

DIR Ethics Evaluation

Internal Audit Report #16-102

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Department of Information Resources

Internal Audit Mission Statement

To collaborate with DIR leadership to fulfill the agency's core mission by providing independent and objective audit services designed to add value and improve the effectiveness of risk management, control, and governance processes.

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Executive Summary

This report summarizes the scope and observations of the work performed in conducting the DIR Ethics Evaluation. This evaluation project was included in the Fiscal Year 2016 Internal Audit Annual Plan. The objective of the project was to evaluate the design, implementation, and effectiveness of DIR’s ethics-related objectives, programs, and activities.

To accomplish this objective, Internal Audit designed procedures to gain an understanding of DIR’s business processes designed to implement an effective Ethics Program. In conducting these procedures, we interviewed subject matter experts, reviewed relevant documentation, administered an agency-wide survey to current employees, and conducted other evaluations and testing of transactions and training for the period covered by the project evaluation, from February 2016 to May 2016. In addition, Internal Audit assessed the maturity of the DIR Ethics Program using a maturity model with evolution levels progressing from “Initial” (Level 1) to “World Class” (Level 5). The maturity model design includes the following six ethics-related attributes:

1. Code of Ethics (policies, procedures, standards)
2. Culture and consistency
3. Awareness
4. Structure and Accountability
5. Process Automation and Integration
6. Goals and Metrics

Overall, DIR designed and implemented an Ethics Program that is effective.

Employees perceive that Executive Leadership takes compliance seriously and “walks the walk.” They also perceive that Executive Leadership, management, other employees, and contractors within their divisions demonstrate high ethical standards. The results of the project evaluation performed support the maturity rating of the DIR Ethics Program is “Repeatable” (Level 2).

DIR Ethics Program Overall Maturity Rating	
Repeatable (Level 2)	Compliance and ethics practices are established with some policy structure; formal requirements are still lacking; there is some clarity on roles, responsibilities, and authorities, but not on accountability; increased discipline and guidelines support repeatability; high reliance on existing personnel creates exposure to change; overall compliance and ethics awareness exists, and gaps are detected and remediated.

DIR can mature its Ethics Program from “Repeatable” (Level 2) to “Defined” (Level 3) by designing and implementing additional processes and controls to improve the effectiveness,

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compliance, and success of its Ethics Program. Recommendations to close the gaps between a “Repeatable” maturity and a “Defined” maturity were provided to DIR management.

DIR management concurred with the rating results and recommendations reported by Internal Audit and provided action plans to implement the recommendations.

Internal Audit thanks the DIR management from the Office of the General Counsel and Human Resources for their time, cooperation, and assistance provided during this audit project.

Detailed results of the project, including the recommendations and management's responses are documented in the report that follows.

Background

Business ethics is a major element of governance and includes the principles that are considered desirable by the majority of management or governing bodies, and a consensus of what is deemed acceptable behavior for a particular organization. The DIR Board oversees the ethical climate and ensures management has sound ethics-related objectives and programs. Management is responsible for promoting, exemplifying, and evaluating ethical behavior and each employee should be encouraged to be an ethics advocate. DIR's day-to-day responsibility for making sure that the agency has an effective Ethics Program is assigned to the Ethics Officer who is also the General Counsel. The Ethics Officer is available to answer questions and research issues that concern state ethics laws and/ or the agency's own guidelines and policies.

DIR strives to promote an agency culture that encourages ethical conduct and commitment to compliance with the law. Every employee is expected to practice and maintain high standards of conduct and is prohibited from committing fraud, waste, or abuse. Employees are expected to perform their duties in a conscientious manner and to the highest standards on behalf of the agency, the State of Texas, and the general public. Moreover, employees are committed to:

- Serve the public interest, and place it above the private interests of themselves or anyone else.
- Use state property and resources for state purposes.
- Use information in a responsible manner and maintain confidentiality when appropriate.
- Respect and observe the law, and go beyond what the law minimally requires.
- Treat all persons with respect, dignity, and fairness.
- Strive for professional excellence.
- Demonstrate personal integrity.
- Demonstrate loyalty to each other and to every section and division within the agency.

Ethics is the branch of philosophy that defines what is good for the individual and for the society and establishes nature of obligations or duties that people owe themselves and one another.

Source: The Institute of Internal Auditors

The Texas Government Code 572 Subchapter C: *Standards of Conduct and Conflict of Interest Provisions*, requires each state agency to adopt a written Ethics Policy for the agency's employees, and distribute a copy of the Ethics Policy to new employees and officers. To comply with this mandate, DIR developed and documented guidance and expectations related to ethical conduct and conflicts of interest in the DIR Ethics Policy and in the Standards of Conduct and Professional Ethics sections of the DIR Employee

Handbook. In addition, to ensure that all DIR employees remain aware of ethical issues that may arise when working in public service, each employee is required to undergo ethics training at least once every two years.

Internal Audit included a DIR Ethics Evaluation audit in the Fiscal Year 2016 Internal Audit Annual Plan with the objective of evaluating the design, implementation, and effectiveness of the agency's ethics-related objectives, programs, and activities.

To accomplish this objective, Internal Audit gained an understanding of DIR's business processes designed to implement an effective DIR Ethics Program and interviewed subject matter experts, reviewed relevant documentation, administered an agency-wide survey to current employees, and conducted other evaluations and testing of transactions and training for the period covered by the project evaluation, February 2016 to May 2016.

In addition, Internal Audit assessed the maturity of the DIR Ethics Program using a maturity model with evolution levels progressing from "Initial" (Level 1) to "World Class" (Level 5). The maturity model design includes the following six ethics-related attributes:

1. Code of Ethics (policies, procedures, standards)
2. Culture and Consistency
3. Awareness
4. Structure and Accountability
5. Process Automation and Integration
6. Goals and Metrics

The DIR Ethics Evaluation audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* and in accordance with the *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results and conclusions based on our project objectives. We believe that the evidence obtained provides a reasonable basis for our results and conclusions based on our project objectives.

Detailed Results

DIR designed and implemented an Ethics Program that overall is effective. Employees perceive that Executive Leadership takes compliance seriously and “walks the walk” and that Executive Leadership, management, other employees, and contractors within their divisions demonstrate high ethical standards. Based on the evaluation performed, Internal Audit rated the maturity of the DIR Ethics Program as “Repeatable” (Level 2). In addition, Internal Audit assessed the maturity of the DIR Ethics Program using a maturity model with evolution levels progressing from “Initial” (Level 1) to “World Class” (Level 5). The maturity model design includes the following six ethics-related attributes:

1. Code of Ethics (policies, procedures, standards) – how effectively do DIR’s ethics-related objectives, programs, and activities outline management’s expectations regarding ethical conduct?
2. Culture and Consistency – how do employees perceive management’s commitment to ethics and compliance?
3. Awareness – how aware are employees of DIR’s ethics-related objectives, programs, and activities, and its requirements?
4. Structure and Accountability – how effective is the structure for managing the DIR Ethics Program and enforcing accountability?
5. Process Automation and Integration – how effectively are controls and processes standardized, integrated, and automated?
6. Goals and Metrics – how is success of the Ethics Program measured?

Contractor

For the purposes of this evaluation, a contractor is a person who is not hired for a wage or salary by DIR and performs work for DIR under a temporary contract.

The DIR Ethics Program is designed to influence the DIR Board members and employees. It includes policies and procedures, Ethics Training, The Board Member Guide, New Employee Orientation, background checks, reference checks, informal communication through staff meetings and email reminders addressing ethics-related matters and updates. The Ethics Officer, who is also the General Counsel, is responsible for implementing and managing the DIR Ethics Program. The Ethics Officer researches the law for ethics-related compliance requirements, receives and resolves ethics-related issues, dilemmas, or conflicts of interests, and investigates allegations and complaints of fraud, waste, or abuse in coordination with the Internal Auditor.

