

INTERNAL AUDIT PLAN

FY 2018

Internal Audit Division



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

Approved October 2017

Table of Contents

<u>Section</u>	<u>Page</u>
Overview	1
▪ The Role of Internal Audit	
▪ Professional and Statutory Requirements	
Types of Reviews	2
Development of the Audit Plan	3
Planned Internal Audit Activities	4
▪ Performance Audits	
▪ Prior Audit Follow-up	
▪ Carry-Forward Project	
▪ Prior Year Close-out Activities	
▪ Non-Audit Services (Special Projects and Routine Consulting)	
Appendix I	9
▪ Available Staff Time Estimate for FY 2018	
▪ Total Estimated Internal Audit Division Staff Hours Available in FY 2018	
Appendix II	10
▪ Summary of Available Audit Hours	

Overview

The annual audit plan is a guide that is developed for the utilization of the division's resources during the fiscal year in order to address the risks of the Office of the Attorney General (OAG). Audits and other projects selected for review and included in the annual audit plan are those areas that represent risk to the agency.

The audit plan is a dynamic document that may change during the fiscal year as circumstances change. Requests from management, changes in audit resources, and changes in the agency's organization or operations could result in changes to the plan. Any significant changes to the plan would require approval from the First Assistant Attorney General.

Project objectives proposed in the plan are in general terms. The specific objective of each audit project is determined by the detailed assessment of relative risks for the project at the time the project is initiated.

The Role of Internal Audit

The Internal Audit Division (IAD) provides independent, objective assurance and consulting services designed to add value and improve the organization's operations. IAD helps the agency accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

IAD complies with the United States Government Accountability Office's (GAO) Government Auditing Standards, the Institute of Internal Auditors' (IIA) International Professional Practices Framework and the Information Systems Audit and Controls Association's IT Standards, Guidelines, and Tools and Techniques for Audit and Assurance and Control Professionals. The Internal Audit Charter, approved by the Attorney General and the First Assistant Attorney General sets forth the purpose, authority, and responsibility of IAD.

Professional and Statutory Requirements

This document provides the Fiscal Year 2018 audit plan as required by the Internal Audit Charter, GAO, and IIA professional auditing standards, and the Texas Internal Auditing Act, Texas Government Code 2102.008. The Act requires state agencies to conduct a program of internal auditing that includes an annual audit plan prepared using risk assessment techniques and identifies the individual audit projects to be conducted during the year.

This plan is prepared in accordance with the Institute of Internal Auditors' International Professional Practices Framework and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). The

plan is developed based on an assessment of risk and potential exposures that may affect the organization. Ultimately, Internal Audit's objective is to provide management with information to reduce exposure to the negative effects that may be associated with operations intended to achieve management's objectives. The degree or materiality of exposure can be viewed as risks mitigated by establishing sound internal controls.

The planning process is consistent with the agency's approved Internal Audit Charter and the division's goals. The plan of engagements is based on a documented risk assessment. In addition to the risk assessment, the planning process includes the assessment of available audit resources.

Types of Reviews

The Internal Audit Division (IAD) conducts performance audits and non-audit services, as well as follow-up reviews.

Performance audits are engagements that provide assurance or conclusions based on an evaluation of sufficient appropriate evidence against stated criteria. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. Therefore, the sufficiency and appropriateness of evidence needed and tests of evidence will vary based on the audit objectives and conclusions.

Follow-up reviews are conducted to determine the adequacy, effectiveness, and timeliness of actions taken by management on reported engagement findings and recommendations. This work determines if management actions have resulted in lowering risks or if management has assumed the risk of not taking corrective action on reported findings. Follow-up projects are conducted on previous IAD reported findings, as well as the State Auditor's Office and other external entities' reported audit findings. These audits are scheduled within a reasonable time frame to allow management sufficient opportunity to implement corrective actions.

Non-audit services are advisory client service activities which are intended to add value and improve the agency's governance, risk management, and control processes. Examples include counsel, advice, facilitation, and training. This type of project can only be conducted if providing the non-audit service does not create impairments to independence, either in fact or appearance, with respect to future audit projects.

Development of the Audit Plan

The Internal Audit Division allocates its resources in a manner that is consistent with the mission and goals of the Office of the Attorney General. To support the OAG's mission, audit coverage is considered across the agency. The audit plan is designed to provide coverage of key business processes, over a reasonable period of time, given the existing staff.

The following key factors were considered to assess risk and develop the audit plan:

- Potential for impact on agency-wide policies and procedures
- Changes in systems, processes, policies, or procedures
- Results and time since last audit engagement
- Extent of government regulation
- Information and communication
- Transaction volume
- Staff turnover

In addition to the projects selected based on risk assessment results, audit hours are also dedicated to follow-up reviews, carry-forward projects, and non-audit services.

