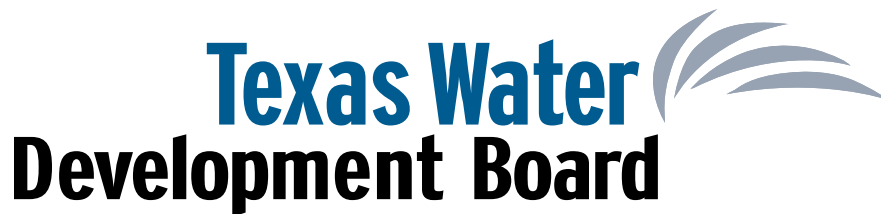


# Fiscal Year 2023 Internal Audit Annual Report

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Internal Audit Division



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**I. COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE INTERNAL AUDIT PLAN AND INTERNAL AUDIT ANNUAL REPORT ON THE WEBSITE**

Texas Government Code, Section 2102.015 of the Internal Auditing Act requires state agencies and institutions of higher education to post agency internal audit plans, internal audit annual reports, and any weaknesses, deficiencies, wrongdoings, or other concerns resulting from the audit plan or annual report on the entities Internet web site, at the time and in the manner provided by the State Auditor’s Office. The Act also requires that state agencies update their posting to include a summary of actions taken by the agency to address concerns, if any, raised by the audit plan or annual report.

The Internal Audit Division ensures compliance with Texas Government Code, Section 2102.015 by posting the agency’s approved annual audit plans, internal audit annual reports, individual internal audit reports, and semi-annual audit implementation status reports to the agency’s Internet web site.

Each internal audit report provides detailed information on individual audit findings, recommendations, as well as management’s responses. In addition, semi-annual audit implementation status reports provide a summary of the actions taken by management in addressing audit issues. These reports can be accessed by navigating from TWDB’s homepage to Home, selecting Transparency Portal, and then selecting Internal Audit at <http://www.twdb.texas.gov/about/transparency/audit/index.asp>.

**II. INTERNAL AUDIT PLAN FOR FISCAL YEAR 2023**

Audit engagements included in the fiscal year 2023 audit plan were identified through an agency-wide risk assessment process conducted in collaboration with each of the Board members, Executive Administration, and other key staff and management.

Review of Select Cybersecurity Processes – Phase II <sup>1</sup>	Report #2022.07, Fieldwork
Review of Quarterly Investment Reports	Report #2023.05, Dec 2022
Review of Select Employee Retention, Hiring, & Recruitment Processes	Report #2023.06, Fieldwork

Two audit projects from the FY2023 plan were not yet initiated by year-end. The Review of Select Cybersecurity Processes – Phase III was carried forward to the fiscal year 2024 plan, and the Review of Flood Infrastructure Fund Category 1 Projects was replaced with a contingency engagement. Section V of this report provides additional information on carryforward audits to the fiscal year 2024 plan.

Additionally, follow-up audit work was conducted during fiscal year 2023 to verify the implementation status of the corrective actions taken by management to address the

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<sup>1</sup>Audit was carried forward from FY2022 to the FY2023 audit plan.

recommendations resulting from prior audit engagements. Those engagements included the following:

Audits Performed by External Oversight Agencies	Various Reports
Biennial Review of Compliance with PFIA	Report 2022.05, Dec 2021
Review of Contract Management (SB20 Compliance)	Report 2019.07, Oct 2020
Review of State Funded Grant Agreements and Contracts	Report 2018.08, Nov 2019

As noted in Section I, a summary of the actions taken by management in addressing prior audit issues can be accessed on the agency’s web site.

**III. CONSULTING SERVICES AND NONAUDIT SERVICES COMPLETED**

The Internal Audit Division performed the following non-audit services during fiscal year 2023:

Title	Objectives	Recommendations
Fraud, Waste, and Abuse Investigations	Administered the agency’s fraud hotline and performed investigative reviews into allegations of fraud, waste, and abuse received through the hotline and/or referred by the State Auditor’s Office.	None
External Audit Coordination	Coordinated information requests and management responses for external oversight activities to ensure information was provided timely, disruption to normal operating activities was minimized, and findings and recommendations were properly and completely addressed.	None
Technical Assistance	Provided counsel, advice, facilitation, and technical assistance to management in a variety of areas.	None

The following administrative activities were also performed during fiscal year 2023:

- Provided ad-hoc training and presentations on audit processes and internal controls to agency staff.

