Annual Internal Audit Report

FY-2013

Presented to TSBVI Board of Trustees

September 20, 2013
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September 20, 2013

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

Dear Ladies and Gentlemen:

Attached is the Texas School for the Blind and Visually Impaired’s annual report on internal audit activities, as required by the Texas Internal Auditing Act. The report provides information on the assurance services, consulting services, and other activities of the internal audit function.

Please contact me at (512) 206-9130 if you desire further information about the contents of this report.

Sincerely,

Signed Copy on File

Jaye Stepp, CPA, CIA, CGAP. CRMA
Director of Internal Audit
I. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web site

TSBVI will comply with House Bill 16 by posting our annual Internal Audit Plan, our Annual Internal Audit Report, and any weaknesses or concerns resulting from the audit plan or annual report on the TSBVI internet website.

TSBVI will post the Annual Internal Audit Plan and the Annual Internal Audit Report to our internet website within 30 days after review and approval by the Board of Trustees. TSBVI will post future updates to include a summary of actions taken by the agency to address concerns, if any, raised by the audit plan or annual report for FY-2014.

II. Internal Audit Plan for Fiscal Year 2013

The following audits were planned for fiscal year 2013:

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<tr>
<th>Report #</th>
<th>Report Date</th>
<th>Report Title</th>
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<tr>
<td>#2013-1</td>
<td>03/25/13</td>
<td>Student Supervision Overnight Audit</td>
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<tr>
<td>#2013-2</td>
<td>05/15/13</td>
<td>Governance Audit</td>
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<tr>
<td>#2013-3</td>
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There were no deviations from the FY-13 Internal Audit Plan as presented in the FY-12 annual internal audit report. The report on the Transportation audit is 85% completed; presentation to the Board for review and acceptance is planned for their next meeting in November 2013.
III. Consulting Engagements and Non-audit Services Completed

There were no consulting engagements, as defined in *The International Standards for the Professional Practice of Internal Auditing*, or non-audit services, as defined in *Government Auditing Standards, December 2011 Revision* (reissued on January 20, 2012), Section 3.33 – 3.58, that were completed during fiscal year 2013.

IV. External Quality Assurance Review (Peer Review)

An external quality assurance review was performed in April of 2012, under the State Agency Internal Audit Forum (SAIAF) reciprocal peer review process. The following excerpt from the report presents the overall opinion of the report:

“Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas School for the Blind and Visually Impaired’s Internal Audit Program “fully complies” with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*, 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 Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The internal auditor 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 Department is well managed internally. In addition, the Department has effective relationships with the Board of Trustees and is respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management generally considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations generally add value and help improve the agency’s operations. However, most respondents expressed concern at the size of the internal audit function (30% of 1 FTE) and the lack of audit resources available to sufficiently cover the perceived risk.”

Opportunities for improvement identified were –

1. *Standards* require that internal auditors document that the staff assigned to the audit are sufficient and competent to conduct the audit. This should be documented in the working papers. Because there is only one auditor, consideration should be given to including an attestation form or statement in the audit working papers that demonstrates this consideration.

2. Having only one auditor presents a challenge in reviewing the audit work to ensure that it complies with *Standards*. Mistakes, omissions or errors are easy to make without an independent review. Using the working paper review tool assists in this process, but it is important to use the most current tool. The 2007 version of the working paper review tool was used for the audits conducted during this period, rather than the 2009 tool that was current at that
time. Audits performed after December 15, 2011 should comply with the 2011 working paper review tool.

3. Although consideration of the potential for fraud, waste and abuse is included in the annual audit risk assessment for the School as a whole, the consideration of potential fraud, waste and abuse during the planning phase of individual audits should be included in the audit working papers for each audit.

4. In order to ensure that audit reports are clearly supported by the audit working papers and that all issues identified during the audit are addressed and disposed of, the draft audit report should be linked via cross referencing to the audit working papers.

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

V. **Internal Audit Plan for Fiscal Year 2014**

The fiscal year 2014 Internal Audit Plan includes the following planned audits and budgeted hours for each.

1. PFIA Compliance Audit (100 hours)
2. Abuse, Neglect, Exploitation or Improper Care Audit (120 hours)
3. Confidential Information Breach Audit (160 hours)
4. Property Management Audit (160 hours)

Additional risks ranked as “high” that have been identified but have not been included in the fiscal year 2014 Internal Audit Plan include the following:
- Transportation failure risks – audited 2013
- Student supervision overnight risks – audited 2013
- Campus Security risks, perimeter fencing – future audit
Sanitation issues on campus – audited 2009  
Payroll issues – audited 2010  
Timekeeping issues – future audit  
Emergency Response risks – audited 2012  
Public Relations risks  
Catastrophic Network Failure – audited 2007  
Ability to recruit and retain RNs and LVNs

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 a survey of staff, Board members, and our SAO liaison. The current Internal Audit Plan is risk-based and considers our limited resources for Internal Audit activities.

VI. External Audit Services

There were no external audit services procured in fiscal year 2013.

VII. Reporting Suspected Fraud and Abuse

In accordance with Article IX, Section 7.10, Fraud Reporting, General Appropriations Act (82nd Legislature), TSBVI has provided information on their web site regarding how to report suspected fraud, waste, and abuse to School staff and to the State Auditor’s Office. A link to the School’s Compact with Texans is provided at the bottom of a page, labeled ‘Report Fraud’. The information includes the State Auditor’s fraud hotline information and a link to the State Auditor’s Web site for reporting fraud.

Additionally, 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. If the Superintendent has reasonable cause to believe there has been a fraud, he is then responsible for reporting to the State Auditor.
Copies of this report have been distributed to the following:

**TSBVI Board of Trustees**
- Joseph Muniz, President
- Mary K. Alexander, Vice-President
- Caroline K. Daley, Secretary
- Michael Garrett, Finance & Audit Committee Chair
- Anne Corn, Ed.D.
- Bobby Druesedow, Jr.
- Cynthia Finley
- Gene Brooks, Ph.D.
- Lee Sonnenberg

**Texas School for Blind and Visually Impaired**
- William Daugherty, Superintendent
- Barney Schulz, Administrator, Business, Operations, & Technology

**Oversight Agencies**
- Kate McGrath, Governor’s Office of Budget and Planning
- Ed Osner, Legislative Budget Board
- Ken Levine, Sunset Advisory Commission
- Internal Audit Coordinator, Office of the State Auditor