

Background:

The Audit Committee reviewed the TCDD FY 2012 Annual Internal Audit Report, the TCDD FY 2012 Audit Report on Monitoring of Funding Obligations and Liquidations, and the TCDD FY 2012 Peer Review Report at the Committee meeting October 8th and made accepted those reports as presented by the Auditor. State law requires these reports to be submitted to the State Auditor's Office; Governor's Office of Budget, Planning and Policy; Legislative Budget Board; and Sunset Advisory Commission by November 1st of each year. The Council will be asked to review and approve submission.

Council**Agenda Item 8.****Expected Action:**

The Council will review these reports and approve submission to the State Auditor's Office and other offices as required by state law.



**TEXAS COUNCIL FOR
DEVELOPMENTAL DISABILITIES**

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2012

Presented to
The TCDD Audit Committee
October 8, 2012 -

Prepared by
Rupert & Associates, P.C.
Certified Public Accountants
Austin, Texas -

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Attachment A:
TCDD Risk Footprint FY-13

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for your governing board. The purpose of the Annual Internal Audit Report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the annual internal audit report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the annual internal audit report for fiscal year 2012 is due November 1, 2012.

I. Internal Audit Plan for Fiscal Year 2012

The internal audit plan for the Texas Council for Developmental Disabilities (TCDD) for fiscal year 2012 was based on risks identified in the agency's risk assessment process. Based on that risk assessment, the Internal Audit plan for FY-2012 included the following activities:

Grant Funds Monitoring: Evaluate staff processes for monitoring federal funds obligations and liquidation (Advisory Project). The project was completed and a report, dated 8/31/12, was presented to TCDD's Audit Committee at their next meeting, October 8, 2012. The project report (#2012-1) will be submitted to oversight agencies after Board review and acceptance. Project Completed.

The annual internal audit plan included a provision to, as needed, consult, advise, and monitor the development and refinement of the grantee reporting database (DD Suite). Internal audit did not perform any activities related to this in FY-12.

The annual internal audit plan includes an objective to follow up on any open prior-period audit recommendations. TCDD had no open prior-period recommendations to report on in FY-12.

The advisory project on monitoring of funds would be considered a non-audit service, or consultation, by professional standards. The project report is discussed above. There were no deviations from the audit plan that was previously submitted in the fiscal year 2011 annual internal audit report.

The TCDD contracts for the provision of internal audit services. The annual budget for all internal audit activities during the year, including the advisory project, was approximately 190 hours.

II. External Quality Assurance Review

An external quality assurance review was performed in June of 2012 by David J. MacCabe, CIA, CGAP, MPA, covering TCDD internal audit activities performed by the internal audit contractor (Rupert & Associates) during the period June 2009 through May 2012. The contracted internal audit function at TCDD was found to 'fully conform' with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* including the *International Standards for the Professional Practice of Internal Auditing*, the *Definition of Internal Auditing*, and the *Code of*

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Annual Internal Audit Report (AIAR) FY-2012 -

Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (*Texas Government Code*, Chapter 2102). No significant weaknesses were identified during the review, but the following opportunity for improvement was identified:

Opportunity for Improvement – Plan Future Internal Audit Projects Evaluating Organizational Governance

The internal auditor should incorporate the evaluation of ethics and governance into future audit plans.

Internal Audit Response:

A governance project is included in the FY-13 Internal Audit Plan submitted to the Audit Committee for approval in October, 2012.

III. Consulting Engagements and Non-Audit Services Completed

In fiscal year 2012, the Internal Auditor performed one advisory project which would be considered a consulting engagement, as defined in *The International Standards for the Professional Practice of Internal Auditing*, and non-audit services, as defined in *Government Auditing Standards, December 2011 Revision* (Reissued on January 20, 2012), Sections 3.33 – 3.58. The advisory project, (Report #2012-1 - Grant Funds Monitoring), was undertaken to evaluate the current processes and controls, and to provide recommendations for improvement. The project was completed and reported on in August of 2012. The high level objectives include:

Objective A: Monitoring Process Flow - Trace the process of monitoring money from awards to liquidation, including processes for tracking the status of obligations and projects. Evaluate amounts from operations and grants that historically is returned and/or re-obligated (for estimating future budgets).

Objective B: Information and Communication – Determine the roles and responsibilities for the process flow. Identify timeline for staff communications to ensure funds are appropriately monitored and new projects are ready to move forward as needed.

The key observations and recommendations for improvements were as follows:

Key Observations

1. - TCDD has policies and procedures in place for funds monitoring that could be updated and strengthened. Processes should provide periodic updates to reports that are reviewed and acted on in a way to ensure timely final obligation and re-obligation considerations, as needed.

