

TEXAS DEPARTMENT OF AGRICULTURE

# Fiscal Year 2017 Internal Audit Annual Report

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Internal Audit Division



Texas Department of Agriculture | Commissioner Sid Miller  
November 2017



TEXAS DEPARTMENT OF AGRICULTURE  
COMMISSIONER SID MILLER

November 1, 2017

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 2016 thru the fiscal year end of August 2017. 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, information security controls, 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 2017 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 2018 audit plan and the fiscal year 2017 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 2017 in the attached Appendix A.

## II. Internal Audit Plan for Fiscal Year 2017

Project Number	Audit Title	Initial Objective(s)	Status / Report Date
14.05	Audit of Controls Over Purchasing and Accounts Payable Activities	Review select purchasing and accounts payable activities to determine the process efficiencies and effectiveness, and compliance with state regulations.	In Progress
16.04	Audit of the Community Development Block Grant Program	Review select program operations to determine compliance with applicable rules and regulations, and the effectiveness of controls over expenditures/payments, policies and procedures, and grant/contractual agreements.	Issued June 30,2017
16.07	IT Governance	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.	In Progress
17.04	Audit of Employee Lifecycle Management	Review Employee Lifecycle Management processes to benchmark best practices to agency practices. Identify non-compliance to strategic operational policies and procedures including areas such as workforce planning, compensation and benefits, employee development and risk management.	In Progress
17.05	Audit of the Controls over HR & Payroll	Review HR & Payroll process controls to determine compliance with applicable rules and regulations, and the effectiveness of system access, manual and automated controls over expenditures/payments, policies and procedures, and grant/contractual agreements.	In Progress
NA	Audit of the Legal Division's Processing of Inspection Administrative Orders	Review the Legal Division's Processing of Inspection Administrative Orders focusing on process improvement opportunities associated with paperless initiative and records retention.	Removed

### Deviations from the Fiscal Year 2017 Audit Plan

The 2017 Audit Plan was amended as necessary to accommodate staff turnover, new hire training, external audit and oversight activities, and changes to the agency's priorities and operations.

- IT Governance audit was initiated in FY17 and scheduled to be completed in FY18.
- The Audit of Controls over Purchasing and Accounts Payable Activities was in progress at year end and was carried forward to fiscal year 2018 as a consultation.
- Audit of the Legal Division's Processing of Inspection Administrative Orders was removed. Management initiated an internal effort associated with the audit objectives.
- All other audit projects were postponed to accommodate staff training and other initiatives.

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

The Internal Audit Division did not conduct agreed upon consulting services during fiscal year 2017.

In addition to planned audits and consulting and non-audit services, the following administrative activities were also performed during fiscal year 2017:

- 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.
- 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 2018**

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, involvement with grants and grant management, significant changes in organizational structure, information systems complexity, management controls, 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 2018 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 2018**

Audit Title	Area / Initial Objective(s)	Projected Hours
<b><i>2017 Carryover Audits</i></b>		
IT Governance Audit	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.	280
Audit of the Controls over HR & Payroll A/	Review HR & Payroll process controls to determine compliance with applicable rules and regulations, and the effectiveness of system access, manual and automated controls over expenditures/payments, policies and procedures, and grant/contractual agreements.	700
Audit of Employee Lifecycle Management A/	Review Employee Lifecycle Management processes to benchmark best practices to agency practices. Identify non-compliance to strategic operational policies and procedures including areas such as workforce planning, compensation and benefits, employee development and risk management.	720
<b><i>2018 Audits</i></b>		
Metrology Lab B/C/	Review of Metrology Lab processes and controls for compliance with applicable rules and regulations.	1,200
Credit Cards B/	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.	700
<b><i>Follow-up on Prior Audits</i></b>		
Assess the implementation status of corrective actions taken in response to prior internal and external audit findings and recommendations.		200

Audit Title	Area / Initial Objective(s)	Projected Hours
<b><i>Risk Assessment, Audit Plan and Annual Report</i></b>		
	Prepare Risk Assessment, Internal Audit Plan and Internal Audit Annual Report.	640
<b><i>Fraud Hotline Admin, Consulting Services and Special Projects</i></b>		
	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
<b><i>External Audit Coordinator</i></b>		
	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
<b><i>Total</i></b>		5,000

*A/ Addresses benefits proportionality*

*B/ Addresses Contract Management and other requirements of Senate Bill 20 (84<sup>th</sup> 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.*

Additional areas that ranked high, which were not included in the fiscal year 2018 audit plan are listed below:

1. Financial Services, Accounting and Budget
2. IT, Systems and Technical Support
3. Procurement/Purchasing

## 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 Executive 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 2017

The Internal Audit Division did not directly procure external audit services in fiscal year 2017. The Texas Department of Agriculture did procure the following audit services during the fiscal year 2017:

- Texas Department of Agriculture Annual Financial Statements
- 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, 85<sup>th</sup> 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](mailto: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.

