

Internal Audit

**Fiscal Year 2018
Internal Audit Annual Report**

18-303

October 2018



Department of Information Resources

Internal Audit Mission Statement

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.

DIR Internal Audit

Catherine J. Sherwood, CPA, CISA, CTCM | Interim Director

Table of Contents

Background.....	1
Objective	1
Acknowledgement.....	1
Detailed Results	2
I. Compliance with Texas Government Code, Section 2102.015.....	2
II. Internal Audit Plan for Fiscal Year 2018.....	3
III. Consulting Services and Non-Audit Services Completed	6
IV. External Quality Assurance Review (Peer Review).....	9
V. Internal Audit Plan for Fiscal Year 2019.....	10
VI. External Audit Services Procured in Fiscal Year 2018	10
VII. Reporting Suspected Fraud and Abuse.....	13
Appendix A: Report Distribution	15

Background

The Texas Internal Auditing Act (Texas Government Code 2102) requires certain state agencies like the Department of Information Resources (DIR) to submit an Internal Audit Annual Report each year to the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office (SAO), and the entities' governing boards and chief executives. The SAO is charged with prescribing the form and content of the annual report.

In compliance with that mandate, the SAO sets forth guidelines to assist state agencies in preparing the Internal Audit Annual Report. The guidelines represent the SAO's minimum requirements and do not preclude DIR from including additional information in its annual report.

Objective

The purpose of the Internal Audit Annual Report is to provide information on the assurance services, consulting services, and other activities of the Internal Audit function and to assist oversight agencies in their planning and coordination efforts.

Acknowledgement

The DIR Fiscal Year 2018 Internal Audit Annual Report has been prepared in accordance with the guidelines prescribed by the SAO, as required.

Detailed Results

I. Compliance with Texas Government Code, Section 2102.015

Compliance with Texas Government Code, Section 2102.015: Posting the approved Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on the DIR Internet Web site¹

Requirements

Texas Government Code §2102.015 requires each state agency to post the agency's approved Internal Audit Plan and Annual Report on the agency's internet website, at the time and manner prescribed by the State Auditor's Office (SAO). The SAO, in its instructions for the Fiscal Year 2018 Annual Report, directed state agencies to post this information within 30 days of approval.

Texas Government Code, §2102.015 also requires state agencies to update the postings at the time and manner communicated by the SAO to include detailed summaries, if any, raised by the audit plan or annual report, consisting of:

- Weaknesses
- Deficiencies
- Wrongdoings
- Other Concerns

Agencies are also to include a summary of actions taken to address the concerns, if any, raised by the audit plan or annual report.

DIR Compliance with Requirements

The Department of Information Resources (DIR) Internal Audit web page is located at <http://dir.texas.gov/View-About-DIR/Pages/Content.aspx?id=44>. The Fiscal Year 2018 Internal Audit Plan and the Fiscal Year 2017 Annual Report were posted on the Department of Information Resources (DIR) internet website in October 2017.

¹ House Bill 16 (83rd Legislature, Regular Session) amended the Texas Internal Auditing Act (Texas Government Code 2102) to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans, internal audit annual reports, and any weaknesses or concerns resulting from the audit plan or annual report on the entity's Internet web site within 30 days after the audit plan and annual report are approved by the entity's governing board or chief executive.

The Fiscal Year 2019 Internal Audit Plan and Fiscal Year 2018 Annual Report will be presented to the DIR Board November 1, 2018, the next scheduled DIR Board Meeting. Any identified weaknesses, deficiencies, wrongdoings, or other concerns raised in the Internal Audit Annual Plan or the Internal Audit Annual Report, as well as a summary of actions taken by DIR to address any concerns are part of this Annual Report. Reports will be posted on the DIR internet website within 30 days after this date.

II. Internal Audit Plan for Fiscal Year 2018

The Internal Audit Annual Plan for Fiscal Year 2018 was approved by the DIR Board in October 2017. It included planned audits and other required projects for the fiscal year. The following table includes the completion status of DIR Internal Audit projects, including the project number, project name, status and report date, as applicable.

