



October 31, 2016

The Honorable Greg Abbott
Daniel Hodge, Chief of Staff, Office of the Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
State Auditor's Office

Attached is the annual report of the Internal Audit Division of the Office of the Governor for the fiscal year ended August 31, 2016.

This report fulfills the requirements set forth in the Texas Internal Auditing Act (Texas Government Code, Chapter 2102).

The Internal Audit Division of the Office of the Governor is in compliance with the Texas Internal Audit Act and reports to the head of the agency, the governor, through the chief of staff. The purpose of this report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the annual report assists oversight agencies in their work planning and coordinating efforts.

Please contact me at (512) 936-2601 if you have any questions about this report.

Respectfully,

A handwritten signature in black ink, appearing to read "R. Valadez", written over the word "Respectfully,".

Rene Valadez, CIA
Director, Internal Audit
Office of the Governor

**Internal Audit
Annual Report
For
Fiscal Year 2016**

I Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report and Other Audit Information on Internet Website

Within 30 days of the chief of staff's approval, the Office of the Governor will prominently post the Fiscal Year 2017 audit plan, as provided by Texas Government Code, Section 2102.008, and the Fiscal Year 2016 internal audit annual report, as required by Texas Government Code, Section 2102.009, on its Internet website.

II Internal Audit Plan for Fiscal Year 2016

Title	Status	Reason for Deviation
Report 16-01: An Internal Audit on Management Controls and Adherence to Established Investment Policies, January 2016	Completed	N/A
Report 16-02: An Internal Audit of Texas Film Commission Program Effectiveness and Results, August 2016	Completed	N/A

*Reasons for Deviation: N/A

III Consulting Services and Nonaudit Services Completed

The International Standards for the Professional Practice of Internal Auditing defines consulting services as "advisory and related client service activities, the nature and scope of which are agreed with the client, intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility."

Per Government Auditing Standards, 2011 Revision, nonaudit services are "professional services other than audits or attestation engagements."

The Internal Audit Division did not perform any consulting or nonaudit services in Fiscal Year 2016.

IV External Quality Assurance Review (Peer Review)

Executive summary of external quality assurance review completed in November 2012:

**REPORT ON THE
EXTERNAL QUALITY ASSURANCE REVIEW
OF THE
OFFICE OF THE GOVERNOR
INTERNAL AUDIT DIVISION**

November 2012



PERFORMED BY

**SANDRA Q. DONOHO, MPA, CIA, CFE, CISA, CICA
DIRECTOR OF INTERNAL AUDIT
DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS**

**PERFORMED IN ACCORDANCE WITH THE
STATE AGENCY INTERNAL AUDIT FORUM
PEER REVIEW POLICIES AND PROCEDURES**

November 2012

OVERALL OPINION

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Office of the Governor's Internal Audit Division receives a rating of "pass" and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, and the U. S. Government Accountability Office (GAO) *Government Auditing Standards*, within the inherent limitations of a one-person audit function. 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.

The Internal Audit Division is in compliance with the Texas Internal Audit Act (*Texas Government Code, Chapter 2102*), except for the requirement to report to either the board of the agency or the head of the agency. The Office of the Governor does not have a governing board, and the head of the agency is the Governor himself. The Director of Internal Audit has a dotted line reporting relationship to the Governor, but reports directly to the Chief of Staff on a day-to-day basis. The Chief of Staff is responsible for managing the Governor's Office, so this reporting structure is appropriate for the audit function given these circumstances.

We found that the Internal Audit Division is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The Director of Internal Audit is qualified, proficient, and knowledgeable in the audit areas. 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 Division is well managed internally. In addition, the Director of Internal Audit has an effective relationship with the Chief of Staff and other agency executives and is respected and supported by executive 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.

ACKNOWLEDGEMENTS

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, the Chief of Staff and the senior managers who participated in the interview process. I would also like to thank each person who completed a survey for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Division and its relationship with management.



Director of Internal Audit
Department of Housing and
Community Affairs
SAMP Peer Review Team Leader

11/1/12
Date

V Internal Audit Plan for Fiscal Year 2017

PLANNED AUDITS

DESCRIPTION	Budgeted Hours
An Engagement to Assess the Office of the Governor's Contracting Processes Against Statutory Requirements and Best Practices*	1,500

*This engagement may address contract management and other requirements of Senate Bill 20 (84th Legislature).

The Fiscal Year 2017 audit plan was developed using a risk assessment methodology that considers various factors, including:

- Process and Procedural Changes
- Cost or Complexity of Awards
- Reporting Requirements
- Administrative and Financial History
- Perceived Legislative, Public, or Management Interest
- Previous Engagement Timeframes

No business areas received a risk ranking of "high" when considering likelihood of occurrence and impact of risks.

SPECIAL PROJECTS & MANAGEMENT ASSISTANCE

DESCRIPTION	Budgeted Hours
FY 2016 Agency Risk Assessment Office of the Governor and Trusteed Programs	700
Special Projects and Continuous Monitoring	1,500

VI External Audit Services Procured in Fiscal Year 2016

No external audit services were procured in Fiscal Year 2016.

VII Reporting Suspected Fraud and Abuse

All employees are informed of their responsibility to help protect public assets by reporting any suspicions of the existence of unethical activities internally to the fraud prevention coordinator or the ethics advisor or externally to the State Auditor's Office. Employees may anonymously report in writing through fraud, waste and abuse reporting boxes. The external website of the Office of the Governor also includes a link to the State Auditor's fraud-reporting site. The chief of staff reports suspected loss, misappropriation, misuse, fraud, or unlawful conduct in relation to the operations of the Office of the Governor to the State Auditor's Office.