

i. Compliance with the Texas Information Resources Act
ii. Internal Audit Plan for Fiscal Year 2014
iii. Organizational Vision and Mission Statement
iv. Internal Audit Charter
v. Internal Audit Plan for Fiscal Year 2012
vi. External Audit Services Provided for Fiscal Year 2011
vii. Reporting for period from 10/1/10 to 9/30/11

DIR Internal Audit

Fiscal Year 2014 Internal Audit Annual Report

Lisette Nadal-Hogan, CIA, CISA, CRISC
Director



Texas Department of Information Resources
Austin, Texas

CONTENTS

I. Compliance 1

II. Internal Audit Plan for Fiscal Year 2014..... 1

III. Consulting Services and Nonaudit Services Completed 3

IV. External Quality Assurance Review (Peer Review)..... 4

V. Internal Audit Plan for Fiscal Year 2015..... 5

VI. External Audit Services Procured in Fiscal Year 2014..... 6

VII. Reporting Suspected Fraud and Abuse..... 6

I. Compliance

Compliance with House Bill 16: the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the DIR Website

The Internal Audit Plan and Internal Audit Annual Report will be posted within 30 days of Board approval on the Department of Information Resources (DIR) website along with the other audit-related reports. DIR audit reports are currently posted on the DIR website and are segregated by Internal Audit, State Auditor's Office (SAO), and other reports.¹

II. Internal Audit Plan for Fiscal Year 2014

The amended Internal Audit Plan for Fiscal Year 2014 was presented and approved by the DIR Board in May 2014. The amended plan follows:

PROJECT	AUDIT PROJECTS	HOURS	STATUS	REPORT DATE
14-100	Internal Audits			
13-103	Completion of FY 2013 Audits:			
13-105	– Enterprise Contract Management	200	Complete	April 2014
	– ISO/Network Security Operations			April 2014
14-101	Cooperative Vendor Audit	500	In Progress	
14-200	Management Requested Projects			
14-201	Key Performance Measures	375	Complete	May 2014
14-300	Monitoring Projects			
14-301	Data Center Activity	50	Ongoing	
14-306	Audits from Outside Auditors	50	Complete	July 2014
14-400	Board / Executive Director Special Projects			
14-401	Reserved For Board Projects	10	None	N/A
14-402	Internal Audit Administrative Duties	25	Ongoing	N/A
14-403	Internal Audit Management Communication	25	Ongoing	N/A
14-500	Other projects (required by law/auditing standards)			
14-503	Annual Risk Assessment for Fiscal Year 2015	75	Complete	N/A

¹ House Bill 16 (83rd Legislature, Regular Session) amended the Texas Internal Auditing Act (Texas Government Code 2102) to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans, internal audit annual reports, and any weaknesses or concerns resulting from the audit plan or annual report on the entity's Internet website.

The original Internal Audit Plan for Fiscal Year 2014 was presented and approved by the DIR Board in August 2013. The original plan follows:

PROJECT #	AUDIT PROJECTS	PROJECTED HOURS
14-100	Internal Audits	
13-100	Completion of FY 2013 Audits	200
14-101	Cooperative Vendor Audit	750
14-102	TEX-AN NG	375
14-103	Telecom Accounts Receivable/Payables	320
14-200	Management Requested Projects	
14-201	Key Performance Measures	375
14-300	Monitoring Projects	
14-301	Data Center Activity	250
14-302	e-Government Activity	150
14-303	Technology Sourcing Office Activity	150
14-304	Communications Technology Services Division Activity	150
14-305	DIR Information Security Office Activity	150
14-306	Audits from Outside Auditors	300
14-307	Follow-up on Past IA Audit Recommendations	300
14-308	Follow-up on SAO Recommendations	300
14-400	Board & ED Special Projects	
14-401	Reserved for Board Projects	100
14-402	IA Administrative Duties	480
14-403	IA Management Communication	300
14-500	Other projects (required by law and auditing standards)	
14-501	Continuing Professional Education	210
14-502	Annual Internal Audit Report	120
14-503	Annual Risk Assessment for 2015	220

The original Internal Audit Plan was amended to reduce the planned audit projects due to staff turnover in the Internal Audit Division.

Summary of Completed Projects

13-103: Enterprise Contract Management

This audit determined the Technology Sourcing Office established a number of suitable internal controls within the contracting process to ensure Enterprise contracts are monitored appropriately, the Enterprise contracts include language for measurable deliverables, performance, and to consistently process and document contract amendments.

13-105: ISO/Network Security Operations

This audit determined the security alert processes for the statewide networks to inform the appropriate personnel of security events and incidents need improvement, and the controls over the security alerts need to be strengthened. Responsible management is working diligently on implementing the recommendations included in the report.

14-201: Key Performance Measures

This audit determined the agency properly defined, has a methodology in place, and properly calculates its key performance measures with the exception of one key measure. However, responsible management is working diligently on implementing the recommendation included in the report.

