



**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

FY 2021

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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PO Box 13087
Austin TX 78711-3087

Chief Auditor's Office

Mike Hardison, CPA, CFE, CISA, Chief Auditor
James P. Walker, CPA, CFE, CISA, Senior Project Coordinator
Gwen Raymond, Executive Assistant to the Chief Auditor

Audit Services Team

Ian Boles, CIA, CGAP
Gail Zambie, CPA, CFE
Denise Campbell, CIA
Waleska Carlin, CGAP
Paul Gentry, CPA, CIA, CISA
Kent B. Heath, CFE, CGAP
Robin Freeman
Jessica Mokry
Sunny Sadler
Kelly Smith
Dwight Ward

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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

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*.

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 2020 Annual Audit Report and the FY 2021 Audit Plan on the Agency's public website. The FY 2022 *Annual Risk Assessment and Audit Plan* and the *FY 2021 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 2021

Audit Projects Completed During the Fiscal Year

| Project Number | Project Name | Report Issue Date |
|-----------------------|---|--------------------------|
| 20-008 | An Audit of the Texas Volkswagen Environmental Mitigation Program Grant Award Process | 01/2021 |
| 20-502 | Development and Delivery of the TERP Online Application | 01/2021 |
| 21-001 | An Audit of Compliance with Texas Administrative Code Chapter 202 | 01/2021 |
| 21-002 | An Audit of the TCEQ Ethics Program | 03/2021 |
| 21-003 | An Audit of the TCEQ Contract Procurement Process | 02/2021 |
| 21-004 | An Audit of Employee Onboarding Documentation | 03/2021 |
| 21-005 | An Audit of Municipal Solid Waste Permit Documentation | 08/2021 |
| 21-006 | An Audit of CAFO Permit Documentation Compliance | 07/2021 |

| Project Number | Project Name | Report Issue Date |
|-----------------------|--|--------------------------|
| 21-009 | User Access Review of the Air Permit Allowable Database | 08/2021 |
| 21-010 | User Access Review of the Safe Drinking Water Information System | 08/2021 |
| 21-811 | FY 2022 Annual Risk Assessment and Audit Plan | 08/2021 |
| SFR 82/20 | Chief Auditor's Office Annual Report - FY 2020 | 10/2020 |

FY 2021 Projects Carried over to FY 2022

| Project Number | Project Name | Project Status |
|-----------------------|--|-----------------------|
| 21-007 | Review of TERP Fund 5071 Revenues and Expenditures | Fieldwork |
| 21-008 | Expedited Air Permit Time and Fee Billing Process | Reporting |

Deviations from the Chief Auditor's Office FY 2021 Audit Plan

There were no deviations from those projects approved as a part of the FY 2021 Audit Plan.

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 management and monitoring engagements. The objectives of these engagements are to ensure that processes have been established and are operating effectively to ensure that contract procurement, formation, payment, monitoring, and close-out processes comply with Agency, State, and Federal requirements. In the past five (5) fiscal years, the CAO has performed 26 internal audit engagements that focused on contract monitoring and related processes. The CAO followed up on recommendations made in 22 contract-related internal audits and two (2) engagements performed by the State Auditor's Office. Four (4) audit reports issued by the Chief Auditor's Office included no reported issues. Report numbers, titles, issue dates, and dates of follow-up reports are provided below.

| Project Number | Project Name | Issue Date | Follow-up Date(s) |
|-----------------------|---|-------------------|--------------------------|
| 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 |

| Project Number | Project Name | Issue Date | Follow-up Date(s) |
|-----------------------|--|-------------------|--------------------------|
| 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 Deliverables-Based Information Technology Services (DBITS) Contract Compliance | 07/2018 | Spring 2019 |
| 18-016 | An Audit of TXC Texas Creative, Ltd. Contract Compliance | 10/2018 | Spring 2019 |
| 19-006 | An Audit of the TCEQ Contract Procurement Process | 06/2019 | Fall 2019 |
| 19-007 | Audit of Contract Close-out Processes | 06/2019 | Fall 2019 |
| 19-008 | Texas A&M AgriLife/TWRI Contract Compliance | 04/2019 | Fall 2019 |
| 19-009 | Atmospheric and Environmental Research, Inc. (AER) Non-FTE Contract Compliance | 06/2019 | Fall 2019 |
| 19-010 | X8 Environmental, Inc. Contract Compliance | 06/2019 | Fall 2019 |
| 19-011 | City of El Paso Whole Air Monitoring Contract Compliance | 09/2019 | Fall 2020 |
| 20-004 | University of Texas at Austin Air Quality Contract Compliance | 03/2020 | Spring 2020 |
| 20-005 | University of Houston-Clear Lake Contract Compliance | 05/2020 | Spring 2021 |