Employees have adopted the DIR ethics and are likely to apply them when faced with an ethical issue, dilemma, or conflict of interest. Internal Audit administered an agency-wide survey to all employees and received an overall response rate of 74% (146/198). Based on the results of the survey, employees agreed that the DIR Ethics Training is helpful and

- Developing, documenting, and implementing ethical values, responsibilities, and periodic attestations of compliance with the Code of Ethics and Standards of Conduct;
- Documenting processes for 1) raising ethical issues, dilemmas, or conflicts of interest, 2) handling and responding to ethical issues, dilemmas, conflicts of interest, or criminal conduct, 3) resolving, escalating, and reporting on ethical issues, dilemmas, or conflicts of interest, and 4) assessing criteria for allegations or complaints;
- Revising policy and training materials to ensure they are consistent and include additional guidance such as: acceptance and/or attendance to exclusive events, inappropriate actions, and scenarios and quizzes addressing ethical issues, dilemmas, and conflicts of interest; and
- Developing, documenting, and implementing goals, metrics, and a formal process for ongoing monitoring of the Ethics Program.

Attribute 1: Code of Ethics (Ethics Policy, Standards of Conduct, Professional Ethics)

1. Code of Ethics Rating

Repeatable (Level 2)

DIR designed and implemented an Ethics Program to influence the DIR Board members and employees. It mainly includes a Board Member Guide, Ethics Policy, Revolving Door Policy, and the Standards of Conduct and Professional Ethics documented in the Employee Handbook. The Board Member Guide provides the Board members with guidance on applicable laws, rules and policies, including ethics-related guidance and required training. The Ethics Officer is responsible for implementing and managing the DIR Ethics Program. The Ethics Officer researches the law for ethics-related compliance requirements, receives and resolves ethics-related issues, dilemmas, or conflicts of interests, and investigates allegations and complaints of fraud, waste, or abuse in coordination with Internal Audit. In addition, the Ethics Officer is responsible for updating the ethics-related policies and procedures.

Policies and procedures contain many of the typical elements found in a Code of Ethics; however, the guidance documented is not always consistent. For example: 1) while the Ethics Policy indicates the Ethics Officer is available to answer ethics-related questions or concerns, the Employee Handbook directs the employees to discuss ethical issues or dilemmas with an impartial person or anyone within the agency, 2) policies and procedures do not include values and responsibilities, and 3) do not address customer and service provider relationships (e.g. acceptance and attendance to exclusive events, inappropriate

actions, and scenarios and quizzes addressing ethical issues, dilemmas, and conflicts of interest).

New employees are required to sign a policy receipt asserting that they have read and understand the Ethics Policy, the Standards of Conduct, or the Professional Ethics. However, the assertions are inconsistent due to the policy receipt document does not include all required policies. The document may include the Ethics Policy or the Standards of conduct or both. In addition, employees at DIR are not required to sign periodic attestations of compliance with the DIR Code of Ethics (ethics policies) and Standards of Conduct.

The DIR Ethics Evaluation survey shows that while experienced employees generally understand management's expectations regarding ethical conduct and 77% (112/146) of DIR employees know who is the Ethics Officer, 18% (26/146) of employees surveyed indicated the Ethics Officer is other than the General Counsel. 22% (31/141) of the employees who responded to the survey indicated they do not have knowledge of the DIR Professional Ethics or Revolving Door policies.

Typical Elements of a Code of Ethics

1. Core Values and Responsibilities
2. Compliance with the Law
 - Antitrust Laws
 - Government Contracting
 - Bribes
 - Safety and Health
 - Securities
3. Customer and Supplier Relationships
 - Business Courtesies
 - Business Inducements
4. Conflicts of Interest
5. Protection and Use of Assets
 - Internal Controls
 - Reporting Integrity
 - Electronic Information
 - Privacy
 - Travel and Entertainment
 - Inside Information
6. Valuing Individual Diversity

Source: *The Institute of Internal Auditors*

Recommendations:

To mature the DIR Code of Ethics attribute from “Repeatable” (Level 2) to “Defined” (Level 3), the DIR Ethics Officer should:

- A. Have the DIR Board or designee approve the DIR ethics-related policies and review them periodically to determine what updates are needed.
- B. Revise existing policies and procedures to ensure they are comprehensive and provide consistent guidance.
- C. Ensure employees consistently receive copies of all required DIR ethics-related policies and standards, and sign a policy receipt that is comprehensive.
- D. Have employees sign periodic attestations of compliance with the DIR ethics-related policies and Standards of Conduct.

Management Response:

The DIR Ethics Office agreed with Internal Audit's recommendations.

The action plans, estimated completion dates, and responsible DIR management staff are documented in Appendix B of this report.

Attribute 2: Culture and Consistency

2. Culture and Consistency Rating

Defined (Level 3)

DIR designed and implemented an Ethics Program that is aligned with the state law and to address the legal ramifications of non-compliance. The Program is implemented and managed by the Ethics Officer with assistance from the Director of Human Resources. The Director of Human Resources ensures background checks and reference checks are consistently required and conducted on potential employees. The Director of Human Resources is also consulted to make sure disciplinary actions are appropriate and are in compliant with regulations. However, input to continue developing and improving the Program is not received from various employee groups, including Internal Audit.

Based on the survey results, DIR employees agree that individuals who engage in unethical behaviors or misconduct and are discovered, are subject to disciplinary actions. These disciplinary actions include immediate termination from DIR employment. Furthermore, 97% (139/144) of the employees who responded to the survey agreed that DIR effectively resolves ethical issues, dilemmas, and conflicts of interest.

At DIR, employees perceive that Executive Leadership takes compliance seriously and “walks the walk.” 97% (137/142) of the employees surveyed indicated that Executive Leadership and management within their divisions demonstrate high ethical standards. In addition, they indicated that 97% (141/145) of the employees or contractors they work with within their divisions demonstrate high ethical standards.

The Ethics Officer who is responsible for receiving and resolving most ethical complaints developed a protocol, through policy, for raising ethical issues and dilemmas and for seeking assistance on ethical matters. Employees are generally willing to seek guidance or consultation on ethical issues, dilemmas, or conflicts of interest. They survey results indicated that 36% (52/144) of employees have faced an ethical issue, dilemma, or conflict of interest while employed at DIR. Employees also feel empowered to raise questions about compliance matters when needed and noted that open discussions of ethics are encouraged at DIR.

Recommendations:

To mature the DIR culture and consistency attribute from “Defined” (Level 3) to “Mature” (Level 4), the DIR Ethics Officer should:

- A. Improve the DIR Ethics Program with input from various employee groups, including Internal Audit.

Management Response:

The DIR Ethics Office agreed with Internal Audit's recommendations.

The action plans, estimated completion dates, and responsible DIR management staff are documented in Appendix B of this report.

Attribute 3: Awareness (Training, Communications)

3. Awareness Rating

Defined (Level 3)

The DIR Ethics Program is designed to include awareness, training, and communication of ethics-related activities. There is widespread awareness of the Ethics Program among employees, contractors, and stakeholders. Compliance with ethics and/or ethical expectations, specifically for conflicts of interest, is sometimes disclosed in the standard terms and conditions of the agency contracts. In general, contractors are not required to file periodic disclosures of conflict of interest with DIR. On the other side, employees and Board members are required to sign declarations of conflict of interest but only if involved in the procurement of a contract.

The Ethics Officer with assistance from the Director of Human Resources is responsible for educating employees in ethics matters. DIR employees are required to take Ethics Training every two years. The Ethics Training is aligned with the DIR ethics policies and procedures and contains relevant topics such as:

- Conflict of interest,
- Acceptance of gifts,
- Acceptance of benefits, and
- Reporting of fraud, waste, or abuse.

