

*An Annual Report of the*  
**Office of the Attorney General  
Internal Audit Division**

**Fiscal Year 2015**



**Office of the Attorney General  
State of Texas**

November 2015

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# **Section I**

## **Introduction and Compliance with Texas Government Code Section 2102.015**

**Office of the Attorney General**  
**Internal Audit Division's Annual Report for Fiscal Year 2015**

This report is submitted in accordance with the requirements of Government Code, Chapter 2102 (Texas Internal Auditing Act). The report includes information on Internal Audit activities of the Office of the Attorney General's Internal Audit Division that occurred or was performed during Fiscal Year 2015.

**I. Compliance with Texas Government Code, Section 2102.015**

The Office of Attorney General Internal Audit Division complies with Texas Government Code, Section 2102.015 by posting the Internal Audit Plan, Internal Audit Annual Report, and other audit applicable information on the agency's Internet website within 30 days from the date approved by the First Assistant Attorney General. Documents that require posting by Texas Government Code, Section 2102.015 are submitted to the Office of the Attorney General's Public Information Officer for review in relation to matters that should be excepted from public disclosure under Chapter 552 of the Texas Government Code prior to posting on the Internet. In addition, prior to posting, review of the document is performed by agency management within the General Counsel and Communications Divisions, and other designated Executive Management including the First Assistant Attorney General.

In addition to annual and periodic reporting compliance, a summary of audit activities conducted to help ensure efficiency of operations and risk mitigation is located in Attachment A.

## **Section II**

### **Status of Internal Audit Plan for Fiscal Year 2015**

## II. Status of Internal Audit Plan for Fiscal Year 2015

The table below provides information regarding the status of Fiscal Year 2015 Internal Audit Plan audits or activities.

<u>Auditable Unit or Project Title</u> Status Update	Audit Phase	Internal Audit Project Number
Administration – Property and Asset Management – Phase I	Complete	P15-08-A
As part of the transition process to the new 2015 Agency Administration and to provide assurance over the existence and completeness of capitalized and controlled assets, the Internal Audit Division performed a non-audit engagement of the Office of the Attorney General’s (OAG) inventory management controls. Phase I engagement results: Controls appear to be working as intended by the Property Management Section of the OAG’s Contract and Assessment Management Division.		
Administration – Property and Asset Management – Phase II	Complete	P15-08-B
Phase II of the non-audit engagement was conducted to offer recommendations for management’s consideration that would ensure the efficiency and continued effectiveness of the inventory management processes and systems.		
E-Leave Post Implementation Review	Planning Phase	P15-12
The E-Leave Post implementation Review was previously deferred to ensure that sufficient data exists to determine if the system controls are functioning as designed related to leave entry, approval, etc. During fiscal year 2015, Internal Audit obtained information necessary to assess the status of any post implementation updates. Information obtained is being considered or included in the latest annual risk assessment. Based on preliminary planning results the auditable area will be included for consideration as an auditable/consulting engagement area on the Fiscal Year 2016 Audit Plan.		
Enterprise Wide Business Continuity Plan	N/A – Audit Deferred	N/A
Enterprise Wide Business Continuity is an area that requires continuous assessment and update. The Agency is currently reviewing and updating the business continuity plan. In line with approved technical assistance or consulting activities, Internal Audit will continue to offer feedback for management’s consideration related to key elements of the business continuity plan.		
Enterprise Wide Performance Management and Accountability	Annual Risk Assessment Activity	P15-06
This area was incorporated into the annual risk assessment activity. Office of the Attorney General performance targets and goals noted within the General Appropriations Act were documented and are being discussed with applicable OAG personnel as part of the risk assessment process. The discussions include the identification of procedures that applicable divisions have in place to monitor achievement and reporting of performance targets and goals.		

