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**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 Bryan W. Shaw, Ph.D., P.E.
TCEQ Commissioner Toby Baker
TCEQ Commissioner Jon Niermann
TCEQ Executive Director Richard A. Hyde, P.E.

Chief Auditor's Office Annual Report

FY 2015

Chief Auditor's Office

Annual Report

Fiscal Year 201

Prepared by
Chief Auditor's Office

SFR-82/17
November 2017

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.

Bryan W. Shaw, Ph.D., P.E, Chairman
Toby Baker, Commissioner
Jon Niermann, Commissioner
Richard A. Hyde, P.E., 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

House Bill 16 (HB 16) 83rd Legislature, Regular Session, was signed into effect immediately by Governor Perry on June 14, 2013. HB 16 amended Chapter 2102, Texas Government Code, by adding Section 2102.015, which requires state agencies and higher education institutions, as defined in the bill, to post certain information on their Internet websites.

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

- An approved fiscal year 2016 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2015 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The above reports are considered to be approved if they are approved by an entity's governing board or by the chief executive if the entity does not have a governing board.

HB 16 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 raised by the audit plan or annual report."
- A "summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report."

The TCEQ has complied with HB 16 by posting the approved FY 2016 Audit Plan on the agency's public website. We will post the mandated internal audit annual report as required by HB 16 and the Texas Internal Auditing Act.

Updates, as required by HB 16, will also be done that include summaries of the pertinent information contained in the two documents.

II. Compliance with the Benefits Proportionality Audit Requirements for Higher Education Institutions

This section is only applicable to internal auditors for higher education institutions that conduct work related to the proportionality of benefits and related risks for compliance with Governor Perry's request.

III. Chief Auditor's Office Audit Plan for Fiscal Year 2015

Audit Services FY 2014 Carry-over Projects

- An Audit of the TCEQ Contract Initiation Process
- An Audit of the TCEQ Contract Management Process
- An Audit of Alamo Area Council of Governments Grant Compliance
- An Audit of the Public Information Request Process
- Agreed-Upon Procedures: Cefe Valenzuela Landfill (Corpus Christi)
- Agreed-Upon Procedures: Clean Harbors Deer Park

Information Technology Audit FY 2014 Carry-over Projects

- An Audit of Office-level GIS Policy Compliance
- An Audit of the Permit and Registration Information System (PARIS) Implementation

Approved and Alternative Projects for FY 2015

Approved Audit Services Projects:

- An Audit of the TCEQ Ethics Program
- Area Administrative Review: Coastal and East Texas
- An Audit of North Central Texas Council of Governments Grant Compliance
- An Audit of Selected Performance Measures for the Office of Water
- An Audit of Selected Performance Measures for the Office of Air
- An Audit of Selected Performance Measures for the Office of Waste
- Agreed Upon Procedures – Selected Waste Facility

Approved Information Technology Audit Projects:

- An Audit of the Agency's Implementation of the System Development Life Cycle (SDLC)
- An Audit of the Agency's Change Management Processes in Maintenance Phase
- An Audit of the Agency's Implementation of the Continuity of Operations Plan (COOP)

Approved CAO Advisory Services Areas:

- Advisory Service: A Review of Physical Security at Selected Locations
- Advisory Service: A Review of Regional Office Administrative Training Opportunities

Approved CAO Officewide Projects:

Audit Follow-ups (Fall and Spring)
CAO Quarterly Reports
TeamMate – activating additional modules
Client Assistance/Consulting
CAO Annual Internal Audit Report FY 2015
FY 2016 Annual Audit Plan
External Quality Assurance Reviews
Special Requests from the Commissioners or Executive Director
Fraud, Waste, and Abuse Investigations

Approved Alternative Projects:

An Audit of Fees Recorded for Low-Level Radioactive Waste Site
Advisory Service: Program Review of Emergency Management Support Team
An Audit of Allocations and Uses of Fund 5000
Advisory Service: A Review of Agency-Wide Electronic Data Standards and Use
Agreed Upon Procedure: Clint Municipal Landfill (El Paso)
An Audit of Selected Texas Emissions Reduction Plan (TERP) Agreements

Completed Audit Services Projects

Project Number & Name	Report Issued
#14-102: Chief Auditor's Report on Agreed-Upon Procedures for Clean Harbors Deer Park	September 2014
#14-002: Alamo Area Council of Governments Grant Compliance	December 2014
#13-004: TCEQ Contract Initiation Process Office of Administrative Services, Financial Administration Division	February 2015
#13-007: Contract Management Processes	March 2015
#15-003: An Audit of Selected Performance Measures for the Office of Air	March 2015
#14-005: An Audit of the Public Information Request Process	April 2015
#14-101: Chief Auditor's Report on Agreed-Upon Procedures for the CEFE Valenzuela Landfill	April 2015
#15-001: An Audit of Selected Performance Measures for the Office of Water	May 2015
#15-002: An Audit of the TCEQ Ethics Program	May 2015
#15-005: An Audit of Selected Performance Measures for the Office of Waste	June 2015