However, only 18% (36/198) of the DIR workforce have taken the DIR Ethics Training; the other 82% (162/198) have taken ethics training from the Texas Ethics Commission which allows DIR to be in compliance with training requirements; however, this training is not aligned to DIR specific policies, procedures, and expectations. These employees are on a cycle to complete the DIR Ethics Training as their previous training becomes due, which can be as late as February 2018. Additional testing indicated that 13 employees have not taken ethics training within the two-year policy requirement. The current training process does not include a mechanism for employees to evaluate the training received or provide feedback on the usefulness of the training. Although, 89% (127/143) of the employees surveyed indicated the DIR Ethics Training is useful and informative. In addition, 43% (58/135) of the employees who responded to the survey indicated they would like to receive additional

training that includes scenarios or quizzes on ethical issues, dilemmas, or conflict of interest. Employees also feel confident in their preparedness to respond to ethical issues, dilemmas, or conflicts of interest.

In addition to training, the Ethics Officer implemented other communication venues to spread awareness and educate employees on ethics matters. Examples of these communication venues include: 1) the New Employee Orientation, 2) All DIR Staff Meetings, and 3) email reminders. These communication venues are not formally consistent or set on schedule and have not been formally implemented or documented (e.g. Ethics Communications Plan.)

Recommendations:

To mature the DIR awareness attribute from “Defined” (Level 3) to “Mature” (Level 4), the DIR Ethics Officer should:

- A. Develop a strategy to promptly train all DIR employees and follow-up on employees who do not complete the DIR Ethics Training timely (every two years), as required.
- B. Develop, document, and implement a process for employees to evaluate the DIR Ethics Training and provide feedback on the usefulness of the training.
- C. Document and implement an Ethics Communications Plan for DIR to improve agency-wide ethics awareness that includes:
 - Responsibilities of the Ethics Officer,
 - Code of Ethics, values, policies and procedures,
 - Formal discussions of compliance and ethics as standing topics in agency-wide and division-level meetings to ensure a consistent cultural message, and
 - Increased access to the DIR ethics policies, procedures, compliance, and expectations through the agency website, monitors, conference areas, and other venues.
- D. Incorporate more examples, scenarios, and quizzes related to ethical issues, dilemmas, or conflicts of interest into the DIR Ethics Training material and Ethics Communications Plan.

Management Response:

The DIR Ethics Office agreed with Internal Audit’s recommendations.

The action plans, estimated completion dates, and responsible DIR management staff are documented in Appendix B of this report.

Attribute 4: Structure and Accountability (Oversight, Monitoring, Reporting)

4. Structure and Accountability Rating Repeatable (Level 2)

DIR designed and implemented its Ethics Program, including the conduct of investigations, under the direction of the Ethics Officer, who is also the General Counsel. The Ethics Officer is responsible for receiving and resolving most ethical complaints, educating employees on ethics-related matters, and updating the ethics policies. Other attorneys within the General Counsel's Office serve as back-ups to the Ethics Officer on ethics matters, as needed. The Director of Human Resources also assists the Ethics Officer with some ethics-related activities such as training, background checks, and reference checks. These roles are properly assigned; however, specific responsibilities are not developed or documented. For example, documentation from communication provided to employees indicates that employees should consult with the Ethics Officer for guidance about any ethics-related issues they may have. This activity, while performed, is not documented as part of the Ethics Officer responsibilities. Accountability is broadly understood but not formally documented.

The Ethics Officer reports to the DIR Executive Director and has reporting responsibility to the DIR Board. The Ethics Officer promptly resolves and investigates complaints and routinely perform activities to implement and manage the Ethics Program. However, ethics-related issues, activities or investigations are reported to the DIR Executive Director and the DIR Board on a case-by-case basis. No formal reporting process has been implemented or documented to formally monitor and oversee the DIR Ethics Program, assess the DIR ethical climate, help detect instances of non-compliance, and evaluate the effectiveness of the Ethics Program. Formal reporting provides assurance that appropriate ethics-related and compliance information will be provided in a timely manner and as part of ordinary operations. At DIR, even though reporting is not periodic or formal, all complaints, unethical behaviors, and misconduct (including fraud, waste, or abuse) are resolved or investigated, and reported, as required.

The survey results revealed that 86% (113/132) of the employees who responded to the survey believe that DIR discovers or detects employees or contractors who engage in unethical behaviors or misconduct. On the other side, 14% (19/132) of the employees surveyed believed that DIR does not discover or detect employees or contractors who engage in unethical behaviors or misconduct.

Recommendations:

To mature the DIR structure and accountability attribute from "Repeatable" (Level 2) to "define" (Level 3), the DIR Ethics Officer should:

- A. Properly document ethics-related responsibilities, including the conduct of investigations and complaints, of the Ethics Officer, back-ups to the Ethics Officer, and Director of Human Resources.
- B. Develop, document, and implement a process for periodic reporting that includes the progress or results of ethics-related issues, and to ensure the DIR Board and DIR Executive Director can formally oversee and monitor the DIR Ethics Program and assess the DIR ethical climate.

Management Response:

The DIR Ethics Office agreed with Internal Audit's recommendations.

The action plans, estimated completion dates, and responsible DIR management staff are documented in Appendix B of this report.

Attribute 5: Process Automation and Integration

5. Process Automation and Integration Rating Repeatable (Level 2)

DIR designed and implemented an Ethics Program that includes compliance controls, policies, processes, and procedures. However, processes and procedures are not formally documented or standardized within the Office of the General Counsel's Office or across the agency divisions involved. Processes are manual in nature and not conducive to data collection strategies that could be used for data analysis, testing, and reporting purposes. For example, the Ethics Officer is responsible and currently investigates allegations of suspected fraud, waste, or abuse and receives and resolves ethics-related issues, dilemmas, or conflicts of interest.

However, there are no written processes or procedures for:

- Raising ethical issues, dilemmas, or conflicts of interest.
- Handling or responding to ethical issues, dilemmas, conflicts of interest, or criminal conduct.
- Resolving, escalating, or reporting on ethical issues, dilemmas, or conflicts of interest.
- Assessing criteria for allegations of investigations (e.g. source of the complaint, amount of tangible evidence, degree of detail of specificity, etc.)

Written processes and procedures delineate, for example, specific actions to take, recording responses, who is responsible, when and how the DIR Executive Director and the DIR

Board should be notified, and when and how outside parties should be notified. The State Auditor's Office (SAO) has a hotline (an external hotline) that is available for employees to report suspected fraud, waste, or abuse. DIR promotes and educates employees on the use of the hotline through its ethics policies and procedures, the DIR website, and postings in conspicuous locations of the agency such as "break rooms". Internal guidance also indicates that employees can report suspected fraud, waste, or abuse to the DIR Ethics Officer or the Internal Auditor through mail. Furthermore, 87% (126/145) of the employees surveyed indicated they know the communication channels and processes to report suspected improprieties, policy violations, fraud, waste, or abuse and they are willing to report suspected improprieties, policy violations, fraud, waste, or abuse.

The survey results also revealed that 86% (121/140) of the employees who responded to the survey believed they will be protected from retaliation if they report suspected improprieties, policy violations, fraud, waste, or abuse. Nevertheless, 83% (118/143) of employees indicated they have never perceived unethical behaviors or misconduct from other DIR employees or contractors, and 97% (139/144) of the employees agreed that DIR will effectively resolve ethical issues, dilemmas, and conflicts of interest if it happens.

Recommendations:

To mature the DIR structure and accountability from "Repeatable" (Level 2) to "define" (Level 3), the DIR Ethics Officer should:

A. Document processes for:

- Raising ethical issues, dilemmas, or conflicts of interest.
- Handling or responding to ethical issues, dilemmas, conflicts of interest, or criminal conduct.
- Resolving, escalating, or reporting on ethical issues, dilemmas, or conflicts of interest.
- Assessing criteria for allegations or complaints.