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2. - Communications among staff regarding the current obligations and liquidation status could be better coordinated and on a regular basis. Communications to the Council on funds status should be high-level, with details available on request.
3. - Roles and responsibilities in the monitoring process could be better defined in procedures or in functional job descriptions. Staff members are aware of their individual responsibilities, but a Team Leader function should be more clearly defined.
4. - All prior audit recommendations have been addressed by TCDD.

Significant Recommendations

Develop written procedures to ensure funds monitoring processes and control activities are understood and consistently completed. All aspects of monitoring should be included, with roles and responsibilities defined. Functional job descriptions should include position responsibilities for monitoring of funds that coincide with the procedure.

Establish a team of staff who each play a part in the monitoring of grant funds. They should share current information and monitoring reports on a regular basis. They should communicate at least monthly after activity updates to more closely monitor, evaluate, and be prepared to make budget adjustments as needed to ensure complete liquidation of federal grant funds prior to the end of the period. Team meetings at least quarterly are also recommended.

Develop a 'toolbox' of alternatives for fast-tracking final obligation and re-obligation of funds as needed. Options could include a streamlined continuance process for established, successful grantees; a queue of potential projects at a variety of funding levels on stand-by; and initiating larger, longer term projects with successful grantees.

IV. Internal Audit Plan for Fiscal Year 2013

The fiscal year 2013 Audit Plan is scheduled to be reviewed and approved at the October 2012 Texas Council for Developmental Disabilities' Audit Committee meeting. The report will be submitted to oversight agencies after review and approval by the Audit Committee.

Based on the updated risk assessment, the proposed internal audit plan for FY-2013 is:

1. - Grantee Communications: Review and evaluate the effectiveness and efficiency of TCDD communications with grantees.
2. - Governance Project: Conduct an advisory project to evaluate Board member compliance with required filings and disclosures.
3. - Follow up on prior year audit recommendations.

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The budgeted time for all internal audit activities is approximately 192 hours. A rough estimate of how these hours might translate into specific activities follows:

- Risk Assessment and Internal Audit Plan (40 hrs)
- Annual Internal Audit Report (6 hrs)
- Audit Report Tracking Schedule (4 hrs)
- Quality Assurance Review (12 hrs)
- Audit Planning, Fieldwork, and Reporting (120 hrs)
- Administration and Quality Control (6 hrs)
- Board Meetings (4 hrs)

The attached risk footprint shows all risks ranked as “high” that are not included in the fiscal year 2013 Internal Audit Plan.

The risk assessment methodology consists of an annual meeting with management to update the risk assessment footprint and control tables. Input is also solicited from the State Auditor’s Office as well as from Board members. The risk footprint is updated and used to guide the selection of specific audit areas for the current year. The risk assessment methodology is described in greater detail in the Internal Audit Plan document that is also provided to oversight agencies.

V. External Audit Services

External audit services procured in fiscal year 2012 consisted of:

- the internal audit function,
- independent CPA services for performing desk reviews on grantee audit reports, and
- the external quality assurance review of the internal audit function.

VI. Reporting Suspected Fraud and Abuse

Actions taken to implement the requirements of Article IX, Section 17.05, and Article XII, Section 5(c), the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022) include the placement of a link on the TCDD website <http://www.txddc.state.tx.us/> to connect users directly to the State Auditor’s page for reporting suspected fraud, waste, or abuse.

TCDD Policies also provide guidance for anyone wanting to report suspected fraud or abuse. Grantees are provided guidance on reporting fraud in the TCDD Grants Manual.

Report Distribution List

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Texas Council for Developmental Disabilities

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**TEXAS COUNCIL FOR -
DEVELOPMENTAL DISABILITIES -**

Advisory Project Report #2012-1

Grant Funds Monitoring

Prepared by:
Rupert & Associates, PC
Certified Public Accountants
Austin, Texas -

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Acronyms and Abbreviations

- CPA Comptroller of Public Accounts, Texas
- DSA Designated State Agency
- GAO Government Accountability Office, US
- IIA Institute of Internal Auditors, International
- OMB Office of Management & Budget, US
- OP Operating Procedures
- RAR Reimbursement for Advance or Reimbursement
- RFP Request for Proposals
- SAO State Auditor’s Office, Texas
- TAC Texas Administrative Code
- TCDD Texas Council for Developmental Disabilities
- TEA Texas Education Agency
- TGC Texas Government Code



Advisory Project Report -

August 31, 2012

Audit Committee and Council Members
The Texas Council for Developmental Disabilities

The following report provides the results and recommendations noted during the internal audit advisory project conducted in fiscal year 2012. Included in this report are the purpose, scope, results, and recommendations of the project, as well as management's responses to those recommendations.

