

Texas Workforce Commission

Office of Internal Audit

*Fiscal Year 2016
Annual Audit Report*



October 2016

TWC Office of Internal Audit Mission Statement

The mission of the OIA is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight to the Commission and agency management.

TWC Commission

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Ruth R. Hughs, Commissioner Representing Employers
Julian Alvarez, Commissioner Representing Labor

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I. Compliance with Title 10, Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web Site

The Commission approved the Fiscal Year 2017 Audit Plan on September 13, 2016. The Office of Internal Audit (OIA) posted the approved plan to the “Reports, Plans, and Publications” page of the TWC’s Internet website on September 30, 2016.

The TWC OIA will post the Fiscal Year 2016 Annual Audit Report to the “Reports, Plans and Publications” page of the TWC’s Internet website within 30 days after the report’s submission to the Commission and other recipients. The organizational format of the report and the information provided in the report will comply with the “State Auditor’s Office Fiscal Year 2016 Guidelines for Submitting and Posting the Internal Audit Annual Report and Periodic Internal Audit Reports.”

II. Internal Audit Plan for Fiscal Year 2016

The Texas Workforce Commission Office of Internal Audit's list of planned audits for fiscal year 2016 follows in the table below. The table provides project numbers, report dates, project titles, and whether the audits were completed. If an audit was not completed, the table states the current status of the audit as of the submission of the report. If applicable, the table also provides brief explanations for any deviations from the fiscal year 2016 audit plan.

Project Number	Report Date	Project Title and Objective	Current Status	Deviations from Plan
2016-015-20	N/A	IT Procurement Controls – to determine whether TWC incorporates recommended controls into the framework of its ethics program and whether management expectations for ethical behavior are understood by agency employees.	In Progress	
2016-016-30	Sept 2016	Ethics and Compliance – to analyze controls over the information technology procurement process	Report Issued	
2016-008-10	April 2016	Risk Management Process – to determine whether the agency's risks are identified, assessed, mitigated and monitored.	Report Issued	
2016-009-30	N/A	Purchasing for People with Disabilities – to determine if the agency is in compliance with enabling statutes.	In Progress	
2016-010-30	June 2016	Subrecipient Monitoring Equal Opportunity Compliance – to determine if the agency is in compliance with enabling statutes.	Cancelled	Waiting on final ruling in WIOA guidance regarding this function
2016-011-10	N/A	Tax Collections Process – to evaluate the efficiency and effectiveness of the tax collections process	In Progress	
N/A	N/A	Audit of Adult Education & Literacy - to analyze compliance with the legislative intent of senate bill 307.	Cancelled	Combined with AEL Systems Review (2016-013-60)
2016-013-60	March 2016	Adult Education & Literacy Systems - to assess controls over data integrity for the Adult Education and Literacy information systems (TEAMS and AEGIS).	In Progress	
2016-014-20	Sept 2016	Construction and Facilities Management – to review the internal controls over the transition process taking place by September 1, 2016.	Report Issued	
N/A	N/A	Follow-up of Prior Findings - to determine the status of corrective actions taken by management to address prior issues reported in audits.		During year defined as PII and TAA Follow-ups
2016-005-80	Feb 2016	Follow-up of the Personally Identifiable Information (PII) (2011-017-10) –to determine the adequacy and effectiveness of corrective actions taken by management to address the reported audit findings.	Report Issued	Added to FY2016 Annual Audit Plan

Project Number	Report Date	Project Title and Objective	Current Status	Deviations from Plan
2016-006-80	Feb 2016	Follow-up of the Trade Adjustment Assistance (TAA) Reauthorization (2011-08-10) – to determine the adequacy and effectiveness of corrective actions taken by management to address the reported audit findings.	Report Issued	Added to FY2016 Annual Audit Plan
2016-017-80	March 2016	Follow-up of the Budget Management (2013-004-50) –to determine the adequacy and effectiveness of corrective actions taken by management to address the reported audit findings	Report Issued	
2016-018-80	March 2016	Follow-up of the Hiring Process (2013-011-10) –to determine the adequacy and effectiveness of corrective actions taken by management to address the reported audit findings	Report Issued	
2016-007-80	Feb 2016	Follow-up of the Work Opportunity Tax Credit (WOTC) (2014-004-20) – to determine the adequacy and effectiveness of corrective actions taken by management to strengthen controls over changes to the WOTC automated system.	Report Issued	
2016-019-80	Sept 2016	Follow-up of Prior Audit of Child Labor Law (2013-006-30) - to determine whether appropriate corrective actions have been taken to address the findings and remedy the underlying conditions.	Report Issued	
N/A	N/A	Follow-up of Prior IT Findings - to determine the status of corrective actions taken by management to address prior IT issues reported in audits.		During year defined as Gen. Controls and IAM Follow-ups
2016-020-80	March 2016	Follow-up of the General Controls Review (2010-010-60) –to determine the adequacy and effectiveness of corrective actions taken by management to strengthen controls over changes to the WOTC automated system.	Report Issued	Added to FY2016 Annual Audit Plan
2016-021-80	April 2016	Follow-up the Identity and Access Management Review (2011-013-60) – to determine the adequacy and effectiveness of corrective actions taken by management to address the reported audit findings	Report Issued	Added to FY2016 Annual Audit Plan
2016-004-80	July 2016	Follow-up of the LMCI Configuration Management (2010-011-60) – to determine the adequacy and effectiveness of corrective actions taken by management to address the reported audit findings that consisted.	Report Issued	
2012-001-10	N/A	Child Care Automated Attendance System – to analyze the impact of the new system on the child care program.	In Progress	
2014-015-20	N/A	Career Schools and Colleges – to evaluate internal controls in the Career Schools and Colleges program.	In Progress	
2014-008-60	N/A	CATS IT Controls – to conduct an applications control review of the CATS System.	In Progress	

