

**Texas Veterans Commission
Internal Audit Annual Report
for FY 2016**

October 7, 2016

As Prepared by
Jansen and Gregorczyk,
Certified Public Accountants

Texas Veterans Commission- FY 2016 Internal Audit Annual Report

**Jansen & Gregorczyk
Certified Public Accountants**

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October 7, 2016

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
State Auditor

Dear Ladies and Gentlemen:

Attached is a report on the FY 2016 internal audit activity at the Texas Veterans Commission as required by the Texas Internal Auditing Act.

Please contact Russell Gregorczyk, CPA, at 468-2020 if you desire further information about the contents of this report.

Sincerely,

SIGNED COPY ON FILE

Russell Gregorczyk, Partner
Jansen & Gregorczyk, CPAs
TVC Contract Internal Auditor

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I. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web site

The Contract Internal Auditor will provide the required Internal Audit Plan, Internal Audit Annual Report and any other required internal audit information to the Deputy Executive Director who will ensure that the information is posted on the agency web site under the Agency Reports Section.

II. Audit Plan for Fiscal Year 2016

The Audit Plan for Fiscal Year 2016 was approved by the TVC Commission on August 6, 2015. All audits and projects in the FY 2016 Internal Audit Plan (see page 11) were completed as scheduled, however, three of the audits have not been presented to and approved by the Commission. This will occur when the Commission meets on November 1, 2016. The final reports will be provided to the required state agencies at that time.

**Texas Veterans Commission
Internal Audit Plan
for FY 2016**

As Approved by the Commission on

August 6, 2015

As Prepared by
Jansen & Gregorczyk
Certified Public Accountants

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Texas Veterans Commission- FY 2016 Internal Audit Annual Report

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August 6, 2015

Members of the Commission
Texas Veterans Commission

The following document presents the fiscal year 2016 Internal Audit Plan for approval by the Commission. In accordance with the Texas Internal Auditing Act, the Commission approves the annual audit plan. Chapter 2102 of the Government Code requires that the internal audit plan include areas identified through risk assessment. This document presents the risk assessment results and the audit plan based on the results of the risk assessment.

This document also includes the internal auditing guidelines and internal audit charter under which the TVC internal audit program will operate. Approval by the Commission signifies approval of the internal audit plan, the internal audit guidelines and the internal audit charter for FY 2016.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

**SECTION 1:
TEXAS VETERANS COMMISSION
INTERNAL AUDITING GUIDELINES**

Certain operating guidelines are necessary for an effective internal auditing program. The purpose of this Section is to establish policies and guidelines to govern internal audits of all operations of the Texas Veterans Commission. These guidelines, as well as the FY 2016 Internal Audit Plan, are approved by the TVC Commission each year.

I. INTERNAL AUDIT CHARTER

The *Standards for the Professional Practice of Internal Auditing* state that the Internal Audit Charter should make clear the purposes of the internal auditing department, specify the unrestricted scope of its work, and declare that auditors are to have no authority or responsibility for the activities they audit.

The Internal Audit Charter is an extremely important document that sets out the statement of purpose, authority, and responsibility for the internal auditing department. It is an agreement between the TVC Commissioners and the TVC Internal Auditor, which establishes the guidelines for an effective internal auditing program.

Although the Internal Audit Charter can include all relevant policies and procedures, a concise document is preferable. A concise document increases the likelihood that all parties will understand the purpose, authority, and responsibility of the internal auditing department. Exhibit 1 presents the TVC Internal Audit Charter.

II. INTERNAL AUDITING STANDARDS

A. The Internal Auditor shall conduct his/her activities in a manner that is consistent with the most recent edition of the *Standards for the Professional Practice of Internal Auditing*, *Certified Internal Auditor Code of Professional Ethics*, and the *Statement of Responsibilities of Internal Auditing*.

B. Sufficient and relevant evidence shall be obtained to afford a reasonable basis for the auditor's findings and recommendations. A written record of the auditor's work shall be retained in the form of working papers.