Management Response:

The DIR Ethics Office agreed with Internal Audit's recommendations.

The action plans, estimated completion dates, and responsible DIR management staff are documented in Appendix B of this report.

Attribute 6: Goals and Metrics (Reporting)

6. Goals and Metrics Rating

Initial (Level 1)

DIR designed and implemented an Ethics Program that includes policies, training, awareness, and accountability. However, no formal goals and metrics have been developed and implemented to properly evaluate compliance with ethics requirements, measure success, and evaluate the effectiveness of the Program. Establishing goals and metrics is critical in determining the contributions of the Ethics Program to DIR. In addition, goals and metrics are a great tool to properly exercise reporting, monitoring, and overseeing responsibilities. The goal(s) will establish what the DIR Ethics Program is trying to accomplish and the metrics will report on the progress of accomplishing the goal(s) and the results obtained. Examples of ethics-related metrics include:

- Percent of employees that took Ethics Training
- Number of ethics-related meetings conducted

While goals and metrics are not formalized at DIR, employees generally understand the purpose of the Ethics Program and believe the DIR ethics-related objectives and activities are effective (successful in producing the desired results). In addition, the survey results indicated that 95% (137/145) of DIR employees who responded to the survey felt confident in their preparedness to respond to ethical issues, dilemmas, or conflicts of interest.

Recommendations:

To mature the DIR goals and metrics attribute from “Initial” (Level 1) to “Repeatable” (Level 2), the DIR Ethics Officer should:

- A. Conduct periodic assessments or administer surveys to assess the DIR ethical climate.
- B. Develop, document, and implement goals and metrics for the Ethics Program.
- C. Develop, document, and implement a process for periodic reporting on the goals and metrics, and the results of the periodic assessments or surveys.

Management Response:

The DIR Ethics Office agreed with Internal Audit’s recommendations.

The action plans, estimated completion dates, and responsible DIR management staff are documented in Appendix B of this report.

Appendix A – Objective, Scope, and Methodology

Objective

To evaluate the design, implementation, and effectiveness of DIR's ethics-related objectives, programs, and activities

Scope and Methodology

Internal Audit interviewed DIR subject matter experts, reviewed relevant documentation, administered an agency-wide survey to current employees, and conducted other evaluations and testing of transactions and training for the period covered by the project evaluation, from February 2016 to May 2016. In addition, Internal Audit assessed the maturity of the DIR Ethics Program using a maturity model with evolution levels progressing from "Initial" (Level 1) to "World Class" (Level 5).

Appendix B – Criteria

Ethics Maturity Model

Using a maturity model is the first in a series of steps DIR can take to evaluate and improve its Ethics Program. An in-depth understanding of the ethics-related attributes and the maturity model levels helps DIR target the optimum level to achieve in relation to each ethics-related attribute. DIR can choose to target different levels of maturity for each of the six attributes based on the agency needs, goals, objectives, and risk appetite.

The following maturity model from the International Professional Practices Framework of the Institute of Internal Auditors, *Practice Guide: Evaluation Ethics-Related Programs and Activities*, is useful in assessing the maturity level of the main attributes that are part of a comprehensive Ethics Program.

Attribute	Initial	Repeatable	Defined	Mature	World Class
1. Code of Ethics <i>(How effectively does the Code outline management's expectations regarding ethical conduct?)</i>	<ul style="list-style-type: none"> There is no formally documented code of ethics. In general, there are no other means of communicating management's expectations regarding ethical conduct. 	<ul style="list-style-type: none"> A Code of Ethics has been developed, but it may not be comprehensive or current. Experienced employees generally understand management's expectations regarding ethical conduct, but new employees may not have any way of determining those expectations. 	<ul style="list-style-type: none"> A comprehensive Code of Ethics exists, was approved by the Board and is reviewed every two to three years to determine what updates are needed. All employees must sign off annually that they comply with the Code of Ethics. New employees must sign a document asserting that they have read and understand the Code. 	<ul style="list-style-type: none"> Outside counsel reviews the Code of Ethics as appropriate to ensure it remains current and appropriate. The Code of Ethics is reviewed annually and updated as necessary. All employees must complete annual questionnaires that ask more probing questions regarding compliance with the Code of Ethics. 	<ul style="list-style-type: none"> Specific compliance policies are in place to support and provide additional guidance on key components of the Code of Ethics. Periodic focus groups and/or surveys are conducted with a representative sample of employees to assess their understanding of the Code of Ethics and their perceptions on level of compliance throughout the organization.
2. Culture and Consistency <i>(How does the organization perceive management's commitment to compliance?)</i>	<ul style="list-style-type: none"> The organization seems indifferent to compliance. The program was developed by very few 	<ul style="list-style-type: none"> There are perceptions that compliance is important. Program was developed to address legal 	<ul style="list-style-type: none"> There are perceptions that senior management takes compliance seriously and "walks the walk." 	<ul style="list-style-type: none"> Compliance and ethics are topics at organization and department-level meetings, ensuring a consistent 	<ul style="list-style-type: none"> Periodic surveys or focus groups are conducted to assess the perception of compliance culture and make

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Attribute	Initial	Repeatable	Defined	Mature	World Class
	<p>individuals with no outside input.</p> <ul style="list-style-type: none"> • There are perceptions of disciplinary inconsistencies and “playing favorites.” • People are promoted without formal consideration of ethical conduct. • Noncompliance events are typically learned from complaints versus monitoring or audit activities. 	<p>ramifications of noncompliance.</p> <ul style="list-style-type: none"> • Discipline generally is left to the discretion of business and department managers and, as such, is not consistent. • While ethical conduct seems to be considered, it’s not a part of job descriptions. • Noncompliance events generally are reported timely, but there are few efforts to report events before they become noncompliant. 	<ul style="list-style-type: none"> • The program was developed with input from Legal, Human Resources, and Internal Audit. • Human Resources is consulted to make sure disciplinary actions are appropriate and compliant with regulations. • Job descriptions include expectations for ethical conduct. • Many employees raise compliance questions before they become a problem. 	<p>cultural message.</p> <ul style="list-style-type: none"> • The program was developed with input from various employee groups. • Disciplinary decisions involve an appropriate mix of Human Resources, Legal, and Compliance personnel to ensure appropriateness and consistency. • Job descriptions and interviews formally cover ethical conduct. • Employees feel empowered to raise questions about compliance matters. 	<p>adjustments if needed.</p> <ul style="list-style-type: none"> • Periodic input is solicited from employees to help improve the program. • Disciplinary actions are reviewed by an independent group (e.g., Internal Audit) to support the consistency of such actions. • People are recognized for demonstrating ethical conduct. • Employees make recommendations for improving the compliance program.
<p>3. Awareness</p> <p><i>(How aware are employees [EEs] and outside stakeholders of the compliance program and its requirements?)</i></p>	<ul style="list-style-type: none"> • Employees generally are aware that the program exists, but they are not sure how to get information about it. • Employees aren’t familiar with specific requirements. • Employees don’t know who the compliance manager or risk area officers are. 	<ul style="list-style-type: none"> • Employees are aware program exists, went through training once and intuitively know some, but not all, requirements of the program. • Employees know who the chief compliance officer and/or compliance manager are, but not the risk area officers. 	<ul style="list-style-type: none"> • There is widespread employee awareness of the program. • All employees went through training in the last three years. • Employees know who the chief compliance officer and compliance manager are. • Employees know about the risk area officer 	<ul style="list-style-type: none"> • Annual training reinforces the program, with individual modules delivered in more depth. • Employees know who all of the risk area officers are and generally understand the responsibilities of each risk area. • Compliance with the program and ethical 	<ul style="list-style-type: none"> • Communications occur on a regular basis to remind/ update employees on program expectations. • The program is part of external sustainability reporting conducted annually.