Project Number	Report Date	Project Title and Objective	Current Status	Deviations from Plan
2015-002-30	June 2016	Federal Reporting Accuracy – to determine the accuracy of Employment and Training Administration reports.	Report Issued	
2015-011-60	April 2016	Workforce Systems Change Control	Report Issued	
2014-003-90	June 2016	Information Security – to determine the adequacy of controls over Information Security resources.	Report Issued	
2015-009-30	Feb 2016	Contracting Processes – to evaluate the efficiency of the contracting process for Workforce Special Initiatives contracts.	Report Issued	
2015-006-10	Feb 2016	Collections Processes – to evaluate controls over the collections and reporting process for TWC programs.	Report Issued	
2014-014-20	Dec 2015	Field Tax Controls – to determine adequacy of controls over the functions performed by field tax accounts examiners.	Report Issued	
2016-002-80	Nov 2015, March 2016, June 2016	Open Findings Assessments – to provide an overview of all open findings, status of follow-up reviews by OIA, and status of corrective actions by management.	Reports Issued to Commission	
2016-001-90	Oct 2015	Internal Audit Annual Report	Report Issued	
2016-024-90	Sept 2016	Internal Audit (IA) FY17 Risk Analysis and Audit Plan	Report Issued	
N/A	Jan 2016	Quality Self-Assessment	Report Issued to Commission	
2016-022-90	N/A	Peer Review	In Progress	
2016-023-90	N/A	Peer Review of DIR	In Progress	Added to FY2016 Annual Audit Plan
N/A	N/A	TeamMate Upgrade	Complete	
N/A	Various	Fraud, Waste, and Abuse Investigations – SAO Requested	Reports Issued	Added to FY2016 Annual Audit Plan

III. Consulting Services and Nonaudit Services Completed

A list of consulting and nonaudit services completed by the Texas Workforce Commission Office of Internal Audit during fiscal year 2016 follows in the table below. The table provides project or report numbers, report dates, project name titles, and the high-level objective of each project, if applicable. The table also provides summaries of observations, results, and recommendations, if applicable.

Project Number	Report Date	Project Name	High-Level Project Objective	Observations, Results, and Recommendations
N/A	N/A	Monitoring, Meetings, and Committees	To participate in an observatory and advisory role in various meetings throughout the agency.	Information is monitored on an on-going basis to ensure risks are appropriately addressed when identified.
N/A	N/A	SAO Hotline	To perform reviews of an allegation of suspected fraud, waste, abuse, or inefficient operations, as required by the Texas Government Code, Section 321.013(d), that had been referred to the TWC OIA by the State Auditor's Office	Perform audit work to address allegations in any complaints forwarded from the State Auditor's Office. Reports provided to SAO Office of Investigations.
N/A	N/A	BEST Team Quarterly Meetings	To participate in an observatory and BEST meetings, held to discuss IT projects.	Information is monitored on an on-going basis to ensure risks are appropriately addressed when identified.
N/A	N/A	Rapid Process Improvement	To provide advisory services related to controls and process efficiency.	Participated in select RPI meetings to provide advisory information.

IV. External Quality Assurance Review (Peer Review)

TWC OFFICE OF INTERNAL AUDIT
EXTERNAL QUALITY ASSURANCE REVIEW – February 2013

OVERALL OPINION

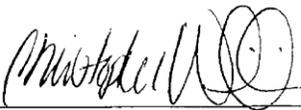
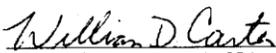
Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Workforce Commission’s Office of Internal Audit receives a rating of “pass” and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* 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 Office of Internal Audit (OIA) is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. Audit personnel are qualified, proficient, and knowledgeable in the areas they audit. 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. These statements are based upon our review and validation of information provided by the OIA and comments gathered during the peer review process.

