



**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 Commissioner Bobby Janecka  
TCEQ Executive Director Toby Baker*

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

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FY 2019

## **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  
Bobby Janecka, Commissioner  
Toby Baker, Executive Director

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Published and distributed by the Texas Commission on Environmental Quality

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# Table of Contents

TCEQ Mission Statement .....	ii
Chief Auditor’s Office Mission Statement .....	ii
Table of Contents .....	iii
I. Compliance with Texas Government Code, Section 2102.015 .....	4
Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site .....	4
II. Internal Audit Plan for Fiscal Year 2019 .....	4
Audit Projects Completed During the Fiscal Year: .....	4
Deviations from the Chief Auditor’s Office FY 2019 Audit Plan .....	5
Ensuring Compliance with Contract Processes and Controls for Monitoring Agency Contracts .....	5
III. Completed Consulting Engagements and Non-audit Services Projects .....	7
IV. External Quality Assurance Review (Peer Review) .....	7
V. Chief Auditor’s Office Audit Plan for Fiscal Year 2020 .....	8
Risk Assessment .....	9
VI. External Audit Services Procured in Fiscal Year 2019 .....	10
VII. Reporting Suspected Fraud and Abuse .....	10

## ***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**

*Texas Government Code 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 Annual Audit Report and the FY 2019 Audit Plan on the Agency's public website. We will also post the FY 2019 Annual Audit Report and the FY 2020 Audit Plan 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 2019***

### **Audit Projects Completed During the Fiscal Year:**

<b>Project Number</b>	<b>Project Name</b>	<b>Report Issue Date</b>
18-008	An Audit of the Water District Bond Proceeds Fee	10/2018
18-016	An Audit of TXC Texas Creative, Ltd. Contract Compliance	10/2018
19-001	Area Administrative Review - Coastal and East Texas Area	01/2019
19-002	An Audit of Selected Performance Measures for the Office of Air	12/2018
19-003	An Audit of Selected Performance Measures in the Offices of Water and Compliance and Enforcement	01/2019

<b>Project Number</b>	<b>Project Name</b>	<b>Report Issue Date</b>
19-004	An Audit of Selected Performance Measures in the Office of Compliance and Enforcement	02/2019
19-005	An Audit of Selected Performance Measures in the Office of Waste	02/2019
19-006	An Audit of the TCEQ Contract Procurement Process	06/2019
19-007	Audit of Contract Close-out Processes	06/2019
19-008	Texas A&M Agrilife / TWRI Contract Compliance	04/2019
19-009	Atmospheric and Environmental Research, Inc. (AER) Non-FTE Contract Compliance	06/2019
19-010	X8 Environmental, Inc. Contract Compliance	06/2019
19-011	City of El Paso Whole Air Monitoring Contract Compliance	09/2019
19-012	An Audit of the Water Regulatory Assessment Fee	09/2019
19-811	CAO FY 2020 Audit Plan	08/2019
SFR 82/018	Chief Auditor's Office Annual Report - FY 2018	10/2018

### **Deviations from the Chief Auditor's Office FY 2019 Audit Plan**

None.

### **Ensuring Compliance with Contract Processes and Controls for Monitoring Agency Contracts**

All TCEQ processes including contract procurement, close-out, and monitoring are included in the Chief Auditor's annual assessment of the Agency's auditable risks. Identified risks are ranked and scored annually during the development of the Agency's Annual Audit Plan. Risks related to contract monitoring have been identified as an on-going risk to all State agencies, and as a result, the TCEQ Chief Auditor allocates audit hours each fiscal year to contract monitoring engagements. The objectives of these engagements are to ensure that processes have been established and are operating effectively to ensure that contract procurement, payment, monitoring, and close-out processes comply with Agency, State, and Federal requirements. In the past five (5) fiscal years, the CAO has performed 27 internal audit engagements that focused on contract monitoring and related processes. The CAO followed up on recommendations made in 17 contract-related internal audits and one engagement performed by the State Auditor's Office. Report numbers, titles, issue dates, and dates of follow-up reports are provided below.

