# Fiscal Year 2018
# Internal Audit Annual Report

## Internal Audit Division

November 1, 2018

Governor's Office of Budget, Planning and Policy
State Auditor's Office
Legislative Budget Board
Sunset Advisory Commission


Attached is the Texas Department of Agriculture's (TDA) Internal Audit Division annual report.  This report provides information on the Internal Audit activities from the last reporting date of September 2017 thru the fiscal year end of August 2018. It is also submitted to meet the annual reporting requirement of the Texas Internal Auditing Act (Government Code, Chapter 2102.009 and Texas Government Code, Sections 2102.016 and 2102.0091).

Audit work completed during the last fiscal year focused on compliance with laws and regulations, efficiency and effectiveness, and information security and data integrity.  Recommendations, when made, focused on strengthening controls, and enhancing the accountability, efficiency, and effectiveness of the agency's operations.   The Internal Audit Division continues to focus on providing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes within the agency.

Please contact me at (512) 463-8251 if you need additional information.


Sincerely,


Zoi Kondis, CIA, CISA, CRMA
Director of  Internal Audit


Attachment

# Texas Department of Agriculture
## Fiscal Year 2018 Internal Audit Annual Report

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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 Website

Section 2102.015 of the Internal Auditing Act requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports on the agency's website within 30 days of approval. Agencies are also required to update the web page to include: a) a detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and b) a summary of the actions taken to address concerns, if any, that are raised by the audit plan or annual report.

The Internal Audit Division will ensure compliance to the code by posting the approved fiscal year 2019 audit plan and the fiscal year 2018 internal audit annual report to the agency's website within 30 days of their approval.  These reports can be accessed by navigating from TDA's home page to About Agency, selecting TDA Divisions, and then selecting the Office of Internal Audit (http://www.texasagriculture.gov/About/TDADivisions.aspx).

We have provided a summary of actions taken by the agency to address any concerns that are raised by the audit plan or annual report for Fiscal Year 2018 in the attached Appendix A.

## II. Internal Audit Plan for Fiscal Year 2018

| Project Number | Audit Title | Initial Objective(s) | Status / Report Date |
|---|---|---|---|
| 16.07 | Audit of IT Governance – Executive Oversight | Review processes in place to ensure IT supports the strategies and objectives of TDA to determine compliance with applicable rules and regulations, governance effectiveness, and IT performance and development frameworks. | Completed March 2018 |
| 17.04 | Audit of Human Resources | Review human resources management processes to identify non-compliance to strategic operational policies and procedures including compensation and benefits, and employee development. Assess the effectiveness of system access controls, and controls for changes to the employee master file. | In Progress |
| 18.03 | Metrology Lab $B/C/$ | Review of Metrology Lab high risk area processes and controls for compliance with agency, state and federal rules and regulations and best practices. | In Progress |
| N/A | Credit Cards $B/C/$ | Review credit card process and controls to determine compliance with applicable rules and regulations, the effectiveness of process and administration, manual and automated controls, and related TDA policies and procedures, and contractual agreements. | Not Started |

*A/ Addresses benefits proportionality*
*B/ Addresses Contract Management and other requirements of Senate Bill 20 (84th Legislature)*
*C/ Addresses Capital budget controls, expenditure transfers, or any other limitation or restriction in the General Appropriations Act.*
*\* All Projections based on full staffing.*

Deviations from the Fiscal Year 2018 Audit Plan

The 2018 Audit Plan was amended as necessary to accommodate staff turnover, training, external audit and oversight activities, and changes to the agency's priorities and operations.

- The Audit of the Controls over HR & Payroll and Audit of Employee Lifecycle Management were combined as the Audit of Human Resources initiated in FY18 and scheduled to be completed in FY19.

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

The Internal Audit Division did not conduct agreed upon consulting services during fiscal year 2018.

