

Texas Workforce Commission

Office of Internal Audit

*Fiscal Year 2017
Annual Audit Report*



November 2017

TWC Office of Internal Audit Mission Statement

The mission of the OIA is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight to the Commission and agency management.

TWC Commission

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Ruth R. Hughs, Commissioner Representing Employers
Julian Alvarez, Commissioner Representing Labor

Office of Internal Audit

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I. Compliance with Title 10, Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web Site

The Commission approved the Fiscal Year 2018 Audit Plan on September 5, 2017. The Office of Internal Audit (OIA) posted the approved plan to the “Reports, Plans, and Publications” page of the TWC’s Internet website on September 8, 2017.

The TWC OIA will post the Fiscal Year 2017 Annual Audit Report to the “Reports, Plans and Publications” page of the TWC’s Internet website within 30 days after the report’s submission to the Commission and other recipients. The organizational format of the report and the information provided in the report will comply with the “State Auditor’s Office Fiscal Year 2017 Guidelines for Submitting and Posting the Internal Audit Annual Report and Periodic Internal Audit Reports.”

II. Internal Audit Plan for Fiscal Year 2017

The Texas Workforce Commission Office of Internal Audit’s list of planned audits for fiscal year 2017 follows in the table below. The table provides project numbers, report dates, project titles, and whether the audits were completed. If an audit was not completed, the table states the current status of the audit as of the submission of the report. If applicable, the table also provides brief explanations for any deviations from the fiscal year 2017 audit plan.

Project Number	Report Date	Project Title and Objective	Current Status	Deviations from Plan
		Contract Administration - to perform an internal control review of Contract Administration.	Merged	Combined with Statewide Initiatives (2017-009-10)
2017-026-20		Consumer Procurement Services - to assess the quality of operations and to determine the status of corrective actions taken by management to address prior issues reported in DARS internal audit 13-003.	In Progress	Renamed Controls Over Procurement for Vocational Rehabilitation Customers ; Follow-up portion was performed separately 2017-017-80(a)
		Administrative Procurement Services - to evaluate the efficiency and effectiveness of Administrative Procurement Services.	Merged	Combined into Controls Over Procurement for Vocational Rehabilitation Customers (2017-026-20)
		Consumer Services - to evaluate departmental operations of Consumer Services and to determine the status of corrective actions taken by management to address prior issues reported in DARS internal audit 14-002.	Cancelled	Departmental Reorganization; Redefined objective in FY18 Audit Plan - VR Division Oversight Processes ; Follow-up portion was performed separately 2017-020-80

Project Number	Report Date	Project Title and Objective	Current Status	Deviations from Plan
2017-015-50	Sept 2017	Rehabilitation Services Operations - to evaluate departmental operations of Rehabilitation Services Operations.	Report Issued	
2017-024-60		Vocational Rehabilitation Systems - to evaluate the controls over the change management process for vocational rehabilitation systems.	In Progress	
		Vocational Rehabilitation Contract Oversight - to determine compliance with enabling statutes.	Merged	Combined into Controls Over Procurement for Vocational Rehabilitation Customers (2017-026-20)
2017-011-20		Warehouse Fleet Operations - to evaluate the controls over fleet operations.	In Progress	
		Unemployment Insurance (UI) Systems - to analyze access management controls for the UI Tax and Benefits systems.	Cancelled	
2017-001-60	March 2017	Criss Cole Rehabilitation Center - to perform a physical security review of the Criss Cole Rehabilitation Center.	Report Issued	
2017-014-20		Budget Controls - to perform an internal control review of budget processes.	In Progress	
2017-009-10		Strategic Workforce Initiatives - to evaluate the effectiveness of strategic initiatives.	In Progress	Renamed Statewide Initiatives
		Board & Special Initiatives Contracts - to evaluate the efficiency and effectiveness of new Board & Special Initiatives Contracts processes.	Merged	Combined with Statewide Initiatives (2017-009-10)
2017-007-50		Subrecipient Monitoring - to evaluate departmental operations of Subrecipient Monitoring.	In Progress	
		Lease Management - to evaluate the effectiveness of lease management.	Cancelled	Cancelled due to staff shortage and hiring freeze
2017-008-10	June 2017	Consumer Complaints - to evaluate the efficiency and effectiveness of the consumer complaints process	Report Issued	Renamed Customer Complaints

