Texas School for the Blind and Visually Impaired

Internal Audit Plan

Fiscal Year 2014

Presented to the
TSBVI Board of Trustees
For Review and Approval
September 20, 2013
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September 20, 2013

Members of the Board,
Texas School for the Blind and Visually Impaired

Chapter 2102 of the Texas Government Code requires that the internal audit plan be risk-based and include areas identified though a risk assessment process. This document presents the internal audit guidelines, risk assessment results, the proposed audit plan, and a summary of internal audits performed in recent years at TSBVI.

The following proposed Internal Audit Plan is presented for your review and approval, in accordance with the Texas Internal Auditing Act.

Respectfully,

Jaye Stepp, CPA, CIA, CGAP, CRMA
Director of Internal Audit
SECTION 1

INTERNAL AUDIT GUIDELINES

The purpose of this Section is to outline the guidelines that govern all internal audit activities at the Texas School for the Blind and Visually Impaired (TSBVI).

I. INTERNAL AUDIT CHARTER

The Standards for the Professional Practice of Internal Auditing state that a formal Internal Audit Charter should define the purpose, authority, and responsibility of the internal audit activity, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The Internal Audit Charter is an agreement between the TSBVI Board and the Internal Auditor that establishes these guidelines for an effective internal auditing program. The TSBVI Internal Audit Charter is TSBVI Policy CFCA, which is presented for annual review and approval by the Board at their November meeting.

II. TEXAS INTERNAL AUDITING ACT

All state agencies receiving appropriations or pass-through funds of $10 million or more or those agencies with more than 100 employees must comply with §2102.005 of the Internal Auditing Act (Texas Government Code, Chapter 2102). This act requires the agency to conduct a program of internal auditing that includes:

- An annual audit plan that is prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year; and
Periodic audits of the agency's major systems and controls, including
- accounting systems and controls,
- administrative systems and controls, and
- electronic data processing systems and controls.

The Act requires the governing board of the state agency to appoint an Internal Auditor who shall:
1. Report directly to the state agency's governing board;
2. Develop an annual audit plan;
3. Conduct audits as specified in the audit plan and document any deviations from the plan;
4. Prepare audit reports;
5. Conduct quality assurance reviews in accordance with professional standards and periodically take part in a comprehensive external peer review; and
6. Conduct economy and efficiency audits and program results audits as directed by the state agency's governing board.

The program of internal auditing conducted by a state agency must provide for the auditor to have access to the administrator and be free of all operational and management responsibilities that would impair the auditor's ability to review independently all aspects of the state agency's operation.

The annual audit plan developed by the Internal Auditor must be approved by the state agency's governing board or its designee.

The Internal Auditor will prepare reports of audits conducted, including management’s response to audit recommendations. The state agency’s governing board and the administrator must review those audit reports. The Director of Internal Audit will submit a copy of each report to the budget division of the Governor's Office, the State Auditor, the Legislative Budget Board and the
Sunset Commission no later than the 30th day after the date the report is submitted to the Board of Trustees.

The Director of Internal Audit shall prepare an Annual Report and submit the report before November 1st of each year to the Governor’s Office, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor, the state agency’s governing board, and the administrator. The State Auditor shall prescribe the form and content of the report, subject to the approval of the legislative audit committee.


### III. INTERNAL AUDIT STANDARDS

In addition to the Texas Internal Auditing Act, the *International Standards for the Professional Practice of Internal Auditing* provides a framework of authoritative guidance for conformance with the *Standards*. The Professional Practices Framework requires the internal audit activity to evaluate the effectiveness and contribute to the improvement of risk management processes. The internal audit activity must evaluate risk exposures, including the potential for the occurrence of fraud and how it is managed. The auditor assists the organization in maintaining effective controls by evaluating the effectiveness and efficiency of the risk management process and by promoting continuous improvement. Specifically, the internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization’s governance, operations, and information systems regarding the:
- Reliability and integrity of financial and operational information,
- Effectiveness and efficiency of operations and programs,
- Safeguarding of assets, and
- Compliance with laws, regulations, policies, procedures, and contracts.

Internal auditors are required to ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished.

The internal audit activity also must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:
- Promoting appropriate ethics and values within the organization,
- Ensuring effective organizational performance management and accountability,
- Communicating risk and control information to appropriate areas of the organization,
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

Internal auditors must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.

The internal audit plan and activities are designed to meet the guidelines for the internal audit function as stated above.
IV. INTERNAL AUDITING PROCEDURES

A. The Internal Auditor will inform the Superintendent and the appropriate TSBVI management of the audit and its objectives by conducting an entrance conference prior to beginning an audit.

B. The Internal Auditor will independently make a determination on the results of the audit and issue a draft report to the affected TSBVI management staff. The Internal Auditor will conduct an exit conference with the appropriate TSBVI management, at which time exceptions noted during the course of the audit will be discussed. The Internal Auditor will add management responses to the body of the report and issue a final draft report to the Superintendent and affected TSBVI management.

C. After presentation of the report to the TSBVI Board and approval of the final report by the TSBVI Board, the Internal Auditor will provide copies to all required oversight agencies.

