

**Internal Audit**

**Fiscal Year 2016  
Internal Audit Annual Report**

**16-303**

October 2016



Department of Information Resources

## **Internal Audit Mission Statement**

Collaborate with DIR leadership to fulfill the agency's core mission by providing independent and objective audit services designed to add value and improve the effectiveness of risk management, control, and governance processes.

### **DIR Internal Audit**

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## Background

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The Texas Internal Auditing Act (Texas Government Code 2102) requires certain state agencies like the Department of Information Resources (DIR) to submit an Internal Audit Annual Report each year to the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office (SAO), and the entities' governing boards and chief executives. The SAO is charged with prescribing the form and content of the annual report.

To comply with that mandate, the SAO sets forth guidelines to assist state agencies in preparing the Internal Audit Annual Report. The guidelines represent the SAO's minimum requirements and do not preclude DIR from including additional information in its annual report.

## Objective

The purpose of the Internal Audit Annual Report is to provide information on the assurance services, consulting services, and other activities of the Internal Audit function and to assist oversight agencies in their planning and coordination efforts.

## Acknowledgement

The DIR Fiscal Year 2016 Internal Audit Annual Report has been prepared in accordance with the guidelines prescribed by the SAO.

## Detailed Results

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### I. Compliance with Texas Government Code, Section 2102.015

Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Annual Plan, Internal Audit Annual Report, and Other Audit Information on the DIR Internet Web site<sup>1</sup>

The Fiscal Year 2017 Internal Audit Annual Plan and the Fiscal Year 2016 Internal Audit Annual Report are posted in the Internal Audit Internet Web Page of the Department of Information Resources (DIR) Internet Web Site along with periodic reports and other DIR-related audit publications by the third-parties. Internal Audit annual plans, annual reports, and periodic reports are posted within 30 days of DIR Board's approval.

The DIR Internal Audit Internet Web Page link is located at <http://dir.texas.gov/View-About-DIR/Pages/Content.aspx?id=44>.

A detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns, if any, raised in the Internal Audit Annual Plan or the Internal Audit Annual Report, and report, and a summary of actions taken by DIR to address concerns, if any, raised in the annual plan or annual report are included in the Fiscal Year 2016 Internal Audit Annual Report.

The information contained in the annual plan or annual report was not excepted from public disclosure.

### II. Internal Audit Plan for Fiscal Year 2016

The Internal Audit Annual Plan for Fiscal Year 2016 was approved by the DIR Board in August 2016 and it included the list of audits planned for the fiscal year. The following table includes the completion status of the audit projects planned, including the report number, report date, and report title.

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<sup>1</sup> House Bill 16 (83<sup>rd</sup> 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 web site within 30 days after the audit plan and annual report are approved by the entity's governing board or chief executive.

Fiscal Year 2016 Internal Audit Annual Report

Audit Project #	Audit Project Name/ Report Title/ Objective(s)	Status	Report Date
16-100	<b>Assurance Audits – Tier 1**</b>		
15-103	<b>Enterprise Contract Management</b> Objectives: <ul style="list-style-type: none"> <li>To provide assurance that adequate key DCS enterprise management controls are in place and operational</li> <li>To determine whether the DCS enterprise contract management activities are in compliance with state law, agency policies, and contract requirements</li> <li>To validate the implementation of the audit recommendations included in the Enterprise Contract Management Internal Audit Report 13-103</li> </ul>	Complete	October 2016
-	<b>DCS Vendor Management and Performance *</b> Preliminary Objectives: <ul style="list-style-type: none"> <li>To evaluate the effectiveness of DIR's management and oversight over the DCS vendors' performance</li> <li>To determine whether the DCS vendors are in compliance with established Service Level Agreements</li> </ul>	Not Started	-
16-101	<b>DIR Governance Assessment</b> Objectives: <ul style="list-style-type: none"> <li>To assess the design and operating effectiveness of the DIR's governance processes</li> <li>To assess whether the DIR Information Technology governance supports the agency's strategic goals and objectives</li> </ul>	Complete	August 2016
16-102	<b>DIR Ethics Evaluation</b> Objectives: <ul style="list-style-type: none"> <li>To evaluate the design, implementation, and effectiveness of DIR's ethics-related objectives, programs, and activities</li> </ul>	Complete	July 2016
-	<b>Assurance Audits – Tier 2**</b>		
-	<b>DCS Security Compliance</b> Preliminary Objective: <ul style="list-style-type: none"> <li>To determine whether the DCS vendors have the information security controls in place to comply with state law, regulations, and contract requirements</li> </ul>	Not Started	-
-	<b>CFO Revenue Assurance and Forecasting</b> Preliminary Objective: <ul style="list-style-type: none"> <li>To evaluate the operating effectiveness of the DIR's methodologies used to forecast revenue and provide assurance that agency's operating costs will be recovered within state requirements</li> </ul>	Not Started	-
16-200	<b>Consulting and Non-Audit Services</b>		