Project Number & Name	Report Issued
#15-006: Area Administrative Review – Coastal and East Texas Regional Offices Office of Compliance and Enforcement	July 2015
#15-101: Chief Auditor’s Report on Agreed-Upon Procedures for Dry Cleaner Distributors	August 2015

Completed Information Technology Projects

Project Number & Name	Report Issued
#14-502: Review of the Permit and Registration Information System (PARIS) Implementation	February 2015
#14-503: An Audit of Office-level Geographic Information System Policy Compliance	March 2015
#15-501: An Audit of the Agency’s Implementation of the Continuity of Operations Plan (COOP)	June 2015
#15-502: An Audit of the Agency’s Change Management Processes in Maintenance Phase	August 2015
#15-503: An Audit of the Agency’s Software Development Life Cycle	August 2015

Completed Office-wide Projects

Project	Completion Date
Chief Auditor’s Office Annual Report FY 2014 (SFR-082 /014)	November 2014
#14-811: CAO FY 2015 Annual Audit Plan	August 2014

Deviations from the Chief Auditor’s Office Audit Plan FY 2015

Approved Internal Audit Projects:

No deviations

Approved External Audit Projects:

No deviations

Approved Information Technology Projects:

No deviations

Approved Advisory Service Projects:

No deviations

Approved Office-wide Projects:

No deviations

IV. Completed Consulting Engagements and Non-Audit Services

Project Number and Name	Report Issued
<p>#15-301: Physical Security at Selected Locations</p> <p>Objective: To determine whether adequate physical security measures are in place at 16 Regional Office locations outside of the Austin area. Our review was limited to an evaluation of the security systems installed at the selected Regional Office locations visited and an evaluation of Local Area Network (LAN) room access controls and general conditions.</p> <p>Summary: The results, conclusions and recommendations contain sensitive information that was provided directly to management under separate cover.</p>	August 2015
<p>#15-302: Administrative Training Opportunities at Regional Offices</p> <p>Objective: To report on the perceived availability and effectiveness of the administrative training offered by TCEQ internal sources to Regional Office personnel.</p> <p>Our review was limited to training opportunities that are offered to personnel in the Regional Offices for the following five (5) subjects:</p> <ul style="list-style-type: none"> • Asset Management and Smeadlink/TabFusion Transaction Processing • Timekeeping • Fleet Card Processing • Purchases and ProCard Transactions • Budget, Accounting, and Monitoring System (BAMS) Transaction Processing <p>Summary: We interviewed representatives of HR&SS, the Office of Compliance and Enforcement (OCE), and held discussions with subject matter experts from the Office of Administrative Services (OAS). We reviewed the HR&SS intranet website for training resources such as applicable training courses, manuals and/or guidelines. We also reviewed training records for regional personnel responsible for performing administrative functions to determine the rate of participation in available training classes for the identified subjects. Additionally, we sent surveys to Regional Office administrative personnel to gather specific information to assess the perceived availability and effectiveness of administrative training offered to them.</p>	August 2015

V. External Quality Assurance Review (Peer Review)

**REPORT ON THE
EXTERNAL QUALITY ASSURANCE REVIEW
OF THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
CHIEF AUDITOR'S OFFICE**

JUNE 2014



PERFORMED BY

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**PERFORMED IN ACCORDANCE WITH THE STATE AGENCY INTERNAL AUDIT FORUM PEER REVIEW POLICIES
AND PROCEDURES**

OVERALL OPINION

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Commission on Environmental Quality's Chief Auditor's Office (CAO) receives a rating of "Pass" and is 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 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 they audit. 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.

The CAO is well managed internally. In addition, the Office has effective relationships with the Commissioners and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

ACKNOWLEDGEMENTS

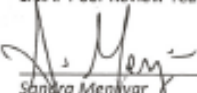
We appreciate the courtesy and cooperation extended to us by the Chief Audit Executive, the CAO staff, the Chairman and Commissioners, the Executive Director, and the senior managers who participated in the interview process. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the CAO and its relationship with agency management.


Ed Best
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7/8/14


Anthony Chavez
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6/24/14


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SAIAF Peer Review Team Member

7/2/14

CHIEF AUDITOR'S OFFICE

JUL 14 2014

Received

TCEQ CAO External Quality Assurance Review

June 2014

VI. Chief Auditor's Office Audit Plan for Fiscal Year 2016

The following audit is in progress at the end of FY 2015 are expected to be carried over to FY 2016.

Project Name	Current Status	Hours
#15-004: An Audit of North Central Texas Council of Governments Grant Compliance	Reporting	140

Below are the Proposed Audit Service Projects.

