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Chief Auditor’s Office Annual Report

FY 2015
Chief Auditor’s Office

Annual Report

Fiscal Year 2015

Prepared by
Chief Auditor’s Office

SFR-82/15
November 2015
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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# 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: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site ................................................................. 1

II. Compliance with the Benefits Proportionality Audit Requirements for Higher Education Institutions ............................................................................... 1

III. Chief Auditor’s Office Audit Plan for Fiscal Year 2015.......................... 2

   Audit Services FY 2014 Carry-over Projects ........................................... 2

   Information Technology Audit FY 2014 Carry-over Projects .................. 2

   Approved and Alternative Projects for FY 2015 ........................................ 2

   Approved Audit Services Projects: ......................................................... 2

   Approved Information Technology Audit Projects: ............................... 2

   Approved CAO Advisory Services Areas: .............................................. 2

   Approved CAO Officewide Projects: ..................................................... 3

   Approved Alternative Projects: .............................................................. 3

   Completed Audit Services Projects ....................................................... 3

   Completed Information Technology Projects ......................................... 4

   Completed Office-wide Projects ........................................................... 4

   Deviations from the Chief Auditor’s Office Audit Plan FY 2015 ............... 4

IV. Completed Consulting Engagements and Non-Audit Services ................ 5

V. External Quality Assurance Review (Peer Review) ............................... 6

VI. Chief Auditor’s Office Audit Plan for Fiscal Year 2016 .......................... 8

   Risk Assessment .................................................................................. 9

VII. External Audit Services Procured in Fiscal Year 2015 .......................... 10

VIII. Reporting Suspected Fraud and Abuse .............................................. 11
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 Perry on June 14, 2013. HB 16 amended Chapter 2102, Texas Government Code, by adding Section 2102.015, which requires state agencies and higher education institutions, as defined in the bill, to post certain information on their Internet websites.

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

- An approved fiscal year 2016 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2015 internal audit annual report, as 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.

HB 16 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 raised by the audit plan or annual report.”
- A “summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report.”

The TCEQ has complied with HB 16 by posting the approved FY 2016 Audit Plan on the agency’s public website. We will post the mandated internal audit annual report as required by HB 16 and the Texas Internal Auditing Act.

Updates, as required by HB 16, will also be done that include summaries of the pertinent information contained in the two documents.

II. Compliance with the Benefits Proportionality Audit Requirements for Higher Education Institutions

This section is only applicable to internal auditors for higher education institutions that conduct work related to the proportionality of benefits and related risks for compliance with Governor Perry’s request.
III. Chief Auditor’s Office Audit Plan for Fiscal Year 2015

Audit Services FY 2014 Carry-over Projects
An Audit of the TCEQ Contract Initiation Process
An Audit of the TCEQ Contract Management Process
An Audit of Alamo Area Council of Governments Grant Compliance
An Audit of the Public Information Request Process
Agreed-Upon Procedures: Cefe Valenzuela Landfill (Corpus Christi)
Agreed-Upon Procedures: Clean Harbors Deer Park

Information Technology Audit FY 2014 Carry-over Projects
An Audit of Office-level GIS Policy Compliance
An Audit of the Permit and Registration Information System (PARIS) Implementation

Approved and Alternative Projects for FY 2015

Approved Audit Services Projects:
An Audit of the TCEQ Ethics Program
Area Administrative Review: Coastal and East Texas
An Audit of North Central Texas Council of Governments Grant Compliance
An Audit of Selected Performance Measures for the Office of Water
An Audit of Selected Performance Measures for the Office of Air
An Audit of Selected Performance Measures for the Office of Waste
Agreed Upon Procedures – Selected Waste Facility

Approved Information Technology Audit Projects:
An Audit of the Agency's Implementation of the System Development Life Cycle (SDLC)
An Audit of the Agency's Change Management Processes in Maintenance Phase
An Audit of the Agency's Implementation of the Continuity of Operations Plan (COOP)

Approved CAO Advisory Services Areas:
Advisory Service: A Review of Physical Security at Selected Locations
Advisory Service: A Review of Regional Office Administrative Training Opportunities
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

Approved Alternative Projects:
An Audit of Fees Recorded for Low-Level Radioactive Waste Site
Advisory Service: Program Review of Emergency Management Support Team
An Audit of Allocations and Uses of Fund 5000
Advisory Service: A Review of Agency-Wide Electronic Data Standards and Use
Agreed Upon Procedure: Clint Municipal Landfill (El Paso)
An Audit of Selected Texas Emissions Reduction Plan (TERP) Agreements