D. If, during the course of an audit, the Internal Auditor detects situations or transactions that could be indicative of fraud or other illegal acts, or receives information from external sources alleging such actions, the Internal Auditor will:

   a. Provide all pertinent information to the Superintendent and the TSBVI Board.

   b. Formally request approval from the TSBVI Board to expand audit procedures or perform an investigation.
c. Upon approval, the Internal Auditor will extend audit procedures or perform an investigation to obtain sufficient evidence to determine whether in fact such acts have occurred and, if so, the cause of the problem and the possible effect on the TSBVI’s operations and programs.

d. Provide the Superintendent and the TSBVI Board a formal report on the results. Upon receipt of evidence of illegality, the Superintendent will forward findings to the appropriate legal entity.
SECTION 2

RISK ASSESSMENT

This section presents the results of the TSBVI Risk Assessment, and establishes the foundation for the Internal Audit Plan presented in the next section. The School’s Risk Assessment was updated in August 2013.

I. PURPOSE

A risk assessment provides management and board members with a prioritized list of risks associated with the activities of the agency. From these risks, a management strategy is developed. The risk assessment allows the Board to identify the risks being monitored by management and evaluate the effectiveness of controls and responses to those risks. The risk assessment provides a foundation upon which the annual internal audit plan is built.

II. CONCEPTS OF RISK

Risk is defined as the level of exposure to uncertainties that an organization must comprehend and manage to effectively and efficiently achieve its objectives and execute its strategies. Risk is a measurement of the likelihood that an organization’s goals and objectives will not be achieved. Controls are anything that improves the likelihood that goals and objectives will be achieved.
III. METHODOLOGY

The TSBVI risk assessment process has three primary parts: (1) identifying agency activities; (2) identifying and rating risks for each activity; and (3) identifying actions taken to mitigate risks. The risk assessment consolidates activities by functional area and prioritizes the activities based on their importance to achieving goals and objectives. The risk assessment matrix is used to determine high-risk areas to be included in the internal audit plan.

IV. RISK FOOTPRINT

The risk assessment matrix, or risk footprint, reflects the identified risks as ranked by the risk assessment process. This risk footprint changes as it is updated annually with new risks and/or new controls identified. Each risk identified in the matrix is assigned two risk factors of High, Medium, or Low based on (1) the impact the risk would have on the agency if it occurred and (2) the probability of occurrence. By combining these measures the agency develops a priority ranking for each risk factor. The following key provides the level of risk management that will be employed by the agency for each potential risk factor ranking:

- HH, HM – Extensive Risk Management that includes monitoring by management and an internal audit.
- HL, MH – Considerable Risk Management that includes monitoring by management and a less in depth audit.
- MM, ML, LH – Manage and monitor the risk.
- LM, LL – Monitor or accept the risk.
V. RESULTS

The results of the risk assessment illustrate the prioritization and organization of consolidated activities and risk factor priorities. The highest-risk areas are marked in red on the footprint. Risks in the red area require oversight controls to ensure that the supervisory and operating controls are working. Oversight controls can include exception reports, status reports, analytical reviews, variance analysis, etc. These controls are performed by representatives of executive management, on information provided by supervisory management. Areas within this highest risk category are considered for inclusion in the internal audit plan.

Activities that fall within the yellow risk category require considerable risk management. Under this category of risk the Executive Director or a designee should perform oversight controls to ensure that supervisory and monitoring controls are working. If internal audit provides services in this area, it is to ensure that oversight of the supervisory controls are appropriate and are being performed.

The last two categories of risk are marked in green and gray. For risks falling within the green category, department managers should ensure they are providing oversight to monitor the effectiveness of supervisory controls and operating controls. Department managers should report to the Superintendent on the condition of these risks. Risks in the gray area are low impact risk areas that are managed by operating and supervisory controls and executive management accepts the residual risk in these areas.
SECTION 3

FY-2014 INTERNAL AUDIT PLAN

The Internal Audit Plan for the Texas School for the Blind and Visually Impaired includes audit areas that were identified as ‘yellow’ risks in the risk assessment process and two required audits. The proposed internal audit plan for TSBVI for FY-2014 includes the following areas:

1. Public Funds Investment Act (PFIA) Compliance Audit – The Public Funds Investment Act (PFIA), Texas Government Code, Section 2256.005(n), requires every state agency to obtain a compliance audit for its investments that are not invested by the State Comptroller of Public Accounts under Texas Government Code, Section 404.024. This audit is required to be performed every other year and the report is due to the SAO no later than January 1 of even numbered years.

2. Abuse, Neglect, Exploitation or Improper Care Audit – TSBVI Policy FFG requires the internal auditor to ‘review this policy and the procedures implementing this policy a minimum of once every three years’. An audit of this area was last conducted in FY-2011.

3. Confidential Information Breach Audit – The risk of a confidential information breach was ranked as high impact on the risk assessment by several divisions of the school. The probability was ranked low, but this risk has not been previously audited or reviewed at TSBVI.

