

**Background:**

The Audit Committee has reviewed the proposed TCDD Internal Audit Plan for FY 2011 at the Committee meeting October 18<sup>th</sup>. The plan proposed by the Council’s internal auditor focuses on a review of certain grantee monitoring activities. TCDD Policies also authorize the Audit Committee to approve submittal of this report on behalf of the Council to the State Auditor’s Office, Governor’s Office of Budget, Planning and Policy, Legislative Budget Board and Sunset Advisory Commission prior to November 1<sup>st</sup> as required. The Audit Plan as approved by the Committee is included in materials. Should the Council choose to make revisions a revised Plan can be submitted.

**Council Meeting**

**Agenda Item 10.**

**Expected Action:**

The Council will review, revise as appropriate, and approve the FY 2011 Internal Audit Plan.



# **TEXAS COUNCIL FOR DEVELOPMENTAL DISABILITIES**

## **INTERNAL AUDIT PLAN**

**Fiscal Year 2011**

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**RUPERT & ASSOCIATES**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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September 21, 2010

Members of the Council,  
Texas Council for Developmental Disabilities (TCDD)

The following document presents the proposed fiscal year 2011 Internal Audit Plan for your review and approval, in accordance with the Texas Internal Auditing Act.

Chapter 2102 of the Government Code requires that the internal audit plan be risk-based and include areas identified through a risk assessment process. This document presents the risk assessment results, the proposed audit plan, and a summary of the internal audits performed in prior years at TCDD.

The FY 2011 Internal Audit Plan that follows is submitted for your approval.

Respectfully,

*Rupert & Associates, PC*

Certified Public Accountants  
Austin, Texas

## **Section 1: RISK ASSESSMENT**

This section presents the update of the Texas Council for Developmental Disabilities (TCDD) Risk Assessment for FY 2011, and establishes the foundation for the Internal Audit Plan presented in the next section.

TCDD continues to refine Grants Administration procedures for monitoring grantee performance, and TCDD staff also continues to participate in the design and development of the DD Suite – an electronic grantee reporting database – in conjunction with DD Councils from other states.

The risk assessment update process was performed by TCDD management and facilitated by the internal auditor in September of 2010. Management continues to exhibit a commitment to improving operational efficiencies and performance, including their voluntary participation in and responsiveness to the internal audit function.

### Purpose

The TCDD risk assessment provides management and board members with a prioritized list of risks associated with their activities. From these risks, a management strategy is developed. The risk assessment allows the Board to identify the risks being monitored by management and evaluate the effectiveness of controls and responses to those risks.

### Concepts of Risk

Risk is defined as the level of exposure to uncertainties that an agency must comprehend and manage to effectively and efficiently achieve its objectives and execute its strategies. Risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Controls are anything that improves the likelihood that goals and objectives will be achieved.

### Methodology

The Texas Council for Developmental Disabilities' risk assessment process includes three parts: (1) identifying agency activities; (2) identifying and rating risks for each activity; and (3) identifying actions to mitigate risks. The risk assessment update contemplates additional risks to be added and also considers additional controls put in place. The risk assessment update is used to determine the highest risk areas for the current year's audit plan.

## Risk Footprint

The attached risk assessment footprint reflects the prioritized risks as identified and ranked in the current year's risk assessment update. Each risk identified in the matrix is assigned two risk factors of High, Medium, or Low based on the impact the risk would have on the agency if it occurred and the probability of occurrence. By combining these measures the agency develops a priority ranking for each risk factor. The following key provides the level of risk management that will be employed by the agency for each potential risk factor ranking:

- HH, HM – Extensive Risk Management that includes monitoring by management and an internal audit.
- HL, MH – Considerable Risk Management that includes monitoring by management and a less in depth audit.
- MM, ML, LH – Manage and monitor the risk
- LM, LL – Monitor or accept the risk

## Results

The results of the risk assessment shown in Exhibit 1 illustrate changes in the prioritization and organization of consolidated activities and risk factor priorities based on the current year's update. The highest-risk areas are marked in red and, as in the prior year, relate to activities in Grant Administration, Executive and Administrative functions, and the Public Policy and Information area.

Risks in the red area require oversight controls to ensure that the supervisory and operating controls are working. Oversight controls can include exception reports, status reports, analytical reviews, variance analysis, etc. These controls are performed by representatives of executive management, on information provided by supervisory management. Areas within this highest risk category should also be considered for inclusion in the internal audit plan.

Activities that fall within the yellow risk category require considerable risk management. Under this category of risk executive management or their designees should perform oversight controls to ensure that supervisory and monitoring controls are working. If internal audit provides services in this area, it is to ensure that oversight of the supervisory controls are appropriate and are being performed.

The last two categories of risk are marked in green and gray. Risks falling within the green areas rely on department managers to provide oversight by ensuring that supervisory controls and operating controls are working. Department managers should report to the Executive Director on the condition of these risks. Risks in the gray area are low risk areas that are managed by operating and supervisory controls and executive management accepts the residual risk in these areas.

