



**C H I E F
A U D I T O R ' S
O F F I C E**

An Audit Report for:
*TCEQ Chairman Jon Niermann
TCEQ Commissioner Emily Lindley
TCEQ Commissioner Bobby Janecka
Interim TCEQ Executive Director Kelly Keel*

Chief Auditor's Office Annual Report

FY 2023

TCEQ Mission Statement

The Texas Commission on Environmental Quality strives to protect our state's public health and natural resources consistent with sustainable economic development. Our goal is clean air, clean water, and the safe management of waste.

Chief Auditor's Office Mission Statement

The mission of the Chief Auditor's Office is to provide assurance and advisory services that help the Commissioners and management meet agency goals and objectives. We provide independent and objective information, analyses, and recommendations to assist management in effecting constructive change, managing business risk and/or improving compliance and accountability of the regulated community and business partners.

Jon Niermann, Chairman
Emily Lindley, Commissioner
Bobby Janecka, Commissioner
Kelly Keel, Interim Executive Director

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I. Compliance with Texas Government Code, Section 2102.015

Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site

Texas Government Code 2102.015 requires state agencies and higher education institutions, as defined in the statute, to post certain information on their internet websites.

Within 30 days of approval, an entity should post the following information on its internet website:

- A. The Agency’s approved internal audit plan as provided by *Texas Government Code, Section 2102.008*; and,
- B. The Agency’s annual report required by *Texas Government Code, Section 2102.009*.

Texas Government Code, Section 2102.015, also requires entities to update the posting to include the following information on the website:

- A. “detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns, if any, raised by the audit plan or annual report.”
- B. “summary of the action taken by the Agency to address the concerns, if any, that are raised by the audit plan or annual report.”

The TCEQ has complied with *Texas Government Code, Section 2102.015*, by posting the approved *FY 2022 Annual Audit Report* and the *Annual Risk Assessment and FY 2023 and FY 2024 Audit Plans* on the TCEQ public website as required. The *FY 2023 Annual Audit Report* is being posted to the Agency’s public website concurrently with its distribution to the SAO. At this time, no weaknesses or concerns have been raised by the audit plan or annual report.

II. Internal Audit Plan for Fiscal Year 2023

Audit Projects Completed During the Fiscal Year

Project Number	Project Name	Report Issue Date
22-009	An Audit of the Public Information Request Intake Process	Sept. 2022
23-001	Audit of the TCEQ Supplemental Environmental Project Program	Dec. 2022
23-003	Review of TCEQ Contractors Access to Information Technology Systems	Feb. 2023
23-004	Contract Close-out Process	Apr. 2023
23-005	Procurement of Information Technology Products	Jan. 2023
23-006	Texas Administrative Code Chapter 202 Compliance Audit	Mar. 2023

Project Number	Project Name	Report Issue Date
23-007	Review of Texas Emissions Reduction Plan Financial Processes	Apr. 2023
23-008	Regional Office Review – Border and Permian Basin	Apr. 2023
SFR- 118/23/ Report 23-811	Annual Risk Assessment and FY 2024 Audit Plan	Aug. 2023
SFR 82/22	Chief Auditor’s Annual Report	Sept. 2022

FY 2023 Audit Projects Carried over to FY 2024

Project Number	Project Name	Project Status
23-009	Radioactive Materials Contract Process	Reporting
23-010	CCEDS Investigations and Complaints Process	Reporting

Deviations from the Chief Auditor’s Office FY 2023 Audit Plan

Project 23-002 Water Utility Emergency Preparedness Planning was initially approved as an audit of the new Program. After initial planning, it was determined by the Chief Auditor’s Office that the Program was still in development. As a result, the Chief Auditor sought, and received approval to convert the scheduled audit to an advisory service engagement. That engagement (23-302) was completed, and the related report was issued August 23, 2023, as described in Section III of this report.

Ensuring Compliance with Contract Processes and Controls for Monitoring Agency Contracts

All TCEQ processes including contract procurement, close-out, and monitoring are included in the Chief Auditor’s annual assessment of the Agency’s auditable risks. Identified risks are ranked and scored annually during the development of the Agency’s Annual Audit Plan. Risks related to contract monitoring have been identified as an on-going risk to all State agencies, and as a result, the TCEQ Chief Auditor allocates audit hours each fiscal year to contract management and monitoring engagements. The objectives of these engagements are to ensure that processes have been established and are operating effectively to ensure that contract procurement, formation, payment, monitoring, and close-out processes comply with Agency, State, and Federal requirements. In the past five (5) fiscal years, the CAO has performed 26 internal audit engagements that focused on contract monitoring and related processes. The CAO followed up on recommendations made in 28 contract-related internal audits and two (2) engagements performed by the State Auditor’s Office. Two (2) audit reports issued by the Chief Auditor’s Office included no reported issues and did not require follow-up. Report numbers, titles, issue dates, and dates of follow-up reports are provided below.