<u>Auditable Unit or Project Title</u> Status Update	Audit Phase	Internal Audit Project Number
Child Support BMI/Planning and Project Management Office	In Final Audit Phase (Reporting)	P15-09
Preliminary observations and recommendations have been conveyed to Section Management.		
Child Support Field Operations – Field Legal Practice (License Suspension and Renewal Policy)	Annual Risk Assessment Activity	P15-06
During 2015, the Internal Audit Division obtained an overview of the License Suspension and Renewal Policy process. This area is being reevaluated in the current FY 2016 risk assessment and will be risk ranked according to residual risk (remaining risks after existing controls are considered).		
Child Support Division Network Services	In Final Audit Phase (Reporting)	P15-11
The primary objective of the project is to evaluate whether the existing Network Services Wide Area Network (WAN) Change Management Policy and Procedures are adequate and working as designed.		

#### Prior Audit Follow-up

<u>Auditable Unit - Status Update</u> <u>Prior Audit Follow-ups</u>	Audit Phase	Date Released
Prior Audit Follow-up Activities	Status Update Complete	11/1/15
<p>The implementation status of recommendations offered in the following audits was obtained during 2015 and is recorded in <b>Attachment A</b>.</p> <ul style="list-style-type: none"> <li>▪ State Disbursement Unit (SDU) TXCSES Profiles Management Audit</li> <li>▪ Texas Debit Card Audit</li> <li>▪ Decentralized Information Technology Systems Audit</li> <li>▪ Seized and Forfeited Funds Audit</li> <li>▪ Law Enforcement Defense Division Timekeeping and Travel Audit</li> </ul>		

## Carry-Forward Projects

<b><u>Auditable Unit or Project Title</u></b> <b>Status Update – Carry-Forward Projects</b>	<b>Audit Phase</b>	<b>Date Released</b>
Contract Compliance Review (Project P14-08)	In Final Audit Phase (Reporting)	N/A
During 2015, observations and recommendations were communicated to applicable Operational and Executive Management personnel for their action and/or as part of the risk awareness update protocol. Finalization of the reporting protocol is in progress.		
Child Support Division – Field Operations Case Processing Controls (Report 13-14)	Complete	10/2/15
Child Support Division - Transactional Attorney Section (Legal Counsel Review – Report 14-10)	Complete	10/10/14
Child Support Division - Follow-up of the Information Technology (IT) Contract Management (Report 14-11)	Complete	8/5/15
Evaluation of the Effectiveness of the Agency’s Fraud Waste and Abuse Prevention Program (Report 14-09)	Complete	5/22/15
Texas Administrative Code Review – TAC Title 1 Part 10 Chapter 202 Subchapter B (IT Governance Component – Project 14-106)	In Final Audit Phase (Reporting)	N/A
During 2015, observations and recommendations were communicated to applicable Information Security and Executive Management personnel to ensure clarity of observations, feasibility of recommendations and risk awareness. Finalization of the reporting protocol is in progress.		

## **Section III**

### **Consulting Engagements and Non-Audit Services**

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

The following table below provides a description of approved consulting engagements and non-audit services performed during fiscal year 2015.

