



Transforming How Texas
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FISCAL YEAR 2023 INTERNAL AUDIT ANNUAL REPORT

Texas Department of Information Resources
October, 2023

Background

The Texas Internal Auditing Act (Texas Government Code 2102.009) requires the Texas Department of Information Resources (DIR) Internal Audit function to prepare and submit an Internal Audit Annual Report each year to the governor, the Legislative Budget Board, the State Auditor's Office (SAO), the governing board, and the executive director. The DIR Fiscal Year (FY) 2023 Internal Audit Annual Report has been prepared in accordance with the guidelines prescribed by the SAO.

Detailed Results

I. **Compliance with Government Code Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on DIR's Website.**

Government Code Section 2102.015 requires each state agency to post the agency's approved Internal Audit Plan and Annual Report on the agency's website. The approved Fiscal Year 2024 Internal Audit Plan and Fiscal Year 2023 Annual Report can be found on DIR's website located at: <https://dir.texas.gov/about-dir/internal-audit>.

II. **Internal Audit Plan for Fiscal Year 2023**

In August 2022, the DIR Board approved the Internal Audit Plan for FY 2023, which included planned audits and other required projects for the fiscal year. The following table includes a list of FY 2023 planned audits, report numbers, report dates, report titles, and audit status. The risk assessment used to prepare the audit plan included reviewing methods for ensuring compliance with contract processes and controls and for monitoring agency contracts.

Internal Audit Plan for Fiscal Year 2023		
Number	Audit Name	Status
23-101	Follow Up of Open Recommendations	Completed
23-102	Cooperative Contract Program (COOP) Vendor Reporting of Administrative Fees (outsourced).	In Progress
23-103	Procurement Workflow Management	Not Completed
23-104	Contract and Vendor Management Structure	Not Completed
23-105	Complexity and Cost of Accepting Appropriated Funds	Not Completed
23-106	Telecommunication Audit (outsourced) <i>Determine if telecommunication invoices and services charged are consistent and accurate.</i>	In Progress
23-107	Procurement Card Controls	Not Completed

In FY23, DIR restructured the Internal Audit to a managed outsourced model. Under this model, DIR outsources the majority of its audit work to qualified private sector audit firms, while retaining an Internal Audit Manager to oversee those firms and report directly to the DIR Board.

As a result of these changes, the Internal Audit Manager created a Request for Qualifications (RFQ) to solicit and obtain master contracts with audit firms that will be used to perform the audits contained in the annual audit plan. In January 2023, DIR awarded contracts to six audit firms. Once these contracts were in place, the Internal Audit Manager began creating Statements of Work (SOWs) for the audits identified in the annual audit plan, responded to respondent questions, and served as evaluator for solicitation responses. The restructuring of the internal audit function at DIR, when combined with the rigorous requirements of state procurement law, resulted in an unavoidably delayed start to audit activities called for in the FY23 audit plan. That delay substantially reduced the number of such activities that could be completed within the expected timeframe.

Delays that resulted from the restructuring were further exacerbated by external audit activity and other optimization efforts related to DIR's structure and organization. In November, the State Auditor's Office began an audit of DIR's Data Center Services Contracts. The scope of this audit included a review of DIR's contract and vendor management structure, which was included in the FY23 audit plan. The risk level of remaining audits on the FY23 audit plan were reduced and therefore not carried over to FY24.

, and a restructuring of the Chief Procurement Office changed how DIR manages its procurements. These factors contributed to the extended timeline for completing all activities called for by the FY23 audit plan.

III. Consulting Services and Non-audit Services Completed

During fiscal year 2023, DIR Internal Audit did not provide consulting services, as defined in the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, or 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, as applicable.

IV. External Quality Assurance Review (Peer Review)

DIR went through the peer review process in FY 2022, and a copy of the executive summary from the most recent peer review report is included in Appendix A.

V. Internal Audit Plan for Fiscal Year 2024

The DIR Board approved the FY 2024 Internal Audit Plan at its August 2023 meeting.

Audit Engagement and Preliminary Objectives	
Risk Based Audits	Hours
Open Recommendations Follow Up	50
Selected COOP Vendor Audits	50
Compile list of products offered via COOP that originate from companies that are affiliated with foreign governments, militaries, and other sanctioned entities.	50
Texas.gov Third-Party Applications	50
Continuation of Audits in Progress	Hours
Selected COOP Vendor Audit	20
Shared Technology Services SOC 2 Type 2 Contract Requirements	30
Telecommunications Billing	35
Reserve	40
Projects	
External Audit Coordination	250
Sunset Review Coordination	250
Review Chief Procurement Office (CPO) Process Guide for Compliance with State Procurement Guide	100
Asset Verification Checks	80
Required Projects	
Review of Charters for Internal Audit Activity and the Audit, Finance and Legal Subcommittee	15
Annual Report	40
Risk Assessment and Audit Plan	250
Quality Assurance and Improvement Program	10
Board and Subcommittee Meetings	66
Total Project Hours	1,386

Below is a list of additional risks that were identified and ranked as “high” but are not included in the FY 2024 Audit Plan.

Risk	Proposed Activities or Recent Audit History
Asset Management	Review status of recommendations from SAO Audit of Financial Processes (April 2020).
Contract Management System Access Controls	SAO follow up of previous audit findings (July 2023).
Contract Documentation	The CPO process guide is due to be published on September 2023, Internal Audit will review the document for completeness.
Vendor Sales Portal	System built on a legacy system; back-up plans do not exist to mitigate the risk of unavoidable system errors prevent vendors to upload their sales. Relying on new funding to procure and build new reporting system.

As required, DIR developed the audit plan using a risk assessment process, which incorporates input from key staff members, including the Executive Leadership Team, who were interviewed to determine risks in their areas and to the agency. The process also involved reviewing various documents, including:

- Organizational charts;
- Prior internal and external audit reports and risk assessments;
- DIR’s 2023-2027 Strategic Plan; and
- Applicable laws and rules.

The assessment identifies high risk areas that are not included in the audit plan due to variables outside of agency control. Additionally, the agency should address risks that are within the agency’s control but not included in the audit plan through adequate internal controls.

VI. External Audit Services Procured in Fiscal Year 2023

In August 2022, DIR issued a Request for Qualifications (RFQ) to qualify and obtain Internal Audit Professional Services for DIR audit projects, support services, and to provide internal audit assistance to augment existing DIR Internal Audit staff. DIR awarded zero-dollar service agreements to seven successful respondents that are eligible to bid on upcoming Statements of Work (SOWs).

Kernutt Stokes LLP is in the process of conducting an audit of Xerox Corporation, a vendor on DIR’s Cooperative Contract Program. The audit is the examination of Xerox’s processes, procedures, accounting, and financial systems for calculating sales reports to determine whether Xerox complied with DIR’s contract terms by accurately reporting customer sales data to DIR.

VII. Reporting Suspected Fraud and Abuse

DIR's website includes a link to report fraud to the State Auditor's Office website on each webpage and the DIR placed posters in common areas in the agency's locations on reporting fraud, waste, and abuse. DIR also includes information on how employees may report suspected fraud and the agency's responsibilities for reporting fraud to the State Auditor's Office (Government Code Section 321.022), as part of DIR's Ethics Policy.