Project Number	Project Name	Issue Date	Follow-up Date(s)
18-002	TERP Assets, Emissions, Disposition, and Monitoring Verification	12/2017	Fall 2018

Project Number	Project Name	Issue Date	Follow-up Date(s)
18-003	An Audit of the Water Quality Staff Services Contract Compliance	11/2017	Fall 2018
18-005	An Audit of Border Affairs Contract Compliance	01/2018	Fall 2018
18-010	UT-Arlington Local Air Program Contract Compliance	07/2018	Spring 2019
18-013	UT-Arlington Remediation Staffing Services Contract Compliance	07/2018	Spring 2019
18-015	An Audit of Deliverables-Based Information Technology Services (DBITS) Contract Compliance	07/2018	Spring 2019
18-016	An Audit of TXC Texas Creative, Ltd. Contract Compliance	10/2018	Spring 2019
19-006	An Audit of the TCEQ Contract Procurement Process	06/2019	Fall 2019
19-007	Audit of Contract Close-out Processes	06/2019	Fall 2019
19-008	Texas A&M AgriLife/TWRI Contract Compliance	04/2019	Fall 2019
19-009	Atmospheric and Environmental Research, Inc. (AER) Non-FTE Contract Compliance	06/2019	Fall 2019
19-010	X8 Environmental, Inc. Contract Compliance	06/2019	Fall 2019
19-011	City of El Paso Whole Air Monitoring Contract Compliance	09/2019	Fall 2020
20-004	University of Texas at Austin Air Quality Contract Compliance	03/2020	Spring 2020
20-005	University of Houston-Clear Lake Contract Compliance	05/2020	Spring 2021
20-006	Emerald Environmental Services Contract Audit	07/2020	Spring 2021
20-007	An Audit of the Federal Accountability and Transparency Act (FFATA) Reporting Process	06/2020	Spring 2021
SAO 17-029	SAO Audit of Selected Contracts at the Commission on Environmental Quality	03/2017	Spring 2019
21-003	An Audit of the TCEQ Contract Procurement Process	02/02021	No Issues

Project Number	Project Name	Issue Date	Follow-up Date(s)
21-008	An Audit of the Texas Volkswagen Environmental Mitigation Program Grant Award Process	01/2021	Spring 2021
21-502	Development and Delivery of the TERP Online Application	01/2021	Spring 2021
SAO 19-005	Administration of the Texas Emissions Reduction Plan Grants	10/2018	Spring 2021
22-002	USGS Contract Compliance	01/2022	Spring 2022
22-003	North Central Texas Council of Governments (NCTCOG) Contract Compliance Audit	12/2021	Spring 2022
22-004	An Audit of University of Texas Rio Grande Valley Contract Compliance	03/2022	Spring 2022
22-005-a	Contract Close-out Process - Office of Air	02/2022	Spring 2023
22-005-b	Contract Close-out Process - Office of Compliance and Enforcement	02/2022	Spring 2023
22-005-c	Contract Close-out Process - Office of Waste	02/2022	Spring 2022
22-005-d	Contract Close-out Process - Office of Administrative Services	02/2022	Spring 2022
22-005-e	Contract Close-out Process - Office of Water	02/2022	Spring 2022
22-006	University of Texas at Austin Contract Compliance	03/2022	Spring 2022
23-003	Review of TCEQ Contractor Access to Information Technology Systems	02/2023	Pending
23-004	Contract Close-out Process	04/2023	Pending
23-005	Procurement of Information Technology Products	01/2023	No Issues

III. *Completed Consulting Engagements and Non-audit Services Projects*

During FY 2023, the CAO completed three (3) engagements meeting the definition of “non-audit service” as defined by the Institute of Internal Auditors’ *Internal Standards for the Professional Practice of Internal Auditing* and the *Government Auditing Standards, 2018 Revision, Sections 7.70-7.85*. Report numbers, titles, issue dates, and engagement objectives of the service performed are provided below.

Project Number	Project Name / Objective	Issue Date
22-302	Advisory Service - TCEQ Public Information Request (PIR) Process	01/25/2023
23-301	Advisory Service - OCE Convenience File Review	06/15/2023
23-302	Advisory Service - Water Utility Preparedness Planning	08/23/2023

Project 22-302 provided TCEQ management with information needed to improve the existing process through the identification of process inefficiencies. Project 23-301 provided information regarding the types of files maintained in four (4) regional offices of the TCEQ, and the storage, disposition, and use of those files. Project 23-302 provided information on TCEQ efforts to implement aspects of Senate Bill 3 passed in the 87th Regular Session.

FY 2023 Consulting Projects Carried over to FY 2024

Project Number	Project Name / Objective	Project Status
23-303	Advisory Service - HR Hiring Process Review	Planning

This advisory service is being performed to provide information on the efficiency of the TCEQ's hiring process.

IV. External Quality Assurance Review (Peer Review)

The CAO's most recent peer review report is dated July 2023. The review was performed in accordance with the State Agency Internal Audit Forum's peer review policies and procedures. The overall opinion provided in the Peer Review Report is as follows:

“Based on the information received and evaluated during this external quality assurance review, it is my opinion that the Texas Commission on Environmental Quality (TCEQ) Chief Auditor's Office (CAO) receives a rating of **“Pass/Generally Conforms”** and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and 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 the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We found that the CAO is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas being audited. Individual audit projects are planned using proper risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely to all levels of agency management.