Non-Audit Service Project Title/ Summary Description	FY 2015 - Project Number	FY 2016 Activity
Texas Child Support Enforcement System (TXCSES) 2.0 Consulting	P15-100	Submitted for Renewal as an Approved Audit Activity
TXCSES 2.0 is an ongoing consulting engagement that will occur until the system is fully implemented. This consulting engagement provides advisory services to Child Support Division management during system design, development, and implementation.		
Crime Victims' Compensation System Development – Phase II Consulting	P15-101	Submitted for Renewal as an Approved Audit Activity
Internal Audit provided feedback to Crime Victims Compensation (CVC) management for their consideration in the assessment of the adequacy of system designed mainframe controls for phase two of the CVC system development project.		
Legacy System Replacement Consulting - Procurement System	P15-102	None (System Implemented)
Internal Audit provided feedback to the Procurement Management related to best practices or possible processing controls, system audit documentation, separation of duties, as well as Texas Administrative Code requirements for business owner responsibilities and system controls.		
Legacy System Replacement Consulting - Legal Case Management System Redesign Project ( <i>Activity covered in enterprise-wide technology assistance project number</i> )	P15-103	Submitted for Renewal as an Approved Audit Activity
During 2015, the legacy system project (Legal Case Management System) project (Phase I) was in various stages of the development life cycle including user testing and implementation. Project development meetings are held on a weekly basis. As applicable, Internal Audit provided feedback to project management for their consideration regarding potential system controls or system needs communicated to audit staff during other audit activities or reviews.		
Agency Work Groups (Information Protection – AS15-12 and Accessibility – AS 15-13)	Audit Support (AS) Activity	Submitted for Renewal as an Approved Audit Activity
The noted agency work groups meet on a periodic basis, as applicable Internal Audit will convey information for management's consideration. Generally information conveyed for management's consideration relates to compliance with laws and regulations, risk identification, and potential risk mitigation measures. Internal Audit has an advisory role in the Agency work groups.		
Financial Reconciliation Risk Analysis (Overview of the Process) – included in P15-06 project activity	Annual Risk Assessment Activity (Complete)	Related Coverage Anticipated in FY 2016

Non-Audit Service Project Title/ Summary Description	FY 2015 - Project Number	FY 2016 Activity
<p>As part of the annual risk assessment process, Internal Audit obtained an overview of a component of the reconciliation process. The reconciliation process related to Child Support collection and distribution processes involves vendor and Agency processes. During 2015, a new vendor award occurred for the Child Support State Disbursement Unit. Internal Audit will propose the allocation of available audit hours to gain an understanding of modifications to vendor required processes during fiscal year 2016.</p>		

## **Section IV**

### **External Quality Assurance Review**

#### **(Peer Review)**

#### **IV. External Quality Assurance Review**

In compliance with International Professional Practices Framework (IPPF - red book) and Governmental Auditing Standards, an External Quality Assurance Review was performed and dated November 2014.

**No significant weaknesses were identified during the review that would prevent the Division from fulfilling its responsibilities.** The review's overall conclusion is provided on the following page.

During the period assessed, the Internal Audit Division was transitioning to a new audit director and recommendations were offered for management's consideration as the internal audit function moves forward under the current leadership. A summary of recommendations offered are as follows:

- Formalization of the standing annual meeting with the agency head;
- Consideration of the incorporation of an information systems assessment step within the automated audit project template to ensure transparency of an existing procedure.
- Implementation of measures to ensure transparent/consistent evidence of automated work paper sign-off of review; and
- Development and implementation of project checkpoints to provide assurance of continued compliance with auditing standards related to communicating results.

#### **Actions Taken by Internal Audit**

The Internal Audit Division has taken action during Fiscal Year 2015 to address the four recommendations offered by the peer review team. Examples of actions taken are as follows:

- The standing annual meeting that was established during previous administrations was completed by the current audit director in 2014 and will continue in future fiscal years.
- Standard Automated Audit Template was reviewed and updated as deemed appropriate. Periodic review of the template will be performed as part of the quality assurance process. Updates or enhancements will be implemented as deemed necessary by Internal Audit.
- Internal Audit's workflow and audit documentation software tool was upgraded in 2014 and 2015 as an action to help eliminate or reduce known software issues that impacted the transparency/consistency in work paper review sign-off.
- As part of the Internal Audit Division's continuous quality assurance process, established internal performance measures are reviewed for feasibility of achievement by current audit management and personnel.

The Internal Audit Division will continue to demonstrate its commitment to the IIA Code of Ethics and fulfillment of responsibilities as defined within the Internal Audit Charter.

# External Quality Assurance Review

## OVERALL OPINION

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Office of the Attorney General Internal Audit Division receives a rating of *pass with deficiencies* and is overall in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Audit Act (*Texas Government Code*, Chapter 2102).

This opinion, which is one of the three possible ratings, *pass*, *pass with deficiencies*, and *fail*. *Pass with deficiencies* means that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of certain deficiencies that are described in the report on pages six through nine.