The Office of Internal Audit is well managed internally. In addition, the OIA has effective relationships with the Board and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit an integral part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency’s operations.

ACKNOWLEDGEMENTS

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, the Commissioners, the Executive Director, and the senior managers who participated in the interview process. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Office of Internal Audit and its relationship with management.

 _____ Christopher Williams, CLA, CGAP Audit Project Manager Office of the Attorney General SAIAF Peer Review Team Leader	2/8/13 _____ Date	 _____ Darrell Carter, MBA, CIA Internal Audit Director Public Utilities Commission of Texas SAIAF Peer Review Team Member	2/8/13 _____ Date
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V. Internal Audit Plan for Fiscal Year 2017

Performance Audits

Performance audits provide conclusions based on an evaluation of sufficient and appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that the Texas Workforce Commission and agency management can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

Auditable Units	Planned Audits and Audit Objectives	Budget Hours
Business Operations/Workforce Solutions	Contract Administration - to perform an internal control review of Contract Administration.	900
Agency-wide	Consumer Procurement Services - to assess the quality of operations and to determine the status of corrective actions taken by management to address prior issues reported in DARS internal audit 13-003.	800
Agency-wide	Administrative Procurement Services - to evaluate the efficiency and effectiveness of Administrative Procurement Services.	650
Workforce Solutions - Rehabilitation Services	Consumer Services - to evaluate departmental operations of Consumer Services and to determine the status of corrective actions taken by management to address prior issues reported in DARS internal audit 14-002	970
Workforce Solutions - Rehabilitation Services	Rehabilitation Services Operations - to evaluate departmental operations of Rehabilitation Services Operations.	850
Information Technology/Workforce Solutions - Rehabilitation Services	Vocational Rehabilitation Systems - to evaluate the controls over the change management process for vocational rehabilitation systems.	800
Regulatory Integrity Division	Vocational Rehabilitation Contract Oversight - to determine compliance with enabling statutes.	600
Business Operations	Warehouse Fleet Operations - to evaluate the controls over fleet operations.	500
Information Technology/Unemployment Insurance & Regulation	Unemployment Insurance (UI) Systems - to analyze access management controls for the UI Tax and Benefits systems.	700
Workforce Solutions - Blind Services/Business Operations	Criss Cole Rehabilitation Center - to perform a physical security review of the Criss Cole Rehabilitation Center.	750
Finance	Budget Controls - to perform an internal control review of budget processes.	500
Workforce Solutions - Workforce Development	Strategic Workforce Initiatives - to evaluate the effectiveness of strategic initiatives.	600

Auditable Units	Planned Audits and Audit Objectives	Budget Hours
Agency-wide	Board & Special Initiatives Contracts - to evaluate the efficiency and effectiveness of new Board & Special Initiatives Contracts processes.	750
Regulatory Integrity Division	Subrecipient Monitoring - to evaluate departmental operations of Subrecipient Monitoring.	800
Business Operations	Lease Management - to evaluate the effectiveness of lease management.	400
External Relations	Consumer Complaints - to evaluate the efficiency and effectiveness of the consumer complaints process and to determine the status of corrective actions taken by management to address prior issues reported in DARS internal audit 09-005.	350
Agency-wide	Separations and Transfers - to evaluate administrative and access controls over separation and transfer processes and to determine the status of corrective actions taken by management to address prior issues reported in DARS internal audits 09-001 and 13-203.	450
Agency-wide	Commission Requests - additional projects requested by the Commission.	500

Follow-Up Projects

To determine the status of corrective actions taken by management to address prior issues reported in audits.

Auditable Units	Follow-Up Projects	Budget Hours
Workforce Solutions – Workforce Department	TAA Reauthorization (2011-008-10).	80
Regulatory Integrity Division/Unemployment Insurance & Regulation	Fraud Determination (2012-011-10).	100
Information Technology	IT Governance (2012-017-60 & 15-005) and DARS (15-005).	100
Business Operations	Hiring Process (2013-011-10)	80
Business Operations	PII Physical Security (2013-014-20).	160
Business Operations	Records Retention (2014-007-30).	100
Unemployment Insurance & Regulation	Field Tax Controls (2014-014-20).	80
Unemployment Insurance & Regulation	Commission Appeals (2014-016-20).	140
Workforce Solutions – Workforce Development Regulatory Integrity Division	Collections Processes (2015-006-20).	80
Agency-wide	Contracting Processes (2015-009-30).	140