In addition to planned audits and consulting and non-audit services, the following administrative activities were also performed during fiscal year 2018:

- Conducted the annual risk assessment using a risk-based methodology, which included gathering and analyzing information from questionnaires, internal control documents, and interviews.
- Developed the audit plan and prepared the Internal Audit Annual Report, as required by the Texas Internal Auditing Act.
- Tracked outstanding internal and external audit findings and recommendations, and reported implementation status internally.
- Consult regarding TAC 202 security requirements
- Administered Internal Fraud Prevention Hotline programs.
- Acted as liaison for external audits and oversight activities.

## IV.    External Quality Assurance Review

An external quality assurance review was performed in July and August 2016 by Honkamp, Krueger & Co, PC, CPAs and Business Consultants.  The review assessed compliance with The Texas Internal Auditing Act (Tex. Gov't. Code Chapter 2102), the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing*, and U.S. General Accounting Office *Government Auditing Standards*.  The final report was issued in September 1, 2016.  We have provided a copy of the report executive summary in Appendix B and our next quality assurance review will be planned for 2019.  The following opinion was reported to Executive Management:

"IIA Standards - Based on our work, the IAD generally conforms; however we did identify process enhancement opportunities included in Appendix A to the report.  Based on the information received and evaluated during this external quality assurance review, we have assigned the Texas Department of Agriculture (TDA) Internal Audit Division a rating of generally conforms with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*, Code of Ethics and Definition of Internal Auditing. The "generally confirms" rating, which is the highest of the three possible ratings means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the standards in all material respects, but some opportunities for improvement may exist. "

"GAGAS – No conformance observations were identified.  Based on the information received and evaluated during this external quality assurance review, we have assigned the TDA Internal Audit Division a rating of "pass" for GAGAS.  The "pass" rating, which is the highest of the three possible GAGAS ratings, means that policies, procedures and practices are in place to implement the Standards and requirements necessary for ensuring independence, objectivity, and proficiency of the internal audit function."

"TIAA requirements – Other than the observations related to IIA Standards, no other observations were identified during our work.  Based on the information received and evaluated during this external quality assurance review, the TDA Internal Audit Division complies with the Texas Internal Auditing Act (Texas Government Code, Chapter 2102)."

The report also indicated that " IAD is seen as one of the key cornerstones of Texas Department of Agriculture's corporate governance, as evidenced by interviews, surveys, document reviews, and observations. " And also stated "Texas Department of Agriculture's IAD has demonstrated a commitment to quality, successful leadership practices, and maintaining an internal auditor's mindset for professionalism. Our assessment noted Texas Department of Agriculture's IAD has developed and implemented a methodology, a set of policies & procedures, and built a team of experienced auditors based upon achieving the department's mandate. Evaluation of the internal audit processes and related audit work papers evidenced that Texas Department of Agriculture's IAD takes this role seriously and provides value to the organization as expected. "

## V.    Internal Audit Plan for Fiscal Year 2019

A risk-based methodology was used to prioritize audit coverage for fiscal year 2018 and ensure timely review of the highest risk areas.  In addition, to fulfill the need to assess IT related risks, we documented key applications used by each of the Divisions and business units to better understand the application inventory, critical applications and project plans.  Agency operations were analyzed based on multiple risk factors including: operating budget, significant changes in organizational structure, information systems complexity, prior audits and findings, executive/legislative interest, strategic priority, and potential for fraud.  Input from key senior management regarding high risk areas was also incorporated into the analysis. This information was then used to determine the likelihood and impact of select risk factors, and an overall risk score was developed.

Planned audit projects for fiscal year 2019 will continue to focus on the highest risk areas as identified through TDA's risk assessment process.  Each audit will also consider tests of select general and application controls in accordance with state and agency information security standards.