4. Property Management Audit – Property loss due to theft, damage, or loss ranked high on probability in the risk assessment, primarily due to the large number of portable electronic devices now being purchased and used on campus.
In addition to these audits, the State Agency Internal Audit Forum (SAIAF) promotes reciprocal peer reviews between agencies of similar size. In 2009 and 2012, SAIAF auditors performed the TSBVI peer review. The School incurs a reciprocal balance of 3 points for each peer review. In keeping with the terms of the agreement, the TSBVI internal auditor is required to participate in another state agency’s peer review in return for services rendered to our agency. Team members earn 1 point for each peer review.

The half-time internal audit function is allowed 1040 hours per year. Time estimates for the FY-2014 internal audit activities are:

<table>
<thead>
<tr>
<th>Activity Description</th>
<th>Estimated Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2014 Risk Assessment &amp; Internal Audit Plan</td>
<td>60 hrs</td>
</tr>
<tr>
<td>FY 2013 Annual Internal Audit Report</td>
<td>30 hrs</td>
</tr>
<tr>
<td>Audit Recommendation Tracking</td>
<td>30 hrs</td>
</tr>
<tr>
<td>Audit #1 – PFIA Audit</td>
<td>100 hrs</td>
</tr>
<tr>
<td>Audit #2 – ANE Audit</td>
<td>120 hrs</td>
</tr>
<tr>
<td>Audit #3 – Confidential Info Breach Audit</td>
<td>160 hrs</td>
</tr>
<tr>
<td>Audit #4 – Property Management Audit</td>
<td>160 hrs</td>
</tr>
<tr>
<td>SAIAF Reciprocal QAR Service</td>
<td>60 hrs</td>
</tr>
<tr>
<td>Perf Goals: IA Procedures Review &amp; Update</td>
<td>60 hrs</td>
</tr>
<tr>
<td>Annual updates: Charter; QAIP</td>
<td>50 hrs</td>
</tr>
<tr>
<td>Meetings (Board, SAIAF)</td>
<td>60 hrs</td>
</tr>
<tr>
<td>Continuing Education Training</td>
<td>40 hrs</td>
</tr>
<tr>
<td>Leave - Holidays / Vacation / Sick</td>
<td>80 hrs</td>
</tr>
<tr>
<td>Administrative and Other Contingencies</td>
<td>30 hrs</td>
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</tbody>
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Total Estimated Hours: 1040 hrs
EXHIBIT 1

TSBVI 5-YEAR AUDIT HISTORY

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Audit Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY-2013</td>
<td>2013-1</td>
<td>Student Supervision Overnight</td>
</tr>
<tr>
<td></td>
<td>2013-2</td>
<td>Governance Audit</td>
</tr>
<tr>
<td></td>
<td>2013-3</td>
<td>Transportation Audit</td>
</tr>
<tr>
<td>FY-2012</td>
<td>2012-1</td>
<td>Public Funds Investment Act Audit**</td>
</tr>
<tr>
<td></td>
<td>2012-2</td>
<td>Quality Assurance Review*</td>
</tr>
<tr>
<td></td>
<td>2012-3</td>
<td>Emergency Response</td>
</tr>
<tr>
<td>FY-2011</td>
<td>2011-1</td>
<td>Abuse, Neglect, Exploitation Audit*</td>
</tr>
<tr>
<td></td>
<td>2011-2</td>
<td>Database Management Audit</td>
</tr>
<tr>
<td>FY-2010</td>
<td>2010-1</td>
<td>Public Funds Investment Act Audit**</td>
</tr>
<tr>
<td></td>
<td>2010-2</td>
<td>Timekeeping Audit</td>
</tr>
<tr>
<td>FY-2009</td>
<td>2009-1</td>
<td>Construction Planning and Oversight</td>
</tr>
<tr>
<td></td>
<td>2009-2</td>
<td>Sanitation Audit</td>
</tr>
<tr>
<td></td>
<td>2009-3</td>
<td>Quality Assurance Review*</td>
</tr>
<tr>
<td>FY 2008</td>
<td>2008-1</td>
<td>Public Funds Investment Act Audit**</td>
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<tr>
<td></td>
<td>2008-2</td>
<td>Purchasing Audit</td>
</tr>
<tr>
<td></td>
<td>2008-3</td>
<td>Abuse, Neglect, Exploitation Audit*</td>
</tr>
</tbody>
</table>

* Required every three years
** Required every two years
REPORT DISTRIBUTION

Copies of this report have been distributed to the following:

Texas School for the Blind and Visually Impaired Board Members
Joseph Muniz, President
Mary K. Alexander, Vice President
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Gene Brooks, Ph.D.
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Bobby Druesedow, Jr.
Cynthia Finley
Michael Garrett
Lee Sonnenberg

Texas School for the Blind and Visually Impaired
Bill Daugherty, Superintendent

Governor’s Office of Budget and Planning, and Policy
Mr. Jonathan Hurst

Legislative Budget Board
Mr. Ed Osner

Sunset Advisory Commission
Mr. Ken Levine

State Auditor’s Office
Internal Audit Coordinator