DIR Ethics Evaluation

Attribute	Initial	Repeatable	Defined	Mature	World Class
	<ul style="list-style-type: none"> Stakeholders know nothing about the program. 	<ul style="list-style-type: none"> Stakeholders assume a program exists, but don't know anything about it or where to get information. 	<p>positions, and may know one or two if they work with them, but they don't know most of them.</p> <ul style="list-style-type: none"> Stakeholders are aware the program exists and can find references on the company website. 	<p>expectations are covered in contracts with vendors.</p>	
<p>4. Structure and Accountability</p> <p><i>(How effective is the structure for managing the program and enforcing accountability?)</i></p>	<ul style="list-style-type: none"> There is no formal compliance structure. Independent oversight is nonexistent or ad hoc. Accountability is not defined. Investigations are ad hoc. Compliance risks are not understood. 	<ul style="list-style-type: none"> A compliance officer has been designated, but the responsibilities of the position are not well-developed. Oversight and monitoring are inconsistent and reactionary. Accountability is broadly understood but not formally documented. Investigations are typically conducted by appropriate personnel. Compliance risks are generally understood but not formally documented. 	<ul style="list-style-type: none"> A compliance structure has been established, with accountability assigned to risk area officers. Oversight is defined from a senior management and board perspective. Monitoring is established, including Internal Audit and others. There is a focal point for determining who should conduct investigations. Compliance risks and scenarios are documented. 	<ul style="list-style-type: none"> Reporting by risk area officers to the compliance manager is timely and consistent. The applicable Board committee receives quarterly updates on compliance matters. Internal Audit has a consistent plan for auditing all compliance risks. A formal investigation protocol outlines appropriate resources to use (internal vs. external), documentation requirements, and how investigations are closed. A formal compliance risk assessment has been completed. 	<ul style="list-style-type: none"> An integrated monitoring plan has been implemented that involves the compliance manager, risk area officers, and Internal Audit. Sensitive or significant investigations are conducted in accordance with the protocol by individuals trained in forensic and investigation techniques. Compliance risk scenarios have been identified, assessed, and mapped to compliance controls and are updated at least annually.

DIR Ethics Evaluation

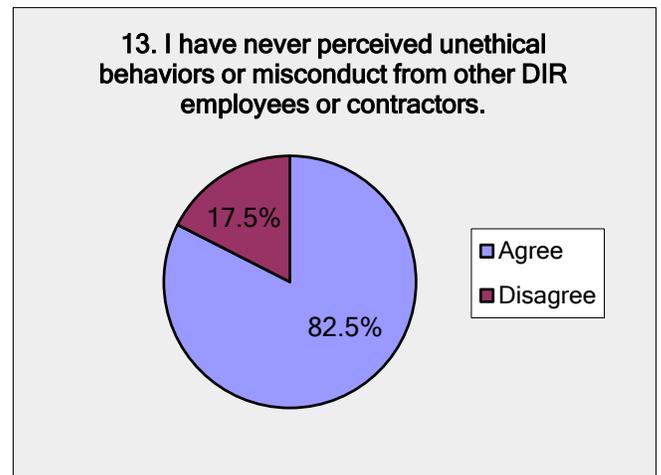
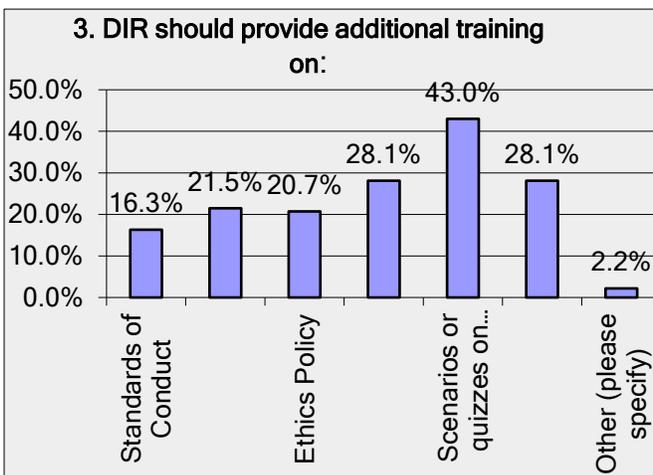
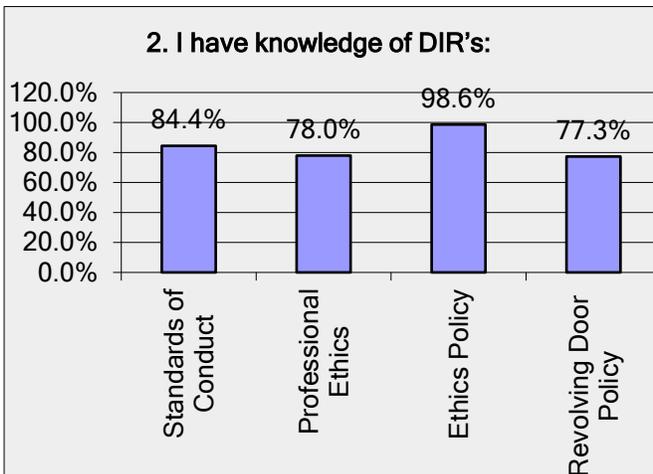
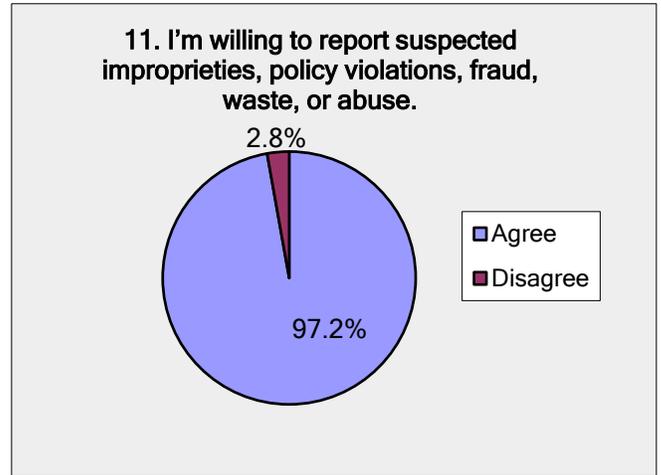
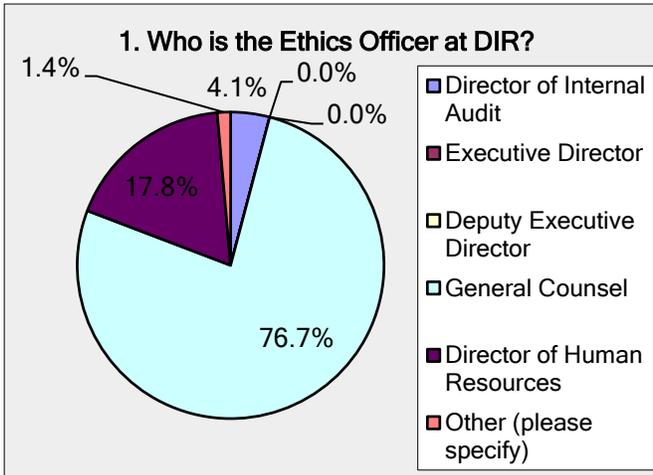
Attribute	Initial	Repeatable	Defined	Mature	World Class
5. Process Automation and Integration <i>(How effectively are compliance controls and processes standardized, integrated, and automated?)</i>	<ul style="list-style-type: none"> • There are no formal compliance controls or procedures, although many employees know intuitively how to act. • There is no formal protocol for employees for outsiders to report suspected noncompliance events. • Information/ data related to compliance is not available. 	<ul style="list-style-type: none"> • There are some compliance controls and procedures, but they are not consistent across the organization or formally documented. • There is limited testing of the controls and procedures in place. • Employees generally understand that they can contact Legal or Human Resources if they suspect a noncompliance event. • Information/ data related to compliance events is difficult to compile. 	<ul style="list-style-type: none"> • Compliance controls and procedures are well-documented and standardized across the organization. • Compliance controls and procedures are tested periodically to identify gaps or weaknesses. • An external hotline is in place to which employees or outsiders can report suspected noncompliance events. • Some compliance controls are integrated with other business processes and automated to the extent existing systems supports it. • Some standard reports are prepared related to compliance events. 	<ul style="list-style-type: none"> • Compliance controls and procedures are an integral part of business processes. • Many compliance controls address key compliance risks as part of a governance, risk, and compliance (GRC) view of the program. • There are multiple avenues through which employees or outsiders can report suspected noncompliance events, and all follow a consistent protocol for gathering information on the event and escalating it. • A consistent test plan is used to ensure compliance controls and procedures operate effectively. • Technology is used to aid in the identification and investigation of compliance events. 	<ul style="list-style-type: none"> • The company has established an integrated GRC program that ensures compliance risks are managed consistent with the organization's risk appetite. • Event management software is used to ensure all key data is gathered and the resolution of events is documented in a complete and consistent manner. • GRC software is used to provide integrated information on the program. • Integrated technology routines are run on a regularly scheduled basis to prevent or detect timely potential compliance events.
6. Goals and Metrics	<ul style="list-style-type: none"> • No formal goals or metrics exist 	<ul style="list-style-type: none"> • While goals and metrics are not formalized, 	<ul style="list-style-type: none"> • Broad compliance goals are 	<ul style="list-style-type: none"> • Specific compliance goals are 	<ul style="list-style-type: none"> • All employees have individual