| Project Number | Project Name | Issue Date | Follow-up Date(s) |
|-----------------------|---|-------------------|--------------------------|
| 20-006 | Emerald Environmental Services Contract Audit | 07/2020 | Spring 2021 |
| 20-007 | An Audit of the Federal Accountability and Transparency Act (FFATA) Reporting Process | 06/2020 | Spring 2021 |
| SAO 17-029 | SAO Audit of Selected Contracts at the Commission on Environmental Quality | 03/2017 | Spring 2019 |
| 21-003 | An Audit of the TCEQ Contract Procurement Process | 02/02021 | No Issues |
| 21-008 | An Audit of the Texas Volkswagen Environmental Mitigation Program Grant Award Process | 01/2021 | Spring 2021 |
| 21-502 | Development and Delivery of the TERP Online Application | 01/2021 | Spring 2021 |
| SAO 19-005 | Administration of the Texas Emissions Reduction Plan Grants | 10/2018 | Spring 2021 |

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

During FY 2020, the CAO performed one (1) engagement meeting the definition of “non-audit service” as defined by the Institute of Internal Auditors’ *Internal Standards for the Professional Practice of Internal Auditing*, the *Government Auditing Standards, 2011 Revision, Sections 3.33-3.58*, or *Government Auditing Standards, 2018 Revision, Sections 3.64-3.106*. Report numbers, titles, issue dates, and engagement objectives of the service performed are provided below.

| Project Number | Project Name / Objective | Issue Date |
|-----------------------|---|-------------------|
| 21-301 | Review of Selected Functions in the Water Quality Planning Division Support Section | 11/04/2020 |

This advisory service evaluated the efficiency and effectiveness of established processes for the performance of purchasing and contract management duties within the Section.

IV. *External Quality Assurance Review (Peer Review)*

The CAO’s most recent peer review report is dated March 2020. 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 2022***

The projects identified below appear on the FY 2022 Audit Plan approved by the Commission and are scheduled to be performed by the CAO during the Fiscal Year:

* - Indicates a FY 2021 project carried over to FY 2022.

** - indicates a project with a focus on contract oversight and/or contract processes

| Audit Services Project Areas | Hours |
|--|--------------|
| 21-007 Review of TERP Fund 5071 Revenues and Expenditures* | 200 |
| 21-008 Expedited Air Permit Time and Fee Billing Process* | 200 |
| Regional Office Reviews - North Texas Area | 800 |
| Audit of the TCEQ Public Information Request Process | 2,000 |
| Audit of the Enforcement Penalty Process | 1600 |
| TCEQ Contract Close-out Processes (four (4) offices)** | 1,500 |
| Contract Management Engagements (up to four (4) engagements)** | 2,400 |
| Aggregate Production Facility Documentation Compliance | 1,000 |
| Mobile Device Management | 1,000 |
| Non-Audit Services | |
| Advisory Service - Employee Recruitment and Retention Issues | 200 |

| Audit Services Project Areas | Hours |
|--|--------------|
| Approved Alternative Projects | |
| Documentation Compliance – Water District Formation | |
| Data Integrity Audit – Geographic Information Systems Data | |
| Advisory Engagement – Tracking of Non-Capital/Controlled Assets Moved Offsite for Telework | |
| Additional Consulting Engagements | |

| CAO Office-wide Project Areas | Hours |
|---|--------------|
| Audit Follow-ups (Fall and Spring) | 500 |
| CAO Annual Internal Audit Report FY 2022 | 80 |
| FY 2023 Annual Audit Plan | 400 |
| Special Requests from the Commissioners or Executive Director | 1,100 |
| CAO Quality Assurance Activities | 120 |
| Fraud, Waste, and Abuse Investigations | TBD |

Risk Assessment

Our FY 2022 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.” The CAO’s risk assessments identify a variety of risks and include consideration of agency operations, contract management, and information technology risks. No additional risks identified and ranked as “high” were excluded from the FY 2022 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 also given the opportunity to provide input into our risk assessment through formal facilitated sessions or interviews led by CAO staff.

The CAO 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 defined auditable activities to include all fees collected the Agency, all contracts entered into by the Agency, and all information technology systems and processes that support the agency’s activities. High-risk processes, contracts, fees, and functions identified during our risk assessment were included in our FY 2022 Audit Plan.

After documenting the population of potential programmatic and information technology concerns identified during our risk assessment process, management of the CAO judgmentally scored the identified risks and activities by assigning numerical values to specific elements of risk related to that category. This included fraud risk as appropriate. Using the resulting audit risk scores, specific project topics were identified

for each of the high-risk areas. We then 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 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 have received 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 2021*

During Fiscal Year 2021, 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.