Appendix A: *Summary of Fiscal Year 2017 Audit Recommendations Implementation Status*

Project Number	Finding / Recommendation and Management Response	Status *
<p>CDBG 16.04 Audit of the Community Development Block Grant Program Issued June 2017</p>	<p><b><u>Observation No. I.1 - There was no evidence of supervisory or peer reviews of checklists.</u></b></p> <p><i>Report Recommendation:</i> A supervisor or peer should review the checklists to ensure that they are complete and accurate as part of the review process.</p> <p><i>Management Response:</i> CDBG staff work as a team and provide peer review in a great many formal and informal ways, which may not necessarily be documented as a specific “checklist review”. For example, the compliance monitoring team provides a double-check on many items previously reviewed by contract specialists, including eligible costs, invoiced costs, number of beneficiaries, construction quantities, etc. Any changes to the grant contract are reviewed by both the Lead Contract Specialist and Director. Substantive contractual changes affecting recipients are reviewed by staff attorneys. And notices of findings are discussed with the Lead Program Monitor prior to issuing a monitoring report. In 2017, CDBG staff will include several more formal procedures to document peer reviews.</p> <p>a. All Team Leads will conduct periodic reviews of each team member, using a random sample of applications and contracts to identify the need for additional training or policy clarification.</p> <p>b. The Lead Contract Specialist and Director will confirm in CAMPS and/or Oracle for each payment that crosses a “chokepoint” (first draw, first construction draw, and identified thresholds by activity) that the information in the database indicates the community is eligible to receive the payment.</p> <p>CDBG will consider adding additional peer review opportunities if funding for additional staff is made available.</p>	<p>Incomplete / Ongoing</p>
<p>CDBG 16.04 Audit of the Community Development Block Grant Program Issued June 2017</p>	<p><b><u>Observation No. I.2 - Awards were made without requiring recipients to provide documentation demonstrating that adequate accounting systems and controls have been established.</u></b></p> <p><i>Report Recommendation:</i> TDA management should determine the minimum requirements for accounting systems and controls that should be established before CDBG awards are made.</p>	<p>Incomplete / Ongoing</p>

Project Number	Finding / Recommendation and Management Response	Status *
	<p>Recipients should be required to provide documentation demonstrating compliance with those requirements.</p> <p><i>Management Response:</i> As a condition of incorporation, all municipalities eligible for the CDBG program are required to conduct an annual audit. Similar audit/financial reporting requirements exist for counties. CDBG has relied on experts with first-hand knowledge of a community’s financial management and reporting capabilities to provide documentation of the community’s financial and administrative capacity. In some cases, a community provides a “self-audit” – an audit performed by an employee, which appears to be permitted by the Local Government Code but does not provide the assurances needed to mitigate risk to the agency.</p> <p>Beginning in 2017, CDBG will request additional documentation regarding accounting systems and controls from any new grant recipients that provided a self-audit rather than a professional audit conducted by a certified public accountant. Those that lack key controls must make arrangements to provide additional oversight for the grant and match funding prior to release of the grant contract.</p>	
<p>CDBG 16.04 Audit of the Community Development Block Grant Program Issued June 2017</p>	<p><b><u>Observation No. I.3 - Regional field operators conducted limited scope pre-award site visits to grant applicants’ locations on behalf of the CDBG program.</u></b></p> <p><i>Report Recommendation:</i> Management should consider having contract specialists, who are trained, experienced and familiar with HUD rules and regulations, conduct the pre-award site visits.</p> <p><i>Management Response:</i> The field staff provides one step of a two step pre-award process – following the limited on-site portion, the assigned contract specialist conducts a detailed conference call to review with all project team members (city/county, administrator, engineer, utility or other party) the program requirements, timelines, payment thresholds, and other relevant information. If one or more service providers have not been formally included on the team at that time, this conference call is repeated within the first four months of the contract to ensure that all parties begin with appropriate information. CDBG will consider assigning all portions of the pre-award team to program staff if funding is available, which would include funding for at least two additional contract specialists and increased travel expenses.</p>	<p>Incomplete / Ongoing</p>