Audit Project #	Audit Project Name/ Report Title/ Objective(s)	Status	Report Date
16-201	Workgroups/ Governance Boards/ Management Advisory Project (MAP)	Complete	N/A
16-202	External Audit Coordination	Complete	N/A
-	Reserved for DIR Board/ Executive Leadership Projects	Not Used	N/A
<b>16-300</b>	<b>Required Projects</b>		
-	Continuing Professional Education	Complete	N/A
16-301	Follow-up on Audit Recommendations	Complete	N/A
16-302	Fiscal Year 2017 Internal Audit Risk Assessment/ Audit Plan	Complete	October 2016
16-303	Fiscal Year 2016 Internal Audit Annual Report	Complete	October 2016
16-304	Fiscal Year 2016 Internal Audit Annual Assessment	Complete	N/A
16-305	Internal Audit External Assessment (Peer Review)	In Progress	-

### Explanation of Deviations

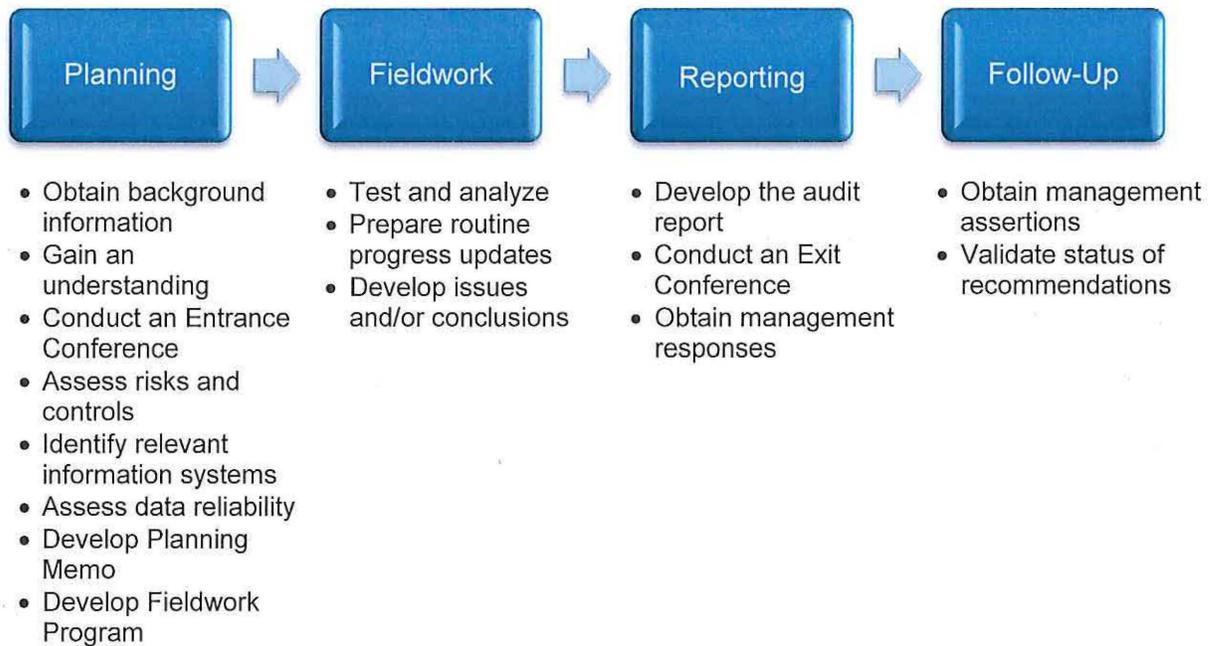
\* DCS Vendor Management and Performance – this audit project was not started during Fiscal Year 2016 due to limited resources and staff turnover in DIR Internal Audit. The audit project started in September 2016 with the objective to determine whether the DCS vendors are in compliance with established Service Level Agreements. The second objective related to the effectiveness of DIR’s management and oversight over the DCS vendors’ performance was re-assessed for risk purposes during the Fiscal Year 2017 Risk Assessment project.