III. Consulting Services and Nonaudit Services Completed

Consulting Services Completed

The Internal Audit Division did not perform consulting services in Fiscal Year 2014.

Nonaudit Services Completed

TITLE	OBJECTIVE	RESULTS	REPORT # / DATE
Follow-up on audit recommendations	Determine whether the corrective actions taken by management to implement the audit recommendations of external and internal audits have achieved the intended results and have reduced the identified risk to an acceptable level.	Conducted follow-up work on: 12-102 Statewide Project Delivery 12-201 Texas.gov Process Audit 11-102 Data Center Services (DCS) Invoicing Process 11-104 Finance and Accounting Reconciliations 12-004 SAO Audit on Information and Communications Technology Cooperative Contracts 13-026 SAO HUB Audit on Historically Underutilized Businesses (HUB)	

TITLE	OBJECTIVE	RESULTS	REPORT # / DATE
External Audit Coordination	Coordinate and provide a single point of contact for the audits of DIR by external audit entities. Advised management during the process.	KPMG Agreed-upon Procedures' Reports: – Texas.gov – Master Work Order KPMG Statewide A-133 Single Audit Report: SAO Report on the Information and Communications Technology Cooperative Contracts Program.	July 2014
			14-007 / October 2013
SSAE-16 of Service Providers	Work with DIR management and service providers review the components of the SSAE-16 reports.	Service providers submitted their SSAE-16 reports to DIR management.	

IV. External Quality Assurance Review (Peer Review)

Overall opinion of the DIR's most recent external quality assurance review. The review was performed by an independent qualified reviewer and the report was issued October 2013.

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Department of Information Resources Internal Audit Department 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 Auditing Act (Texas Government Code, Chapter 21 02). 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.

V. Internal Audit Plan for Fiscal Year 2015

The DIR Board approved the following Internal Audit Plan on October 23, 2014.

PROJECT CODE	AUDIT PROJECTS	PROJECTED HOURS
15-100	Internal Audits	
14-101	Cooperative Vendor Audit (carry-forward from Fiscal Year 2014)	650
	Data Center Program Services	750
	Performance Measures	200
	Enterprise Contract Management	550
15-200	Board and Management Projects	
	Reserved for Board and Management Projects	250
15-300	Required Projects (by law or audit standards)	
	Continuing Professional Education	180
	Internal Audit Annual Report for Fiscal Year 2015	80
	Internal Audit Risk Assessment / Audit Plan for Fiscal Year 2016	160
	Internal Audit Annual Assessment	80
	Follow-up on Audit Recommendations	400
15-400	Other Projects	
	External Audit Coordination	40
	Workgroups / Governance Boards	40
	Implementation of TeamMate Audit Management Software	240

All risks ranked "high" were included in the Internal Audit Plan for Fiscal Year 2015.

The DIR Internal Audit risk assessment methodology included interviews with the DIR Board, Senior Management, and other selected management staff to compile information regarding their observations of risk across the agency and within their areas of responsibility, including Information Technology risks, and contract management risks; and review of relevant documentation and information pertaining to risks and controls of the auditable activities identified. The following risk factors were used to evaluate the risk of each auditable activity and each risk factor was weighted in accordance with its relative importance of risk.

- Poor outcome to customers
- Potential for fraud, waste or abuse
- Negative publicity/loss of credibility
- Non-compliance with state law
- Management/Board assessment of risk
- Internal control assessment

The audit coverage history was also considered to determine the overall risk score of each auditable activity. The likelihood that the risk would occur and the impact it would have on the agency was rated for each auditable activity, and a total risk score was calculated for each. The auditable activities were then sorted in descending order by their total risk score and the results were discussed with the DIR Board, Senior Management, and other selected management staff. The DIR Board and management understand their responsibilities regarding risk and the importance of these risks exposures to the agency's governance, operations, and information systems.

Any changes in risk that require modification of the audit plan during Fiscal Year 2015 will be made, as needed, and will be communicated to the oversight agencies.

VI. External Audit Services Procured in Fiscal Year 2014

The following external audit services were procured and conducted in Fiscal Year 2014:

- KPMG Independent Accountants' Report on Applying Agreed-upon Procedures – Texas Online (Texas.gov) Financial Report, July 21, 2014
- KPMG Independent Accountants' Report on Applying Agreed-upon Procedures – Master Work Order Financial Report, July 21, 2014

VII. Reporting Suspected Fraud and Abuse

Actions taken to comply with the requirements of:

- Section 7.09. Fraud Reporting, General Appropriations Act (83rd Legislature, Conference Committee Report), Article IX

DIR included a link to the SAO website for fraud reporting at the footer of the agency's website. In addition, information on reporting suspected fraud to the SAO is included in the agency's Employee Handbook.

- Texas Government Code, Section 321.022, Coordination of Investigations:

The agency reports fraudulent or unlawful conduct to the SAO as required by the Texas Government Code, section 321.022.