The CAO is well managed internally, maintains effective relationships with the Commissioners and is well respected and supported by Executive management. Surveys and interviews conducted during the quality assurance

review indicate that various levels of management consider the CAO a useful part of the overall agency operations. This includes input received from program-level managers, mid-management, and senior managers. The consensus amongst these groups finds that the audit process and report recommendations add value and help improve TCEQ's operations.”

The opinion is signed and dated by the individual responsible for performing the peer review.

V. ***Chief Auditor’s Office Audit Plan for Fiscal Year 2024***

The projects identified below appear on the FY 2024 Audit Plan approved by the Commission and are scheduled to be performed by the CAO during the Fiscal Year:

* - Indicates a FY 2023 project carried over to FY 2024.

** -indicates a project with a focus on contract oversight and/or contract processes

Audit Services Project Areas	Hours
23-009 Radioactive Materials Contract Process *	100
23-010 CCEDS Investigations and Complaints Process *	100
Regional Office Review – Coastal and East Texas Area	1,100
Contract Monitoring Engagements (up to 4 engagements) **	2,400
Lead & Copper Rule Implementation – Texas Public School and Regulated Child Care Database	800
Cybersecurity – Threat Detection and Remediation of Identified Threats	800
Texas Emissions Reduction Program (TERP) Grant Award Process – Selected Program(s) **	800
Review of Salaries Allocated to the TERP Trust	900
Data Integrity Audit – Volkswagen Environmental Mitigation Program Database	800
Non-Audit Services	
23-303 Advisory Service – HR Hiring Process *	800
Advisory Service – Review of Software Licensing	800
Advisory Service – Review of Agency Turnover and Salaries by Position	600
CAO Office-wide Project Areas	
Audit Follow-ups (Fall and Spring)	400
CAO Annual Internal Audit Report FY 2023	80
Annual Risk Assessment and FY 2025 Audit Plan	600
Special Requests from the Commissioners or Executive Director	1,200
CAO Quality Assurance Activities	200

Audit Services Project Areas

Hours

Fraud, Waste, and Abuse Investigations

TBD

Risk Assessment

Our FY 2024 audit plan is based on an agency-wide risk assessment. Risk assessment, as defined by the Institute of Internal Auditors, is a “systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events.” The CAO’s risk assessment identifies a variety of risks and include consideration of agency operations, contract management, and information technology risks. No additional risks identified and ranked as “high” were excluded from the FY 2024 audit plan.

In conducting our risk assessment, the Chief Auditor’s Office received input from TCEQ Commissioners, Executive Management, Office Directors, and selected Deputy Directors and other agency employees.

The CAO identified the universe of auditable activities primarily as those activities conducted to address the strategies funded by the General Appropriations Act and fees collected by the TCEQ. We defined auditable activities to include all fees collected by the Agency, all contracts entered into by the Agency, and all information technology systems and processes that support the agency’s activities. High-risk processes, contracts, fees, information technology risks related to *Title 1, Texas Administrative Code, Chapter 202*, and functions identified during our risk assessment were included in our FY 2024 Audit Plan.

After documenting the population of potential programmatic and information technology concerns identified during our risk assessment process, management of the CAO judgmentally scored the identified risks and activities by assigning numerical values to specific elements of risk related to that category. This included fraud risk as appropriate. Using the resulting audit risk scores, specific project topics were identified for each of the high-risk areas. We then prioritized each potential project to determine which projects should be included in the proposed audit plan.

We will update our risk assessment as additional information is obtained throughout the coming fiscal year. Our continuous evaluation of agency risks will ensure the most efficient use of audit resources.

The risk assessment process included a review of the project areas by the Chief Auditor to ensure adequate coverage of risk and to avoid inappropriate duplication of coverage.

We will consult with the Commission and Executive Management as needed based on priorities, management requests, workloads, changes in operations, and availability of audit resources to determine if our plan should be adjusted.

VI. *External Audit Services Procured in Fiscal Year 2023*

During Fiscal Year 2023, the Chief Auditor’s Office did not procure any external audit services.

VII. *Reporting Suspected Fraud and Abuse*

The TCEQ and the Chief Auditor’s Office offer both internal and external means for agency employees and the public to report allegations of suspected fraud, waste, and abuse related to TCEQ operations.

Reporting through the TCEQ can be done openly or anonymously either by phone or through on-line reporting via links located on both the TCEQ internal and external websites.

TCEQ Operating Policy and Procedure 3.10, Reporting Allegations of Fraud, Waste, and Abuse, provides the policy and procedure for reporting to the Chief Auditor's Office. A link to the internal reporting tools is available on the Agency's intranet site, "Employee Ethics and Fraud Awareness/Prevention."

In compliance with *Texas Government Code, Section 321.022, Coordination of Investigations*, the TCEQ has links on its public website that allows individuals a choice in reporting suspected violations internally to either the Chief Auditor's Office or directly to the State Auditor's Office Investigations Team.