The internal audit was conducted in accordance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* and the Texas Internal Auditing Act. We believe that our work fully supports our conclusions.

This report is distributed to and intended for the use of the Texas Council for Developmental Disabilities management and Governing Board, and the oversight agencies as identified in the Texas Internal Audit Act.

Rupert & Associates, P.C.

Certified Public Accountants
Austin, Texas

Executive Summary -

Project Purpose

The Texas Council for Developmental Disabilities' (TCDD) annual internal audit plan is risk-based, with specific audit areas and objectives determined after an annual risk assessment update is conducted by management and the internal auditor. The plan developed for TCDD for fiscal year 2012 consisted of an advisory project to identify the current processes and controls for monitoring, communicating, and reporting on the status of federal funds entrusted to the TCDD. The Report to Staff follows this summary.

Key Observations

1. - TCDD has policies and procedures in place for funds monitoring that could be updated and strengthened. Processes should provide periodic updates to reports that are reviewed and acted on in a way to ensure timely final obligation and re-obligation considerations, as needed.
2. - Communications among staff regarding the current obligations and liquidation status could be better coordinated and on a regular basis. Communications to the Council on funds status should be high-level, with details available on request.
3. - Roles and responsibilities in the monitoring process could be better defined in procedures or in functional job descriptions. Staff members are aware of their individual responsibilities, but a Team Leader function should be more clearly defined.
4. - All prior audit recommendations have been addressed by TCDD.

Significant Recommendations

Develop written procedures to ensure funds monitoring processes and control activities are understood and consistently completed. All aspects of monitoring should be included, with roles and responsibilities defined. Functional job descriptions should include position responsibilities for monitoring of funds that coincide with the procedure.

Establish a team of staff who each play a part in the monitoring of grant funds. They should share current information and monitoring reports on a regular basis. They should communicate at least monthly after activity updates to more closely monitor, evaluate, and be prepared to make budget adjustments as needed to ensure complete liquidation of federal grant funds prior to the end of the period. Team meetings at least quarterly are also recommended.

Develop a 'toolbox' of alternatives for fast-tracking final obligation and re-obligation of funds as needed. Options could include a streamlined continuance process for established, successful grantees; a queue of potential projects at a variety of funding levels on stand-by; and initiating larger, longer term projects with successful grantees.

Management Response

TCDD Management concurs with the recommendation. The TCDD Grants Management Director and Operation Director will jointly coordinate a review and update of TCDD procedures to clarify staff responsibilities to monitor obligation, re-obligation and liquidation of funds.

Report to Staff -

BACKGROUND & PURPOSE

The Texas Council for Developmental Disabilities awards the majority of its funds to grantees to promote independence, productivity, and community integration for people with disabilities. Based on the significance of federal funds to the TCDD mission, goals and objectives, inadequate monitoring of funding obligations and liquidations is a risk ranked medium impact and medium probability risk in the FY-12 TCDD risk footprint. An advisory project was initiated to evaluate the current condition of monitoring activities and make recommendations for improvements as identified.

SCOPE, METHODOLOGY, & OBJECTIVES

The scope of the advisory project was limited to an evaluation of TCDD's processes, policies, and procedures for effectiveness and efficiency.

The project methodology included interviews, questionnaires, and discussions with various personnel at TCDD as well as outside entities. Research into other entities' practices for financial and grants management was undertaken to identify best practices, resources and other tools to share with TCDD. TCDD's operating procedures related to budgeting and monitoring were used to evaluate current procedures. Criteria for funds monitoring were identified and compared to TCDD's current monitoring activities.

The objectives of the engagement were –

- A. -Monitoring Process – Identify the current process of monitoring federal funds from awards to liquidation, including processes for tracking and reporting the status of current obligations and projects to executive staff and the Council. Evaluate trends analysis and reporting capabilities. Consider ad hoc report templates for projections and historical fiscal performance reports on grantees to identify target areas for re-obligations.
- B. Information -and Communication – Determine the roles and responsibilities for the information flow. Identify timeline for staff communications to ensure funds are appropriately monitored and new projects are ready to move forward when and as needed.

RESULTS BY PROJECT OBJECTIVE -

Objective A: To identify current monitoring activities at TCDD. Evaluate processes for tracking the money from planning to awards to liquidation, including processes for monitoring the status of obligations and projects. Identify any trends analysis, various reporting capabilities, and other tools used for monitoring spending.