Audit Project #	Audit Project Name/ Report Title/ Objective(s)	Status	Report Date
18-100	Assurance Audits – Tier 1		
17-101	<p><i>DCS Vendor Management and Performance</i> (carried forward to Fiscal Year 2018)</p> <p>Objective:</p> <ul style="list-style-type: none"> To determine whether the data center services reported vendor performance complies with established service level agreements. 	Complete	January 2018
17-102	<p><i>Network Security Operations</i> (carried forward to Fiscal Year 2018)</p> <p>Objectives:</p> <ul style="list-style-type: none"> To assess whether the operations of the DIR network security function are in compliance with applicable state law and regulations, contract requirements, and best practices. Assess the implementation status of the audit recommendations included in Report #13-105: Network Security Operations Audit. 	Complete	January 2018
18-101	<p><i>TEX-AN Vendor Management and Performance</i></p> <p>Objective:</p> <ul style="list-style-type: none"> To assess whether the TEX-AN NG vendor(s) is being properly managed and performing in accordance to established service level agreements. 	Complete	August 2018

Audit Project #	Audit Project Name/ Report Title/ Objective(s)	Status	Report Date
18-102	<p><i>Data Center Services Compliance with the Texas Administrative Code</i></p> <p>Objective:</p> <ul style="list-style-type: none"> To assess whether the data center services are performed in accordance to the requirements of the Texas Administrative Code, Chapters 202 and 215. 	Complete	September 2018
Assurance Audits – Tier 2			
-	<i>Vendor Sales Reporting for Non-USAS Customers</i>	Not Started	-
-	<i>Hybrid Cloud Services Billing</i>	Not Started	-
18-200 Consulting and Non-Audit Services			
	External Audit Coordination	Complete	N/A
	Management Advisory Project (MAP)	Complete	N/A
-	Workgroups/ Governance Boards	Ongoing	N/A
-	Reserved for DIR Board and Executive Leadership Projects	N/A	N/A
18-300 Required Projects			
	Follow-up on Audit Recommendations	Complete	N/A
	Fiscal Year 2019 Internal Audit Risk Assessment/ Annual Plan*	Complete	October 2018
	Fiscal Year 2018 Internal Audit Annual Report	Complete	October 2018
	Fiscal Year 2018 Internal Audit Annual Assessment	Complete	September 2018

Explanation of Deviations

Tier 2 Projects: DIR Internal Audit did not budget hours Tier 2 projects which included the a) Vendor Sales Reporting for Non-USAS Customers and b) Hybrid Cloud Services Billing audits during Fiscal Year 2018. However, the residual risks associated with these auditable activities were re-assessed as part of the Fiscal Year 2019 Internal Audit Risk Assessment project, and these projects were included in the FY 2019 Audit Plan.

