



**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 Jon Niermann*  
*TCEQ Executive Director Richard A. Hyde, P.E.*

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# **Chief Auditor's Office Annual Report**

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FY 2016



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# **Chief Auditor's Office**

## **Annual Report**

**Fiscal Year 2016**

Prepared by  
Chief Auditor's Office

SFR-82/16  
November 2016

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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

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

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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***

House Bill 16 (HB 16) 83rd Legislature, Regular Session, was signed into effect immediately by Governor Rick Perry on June 14, 2013. HB 16 amended Chapter 2102, Texas Government Code, by adding Section 2102.015. Texas Government Code, Section 2102.015, requires state agencies and higher education institutions, as defined in the statute, to post certain information on their Internet websites.

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

- The agency's approved internal audit plan as provided by Texas Government Code, Section 2102.008; and,
- The agency's annual report 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.

Texas Government Code, Section 2102.015, also 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, if any, raised by the audit plan or annual report."
- A "summary of the action taken by the agency to address the concerns, if any, that are raised by the audit plan or annual report."

The TCEQ has complied with Texas Government Code, Section 2102.015, by posting the approved FY 2017 Audit Plan on the agency's public website. We will also post the mandated internal audit annual report as required.

Updates, as required by the statute, will also be done that include summaries of the pertinent information contained in the two documents.

## ***II. Chief Auditor's Office Audit Plan for Fiscal Year 2016***

### **Audit Services FY 2015 Carry-over Projects**

An Audit of North Central Texas Council of Governments (NCTCOG) Grant Compliance

### **Approved Projects for FY 2016**

#### **Approved Audit Services Projects:**

Audits of Selected TCEQ Contracts (4 assignments)

Area Administrative Review: Central Texas Area

An Audit of the Low-Level Radioactive Waste Compact Billing and Payment Processes  
 An Audit of the TCEQ Procurement and Purchasing Processes  
 An Audit of the TERP Light-Duty Motor Vehicle Purchase or Lease Incentive (LDPLI) Program  
 Division Administrative Review – Office of Compliance and Enforcement, Critical Infrastructure Division  
 An Audit of the Expedited Air Permit Process  
 An Audit of Compliance with Texas Administrative Code Chapter 202

**Approved Information Technology Audit Projects:**

An Audit of Agency-Wide Electronic Data Standards and Use  
 An Application Controls Audit of the Agency’s Budget, Accounting & Monitoring System (BAMS)  
 An Application Controls Audit of the Agency’s Consolidated Compliance and Enforcement Data System (CCEDS)  
 An Audit of the System Development Life Cycle Process (SDLC) in Selected Offices  
 An Application Controls Audit of a Selected Information Technology System

**Approved CAO Advisory Services Areas:**

Advisory Service: A Review of the IT Equipment Replacement Schedule  
 Advisory Service: A Review of the Business Processes for Selected Critical Job Functions

**Approved CAO Officewide Projects:**

Audit Follow-ups (Fall and Spring)  
 CAO Quarterly Reports  
 TeamMate – activating additional modules  
 Client Assistance/Consulting  
 CAO Annual Internal Audit Report FY 2015  
 FY 2016 Annual Audit Plan  
 External Quality Assurance Reviews  
 Special Requests from the Commissioners or Executive Director  
 Fraud, Waste, and Abuse Investigations

**Completed Audit Services Projects**

Project Number & Name	Report Issued Date
#16-001: An Audit of Compliance with Texas Administrative Code Chapter 202	November 2015
#15-004: An Audit of North Central Texas Council of Governments (NCTCOG) Grant Compliance – Office of Waste	December 2015

Project Number & Name	Report Issued Date
#16-004: TERP Light Duty Motor Vehicle Purchase or Lease Incentive Program – Office of Air	December 2015
#16-002: Area Administrative Review – Central Texas Offices – Office of Compliance and Enforcement	December 2015
#16-005: National Ambient Air Quality Standards Science Evaluation – An Audit of Contract Procurement and Compliance – Toxicology Division	February 2016
#16-003: An Audit of TCEQ Expedited Air Permitting Process – Office of Air	March 2016
#16-008: Division Administrative Review – Critical Infrastructure Division	May 2016
#16-006: North Texas Commission – An Audit of Contract Compliance – Air Quality Division	May 2016
#16-007: An Audit of the Central File Room Contract	July 2016

## Completed Information Technology Projects

Project Number & Name	Report Issued Date
#16-501: An Audit of the Software Development Life Cycle Process in Selected Offices – Office of Compliance and Enforcement – Office of Air – Office of Water	December 2015
#16-503: An Application Controls Audit of the Texas Environmental Data System (TEDS)	January 2016
#16-504: An Audit of TCEQ's Data Standards	May 2016
#16-506: An Application Controls Audit of the Consolidated Compliance and Enforcement Data System (CCEDS)	July 2016

## Completed Office-wide Projects

Project Number & Name	Report Issued Date
#SFR-082/015: Chief Auditor's Office Annual Report FY 2015	November 2015
#15-811: CAO FY 2016 Annual Audit Plan	August 2015

