



**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 Jon Niermann
TCEQ Commissioner Emily Lindley
TCEQ Executive Director Toby Baker*

Chief Auditor's Office Annual Report

FY 2018

Chief Auditor's Office Annual Report

Fiscal Year 2018

Prepared by
Chief Auditor's Office

SFR-82/18
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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.

Jon Niermann, Chairman
Emily Lindley, Commissioner
Toby Baker, 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, amended *Chapter 2102* of the *Texas Government Code* to require 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 2017 Annual Audit Report and the FY 2018 Audit Plan on the agency's public website. We will also post the FY 2018 Annual Audit Report as required. At this time, no weaknesses or concerns have been raised by the audit plan or annual report.

II. Internal Audit Plan for Fiscal Year 2018

Audit Services FY 2017 Carry-over Projects

A Review of the RESTORE Act Business Processes Approved Projects for FY 2018

An Audit of Data Integrity: Surface Water Quality Monitoring Information System (SWQMIS) Data

An Audit of Data Integrity: State of Texas Air Reporting System (STARS) Data

Approved Audit Services Projects:

Audits of Selected TCEQ Contracts (up to 7 contracts)

Area Administrative Review: Border and Permian Basin Area

An Audit of the Payroll Process
 An Audit of the Consolidated Water Quality Fee
 An Audit of the Hazardous Waste Commercial/Disposition Management Fee
 An Audit of the Solid Waste Disposal Fee
 An Audit of the Water Utility Bond Issue Proceeds Fee
 An Audit of TCEQ's Continuity of Operations (COOP) Plan and Testing

Approved Information Technology Audit Projects:

An Audit of Administrative & Information Technology (IT) Review – Sugar Land Laboratory
 An Audit of Information Resources Division DBITS Contract Management
 An Audit of the Data Center Service Level Agreements (SLAs) with the TCEQ

Approved CAO Office-wide Projects:

CAO Quarterly Reports
 Client Assistance/Consulting
 CAO Annual Internal Audit Report FY 2017
 FY 2019 Annual Audit Plan
 Special Requests from the Commissioners or Executive Director
 Fraud, Waste, and Abuse Investigations

Completed Audit Services Projects:

Project Number	Project Name	Report Issue Date
18-001	Area Administrative Review – Border and Permian Basin	November, 2017
18-002	TERP Assets, Emissions, Disposition, and Monitoring Verification	December 2017
18-003	An Audit of the Water Quality Staff Services Contract Compliance	November 2017
18-004	An Audit of the Solid Waste Disposal Fee 3581	November 2017
18-005	An Audit of Border Affairs Contract Compliance	January 2018
18-006	An Audit of the TCEQ Payroll Process	March 2018
18-007	An Audit of the Consolidated Water Quality Fee 3360	March 2018
18-009	An Audit of the Hazardous Waste Commercial Disposition Management Fee 3599	April 2018
18-010	UT-Arlington Local Air Program Contract Compliance	July 2018

18-011	An Audit of the Texas Facilities Commission Contract Compliance	April 2018
18-013	UT-Arlington Remediation Staffing Services Contract Compliance	July 2018
18-501	An Audit of the TCEQ Continuity of Operations Plan (COOP) and Testing	March 2018

Completed Information Technology Projects:

Project Number	Project Name	Report Issue Date
17-506	An Audit of Data Integrity: Surface Water Quality Monitoring Information System (SWQMIS) Data	October 2017
17-507	An Audit of Data Integrity: State of Texas Air Reporting System (STARS) Data	October 2017
18-012	An Audit of Data Center Service Level Agreements (SLAs)	April 2018
18-014	An Audit of Administrative and Information Technology Functions at the Sugar Land Laboratory	July 2018
18-015	An Audit of DBITS Contract Compliance	July 2018

CAO Assurance Projects Carried Over:

Project Number	Project Name	Status
18-008	An Audit of the Water District Bond Issue Proceeds Fee 3366	In Reporting
18-016	An Audit of TXC Texas Creative, Ltd. Contract Compliance	In Reporting

Completed Office-wide Projects:

Project Number	Project Name	Report Issue Date
SFR-082/017	Chief Auditor's Office Annual Report FY 2017	October 2017
18-811	CAO FY 2019 Annual Audit Plan	August 2018

Deviations from the Chief Auditor's Office FY 2018 Audit Plan

Approved Audit Services Projects:

No deviations

Approved Information Technology Projects:

No deviations

Approved Advisory Service 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) 2018 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 2018 Plan included the completion of an advisory service identified as **A Review of the RESTORE Act Business Processes**. It was originally requested that the CAO perform this process to examine the processes established to evaluate and award the RESTORE grants. After consultation with the requestor, and with the approval of the Chairman, this scheduled advisory service was eliminated from our FY 2018 audit plan and replaced with **Project 18-301: Review of State Office of Administrative Hearings (SOAH) Contract Services**. This advisory engagement focused on the level of activities provided by SOAH to the TCEQ and the related funding provided by TCEQ during FYs 2014 through 2017.

Approved Office-wide Projects:

No deviations

III. Completed Consulting Engagements and Nonaudit Services Projects

Project Number	Project Name	Report Issue Date
18-301	Review of State Office of Administrative Hearings (SOAH) Contract Services Objective: A review of the level of service provided by SOAH to the TCEQ and the related level of funding provided by the TCEQ to SOAH for the Fiscal Years 2014 through 2017. No management recommendations were made during this engagement.	August 2018

IV. External Quality Assurance Review (Peer Review)

The CAO's most recent peer review report is dated March 2018. The review was performed in accordance with the State Agency Internal Audit Forum's peer review policies and procedures. The overall opinion provided in the Peer Review Report is as follows:

"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 CAO receives a rating of **"Pass/Generally Conforms"** 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 Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of 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 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."

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 2019

The following audits are in progress at the end of FY 2018 and are expected to be carried over to FY 2019.

Project Number	Project Name	Status	Hours
18-008	An Audit of the Water District Bond Issue Proceeds Fee 3366	In Reporting	80
18-016	An Audit of TXC Texas Creative, Ltd. Contract Compliance	In Reporting	80

The below-identified projects appear on the FY 2019 Audit Plan approved by the Commission and are scheduled to be performed by the CAO during the Fiscal Year:

Audit Services Project Areas	Hours
Area Administrative Review: Coastal and East Texas Area	1200
An Audit of Selected Performance Measures in the Office of Air	600
An Audit of Selected Performance Measures in the Office of Compliance and Enforcement	600
An Audit of Selected Performance Measures in the Office of Waste	600
An Audit of Selected Performance Measures in the Office of Water	600

Audit Services Project Areas	Hours
An Audit of the TCEQ Contract Closeout Process	800
An Audit of the TCEQ Contract Procurement Process	800
An Audit of the Water Regulatory Assessment Fee	600
Audits of Selected TCEQ Contracts	3500
CAO Office-wide Project Areas	Hours
Audit Follow-ups (Fall and Spring)	160
CAO Quarterly Reports	160
Client Assistance/Consulting	200
CAO Annual Internal Audit Report FY 2018	150
FY 2020 Annual Audit Plan	400
Special Requests from the Commissioners or Executive Director	1200
Fraud, Waste, and Abuse Investigations	TBD

Risk Assessment

Our FY 2019 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 2019 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 also defined 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.

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.

After documenting the population of potential programmatic and information technology concerns communicated to the CAO, we risk ranked these identified risks and 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 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.

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 as needed based on priorities, management requests, workloads, changes in operations, and availability of audit resources to determine if our plan should be adjusted.

VI. External Audit Services Procured in Fiscal Year 2018

During Fiscal Year 2018, the Chief Auditor's Office did not procure any external audit services.

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.