The Internal Audit Division is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The Internal Audit Division staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are generally supported in the working papers; and findings and recommendations are communicated clearly and concisely. No significant weaknesses were identified during the review that would prevent the Division from fulfilling its responsibilities.

Numerous interviews conducted during the quality assurance review indicate that agency management considers Internal Audit a useful part of agency operations and finds that the audit process and report recommendations add value and help improve operations.

## ACKNOWLEDGEMENTS

We would like to extend our appreciation for the courtesy and cooperation extended to us by the Director of Internal Audit, Internal Audit Division staff, the First Assistant Attorney General, executive management, and a number of managers who participated in the interview process.

<u>Jan Engler</u>	<u>11/25/14</u>	<u>Lissette Nadal-Hogan</u>	<u>11/25/14</u>
Jan Engler	Date	Lissette Nadal-Hogan	Date
Audit Manager		Chief Audit Executive	
Teacher Retirement System of Texas		Department of Information Resources	
SAIAF Peer Review Team Leader		SAIAF Peer Review Team Member	

<u>John Spann</u>	<u>11/25/14</u>
John Spann	Date
Senior Auditor	
Department of Assistive and Rehabilitative Services	
SAIAF Peer Review Team Member	

## **Section V**

### **Internal Audit Plan for Fiscal Year 2016**

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## **Internal Audit Plan for Fiscal Year 2016**

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The annual audit plan is a guide that is developed for the effective utilization of the division's resources during the fiscal year in order to address the risks of the Office of the Attorney General (OAG). Audit activities included in the annual audit plan are those areas that represent risk to the agency based on the agency-wide annual risk assessment.

Internal Audit is currently capturing and analyzing the impact of recent organizational changes and new legislation on the Agency's operational environment. Analysis of these factors will help ensure that the risk assessment process appropriately reflects known risk factors and current Agency risk mitigation measures. In addition, this information will help ensure that planned and approved audit activities address known key operating risks. The Internal Audit Division experienced vacancies during calendar year 2015 (e.g., retirements or normal work force attrition). Considering the impact of current vacancies on risk assessment and plan development activities, the Internal Audit Division's current goal is to submit the FY 2016 Audit Plan at the beginning of the second quarter of FY 2016.

Internal audit activities planned for the first quarter of FY 2016 were presented to Executive Management during September 2015.

## **Section VI**

### **External Audit Services Procured in Fiscal Year 2015**

## **VI. External Audit Services Procured in Fiscal Year 2015**

During Fiscal Year 2015 there were no audit services procured that required approval from the State Auditor's Office in accordance with Texas Government Code, Section 321.020.

## **Section VII**

### **Reporting Suspected Fraud and Abuse**

## **VII. Reporting Suspected Fraud and Abuse**

In accordance with requirements of Section 7.09, page IX-37, the General Appropriations Act (84<sup>th</sup> Legislature, Conference Committee Report), the Office of the Attorney General (OAG) of Texas provides instructions on its public website for reporting Fraud Waste and Abuse to the State Auditor's hotline and to the OAG.

In addition to information located on the public website, Fraud, Waste, and Abuse Policies and Procedures are posted on the OAG's Intranet for all employees to reference. The agency's Fraud, Waste, and Abuse Prevention Program requires all employees to take Fraud, Waste, and Abuse Prevention Program training within 30 days of initial employment and every two years thereafter. Furthermore, an appointed ethics advisor is available for employees to consult.

In relation to Texas Government Code, Section 321.022, Coordination of Investigations, when the State Auditor's Office receives a complaint and refers that complaint to the Internal Audit Division, the Chief Audit Executive coordinates the investigation with the appropriate divisions within the OAG.