- Performed various internal review activities as part of the quality assurance and improvement program, including on-going monitoring, periodic internal quality assessments, and initiating the self-assessment portion of the Division's external peer review.
- Conducted the agency's annual risk assessment using a risk-based methodology, which included gathering and analyzing information from risk assessment questionnaires and interview questionnaires.
- Developed the Annual Audit Plan and prepared the Internal Audit Annual Report, as required by the Texas Internal Auditing Act.
- Tracked internal and external outstanding audit findings and recommendations, and trained agency staff to navigate, update implementation status, and upload supporting documentation using TeamCentral (centralized database).
- Attended on-line and instructor led training throughout the year to ensure compliance with continuing professional education requirements.
- Updated internal audit processes, policy manuals, and templates to ensure compliance with applicable auditing standards, as needed.
- Participated in various workgroups and committees as members of professional organizations, including the State Agency Internal Audit Forum (SAIAF) quarterly meetings, to stay abreast of applicable state and federal laws, rules and regulations and provide input on ways to enhance our internal audit activities.
- Participated in executive leadership meetings and agency workgroups in an advisory capacity to provide management with technical assistance and guidance in a variety of areas and serve as an available resource on risk-related issues.

#### IV. EXTERNAL QUALITY ASSURANCE REVIEW

##### Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is my opinion that the Texas Water Development Board's (TWDB) Internal Audit Department receives a rating of "**Pass/Generally Conforms**" and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* 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.

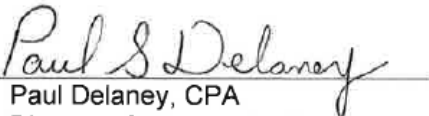
The Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The Internal Audit Department is well managed internally. In addition, the department has effective relationships with the Board 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 Internal Audit Department has reviewed the results of the peer review team's work and has accepted them to be an accurate representation of the department's operations.

##### Acknowledgements

I appreciate the courtesy and cooperation extended to me by the Internal Audit Director, Internal Audit staff, the Board and the Executive Administrator who all participated in the interview process. I would also like to thank each person who completed a survey 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.

  
Paul Delaney, CPA  
Director of Internal Audit  
Railroad Commission of Texas  
SAIAF Peer Review Team Leader

July 2, 2020  
Date

## V. **INTERNAL AUDIT PLAN FOR FISCAL YEAR 2024**

A risk-based methodology was used to prioritize audit coverage for fiscal year 2024. Agency operations were analyzed based on multiple risk factors, including financial activity, grant and contract management, legislative interest, changes in staffing and/or organizational structure, information technology and compliance with state information security standards<sup>2</sup>, operational complexity, strength of internal controls, prior audit coverage, and potential for fraud. Input from each Board member, Executive Administration, and other key staff and 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 calculated for each auditable activity.

In addition, Texas Government Code, Section 2102.005(b) of the Internal Auditing Act requires the Internal Audit Division to consider methods used by the agency to ensure compliance with contract processes and controls and for monitoring agency contracts. The Division ensures compliance with this provision by considering these methods throughout the agency-wide annual risk assessment process. Information on contract-specific risk factors, and the strength of internal controls, is collected directly from key staff and management and reviewed to determine whether certain contract-related processes, including contract monitoring, warrant inclusion in the proposed audit plan for the fiscal year.

The fiscal year 2024 audit plan was designed to ensure timely reviews of the highest overall risk ranked areas and includes coverage of both program-specific and agency-wide processes. Development of the plan was consistent with the agency's strategic objectives and goals, and internal audit resources were allocated commensurately.

The fiscal year 2024 audit plan was approved by the Board on October 5, 2023.

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<sup>2</sup> Title 1, Texas Administrative Code, Chapter 202 (Information Security Standards)

