



Annual Internal Audit Report

FY-2016

Presented to
TSBVI Board of Trustees

September 30, 2016

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Texas School for the Blind and Visually Impaired

A center for educational services for all blind and visually impaired students in Texas

William Daugherty, Superintendent
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September 30, 2016

Members of the TSBVI Board of Trustees
Mr. Bill Daugherty, Superintendent

Dear Ladies and Gentlemen:

Internal Audit is pleased to submit the Annual Internal Audit Report of the Texas School for the Blind and Visually Impaired (TSBVI) for the year ended August 31, 2016 in compliance with *Texas Government Code, Section 2102.009* and in accordance with guidelines established by the Texas State Auditor's Office.

As required by the Texas Internal Auditing Act, this report provides information on the assurance services, consulting services, and other activities of the internal audit function during the 2016 fiscal year.

If you have questions regarding the annual report please contact me at (512) 206-9130.

Respectfully,

Jaye Stepp

Jaye Stepp, CPA, CIA, CGAP, CRMA
Director of Internal Audit

Cc: Governor's Office of Budget, Planning, and Policy
State Auditor's Office
Legislative Budget Board
Sunset Advisory Commission

BOARD OF TRUSTEES:

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Mary K. Alexander, Vice-Pres., Valley View
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Michael Garrett, Missouri City
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Persons Working with the Visually Impaired:
Bobby Druessedow, Jr., Glen Rose
Mike Hanley, Leander
Tobie Wortham, Rockwall

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Admissions (512)206-9148

The Texas Internal Auditing Act (Texas Government Code, Chapter 2102) requires certain state agencies to submit an internal audit annual report each year to the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office (SAO), and the entities' governing boards and chief executives. The SAO prescribes the form and content of this annual 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 Web site

TGC 2102.015 requires state agencies to post certain information on their Internet websites. At the time and in the manner provided by the state auditor, a state agency shall post the following information on its Internet website:

- (1) The approved FY-2017 audit plan, as required by TGC §2102.008
- (2) The FY-2016 internal audit annual report, as required by TGC §2102.009

TGC 2102.015 also requires entities to update the posting described above to include the following information on the website:

- A 'detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns, if any, raised by the audit plan or annual report.'
- A 'summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report.'

TSBVI complies by posting our Internal Audit Plan and our Annual Internal Audit Report on the TSBVI internet website within 30 days after review and approval by the Board of Trustees. No weaknesses or concerns resulting from the audit plan or annual report were identified for posting on the TSBVI Internet website.

Individual audit recommendations from 2016 related to updating policies and procedures, training staff, and strengthening internal controls. All recommendations are currently being addressed by management.

II. Internal Audit Plan for Fiscal Year 2016

The Internal Audit Plan for FY-16 proposed four individual audit areas, as follows:

- #1 Public Funds Investment Act Compliance Audit (report #2016-1, 10/01/15)
- #2 Health Center Audit (report #2016-2, 02/29/16)
- #3 Property Management Audit (report #2016-3, 8/15/16)
- #4 Contract Management Audit (carried forward to FY-17)

The FY-16 Internal Audit Plan was not completed due to two audits that required more time to complete than budgeted. A request to carry forward the remaining audit to the FY-17 audit plan was approved by the Board.

III. Consulting Services and Nonaudit Services Completed

No consulting or nonaudit services, as defined in *The International Standards for the Professional Practice of Internal Auditing*, or non-audit services, as defined in *Government Auditing Standards*, Section 3.33 – 3.58, were performed during fiscal year 2016.

IV. External Quality Assurance Review (Peer Review)

An external quality assurance review was performed in February of 2015, under the State Agency Internal Audit Forum (SAIAF) peer review process.

The following excerpt from the report presents the overall opinion:

“Based on the information received and evaluated during this external quality assurance review, it is my opinion that the Texas School for the Blind & Visually Impaired 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.

We found that the Internal Audit Director is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The Internal Audit Director is qualified, proficient, and knowledgeable in the areas audited. 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 Internal Audit Director has an effective relationship with the Board of Trustees and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers the Internal Audit Department 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.”