C. Standards of conduct for the Internal Auditor require that the Internal Auditor shall:

- 1.** be free from personal or external impairments to independence in order that opinions, conclusions, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

2. be prudent in the use of information acquired in the course of his/her duties.
3. conduct all activities in accordance with the laws regarding confidentiality.
4. not use any information obtained in an audit for any personal gain nor in a manner, which would be detrimental to the welfare of the TVC, the Commissioners, or TVC employees.

III. INTERNAL AUDITING POLICIES

A. The Internal Auditor shall be responsible for performance audits of the TVC. Performance audit is defined as an independent appraisal activity performed by the Internal Auditor which includes determining whether the entity being reviewed is acquiring, protecting, and using its resources economically and efficiently, identifying the causes of inefficiency or uneconomical practice, and determining whether the entity has complied with laws, riders, rules and regulations.

B. The TVC Commissioners shall appoint the TVC Internal Auditor.

1. The Internal Auditor shall report directly to the Commissioners.
2. The Executive Director shall be responsible for the administrative supervision of the Internal Audit program.
3. The TVC Commissioners shall ensure the independence of the internal audit function.

C. The Internal Auditor shall submit to the Commissioners for approval, the annual audit plan, which shall be based on risk analysis and which shall identify individual audits to be performed during the year.

D. On a quarterly basis as audits are completed, the Internal Auditor shall meet with the Commission to discuss the status of implementing the Internal Audit Plan, including exceptions to the timely accomplishment of the plan; the status of management's resolution of audit findings and other significant issues involving the internal audit function.

E. Special audit projects not included in the approved annual audit plan may be authorized by the Commissioners.

F. The Internal Auditor's activities in reviewing, appraising and reporting established policies, plans and procedures shall not in any way relieve TVC personnel of responsibilities assigned to them.

G. The implementation of, or action taken on, the Internal Auditor's recommendations shall be the duty of the Executive Director. The Internal Auditor will perform follow-up audits to determine what corrective action was taken and whether it is achieving the desired results.

IV. INTERNAL AUDITING PROCEDURES

A. The Internal Auditor prior to beginning an audit will inform the Executive Director and the appropriate division director(s) of the audit and its objectives by conducting an entrance conference.

B. The Internal Auditor will conduct an exit conference with the Executive Director and appropriate division director, at which time exceptions noted during the course of the audit, will be discussed.

C. The Internal Auditor will independently make a determination on the results of the audit and issue a draft report to the Executive Director, or the Executive Director's designee for management response. A management response will be made within 14 calendar days of the issuance of the draft report.

D. The Internal Auditor will add the management response to the body of the report and issue a final draft report for the Executive Director and division directors within 14 calendar days of receiving the management response. After approval by the Commissioners, the final report will be prepared.

E. 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:

- 1.** Immediately provide all pertinent information to the Executive Director and members of the Commission.
- 2.** Formally request approval from the Commission to expand audit procedures or perform an investigation.
- 3.** 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 TVC's operations and programs.
- 4.** Provide the Executive Director and the Commissioners a formal report on the results. Upon receipt of evidence of illegality, the Executive Director will forward findings to the appropriate legal entity.

**SECTION 2:
TEXAS VETERANS COMMISSION RISK ASSESSMENT**

This section presents the results of the TVC Risk Assessment, and establishes the foundation for the Internal Audit Plan presented in the next section.

Purpose

One of the key findings in the State Auditor's Office report, *Statewide Review of Internal Auditing*, was that the scope of internal auditing is often limited in state agencies. The report states, "Because significant financial and operating risks to the agency may be overlooked if the scope of the internal auditors work is limited, we recommend that internal auditors:

- Document, in writing, a risk assessment that considers all the major systems and controls of the agency as part of the audit universe. The audit universe refers to all auditable subjects, activities, units, issues and functions within the organization.
- Identify the risk factors that affect the audit universe and weights that may be applied to the risk factors.
- Establish a method for combining and assigning risk factors and weights to develop a prioritized annual audit work plan.
- Develop an audit plan and work schedule based on the results of the risk assessment.
- Obtain written approval for the plan from the highest level within the organization.
- Implement the plan. Significant deviations from the audit plan should be supported by reasonable, documented explanations."