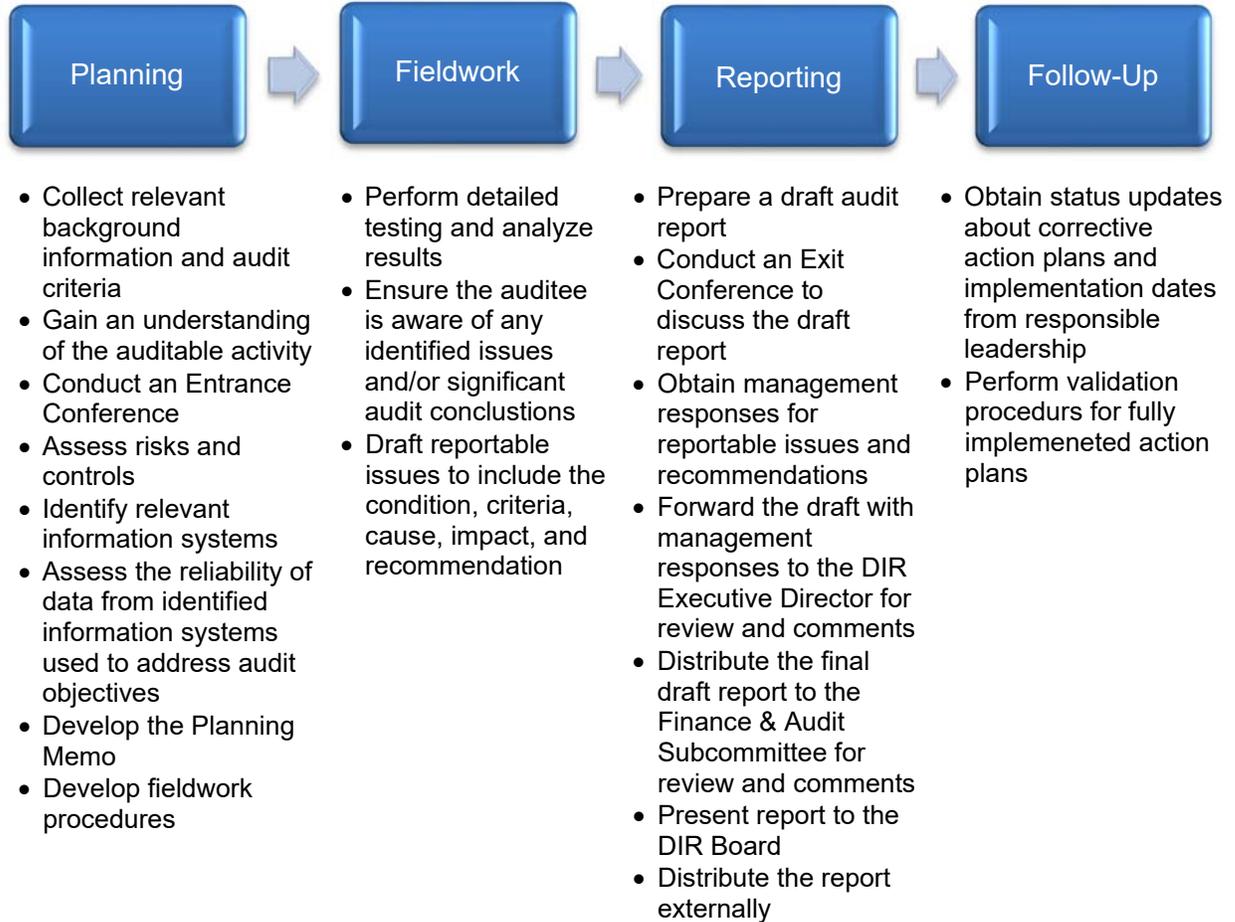
DIR Board and Executive Leadership Projects: These budgeted hours were allocated to other management advisory projects during fiscal year 2018 in support of DIR compliance initiatives. Examples of advisory services provided were (a) research and input about the different types of SOC reports for use in enterprise and other DIR contracts and (b) participation in a compliance workgroup focused on developing a Salesforce tool to improve tracking of implementation status for prior audit action plans.

DCS Compliance with TAC Audit: Delays in completing this outsourced audit project was attributed to turnover that occurred in Q4 Fiscal Year 2018, which resulted in additional hours to complete quality assurance review by a new team member prior to releasing the final report.

There were no other deviations from the Fiscal Year 2018 Internal Audit Plan.

Internal Audit Process

DIR Internal Audit implements the audit process shown in the graphic below assurance audits included in the annual plan and to comply with auditing standards.



III. Consulting Services and Non-Audit Services Completed

Consulting Services Completed

Consulting services as defined by *The Institute of Internal Auditors (The IIA)* are advisory in nature, and generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to agreement with the engagement client. Consulting services generally involve two parties: 1) the person or group offering the advice — the Internal Auditor, and 2) the person or group seeking and receiving the advice — the engagement client. DIR Internal Audit did not perform consulting services in Fiscal Year 2018.

Non-Audit Services Completed

Non-audit services are described by *The General Accountability Office (GAO)* as services that support the entity’s operations such as: 1) certain accounting and financial services, 2) assistance services, 3) separate evaluations, 4) certain Information Technology and valuation services, and 5) participation in committees as non-voting members.