Results and Conclusions:

The first step in any reporting and evaluation process is the incremental addition of current data to a system of record. TCDD staff enters data from the requests for reimbursements (RAR) to each grantee's data file as the requests are received.

There are currently requirements for grantees to submit quarterly requests for reimbursements, although monthly filings are encouraged for larger grantees. Monthly RAR's, even if it's for zero reimbursement, would provide a more effective monitoring process. Criteria could be developed for determining who would be required to file monthly. Operating procedures could be strengthened to establish when expenditure issues are reported to management. Consequences could be established for noncompliance, such as potential loss of reimbursement.

Written guidance should set standards and guidelines for monitoring and re-obligating funds. Written procedures could more clearly define specific steps to be taken; roles and responsibilities for maintaining current and accurate data; frequency of reviews and communications required; decision-making responsibility, report ownership, etc. All written procedures should include control steps at appropriate levels sufficient to ensure complete, timely, and accurate reporting.

For planning purposes, it is not possible to determine an exact amount of funds that may be available on a day-to-day basis. The many variables in that equation make it necessary to be prepared at any time. The Planning Coordinator could have multiple options for a variety of projects with varying funding levels and project terms. Alternative processes for awarding funds could be considered, such as using a Notice of Intent to fund projects, or planning some larger projects that will extend out for longer time frames (up to 5 years).

A streamlined process for awarding additional funds could be developed for existing grantees with proven track records. The process could also specify limitations on how prior-year funds can be obligated or re-obligated.

Budget reports to the Council could be at a high level; details are available to members upon request. Procedures and position descriptions could include individual responsibilities for funds monitoring and reporting, including participation in the group to ensure the cooperation needed to achieve the TCDD goals and objectives.

Objective B: Information and Communication – determine the roles and responsibilities for the flow of communications on funds monitoring. Identify timelines for staff communication to ensure funds are appropriately monitored and new projects are ready to move forward when and as needed.

Results and Conclusions:

Current processes in place could be more proactive in monitoring funds. The staff involved could communicate better to ensure that alerts about funding issues are communicated early so they can be managed efficiently. The Operations Director has been designated as the team leader and is responsible for review and update of policies and procedures to effectively define team member roles and responsibilities.

The team could identify individual planning needs for and from each area. Staff could develop methods specific to their monitoring needs, including options for data analysis in various formats as appropriate. Staff communications and review of current status should be addressed on a regular basis, at least quarterly. Funding issues need to be addressed as a team, with the Operations Director acting as lead authority. The Grants Management team members should be the first line of defense, identifying potential issues during their routine monitoring activities.

For potential reobligations, Grants Management staff can bring forward the grantee performance / risk assessment tool; the Planning Coordinator can bring forward a proposed project queue; and the Budget Specialist can bring forward the most current data. A meeting should be held to review the gap and potential projects for full obligation of funds. Any splits across federal funding years, obligation or re-obligation of funds should be coordinated between the Grants Management Director and the Operations Director, with final approval by the Operations Director.

Recommendation #2012-1-01 – Written Guidance

Review and update the existing Policies and Procedures for the funds monitoring process. Policies should define principles, rules, and guidelines formulated to achieve TCDD's goals and objectives.

Procedures should provide for a coordinated internal monitoring and reporting relationship. The written guidance should define specific steps to be taken; roles and responsibilities for maintaining current and accurate data; frequency of reviews and communications required; decision-making responsibility, report ownership, etc. Written procedures should include control steps at all appropriate levels sufficient to ensure complete, timely, and accurate reporting.

Management Response 2012-1-01:

TCDD Management concurs with the recommendation. The TCDD Grants Management Director and Operation Director will jointly coordinate a review and update of TCDD procedures to clarify staff responsibilities to monitor obligation, re-obligation and liquidation of funds.

Follow-up on Prior Audit Recommendations:

All prior audit recommendations have been implemented; there are no open recommendations on which to report.