The purpose of conducting a Risk Assessment for the TVC was to incorporate all these recommended elements in an objective assessment of the agency. This should ensure that the scope of internal audit work at the TVC is not limited and that the Internal Audit Plan for FY 2016 is based on documented, written findings.

Concept of Risk

The concept of risk is fundamental in internal auditing. Given the importance of the concept of risk, it is necessary to define what risk is, describe types of risk and describe how risk was measured in performing the Texas Veterans Commission Risk Assessment.

Risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Since controls are anything that improve the likelihood that goals and objectives

will be achieved, controls and risk are inversely related by definition. Better control means less risk. The Risk Assessment was designed to detect and evaluate the controls in place to reduce different types of risk exposure.

The TVC Risk Assessment was designed to measure different types of "risk exposure" and to assess the controls in place to compensate for different levels of risk. The types of risk exposure that are relevant to the TVC are:

- *Audit Exposure:* Audit exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.

- *Regulatory Exposure:* Regulatory exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.

- *Information Exposure:* An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.

- *Efficiency Exposure:* An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.

- *Human Resource Exposure:* A human resource exposure exists whenever an area is managing human resources in a way, which is contrary to agency policy.

- *Environmental Exposure:* An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:

- Recent changes in key personnel
- Changing economic conditions
- Time elapsed since last audit
- Pressures on management to meet objectives
- Past audit findings and quality of internal control

- *Political Exposure:* A political exposure exists whenever an event in an audit area could cause the agency to be subjected to adverse political consequences.

- *Customer Service Exposure:* A customer service exposure exists whenever an event in an audit area could jeopardize existing public services or result in the failure to meet customer service needs.

The TVC Risk Assessment Survey was designed to measure various types of risk ranging from the risk of loss of assets to the risk of adverse publicity due to erroneous information. The survey instrument allows meaningful comparisons among very different activities and types of risk by assigning all potential auditable topics a numeric score.

Methodology

The risk variables utilized for the Texas Veterans Commission Risk Assessment combined measures of the various controls and exposure types described in the previous section. Exhibit 2 presents the risk survey instrument utilized. Sixteen risk variables or risk factors were selected to provide a cross-section of overall risk. These sixteen factors were weighted according to their perceived importance, i.e. the higher the weighting, the higher the risk as shown in Exhibit 3.

The first step in conducting the Risk Assessment involved defining the potential audit universe. To be in compliance with the Texas Internal Auditing Act, all potential auditable subjects, activities, units, issues and functions were determined. The universe of potential audit topics was developed through interviews with the Texas Veterans Commission staff and by reviewing material such as the Commission's organizational chart, the agency strategic plan, etc.

The second step in the process was to utilize the survey instrument to assess the risk for each potential audit topic. After completing the risk survey for all potential auditable topics, each survey response was reviewed for consistency based on the knowledge of the auditor. This phase was a means of assuring "quality control," since the completion of the survey instruments was based on information provided by various management members of the Texas Veterans Commission.

The third phase of the Risk Assessment involved scoring and ranking the answers to the survey questions. By weighting the values of the different risk indicators, the survey was individualized for the Texas Veterans Commission.

The final step in conducting the Risk Assessment was to rank and categorize every potential auditable topic. Based on the average score and the standard deviation of the potential audit universe, the potential auditable topics were categorized as follows:

High Risk	- Over 213
Moderate Risk	- 182 to 213
Low Risk	- Below 182

Results

Exhibit 4 presents the weighted risk scores and overall risk categorization. Five potential audit topics are rated as high risk as follows:

- Veterans Education State Funded Programs
- Fund for Veterans' Assistance
- Veterans Employment Services
- Accounting/Payroll Systems and Controls
- Claims Representation and Counseling

**SECTION 3:
TEXAS VETERANS COMMISSION
FY 2016 INTERNAL AUDIT PLAN**

The Texas Internal Auditing Act requires certain audits to be performed on a periodic basis. Required audits include audits of the department's accounting systems and controls, administrative systems and controls, information resources systems and controls, and other major systems and controls. In addition, five general types of audits are required by the *Standards for the Professional Practice of Internal Auditing* as follows:

Reliability and Integrity of Information - Internal Auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

Compliance with Policies, Plans, Procedures, Laws, and Regulations - Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance with them.