The following table includes the non-audit services completed during fiscal year 2018, including the report number, title, objective(s), results, recommendation(s), and report date, if any.

Project #	Title/ Objective(s)	Results/ Recommendation(s)	Report Date
18-200	Non-Audit Services		
External Audit Coordination – Internal Audit serves as the liaison and assist with the State Auditor's Office (SAO) and other state external entities with oversight audit and review responsibility.			
18-201	<p><i>Texas.Gov Financial Audit Report for Calendar Year (CY) 2017</i> Objective:</p> <ul style="list-style-type: none"> To perform an examination of the vendor's (NIC) financial statements and accompanying disclosures for calendar year 2017. The audit covers the vendor's (NIC or Company) finances for the period from January 1, 2017 to December 31, 2017 and a validation of the completeness and accuracy of the 1) state share, and 2) local funds revenue accounts. 	<p>Results/Audit Opinions:</p> <ul style="list-style-type: none"> All three reports had unqualified opinions and no finding were reported. <p>Recommendation(s):</p> <ul style="list-style-type: none"> None 	August 2018
	<p><i>Federal Compliance Audit – Uniform Guidance (aka 2017 State of Texas OMB A-133 Audit (aka Single Audit)</i> Objective:</p> <ul style="list-style-type: none"> Determine the State of Texas compliance with the compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the State's major federal 	<p>Results:</p> <ul style="list-style-type: none"> No issues were reported. Verbal comments were reported for the Information Technology (IT) systems audited. These verbal comments are considered confidential and not for public release. <p>Recommendation(s):</p> <ul style="list-style-type: none"> None 	February 2018

FY 2018 Internal Audit Annual Report

Project #	Title/ Objective(s)	Results/ Recommendation(s)	Report Date
	programs, as of year ending August 31, 2017.		
<p>Management Advisory Project (MAP) – Internal Audit performs these projects generally at the request of DIR management or the DIR Board, however, certain non-audit services may be:</p> <ul style="list-style-type: none"> • Required by a law or regulation • Planned as part of the Internal Audit Plan • An assurance project that is scaled to address agency specific needs 			
18-201	<p><i>Data Center Services Consolidation Measurement Report</i></p> <p>Objective:</p> <ul style="list-style-type: none"> • To coordinate with DIR and provide guidance on measuring and reporting on <ul style="list-style-type: none"> ○ 1) the progress of the data center services (DCS) consolidation effort, and ○ 2) the DCS financial performance – cost savings. 	<p>The DCS Consolidation Measurement Report (the Report) was in process when this Internal Audit Annual Report was completed. For FY 2018, Internal Audit’s involvement was not deemed necessary since the measurement methodology had not changed from the prior year. However, if the methodology changes in future fiscal years, Internal Audit will provide guidance and will report time on this project as a management advisory project.</p>	N/A
<p>Workgroups/ Governance Boards – Internal Audit participated in workgroups, governance boards, committees as non-voting members during fiscal year 2018 to a) optimize business acumen on the different programs and b) to assist, counsel or advise DIR management regarding governance, risk, or controls questions. Results/Recommendations are N/A for this category of projects.</p>			

IV. External Quality Assurance Review (Peer Review)

State Agency Internal Audit Forum (SAIAF)
Department of Information Resources Internal Audit Department
External Quality Assurance Review – August, 2016

Peer Review Letter Report

December 8, 2016

Ms. Lissette Nadal-Hogan, CIA, CISA, CRISC
Internal Audit Director
Department of Information Resources
300 W. 15th Street, 13th Floor
Austin, Texas 78701

Dear Ms. Nadal-Hogan,

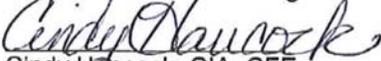
We have completed a Peer Review of the Department of Information Resources for the period August 2015 – August 2016. In conducting our review, we followed the standards and guidelines contained in the Peer Review Manual published by the State Agency Internal Audit Forum (SAIAF).