## **Section VIII**

### **Annual Report Distribution**

## **VIII. Annual Report Distribution**

*This report is forwarded via email to the following oversight agencies:*

*Governor's Office of Budget, Planning, and Policy – [budgetandpolicyreports@gov.texas.gov](mailto:budgetandpolicyreports@gov.texas.gov)*

*State Auditor's Office – [iacordinator@sao.state.tx.us](mailto:iacordinator@sao.state.tx.us)Legislative*

*Legislative Budget Board – [Ed.Osner@lbb.state.tx.us](mailto:Ed.Osner@lbb.state.tx.us)*

*Sunset Advisory Commission – [sunset@sunset.state.tx.us](mailto:sunset@sunset.state.tx.us)*

# **Attachment A**

## **Compliance with Texas Government Code 2102.015**

*Summary of  
Recommendations,  
Management Responses, and  
Implementation Statuses*

**Attachment A – Compliance with Texas Government Code, Section 2102.015**

A summary of audit activities conducted to help ensure efficiency of operations and risk mitigation is located in the following table.

<p align="center"><b>Summary of Audit Activities – Reported in 2015</b>  <b>(Recommendations, Management Responses, and Implementation Statuses)</b></p>			
<b>Title (Prior Audit Report Number)</b>	<b>Recommendations</b>	<b>Management Response</b>	<b>Progress Toward Implementation</b>
<p><i>Status of the following prior audit recommendations are reflected within this annual report for submittal to applicable oversight entities and in compliance with Texas Government Code 2102.015.</i></p>			
<p>Follow-up on Decentralized IT Systems (Report 11-11)</p>	<p>Four recommendations were offered as a result of this review.</p>	<p>Management responses in the original report reflect agreement with observations and denote planned actions to implement recommendations.</p>	<p>The Office of the Attorney General has taken action to address the recommendations. Three recommendations are fully implemented and one is partially implemented. The estimated completion month for the partially implemented recommendation is September 2016.</p>
<p>Follow-up of the State Disbursement Unit Texas Child Support Enforcement System (TXCSES) Profiles Management Audit (Report 12-11)</p>	<p>Six recommendations were offered to improve various aspects of State Disbursement Unit profile management and/or operational controls.</p>	<p>Management responses in the original report reflect proposed implementation action plans.</p>	<p>The Office of the Attorney General (Agency) has taken action to ensure that recommendations are considered in the development of system reporting features in TXCSES 2.0.</p> <p>Existing contract requirements and the applicable request for proposal for renewal of Child Support State Disbursement Unit (SDU) services were reviewed by applicable Operational Management and updated as deemed appropriate by management to address observations noted in audit recommendations.</p> <p>A new Child Support State Disbursement Unit vendor was awarded in 2015. During fiscal year 2016, Internal Audit will obtain an overview of measures taken by designated OAG personnel to ensure internal and external</p>

**Summary of Audit Activities – Reported in 2015  
(Recommendations, Management Responses, and Implementation Statuses)**

<b>Title (Prior Audit Report Number)</b>	<b>Recommendations</b>	<b>Management Response</b>	<b>Progress Toward Implementation</b>
			awareness and compliance with Internal Revenue Service (IRS) training requirements and profile management procedures and requirements.
Follow-up on Seized & Forfeited Funds Audit (Report 12-012)	<p>Fourteen recommendations were offered in the original review.</p> <p>During the follow-up review one additional control recommendation was offered to enhance the efficiency of expenditure tracking.</p>	Management responses reflect agreement with observations noted in the audit report and the feasibility of audit recommendations.	All audit recommendations were fully implemented by the applicable Agency Divisions.
Texas Debit Card Program (Report 12-102)	<p>Nine key recommendations were offered as a result of this review.</p> <p>In relation to the Texas Debit Card Program, recommendations were offered to help ensure that controls over debit cards are adequate to safeguard client information and prevent fraudulent activities.</p>	<p>Management responses indicate that management has assessed the feasibility of the implementation of offered recommendations and where applicable have denoted proposed action plans.</p> <p>Auditor follow-up comments were included for management’s reference to ensure clarity of audit recommendations.</p>	<p>Child Support Management denoted action plans to address audit recommendations. As deemed necessary by management, alternative action plans were offered to address some noted observations.</p> <p>A new Child Support State Disbursement Unit (SDU) vendor (Texas Debit Card Program) was awarded during 2015.</p> <p>Internal Audit is currently assessing the impact of this change on the implementation status of prior audit recommendations. As appropriate, during fiscal year 2016, Internal Audit will determine whether select recommendations offered can be implemented in line with the current Child Support Debit Card Program processes or are applicable to the new SDU contract and vendor.</p>