Four ‘Opportunities for Improvement’ identified in the review process have been addressed:

1. The Auditor Independence and Ethics Statement and Independence and Objectivity Statement for Internal Auditors documents should be revised to include certification or affirmation statements of independence at the audit organization, audit, and individual auditor levels.
2. The 2011 version of the SAIAF Working Paper Review Tool was used to review audits conducted after February, 2013 in the review period. A revised version of the SAIAF Working Paper Review Tool was issued February, 2013. The 2013 version should be used for all audits until a new version is issued.
3. While the Internal Audit Policies & Procedures Manual is very comprehensive, it needs further updating to ensure it is complete and specific to the audit organization and its staffing level.
4. The auditor's conclusion did not have all the required language for an unmodified GAGAS compliance statement in the audit reports.

All identified areas for improvement have been addressed through changes or updates to procedures and tools to improve audit processes.

V. Internal Audit Plan for Fiscal Year 2017

The fiscal year 2017 Internal Audit Plan was developed using a risk-based methodology including input from the Board and senior management. The plan was approved by the Board at their August 5, 2016 meeting and includes the following planned audits and budgeted hours.

- | | |
|---|---------|
| • Audit #1 – Abuse, Neglect, Exploitation Audit | 250 hrs |
| • Audit #2 – TAC-202 Information Security Audit | 350 hrs |
| • Audit #3 – Contract Management Audit | 350 hrs |
| • Contingencies | 20 hrs |

Remaining hours are allocated to administrative tasks, other reporting requirements, meetings, continuing education, performance goals, participation in the State Agency Internal Audit Forum (SAIAF), and leave, as detailed in the annual Internal Audit Plan.

Additional risks ranked as “high” that have been identified but have not been included in the current Internal Audit Plan include the following:

- Ability to recruit and retain qualified and competent LVNs and RNs
- Medication Management – audited 2016
- Emergency Response risks – audited 2012
- Food Service risks – future audit
- Communication/coordination of special diets – future audit
- Coordination of services from TFC – future audit
- Inaccurate/untimely payroll information – audited 2015

Inaccurate timekeeping, personnel actions – audited 2010
Transportation failure risks – audited 2013
Student supervision risks – audited 2013
Financial loss due to errors or fraud – audited 2015
Public relations / perceived value – possible future audit

The methodology used to update the annual risk assessment and identify the high risk areas for audit is described in detail in our annual Internal Audit Plan document. This year our review and update of the existing footprint was based on discussions with staff, Board members, and our SAO liaison. Information technology risks are considered in every individual audit area that uses technology. The TAC 202 Information Security Standards Audit and the Contract Management Audit are included in the audit plan for FY-17 to address high risk areas identified.

VI. External Audit Services

There were no external audit services procured in fiscal year 2016. However, the School did undergo the following reviews in FY-2016:

- LBB School Performance Review
- LBB Fiscal Review
- TEA Special Education Monitoring Review

VII. Reporting Suspected Fraud and Abuse

In accordance with requirements for reporting fraud in Section 7.09 of the General Appropriations Act (84th Legislature), TSBVI provides information in the footer of the website on how to report suspected fraud, waste, and abuse involving state resources directly to the State Auditor's Office, as well as the School's Fraud Policy. The link to the SAO's website goes directly to the SAO's website page for fraud reporting, which includes the Hotline information. The TSBVI Fraud Policy and a link to the State Auditor's website for reporting fraud are also provided on the School's intranet home page.

TSBVI's Policy DHF – Employment Standards of Conduct: Fraudulent Action Against TSBVI, advises anyone who suspects fraud to report it in accordance with procedures developed and implemented by the Superintendent.

TGC 321.022, Coordination of Investigations, is also addressed in TSBVI's Policy DHF, which states that the Superintendent will report to the State Auditor's Office if he has reasonable cause to believe that money received from the State by TSBVI, or a TSBVI contract may have been lost, misappropriated, or misused, or that other fraudulent, or unlawful, conduct has occurred in relation to the operation of TSBVI.

Copies of this report have been distributed to the following:

TSBVI Board of Trustees

Joseph Muniz, President
Mary K. Alexander, Vice-President
Anne Corn
Caroline K. Daley
Bobby Druessedow, Jr.
Michael Garrett
Michael Hanley
Lee Sonnenberg
Tobie Wortham

Texas School for Blind and Visually Impaired

William Daugherty, Superintendent

Oversight Agencies

Governor's Office of Budget, Planning, and Policy
Legislative Budget Board
State Auditor's Office
Sunset Advisory Commission