Safeguarding of Assets - Internal auditors should review the means of safeguarding assets and, as appropriate verify the existence of such assets.

Economical and Efficient Use of Resources - Internal auditors should appraise the economy and efficiency with which assets are employed.

Accomplishment of Established Objectives and Goals for Operations and Programs - Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives/goals, and whether the operations or programs are being carried out as planned.

The FY 2016 Internal Audit Plan for the Texas Veterans Commission is based on the risk assessment presented in the previous section. Audit risk scores and the audit history for each potential audit topic (Exhibit 5) were used in developing the proposed audit topics for FY 2016. For FY 2016 only one high risk topic as determined by the risk assessment (Exhibit 4) is included in the audit plan. The four other high risk topics are not proposed for audit because two of these high risk audit topics have been audited in the past two fiscal years. The other two high risk audit topics were audited in FY 2012 and FY 2013, and neither audit had any significant audit recommendations. One audit in the moderate risk category is included in the audit plan because the audit topic has never been the subject of an internal audit. One topic in the low risk category is included in the audit plan because this is a required periodic audit that has not been audited over the last eight fiscal years.

The three audits that will be performed in FY 2016 are:

Texas Veterans Commission- FY 2016 Internal Audit Annual Report

- State Funded Veterans Education Programs (High Risk)
- External Relations- Military Veterans Peer Network (MVPN), Veterans Entrepreneur Program (VEP) and Women Veterans Program (Moderate Risk)
- Performance Measure Reporting (Low Risk)

In addition to these proposed audits and audit work, a review will be conducted of compliance with Department of Information Resources information security standards to comply with requirements for an annual review performed by an independent party. A review will be performed of the status of implementing all audit recommendations made by the internal auditor in prior years. A required internal audit peer review will also be completed. Finally, a risk assessment will be performed and an audit plan developed for FY 2017.

The following estimated time and timeframes for performing internal audit work during the project are as follows:

- Complete all prior years audit projects- 8 hours (October 2015)
- Prepare the FY 2015 Internal Audit Annual Report – 4 hours (October 2015)
- Audit of Performance Measure Reporting – 110 hours (October through November 2015)
- Complete an external quality assurance review of the internal audit program – 4 hours (January 2016)
- Audit of External Relations-MVPN, VEP and Women Veterans Programs – 140 hours (January through February 2016)
- Audit of State Funded Veterans Education Programs – 160 hours (April through May 2016)
- Information Security Standards Review – 16 hours (June 2016)
- Prior Years' Follow-up Review – 16 hours (June 2016)
- Update Risk Assessment and Prepare FY 2017 Audit Plan – 4 hours (July 2016)

Our fees during FY 2016 will be \$125/hour for the Partner and Audit Manager and \$85/hour for a Senior Auditor. Our total fees for these deliverables in FY 2016 are estimated to be \$42,710, plus the internal audit peer review costs of \$2,250 for a total cost of \$44,960. This estimate is based on 376 hours of staff time @ \$85 per hour and 86 hours of time for Russell Gregorczyk, CPA at \$125 per hour. Any additional work requested by TVC will be billed at the same rates shown. Invoices will be submitted monthly. If travel is necessary for any audit, it will be billed at State rates.

**EXHIBIT 1
TEXAS VETERANS COMMISSION
INTERNAL AUDITING CHARTER**

PURPOSE

Internal Auditing is an independent appraisal activity established to conduct reviews of operations and procedures and to report findings and recommendations to the Executive Director and Commissioner's of the Texas Veterans Commission.

AUTHORITY

The Internal Auditor reports directly to the TVC Commission. This reporting relationship ensures independence, promotes comprehensive audit coverage and assures adequate consideration of audit recommendations.

