

OFFICE OF INTERNAL AUDIT

An Internal Audit Report for:

TPWD Chairman Peter M. Holt
TPWD Commissioner J. Robert Brown
TPWD Executive Director Carter P. Smith



Texas Parks and Wildlife Department FY 2009 Annual Audit Plan

November 2008

Report 09-001

Office of Internal Audit

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TEXAS PARKS AND WILDLIFE DEPARTMENT

FY 2009 Annual Audit Plan

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TPWD Chairman

J. Robert Brown
TPWD Finance Committee Chairman

Carter P. Smith
TPWD Executive Director

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TPWD Director of Internal Audit

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Introduction

The Office of Internal Audit appreciates the opportunity to provide our vision for Internal Audit activities at the Texas Parks and Wildlife Department (TPWD) for Fiscal Year 2009.

With programs of high interest to the general public and the Legislature, it is critical to ensure our major systems and programs run efficiently and effectively. Our efforts give you assurance when programs are working as intended and recommendations for improvement when they are not.

This proposal is the result of a risk assessment process through which Internal Audit conscientiously assessed and selected areas for audit. We selected areas where failure based on a particular system to adequately perform could significantly hamper TPWD's ability to complete its mission. As stated in the Department's mission statement, we strive:

To manage and conserve the natural and cultural resources of Texas and to provide hunting, fishing, and outdoor recreation opportunities for the use and enjoyment of present and future generations.

Consequently, a portion of our plan is devoted to functional based audits related to hunting, fishing, and outdoor recreation issues. The Department is also mandated under Rider 29 to perform audits of State Parks to ensure the implementation of recommendations contained in the State Auditor's *An Audit Report on Financial Processes of the Parks and Wildlife Department* Report No. 07-021. Additionally, the plan includes ancillary activities which support the agency's core functions. These activities include Information Technology, Administrative Resources, Human Resources, [Communications](#) and the Executive [Administration](#) Office.

This document presents our proposed project areas for Fiscal Year 2009 and outlines our risk assessment methodology.

Purpose and Mission

This audit plan is required by the Texas Internal Auditing Act (Chapter 2102, Title 10, Govt. Code, Vernon's Texas Codes Annotated), *Generally Accepted Government Auditing Standards* [issued by the United States Government Accountability Office \(GAO\)](#), and the *Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors (IIA).

Internal Audit's mission statement guides our daily work:

The mission of the Office of Internal Audit is to provide assurance and advisory services that help the Texas Parks and Wildlife Commission (Commission) and management meet agency goals and objectives. We provide independent and objective information, analyses, and recommendations to assist management in effecting constructive change, managing business risk, and/or improving compliance and accountability of the Department and its business partners.

Audit Charter and Internal Auditing Definition

The Audit Charter, approved by the Chairman, Finance Committee Chairman, and Executive Director, clearly defines the dual focus of the Office of Internal Audit's assurance and advisory service activities. The Charter also defines our vision and philosophy, mission, scope of activities, responsibilities, authority, independence, professional standards, quality assurance processes, continuing professional development and reporting relationships.

As defined in the Charter, internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the agency's system of internal control and the quality of performance in carrying out the goals and objectives of the agency. The Texas Internal Auditing Act was amended during the 78th legislative session to include the Institute of Internal Auditor's (IIA) definition of internal audit:

An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

For more background information on the Office of Internal Audit, see Appendix A.

Risk Assessment

Risk assessment, as defined by the IIA, is a "systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events."

In conducting our risk assessment, Internal Audit interviewed the TPWD Commission Chairman, the Finance Committee Chairman, the Executive Director, the Deputy Executive Directors, each Division Director, as well as other management personnel. Various Section Managers not interviewed had the opportunity to provide input into our risk assessment through a formal survey process.

Internal Audit identified through the interviews and surveys the universe of auditable activities primarily as those activities conducted to address the strategies funded by the Appropriations Act.