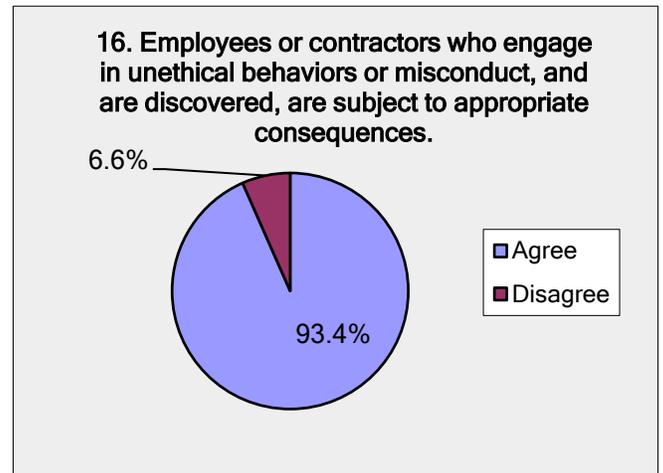
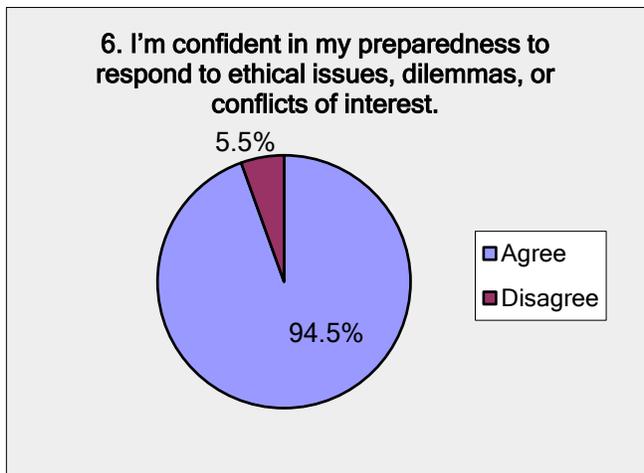
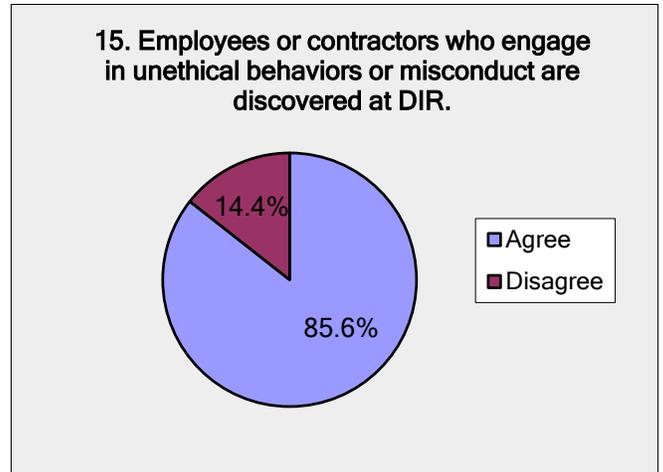
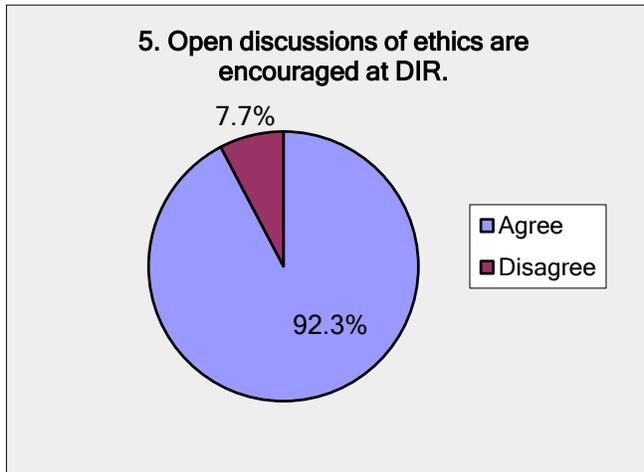
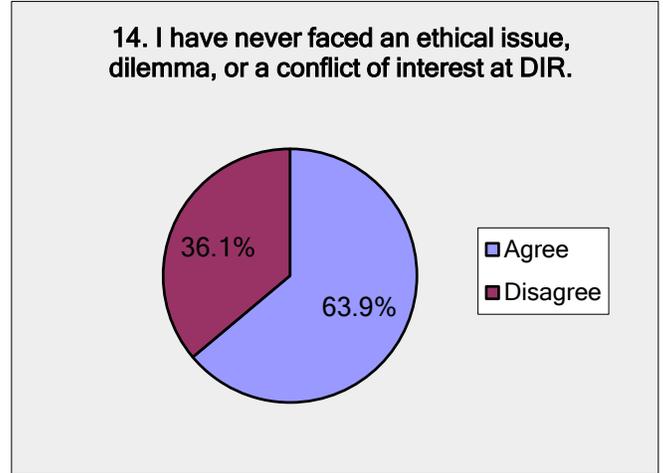
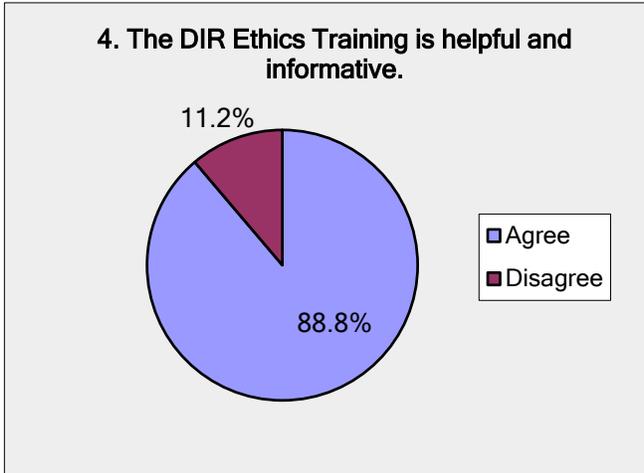
DIR Ethics Evaluation