Project Number	Finding / Recommendation and Management Response	Status *
<p>CDBG 16.04 Audit of the Community Development Block Grant Program Issued June 2017</p>	<p><b><u>Observation No. I.4 - Grant recipients did not maintain records of CDBG program complaints.</u></b></p> <p><i>Report Recommendation:</i> TDA’s Management should require that recipients maintain records which document the nature and resolution of the complaints.</p> <p><i>Management Response:</i> The TxCDBG Implementation Manual will be revised this summer, with the draft expected to be made public June 1, 2017. A requirement to report the nature and disposition of all complaints will be incorporated into the revision.</p>	<p>Incomplete / Ongoing</p>
<p>CDBG 16.04 Audit of the Community Development Block Grant Program Issued June 2017</p>	<p><b><u>Observation No. I.5 - Regional Review Committees (RRCs) play a very important role in the CDBG application and award process, but the committees did not have a charter.</u></b></p> <p><i>Report Recommendation:</i> TDA’s management should develop and institute a charter for the Regional Review Committees.</p> <p><i>Management Response:</i> CDBG will prepare a charter document, compiled from information currently found in the RRC Guidelines, Texas Administrative Code, and Community Development Fund Application Guide. All RRCs will adopt the charter prior to adopting scoring criteria for the 2019-2020 grant cycle.</p>	<p>Incomplete / Ongoing</p>
<p>CDBG 16.04 Audit of the Community Development Block Grant Program Issued June 2017</p>	<p><b><u>Observation No. II.1 - Monitoring of CDBG program relies heavily on self-review monitoring by recipients and may increase likelihood of irregularities and fraud.</u></b></p> <p><i>Report Recommendation:</i> TDA’s management should consider discontinuing the use of self-assessment reviews in the CDBG monitoring function given the increased potential for irregularities and fraud. A combination of risk-based on-site reviews and desk reviews should give management a higher level of assurance of compliance with the rules, regulations and grant provision as well as mitigate the risk of fraud.</p> <p><i>Management Response:</i> The self-review process has been in place for just under one year, in response to HUD monitoring findings and explicit directions to review contracts on a risk basis and not on an equitable and universal basis. We agree that the process should be adjusted to provide the agency with greater confidence. The current policy includes a complete</p>	<p>Incomplete / Ongoing</p>

Project Number	Finding / Recommendation and Management Response	Status *
	<p>monitoring of all financial records, and a thorough review of the self-review responses. Any irregularities noted during either review results in requests for additional information and or increased level of monitoring. In 2017, CDBG will re-evaluate the criteria used to determine risk level, as well as the percentage of low-risk contracts selected at random for full monitoring by desk review.</p>	
<p>CDBG 16.04 Audit of the Community Development Block Grant Program Issued June 2017</p>	<p><b><u>Observation No. II.2 - Standard operating procedures for the CDBG monitoring function have not been updated since 2011.</u></b></p> <p><i>Report Recommendation:</i> Management should update their standard operating procedures for the CDBG monitoring function.</p> <p><i>Management Response:</i> CDBG staff will review and update SOPs for all duties during 2017. Because the existing SOPs are generally accurate, this task has not taken priority over tasks directly related to LBB measures, timely payment, and timely closeout of individual contracts.</p>	<p>Incomplete / Ongoing</p>
<p>CDBG 16.04 Audit of the Community Development Block Grant Program Issued June 2017</p>	<p><b><u>Observation No. II.3.1 - CDBG program audit function had a backlog of audit certification forms (ACF) which needed to receive a full review. Furthermore, the program auditors did not verify audit firms that conducted single audits.</u></b></p> <p><i>Report Recommendation:</i> TDA management should analyze and determine whether to accept or mitigate the following risks: 1) the risk of late error identification in the audit certification form, 2) the risk of not having an up-to-date CDBG Oracle database and 3) the risk of not closing out CDBG project files in a timely manner.</p> <p><i>Management Response:</i> This “backlog” is the result of a miscommunication between staff and management under a prior agency. Staff was instructed to “prioritize” certain ACF reviews, but was not given authority to strike any ACF from the pending list. Because all ACFs receive an initial review that includes comparing reported expenditures to known drawdown of funds and questioning any discrepancies, current management was not aware of the nature and extent of the backlog.</p>	<p>Incomplete / Ongoing</p>

