

Internal Audit Annual Report for FY 2019



TEXAS CIVIL COMMITMENT OFFICE

MARSHA MCLANE
EXECUTIVE DIRECTOR

I.	Compliance with Texas Government Code 2102.015	2
II.	Internal Audit Plan for Fiscal Year 2019	3
III.	Consulting Services and Non-Audit Services Completed.....	4
IV.	External Quality Assurance Review.....	4
V.	Internal Audit Plan for Fiscal Years 2020 and 2021	5
VI.	External Audit Services Procured in Fiscal Year 2019	7
VII.	Reporting Suspected Fraud and Abuse.....	7

I. Compliance with Texas Government Code, Section 2102.015

Texas Government Code, Section 2102.015 requires state agencies, as defined in the statute, to post certain information on Internet Web sites. The Texas Civil Commitment Office's Internal Audit will follow the following procedures to ensure compliance with posting requirements.

Texas Government Code, Section 2102.015(b) (1) requires posting of the agency's approved internal audit plan within 30-days of approval. In accordance with Texas Government Code, Section 2102.008, the annual audit plan developed by the internal auditor must be approved by the state agency's governing board.

The Fiscal Year 2020 and 2021 Internal Audit Plan was presented to the Board of the Texas Civil Commitment Office at the August 23, 2019 meeting for Board approval. The plan was posted to the agency's web site thereafter as required.

Texas Government Code, Section 2102.015(b) (2) requires posting of the agency's Internal Audit Annual Report. Texas Government Code, Section 2102.009 requires the internal auditor to prepare an annual report and submit the report before November 1 of each year to the governor, the Legislative Budget Board, the Sunset Advisory Commission, the state auditor, the state agency's governing board, and the administrator. The state auditor prescribes the form and content of the report, subject to the approval of the legislative audit committee.

This annual report was presented to the agency's executive administration and will be presented to the Board of the Texas Civil Commitment Office at the next Board Meeting. The report will be posted to the agency's website following the meeting.

Texas Government Code, Sections 2102.015(d) and (e) requires agencies to update the posting with:

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

Any weaknesses, deficiencies, wrongdoings, or others concerns, if noted, will be posted as required.

II. Internal Audit Plan for Fiscal Year 2019

FY19 Follow-Up Audit Work (1901)

The **objective** was to determine the status of corrective actions taken in response to audit recommendations from prior audit reports. Internal Audit completed follow-up work for the following prior audits:

- Data Reliability of the Corrections Software Solutions Database (Audit Report 1701 dated October 10, 2017)
- Correct Care Recovery Solutions (CCRS) Monthly Billing (Audit Report 1801 dated August 26, 2018)

Internal Audit found that management had sufficiently addressed corrective actions and continues to focus on improving the quality of data in CSS, the agency's case management system. All prior internal audit recommendations were noted as fully implemented.

Status: Closed-Completed

A Review of Correct Care Recovery Solutions Internal Quality Assurance Processes (1902)

The **objective** was to evaluate whether the TCCC has a system of quality assurance in place and assess how effectively it is operating. The audit was specific to the prior vendor's quality assurance processes to ensure that the vendor had an effective system of quality assurance to meet contractual obligations. TCCO re-procured the contract for management of program services at the Littlefield facility in Fiscal Year 2019, and because of the vendor change and time needed to transition vendor operations, a decision was made to remove this from the Audit Plan.

Status: Closed-Cancelled (Due to Vendor Changes)

TCCO Internal Audit Peer Review

The **objective** of this project was to evaluate the Internal Audit function's compliance with the state requirements and applicable auditing standards. In accordance with the Texas Internal Auditing Act, Texas Government Code, Chapter 2102, the Institute of Internal Auditors (IIA) Code of Ethics and *International Standards for the Professional Practice of Internal Auditing*, and the U.S. Government Accountability Office (GAO) *Government Auditing Standards*, Internal Audit is required to undergo a periodic Quality Assurance Review (Peer Review).

Peer Reviews are intended to help Internal Audit and the organization receiving the review by evaluating compliance with Standards and the Texas Internal Auditing Act and identifying any instances of noncompliance. They also provide an opportunity to identify best practices and improve internal processes. Peer reviews are conducted once every three years.

