



**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.

Chief Auditor's Office Annual Report

FY 2017

Chief Auditor's Office Annual Report

Fiscal Year 2017

Prepared by
Chief Auditor's Office

SFR-82/17
November 2017

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.

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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PO Box 13087
Austin TX 78711-3087

Chief Auditor's Office

Carlos Contreras, CIA, CISA, CGAP, CCSA, CICA, Chief Audit Executive
Elizabeth Nichols, Executive Assistant

Audit Services Team

Michael Hardison, CPA, CFE, CISA, CICA, CLEA
Ian H. Boles, CIA, CGAP
James P. Walker, CPA, CISA, CICA
Gail Zambie, CPA, CFE
Kent B. Heath, CGAP
Michelle Cooper, CGAP
Rose Samudio
Jessica Mokry
Pearline Bell

Information Technology Audit Team

Gary Leach, CIA, CISA, CQA
Peter Mbanasor, CISA
Paul Gentry, CPA, CIA, CISA
Keith Nanyes, CISA

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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:

- A. The agency's approved internal audit plan as provided by Texas Government Code, Section 2102.008; and,
- B. 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."
- B. "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 2018 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. Internal Audit Plan for Fiscal Year 2017

Audit Services FY 2016 Carry-over Projects

An Audit of the TCEQ Procurement and Payment Processes

An Audit of Coastal Bend Bays and Estuaries Program, Inc. Contract Compliance

An Application Controls Audit of the Budget, Accounting & Monitoring System (BAMS)

Approved Projects for FY 2017

Approved Audit Services Projects:

An Audit of Three Selected TCEQ Contracts

Area Administrative Review: North Central and West Texas Regional Offices

An Audit of a Selected Information Technology Vendor Contract Compliance

An Audit of the Computer Access Request Form (CARF) Process

An Audit of the TCEQ Compensation Structure

An Audit of Selected Agency Fees

Approved Information Technology Audit Projects:

An Audit of the Information Technology Application Request (ITAR) Group Processes

An Audit of Oracle Database Security

An Audit of Virtual Private Network (VPN) Security

An Audit of Data Integrity in Selected Program Areas

Approved CAO Advisory Services Areas:

Advisory Service: A Review of the TCEQ's Water Availability Division (WAD) Operations

Advisory Service: A Review of the RESTORE Act Business Processes

Advisory Service: An Examination of Reported Lost or Stolen Agency Assets

Approved CAO Office-wide Projects:

Audit Follow-ups (Fall and Spring)

CAO Quarterly Reports

TeamMate – upkeep and version control

Client Assistance/Consulting

CAO Annual Internal Audit Report FY 2017

FY 2018 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
#16-010: An Audit of the TCEQ Procurement And Payment Processes	September 2016
#16-011: An Audit of Coastal Bend Bays and Estuaries Program, Inc. Contract Compliance I Water Quality Planning Division	October 2016
#16-009: An Audit of the Low-Level Radioactive Waste Billing Process	November 2016
#17-001: Area Administrative Review – An Audit of North Central and West Texas Regional Offices I Office of Compliance and Enforcement	December 2016
#17-002: An Audit of the Computer Access Request Form (CARF) Process	January 2017
#17-003: San Antonio River Authority – An Audit of Contract Procurement and Compliance I Water Quality Planning Division	February 2017
#17-006: Texas Environmental Excellence Awards - An Audit of Contract Procurement and Compliance I Environmental Assistance Division	March 2017
#17-005: Dam Safety Contract Compliance I Critical Infrastructure Division	April 2017
#17-004: An Audit of Selected Agency Fees I Air Emissions and Air Inspection Fees	April 2017
#17-007: An Audit of Selected Information Technology (IT) Vendor Contract Compliance I Office of Compliance and Enforcement I Office of Water	July 2017

Completed Information Technology Projects

Project Number & Name	Report Issued Date
#16-502: An Application Controls Audit of the Budget, Accounting and Monitoring System (BAMS)	October 2016
#17-503: An Audit of the Information Technology Application Request (ITAR) Process	January 2017
#17-501: An Audit of Virtual Private Network (VPN) Security	March 2017
#17-502: An Audit of Oracle Database Security	May 2017
#17-504: An Audit of Data Integrity: Consolidated Compliance and Enforcement Data System (CCEDS)	June 2017