## **Section 2: FY 2011 INTERNAL AUDIT PLAN**

The Texas Internal Auditing Act requires certain audits to be performed on a periodic basis. Required audits include audits of the department's accounting systems and controls, administrative systems and controls, electronic data processing systems and controls, and other major systems and controls.

The *International Standards for the Professional Practice of Internal Auditing* requires the internal audit activity to evaluate the effectiveness and contribute to the improvement of risk management processes. The internal audit activity must evaluate risk exposures, including the potential for the occurrence of fraud and how it is managed. The auditor assists the organization in maintaining effective controls by evaluating the effectiveness and efficiency of the risk management process and by promoting continuous improvement. Specifically, the internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization's governance, operations, and information systems regarding the:

- Reliability and integrity of financial and operational information,
- Effectiveness and efficiency of operations,
- Safeguarding of assets, and
- Compliance with laws, regulations, and contracts.

Internal auditors are required to ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished.

Based on the updated risk assessment, the proposed internal audit focus for FY-2011 is:

1. Grantee Monitoring: Review and evaluate current grantee monitoring procedures and controls. As needed, consult, advise, and monitor the development and refinement of the grantee reporting database (DD Suite).
2. Follow up on prior year audit recommendations.

Alternative audit areas are proposed in the event that circumstances prevent the implementation of the planned audit, or if additional resources are available for more audit work. An alternative audit area proposed is IT security over social media sites.

**Section 3:  
HISTORY OF  
INTERNAL AUDITS AT TCDD**

2010	Information Security TAC 202
2009	Contract Administration and Management Quality Assurance Review
2008	Grantee Audit Desk Review Process Internal Controls over Financial Reporting to Council Grantee Records Management Process (database and hard copy files)
2007	Grantee Monitoring: Onsite Review Process Internal Administrative Operating Procedures Grantee Reporting Database Development (DD Suite)
2006	Control Environment Evaluation Grantee Expenditure Monitoring Public Policy Processes and Controls Administrative Policies and Procedures
2005	Grantee Risk Assessment Model Evaluation Master Grantee Records Maintenance Process Fraud Prevention and Reduction Policy Administrative & Project Development Procedures
2004	Follow-up on MATRS Review Findings Grantee Risk Assessment Model Development Electronic Grants Manual Review
2003	Grants Manual Compliance Review TRC Performance Audit Review
2002	Grants Administration

# RISK ASSESSMENT FOOTPRINT - Texas Council for Developmental Disabilities

ACTIVITY/PRIORITY	IMPACT RATING		RISKS	IMPACT RATING		RISKS	IMPACT RATING		RISKS	IMPACT RATING		RISKS	IMPACT RATING		RISKS	IMPACT RATING		RISKS	IMPACT RATING		RISKS				
CONSOLIDATED ACTIVITY			1			2			3			4			5			6			7			8	
5 Grant Administration	H	M	Insufficient monitoring of grant expenditures	H	L	Providing inadequate or inappropriate guidance to grantees	H	L	Non-compliance with federal or state regulations (OMB or UGMS)	H	L	Inappropriate use of federal funds													
1 Executive and Administrative	H	M	Violation of state and/or federal rules	M	M	Inadequate monitoring of funding obligations and liquidations	M	M	Inadequate monitoring of fiscal reporting system	M	L	Insufficient succession planning for executive management	L	L	Ineffective governance functions										
4 Public Policy and Information	H	M	Violation of state or federal rules	M	L	Inaccurate interpretations provided to constituents	M	M	Negatively impact relationships with policy makers	M	M	Social networking - lack of control over mis-information													
6 Information Technology	H	L	Unauthorized access to data set	H	L	Loss of data / data integrity	M	M	DD Suite implementation	M	L	Unauthorized access to websites	L	M	Increased vulnerability related to social networking										
2 Planning, Evaluating and Reporting	M	L	Non-compliance with federal requirements	M	L	Poorly planned	M	M	Negatively impact relationships	L	M	Documentation processes are insufficient for reporting requirements													
3 Project Development	M	M	Non-compliance with approved procedures	M	L	Poorly planned																			
9 Designated State Agency (DSA) Operational Relationship	M	L	DSA / Council Separation of Authority	L	L	Fair reimbursement for DSA support	L	L	Inaccurate accounting information reported to State and/or Federal Government	L	L	Inadequate or inappropriate guidance from DSA													
7 Council Support	M	L	Non-compliance with state and federal requirements	M	L	Non-compliance with Council policies and procedures	M	L	Insufficient logistical support																
8 DSA Administrative Support: Finance & Accounting, Human Resources, Purchasing	M	L	Inadequate Contract Administration & Management	M	L	Hiring unqualified employees; inadequately addressing employee performance / productivity	M	L	Non-compliance with current HR policies & reporting requirements	L	L	Overspend or under spend budget	L	L	Inaccurate reports to management and board	L	L	Improper / unauthorized procurements	L	L	Lack of segregation of duties	L	L	Property Mgmt: Loss of Assets	

**Report Distribution Page**

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Andrew Crim, Member  
Marcia Dwyer, Member  
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