**Summary of Audit Activities – Reported in 2015  
(Recommendations, Management Responses, and Implementation Statuses)**

<b>Title (Prior Audit Report Number)</b>	<b>Recommendations</b>	<b>Management Response</b>	<b>Progress Toward Implementation</b>
<p>Law Enforcement Defense Division's Travel and Timekeeping Processes (Report 14-104)</p>	<p>Two recommendations were offered as a result of this review.</p> <p>In relation to timekeeping, a recommendation was made to provide additional assurance of the accuracy of time reported in the Office of the Attorney General's leave accounting and Legal Billing timekeeping systems (e.g., reconciliations between time keeping systems). Also, one recommendation offered emphasized the importance of written procedures which ensure that personnel are clear on division's processes related to time and travel.</p>	<p>Management responses reflect agreement with observations noted in the audit report and the feasibility of audit recommendations.</p>	<p>The division identified action plans and target dates for implementation of the recommendations. One recommendation is fully implemented and one has been substantially implemented by the division as of this status update.</p>

**Summary of Audit Activities – Reported in 2015  
(Recommendations, Management Responses, and Implementation Statuses)**

<b>Title (Prior Audit Report Number)</b>	<b>Recommendations</b>	<b>Management Response</b>	<b>Progress Toward Implementation</b>
<b><i>Audit reports issued during fiscal year or calendar year 2015 prior to November 1, 2015 are included in this report in compliance with Texas Government Code 2102.015</i></b>			
An Audit Report on the Office of the Attorney General’s – Child Support Division Field Operations Case Processing Controls (Report 13-14)	Fourteen recommendations were offered for management’s consideration to strengthen or enhance essential functions or processes related to order entry to ensure continued effectiveness of established internal controls.	Management responses reflect agreement with recommendations noted in the audit report.  Two recommendations may be addressed by future system development enhancements. In the meantime, measures to currently mitigate identified risks were denoted in the management response.	Management identified target implementation dates for all audit recommendations. A follow-up review will be scheduled and conducted in accordance with auditing standards.
Evaluation of the Effectiveness of the Agency’s Fraud Waste and Abuse Prevention Program (FWAPP – Report 14-09)	Ten recommendations were offered for management’s consideration to ensure the continued effectiveness of the FWAPP and enhance internal processes which are designed to ensure the readily apparent resolution of a complaint.	Management responses reflect agreement with observations noted in the audit report and the feasibility of audit recommendations.	Management identified target implementation dates for all audit recommendations. A follow-up review will be scheduled and conducted in accordance with auditing standards.
An Audit Report on the Office of the Attorney General’s – Child Support Division Transactional Attorney Section (Report 14-10)	Three recommendations were offered to improve or enhance select business processes.	Management responses reflect agreement with observations noted in the audit report and the feasibility of audit recommendations.	The division identified target implementation dates for all three audit recommendations. A follow-up review will be scheduled and conducted in accordance with auditing standards.

**Summary of Audit Activities – Reported in 2015  
(Recommendations, Management Responses, and Implementation Statuses)**

<b>Title (Prior Audit Report Number)</b>	<b>Recommendations</b>	<b>Management Response</b>	<b>Progress Toward Implementation</b>
A Follow-up Audit Report on Child Support Technology Contract Management (Report 14-11)	Six control recommendations were offered in the original audit.	Management agreed to implement all of the recommendations.	Review results revealed that Technology Contract Management has fully implemented/completed all six control recommendations.