The Internal Auditor, in the performance of audits and with stringent accountabilities of safekeeping and confidentiality, will be granted unrestricted access to all TVC activities, records, property, and staff members.

The Internal Auditor will have no responsibilities assigned other than those related to developing and implementing the internal audit program for TVC.

RESPONSIBILITIES

The Internal Auditor is responsible for assessing the various functions and control systems in the TVC and for advising the TVC Executive Director and Commission concerning their condition. The fulfillment of this accountability is not confined to but includes:

- Appraising the effectiveness and application of accounting systems and controls, administrative systems and controls, information resources systems and controls, and other major systems and controls, so as to ensure that all the major systems and controls are reviewed on a periodic basis.
- Evaluating the sufficiency of and adherence to TVC plans, policies, and procedures and compliance with all governmental laws and regulations.
- Performing special reviews requested by the Executive Director or Commission.
- Conducting appraisals of the economy and efficiency with which resources are employed.
- Coordinating audit planning and audit work with the State Auditor's Office.

**EXHIBIT 2
TEXAS VETERANS COMMISSION
FY 2016 RISK ASSESSMENT INSTRUMENT**

1. Annual Dollars Involved

The dollar amount per year of assets, receipts, or disbursements involved in the program or for which the auditable unit is responsible. The auditable unit has responsibility if it identifies, measures, classifies, reports, or monitors the assets, receipts, or disbursements. Dollar amounts can be included in determining the evaluation for more than one auditable unit.

<u>Evaluation</u>	Points	x	Weighting	=	Score
Less than \$500 thousand per year or not applicable	1	x	7.5	=	7.5
At least \$500 thousand per year but less than \$1 million per year	2	x	7.5	=	15.0
At least \$1 million per year but less than \$3 million per year	3	x	7.5	=	22.5
More than \$3 million per year	4	x	7.5	=	30.0

2. Transaction Volume

The number of transactions for which the auditable unit is responsible. The auditable unit has responsibility if it identifies, measures, classifies, reports, or reconciles the transaction. A transaction can be included in determining the evaluation for more than one auditable unit. Also, some auditable units are responsible for only summary transactions while others are responsible for the detailed transactions that make up the summary transactions.

<u>Evaluation</u>	Points	x	Weighting	=	Score
Less than 1,000 per year or not applicable	1	x	5.0	=	5.0
Greater than 1,000 per year but less than 3,000 per year	2	x	5.0	=	10.0
Greater than 3,000 per year	3	x	5.0	=	15.0

3. Safeguarding Assets

Personnel in the auditable unit safeguard assets if they control access to assets. Access to assets includes both direct physical access and indirect access through the preparation and processing of documents that authorize the use or disposition of assets.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
No access to assets or not applicable	1	x	7.50	=	7.5
Limited access to assets	2	x	7.50	=	15.0
Some access to assets	3	x	7.50	=	22.5
Substantial access to assets	4	x	7.50	=	30.0

4. Impact of Adverse Publicity

This factor includes those circumstances that increase the adverse impact of errors. An auditable unit's visibility results from several sources, including: 1.) the Commission's interest in the auditable unit's activities; 2.) involvement of outside groups, such as an advocacy group or the Legislature; or 3.) direct interaction with the public or clients.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Little visibility or not applicable	1	x	7.50	=	7.5
Some visibility	2	x	7.50	=	15.0
High visibility	3	x	7.50	=	22.5

5. Time Since Last Audit or Review

The number of years between the date of the previous audit or review and the date of the risk assessment.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
One year or less	1	x	7.25	=	7.25
More than one year, but less than three years	2	x	7.25	=	14.5
No prior audit or more than three years	3	x	7.25	=	21.75

6. Results of Last Audit or Review

Auditor's evaluation of the results of the previous audit or review.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Positive findings or not applicable	1	x	6.5	=	6.5
Some findings or no prior audit	2	x	6.5	=	13.0
Negative findings	3	x	6.5	=	19.5