\*\* All auditable activities identified as high risk activities during the risk assessment process were included as audit projects in the tier 1 or tier 2 assurance category of the Fiscal Year 2016 Internal Audit Annual Plan. However, based on limited resources no budgeted hours were allocated for completing tier 2 audit projects. The residual risk of these projects was re-assessed during the Fiscal Year 2017 Internal Audit Risk Assessment.

No additional deviations from the Fiscal Year 2016 Internal Audit Annual Plan were noted or submitted.

### Internal Audit Process

DIR Internal Audit implemented the following audit process to execute the assurance audits included in the annual plan and to comply with auditing standards.



### III. Consulting Services and Non-Audit Services Completed

#### Consulting Services Completed

Consulting Services as defined by *The Institute of Internal Auditors (The IIA)* are advisory in nature, and generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: 1) the person or group offering the advice — the Internal Auditor, and 2) the person or group seeking and receiving the advice — the engagement client.

The DIR Internal Audit Division did not perform consulting services in Fiscal Year 2016.

#### Non-Audit Services Completed

Non-Audit Services are described by *The General Accountability Office (GAO)* as services that support the entity's operations such as: 1) certain accounting and financial services, 2) assistance services, 3) separate evaluations, 4) certain Information Technology and valuation services, and 4) participation in committees as non-voting members.

The following table includes the non-audit services completed during Fiscal Year 2016, including the report number, title, objective(s), results, recommendation(s), and report date, if any.

Fiscal Year 2016 Internal Audit Annual Report

#	Title/ Objective(s)	Results/ Recommendation(s)	Report Date
16-200	<b>Consulting and Non-Audit Services</b>		
<b>External Audit Coordination</b> – Internal Audit serves as the liaison and assist with the State Auditor's Office (SAO) and other state external entities with oversight audit and review responsibility			
-	<p><b>Texas.Gov Financial Audit Report for Calendar Year (CY) 2015</b></p> <p>Objective:</p> <ul style="list-style-type: none"> <li>To conduct an audit of the CY 2015 finances associated with the management and operation of the Texas.gov (Texas Online) portal for the state pursuant to Texas Government Code Chapter 2054</li> </ul>	<p>Results:</p> <ul style="list-style-type: none"> <li>In the auditors' opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2015 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.</li> </ul> <p>Recommendation(s):</p> <ul style="list-style-type: none"> <li>None</li> </ul>	August 2016
SAO Report # 16-020	<p><b>SAO Audit of Selected Agencies' Use of DIR Information Technology Staffing Services Contracts</b></p> <p>Objective:</p> <ul style="list-style-type: none"> <li>To determine the implementation status of prior SAO recommendations related to the IT staffing services contracts and evaluate whether management has taken corrective actions to address the recommendations as reported in an Audit Report on the Information and Communications Technology Cooperative Contracts Program at the Department of Information Resources, SAO Report No. 14-007, October 2013.</li> </ul>	<p>Results:</p> <ul style="list-style-type: none"> <li>DIR had "fully implemented" 18 (54.5 percent) of the 33 prior audit recommendations in an Audit Report on the Information and Communications Technology Cooperative Contracts Program at the DIR (SAO Report No. 14-007, October 2013). It had "substantially implemented" seven prior audit recommendations, and its implementation of six prior audit recommendations was "incomplete/ ongoing". Two prior audit recommendations were "not implemented."</li> </ul> <p>Recommendation(s):</p> <ul style="list-style-type: none"> <li>DIR should complete the implementation of the prior audit recommendations from An Audit Report on the Information and Communications Technology Cooperative Contracts Program at the DIR (SAO Report No. 14-007, October 2013) that the SAO identified as "substantially</li> </ul>	March 2016