Internal Audit is also required by law and auditing standards to conduct certain activities on an annual and/or periodic basis, such as an internal quality control assessment, an annual audit report, and an external peer review. Those required activities are also included in the audit plan.

To ensure the auditors maintain a steady workload throughout the year, some audit projects are scheduled to start near the end of one fiscal year and require time in the following year to complete. Specific carry-forward projects are identified in the Fiscal Year 2018 Internal Audit Plan.

In line with the State Auditor's Office (SAO) Guidelines for the Internal Audit Plan for Fiscal Year 2018, the following identified projects relate to capital budget control, contract management and other contract requirements.

- Performance Audits and Non-Audit Services - Contract Management:
 - Compliance with Contract Billing Requirements
 - Contract Performance and Monitoring Analysis
 - Contract Monitoring Activities
- Performance Audits and Prior Audit Follow-ups - Capital Budget Controls:
 - Effectiveness of Select Financial Processing Controls
 - Procurement: Procurement Requests and Process Analysis Assurance - Follow-up

The following tables provide information regarding planned Internal Audit activities for FY 2018.

FY 2018 Performance Audit (Assurance) Projects				
Auditable Unit	Audit Area	Title of Project	Preliminary Objectives	Estimated Budget Hours
Crime Victims	System Processing Assurance	Effectiveness of Select Financial Processing Controls	Evaluate current processing controls designed, for select financial transactions, to ensure accuracy of payment transactions and compliance with processing requirements.	1,000
Civil Litigation	Bankruptcy and Collections	Case File Quality Assurance and Sensitive Data Safeguarding Measures	Identify case quality control measures in place which provide assurance that files contain required data elements as specified by applicable policy and procedures. Offer any enhancements to current division control measures that safeguard sensitive division data.	750
Enterprise Wide	Contract Monitoring	Compliance with Contract Billing Requirements	Identify and share best practices for monitoring vendor billing.	750
Enterprise Wide	Receiving	Effectiveness of the Direct Shipment Notification Process	Evaluate current direct shipment notification processes which provide assurance that goods received reconcile with the procurement order and that processing methods are effective in ensuring timely invoice payment.	750
Child Support	Records Management	Compliance with Records Retention Guidelines for System Reports	Identify current measures designed to provide reasonable assurance that reports (downloaded or query extracts) stored outside of the TXCSES automated system are maintained and disposed of in compliance with required retention guidelines.	150
Total Audit (Assurance) Project Hours				3,400

Prior Audit Follow-up Projects for FY 2018		
Follow-up on Implementation Status of Prior Audit Recommendations		
Auditable Unit	Audit Area (s)	Estimated Budget Hours
Civil Litigation	Litigation Case Flow - Follow-up	150
Enterprise Wide	Procurement: Procurement Requests and Process Analysis Assurance - Follow-up	150
Enterprise Wide	Invoice Approval Flow and Payment Authorization Controls - Follow-up	150
Enterprise Wide	IT Project Portfolio Management - Follow-up	100
Total Follow-up Project Hours		550

Carry-Forward Project – Fieldwork Phase			
Auditable Unit	Audit Area (s)	Title of Project	Estimated Budget Hours
Child Support	State Disbursement Unit	Financial Risk Analysis	300
Total Carry-Forward Project Hours			300

Prior Year – Close-out Activities	
Audit Activity Description	Estimated Budget Hours
In accordance with Annual Reporting Guidelines, Internal Audit prepares a report that reflects that status of prior audit activity. In addition to annual report preparation, close-out activities include finalization of prior audits in the reporting phase at year end.	300
Total Close-out Hours	300

Non-Audit Services Projects (Special Projects - Consulting) for FY 2018

Auditable Unit	Audit Area	Title of Project	Preliminary Objectives	Estimated Budget Hours
Contract and Asset Management	Contract Management	Contract Performance and Monitoring Analysis	Identify current contract management controls which ensure that select contract services are delivered in-line with contract requirements and that contract performance is recorded in a manner that helps ensure efficient contract management.	600
Contract and Asset Management	Contract Management	Contract Monitoring Activities	Identify contract universe and associated monitoring plan activities. Offer insight on industry contract monitoring best practices.	500
Procurement	Processing Flow	Procurement Routing Analysis and Identification of Best Practices	Identify enterprise wide processing categories that require early involvement by Procurement to ensure compliance with internal and external processing requirements.	250
Total Non-Audit Services (Special Project) Hours				1,350