### Internal Audit Plan for Fiscal Year 2019

| Audit Title | Area / Initial Objective(s) | Projected Hours |
|---|---|---|
| Audit of Human Resources | Review human resources management processes to identify non-compliance to strategic operational policies and procedures including compensation and benefits, and employee development. Assess the effectiveness of system access controls, and controls for employee changes. | 400 |
| Metrology Lab A/ B/ C/ | Review of Metrology Lab high risk area processes and controls for compliance with agency, state and federal rules and regulations and best practices. | 800 |
| Receipt Payment Processing | Evaluate TDA payment processing to include: 1) identification of all payment flows including accounts and programs, lockboxes, credit card processing, 2) evaluation of suspense account clearing, 3) receipts payment reconciliations to program transactions. | 1,800 |
| Audit of Completed Management Actions A/ B/ C/ | Review completed actions and determine if management has sufficiently addressed the risks identified for the a) CDBG Audit and b) IT Governance Audit. | 800 |
| *External Quality Assurance Review (Peer Review) Self-Assessment and preparation* | | |
| Perform activities as requested by the International Professional Practices Framework (IPPF) and Generally Accepted Government Audit Standards (GAGAS) in compliance with the Texas Internal Audit Act. | | 400 |
| *Follow-up on Prior Audits* | | |
| Assess the implementation status of corrective actions taken in response to prior internal and external audit findings and recommendations. | | 400 |
| *Risk Assessment, Audit Plan and Annual Report* | | |
| Prepare Risk Assessment, Internal Audit Plan and Internal Audit Annual Report. | | 600 |

| Audit Title | Area / Initial Objective(s) | Projected Hours |
|---|---|---|
| **Fraud Hotline Admin, Consulting Services and Special Projects** | | |
| Perform activities as requested by management throughout the year, as permitted by internal audit resources and the Texas Internal Audit Act.  These activities may address governance, risk management, or control issues. | | 400 |
| **External Audit Coordinator** | | |
| Act as a liaison for external audit activities, providing a single point of contact for all audits of TDA by oversight entities.  Internal Audit assists management in coordinating TDA and external auditor interactions to ensure both parties receive accurate and timely information and feedback. | | 160 |
| **Total** | | 5,760 |

*A/ the applicable information technology risks related to Title 1, Texas Administrative Code, Chapter 202, Information Security Standards, and*
*B/ Benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.*
*C/ Contract management and other requirements*
*\* All Projections based on full staffing.*

Additional areas that ranked high, which were not included in the fiscal year 2019 audit plan are listed below:
1.  Financial Services, Payroll
2.  Information Technology, Systems and Application Support
3.  Financial Services and Support Services, Payment Cards

# Risk Assessment Process

**Data Gathering**
- Gained understanding of industry trends and current environmental risks through discussions with personnel and by reading publications.
- Read technical guidance to identify changes to audit and accounting requirements (if any).
- Gained understanding of TDA strategic objectives and key initiatives.
- Updated audit universe based on changes in organizational structure, control environment and information from TDA staff.

**Risk Analysis**
- Interviewed Key Exective members and management to obtain various points of view on risks.
- Surveyed select team members regarding their assessment of risk in the categories of fraud, compliance, materiality, complexity, suspected concerns, and emerging risks.
- Reviewed data gathering information.

**Audit Plan Proposal**
- Developed a proposed Audit Plan based on interviews, risk assessments, resource availability, budget, and division coverage.
- Reviewed risk assessment results with Commissioner and Deputy Commissioner: discussed highest priority audits and projects; discussed proposed audit plan

**Audit Plan Approval**
- Based on input from Commissioner, Deputy Commissioner and select TDA personnel, finalized audit plan and obtained formal approval.