TCCO Internal Audit received its Peer Review report on August 15, 2019, for the three-year period ending in August 2019. TCCO Internal Audit received a rating of "Pass/Generally Conforms", which is the highest of three possible ratings. The next Peer Review will be due in FY 2023 for the period from September 2019 to August 2022.

Status: Closed-Completed

III. Consulting Services and Non-Audit Services Completed

No consulting services or non-audit services were performed in Fiscal Year 2019.

IV. External Quality Assurance Review

The TCCO Internal Audit function was established in Fiscal Year 2016, and an external quality assurance review was completed in Fiscal Year 2019. Results (Pass/Generally Conforms) are shown below.

TCCO Internal Audit Peer Review

August 15, 2019

Cathy Sherwood, Internal Audit Director, Texas Civil Commitment Office (TCCO)

Dear Ms. Sherwood,

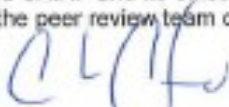
I have completed a peer review of the TCCO for the period 2016 - 2019. In conducting my review, I followed the standards and guidelines contained in the Peer Review Manual published by the State Agency Internal Audit Forum (SAIAF).

The Institute of Internal Auditors (IIA) *International Standards for the Professional Practices of Internal Auditing and Code of Ethics*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102) require that internal audit functions obtain external quality assurance reviews (peer reviews) to assess compliance with standards and the Act and to appraise the quality of their operations.

I reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of conformance with the IIA Standards, the GAO Standards, and the Texas Internal Auditing Act. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the information received and evaluated during this external quality assurance review, it is my opinion that the TCCO Internal Audit Department receives a rating of **Pass/Generally Conforms** and is in compliance with the IIA Standards, the GAO Standards, and the Texas Internal Auditing Act. 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 TCCO has reviewed the results of the work performed by the peer review team and accepted them to be an accurate representation of their operations. To the extent lawful, TCCO agrees to hold SAIAF and its officers and representatives harmless of any liability arising from the actions of the peer review team or issues resulting from the peer review.



Chris Cirrito, CIA, CFE, CGAP
Chief Audit Executive
Texas Board of Criminal Justice

Attachment A: Conformance Rating Definitions

V. Internal Audit Plan for Fiscal Year 2020

Texas Civil Commitment Office Internal Audit Plan for Fiscal Years 2020 and 2021

Approved by the TCCO Board August 23, 2019

Fiscal Year 2020 Audit Plan

Assurance Project

- Audit of Compliance with Health & Safety Code § 841.007 – Supervision Requirements
- Budget – 200 Hours
- Preliminary Objective – Determine whether client records include sufficient evidence supporting appropriate and necessary client supervision required by Texas Health & Safety Code.

Follow Up and Required Projects

- Follow Up on Prior Audit Recommendations
- Fiscal Year 2019 Self-Assessment
- Fiscal Year 2019 Annual Report to State Leadership
- Fiscal Year 2020 Annual Risk Assessment
- General Administration

Fiscal Year 2021 Audit Plan

Assurance Project

- Audit of Compliance with Health & Safety Code § 841.007 – Treatment Requirements
- Budget – 165 Hours
- Preliminary Objective – Assess whether the developed and implemented sex offender treatment requirement meets minimum requirements as established in Texas Health & Safety Code.

Follow Up and Required Projects

- Follow Up on Prior Audit Recommendations
- Fiscal Year 2020 Self-Assessment
- Fiscal Year 2020 Annual Report to State Leadership
- Fiscal Year 2021 Annual Risk Assessment
- Audit Plan for Fiscal Years 2022 and 2023
- General Administration

No projects in the audit plan address benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act. The approved audit projects may address contract management since the supervision and treatment services are primarily outsourced to one major vendor.

Identified High Risks Not Included in FY 2020 and FY 2021 Internal Audit Plan

Projects related to the review of user access controls for the case management system were not included in the FY 2020 or FY 2021 Internal Audit Plan. Because case management system notes support decisions about client movement between tiers within the civil commitment program and also support billing for professional services, management should consider including IT audits in future audit plans. Based on discussion in the August 23, 2019 TCCO Audit Committee Meeting, TCCO management believes that implemented procedures to address audit findings from a prior State Auditor's Office report related to user access controls are working as intended, and compliance with Health & Safety Code was deemed a higher priority for coverage over the next two fiscal years.