Routine Non-Audit Services (Consulting or Advisory) for FY 2018

Auditable Unit	Non - Audit Area	Scope/Objective	Estimated Budget Hours
Child Support	Project Management, Financial, and Implementation Protocol	TXCSES 2.0 Consulting	250
Enterprise Wide	Project Management and Risk Mitigation Feedback	Assist management enterprise wide in a consulting role during assessment of Centralized Accounting and Payroll/Personnel System (CAPPS) project implementation planning.	100

Routine Non-Audit Services (Consulting or Advisory) for FY 2018

Auditable Unit	Non - Audit Area	Scope/Objective	Estimated Budget Hours
Information Security and Technology	Texas Administrative Code (TAC) Compliance	TAC Compliance Activities	200
Peer Review (External Entity)	Peer Review Participation for Reciprocity Requirements	Participate in external quality assurance review for another state agency to determine the audit function's compliance with required auditing standards.	160
Enterprise Wide	Software Procurement (Review and Approval)	Identification of current processing controls governing software procurements	150
Child Support	Risk Awareness	T1.0 Decommission Assessment	125
Child Support	Risk Awareness	Architecture Review Board	125
Administrative and Legal (Crime Victim Services)	Project Management and Risk Mitigation Feedback	Crime Victim Services Consulting – Various Phases	120
Enterprise Wide	Business Continuity	Business Continuity – Business impact analysis and disaster recovery consulting	100
Administrative and Legal	IT Governance	Legacy System Replacement Consulting - to provide independent and objective recommendations to management for consideration during legacy system redesign or replacement projects	100
Enterprise Wide	Governance	Information Protection and Accessibility (Texas Government Code Chapter 2054, subchapter M and Texas Administrative Code, Title 1, Chapters 206 and 213) Work Groups – Advisory Role	50
Total Hours			1,480

Staff hours allocated to mandatory and other internal audit activities are **1,200** hours (listed below).

- Performance of Audit Liaison Activities with External Auditors or Reviewers
- Issuance of an Annual Internal Audit Report
- Development of an Annual Risk Assessment and Audit Plan
- Internal Audit Division Annual Self-Assessment
- OAG Internal Audit Division Peer Review
- TeamMate Upgrade Implementation and Training
- Update of the Internal Audit Charter
- Staff Development Initiatives
- Training of New Audit Personnel
- General Quality Assurance and Project Close-out Activities

Appendix I

Available Staff Time Estimate for FY 2018

To ensure that internal audit resources are sufficient and effectively utilized to achieve the approved plan, an analysis was conducted to determine the amount of direct audit time that would be available by the audit staff. The Fiscal Year 2018 state holiday schedule, average staff leave time, and estimated administrative time were used to determine the resources available during Fiscal Year 2018.

Total Annual Available Hours Per Full Time Equivalent (FTE)	
Annual Totals	Hours
Based on 52 weeks @ 40 Hours Per Week	2,080
Annual Leave (12.6 hours * 12 months)	-151
Sick Leave (14 days * 8 hours/day)	-112
Holiday/Adm. Leave	-144
Total Available Work Hours	1,673
Training/CPE 40 hours per auditor plus 10 for additional certifications	-50
Audit Support/Miscellaneous (14 days * 8 hours/day)	-112
Administration/Non-CPE Training (45 weeks * 2.5 hours/week)	-113
Total Available Project Hours	1,398

Note: Totals reflect automatic rounding in spreadsheet.

Total Estimated Internal Audit Division Staff Project Hours Available in FY 2018 as of September 1, 2017

Total Estimated Available Auditor Project Hours as of September 1, 2017			
Current Audit Resources	Total Available Direct for Fiscal Year 2018	Reserved Direct Audit Hours	Total Available Hours as of September 1, 2017
Budgeted Hours for Auditor Staff (7 FTEs x 1,398 hours)	8,580	1,206	9,786

Note: Totals reflect automatic rounding in spreadsheet (rounded up).

Appendix II

Summary of Available Audit Hours

Available Hours	
Description	Budget
Internal Audit Division Staff Available Work Hours*	11,711
Training/Administrative/Audit Support Hours	(1,925)
Hours Reserved for Special Projects (11,711-1,925-8,580)	(1,206)
Total Internal Audit Staff Project Hours	8,580
Total FY 2016 Audit Project Hours Available Allocated	8,580

**Audit directors' hours are not reflected in available work hours.*

Allocation of Available Hours	
Description	Budget
Total Hours – Performance Audits	3,400
Total Follow-up Audit Hours	550
Total Carry Forward Audit Hours	300
Total Prior Year Close-Out Activities Hours	300
Total Non-Audit Special Project and Consulting Hours	2,830
Mandatory and Other Internal Audit Activities	1,200
Total Hours Allocated	8,580