

December 9, 2019

Mike Morath
Commissioner
Texas Education Agency
1701 N. Congress Ave.
Austin, Texas 78701

Commissioner:

Attached is the internal audit annual report for fiscal year 2019, and the internal audit plan for fiscal year 2020. The State Auditor prescribes the form and content of this report.

The purpose of this report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. It also assists oversight agencies in their planning and coordination efforts.

Please contact me if you have questions concerning this report or input on upcoming internal audit activity.

Respectfully,

Rene Valadez, CIA
Director of Internal Audit
(512) 463-9846

Attachment

cc: Governor's Office of Budget and Planning
Legislative Budget Board
State Auditor's Office
Sunset Advisory Commission

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

The Texas Education Agency (TEA) posts a consolidated report which includes the agency's internal audit report and audit plan as required under Section 2102. The report conforms to the manner provided by the State Auditor and can be accessed at:

https://tea.texas.gov/About_TEA/Agency_Finances/Internal_Audit_Annual_Report

II. Internal Audit Plan for Fiscal Year 2019

Report Number	Report Title	Report Date	Status
19-01	Texas Gear-Up Program	NA	Not Completed ¹
19-02	Migrant Early Literacy and Project Smart Migrants Programs	NA	Not Completed ¹
19-03	Follow Up on Agency Contracting Processes, Controls, and Monitoring Efforts	10/2019	Completed
19-04	Technology Lending Program	NA	Not Completed ¹
19-05	FSP System Controls for Payments	NA	Not Completed ¹
19-06	State Waivers System	NA	Not Completed ¹

During fiscal year 2019, internal audit resources were dedicated to prior-year projects and other significant activities that were not included in the Internal Audit Plan for Fiscal Year 2019 as presented in the fiscal year 2018 Annual Internal Audit Report. These projects and activities included:

1. External audit coordination and support of TEA management response to external audit findings and recommendations, especially in the area of contracting compliance.
2. Completion and close out of an internal audit on Texas Gateway and Online Resources, Report No. 18-04.
3. An audit of procedures governing information technology access. The project is ongoing with quality review and reporting planned in fiscal year 2020.
4. Updating agency-wide risk assessment practices to support the development of ongoing audit activity.

TEA internal audit experienced vacancies for a significant portion of fiscal year 2019 in both the internal audit director and assistant director roles. The new internal audit director selected by TEA started in May 2019; the new assistant director began in October 2019. Input from executive management, along with ongoing risk assessment efforts identified opportunities and

¹ The TEA systems and programs referenced in the fiscal year 2019 plan, but excluded from the fiscal year 2020 plan, remain subject to incorporation into future audit activity.

priorities that are distinct from those presented in the fiscal year 2019 plan. Those updated opportunities and priorities are introduced below.

In fiscal year 2019, internal audit completed an audit (TEA IA 19-03) to assess the implementation status of recommendations provided by the State Auditor in *An Audit Report on Selected Contracts at the Texas Education Agency* (Report No. 18-044, August 2018). Internal audit also participated in activities to further strengthen TEA’s contracting processes. These activities are itemized in TEA’s submission responsive to the State Auditor’s Senate Bill 65 Information Request.

Audit reports related to agency contracts and contract processes and controls completed in the last five years (fiscal years 2015 to current) include:

Report Number	Report Title	Report Date
17-002	An Audit Report on the Texas Education Agency’s Procurement and Oversight of Texas Virtual School Network Contracts	September 2016
17-013	An Audit Report on Selected Texas Education Agency Contracts and Grant with Education Service Centers	November 2016
18-044	An Audit Report on Selected Contracts at the Texas Education Agency	August 2018

III. Consulting Services and Non-audit Services Completed

No consulting services (as defined in the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing) and no non-audit services (as defined in Government Auditing Standards, 2011 Revision, Sections 3.33 – 3.58, or Government Auditing Standards, 2018 Revision, Sections 3.64 – 3.106) were completed during fiscal year 2019.

IV. External Quality Assurance Review (Peer Review)

**Texas Education Agency
Internal Audit Division
Self-Assessment Report for Independent Validation**

OVERALL OPINION

Based on the information received and evaluated during this external validation quality assurance review, it is my opinion that the Texas Education Agency (TEA) Internal Audit Division (IAD) internal quality control system receives a rating of "PASS" and was suitably designed and operating effectively to provide reasonable assurance of conformance with:

- the Institute of Internal Auditors (IIA) *International Professional Practices Framework*,
- 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 for ensuring the independence, objectivity, and proficiency of the internal audit function. IAD generally conforms to professional internal auditing standards.

The IAD is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The two professional 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 IAD is well managed internally. In addition, the IAD has effective relationships with TEA management, is well respected, and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management appreciates the IAD's counsel and advice that is important in improving agency operations.

ACKNOWLEDGEMENTS

I appreciate the courtesy and cooperation extended to me by Commissioner Mike Morath, TEA executive and operating management, the Internal Audit director, and the assistant director. The feedback from the interviews provided valuable information regarding IAD operations and IAD's role and responsibilities in serving the agency and the citizens of Texas.



David J. MacCabe, CIA, CGAP, CRMA, MPA
Independent Validator



V. Internal Audit Plan for Fiscal Year 2020

Planned Projects	Budgeted Hours
An Internal Audit on Compliance with Policies Governing Information Technology Access ²	240
Management Assistance Project on Policies Governing Permanent School Fund Information Reporting	960
Management Assistance Project on Processes Governing Special Education Complaints	880
Ongoing, Agency-Wide Risk Assessment to Support the Development of Audit Activity	720
Follow-Up on Prior Audit Findings and Recommendations ³	160
External Quality Assurance Review	160
Miscellaneous Management Assistance (As Requested)	240

No currently planned project directly addresses benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.

The audit plan was developed using a risk assessment methodology that includes discussions with agency leadership and evaluations of perceived risk indicators. These indicators include overall funding, unit contract activity, administrative budgets, past audit activity, turnover, unit size and public attention. The ranking system employed for this risk assessment categorized no perceived risk area as “high,” however, the conversations and evaluations which make up internal audit’s assessment will remain ongoing and are subject to enhancement. In respect to Information Security Standards related to Texas Administrative Code, Chapter 202, recent internal audit activity concerning information system access was also considered in the creation of the fiscal year 2020 audit plan.

VI. External Audit Services Procured in Fiscal Year 2019

No external audit services were procured or were ongoing in fiscal year 2019.

² This project was not presented in fiscal year 2019 planning. Procedures governing information technology access were audited in fiscal year 2019. The project is ongoing with quality review and reporting planned in fiscal year 2020.

³ Follow-Up on Prior Findings and Recommendations may include additional follow up on prior recommendations related to contract administration

VII. Reporting Suspected Fraud and Abuse

To comply with applicable statutes addressing fraud prevention and the reporting of suspected fraud and abuse, the Texas Education Agency has implemented the following operating policies:

OP 02-03 Agency Fraud Prevention

This policy provides guidance in the prevention and detection of fraud, waste and misuse of agency assets and provides avenues for employees in reporting suspected violations to the Internal Auditor and to the State Auditor's Office in accordance with Texas Government Code, Section 321.022.

OP 02-04 Reporting Fraud

This policy provides guidance and procedures to agency employees for reporting any actions that they suspect are fraudulent. TEA's Intranet and Internet contain web pages with information and links for reporting suspected fraud, waste, and abuse to TEA Complaints Management and the State Auditor's Office.