Using the information gathered through the interviews and surveys and our professional judgment, we grouped the universe of auditable activities into two major categories:

- State Park Audits
- Department functional areas other than State Parks to include:
 - Operational/Programmatic activities
 - Information Technology initiatives
 - Financial Related processes

We then risk ranked all identified activities within each category using specific elements of risk related to that category. From this ranking, specific project topics were identified for each high risk area. This resulted in seven potential audit project areas. Lastly, to determine which projects should be included in the proposed audit plan, we prioritized each identified project area as priority A, B or C, with A being the most critical. Projects in the list below are presented by criticality from A through C. We did not rank the projects within each category. We intentionally did not indicate where each designation starts and stops.

Proposed Audit Projects for Fiscal Year 2009

Carryover projects:

Seven audit projects in process at the end of FY 2008 were carried over to FY 2009. The Round 5 Park Audit report was released in late October; the current project status for those listed below is noted by audit phase:

- Round 6 Park Audits (Report writing)
- Round 7 Park Audits (Review)
- Round 8 Park Audits (Review)
- Cedar Hill Leased Concession Audit (Report writing)
- Eisenhower State Park Leased Concession Audit (Report writing)
- Sand & Gravel Review (Fieldwork)

We propose to complete these projects during FY 2009:

Proposed Project Areas Fiscal Year 2009
<u>September 2008</u>
Audit of San Angelo State Park
Audit of Lake Corpus Christi State Park
Audit of Inks Lake State Park
Leased Concessionaire – Recreation Resource Management (Lake Livingston SP)
Leased Concessionaire – Lake Livingston Stables (Lake Livingston SP)
Audit of Lake Somerville (Nails Creek) State Park
Leased Concessionaire – Play Texas (Palo Duro Canyon SP)
Leased Concessionaire – Longhorn Cavern SP

Leased Concessionaire – Rimkus Management (Garner SP)
Audit of Lake Whitney State Park
Leased Concessionaire – Mountain View Lodge & Marina (Lake Brownwood SP)
<u>October 2008</u>
Audit of Seminole Canyon State Historical Site
Audit of Lake Casa Blanca International State Park
Leased Concessionaire – Marina (Lake Ray Roberts SP)
Leased Concessionaire – Nature Leisure (Lake Ray Roberts SP)
Audit of Brazos Bend State Park
Audit of Lake Texana State Park
Leased Concessionaire – Huntsville Riding Stables (Huntsville SP)
Leased Concessionaire – Lost Pines Golf Course (Bastrop SP)
Possum Kingdom State Park Park Store
Audit of Enchanted Rock State Natural Area
Audit of Pedernales Falls State Park
Leased Concessionaire – All Ridee Concessions (Huntsville SP)
Remainder of FY 2009
Thirty-nine FY 2009 State Parks Audits
Five FY 2009 State Parks Leased Concession Audits
Agency Travel Voucher Audit
Cash Handling at Selected Law Enforcement Offices
Computer Equipment Inventory at Selected State Parks
A Review of the TPWD Business Continuity Processes

Key Performance Measures Review

We believe that completing the proposed projects or appropriate alternatives will reasonably cover the risks identified by the risk assessment.

Alternative projects are additional areas that we believe could potentially benefit from the use of audit resources, but did not rise to the top of the list of potential audit areas. We seek approval to use them as alternative projects in circumstances where additional or substitute projects are required.

Proposed Alternative Project Areas

An Audit of Motor Vehicle Fuel Usage

A Review of the Department's Purchasing Processes

An Audit of Procurement Card Usage

Internal Audit will review the audit plan at the end of the upcoming scheduled Legislative session. We will consult with the Commissioners and Executive Management to adjust the plan as needed based on priorities, management requests, workloads, changes in operations, and availability of Internal Audit resources. If needed, we will seek the Commission's authorization through the Chairman for approval of any amendments to the audit plan that become necessary during the fiscal year.