## VI.      External Audit Services Procured in Fiscal Year 2018

The Internal Audit Division did not directly procure external audit services in fiscal year 2018. The Texas Department of Agriculture did procure the following audit services during the fiscal year 2018:
- Texas Agricultural Finance Authority Annual Financial Statements

## VII.     Reporting Suspected Fraud and Abuse

TDA has taken the following actions to implement the requirements of:

- Fraud Reporting. Texas General Appropriations Act, 85th Legislature, Article IX, Section 7.09

The TDA Fraud Prevention Program includes information about reporting to the state auditor money that may have been lost, misappropriated, or misused, or other fraudulent or unlawful conduct involving any money received from the state. TDA posted the following information on the Contact Us link on the home page of the agency's website:

**Fraud Prevention Program**
The purpose of the TDA Fraud Prevention Program is to establish and coordinate an agency wide program to prevent, detect and investigate fraud, illegal use and abuse of state resources by TDA employees, vendors or contractors.
Fraud@TexasAgriculture.gov
(512) 475-3423 or 1-866-5-FRAUD-4 (1-866-537-2834)

**Report suspected fraud involving state funds to:**
State Auditor's Office Website for Fraud Reporting
Telephone hotline: 1-800-TX-AUDIT

TDA's employee handbook contains a section dedicated to the Fraud Prevention Program along with the TDA Ethics Policy. The Fraud Prevention Program includes the Commissioner's Letter, the Fraud Prevention Charter and the Fraud Prevention Program details. Each Fraud Prevention document including the Charter states "it is the responsibility of every TDA employee to prevent, detect and report all instances of fraud, abuse of state resources, or illegal activities." In addition, TDA's Ethics policy mandates "all TDA employees must report any possible unethical or illegal act or violation of any ethical or legal regulation or policy to the Ethics Officer and/or the General Counsel."

- Reporting Requirements. Texas Government Code, Section 321.022

The TDA Fraud Prevention Program includes the requirements of this section. The Ethics Officer and Internal Audit, when necessary, are responsible for investigating all reported incidents of suspected or actual fraud, and illegal use or abuse of state resources. If an investigation concludes there is reasonable

cause to believe inappropriate actions have occurred, a report is issued to the Deputy Commissioner and the SAO is notified, as appropriate.

The Chief Ethics Officer and Internal Audit coordinate to ensure all State Auditor's Office (SAO) fraud website or hotline referrals are handled appropriately.  The Chief Ethics Officer or Internal Audit provides the results of the investigation to SAO and works to resolve any issues.

| Project Number | Finding / Recommendation and Management Response | Status * |
|---|---|---|
| IT GOV 16.07 Audit of IT Governance - Executive Oversight Issued March 2018 | **<u>Observation No. II.1 -   TDA does not have a formal governance body to identify risks and other information technology (IT) issues facing the agency.</u>**<br><br>*Report Recommendation:*<br>TDA should establish a formal IT governance oversight body to:<br>1. Improve collaboration and negotiation between Program Managers,<br>2. Promote understanding about how the agency's limited IT resources are prioritized and allocated,<br>3. Promote an understanding about IT related risks and mitigation strategies,<br>4. Increase awareness about potential opportunities available to departments, and to<br>5. Improve transparency and accountability.<br><br>*Management Response:*<br>Management agrees with the auditor's observations.  TDA understands the importance of a formal governance body to oversee IT issues and the strategic initiatives of the agency and will implement an IT Governance Board by June 2018. | Incomplete / Ongoing |
| IT GOV 16.07 Audit of IT Governance - Executive Oversight Issued March 2018 | **<u>Observation No. II.2 - TDA does not have an implementation plan and monitoring process to address outstanding high risk security findings.</u>**<br><br>*Report Recommendation:*<br>The Information Resources Manager (IRM) and Information Security Officer (ISO) should:<br>1. Establish an implementation plan and monitoring process to remediate all known high risk security findings.<br>2. Present periodic updates, at least quarterly, to the Deputy Commissioner and Assistant Commissioners regarding progress in remediating these risks.<br><br>*Management Response:*<br>Management agrees with the auditor's observations. TDA has developed a security plan to address the high risk security findings.  Additionally, TDA will begin tracking the progress of the security plan implementation on a quarterly basis based on the input from the IRM and ISO.<br><br>The TDA security plan implementation update will be scheduled in June 2018 as part of the IT Governance Board agenda. | Incomplete / Ongoing |