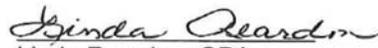
The Institute of Internal Auditors (IIA) *International Professional Practices Framework*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102) require that Internal Audit functions obtain external quality assurance reviews (peer reviews) to assess compliance with standards and the Act and to appraise the quality of their operations.

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of conformance with the IIA *Standards*, the GAO *Standards*, and the Texas Internal Auditing Act. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Department of Information Resources' Internal Audit Department receives a rating of "**Pass/Generally Conforms**" and is in compliance with the IIA Standards, the GAO Standards, and the Texas Internal Auditing Act. 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.

To the extent lawful, the Department of Information Resources agrees to hold SAIAF and its officers and representatives harmless of any liability arising from the actions of the peer review team or issues resulting from the peer review.


Cindy Hancock, CIA, CFE
Internal Audit Director, TPWD
SAIAF Peer Review Team Lead


Linda Reardon, CPA
Auditor, TWC
SAIAF Peer Review Team Member

V. Internal Audit Plan for Fiscal Year 2019

The Texas Government Code Chapter 2102 (known as the Texas Internal Auditing Act), Subchapter B, §2102.005, Internal Auditing Required, states Internal Audit shall conduct an annual audit plan that is prepared using risk assessment techniques that identify the individual audits to be conducted during the year.

Accordingly, DIR Internal Audit developed an integrated approach to developing its annual risk assessment and annual plan that includes strategic, operational, financial, information technology (IT), information security, contracting, and regulatory compliance considerations.

The following Fiscal Year 2019 Internal Audit Annual Plan was presented to the Finance and Audit Subcommittee and was approved at the November 2018 DIR Board Meeting.

Audit Project #	Audit Project Name/ Preliminary Objective(s)	Budgeted Hours*
19-100	Assurance Audits	
19-101	<i>Hybrid Cloud Services Billing</i> Preliminary Objective - To assess whether the management and accounting methods over the hybrid cloud services billing process are adequate and followed.	400
19-102	<i>Continuity of Operations Plan</i> Preliminary Objective – To evaluate the effectiveness of DIR’s continuity of operations plans for disasters or business disruptions.	200
19-103	<i>Management of Public Data</i> Preliminary Objective - To evaluate the effectiveness of established controls for information sharing, privacy policies, and security.	350
19-104	<i>IT General Controls Assessment - NetPlus</i> Preliminary Objective - To evaluate IT general controls ² for NetPlus, the application used to manage DIR customer billing for telecommunications services.	180

² IT general controls include security management, access controls, configuration management, segregation of duties, and contingency planning for information systems. The scope of the assessment will be based on the results of the project risk assessment.

FY 2018 Internal Audit Annual Report

Audit Project #	Audit Project Name/ Preliminary Objective(s)	Budgeted Hours*
19-105	<i>IT General Controls Assessment - BidStamp</i> Preliminary Objective - To evaluate IT general controls for BidStamp, the application used to manage DIR procurement activity.	180
19-200	Consulting and Non-Audit Services	
19-201	<i>Vendor Sales Reporting for Non-USAS Customers</i> Preliminary Objective (Consulting) - To assist the Chief Procurement Office with developing a risk-based methodology for enhanced monitoring and oversight of vendors sales reporting.	300
19-202	External Audit Coordination	150
19-203	Workgroups/Boards/SAIAF/Service to Profession	100
19-204	Reserved for Agency Management and Board Requests	275
19-300	Required Projects	
19-301	Follow-up on Audit Recommendations: <ul style="list-style-type: none"> • Performance Measures (15-102) • Enterprise Contract Management (15-103) • DIR Governance Assessment (16-101) • DIR Ethics Evaluation (16-102) • Xerox Print-Mail Services (17-103) 	400
19-302	Fiscal Year 2020 Internal Audit Risk Assessment/ Annual Plan	200
19-303	Fiscal Year 2019 Internal Audit Annual Report	40
19-304	Fiscal Year 2019 Internal Audit Annual Assessment	40
19-400	Special Projects	
19-401	External Assessment (Peer Review Participation)	40
19-402	Transition Teammate to Cloud Solution	80

* Budgeted hours allocated to the projects included in the plan are based on the total available hours calculated for three approved full-time equivalent employees (FTEs) and two outsourced/co-sourced audit projects. The actual execution of this plan will be dependent on the level of resources available to DIR Internal Audit during fiscal year 2019.