Completed Audit Services Projects

<table>
<thead>
<tr>
<th>Project Number &amp; Name</th>
<th>Report Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>#14-002: Alamo Area Council of Governments Grant Compliance</td>
<td>December 2014</td>
</tr>
<tr>
<td>#13-007: Contract Management Processes</td>
<td>March 2015</td>
</tr>
<tr>
<td>#15-003: An Audit of Selected Performance Measures for the Office of Air</td>
<td>March 2015</td>
</tr>
<tr>
<td>#14-005: An Audit of the Public Information Request Process</td>
<td>April 2015</td>
</tr>
<tr>
<td>#14-101: Chief Auditor’s Report on Agreed-Upon Procedures for the CEFE Valenzuela Landfill</td>
<td>April 2015</td>
</tr>
<tr>
<td>#15-002: An Audit of the TCEQ Ethics Program</td>
<td>May 2015</td>
</tr>
<tr>
<td>#15-005: An Audit of Selected Performance Measures for the Office of Waste</td>
<td>June 2015</td>
</tr>
</tbody>
</table>
# Completed Information Technology Projects

<table>
<thead>
<tr>
<th>Project Number &amp; Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>#15-006: Area Administrative Review – Coastal and East Texas Regional Offices</td>
</tr>
<tr>
<td>#15-101: Chief Auditor’s Report on Agreed-Upon Procedures for Dry Cleaner Distributors</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Completed Office-wide Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Number &amp; Name</td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td>#14-811: CAO FY 2015 Annual Audit Plan</td>
</tr>
</tbody>
</table>

## Deviations from the Chief Auditor’s Office Audit Plan FY 2015

**Approved Internal Audit Projects:**
No deviations

**Approved External Audit Projects:**
No deviations

**Approved Information Technology Projects:**
No deviations

**Approved Advisory Service Projects:**
No deviations

**Approved Office-wide Projects:**
No deviations
## IV. Completed Consulting Engagements and Non-Audit Services

<table>
<thead>
<tr>
<th>Project Number and Name</th>
<th>Report Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>#15-301: Physical Security at Selected Locations</td>
<td>August 2015</td>
</tr>
<tr>
<td>Objective: To determine whether adequate physical security measures are in place at 16 Regional Office locations outside of the Austin area. Our review was limited to an evaluation of the security systems installed at the selected Regional Office locations visited and an evaluation of Local Area Network (LAN) room access controls and general conditions. Summary: The results, conclusions and recommendations contain sensitive information that was provided directly to management under separate cover.</td>
<td></td>
</tr>
<tr>
<td>#15-302: Administrative Training Opportunities at Regional Offices</td>
<td>August 2015</td>
</tr>
</tbody>
</table>
| Objective: To report on the perceived availability and effectiveness of the administrative training offered by TCEQ internal sources to Regional Office personnel. Our review was limited to training opportunities that are offered to personnel in the Regional Offices for the following five (5) subjects:  
  - Asset Management and Smeadlink/TabFusion Transaction Processing  
  - Timekeeping  
  - Fleet Card Processing  
  - Purchases and ProCard Transactions  
  - Budget, Accounting, and Monitoring System (BAMS) Transaction Processing  
Summary: We interviewed representatives of HR&SS, the Office of Compliance and Enforcement (OCE), and held discussions with subject matter experts from the Office of Administrative Services (OAS). We reviewed the HR&SS intranet website for training resources such as applicable training courses, manuals and/or guidelines. We also reviewed training records for regional personnel responsible for performing administrative functions to determine the rate of participation in available training classes for the identified subjects. Additionally, we sent surveys to Regional Office administrative personnel to gather specific information to assess the perceived availability and effectiveness of administrative training offered to them. |
V. 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, CIA, CFE
SENIOR INTERNAL AUDITOR
TEXAS PARKS & WILDLIFE DEPARTMENT

TONY CHAVEZ, CIA, CGAP, CRMA
DIRECTOR OF INTERNAL AUDIT
EMPLOYEE RETIREMENT SYSTEM OF TEXAS

SANDRA MENJIVAR, CIA, CGAP
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  
SAAF Peer Review Team Leader

Anthony Chavez  
Director of Internal Audit  
Employee Retirement System of Texas  
SAAF Peer Review Team Member

Sonalia Mehta  
Internal Auditor Section Director  
Texas Department of Transportation  
SAAF Peer Review Team Member

CHIEF AUDITOR'S OFFICE

Received  
June 2014
### VI. Chief Auditor’s Office Audit Plan for Fiscal Year 2016

The following audit is in progress at the end of FY 2015 are expected to be carried over to FY 2016.

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Current Status</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>#15-004: An Audit of North Central Texas Council of Governments Grant Compliance</td>
<td>Reporting</td>
<td>140</td>
</tr>
</tbody>
</table>

Below are the Proposed Audit Service Projects.