Project Number	Report Date	Project Title and Objective	Current Status	Deviations from Plan
2017-012-20		Separations and Transfers - to evaluate administrative and access controls over separation and transfer processes	In Progress	
2017-003-20	Jan 2017	Follow-Up of TAA Reauthorization - to determine the status of corrective actions taken by management to address prior issues reported in internal audit project 2011-008-10.	Report Issued	
2017-018-80	April 2017	Follow-Up of Fraud Determination - to determine the status of corrective actions taken by management to address prior issues reported in internal audit project 2012-011-10.	Report Issued	
2017-021-80	May 2017	Follow-Up of IT Governance - to determine the status of corrective actions taken by management to address prior issues reported in internal audit project 2012-017-60 and DARS internal audit project 15-005.	Report Issued	
2017-002-80	Dec 2016	Follow-Up of Hiring Process - to determine the status of corrective actions taken by management to address prior issues reported in internal audit project 2013-011-10	Report Issued	
2017-010-80	Feb 2017	Follow-Up of PII Physical Security - to determine the status of corrective actions taken by management to address prior issues reported in internal audit project 2013-014-20.	Report Issued	
2017-013-80	Dec 2016	Follow-Up of Records Retention - to determine the status of corrective actions taken by management to address prior issues reported in internal audit project 2014-007-30	Report Issued	
2017-005-80	Nov 2016	Follow-Up of Field Tax Controls - to determine the status of corrective actions taken by management to address prior issues reported in internal audit project 2014-014-20.	Report Issued	
2017-016-80	Jan 2017	Follow-Up of Commission Appeals - to determine the status of corrective actions taken by management to address prior issues reported in internal audit project 2014-016-20.	Report Issued	

Project Number	Report Date	Project Title and Objective	Current Status	Deviations from Plan
2017-017-80Q		Follow-up of Collections Processes - to determine the status of corrective actions taken by management to address prior issues reported in internal audit project 2015-006-20.	In Progress	
2017-017-80M	May 2017	Follow-Up of Contracting Processes - to determine the status of corrective actions taken by management to address prior issues reported in internal audit project 2015-009-30.	Report Issued	
2017-017-80P		Follow-Up of Workforce Information Systems Change Controls - to determine the status of corrective actions taken by management to address prior issues reported in internal audit project 2015-011-60.	In Progress	
2017-006-80	Nov 2016	Follow-Up of Administration of Business Enterprises of Texas Trust Fund - to determine the status of corrective actions taken by management to address prior issues reported in DARS internal audit project 09-007.	Report Issued	
2017-022-80	Sept 2017	Follow-Up of Contract Management of the Community Rehabilitation Programs in the Division of Rehabilitation Services - to determine the status of corrective actions taken by management to address prior issues reported in DARS internal audit project 11-004.	Report Issued	
2017-017-80J	March 2017	Follow-Up of Division for Blind Services Independent Living Program - to determine the status of corrective actions taken by management to address prior issues reported in DARS internal audit project 14-003.	Report Issued	
2017-17-80L	March 2017	Follow-Up of Controls Over Due Process Hearings - to determine the status of corrective actions taken by management to address prior issues reported in DARS internal audit project 15-001.	Report Issued	

Project Number	Report Date	Project Title and Objective	Current Status	Deviations from Plan
2017-025-80	Sept 2017	Follow-Up of Business Enterprises of Texas - to determine the status of corrective actions taken by management to address prior issues reported in DARS internal audit project 15-003.	Report Issued	
2012-001-10	April 2017	Child Care Automated Attendance System – to analyze the impact of the new system on the child care program.	Report Issued	
2014-015-20	Jan 2017	Career Schools and Colleges – to evaluate internal controls in the Career Schools and Colleges program.	Report Issued	
2014-008-60	Dec 2016	CATS IT Controls – to conduct an applications control review of the CATS System.	Report Issued	
2016-015-20	May 2017	IT Procurement Controls – to determine whether TWC incorporates recommended controls into the framework of its ethics program and whether management expectations for ethical behavior are understood by agency employees.	Report Issued	
2016-013-60	April 2017	Adult Education & Literacy Systems - to assess controls over data integrity for the Adult Education and Literacy information systems (TEAMS and AEGIS).	Report Issued	
2016-009-30	Dec 2016	Purchasing for People with Disabilities – to determine if the agency is in compliance with enabling statutes.	Report Issued	
2016-011-10	May 2017	Tax Collections Process – to evaluate the efficiency and effectiveness of the tax collections process	Report Issued	
2017-017-80K	Feb 2017	Follow-up of Work Opportunity Tax Credit	Report Issued	Added to Plan
2017-020-80	Feb 2017	Follow-up of DRS Vocational Rehabilitation Program	Report Issued	Added to Plan
2017-023-80	July 2017	Follow-up of Data Sharing Controls Review	Report Issued	Added to Plan
2017-017-80(a)	March 2017	Quarterly Follow-up of Open Findings (a)	Report Issued	Added to Plan
2017-017-80(b)	June 2017	Quarterly Follow-up of Open Findings (b)	Report Issued	Added to Plan
2017-017-80(c)	Aug 2017	Quarterly Follow-up of Open Findings (c)	Report Issued	Added to Plan

III. Consulting Services and Nonaudit Services Completed

A list of consulting and nonaudit services completed by the Texas Workforce Commission Office of Internal Audit during fiscal year 2017 follows in the table below. The table provides project or report numbers, report dates, project name titles, and the high-level objective of each project, if applicable. The table also provides summaries of observations, results, and recommendations, if applicable.