7. Operational Changes

Auditor's evaluation of the impact on the auditable unit from changes in its operations, including changes in staff, size, funding, budget, responsibilities, or processing data. Changes include those made within the last year or anticipated to be made in the next year.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Few changes or not applicable	1	x	6.25	=	6.25
Some changes	2	x	6.25	=	12.5
Extensive changes	3	x	6.25	=	18.75

8. Personnel Turnover

In the last 12 months, the number of personnel leaving the auditable unit.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Low turnover (10% or less) or not applicable	1	x	5.0	=	5.0
Average turnover (10% to 20%)	2	x	5.0	=	10.0
High turnover (more than 20%)	3	x	5.0	=	15.0

9. Policies and Procedures

The existence of policies and procedures documenting the auditable unit's activities.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Up-to-date written procedures or not applicable	1	x	5.0	=	5.0
Some written procedures or not up-to-date	2	x	5.0	=	10.0
No written procedures	3	x	5.0	=	15.0

10. Training

Auditor's evaluation of the auditable unit's staff training, including cross training.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Substantial training or not applicable	1	x	5.0	=	5.0
Some training	2	x	5.0	=	10.0
Little training	3	x	5.0	=	15.0

11. Work Complexity

Auditor's evaluation of the work needed to complete assignments or transactions, including amount of time, number of steps, and familiarity with agency laws, policies, and rules.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Low work complexity or not applicable	1	x	7.0	=	7.0
Medium work complexity	2	x	7.0	=	14.0
High work complexity	3	x	7.0	=	21.0

12. Work Load Fluctuations

Auditor's evaluation of the fluctuations in the auditable unit's workload.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Steady workload or not applicable	1	x	5.5	=	5.5
Some fluctuations in workload	2	x	5.5	=	11.0
Substantial fluctuation in workload (yearly pattern)	3	x	5.5	=	16.5

13. Sensitivity of Data

Auditor's evaluation of the type of data collected, processed, and prepared by the auditable unit.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Little sensitive or confidential data or not applicable	1	x	7.5	=	7.5
Some sensitive or confidential data	2	x	7.5	=	15.0
Most data sensitive or confidential	3	x	7.5	=	22.5

14. Impact of Inaccurate Information

Auditor's evaluation of the impact of incorrect data processed by the auditable unit or supplied to organizations outside of the Texas Veterans Commission.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Little information provided outside the agency	1	x	7.5	=	7.5
Some information provided outside the agency	2	x	7.5	=	15.0
Most information provided outside the agency	3	x	7.5	=	22.5

15. Management Review

Auditor's evaluation of the review given by the Executive Director, Deputy Executive Director or the Division Directors of the auditable unit's activities.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Frequent or detailed review or not applicable	1	x	5.0	=	5.0
Some direct review	2	x	5.0	=	10.0
Little direct review	3	x	5.0	=	15.0

16. Potential for Fraud, Waste or Abuse

Auditor's evaluation of the potential for fraud, waste, or abuse as compared to other agency programs and functions.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Low potential or not applicable	1	x	7.0	=	7.0
Average potential	2	x	7.0	=	14.0
Higher than average potential	3	x	7.0	=	21.0

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**EXHIBIT 3: TEXAS VETERANS COMMISSION
FY 2016 RISK ASSESSMENT RISK FACTOR WEIGHTINGS**

RISK FACTOR:	Maximum Weigh	*	Maximum Points	=	Score
1. Annual Dollars Involved	7.50	*	4	=	30.00
2. Transaction Volume	5.00	*	3	=	15.00
3. Safeguarding Assets	7.50	*	4	=	30.00
4. Impact of Adverse Publicity	7.50	*	3	=	22.50
5. Time Since Last Audit or Review	7.25	*	3	=	21.75
6. Results of Last Audit or Review	6.50	*	3	=	19.50
7. Operational Changes	6.25	*	3	=	18.75
8. Personnel Turnover	5.00	*	3	=	15.00
9. Policies and Procedures	5.00	*	3	=	15.00
10. Training	5.00	*	3	=	15.00
11. Work Complexity	7.00	*	3	=	21.00
12. Work Load Fluctuations	5.50	*	3	=	16.50
13. Sensitivity of Data	7.50	*	3	=	22.50
14. Impact of Inaccurate Data	7.50	*	3	=	22.50
15. Management Review	5.00	*	3	=	15.00
16. Potential for Fraud/Abuse	<u>7.00</u>	*	<u>3</u>	=	<u>21.00</u>
Maximum Score					300.00

