



October 31, 2014

The Honorable Rick Perry
Ms. Kathy Walt, 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 year ended August 31, 2014. This report fulfills the requirements set forth in the Texas Internal Auditing Act.

The Internal Audit Division of the Office of the Governor is in compliance with the Texas Internal Audit Act (Texas Government Code, Chapter 2102), 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 benefits and effectiveness 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 "Rene Valadez". The signature is stylized and fluid.

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

**Fiscal Year 2014
Internal Audit
Annual Report**

I Compliance with House Bill 16 (Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site)

Upon chief executive approval, the Office of the Governor will post the Fiscal Year 2015 audit plan, as provided by Texas Government Code, Section 2102.008 and the Fiscal Year 2014 internal audit annual report, as required by Texas Government Code, Section 2102.009 on its Internet Web site.

II Planned Work Related to the Proportionality of Higher Education Benefits

Not Applicable

III Internal Audit Plan for Fiscal Year 2014

Title	Status	Reason for Deviation
An audit to provide management assurance that contractor performance is monitored.	In Progress Planned FY2015 Release	External Reviews & Inquiries Consumed an Inordinate Amount of Internal Audit Resources in FY2014
An audit to determine compliance with investment policies Report 13-02	Completed	NA
An audit to provide assurance on the reliability of select Criminal Justice Division reporting	Deferred	External Reviews & Inquiries Consumed an Inordinate Amount of Internal Audit Resources in FY2014
An assessment of information technology governance	In Progress Planned FY2015 Release	External Reviews & Inquiries Consumed an Inordinate Amount of Internal Audit Resources in FY2014
FY 2014 Agency Risk Assessment, Office of the Governor & Trusteed Programs	Completed	NA
Required Reporting	Completed	NA
Special Projects at Management Request	Ongoing	NA

IV Consulting Services and Nonaudit Services Completed

Consulting Service, as defined in the International Standards for the Professional Practice of Internal Auditing was completed in Fiscal Year 2014. Consulting services are defined as

advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

The objective of the consulting engagement was to improve organizational governance. The project was completed in September 2014 and resulted in a recommendation to the Administrative Division and executive management addressing internal reporting and communications.

V 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.

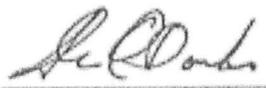
The Internal Audit Division is in compliance with the Texas Internal Audit Act (*Texas Government Code*, Chapter 2102), except for the requirement to report to either the board of the agency or the head of the agency. The Office of the Governor does not have a governing board, and the head of the agency 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 audited 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
SAIAP Peer Review Team Leader

11/1/12
Date

VI Internal Audit Plan for Fiscal Year 2015

PLANNED AUDITS

DESCRIPTION	Budgeted Hours
An audit to provide management assurance that contractor performance is monitored	160
An audit to provide assurance on the reliability of select Criminal Justice Division reporting (May relate to limitations in the General Appropriations Act)	400
Follow-Up Audit to Confirm Management Assertions Responsive to the State Audit of The Texas Enterprise Fund (Released September 2014)	240

This FY2015 audit plan was developed using a risk assessment process that considers various factors including:

- Reporting Requirements
- Changed Processes
- Previous Review(s) History
- Disbursement Numbers & Sizes
- New Leadership
- Major Contracts
- Turnover
- Perceived Legislative/Public Interest
- Use of Confidential Information
- Significant Travel

No risks received a “high” ranking based on their combined probability and impact.

SPECIAL PROJECTS & MANAGEMENT ASSISTANCE

DESCRIPTION	Budgeted Hours
An assessment of information technology governance	80
FY 2016 Agency Risk Assessment, Office of the Governor and Trusteed Programs	480
Required Reporting	80
Special Projects at Management Request	420

VII External Audit Services Procured in Fiscal Year 2014

No external audit services were procured in Fiscal Year 2014.

VIII 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, or to the State Auditor's Office. 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. The external website of the Office of the Governor also includes a link to the State Auditor's fraud-reporting site.