Auditable Units	Follow-Up Projects	Budget Hours
Information Technology Workforce Solutions – Workforce Development	Workforce Information Systems Change Control (2015-011-60).	80
Workforce Solutions – Blind Services	Administration of Business Enterprises of Texas Trust Fund DARS (09-007).	60
Workforce Solutions – Rehabilitation Services	Contract Management of the Community Rehabilitation Programs in the Division of Rehabilitation Services DARS (11- 004).	220
Workforce Solutions – Blind Services	Division of Blind Services Independent Living Program DARS (14- 003).	380
General Counsel	Controls Over Due Process Hearings DARS (15-001).	100
Workforce Solutions – Blind Services	Business Enterprises of Texas DARS (15-003).	460

Carry Forward Projects

Carry-forward projects consist of projects that are still in progress at the end of fiscal year 2016.

Auditable Units	Planned Audits and Audit Objectives	Budget Hours
Workforce Solutions - Workforce Development	Child Care Automated Attendance	200
Workforce Solutions - Workforce Development	Career Schools & Colleges	140
Business Operations/Information Technology	CATS IT Controls	200
Information Technology	IT Procurement	425
Workforce Solutions - Workforce Development	Adult Education & Literacy	200
Regulatory Integrity Division	Purchasing from People with Disabilities	440
Regulatory Integrity Division/Unemployment Insurance & Regulation	Tax Collections	649

In addition to planned audits, consulting services, and nonaudit services, the Texas Workforce Commission Office of Internal Audit has ongoing administrative and ad hoc responsibilities that include:

- Preparing and submitting the Annual Internal Audit Report;
- Developing the Annual Risk Assessment and Audit Plan and submitting it for approval;
- Performing an Annual Quality Self-Assessment;
- Receiving an External Quality Assessment Review;
- Briefing the Commission and agency management on audit reports;

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- Maintaining and performing migration to subsequent versions for the TeamMate audit management software system;
 - Performing and reporting upon open finding assessments each quarter;
 - Participating in an advisory role in various meetings, committees, and information gathering processes;
 - Maintaining and updating the Internal Audit intranet website;
 - Performing reviews of allegations of suspected fraud, waste, abuse, or inefficient operations that have been referred to us by the State Auditor's Office, as required by the Title 3, Texas Government Code, Section 321.013(d); and
 - Participating in professional development activities.

General Appropriations Act Limitations and Restrictions and Senate Bill 20

Projects that address benefits proportionality, expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act:

- No projects are scheduled

Projects that address contract management and other requirements of Senate Bill 20:

- Contract Administration Internal Control Review
- Board and Special Initiatives Contracts Efficiency and Effectiveness Review
- Vocational Rehabilitation Contract Oversight Compliance Review
- Follow-up review of the Contracting Process, project #2015-009-30
- Follow-up review of the Contract Management of the Community Rehabilitation Programs, project# 11-004

Additional “High” Risks Not Included in the Fiscal Year 2016 Audit Plan

The Texas Workforce Commission Office of Internal Audit utilizes a weighted ranking in its risk assessment methodology. The “Fiscal Year 2017 Audit Plan” includes all risks that were identified with a “high” weighted ranking.

Risk Assessment Methodology

The Texas Workforce Commission (TWC) Office of Internal Audit allocates its resources in a manner that is consistent with the mission and goals of the TWC. To support the TWC’s mission, audit coverage is considered across the agency. The audit plan is designed to provide coverage of key business processes. Risk is assigned based on research related to each risk area as well as input from Commissioners and agency management.

The following key factors were considered to assess risk and develop the audit plan:

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- Commission and Management Interest
 - Program and Information Technology Changes or Concerns
 - Critical Nature of the Business Function to the Mission of the Agency
 - Strength of Internal Controls
 - Staff Turnover and Retirement
 - Prior Audit Coverage
 - Potential for Fraud

VI. External Audit Services Procured in Fiscal Year 2016

During Fiscal Year 2016, the Office of Internal Audit did not procure or have any ongoing external audit services.

VII. Reporting Suspected Fraud and Abuse

The Texas Workforce Commission Office of Investigations conducts inquiry and investigative services pertaining to allegations of fraud, theft, program abuse, or misconduct. The Office of Investigations reports cases of suspected fraud and coordinates with the State Auditors' Office as required by Article IX, Section 17.09 of the General Appropriations Act (84th Legislature) and the Texas Government Code, Section 321.022.

The agency lists its fraud hotline number on the TWC Internet site. The Internet site also contains a link to report fraud directly to the State Auditor's Office.