**EXHIBIT 4: TEXAS VETERANS COMMISSION
FY 2016 RISK ASSESSMENT WEIGHTED RESPONSE SCORES
AND RISK CATEGORIZATION**

AUDITABLE UNIT/FUNCTION		WEIGHTED RISK ASSESSMENT SCORES																RISK SCORE
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
HIGH RISK - OVER 213																		
1	Veterans Education State Funded Programs	30	5	30	15	22	13	19	5	15	10	14	6	15	15	10	21	244
2	Fund for Veterans' Assistance	30	10	30	23	15	7	13	10	10	10	7	11	8	23	5	21	230
3	Veterans Employment Services	30	15	15	23	22	7	13	15	5	5	14	6	15	23	5	14	224
4	Accounting/Payroll Systems & Controls	30	15	8	8	7	13	13	15	10	10	21	11	23	15	5	21	223
5	Claims Representation & Counseling	30	15	15	23	15	7	13	15	5	5	21	6	23	15	5	7	217
MODERATE RISK - 182 TO 213																		
6	Information Resources Systems & Controls	8	15	23	15	15	13	13	5	10	10	21	6	15	15	10	21	213
7	Purchasing/Contracting Systems & Controls	15	10	30	8	7	20	19	15	5	5	14	11	8	15	10	21	212
8	Veterans Ed. Federally Funded Programs	23	15	15	23	15	13	6	5	5	5	14	11	15	23	5	14	205
9	Executive Management & General Counsel	8	5	30	23	22	13	13	10	5	5	14	6	23	15	5	7	201
10	Ext. Relations-MVPN, VEP & Women Vets.	8	5	8	15	22	13	19	5	10	10	14	11	15	23	10	7	193
LOW RISK - BELOW 182																		
11	Ext. Relations-Communications & Govt Relat.	8	5	8	23	7	13	19	10	5	10	7	11	15	23	10	7	179
12	Contracts with Local Workforce Boards	23	5	23	15	22	13	6	5	5	5	7	6	8	8	5	21	175
13	Human Resources Systems & Controls	8	5	23	8	15	20	6	5	5	5	14	11	23	8	5	14	172
14	Performance Measure Reporting	8	5	8	8	22	13	6	5	5	5	7	6	8	23	5	7	138
15	Training & Support for VCSOs	8	5	8	15	22	7	6	5	5	5	7	6	8	15	10	7	137

AVERAGE SCORE: 197

STANDARD DEVIATION: 31

Legend:

- MVPN- MilitaryVeteran Peer Network
- VEP- Veterans Entrepreneur Program
- VCSO- Veteran County Service Officer

**EXHIBIT 5
TEXAS VETERANS COMMISSION
AUDIT RISK RANKING AND INTERNAL AUDIT HISTORY**

	POTENTIAL AUDIT TOPIC	RISK SCORE	FY 16 PLAN	INTERNAL AUDIT HISTORY							
				FY 15	FY 14	FY 13	FY 12	FY 11	FY 10	FY 09	FY 08
HIGH RISK- OVER 213											
1	Vets Education State Funded Programs	244	X								
2	Fund for Veterans' Assistance	230			X			X(2)	X(3)		
3	Veterans Employment Services	224					X				
4	Accounting/Payroll Systems & Controls	223		X				X			
5	Claims Representation & Counseling	217				X					X
MODERATE RISK- 182 TO 213											
6	Information Resources Systems & Controls	213			X				X		
7	Purchasing/Contracting Systems & Controls	212		X				X			
8	Vets Education Federally Funded Programs	205			X					X	
9	Executive Management & General Counsel	201						X(4)			
10	Ext. Relations-MVPN, VEP & Women Vets.	193	X								
LOW RISK- BELOW 182											
11	Ext. Relations-Communications & Govt. Rel.	179		X(5)						X(1)	
12	Contracts with Local Workforce Boards	175					X				X
13	Human Resources Systems & Controls	172				X				X	
14	Performance Measure Reporting	138	X								
15	Training & Support for VCSOs	137					X				