#	Title/ Objective(s)	Results/ Recommendation(s)	Report Date
		implemented” or “incomplete/ ongoing.”  Note: Refer to SAO Report No. 16-020 for additional detail on the SAO recommendations to DIR.	
<b>Management Advisory Project (MAP)</b> – Internal Audit performs these projects generally at the request of DIR management or the DIR Board, may be required by a law or regulation, may be included in the Internal Audit Annual Plan, or may result from downscaling an assurance audit			
	<b>Data Center Services Consolidation Measurement Report</b> Objective: <ul style="list-style-type: none"> <li>To coordinate with DIR and provide guidance on measuring and reporting on 1) the progress of the DCS consolidation effort, and 2) the DCS financial performance – cost savings</li> </ul>	Results: <ul style="list-style-type: none"> <li>The DCS program’s consolidation effort is nearing completion of its original targets, with mainframe, print-mail, and service desk services fully consolidated, while the server services have achieved 72% consolidation with the end state target of 75%.</li> <li>The comparison of Fiscal Year 2015 appropriations to actual expenditures resulted in an unfavorable variance in excess of \$16.9 million.</li> <li>The comparison of unit rate charges reflects a favorable variance of \$3.4 million.</li> </ul> Recommendation(s): <ul style="list-style-type: none"> <li>None</li> </ul>	May 2016
<b>Workgroups/ Governance Boards</b> – Internal Audit participates in workgroups and governance board to identify and develop the experience, knowledge, and capabilities needed for the different programs within DIR, and to provide governance, risk, and control expertise when requested			
-	Objective: <ul style="list-style-type: none"> <li>To provide management assistance, counsel, or advice to improve the effectiveness of risk management, controls, and governance processes</li> </ul>	-	-

#### 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 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.

Currently, DIR Internal Audit is undergoing an external assessment (Peer Review) that is expected to be completed on November 2016.

## V. Internal Audit Plan for Fiscal Year 2017

The Texas Government Code Chapter 2102 (known as the Texas Internal Auditing Act), Subchapter B, §2102.005, Internal Auditing Required, states Internal Audit shall conduct an annual audit plan that is prepared using risk assessment techniques that identify the individual audits to be conducted during the year.

Accordingly, DIR Internal Audit embraces an integrated audit approach to develop its annual risk assessment and annual plan that includes, but is not limited to, strategic, operational, financial, Information Technology (IT), contracting, and regulatory compliance aspects of the agency.

The following Fiscal Year 2017 Internal Audit Annual Plan was approved by the DIR Board in October 2016.

Audit Project #	Audit Project Name/ Report Title/ Preliminary Objective(s)	Budgeted Hours*
17-100	<b>Assurance Audits – Tier 1**</b>	
	<p><b><i>DCS Vendor Management and Performance</i></b>                      Preliminary Objective(s):</p> <ul style="list-style-type: none"> <li>• To determine whether the DCS vendors are in compliance with established Service Level Agreements</li> </ul> <p>Note: This audit project addresses the contract management and other requirements of Senate Bill 20 (84<sup>th</sup> Legislature).</p>	450

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Audit Project #	Audit Project Name/ Report Title/ Preliminary Objective(s)	Budgeted Hours*
	<b>Capital Complex Telephone System (CCTS) Operations</b> Preliminary Objective: <ul style="list-style-type: none"> <li>To assess whether the operations of the CCTS Program are in compliance with applicable state law and regulations</li> </ul>	650
	<b>Network Security Operations</b> Preliminary Objective: <ul style="list-style-type: none"> <li>To assess whether the operations of the DIR network security function are in compliance with applicable state law and regulations</li> </ul>	750
<b>Assurance Audits – Tier 2**</b>		
	<b>Statewide Accessibility Coordination Program</b> Preliminary Objective: <ul style="list-style-type: none"> <li>To assess whether the DIR Statewide Accessibility Coordination Program is meeting its goals</li> </ul>	-
	<b>The Technology Architecture</b> Preliminary Objective: <ul style="list-style-type: none"> <li>To assess whether the DIR Technology Architecture function ensures selected vendors perform services in accordance to the contracted Statement of Work (SOW)</li> </ul> Note: This audit project addresses the contract management and other requirements of Senate Bill 20 (84 <sup>th</sup> Legislature).	-
<b>17-200 Consulting and Non-Audit Services</b>		
	External Audit Coordination	200
	Management Advisory Project (MAP)	80
	Workgroups/ Governance Boards	100
	Reserved for DIR Board and Executive Leadership Projects	300
<b>17-300 Required Projects</b>		
	Continuing Professional Education	140
	Follow-up on Audit Recommendations	350
	Fiscal Year 2018 Internal Audit Risk Assessment/ Annual Plan	350
	Fiscal Year 2017 Internal Audit Annual Report	80
	Fiscal Year 2017 Internal Audit Annual Assessment	80

\* Budgeted hours distributed among the projects included in the plan are based on the total available hours calculated for three approved audit Full Time Equivalent Employees (FTEs).