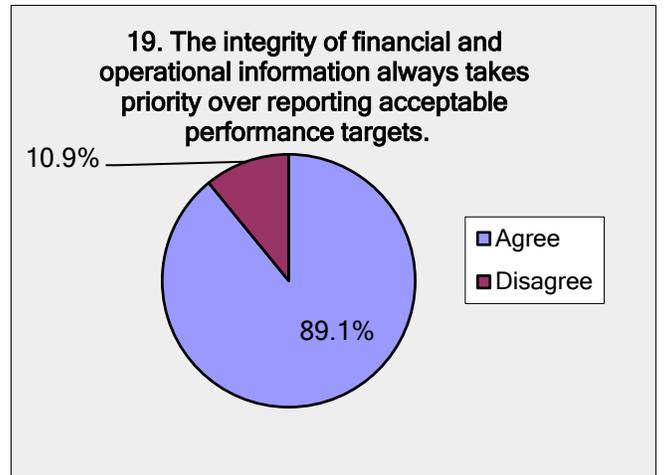
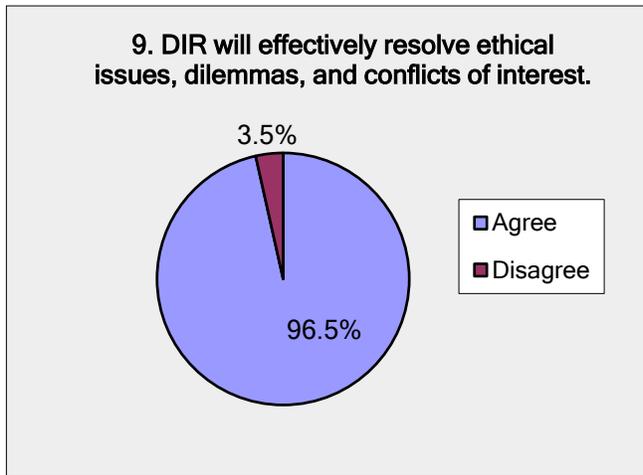
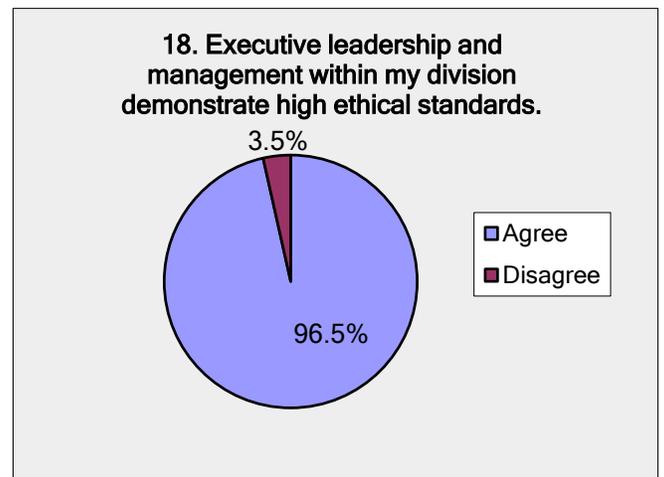
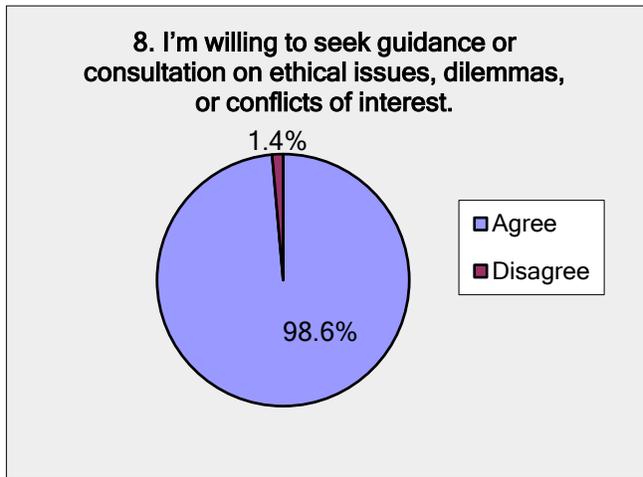
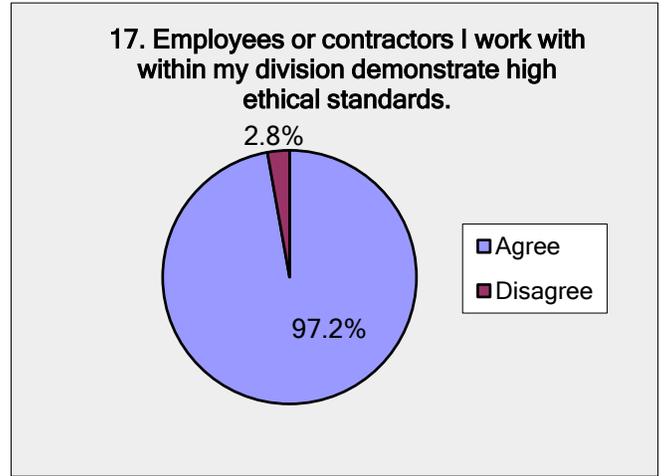
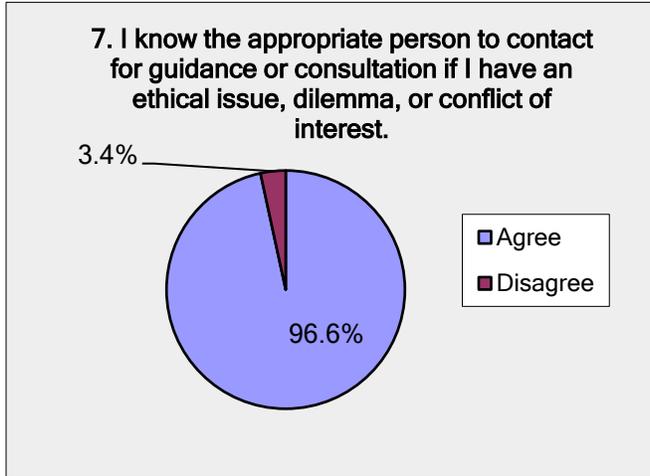
Attribute	Initial	Repeatable	Defined	Mature	World Class
<i>(How is success of the compliance program measured?)</i>	or are contemplated.	employees generally understand that the absence of compliance events is indicative of a successful program.	established and communicated. <ul style="list-style-type: none"> • Broad metrics exist to measure the nature and frequency of compliance events. 	integrated into the annual goal setting process for each risk area. <ul style="list-style-type: none"> • Metrics are established for each risk area. 	compliance goals. <ul style="list-style-type: none"> • Metrics are integrated into the overall performance measurement process.

Appendix C – Survey Results

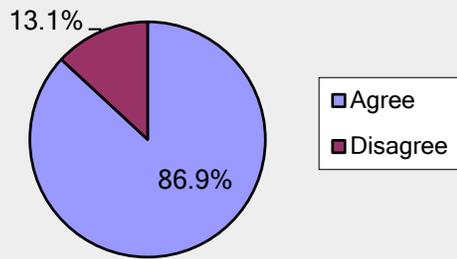
DIR Ethics Evaluation Survey – Employees



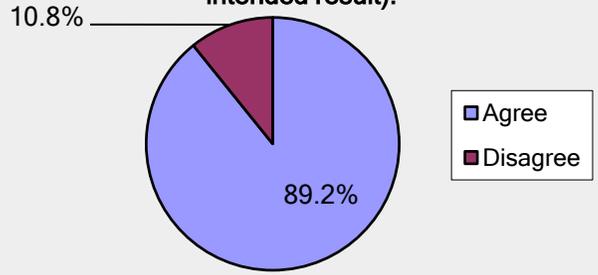




10. I know the communication channel and process for reporting suspected improprieties, policy violations, fraud, waste, or abuse.