Risk Assessment

The agency is small, with 35 full-time equivalents (FTE's) with a FY 2020 annual budget of \$17,985,957. Significant changes in agency operations are not anticipated from year to year, so a two-year internal audit plan was developed. Because over eighty-three percent (83%) of the agency's budget is encumbered for one contract, contract monitoring is a high impact activity that is performed consistently by program staff to ensure that the agency meets statutory requirements to provide supervision and treatment to their clients.

The Risk Assessment involved prioritizing high risk auditable activities, with input from agency leadership and an evaluation of management's overall risk appetite. Management and staff were interviewed to identify strategic and tactical goals for each function within the agency and to assess the likelihood and impact for identified risks that could impede the agency's ability to meet its statutory requirements for the supervision and treatment of civilly committed individuals. The risk assessment methodology included the following:

- Reviewing the organizational structure, roles and responsibilities, internal policies and procedures for agency functions, including contract management and monitoring activities.
- Reviewing the major contract documents for the vendor providing supervision and treatment services at the Texas Civil Commitment Center to gain an understanding about service level agreements, key deliverables, and other contract terms and conditions.
- Assigning likelihood and impact ratings to each identified risk and discussing risk ratings with executive leadership.
- Prioritizing risks to obtain agreement from agency leadership about the use of internal audit resources for the upcoming two fiscal years to address high risk auditable activities.

Internal Audit considered (1) technology risks related to Title 1, Texas Administrative Code, Chapter 202, Information Security Standards and (2) benefits proportionality. TCCO agency management has communicated with the Texas Department of Information Resources for assistance with the review and assessment of compliance with TAC 202 requirements. Benefits proportionality was not included as a high risk, because administrative activities associated with human resources are performed by the Texas Health and Human Services Commission under an inter-agency administrative agreement.

VI. External Audit Services Procured in Fiscal Year 2019

No external audit services were procured in Fiscal Year 2019.

VII. Reporting Suspected Fraud and Abuse

Fraud Reporting: Article IX, Section 7.09 (a), the General Appropriations Act (84th Legislature)

This section of the Appropriations Act states:

Sec. 7.09. Fraud Reporting. A state agency or institution of higher education appropriated funds by this Act, shall use appropriated funds to assist with the detection and reporting of fraud involving state funds as follows:

- (a) By providing information on the home page of the entity's website on how to report suspected fraud, waste, and abuse involving state resources directly to the State Auditor's Office. This shall include, at a minimum, the State Auditor's Office fraud hotline information and a link to the State Auditor's Office website for fraud reporting; and
 - **To implement (a) of Section 7.09, the Texas Civil Commitment Office has** included a link on the Texas Civil Commitment Office website to the State Auditor's Fraud Reporting hotline.
- (b) By including in the agency or institution's policies information on how to report suspected fraud involving state funds to the State Auditor's Office.
 - **To implement (b) of Section 7.09, the Texas Civil Commitment Office has** included in Policy 1.10, *Texas Civil Commitment Office Ethics Policy*, section II.B, which provides instructions for employees to report any conduct he or she believes to be in violation of the ethics policy to the Executive Director or Executive Director's designee, and to report suspected fraud, waste, or abuse involving state funds to the State Auditor's Office via phone to the State Auditor's Office Fraud Hotline 1-800-TX-AUDIT or online at <https://sao.fraud.texas.gov/ReportFraud/>.

Texas Government Code, Section 321.022

This section of the Texas Government Code states:

COORDINATION OF INVESTIGATIONS.

- (a) If the administrative head of a department or entity that is subject to audit by the state auditor has reasonable cause to believe that money received from the state by the department or entity or by a client or contractor of the department or entity may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the department or entity, the administrative head shall report the reason and basis for the belief to the state auditor. The state auditor may investigate the report or may monitor any investigation conducted by the department or entity.
- (b) The state auditor, in consultation with state agencies and institutions, shall prescribe the form, content, and timing of a report required by this section.

- (c) All records of a communication by or to the state auditor relating to a report to the state auditor under Subsection (a) are audit working papers of the state auditor.
- **To implement this statute**, Policy 1.10, *Texas Civil Commitment Office Ethics Policy*, section II.C requires the Executive Director to report the reason and basis for any suspected misuse of state monies to the state auditor. As of the date of this report, the TCCO has not received any reports of loss, fraud, misuse, or other fraudulent or unlawful activities.