\*\* All auditable activities identified as high risk activities during the risk assessment process were included as audit projects in the tier 1 or tier 2 assurance audits category

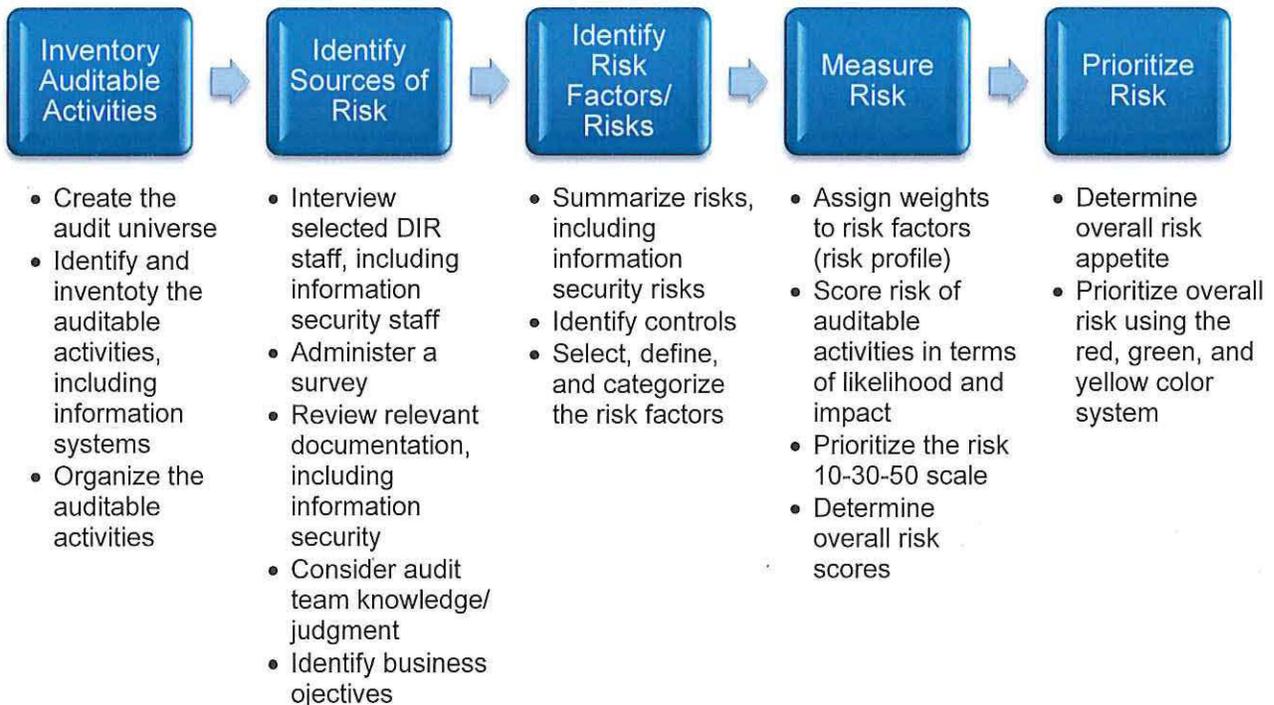
of the Fiscal Year 2017 Internal Audit Annual Plan. However, based on limited resources no budgeted hours were allocated for completing tier 2 audit projects.

We are not aware that any of the audit projects included in the annual plan address benefit proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act (GAA).

The Fiscal Year 2017 Internal Audit Annual Plan will be modified to accommodate any changes in risk that require modification of the plan. The revised plan will be submitted to the DIR Board for approval and a copy of the revised plan will be submitted to the oversight agencies, as required.

### Risk Assessment Process

DIR Internal Audit implemented a risk assessment process consisting of a hybrid methodology that uses specific risks, common risk factors, and risk categories aligned to the agency's auditable activities and risk appetite.



The following table depicts the risk factors, including the risk categories, selected for the Fiscal Year 2017 Risk Assessment.

Risk Category	Risk Factor(s)
Strategic	<ul style="list-style-type: none"> <li>• Poor outcome to customers</li> </ul>

Risk Category	Risk Factor(s)
	<ul style="list-style-type: none"> <li>• Failure to achieve goals and/or objectives</li> </ul>
Compliance	<ul style="list-style-type: none"> <li>• Non-compliance with state law and/or regulations</li> </ul>
Financial	<ul style="list-style-type: none"> <li>• Potential for fraud, waste, or abuse</li> </ul>
Operational	<ul style="list-style-type: none"> <li>• Dependence on strategic partners</li> <li>• Unreliable information and/or reports</li> </ul>

In addition, review of the audit history for the specific auditable activities was conducted over the previous two fiscal years and current fiscal year to assist in determining the overall risk. Consideration of information technology risks was integrated into the operational risk assessment process and addressed in terms of the functionality, confidentiality, integrity, and availability of the data created, processed, and stored in the agency's information systems.