Completed Office-wide Projects

Project Number & Name	Report Issued Date
#SFR-082/016: Chief Auditor's Office Annual Report FY 2016	November 2016
#16-811: CAO FY 2017 Annual Audit Plan	August 2016

Deviations from the Chief Auditor's Office Audit Plan FY 2017

Approved Audit Services Projects:

In accordance with the current Audit Charter, the Chief Auditor's Office (CAO) requested and received permission for a change to the approved Fiscal Year (FY) 2017 Annual Audit Plan (Plan). Language in the current Audit Charter requires that "the Chief Auditor will submit any interim changes to the audit plan to the Chairman for review and approval." The approved FY 2017 Plan included **An Audit of the TCEQ Compensation Structure**. We had planned to review the existing compensation levels to determine whether agency levels are competitive with similar state agency classifications and existing state salary schedules. With the approval of the Chairman, this scheduled audit was eliminated from our FY 2017 audit plan and replaced with an advisory service, **Project #17-304: A Review of the TCEQ Compensation Structure**, which focused upon management concerns related to the ability of the agency to attract and retain a qualified workforce.

Approved Information Technology Projects:

No deviations

Approved Advisory Service Projects:

No deviations

Approved Office-wide Projects:

No deviations

III. Completed Consulting Engagements and Nonaudit Services Projects

Project Number & Name	Report Issued Date
<p>#17-301: Water Availability Division (Division) Advisory Service Objective: A review of the efficiency and effectiveness of the Water Availability Division operations including, but not limited to: Division organizational structure and operations; Allocation and adequacy of resources to perform Division operations; Hydrologist compensation package and career ladder; Brazos Watermaster operational functionality and resources; Contract monitoring operations within the Division; and, Information Technology systems utilized by the Division. Summary: During the course of this engagement, we reviewed the current organizational structure of the Division as well as the workflows for selected transactions. We also provided management with assessments of comparability of Hydrologist compensation packages, economy and efficiency of Brazos Watermaster operations, contract management efforts, and selected information technology systems utilized in the Division. No management recommendations were made as a result of this engagement.</p>	<p>January 2017</p>
<p>#17-302: A Review of the RESTORE Act's Project Selection Process This Advisory Service was started in FY 2017 at the direction of a TCEQ Commissioner that is also the Texas Trustee for the Deep Water Horizon settlement. CAO staff was asked to place the engagement on hold due to the workload within the program. The Commissioner's FY 2018 guidance will be for the CAO to coordinate with the program area and resume the advisory service in the upcoming fiscal year. This assignment is listed in the carry-over assignments noted in Section V of this document.</p>	<p>N/A</p>

Project Number & Name	Report Issued Date
<p>#17-303: An Examination of Reported Lost & Stolen Assets</p> <p>Objective: Our review consisted of gathering information to report on:</p> <p>The number and value (recorded and remaining carrying) of TCEQ assets recorded as missing, lost or stolen assets for FY 2016;</p> <p>The adequacy of documentation to support the missing, lost, or stolen assets for FY 2016; and,</p> <p>Compliance with established Texas Comptroller of Public Accounts (CPA), TCEQ Guide for Administrative Procedures (GAP), and Operating Policies and Procedures (OPP) guidance.</p> <p>Summary: Our review analyzed the operations of the Asset Management Unit (AMU) which is part of Staff Services Section, Human Resources and Staff Services Division, Office of Administrative Services (OAS). We reviewed:</p> <p>The reporting of lost and/or stolen agency assets to determine whether the proper procedures were followed.</p> <p>The recorded cost and the remaining carrying value of assets reported as lost or stolen as of March 31, 2017 by custodial Office and Division.</p> <p>Results: For FY 2016, 40 assets were classified as missing, nine (9) were classified as lost and one (1) classified as stolen. All 50 assets required the completion of a Fixed Asset Inventory Exception Form (FAIEF) since the assets were identified as lost, missing or stolen during FY 2016 and were not present for the annual inventory.</p> <p>During the period reviewed, the FAIEFs were maintained as electronic (pdf) documents on two AMU Staff local computer drives which were not backed up periodically. The hard drives on both computers where the records were stored crashed, resulting in the loss of records. To facilitate our review, the AMU Work Lead requested that assigned custodians of the 50 lost, missing, and stolen assets resubmit the previously completed FAIEF or complete a new FAIEF. The chart below summarizes the results of this request and the documentation available for the 50 lost, missing or stolen assets for FY 2016:</p> <p>FAIEF Available 9</p> <p>FAIEF Not Available 30</p> <p>Asset Subsequently Found 10</p> <p>Copy of Police Report Not Obtained for Stolen Asset 1</p>	<p>April 2017</p>