REPORT DISTRIBUTION PAGE

Texas Council for Developmental Disabilities, Audit Committee

John Morris, Chair -
Andrew Crim, Member -
Jeffery Kaufman, Member -
Scott McAvoy, Member
Mary Durham, Council Chair -

Texas Council for Developmental Disabilities

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**REPORT ON THE
EXTERNAL QUALITY ASSURANCE REVIEW
OF THE
TEXAS COUNCIL FOR DEVELOPMENTAL DISABILITIES
INTERNAL AUDIT FUNCTION**

June 27, 2012



PERFORMED BY

**David J. MacCabe, CIA, CGAP, CRMA, MPA
Internal Audit Consultant**

**Performed in accordance with the
State Agency Internal Audit Forum
Peer Review Policies and Procedures**

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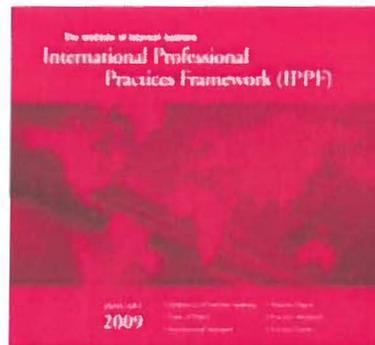
BACKGROUND

The mission of the Texas Council for Developmental Disabilities (The Council or TCDD) is to “create change so that all people with disabilities are fully included in their communities and exercise control over their own lives.”¹

The Texas Council for Developmental Disabilities (TCDD) is a 27-member board dedicated to ensuring that all Texans with developmental disabilities, over 475,000 persons, have the opportunity to be independent, productive and valued members of their communities. The TCDD awards the majority of their funds to grantees to promote independence, productivity and community integration for people with disabilities. Using a variety of methods, the Council works (1) to ensure that the service delivery system provides comprehensive services and supports that meet people's needs, are easy to access and are cost effective, and (2) to promote people's understanding of disability issues.²

Texas state government internal audit functions are required to obtain external quality assurance reviews to appraise the quality of their operations and to assess compliance based on the following requirements:

- the Institute of Internal Auditors (IIA) *International Professional Practices Framework* including the *International Standards for the Professional Practice of Internal Auditing*, the *Definition of Internal Auditing*, and the *Code of Ethics*,
- the United States Government Accountability Office (GAO) *Government Auditing Standards*, and
- the Texas Internal Auditing Act as codified in the *Texas Government Code*, Chapter 2102.



¹ TCDD web site, June 19, 2012.

² Ibid.

A periodic external quality assurance review, or peer review, of the internal audit function is an essential component of a comprehensive quality assurance and improvement program. The *Government Auditing Standards* require these external reviews be conducted at least every three years. The TCDD quality assurance review project was performed following guidelines published by the Texas State Agency Internal Audit Forum (SAIAF).

The Council initially contracted with the firm of Rupert and Associates, P. C., Certified Public Accountants, to conduct internal audit projects effective September 1, 2002 and the current contract runs through August 31, 2013 with a two-year extension option. Ms. Jaye Stepp, a certified internal auditor and a certified public accountant with the accounting firm, has the primary responsibility for planning and performing Internal Audit work. The internal auditor reports functionally to the TCDD Audit Committee and administratively to the TCDD executive director.

The most recent quality assurance review of the agency's Internal Audit function was performed in July 2009 based on SAIAF guidelines. The agency received a "fully conforms" rating in the prior review. That opinion is the highest of three possible ratings. Subsequently, the internal auditor and the agency have either implemented or addressed two recommendations made in that report.

This external quality assurance review was performed during the period June 19-21, 2012 by an Internal Audit consultant who is a certified internal auditor, previously served as a chief audit executive for over 25 years, and obtained the IIA's Certification in Internal Quality Assessment/ Validation.

OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objective of the quality assurance review was to evaluate the TCDD Internal Audit function's compliance with auditing standards and the *Texas Internal Auditing Act*. Additional objectives of the review included identifying leading practices as well as areas where improvement may be needed.

The review focused on Internal Audit work activities performed for the period June 2009 through May 2012.

The quality assurance review methodology included review and evaluation of the following elements:

- August 10, 2009 quality assurance review report,
- Self-assessment documentation prepared by the internal auditor according to SAIAF guidelines,
- Expectations of the internal audit function by Council members and TCDD executive management,

- Tools and techniques employed by the internal auditor including the Rupert & Associates *Internal Audit Procedures Manual*,
- Working papers for two audit engagements, and
- Annual risk assessment, the *FY 2012 Audit Plan*, the *FY 2011 Annual Internal Audit Report*, and other relevant documents.

The Internal Audit function is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The internal auditor is qualified, proficient, and knowledgeable in the areas she audits. 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.

Interviews were conducted during the peer review with the Council chair, Audit Committee chair, the executive director, the operations director, the grants management specialist, and the internal auditor. Interviewees were very positive and indicated that the Council and TCDD management believe the Internal Audit function helps promote accountability and the audit process adds value and helps improve TCDD operations.