<b>Risk-based and Required Audits</b>	<b>Budgeted Hours</b>
Biennial Review of Compliance with the Public Funds Investment Act <sup>3</sup>	705
Follow-up Audit of the Review of State-Funded Grant Agreements & Contracts <sup>4</sup>	650
Review of the University of Texas at Arlington Contract for Engineering Related Services <sup>5</sup>	750
Review of Select Budget Processes	1040
<b>Carry-forward Audits</b>	
Complete audits from prior fiscal year audit plan that were either in progress at year end or carried forward based on a reassessment of risk in the related areas. These audits include a Review of Select Cybersecurity Processes Phase II, a Review of Select Hiring, Recruitment, and Retention Processes, and a Review of Select Cybersecurity Processes Phase III. <sup>6</sup>	1729
<b>Follow-up on Prior Audits</b>	
Assess the implementation status of corrective actions taken in response to prior internal and external audit findings and recommendations.	130
<b>Consultations and Non-Audit Services</b>	
Perform special projects and unanticipated evaluations or analysis requested by management.	275
<b>Investigations</b>	
Administer the agency's fraud hotline and investigate allegations of fraud, waste, and abuse received through the hotline and referred by the State Auditor's Office.	225
<b>Administrative Audit Activities</b>	
External Audit Coordination	140
TeamMate+ Migration	537
Risk Assessment & Annual Audit Plan	176
Self-Assessment, External Peer Review	179
Internal Audit Annual Report	40
<b>Total Available Direct Hours</b>	<b>6,576</b>

In the event that hours allocated towards the above projects are not fully expended or the agency's priorities change, the following contingency projects will be performed in order of priority: (a) Review of Outlay & Escrow Processes for Flood Infrastructure Fund Projects (b) Review of Contract Management & Monitoring Processes or (c) Consultation Review of Succession Planning.

<sup>3</sup> Requirement of the Texas Public Funds Investment Act and TWDB Investment Policy

<sup>4</sup> Contract Management and Other Requirements

<sup>5</sup> Contract Management and Other Requirements

<sup>6</sup> Review of Flood Infrastructure Fund Category 1 Projects from the FY2023 audit plan was replaced with the FY2024 contingency engagement Review of Outlay & Escrow Processes for Flood Infrastructure Fund Projects.



The specific scope and objectives of each audit project will be determined as part of the preliminary audit planning process, which consists of a more detailed risk assessment of the related area and activity. In addition, each audit will consider tests of select general and application controls based on business risk, in accordance with state and agency information security standards.

Additional areas of risk that ranked high but were not included in the fiscal year 2024 audit plan, have recently been, or will be, addressed through external audit and oversight activities, follow-up on prior audits, and/or contingency audit engagements. Those include:

1. Water Supply & Infrastructure, Program Administration & Reporting<sup>7</sup>
2. Water Science & Conservation, Grant Coordination<sup>8</sup>
3. Water Supply & Infrastructure, Outlays & Escrow<sup>9</sup>
4. Planning, Flood Planning<sup>10</sup>

## **VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2023**

The Internal Audit Division did not procure external audit services in fiscal year 2023.

## **VII. REPORTING SUSPECTED FRAUD AND ABUSE**

The agency has several mechanisms for reporting fraud to the State Auditor's Office (SAO). These mechanisms satisfy the requirements of Section 7.09, page IX-38, the General Appropriation Act (87th Legislature), and Texas Government Code, Section 321.022 and include the following:

Fraud Reporting Requirements of Section 7.09, page IX-38, the General Appropriation Act (87th Legislature)

TWDB has a link for reporting fraud, waste, and abuse on the agency's web site at <http://www.twdb.texas.gov/home/fraud.asp>. The link provides information on how to report suspected fraud, waste and abuse involving state resources. The link also includes information on SAO's fraud hotline and a further link to SAO's fraud, waste, and abuse web page.

Investigation Coordination Requirements of Texas Government Code, Section 321.022

The agency's Fraud, Waste, and Abuse policy defines fraud, waste, and abuse and provides staff with guidance on how to report fraud and/or suspected fraud. The policy assigns Internal Audit the primary responsibility for the investigation of all suspected

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<sup>7</sup> State Auditor's Office / Clifton Larsen Allen (CLA), Environmental Protection Agency

<sup>8</sup> Federal Emergency Management Agency, Internal Audit Contingency Engagement

<sup>9</sup> State Auditor's Office / Clifton Larsen Allen (CLA), Environmental Protection Agency, Internal Audit Contingency Engagement

<sup>10</sup> Internal Audit Contingency Engagement

fraudulent acts and for coordinating investigative activities, in coordination with the Office of General Counsel, and Human Resources Division as needed. The policy also requires the Executive Administrator to report suspected fraud or unlawful conduct to the State Auditor's Office.

In addition, the agency provides a mandatory Ethics training annually to all employees. The most recent training was held in September 2023.