<b>Project Number</b>	<b>Project Name</b>	<b>Issue Date</b>	<b>Follow-up Date(s)</b>
13-004	TCEQ Contract Initiation Process	02/2015	No Issues
13-007	Contract Management Processes	03/2015	Spring 2016 Fall 2016

<b>Project Number</b>	<b>Project Name</b>	<b>Issue Date</b>	<b>Follow-up Date(s)</b>
14-002	Alamo Area Council of Governments Grant Compliance	12/2014	Fall 2015
15-004	An Audit of North Central Texas Council of Governments Grant Compliance	12/2015	Fall 2016
16-005	National Ambient Air Quality Standards Science Evaluation - An Audit of Contract Procurement and Compliance	02/2016	Fall 2016
16-006	North Texas Commission - An Audit of Contract Compliance	05/2016	Spring 2017
16-007	An Audit of the Central File Room Contract	07/2016	Spring 2017
16-011	An Audit of Coastal Bend Bays and Estuaries Program, Inc. Contract Compliance	10/2016	Spring 2017
17-003	San Antonio River Authority - An Audit of Contract Procurement and Compliance	02/2017	Fall 2017
17-005	Dam Safety Contract Compliance Audit	04/2017	Spring 2018
17-006	Texas Environmental Excellence Awards - An Audit of Contract Procurement and Compliance	03/2017	No Issues
17-007	An Audit of Selected Information Technology (IT) Vendor Contract Compliance	07/2017	Spring 2018
18-002	TERP Assets, Emissions, Disposition, and Monitoring Verification	12/2017	Fall 2018
18-003	An Audit of the Water Quality Staff Services Contract Compliance	11/2017	Fall 2018
18-005	An Audit of Border Affairs Contract Compliance	01/2018	Fall 2018
18-010	UT-Arlington Local Air Program Contract Compliance	07/2018	Spring 2019
18-011	An Audit of the Texas Facilities Commission Contract Compliance	04/2018	No Issues
18-012	An Audit of Data Center Service Level Agreements (SLAs)	04/2018	No Issues
18-013	UT-Arlington Remediation Staffing Services Contract Compliance	07/2018	Spring 2019
18-015	An Audit of DBITS Contract Compliance	07/2018	Spring 2019
18-016	An Audit of TXC Texas Creative, Ltd. Contract Compliance	10/2018	Spring 2019

Project Number	Project Name	Issue Date	Follow-up Date(s)
19-006	An Audit of the TCEQ Contract Procurement Process	06/2019	TBD
19-007	Audit of Contract Close-out Processes	06/2019	TBD
19-008	Texas A&M AgriLife/TWRI Contract Compliance	04/2019	TBD
19-009	Atmospheric and Environmental Research, Inc. (AER) Non-FTE Contract Compliance	06/2019	TBD
19-010	X8 Environmental, Inc. Contract Compliance	06/2019	TBD
19-011	City of El Paso Whole Air Monitoring Contract Compliance	09/2019	TBD
SAO 17-029	SAO Audit of Selected Contracts at the Commission on Environmental Quality	03/2017	Spring 2019

### III. ***Completed Consulting Engagements and Non-audit Services Projects***

During FY 2019, the CAO performed no consulting engagements or non-audit service projects as defined by the Instituted of Internal Auditors' *Internal Standards for the Professional Practice of Internal Auditing*, the *Government Auditing Standards, 2011 Revision, Sections 3.33-03.58*, or *Government Auditing Standards, 2018 Revision, Sections 3.64-3.106*.

### 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 2020**

The projects identified below appear on the FY 2020 Audit Plan approved by the Commission and are scheduled to be performed by the CAO during the Fiscal Year:

<b>Audit Services Project Areas</b>	<b>Hours</b>
Area Administrative Review: Central Texas Area	1,000
Volkswagen Mitigation Program Grant Award Process	750
An Audit of the Expedited Air Permit Timekeeping and Billing Process	1,200
An Audit of the Federal Funding Accountability and Transparency Act (FFATA) Reporting Process	1,000
An Audit of the Computer Access Request Form (CARF) Process	700
An Audit of Occupational Licensing Inventory and Test Documentation Controls	400
System Development Life Cycle (SDLC) Audit in a Selected Program Area	800
Audits of Selected TCEQ Contracts	2,400
Advisory Service – A Review of Resource Adequacy in the Office of Public Interest Counsel	300
<b>CAO Office-wide Project Areas</b>	<b>Hours</b>
Audit Follow-ups (Fall and Spring)	160
CAO Quarterly Reports	160
Client Assistance/Consulting	100
CAO Annual Internal Audit Report FY 2019	80
FY 2021 Annual Audit Plan	400
Special Requests from the Commissioners or Executive Director	1,500
Fraud, Waste, and Abuse Investigations	TBD



## Risk Assessment

Our FY 2020 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 2020 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 ensure 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 2019**

During Fiscal Year 2019, 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.