OVERALL OPINION

Based on the information received and evaluated during this external quality assurance review, it is my opinion that the Texas Council for Developmental Disabilities Internal Audit function

FULLY CONFORMS

with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* including the *International Standards for the Professional Practice of Internal Auditing*, the *Definition of Internal Auditing*, and the *Code of Ethics*; the United States Government Accountability Office (GAO) *Government Auditing Standards*; and the Texas Internal Auditing Act (*Texas Government Code*, Chapter 2102).

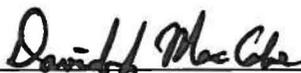
This opinion, which is the highest of three possible ratings, means that policies, procedures, and practices are in place to implement the *IIA Standards* and other requirements necessary for ensuring a professional Internal Audit activity.

The system of quality control was adequately designed and complied with during the period reviewed to assure reasonable conformance with the above-stated professional standards. Overall, it is my opinion that the internal audit function performed by Rupert & Associates, PC, adds value to the TCDD and helps improve its operations and services.

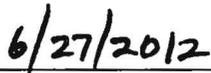
The Appendix to this report provides information on the detailed results of the review, representative comments of the Council members and TCDD management interviewed, the leading practices observed, and the report distribution.

ACKNOWLEDGEMENTS

We appreciate the courtesy and cooperation extended to us by the Council members and TCDD staff members who participated in the interview process. The feedback from the interviews and the comprehensive self-assessment provided valuable information regarding the Internal Audit function and its relationship with management and the Council members.



David J. MacCabe, CIA, CGAP, CRMA, MPA
Peer Reviewer



Date



APPENDIX

DETAILED RESULTS

The results of the quality assurance review for the TCDD Internal Audit function are presented in the order listed in the IIA's *International Standards for the Professional Practice of Internal Auditing*.

No significant weaknesses were identified during the review that would prevent the Council from fulfilling its responsibilities. The detailed results include identification of leading practices as well as some opportunities for improvement that the Internal Audit function may wish to consider.

IIA Code of Ethics

Internal Audit demonstrates its commitment to the IIA *Code of Ethics* by including it in the Rupert and Associates *Internal Audit Procedures Manual*, attending periodic ethics training classes, and practicing ethical behavior in the course of audit work. In addition, the TCDD *Conflict of Interest Disclosure Policy* provides an indication of an organization-wide commitment to accountability, integrity, and good governance.

Standard 1000: Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of Internal Audit have been defined in a charter that is generally consistent with auditing standards. The current charter was signed by the TCDD chair, the Audit Committee chair, the executive director, and the internal auditor in October 2011. The TCDD *Internal Audit Charter* defines the nature of Internal Audit services and also grants unrestricted access to agency records, property, and personnel.

Section VII. D. of the TCDD Council Policies describes Audit Committee Duties and Composition. It provides policies regarding the *Internal Audit Charter*, the Annual Audit Plan, audit reports, the solicitation process for contract internal audit services and oversight of external quality assurance reviews. The Audit Committee Charter was revised in 2009 revision and the Council considered recommendations made in the prior peer review report at that time.

Standard 1100: Independence and Objectivity

The Internal Audit function is independent both in terms of the TCDD's organizational structure and Internal Audit practices. The internal auditor continues to report functionally to the TCDD Audit Committee and administratively to the executive director. This reporting structure provides sufficient authority to promote independence and to ensure adequate consideration of audit reports and appropriate action on audit issues and recommendations.

The *Internal Audit Charter* helps ensure continued independence by specifying that the internal auditor must remain free of operational and management responsibilities that could impair her ability to make independent reviews of all areas of the agency's operations. The internal auditor is an independent contractor and has had no prior

responsibilities for any areas that the function audits. In addition, the internal auditor is required to sign the *Independence and Objectivity Statement* for each audit engagement performed.

Standard 1200: Proficiency and Due Professional Care

The internal auditor possesses the knowledge, skills, and abilities to perform assigned responsibilities. She holds four professional certifications: certified internal auditor (CIA), certified public accountant (CPA), certified government auditing professional (CGAP), and the certification in risk management assurance (CRMA). She enhances her knowledge, skills, and abilities by obtaining at least 40 hours of continuing professional education each year.

Standard 1300: Quality Assurance and Improvement Program

The internal auditor has implemented a quality assurance and improvement program to help ensure that Internal Audit adds value and improves the agency's operations and to provide assurance that the function complies with *Standards* and the IIA *Code of Ethics*.

The quality assurance program involves internal reviews by the senior partner at the accounting firm and client surveys after the completion of audit engagements. The required external peer reviews are performed on a timely basis and are communicated to the Council and to oversight agencies. Internal Audit reports state that the audit engagements are performed in accordance with the *Standards*.