Acceptable Level of Risk

While the list of proposed projects results from our consideration of a wide-ranging scope of auditable activities, it does not address or provide coverage for all TPWD components or systems. Our goal is to optimize our resources to provide reasonable coverage in the areas we believe require the most attention.

Due to a variety of factors, some significant activities that might warrant review may not be carried forward to the list of proposed audit projects, but they did receive consideration.

Ultimately, we cannot address every risk area. It is important for the Commission and Executive Management to understand the limitations of the audit coverage and the attendant risks for areas not audited. We believe this listing of proposed projects allocates Internal Audit resources to the most important priorities and significant risks of TPWD and allows flexibility to address other risk areas that may become known during the fiscal year.

However, according to the Texas Internal Auditing Act, it is the governing board's responsibility to conclude whether resources are adequate to address the identified

risks. Specifically, Senate Bill 1694 of the 78th legislative session amended the Texas Internal Auditing Act to require the governing board of a state agency to periodically review the resources dedicated to the internal audit program and determine if adequate resources exist to ensure that risks identified in the annual risk assessment are adequately covered within a reasonable time frame.

Internal Audit asserts that our staff resources are adequate to address the high risk areas that warrant audit coverage. We believe the areas that warrant audit coverage are those listed as proposed audit project areas. Any additional audit coverage would require additional staff resources.

Besides staff resources, Internal Audit is provided with an operating budget to cover administrative costs. Like all of Texas state government, including TPWD, this budget is very limited. The greatest impact of such a limited budget will be in the areas of travel and continuing professional education. Internal Audit standards require professional auditors to receive a minimum of 80 hours of training every two years. In order to achieve this level of training with limited resources, Internal Audit will be seeking innovative and low-cost alternatives to traditional continuing professional education. Budget limitations in areas such as travel are expected to have an impact on our ability to address the risks identified in this project. Internal Audit is confident that if it is necessary to request additional budget resources during this biennium, that request will be addressed in good faith.

Advisory Services and Other Activities

A percentage of the available total audit hours are allocated to planning, administrative and other special projects. These projects include advisory services, follow-up, external auditor liaison duties, preparation of the FY 2009 Audit Plan, the preparation time for an external Peer Review, and hours dedicated to providing assistance during the upcoming Legislative session.

Advisory Services

The internal auditing profession has gone through a redefinition of its focus of activities and has moved toward providing more advisory services to management. We will continue to have senior staff members participating in agency committees and work groups as needed and directed by our Commission or requested by Executive Management. We provide advice and suggestions on management issues, concerns, and proposed policies and procedures.

Follow-Up

Follow-up is an important part of our audit effort and is required by professional standards. The status of all recommendations is to be presented in mid-year and annual follow-up reports to the Commissioners and Executive Management. Follow-up reporting continues until all recommended actions and management action plans are implemented or the specific risk reported is otherwise mitigated.

External Auditor Liaison

Internal Audit serves as the liaison with the Texas State Auditor's Office (SAO), the Department of the Interior's Office of the Inspector General (DOI-OIG) and other external audit groups having oversight responsibility for TPWD activities. Internal Audit staff assists external auditors on these projects as appropriate. Our goal in the role of liaison is to provide assistance to the extent that professional and organizational reporting responsibilities allow. Internal Audit should conduct examinations in a manner that allows for maximum audit coordination and efficiency.

Management Controls

Management is responsible for establishing a system of internal / management controls adequate to reasonably assure that established objectives are accomplished. During Fiscal Year 2009, Internal Audit will provide agency managers with information on internal control processes and procedures. We plan on using a model developed by the University of Texas System Audit Office. The *Assurance Continuum Model for the 21st Century* contains the following control tiers:

- **Level 1 Controls (Operating Controls)**
- **Level 2 Controls (Monitoring Controls)**
- **Level 3 Controls (Oversight Controls)**
- **Level 4 Controls (Internal Audit)**

This model identifies the four levels of internal control and relates them to the three dimensions of transactions, time, and involvement in the process. The model and its application within TPWD are shown in Appendix B.