Project Number & Name	Report Issued Date
<p>#17-304: A Review of the TCEQ Compensation Structure</p> <p>Objectives: Examine the methodology used at the TCEQ to; hire, promote, attract, and retain staff. Determine the TCEQ's current salary levels in comparison to the job market. Examine the potential loss of expertise due to retirements and other employee turnover.</p> <p>Summary: During the course of this engagement, we reviewed the current hiring processes used by the Human Resources and Staff Services Division (HRSS), assessed recruiting efforts specific to the Natural Resources Specialist (NRS) classification, calculated the average time to complete the hiring process, assessed HRSS staffing levels, examined the career ladder process used to promote employees classified as NRS, and reviewed reports detailing offers declined in recent fiscal years. Auditors provided a salary study of current NRS positions to management. Auditors also assessed common causes of turnover at the TCEQ, and calculated the approximate cost to fill current NRS vacancies. No management recommendations were made as a result of this engagement.</p>	<p>August 2017</p>

IV. External Quality Assurance Review (Peer Review)

The CAO's most recent peer review report is dated June 2014. The review was performed in accordance with the State Agency Internal Audit Forum's peer review policies and procedures. The overall opinion is as follows:

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.

The opinion is signed and dated by the three individuals responsible for performing the peer review.

V. Chief Auditor's Office Audit Plan for Fiscal Year 2018

The following audits are in progress at the end of FY 2017 and are expected to be carried over to FY 2018.

Project Name	Current Status	Hours
#17-506: An Audit of Data Integrity – Surface Water Quality Monitoring Information System (SWQMIS) Data	Reporting	139
#17-507: An Audit of Data Integrity – State of Texas Air Reporting System	Reporting	52
#17-302: Advisory Service - A Review of the RESTORE Act's Project Selection Process	On hold	TBD

Below are the Proposed Audit Services Projects.

Audit Services Project Areas	Hours
An Audit of Selected TCEQ Contracts (up to seven projects) – All contracts to be selected by a risk based approach	3,150
Area Administrative Review – Border and Permian Basin Area Regional Offices: El Paso, Midland, Harlingen, Laredo	1,200
An Audit of the Payroll Process	480
An Audit of the Consolidated Water Quality Fee	400
An Audit of the Hazardous Waste Commercial/Disposition Management Fee	400
An Audit of the Solid Waste Disposal Fee	400
An Audit of the Water Utility Bond Issue Proceeds Fee	400
An Audit of TCEQ's Continuity of Operations (COOP) Plan and Testing	600

Below are the Proposed Information Technology Audit Projects.

Information Technology Audit Project Areas	Hours
An Audit of Administrative & Information Technology (IT) Review – Houston Laboratory	600
An Audit of Information Resources Division (DBITS) Contract Management	480
An Audit of the Data Center Service Level Agreements (SLAs) with the	480

Below are the Proposed Advisory Services Projects.

CAO Advisory Services Project Areas	Hours
No Advisory Service engagements for FY 2018	N/A

Below are the Proposed Office-wide Projects.

CAO Office-wide Project Areas	Hours
Audit Follow-ups (Fall and Spring)	160

CAO Office-wide Project Areas	Hours
CAO Quarterly Reports	160
TeamMate-activating additional modules	120
Client Assistance/Consulting	300
CAO Annual Internal Audit Report FY 2017	150
FY 2019 Annual Audit Plan	400
External Quality Assurance Reviews	400
Special Requests from the Commissioners or Executive Director	1,500

Risk Assessment

Our FY 2018 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 2018 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 2017

During Fiscal Year 2017, 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.