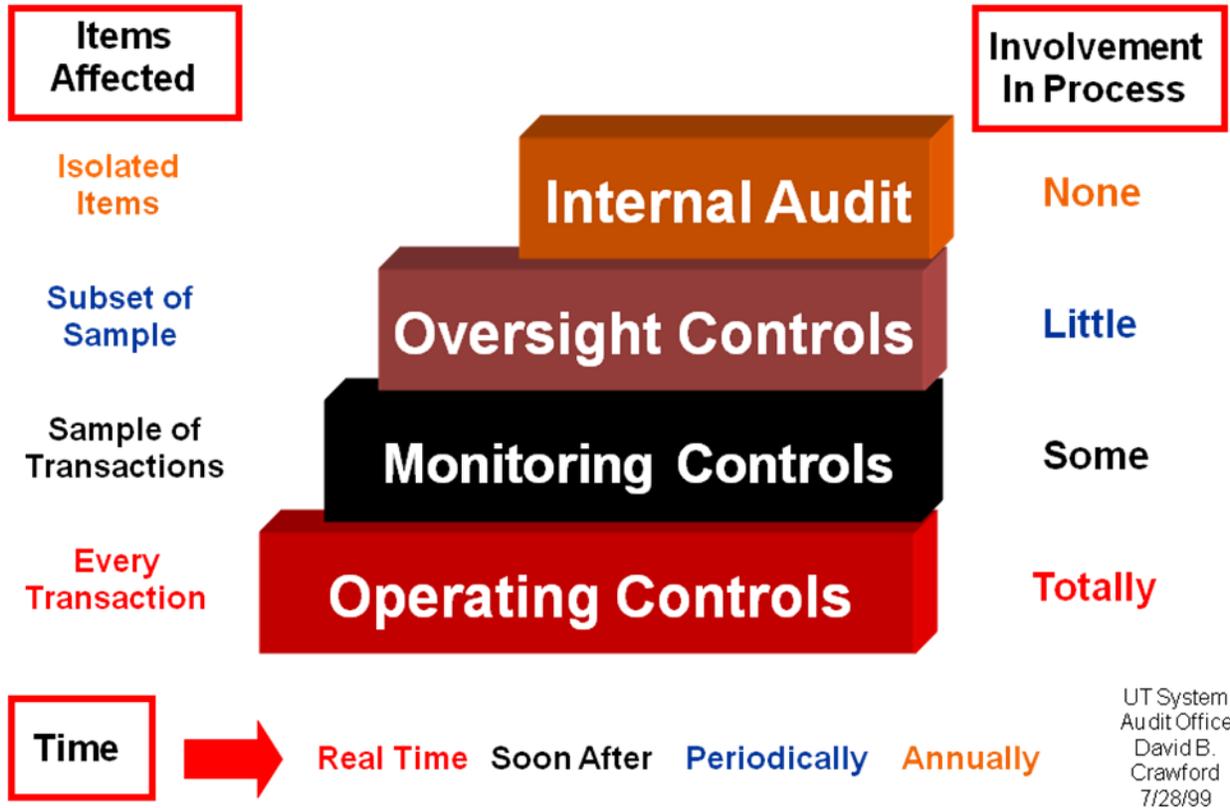
Additionally, the Chief Audit Executive uses the following to measure performance:

- By month and year: Percentage of time spent on Administration (15%); Professional Development (2%); Leave (17%); and Audit Projects (66%)
- For each project: Establishing and meeting realistic deadlines and budgeted hours to achieve audit objectives.

# Appendix B

## Model – Levels of Internal Control

### Levels of Internal Control



## **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.

To obtain a hard copy of this TCEQ Audit Report,  
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To report Fraud, Waste, or Abuse please e-mail [Fraud@tceq.texas.gov](mailto:Fraud@tceq.texas.gov)  
or call 512-239-0700 or 1-877-901-0700.