Management controls are most effective when they are built into the organization's infrastructure and are a fundamental part of management's philosophy. Use of the model supports quality and empowerment initiatives, avoids unnecessary costs, and enables a quick response to changing conditions. The use of this model should provide agency managers with the tools to systematically oversee their area of responsibility.

Through this model, Internal Audit will strive to promote greater understanding and use of risk mitigation plans during audit projects, management meetings, training activities and the dissemination of information to individual managers throughout the year.

Closing

Internal Audit is grateful to the Commission and Executive management for their consideration of this proposal. We respectfully request approval of this proposal which includes:

- Approval of the Proposed Project Areas.
- Approval of the Proposed Alternative Project Areas.

- Authorizing the Commission Chairman to approve amendments to the Annual Audit Plan as well as amendments to the Audit Charter.
- Certification that resources provided to the Internal Audit function are adequate to address the risks identified by the internal audit risk assessment.

We look forward to helping TPWD meet it's objectives during this biennium.

For further information on the Office of Internal Audit or the FY2009 Annual Audit Plan, please contact Carlos Contreras, Director of Internal Audit at (512) 389-4422 or by email at carlos.contreras@tpwd.state.tx.us.

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Appendices

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About the Office of Internal Audit

Audit Organization and Staffing

The Office of Internal Audit is authorized nineteen full-time equivalent positions: a Director, two Headquarters auditors, and sixteen field auditors. Our Fiscal Year 2009 Annual Audit Plan was developed based on the assumption that this staffing level would remain constant during the fiscal year.

Internal Audit staff members collectively have over 27 years of agency experience, over 50 years of internal auditing experience, six graduate degrees, and ten professional certifications including:

- Certified Internal Auditor (CIA)
- Certified Fraud Examiner (CFE)
- Certified Public Accountant (CPA)
- Certified Information Systems Auditor (CISA)
- Certified Government Auditing Professional (CGAP)
- Certification in Control Self-Assessment (CCSA)

Additionally, two staff members are preparing for the Certified Internal Auditor examination and another staff member is actively pursuing completion of the Certified Fraud Examiner designation.

Professional Organizations

Internal Audit staff actively participates in professional auditing and information systems organizations. These groups are excellent sources for obtaining information on auditing, accounting, business management, and other professional issues:

- Institute of Internal Auditors (IIA)
- Association of Certified Fraud Examiners (ACFE)
- Information Systems Audit and Control Association (ISACA)
- Texas State Agency Internal Audit Forum (SAIAF)

Quality Assurance

Internal quality assurance is an important component in providing high quality auditing services. We conduct a supervisory and quality assurance review of each project and the resulting audit report.

Additionally, audit standards require internal audit departments to undergo a periodic external quality assurance review every three years. Internal Audit was last evaluated in September 2004 by an audit director who is a member of the State Agency Internal Audit Forum (SAIAF) team. The final report supports the conclusion that the work of the TPWD Office of Internal Audit **fully** complies with the *Standards for the Professional Practice of Internal Auditing*, the *Generally Accepted Government Auditing Standards*, and the Texas Internal Auditing Act. Our next peer review, to be led again by a team from the Texas State Agency Internal Audit Forum (SAIAF), will occur in FY 2009.

Performance Measures

The Office of Internal Audit measures performance with the following:

- Completion of 100% of the approved audit plan, allowing for appropriate project substitutions and amendments (Output).
- Percentage of prior audit recommendations that are in the process of being implemented or have been implemented. Combined performance target is 89% (Outcome).

Additionally, the Director of Internal Audit uses the following to measure performance:

- By month and year: Percentage of time spent on Administration (15%); Professional Development (6%); Leave (17%); and Audit Projects (62%)
- For each project: Establishing and meeting realistic deadlines and budgeted hours to achieve audit objectives.

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Appendix B

THE ASSURANCE CONTINUUM

Collaborative Assurance

(Governance and Management Control Processes)