Standard 2000: Managing the Internal Audit Activity

The internal auditor conducts an annual risk assessment primarily through facilitated sessions with TCDD management and staff members examining business risks and controls. Such discussion sessions form the basis for the Annual Audit Plan, which is reviewed, discussed, and approved by the Audit Committee. The internal auditor has developed appropriate policies and procedures. Internal Audit reports regularly provide information about risk and control issues within the agency.

The auditor reports the Internal Audit function's performance relative to the Annual Audit Plan in the *Annual Internal Audit Report* submitted to Council members, the TCDD executive director, the Governor's Office, the Legislative Budget Board, and the State Auditor's Office.

Three audit projects have been initiated since the June 2009 external peer review:

- Information Security Standards Audit (August 2010)
- Grantee Monitoring Audit (July 2011)
- Monitoring of Funding Obligations (underway in June 2012)

The latter engagement is an advisory or consulting project and the internal auditor has documented planning considerations for the project. Further direction on documenting non-audit services was contained in the December 2011 revision to the *Government*

Auditing Standards. The internal auditor should review these new requirements and take appropriate action.

IIA Standard 2030 requires that the internal auditor “must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.” The internal auditor should work with the Audit Committee and the executive director in periodically reviewing the Internal Audit resource commitment in conjunction with the annual risk assessment process leading to development and approval of the Annual Audit Plan.

Standard 2100: Nature of Work

Internal Audit evaluates risks related to financial and operating information as well as the effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws and regulations. The function also evaluates the extent to which operating and program objectives have been achieved.

The internal auditor also contributes to the organization’s governance, risk management and control processes by evaluating the TCDD control environment. The auditor uses Control Self-Assessment (CSA) techniques in working with management and the Council to assess risks and determine audit engagements to be conducted in the new fiscal year.

IIA Standard 2110 pertaining to governance requires “The internal audit activity must assess and make appropriate recommendations for improving the governance process.” Standard 2110A.1 further requires that “The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.”

The *Standards* further defines several objectives that the internal auditor must periodically assess and provide recommendations:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.”

Three years ago we recommended that the internal auditor should plan future projects evaluating organizational governance. However, this was not accomplished due to other audit projects considered to be higher risk areas and the limited number of hours available to conduct projects at TCDD.

Other Texas state agencies have conducted limited scope projects evaluating organizational ethics and governance over the past several years. Projects undertaken include the following:

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- Conduct an employee ethics survey;
- Review employee and Board member filing of required declarations regarding awareness of the *Conflicts of Interest Disclosure Policy* and related policies;
- Review Board member compliance with the filing requirements of the Texas Ethics Commission; and
- Assist in designing and/or delivering ethics training sessions for staff and Board members.

One possible approach to meeting this *Standards* requirement at TCDD could be to survey the Council members for their viewpoints and suggestions on the current governance structure as it pertains to understanding topics such as:

- oversight responsibilities,
- risk management and internal controls
- grants management and monitoring
- State of Texas, Texas Education Agency, and TCDD ethics requirements
- internal audit reports
- Council committee functions
- meeting processes and procedures
- educational topics needed
- other topics suggested by Council members, and
- opportunities for improvement suggested by Council members.

Opportunity for Improvement – Plan Future Internal Audit Projects Evaluating Organizational Governance

The internal auditor should incorporate the evaluation of ethics and governance into future audit plans.

Internal Audit Response:

The internal auditor concurs with the recommendation and will work to include a governance project in the internal audit plan within the next peer review cycle.

Standard 2200: Engagement Planning

During planning, the internal auditor considers the objectives of the activity being reviewed and the related risks and controls. Resources needed for each audit are adequately considered during planning.

Project risk assessments are used to develop the objectives of each audit engagement. Interviews conducted during this quality assurance review indicated that the objectives of audits are clearly communicated with business partners. An audit program is developed and documented for each audit engagement. The scope of audits is well planned and documented in planning documents and audit reports.

Standard 2300: Performing the Engagement

The internal auditor evaluates and documents sufficient, reliable, and relevant information to achieve the audit engagement objectives. Results and conclusions are based on well-reasoned analysis. The Rupert & Associates *Internal Audit Procedures Manual* contains excellent guidance on the planning, field work, working papers, reporting, and wrap-up phases of an audit project.

Audits are planned and conducted by the internal auditor and audit work is overseen by the senior partner at Rupert & Associates, PC. The internal auditor conducts planning activities, prepares appropriate control documents, and summarizes the interviews, observations, and record reviews in the working papers to ensure the sufficiency of evidence and compliance with *Standards*.