Project Number	Report Date	Project Name	High-Level Project Objective	Observations, Results, and Recommendations
N/A	N/A	Monitoring, Meetings, and Committees	To participate in an observatory and advisory role in various meetings throughout the agency.	Information is monitored on an on-going basis to ensure risks are appropriately addressed when identified.
N/A	N/A	SAO Hotline	To perform reviews of an allegation of suspected fraud, waste, abuse, or inefficient operations, as required by the Texas Government Code, Section 321.013(d), that had been referred to the TWC OIA by the State Auditor's Office	Perform audit work to address allegations in any complaints forwarded from the State Auditor's Office. Reports provided to SAO Office of Investigations.
N/A	Jan 2017	External Quality Assurance Review	To determine if OIA is conforming with applicable professional standards and the Texas Internal Auditing Act.	TWC OIA received a rating of Pass/Generally Conforms and is in compliance with Auditing Standards and the IA Act.
N/A	Dec 2017	Peer Review of DIR	To determine if DIR IA is conforming with applicable professional standards and the Texas Internal Auditing Act.	
N/A	Dec 2017	Peer Review of DSHS	To determine if DSHS IA is conforming with applicable professional standards and the Texas Internal Auditing Act.	
N/A	N/A	BEST Team Quarterly Meetings	To participate in an observatory role in these meetings held to discuss IT projects.	Information is monitored on an on-going basis to ensure risks are appropriately addressed when identified.

IV. External Quality Assurance Review (Peer Review)

Texas Workforce Commission
Office of Internal Audit
External Quality Assurance Review – January 2017

Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Workforce Commission Office of Internal Audit receives a rating of "**Pass/Generally Conforms**" and is in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (*Texas Government Code*, Chapter 2102). This opinion, **which is the highest of the three possible ratings**, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

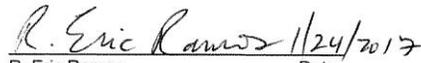
We found that the Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely.

The Internal Audit Department is well managed internally. In addition, OIA has effective relationships with the Board and is well respected and supported by management.

Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations. Opportunities to further communicate and engage management in the value proposition of Internal Audit were identified.

Acknowledgements

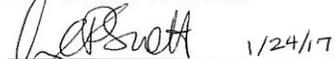
We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Office of Internal Audit staff, the TWC Commission, the Executive Director and senior managers who participated in the survey and interview processes. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Office of Internal Audit and its relationship with management.


Date

R. Eric Ramos
Deputy Assistant Director,
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Texas Department of Public Safety
SAIAF Peer Review Team Leader


Date

Angelia Harris
Internal Audit Director
Office of the Attorney General
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Date

Cheryl P. Scott
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SAIAF Peer Review Team Member

January 2017

V. Internal Audit Plan for Fiscal Year 2018

Performance Audits

Auditable Units	Objectives	Budget Hours
Vocational Rehabilitation - Evaluation & Support Services	Compliance Review of Evaluation & Support Services – to determine whether functions in Evaluation & Support Services are in compliance with relevant statutes and guidelines.	1000
Vocational Rehabilitation - Field Services Delivery	A Review of Case Management in Field Services Delivery – to review case management processes to ensure effectiveness and timeliness of delivery of direct services programs.	1000
Vocational Rehabilitation - Blind Services Field Support/Policy Development, Quality Assurance and Program Evaluation	VR Division Oversight Processes - to review Vocational Rehabilitation oversight processes and the elimination in duplication of efforts.	500
Business Operations/ Workforce Development/ UI and Regulation/ Vocational Rehabilitation	Controls Over Maintenance in Agency Owned Buildings – to determine whether there are controls in place to ensure that agency owned buildings are being properly maintained.	1000
Information Technology – Application Development & Maintenance	Review of Small Application Portfolio Management – to evaluate the effectiveness of the IT governance structure to determine whether IT decisions, directions and performance support the organization’s strategies and objectives.	500
Agency-wide	Compliance with IT Standards and Guidelines - to determine whether IT activities that are occurring outside of the IT division comply with the standards and guidelines established by the IT division.	1000
Agency-wide	Inventory Audit – to evaluate the process in place to ensure the existence and completeness of agency assets.	1000
Operational Insights/ Workforce Development/ Unemployment Insurance and Regulation	Data Integrity Audit – are controls in place to ensure the integrity of data used by Division of Operational Insight.	800
Agency-wide	Accessibility Compliance – to review processes in place to monitor and enforce agency compliance with accessibility policies and whether agency policies align with federal/state accessibility requirements.	500