## Deviations from the Chief Auditor's Office Audit Plan FY 2016

### Approved Internal Audit Projects:

No deviations

### Approved External Audit Projects:

No deviations

**Approved Information Technology Projects:**

No deviations

**Approved Advisory Service Projects:**

Advisory Service: Commissioners Records Retention Compliance

**Approved Office-wide Projects:**

No deviations

***III. Completed Consulting Engagements and Nonaudit Services Projects***

Project Number & Name	Report Issued Date
<p>#16-301: A Review of the IT Equipment Replacement Schedule</p> <p>Objective: Review the PC/Laptop replacement process to determine whether the agency effectively manages the process, given the established budget and existing technical staff resources.</p> <p>Summary: During this engagement, it was determined that the existing process does not follow existing TCEQ policies. The current process was not documented, and pooled laptops were not considered in the replacement process.</p>	<p>February 2016</p>
<p>#16-302: Commissioners Records Retention Compliance</p> <p>Objective: Conduct a review of Commissioners' compliance with the agency records retention schedule for Desk Calendars, Appointment Books, and Itinerary Records.</p> <p>Our review was limited to the process used to comply with the agency retention schedule and an evaluation of the above listed records retained.</p> <p>Summary: We found that for the required retention period: Six of the Chairman's monthly calendars could not be located. All monthly calendars were saved for the other two existing Commissioners and the former Commissioner.</p> <p>We also examined email correspondence from the Texas State Library and Archives Commission (TSL) to the Special Assistant to the TCEQ General Counsel. In the email, the TSL Assistant Director stated, "In 2014 we received the desk calendars of Commissioners Shaw (2009-2010) and Rubenstein (2009-2013) and the General Counsel – Trobman (2007-2010)." In a subsequent telephone conversation between CAO and TSL staff, TSL staff confirmed the only desk calendars in their possession are those listed above.</p>	<p>January 2016</p>

## ***IV. 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  
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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.

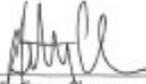
The CAO is well managed internally. In addition, the Office has effective relationships with the Commissioners and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the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

#### ACKNOWLEDGEMENTS

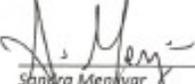
We appreciate the courtesy and cooperation extended to us by the Chief Audit Executive, the CAO staff, the Chairman and Commissioners, the Executive Director, and the senior managers who participated in the interview process. We would also like to thank each person who completed surveys for the quality 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  
Senior Internal Auditor  
Texas Parks & Wildlife Department  
SAIAF Peer Review Team Leader

7/15/14

  
Anthony Chavez  
Director of Internal Audit  
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SAIAF Peer Review Team Member

7/2/14

**CHIEF AUDITOR'S OFFICE**

JUL 14 2014

Received

TCEQ CAO External Quality Assurance Review

June 2014

## V. Chief Auditor's Office Audit Plan for Fiscal Year 2017

The following audits are in progress at the end of FY 2016 are expected to be carried over to FY 2017.

Project Name	Current Status	Hours
#16-009: An Audit of the Low-Level Radioactive Waste Billing Process	Reporting	30
#16-010: An Audit of the TCEQ Purchasing and Procurement Processes	Reporting	40
#16-011: An Audit of Coastal Bend Bays and Estuaries Program, Inc. Contract Compliance	Reporting	60
#16-303: A Review of the Business Processes for Selected Critical Job Functions (Water District(s) Financial Reporting Process)	Reporting	30
#16-502: An Application Controls Audit of the Budget, Accounting & Monitoring System (BAMS)	Reporting	30

Below are the Proposed Audit Services Projects.

Audit Services Project Areas	Hours
An Audit of Three TCEQ Contracts (three individual projects) – Three contracts to be selected by a risk based approach	1,560
Area Administrative Review - North Central and West Texas Area Regional Offices: Dallas-Fort Worth, Amarillo, Lubbock, Abilene, and San Angelo	1,200
A Compliance Audit of a Selected IRD Contract	480
An Audit of the Computer Access Request Form (CARF) Process	400
An Audit of the Agency Compensation Structure	480
An Audit of Selected Fees Collected by the Agency	500

Below are the Proposed Information Technology Audit Projects.

Information Technology Audit Project Areas	Hours
An Audit of Oracle Database Security	400
An Audit of Virtual Private Network (VPN) Security	400
An Audit of the Information Systems Prioritization Process	480
An Audit of Data Integrity in Selected Program Areas (3 systems)	720

Below are the Proposed Advisory Services Projects.

CAO Advisory Services Project Areas	Hours
Advisory Service: A Review of the Water Availability Division Operations	1,200
Advisory Service: A Review of the RESTORE Act's Project Selection Process	320

<b>CAO Advisory Services Project Areas</b>	<b>Hours</b>
Advisory Service: An Examination of Reported Lost and Stolen Assets	240

Below are the Proposed Office-wide Projects.

<b>CAO Office-wide Project Areas</b>	<b>Hours</b>
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 2017	150
FY 2018 Annual Audit Plan	400
External Quality Assurance Reviews	400
Special Requests from the Commissioners or Executive Director	1,500

## **Risk Assessment**

Our FY 2017 audit plan is based on an agency-wide risk assessment. Risk assessment, as defined by the Institute of Internal Auditors, is a “systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events.” These risk assessments identify a variety of risks including agency operations, contract management and information technology risks. No additional risks were identified and ranked as “high” that have not been included in the FY 2017 audit plan.

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 given the opportunity to provide input into our risk assessment through formal facilitated sessions led by CAO staff.

For Audit Services 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 and fees collected by the TCEQ. We then risk ranked these 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.

We also identified auditable activities to include 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, again 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 agency risks 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 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.

## ***VI. External Audit Services Procured in Fiscal Year 2016***

During Fiscal Year 2016, the Chief Auditor's Office did not have any ongoing external audit services, nor were any services procured for the time period.

## ***VII. 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.