The DIR risk-based audit plan was aligned to the agency's goals and risk appetite, and included input from the DIR Board and executive leadership. The DIR Board and executive leadership understand their responsibilities regarding risk and the importance of these risks exposures to the agency's governance, operations, and information technology.

## VI. External Audit Services Procured in Fiscal Year 2016

The following external audit services were procured and conducted in Fiscal Year 2016:

### Financial Audit Project

- Texas.Gov Financial Audit Report for Calendar Year 2015

### Assurance Audit Project

- DIR Governance Assessment

## VII. Reporting Suspected Fraud and Abuse

Actions taken by DIR to comply with the fraud requirements of:

Section 7.09, page IX-39, the General Appropriations Act (GAA) – 84<sup>th</sup> Texas Legislature<sup>2</sup>

- DIR included at the footer of its website home page a link to the State Auditor's Office (SAO) website for fraud reporting that includes the SAO fraud hotline information on how to report suspected fraud, waste, or abuse. The "SAO Fraud Reporting" link is located at <http://dir.texas.gov/>.
- DIR included in Chapter 4 of its **Ethics Policy** statements describing and prohibiting fraud, waste, theft, and abuse; the responsibility to report suspected fraud, waste, theft, and abuse to the SAO; and prohibited acts. This policy is for all DIR employees and establishes minimal requirements that are not all-inclusive. The absence of a specific rule covering any act discrediting an employee or the agency does not mean that the act is permissible or would not call for disciplinary action, including immediate termination, when considered necessary. DIR is committed to preventing fraud, waste, theft and abuse by its employees and any consultant, vendor, contractor, other government entity or person in dealings with the agency or the state of Texas.
  - DIR provides training to all its employees on fraud awareness
  - DIR appointed an Ethics Officer who takes allegations of fraud, waste, theft, and abuse seriously and investigates any allegation made in good faith, and make preliminary determinations on whether the allegations should be investigated by another appropriate person or entity.
- Internal Audit reports any finding of fraud to the SAO, as required.

Texas Government Code (TGC), Section 321.022, Coordination of Investigations<sup>3</sup>:

- The DIR Executive Director or designee reports money lost, misappropriations, misuse, and any other fraudulent or unlawful conduct to the SAO, as required, when reasonable cause is believed that fraudulent or unlawful conduct may or has occurred in relation to DIR's operations.

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<sup>2</sup> **GAA Section 7.09. Fraud Reporting** – a state agency with appropriated funds by this Act, shall use appropriated funds to assist with the detection and reporting of fraud involving state funds by 1) providing information on the home page of the entity's website on how to report suspected fraud, waste, and abuse involving state resources directly to the SAO and shall include, at a minimum, the SAO fraud hotline information and a link to the SAO for fraud reporting; and by 2) including in the agency or institution's policies information on how to report suspected fraud involving state funds to the SAO.

<sup>3</sup> **Texas Government Code, Section 321.022. Coordination of Investigations** – states if the administrative head of a department or entity that is subject to audit by the SAO has reasonable cause to believe that money received from the state by the department or entity or by a client or contractor of the department or entity may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the department or entity, the administrative head shall report the reason and basis for the belief to the SAO.

## Appendix A

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### Internal Report Distribution

Department of Information Resources (DIR) Board

DIR Executive Director

### External Report Distribution

Texas Office of the Governor

Texas Legislative Budget Board

Texas State Auditor's Office

Texas Sunset Advisory Commission

Department of Information Resources  
Internal Audit

**Fiscal Year 2016 Internal Audit Annual Report**

**APPROVAL:**



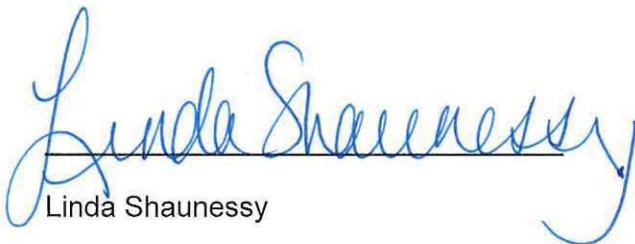
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Lissette Nadal-Hogan

DIR Internal Audit Director

10/27/16

Date



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Linda Shaunessy

DIR Board Chair

10/27/2016

Date

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