The FY 2019 Audit Plan was approved at the November 1, 2018 DIR Board. Budgeted hours are shown in the table above. There are no projects in the audit plan that address benefits proportionality, expenditure transfers, capital budget controls, or any other limitation

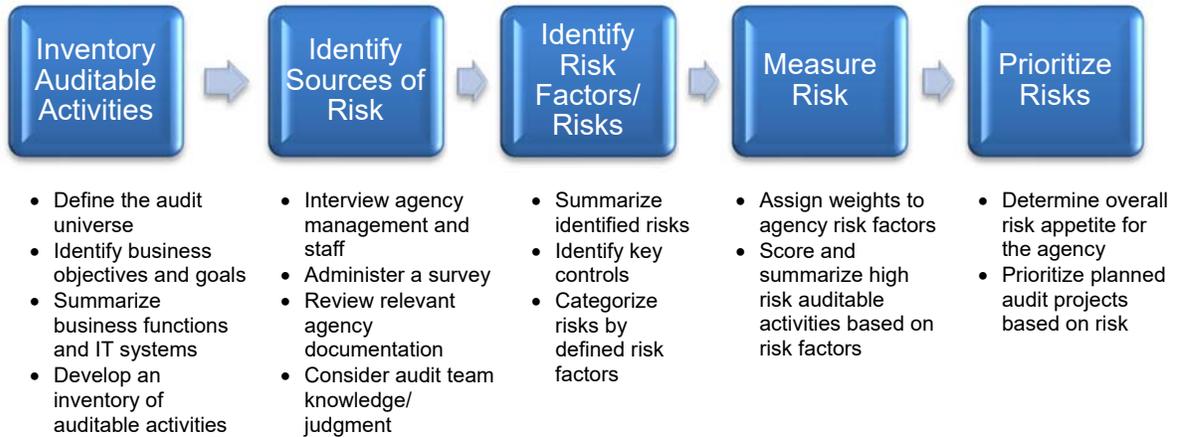
or restriction in the General Appropriations Act. Projects that address contract management and other requirements include:

The SAO requires this report to include a list of additional risks ranked as “high” that were identified but are not included in the fiscal year 2019 audit plan. The following auditable activities are for recently procured services with contracts in effect beginning September 1, 2018, so these high-risk areas were not included in the Fiscal Year 2019 Internal Audit Plan. However, the risks will be reevaluated after the new contracts are operational for at least 6-12 months.

- Enterprise Multi-Sourcing Integrator (MSI) Vendor Management and Performance
- Texas.Gov Payment Processing
- Managed Security Services

Risk Assessment Process

DIR Internal Audit established the following risk assessment process to identify and measure agency risks for purposes of prioritizing planned audit projects.



Risks were identified using a risk factor approach and were measured using impact and likelihood scores. Some common risk factors aligned to agency strategic and operational objectives included:

- Lack of adequate resources – staffing and/or funding
- Significant dependence on strategic partners
- Poor outcomes to customers
- Complexity of operations
- Non-compliance with state law, established policy, or contract provisions

Risks associated with information technology were included in the risk assessment. In prioritizing risks, Internal Audit also considered prior recent audit coverage for auditable activities. The DIR audit plan is aligned to the agency's goals and risk appetite, and Internal Audit communicates periodically with the DIR Board and Executive Leadership Team (ELT) to discuss risks and to obtain input regarding planned audits. The DIR Board and ELT understand their responsibilities regarding risk and the importance of risk exposures to the agency's governance, operations, and information technology. The Fiscal Year 2019 Internal Audit Annual Plan will be modified to accommodate any changes in risk that require modification of the plan, if needed. Revised plans will be submitted to the DIR Board for approval and a copy will be submitted to the oversight agencies.