Standard 2400: Communicating Results

Audit results are communicated in a timely manner. Potential findings are communicated thus providing management the opportunity to provide additional information and to develop and implement an action plan addressing the concerns. Draft audit results are appropriately coordinated with TCDD management before they are finalized in a final report ensuring there is understanding and agreement about the areas for improvement and the recommended solutions.

Audit reports contain the audit objectives, results, conclusions, recommendations, and management's responses and action plans. Interviews conducted with management by the peer reviewer indicated that Internal Audit reports are accurate, objective, clear, concise, and understandable. The internal auditor distributes reports to the Audit Committee, to the executive director, and to other appropriate parties. In addition, Internal Audit reports are shared with oversight agencies after review at an Audit Committee meeting.

Standard 2500: Monitoring Progress

The status of management's progress in implementing audit recommendations is updated periodically, made available to the executive director and other appropriate TCDD employees and is reported to the Audit Committee.

Standard 2600: Management's Acceptance of Risk

During the quality assurance review, no instances were identified of management accepting an inappropriate level of risk that would require the internal auditor to notify the Audit Committee.

COUNCIL MEMBER AND EXECUTIVE MANAGEMENT COMMENTS

The Council Chair, the Audit Committee Chair, the executive director, and two managers interviewed were very complimentary of the internal audit services provided by Rupert and Associates through Ms. Jaye Stepp, the internal auditor. The following are representative comments from the persons interviewed:

“Jaye is always available, works within timeframes, and is sensitive to other people’s work. She takes the job seriously and stays up-to-date with auditing standards.”

“Jaye is very professional and easy to work with. She makes the audit process easy and comfortable.”

“Occasionally better communication would be helpful such as providing a timeline for DD staff. That works both ways and we could do better, too.”

”We could benefit from conversations earlier in the fiscal year regarding the timing of audit projects and periodic updates on audit projects.”

“She provides feedback with good suggestions on improvement.”

“There are occasional concerns about bumping up against deadline dates.”

“The annual risk assessment process causes us to always look at things differently and that is healthy for the organization. The beauty of the process is that we have an important discussion that led to an ‘aha moment’ and something new surfaces.”

“Various concerns and inputs are favorably considered and we reach a joint comfort level on action needed.”

“Jaye is knowledgeable about what she does and if something is not clear she will check, confirm, and provide the answer.”



LEADING PRACTICES OBSERVED

The Internal Audit function is dedicated to providing professional service to the Council and TCDD management and staff. During the quality assurance review, we observed a number of practices that demonstrate outstanding commitment and professionalism. These leading practices include the following:

- The internal auditor provides significant value to the Council in the limited annual time allocation of approximately 200 project hours. Each year the internal auditor produces the annual risk assessment, the proposed Audit Plan, one or more assurance or consulting engagements, and the required *Internal Audit Annual Report*. That is remarkable productivity that other state agencies would do well to emulate.
- The internal auditor has continued to assist the Council and the management and staff in analyzing and evaluating risk management, and control issues and concerns.
- Internal Audit details the audit engagement planning process in a comprehensive manner to include the identification of potential risks, testing methodology, preliminary interviews, and audit objectives and scope.
- The Rupert & Associates *Internal Audit Procedures Manual*, an excellent guide, ensures conformance with *Standards* and results in consistent audit practices.
- The Internal Auditor is professional and proficient. She is a certified internal auditor, certified public accountant, certified government auditing professional, and holds the certification in risk management assurance. Managers stated in interviews that the Internal Auditor is a trusted advisor who understands the agency mission.
- The internal auditor has obtained more than the mandated 80 hours of continuing professional education for a two-year period provided by local professional auditing organizations including the State Auditor's Office (SAO), the Institute of Internal Auditors, the Texas Society of Certified Public Accountants (TSCPA), and The IIA.

REPORT DISTRIBUTION

Ms. Mary Durham, Chair, Texas Council for Developmental Disabilities

Mr. John C. Morris, Chair, Audit Committee

Mr. Roger A. Webb, Executive Director

Ms. Martha Cantu, Operations Director

Ms. Jaye Stepp, CIA, CPA, CGAP, CRMA, Internal Auditor (Rupert & Associates, PC)



TEXAS COUNCIL *for*
DEVELOPMENTAL
DISABILITIES



Texas Council for Developmental Disabilities Internal Audit Function



**Fully Conforms with the Institute of Internal Auditors
International Professional Practices Framework,
*Government Auditing Standards, and the Texas Internal Auditing Act.***

This opinion is based on an external quality assurance review conducted during June 19-21, 2012. The review was based on the methodology and procedures developed by the Texas State Agency Internal Audit Forum.



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