Audit Services Project Areas	Hours
An Audit of Four TCEQ Contracts (four individual projects) – Four contracts to be selected by a risk based approach including input from executive management	1,600
Area Administrative Review (Central Texas Area) Austin Regional Office – 240 hours Waco Regional Office – 280 hours San Antonio Regional Office – 280 hours	800
An Audit of the TERP Light-Duty Motor Vehicle Purchase or Lease Incentive Program (LDPLI)	320
An Audit of the TCEQ Purchasing and Procurement Processes	800
Division Administrative Review – One division to be selected through a risk assessment	240
An Audit of the Expedited Air Permit Process by Rule	400
An Audit of the Low-Level Radioactive Waste Billing Process	800
An Audit of Compliance with Texas Administrative Code, Chapter 202	240

Below are the Proposed Information Technology Audit Projects.

Information Technology Audit Project Areas	Hours
An Audit of the TCEQ's Data Standards	400
An Application Controls Audit of the Budget, Accounting & Monitoring System (BAMS)	400
An Applications Control Audit of Consolidated Compliance and Enforcement Data System (CCEDS)	400
An Audit of the System Development Life Cycle (SDLC) Process in Selected Offices	400
An Application Controls Audit of a Selected IT System	320

Below are the Proposed Advisory Services Projects.

CAO Advisory Services Areas	Hours
Advisory Service: A Review of the Business Processes for Critical Job Functions	240
Advisory Service: A Review of the TCEQ Information Technology (IT) Equipment Replacement Schedule	240

Below are the Proposed Office-wide Projects.

CAO Office-wide Project Areas	Hours
Audit Follow-ups (Fall and Spring)	160
CAO Quarterly Reports	120
TeamMate-activating additional modules	120
Client Assistance/Consulting	300
CAO Annual Internal Audit Report FY 2016	150
FY 2017 Annual Audit Plan	400
External Quality Assurance Reviews	120
Special Requests from the Commissioners or Executive Director	1,400

Below are the Proposed Alternative Projects.

Alternative Project Areas
A Review of the E-Permitting Process
An Application Controls Audit of the TCEQ's National Environmental Information Exchange Network (NEIEN) Node
An Audit of RESTORE Act Funding Compliance
An Audit of the Dry Cleaner Registration and Reporting Processes
Division Administrative Review – One division to be selected through a risk assessment

Risk Assessment

Our FY 2016 audit plan is based on an agency-wide risk assessment. These risk assessments identify a variety of risks including contract management and information technology risks. The FY 2015 audit plan included projects to address contract management and information technology risks; contract management and information technology audits were performed in addition to other assignments as noted above in Section III of this report. Based on risks identified in the agency wide risk assessment, the FY 2016 audit plan includes an audit of agency compliance with Texas Administrative Code Chapter 202, as well as four individual contract specific audits to address requirements set forth in Senate Bill 20 (84th Legislature). No additional risks were identified and ranked as "high" that have not been included in the FY 2016 audit plan.

Risk assessment, as defined by the IIA, is a "systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events."

In conducting our risk assessment, the Chief Auditor's Office received input from TCEQ Commissioners, Executive Management, Deputy Directors and numerous Division Directors and Section Managers. Selected agency employees were provided the opportunity to provide input into our risk assessment through a formal facilitated session led by CAO staff.

For Audit Services purposes, the Chief Auditor's Office identified the universe of auditable activities primarily as those activities conducted to address the strategies funded by the General Appropriations Act. We then risk ranked these identified activities within each category using specific elements of risk related to that category, including fraud risk as appropriate. From this ranking, specific project topics were identified for each of the high risk areas. Lastly, we prioritized each potential project to determine which projects should be included in the proposed audit plan.

We also identified auditable activities to include all fees collected and all contracts entered into by the agency. Each of the fees and contracts included in the assessment was ranked using specific elements of risk related to that category, again including fraud risk as appropriate. The high risk fees and contracts identified were selected as areas for audit projects. These projects were then prioritized to determine which fees and contracts should be included in the proposed audit plan.

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

For Information Technology audit purposes, the universe of auditable activities included both organizational units with IT functions and specific IT systems.

Both the organizational units and systems were ranked using specific elements of risk related to that category, including fraud risk as appropriate. These units were then ranked and specific project topics were developed based on the high risk units. These projects were then prioritized to determine which projects should be included in the proposed audit plan.

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

Alternative projects are additional areas that we believe could potentially benefit from the use of audit resources, but did not rise to the top of the list of potential audit areas. We seek approval to use them as alternative projects in circumstances where additional or substitute projects are required.

We will consult with the Commission and executive management to adjust the plan as needed based on priorities, management requests, workloads, changes in operations, and availability of audit resources. Through approval of this proposal, the Commission authorizes the Chairman to approve any amendments to the audit plan that become necessary.

VII. External Audit Services Procured in Fiscal Year 2015

During Fiscal Year 2015, the Chief Auditor's Office did not have any ongoing external audit services, nor were any services procured for the time period.

VIII. 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 a link on its public website that allows individuals a choice in reporting suspected violations internally to the Chief Auditor's Office or directly to the State Auditor's Office Fraud Hotline.