20. DIR ethics-related objectives, programs, and activities are effective (successful in producing the desired or intended result).



Appendix D – DIR Management Responses

Action Plans

Planned course of action to address the recommendation.

Estimated Completion Dates

Date on which the action plan will be finished.

Responsible Management Staff

Manager responsible for the implementation and execution of the action plan.

Recommendation	Action Plan	Estimated Implementation Date	Responsible Management Staff
Attribute 1: Code of Ethics (Ethics Policy, Standards of Conduct, Professional Ethics)			
A. Have the DIR Board or designee approve the DIR ethics-related policies and review them periodically to determine what updates are needed.	Ethics policies will be reviewed and approved by the Executive Director, and by the Board in conjunction with Rule Review of TAC Chapter 201.	9/30/2016	Ethics Officer, General Counsel
B. Revise existing policies and procedures to ensure they are comprehensive and provide consistent guidance.	All ethics-related policies will be reviewed and updated, and consolidated wherever appropriate.	8/31/2016	<ul style="list-style-type: none"> • Ethics Officer, General Counsel • Director of Human Resources, Chief Financial Office
C. Ensure employees consistently receive copies of all required DIR ethics-related policies and standards, and sign a policy receipt that is comprehensive.	The Human Resources Division (HRD) will revise the policy receipt document following the completion of item 1.B.	10/31/2016	Director of Human Resources, Chief Financial Office
D. Have employees sign periodic attestations of compliance with the DIR ethics-related policies and Standards of Conduct.	HRD will ensure that all employees sign periodic attestations of compliance using the Centralized Accounting, Payroll, and Personnel System's (CAPPS) Learning Management System.	12/31/2016	Director of Human Resources, Chief Financial Office
Attribute 2: Culture and Consistency			
A. Improve the DIR Ethics Program with input from various employee groups, including Internal Audit.	The DIR Ethics Training related survey will be used to request feedback from employees regarding how improvements can be made to	12/31/2016	Ethics Officer, General Counsel

DIR Ethics Evaluation

Recommendation	Action Plan	Estimated Implementation Date	Responsible Management Staff
	<p>DIR Ethics Program. HRD is responsible for gathering feedback from surveys and will communicate any feedback received to the Ethics Officer. The Ethics Officer will review and consider all feedback for improving the Program.</p>		
Attribute 3: Awareness (Training, Communications)			
<p>A. Develop a strategy to promptly train all DIR employees and follow-up on employees who do not complete the DIR Ethics Training timely (every two years), as required.</p>	<p>HRD will ensure that all employees complete the new DIR Ethics Training Program utilizing the CAPPS Learning Management System and complying with the requirement to obtain DIR Ethics Training every two years.</p>	12/31/2016	<p>Director of Human Resources, Chief Financial Office</p>
<p>B. Develop, document, and implement a process for employees to evaluate the DIR Ethics Training and provide feedback on the usefulness of the training.</p>	<p>The DIR Ethics Training related survey will be used to request feedback from employees regarding how improvements can be made to DIR Ethics Training Program. HRD is responsible for gathering feedback from surveys and will review and consider all feedback for improving the Program.</p>	12/31/2016	<p>Director of Human Resources, Chief Financial Office</p>
<p>C. Document and implement an Ethics Communications Plan for DIR to improve agency-wide ethics awareness that includes, at a minimum:</p> <ul style="list-style-type: none"> • Responsibilities of the Ethics Officer, • Code of Ethics, values, policies and procedures, • Formal discussions of compliance and ethics as standing topics in agency-wide and division-level meetings to ensure a consistent cultural message, and • Increased access to the DIR ethics policies, procedures, compliance, and expectations through the agency website, monitors, conference areas, and other venues. 	<p>HRD will document and implement an Ethics Communication Plan for DIR. The communication plan will include various venues for improving awareness of DIR's Ethics Program. OGC will address ethics in at least one agency wide meeting annually and will offer to speak at any staff meeting. Following redraft, ethics policies will be made more readily available to staff, including posting to DIR's intranet page and other venues. Contract standard terms will be reviewed to add additional ethics provisions as appropriate for contractors.</p>	12/31/2016	<ul style="list-style-type: none"> • Director of Human Resources, Chief Financial Office • Ethics Officer, General Counsel

DIR Ethics Evaluation

Recommendation	Action Plan	Estimated Implementation Date	Responsible Management Staff
D. Incorporate more examples, scenarios, and quizzes related to ethical issues, dilemmas, or conflicts of interest into the DIR Ethics Training material and Ethics Communications Plan.	HRD, in collaboration with the Ethics Officer, will consider and incorporate more examples, scenarios, and quizzes related to ethical issues, dilemmas, or conflicts of interest in training materials and communications.	8/31/2016	Director of Human Resources, Chief Financial Office
Attribute 4: Structure and Accountability (Oversight, Monitoring, Reporting)			
A. Properly document ethics-related responsibilities, including the conduct of investigations and complaints, of the Ethics Officer, back-ups to the Ethics Officer, and Director of Human Resources.	The Ethics Officer will update the Ethics Policy to include documentation and processes, as noted.	12/31/2016	Ethics Officer, General Counsel
B. Develop, document, and implement a process for periodic reporting that includes the progress or results of ethics-related issues, and to ensure the DIR Board and DIR Executive Director can formally oversee and monitor the DIR Ethics Program and assess the DIR ethical climate.	The Ethics Officer will report periodically to the Executive Director regarding ethics-related issues. The Ethics Officer, with input from the Executive Director, will determine which ethics issues should be brought to the attention of the DIR Board.	12/31/2016	Ethics Officer, General Counsel
Attribute 5: Process Automation and Integration			
A. Document processes for: <ul style="list-style-type: none"> • Raising ethical issues, dilemmas, or conflicts of interest. • Handling or responding to ethical issues, dilemmas, conflicts of interest, or criminal conduct. • Resolving, escalating, or reporting on ethical issues, dilemmas, or conflicts of interest. • Assessing criteria for allegations or complaints. 	The Ethics Officer will update the Ethics Policy to include documentation and processes as noted.	12/31/16	Ethics Officer, General Counsel
Attribute 6: Goals and Metrics (Reporting)			
A. Conduct periodic assessments or administer	HRD will use the biennial Survey of Employee Engagement to assess	Completed	Director of Human

DIR Ethics Evaluation

Recommendation	Action Plan	Estimated Implementation Date	Responsible Management Staff
surveys to assess the DIR ethical climate.	the DIR ethical climate and report results to DIR Executive Leadership, including the Ethics Officer.		Resources, Chief Financial Office
B. Develop, document, implement goals and metrics for the Ethics Program.	HRD, in collaboration with the Ethics Officer, will develop, document, implement goals and metrics for the DIR Ethics Program.	10/31/2016	Director of Human Resources, Chief Financial Office
C. Develop, document, and implement a process for periodic reporting on the goals and metrics, and the results of the periodic assessments or surveys.	HRD, in collaboration with the Ethics Officer, will develop, document, implement a process for periodic reporting on the goals and metrics, and the results of the periodic assessments or surveys.	10/31/2016	Director of Human Resources, Chief Financial Office

Appendix E – Report Distribution

Internal Report Distribution

Department of Information Resources (DIR) Board

DIR Executive Director

DIR Deputy Executive Director

DIR General Counsel

DIR Public Affairs Officer

DIR Chief Procurement Officer

DIR Chief Financial Officer

DIR Human Resources Director

DIR Chief Operations Officer

DIR Chief Information Security Officer

DIR Chief Technology Officer

DIR Statewide Data Coordinator

External Report Distribution

Texas Office of the Governor

Texas Legislative Budget Board

Texas State Auditor's Office

Texas Sunset Advisory Commission