VI. External Audit Services Procured in Fiscal Year 2018

The following external audit services were procured in Fiscal Year 2018:

- Texas.Gov Financial Audit for Calendar Year 2017 (completed)
- Network Security Operations Audit (completed)
- DCS Compliance with Texas Administrative Code Audit (completed in Q1 FY19)

VII. Reporting Suspected Fraud and Abuse

Actions taken by DIR to comply with the fraud requirements of **Section 7.09, page IX-38, the General Appropriations Act (GAA) – 85th Texas Legislature**³ include the following:

- DIR included a link in the footer of its website home page to the State Auditor's Office (SAO) website for fraud reporting that includes the SAO fraud hotline information describing how to report suspected fraud, waste, or abuse. The "SAO Fraud Reporting" link is on the DIR Home Page located at <http://dir.texas.gov/>.
- The DIR Ethics Policy (Chapter 4. Policy Prohibiting Fraud, Waste, Theft, and Abuse) describes DIR's commitment to prevent fraud, waste, theft, and abuse by its employees and any consultant, vendor, contractor, other government entity or person in dealings with the agency or the State of Texas. In addition, the policy includes statements related to:
 - Security of Information Resources.

³ GAA Section 7.09. Fraud Reporting – a state agency appropriated funds by this Act, shall use appropriated funds to assist with the detection and reporting of fraud involving state funds by 1) providing information on the home page of the entity's website on how to report suspected fraud, waste, and abuse involving state resources directly to the State Auditor's Office (SAO). This shall include, at a minimum, the SAO fraud hotline information and a link to the SAO website for fraud reporting; and 2) including in the agency's policies information on how to report suspected fraud involving state funds to the SAO.

- Fraud awareness training.
- Responsibility to report suspected fraud, waste, theft, and abuse.
- Each employee is required to report any suspected fraud, theft, waste or abuse to the agency. An employee may make a report to his or her supervisor, to an Ethics Officer or to the Internal Auditor. Fraud boxes and fraud reporting posters will be posted at conspicuous locations throughout the agency. Employees can report suspected fraud involving state funds to the State Auditor's Office (SAO) by calling (800) TX-AUDIT (892-8348) or by making a report online at <https://sao.fraud.texas.gov/ReportFraud/>. The agency will not retaliate against any individual for making a good faith report of suspected fraud, waste, theft or abuse. Any employee who believes he or she has suffered retaliation should immediately contact an Ethics Officer.
 - Role of the Ethics Officer.
 - Investigation of allegations of fraud, waste, theft, and abuse.
 - Prohibited acts.
 - Authority.
- This ethics policy applies to DIR employees, consultants, vendors, and contractors and establishes minimal requirements that are not all-inclusive. The absence of a specific rule covering any act discrediting an employee or the agency does not mean that the act is permissible or would not call for disciplinary action, including immediate termination, when considered necessary.
- DIR Internal Audit carries the responsibility of reporting any issue of fraud to the SAO, as required.

To comply with **Texas Government Code (TGC), Section 321.022, Coordination of Investigations**⁴, DIR leadership is required to report the reason and basis for the belief to the SAO if there is reasonable cause to believe that money received from the state by the agency or by a client or contractor of the agency may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the agency.

⁴ Texas Government Code, Section 321.022. Coordination of Investigations – states if the administrative head of a department or entity that is subject to audit by the SAO has reasonable cause to believe that money received from the state by the department or entity or by a client or contractor of the department or entity may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the department or entity, the administrative head shall report the reason and basis for the belief to the SAO.

Appendix A: Report Distribution

Internal Report Distribution

Department of Information Resources (DIR) Board

DIR Executive Director

External Report Distribution

Texas Office of the Governor

Texas Legislative Budget Board

Texas State Auditor's Office

Texas Sunset Advisory Commission