Performance Audits - Continued

Auditable Units	Objectives	Budget Hours
Unemployment Insurance and Regulation- Central Tax Operations	Post RPI Assessment: Tax Adjustment Backlog - to verify the accuracy and appropriateness of RPI outcomes.	500
Civil Rights	Post RPI Assessment: Civil Rights Division – to verify the accuracy and appropriateness of RPI outcomes.	500
Employer Initiatives – Skills Development Outreach	Skills Development Review – to review the efficiency and effectiveness of skills development processes and operations.	750
Finance – Payables and Payroll	Accuracy and Timeliness of Payments – to evaluate controls in place for ensuring the accuracy and timeliness in paying the agency’s obligations.	500
Agency-wide	Follow-Up Projects – to determine the adequacy and effectiveness of corrective actions taken by management to address reported audit findings.	1800
Agency-wide	Commission Requests - additional projects requested by the Commission.	750

Carry Forward Projects

Auditable Units	Objectives	Budget Hours
Vocational Rehabilitation/ Business Operations/ Regulatory Integrity	Controls over Procurement for VR Customers - to evaluate the state office oversight over the procurement process for vocational rehabilitation (VR) customers receiving direct service in VR regional field offices across the state.	900
Regulatory Integrity Division – Sub-recipient Monitoring	Sub-recipient Monitoring - to evaluate departmental operations of Subrecipient Monitoring.	900
Information Technology - Application Development & Maintenance	Vocational Rehabilitation Systems - to evaluate the controls over the change management process for vocational rehabilitation systems.	550
Finance – Budget & Financial Systems Support	Budget Controls - to perform an internal control review of budget processes.	200
Business Operations – Warehouse Operations	Warehouse Fleet Operations - to evaluate the controls over fleet operations.	160
Agency-wide	Separations and Transfers - to evaluate administrative and access controls over separation and transfer processes and to determine the status of corrective actions taken by management to address prior issues reported in DARS internal audits 09-001 and 13-203.	130

Carry Forward Projects – Continued

Workforce Development/ Regulatory Integrity Division	Collections Processes Follow-Up - to determine the status of corrective actions taken by management to address prior issues reported in internal audit #2015-006-10.	40
Information Technology/ Workforce Development	Workforce Information Systems Change Controls Follow-Up - to determine the status of corrective actions taken by management to address prior issues reported in internal audit #2015-011-60.	40

In addition to planned audit and non-audit services, Internal Audit has ongoing responsibilities, which include:

- Annual Internal Audit Report issuance
- Annual Risk Assessment and Audit Plan development
- Commission and Management briefings on reports
- TeamMate, website, and database maintenance
- Annual Quality Self-Assessment
- Quarterly Open Findings Assessment
- Professional development
- Data analysis
- Project Wrap-up and Reporting

General Appropriations Act Limitations and Restrictions and Senate Bill 20

Projects that address benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act:

- No projects are scheduled

Projects that address contract management and other requirements of Senate Bill 20:

- Controls over the Procurement for VR Customers
- Case Management in Field Service Delivery
- Skills Development Review

Additional “High” Risks Not Included in the Fiscal Year 2017 Audit Plan

The Texas Workforce Commission Office of Internal Audit utilizes a weighted ranking in its risk assessment methodology. The “Fiscal Year 2018 Audit Plan” includes all risks that were identified with a “high” weighted ranking.

Risk Assessment Methodology

The Texas Workforce Commission (TWC) Office of Internal Audit allocates its resources in a manner that is consistent with the mission and goals of the TWC. To support the TWC's mission, audit coverage is considered across the agency. The audit plan is designed to provide coverage of key business processes. Risk is assigned based on research related to each risk area as well as input from Commissioners and agency management.

The following key factors were considered to assess risk and develop the audit plan:

- Commission and Management Interest
- Program and Information Technology Changes or Concerns
- Critical Nature of the Business Function to the Mission of the Agency
- Strength of Internal Controls
- Staff Turnover and Retirement
- Prior Audit Coverage
- Potential for Fraud

VI. External Audit Services Procured in Fiscal Year 2017

During Fiscal Year 2017, the Office of Internal Audit did not procure or have any ongoing external audit services.

VII. Reporting Suspected Fraud and Abuse

The Texas Workforce Commission Office of Investigations conducts inquiry and investigative services pertaining to allegations of fraud, theft, program abuse, or misconduct. The Office of Investigations reports cases of suspected fraud and coordinates with the State Auditors' Office as required by Article IX, Section 17.09 of the General Appropriations Act (84th Legislature) and the Texas Government Code, Section 321.022.

The agency lists its fraud hotline number on the TWC Internet site. The Internet site also contains a link to report fraud directly to the State Auditor's Office.