Project Number	Finding / Recommendation and Management Response	Status *
<p>CDBG 16.04 Audit of the Community Development Block Grant Program Issued June 2017</p>	<p><b><u>Observation No. II.3.2 - CDBG program audit function had a backlog of audit certification forms (ACF) which needed to receive a full review. Furthermore, the program auditors did not verify audit firms that conducted single audits.</u></b></p> <p><i>Report Recommendation:</i> Program auditors should implement a procedure to verify that the audit firms performing the single audits are licensed by the Texas State Board of Public Accountancy.</p> <p><i>Management Response:</i> In 2017, CDBG staff will develop a more formalized risk assessment policy, building on the existing risk assessment criteria, to identify ACFs should be reviewed within a short window; ACFs that should be reviewed if possible; and ACFs that are to be filed as “not audited” if the review is not complete within one year of receipt.</p> <p>In addition, CDBG audit staff will evaluate the best method to ensure that all single audits are prepared by licensed CPAs.</p>	<p>Incomplete / Ongoing</p>
<p>CDBG 16.04 Audit of the Community Development Block Grant Program Issued June 2017</p>	<p><b><u>Observation No. II.4 - The CDBG program does not have an engineer or construction expert on its staff to review construction plans and related technical project documents.</u></b></p> <p><i>Report Recommendation:</i> Management should consider hiring an engineer or construction specialist to verify whether CDBG funded projects have design plans and other construction documentation which demonstrates compliance with technical and legal requirements. Furthermore, management should consider whether the CDBG program should implement a program of post-construction on-site reviews to verify whether completed CDBG projects are constructed in compliance with submitted design plans.</p> <p><i>Management Response:</i> CDBG personnel are experts in grant management and compliance with federal, state, and program requirements. The program relies on third parties to serve as experts in other project related areas. Project engineers must be licensed to practice and are overseen by the Board of Professional Engineers. In addition, the Texas Commission on Environmental Quality or the Texas department of Licensing and Regulation review plans and specifications for many projects; in some instances, these agencies also</p>	<p>Incomplete / Ongoing</p>

Project Number	Finding / Recommendation and Management Response	Status *
	<p>review final construction and authorize the improvements to be placed into service.</p> <p>CDBG is willing to consider hiring engineering or construction experts in the future if funding becomes available. It is worth noting that engineering involves as much art as science, and in-house review and approval of construction brings with it a measure of liability for the agency. Therefore, this recommendation should be considered if funds are available to hire at least two such experts that can review projects both separately and together in order to provide the best guidance for the agency.</p>	
<p>CDBG 16.04 Audit of the Community Development Block Grant Program Issued June 2017</p>	<p><b><u>Observation No. III.1 - The Financial Services Division did not provide the CDBG Program with periodic budget-to-actual financial statements.</u></b></p> <p><i>Report Recommendation:</i> Management should provide periodic routine monthly and quarterly budget-to-actual financial statements for managers to plan and allocate resources within their respective departments and programs. One of the solutions may be the acquisition of accounting software capable of providing periodic budget-to-actual financial statements for management to direct their respective departments and programs.</p> <p><i>Management Response:</i> TDA program areas have access to their program specific financial information through the “USAS Reports Groups” via Pentaho (a query and reporting system). The program areas were provided this access to financial data prior to this administration, and the access has remained unchanged. The CDBG program area prepares the CDBG grant budget and is an informed party as to the actual expenditures being requested for reimbursement from the grantor. Program staff and Budget staff also work together throughout the year in addressing financial issues.</p> <p>To purchase an accounting system as recommended in the audit, would require an exception from the Comptroller’s Office as the State does not want to invest in accounting systems outside of the Centralized Accounting and Payroll/Personnel system (CAPPS). If funding is approved by the 85th Legislature, TDA will implement the CAPPS financial module effective September 2019.</p> <p>Financial Services would like to provide program areas</p>	<p>Incomplete / Ongoing</p>

Project Number	Finding / Recommendation and Management Response	Status *
	<p>additional reporting tools and has been working with the Information Technology department to develop a budget tool that will provide such reporting. There will be “canned” reports for the program areas that will have budget and monthly actual expenditures and the method of financing. The source of this data is USAS, the same as the current reporting tool. Budget staff is currently reviewing the reports for accuracy prior to setting up individuals with access to the reports. We anticipate the new reporting tool will be operational by the end of June 2017.</p>	

\* Definitions of Implementation Status as of August 31, 2017 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

# Texas Department of Agriculture Fiscal Year 2017 Internal Audit Annual Report

## Appendix B



### 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., P.C.