<table>
<thead>
<tr>
<th>Audit Services Project Areas</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>An Audit of Four TCEQ Contracts (four individual projects) – Four contracts to be selected by a risk based approach including input from executive management</td>
<td>1,600</td>
</tr>
<tr>
<td>Area Administrative Review (Central Texas Area)</td>
<td>800</td>
</tr>
<tr>
<td>Austin Regional Office – 240 hours</td>
<td></td>
</tr>
<tr>
<td>Waco Regional Office – 280 hours</td>
<td></td>
</tr>
<tr>
<td>San Antonio Regional Office – 280 hours</td>
<td></td>
</tr>
<tr>
<td>An Audit of the TERP Light-Duty Motor Vehicle Purchase or Lease Incentive Program (LDPLI)</td>
<td>320</td>
</tr>
<tr>
<td>An Audit of the TCEQ Purchasing and Procurement Processes</td>
<td>800</td>
</tr>
<tr>
<td>Division Administrative Review – One division to be selected through a risk assessment</td>
<td>240</td>
</tr>
<tr>
<td>An Audit of the Expedited Air Permit Process by Rule</td>
<td>400</td>
</tr>
<tr>
<td>An Audit of the Low-Level Radioactive Waste Billing Process</td>
<td>800</td>
</tr>
<tr>
<td>An Audit of Compliance with Texas Administrative Code, Chapter 202</td>
<td>240</td>
</tr>
</tbody>
</table>

Below are the Proposed Information Technology Audit Projects.

<table>
<thead>
<tr>
<th>Information Technology Audit Project Areas</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>An Audit of the TCEQ’s Data Standards</td>
<td>400</td>
</tr>
<tr>
<td>An Application Controls Audit of the Budget, Accounting &amp; Monitoring System (BAMS)</td>
<td>400</td>
</tr>
<tr>
<td>An Applications Control Audit of Consolidated Compliance and Enforcement Data System (CCEDS)</td>
<td>400</td>
</tr>
<tr>
<td>An Audit of the System Development Life Cycle (SDLC) Process in Selected Offices</td>
<td>400</td>
</tr>
<tr>
<td>An Application Controls Audit of a Selected IT System</td>
<td>320</td>
</tr>
</tbody>
</table>
Below are the Proposed Advisory Services Projects.

<table>
<thead>
<tr>
<th>CAO Advisory Services Areas</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisory Service: A Review of the Business Processes for Critical Job Functions</td>
<td>240</td>
</tr>
<tr>
<td>Advisory Service: A Review of the TCEQ Information Technology (IT) Equipment Replacement Schedule</td>
<td>240</td>
</tr>
</tbody>
</table>

Below are the Proposed Office-wide Projects.

<table>
<thead>
<tr>
<th>CAO Office-wide Project Areas</th>
<th>Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Follow-ups (Fall and Spring)</td>
<td>160</td>
</tr>
<tr>
<td>CAO Quarterly Reports</td>
<td>120</td>
</tr>
<tr>
<td>TeamMate-activating additional modules</td>
<td>120</td>
</tr>
<tr>
<td>Client Assistance/Consulting</td>
<td>300</td>
</tr>
<tr>
<td>CAO Annual Internal Audit Report FY 2016</td>
<td>150</td>
</tr>
<tr>
<td>FY 2017 Annual Audit Plan</td>
<td>400</td>
</tr>
<tr>
<td>External Quality Assurance Reviews</td>
<td>120</td>
</tr>
<tr>
<td>Special Requests from the Commissioners or Executive Director</td>
<td>1,400</td>
</tr>
</tbody>
</table>

Below are the Proposed Alternative Projects.

<table>
<thead>
<tr>
<th>Alternative Project Areas</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A Review of the E-Permitting Process</td>
<td></td>
</tr>
<tr>
<td>An Application Controls Audit of the TCEQ’s National Environmental Information Exchange Network (NEIEN) Node</td>
<td></td>
</tr>
<tr>
<td>An Audit of RESTORE Act Funding Compliance</td>
<td></td>
</tr>
<tr>
<td>An Audit of the Dry Cleaner Registration and Reporting Processes</td>
<td></td>
</tr>
<tr>
<td>Division Administrative Review – One division to be selected through a risk assessment</td>
<td></td>
</tr>
</tbody>
</table>

**Risk Assessment**

Our FY 2016 audit plan is based on an agency-wide risk assessment. These risk assessments identify a variety of risks including contract management and information technology risks. The FY 2015 audit plan included projects to address contract management and information technology risks; contract management and information technology audits were performed in addition to other assignments as noted above in Section III of this report. Based on risks identified in the agency wide risk assessment, the FY 2016 audit plan includes an audit of agency compliance with Texas Administrative Code Chapter 202, as well as four individual contract specific audits to address requirements set forth in Senate Bill 20 (84th Legislature). No additional risks were identified and ranked as “high” that have not been included in the FY 2016 audit plan.

Risk assessment, as defined by the IIA, is a “systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events.”
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 provided the opportunity to provide input into our risk assessment through a formal facilitated session 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. 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 contracts 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 potentially 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. Through approval of this proposal, the Commission authorizes the Chairman to approve any amendments to the audit plan that become necessary.

**VII. External Audit Services Procured in Fiscal Year 2015**

During Fiscal Year 2015, the Chief Auditor’s Office did not have any ongoing external audit services, nor were any services procured for the time period.
VIII. 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.