



26 October 2018

The Honorable Greg Abbott  
Luis Saenz, 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, 2018.

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

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. In addition, the annual report assists oversight agencies in their planning and coordination 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. Valadéz".

Rene Valadéz  
Director, Internal Audit  
Office of the Governor

## Fiscal Year 2018 Internal Audit Report

### 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 2019 audit plan, as provided by Texas Government Code, Section 2102.008, and the Fiscal Year 2018 internal audit annual report, as required by Texas Government Code, Section 2102.009, on its Internet website.

### II. Internal Audit Plan for Fiscal Year 2018

Planned Audit	Report Number	Report Date	Report Title	Completed
An Engagement to Assess Management Controls and Adherence to Established Investment Policies	18-01	February 2018	An Internal Audit Report on Management Controls and Adherence to Approved Investment Policies	Yes
An Engagement to Assess the Management Controls and Adherence to Policies Governing Homeland Security Awards Administered by the Office of the Governor	18-02	October 2018	An Audit Report on Compliance with Policies Governing Homeland Security Awards Administered by the Office of the Governor	Yes*

*\*Internal audit finalized and released the report for Project 18-02 in October of 2018.*

### III. Consulting Services and Nonaudit Services Completed

The Institute of Internal Auditors' 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, that are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. In Fiscal Year 2018, Internal Audit provided such services relating to the Office of the Governor's procurement contracting processes, including the development of solicitation documents, the Office's evaluation and scoring tools, and the Office's procedures for awarding contracts. The project resulted in four recommendations to strengthen internal procedures governing procurements. Internal audit did not provide "nonaudit services," as defined in Government Auditing Standards, in fiscal year 2018.

## IV. External Quality Assurance Review (Peer Review)

Office of the Governor's Internal Audit Department  
External Quality Assurance Review – January, 2017

### Overall Opinion

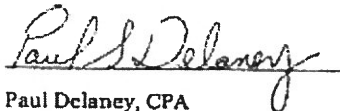
Based on the information received and evaluated during this external quality assurance review, it is my opinion that the Office of the Governor's Internal Audit Department receives a rating of "pass" and is in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Audit 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.

I 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, the department has an effective relationship with the Chief of Staff 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.

### Acknowledgements

I appreciate the courtesy and cooperation extended to me by the Chief of Staff, the Internal Audit Director and Internal Audit staff. 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 Department and its relationship with management.



Paul Dclaney, CPA  
Internal Auditor  
Railroad Commission of Texas  
SAIAF Peer Review Team Leader

1/19/2017

Date

## V. Internal Audit Plan for Fiscal Year 2019

### Planned Audits

Description	Budget Hours
An Engagement to Assess Management Controls and Adherence to Policies Governing the Reporting of Texas Enterprise Fund Information	450
An Engagement to Assess Management Controls and Adherence to Policies Governing Disaster Funds Administered Through the Office of the Governor	450

The Fiscal Year 2019 audit plan was developed using a risk assessment methodology that considers various factors, including: financial history and reporting; reporting requirements; perceived legislative, public, or management interest; complexity of accounting and administration; and longevity and turnover of staff.

Internal Audit did not categorize any perceived risk identified through the risk assessment process as “high.”

### Special Projects and Management Assistance

Description	Budget Hours
FY 2019 Agency Risk Assessment Office of the Governor and Trusteed Programs	1,000
Special Projects, Management Assistance, and Continuous Monitoring	1,800

## VI. External Audit Services Procured in Fiscal Year 2018

No external audit services were procured in Fiscal Year 2018.

## VII. Reporting Suspected Fraud and Abuse

In accordance with Section 7.09, page IX-38, the General Appropriations Act (85th Legislature) the official website of the Office of the Governor includes a link on its homepage to the State Auditor’s Office website for fraud reporting. In addition, the agency’s internal intranet landing page links directly to an intranet page dedicated to the reporting of perceived fraud, waste or abuse, including both a link to the State Auditor’s Office website and the State Auditor’s Office Fraud Hotline. 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.