| Project Number | Finding / Recommendation and Management Response | Status * |
|---|---|---|
| IT GOV 16.07 Audit of IT Governance - Executive Oversight Issued March 2018 | **Observation No. III.1 - The agency's Continuity of Operations Plan (COOP) has not been consistently reviewed, updated and approved since its inception in 2014.**<br><br>*Report Recommendation:*<br>Executive Management should:<br>1. Make COOP and Disaster Recovery Planning (DRP) a priority.<br>2. Formally designate a single executive to sponsor the implementation of TDA's COOP and DRP plans.<br>3. Formally designate a project manager who has adequate authority over all of TDA's various divisions and service areas, including the IT Department to implement and execute these plans.<br>4. Institute a scheduled program of annual COOP plan updates.<br>5. Complete a full COOP and DRP plan review including: a) revised business impact analysis, b) updated roles and responsibilities, and c) updated recovery objectives and restoration priorities. All of these should be completed within the next year.<br>6. Review and update job descriptions for individuals who perform the various COOP tasks such as the Continuity Management Team Leader, the Business Continuity Coordinator, etc.<br><br>*Management Response:*<br>Management agrees with the auditor's observation. To address concerns relating to the COOP Plan and emergency management, an agency organizational change was undertaken to create a Coordinator for Emergency Management and Business Continuity (CEMBC) position (hired in December 2017). After assuming the CEMBC position, the CEMBC established a schedule to meet COOP and DRP requirements which includes the following interim and long term actions:<br>Interim action:<br>The CEMBC will submit an interim revision by March 30, 2018, of the COOP to SORM (State Office of Risk Management) to reflect organizational changes since the last submission.<br>Long Term action:<br>The CEMBC will work with agency management to complete the updated COOP, appendices and BIA with executive approval by July 2018. | Substantially Implemented |

| Project Number | Finding / Recommendation and Management Response | Status * |
|---|---|---|
| IT GOV 16.07 Audit of IT Governance - Executive Oversight Issued March 2018 | **Observation No. III.2 - TDA has not developed a program of annual COOP plan testing.**<br><br>*Report Recommendation:*<br>The Executive Management should:<br>1. Make COOP and DRP planning a priority.<br>2. Formally designate a single executive to sponsor the implementation of TDA's COOP and DRP plans.<br>3. Formally designate a project manager to execute TDA's COOP and DRP plans, who has adequate authority over all of TDA's various divisions and service areas, including the IT Department.<br>4. Review and document responsibilities of COOP participants and update job descriptions for individuals who perform any COOP related tasks. Some examples would include COOP plan maintenance, testing, training, etc.<br>5. Institute a scheduled program of annual COOP plan testing.<br><br>*Management Response:*<br>Management agrees with the auditor's observations. The Coordinator for Emergency Management and Business Continuity (CEMBC) will work with agency staff and SORM to adopt a relevant annual COOP plan testing program. The CEMBC will finalize the testing program by July 2018. | Incomplete / Ongoing |
| IT GOV 16.07 Audit of IT Governance - Executive Oversight Issued March 2018 | **Observation No. III.3 - TDA has not developed a program of annual COOP plan training.**<br><br>*Report Recommendation:*<br>The Executive Management should:<br>1. Make COOP and DRP planning a priority.<br>2. Formally designate a single executive to sponsor the implementation of TDA's COOP and DRP plans.<br>3. Formally designate a project manager to execute TDA's COOP and DRP plans, who has adequate authority over all of TDA's various divisions and service areas, including the IT Department.<br>4. Review and document responsibilities of COOP participants and update job descriptions for individuals who perform any COOP related tasks. Some examples would include participants involved in COOP plan maintenance, testing, training, etc.<br>5. Institute a scheduled program of annual COOP plan training. | Incomplete / Ongoing |

| Project Number | Finding / Recommendation and Management Response | Status * |
|---|---|---|
| | *Management Response:*<br>Management agrees with the auditor's observations. The Coordinator for Emergency Management and Business Continuity (CEMBC) will work with agency staff and SORM to adopt a relevant annual COOP plan training program.  The CEMBC will finalize the training program by July 2018. | |
| IT GOV 16.07 Audit of IT Governance - Executive Oversight Issued March 2018 | **Observation No. III.4 - TDA does not have a current written disaster recovery plan (DRP) and has not performed annual testing of the plan.**<br><br>*Report Recommendation:*<br>The Executive Management should:<br>1. Make COOP and DRP planning a priority.<br>2. Formally designate a single executive to sponsor the implementation of TDA's COOP and DRP plans.<br>3. Formally designate a project manager to execute TDA's COOP and DRP plans, who has adequate authority over all of TDA's various divisions and service areas, including the IT Department.<br>4. Oversee the creation of the agency's written DRP plan.<br>5. Review and document responsibilities of DRP participants and update job descriptions for individuals who perform any DRP related tasks. Some examples would include DRP plan creation, maintenance, testing, training, etc.<br>6. Institute a scheduled program of annual DRP testing and training.<br><br>*Management Response:*<br>Management agrees with the auditor's observations. The TDA IRM and CEMBC will coordinate work with the designated IT staff to develop, document, and adopt a relevant written Disaster Recovery Plan (DRP) which aligns to the COOP plan and complies with the security control standards established by 1 TAC §202.26.  The IRM and CEMBC will review and approve the DRP plan, including training and testing in coordination with the COOP plan by July 2018. | DRP Substantially Implemented<br><br>All other actions Incomplete / Ongoing |

* Definitions of Implementation Status as of August 31, 2018 are as follows:

- Fully Implemented: Successful development and use of a process, system, or policy to implement a prior recommendation
- Substantially Implemented: Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation

- Incomplete / Ongoing: Ongoing development of a process, system or policy to address a prior recommendation
- Not Implemented: Lack of a formal process, system, or policy to address a prior recommendation

Appendix B:  External Quality Assurance Review Certification

## Conformity Evaluation

Listed below is our overall evaluation of the IAD's conformity with these Standards and requirements:

**IIA Standards** – Based on our work, the IAD generally conforms; however, we did identify process enhancement opportunities included in appendix A to the report.

Based on the information received and evaluated during this external quality assurance review, we have assigned the Texas Department of Agriculture (TDA) Internal Audit Division generally conforms with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*, Code of Ethics and Definition of Internal Auditing. The "generally conforms" rating, which is the highest of the three possible IIA ratings, means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the Standards in all material respects, but some opportunities for improvement may exist.

**GAGAS** – No conformance observations were identified.

Based on the information received and evaluated during this external quality assurance review, we have assigned the TDA Internal Audit Division a rating of "pass" for GAGAS. The "pass" rating, which is the highest of the three possible GAGAS ratings, means that policies, procedures and practices are in place to implement the Standards and requirements necessary for ensuring independence, objectivity, and proficiency of the internal audit function.

**TIAA requirements** – Other than the observations related to IIA Standards, no other observations were identified during our work.

Based on the information received and evaluated during this external quality assurance review, the TDA Internal Audit Division complies with the Texas Internal Auditing Act (Texas Government Code, Chapter 2102).

Definitions of the available ratings for IIA Standards and GAGAS are included in Appendix C to this report.

We appreciate the courtesy and cooperation extended to us by the internal audit director, internal audit staff, the Commissioner, Assistant Commissioner, 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 internal audit department and its relationship with management.

Respectfully,

*Honkamp Krueger & Co.*

**HONKAMP KRUEGER & CO., P.C.**