- Notes:** (1) Audit covered the marketing and outreach functions.
 (2) Audit covered the grants administration functions.
 (3) Audit covered the RFP process and contracting functions.
 (4) Audit did not cover General Counsel functions.
 (5) Audit did not cover Government Relations functions.

Legend:

- MVPN- MilitaryVeteran Peer Network
- VEP- Veterans Entrepreneur Program
- VCSO- Veteran County Service Officer

III. Consulting Engagements and Non-Audit Services Completed

The internal auditor did not provide any consulting or non-audit services during FY 2016.

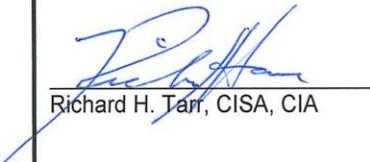
IV. External Quality Assurance Review

Texas Veterans Commission
Quality Assurance Review
January 2016

Opinion

Based on the work outlined below, it is the opinion of the reviewer that the internal audit activity at the Texas Veterans Commission is in accordance with the Texas Internal Auditing Act and the audit work being performed by Jansen & Gregorczyk, Certified Public Accountants (the Contractor) **fully complies** with all applicable professional auditing standards.

This opinion, representing the best possible evaluation, means that the Texas Veterans Commission, and the Contractor, have in place all of the relevant structures and policies that are required as well as the processes necessary to insure they are effectively applied.


Richard H. Tarr, CISA, CIA


Date

V. Audit Plan for Fiscal Year 2017

The Internal Audit Plan for FY 2017 was approved by the Commission on August 10, 2016. The budgeted hours for all planned work are shown on page 32. Topics ranked as high risk but not included in the audit plan are discussed on page 31. The risk assessment methodology is on page 30. The risk assessment included evaluating the risks associated with contract management and information technology.

**Texas Veterans Commission
Internal Audit Plan
for FY 2017**

As Approved by the Commission on

August 10, 2016

As Prepared by
Jansen & Gregorczyk
Certified Public Accountants

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**Jansen & Gregorczyk
Certified Public Accountants**

Telephone
(512) 468-2020

P. O. Box 601
Kyle, Tx. 78640

August 10, 2016

Members of the Commission
Texas Veterans Commission

The following document presents the fiscal year 2017 Internal Audit Plan as approved by the Commission. In accordance with the Texas Internal Auditing Act, the Commission approves the annual audit plan. Chapter 2102 of the Government Code requires that the internal audit plan include areas identified through risk assessment. This document presents the risk assessment results and the audit plan based on the results of the risk assessment.

This document also includes the internal auditing guidelines and internal audit charter under which the TVC internal audit program will operate. Approval by the Commission signifies approval of the internal audit plan, the internal audit guidelines and the internal audit charter for FY 2017.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

**SECTION 1:
TEXAS VETERANS COMMISSION
INTERNAL AUDITING GUIDELINES**

Certain operating guidelines are necessary for an effective internal auditing program. The purpose of this Section is to establish policies and guidelines to govern internal audits of all operations of the Texas Veterans Commission. These guidelines, as well as the FY 2017 Internal Audit Plan, are approved by the TVC Commission each year.

I. INTERNAL AUDIT CHARTER

The *Standards for the Professional Practice of Internal Auditing* state that the Internal Audit Charter should make clear the purposes of the internal auditing department, specify the unrestricted scope of its work, and declare that auditors are to have no authority or responsibility for the activities they audit.

The Internal Audit Charter is an extremely important document that sets out the statement of purpose, authority, and responsibility for the internal auditing department. It is an agreement between the TVC Commissioners and the TVC Internal Auditor, which establishes the guidelines for an effective internal auditing program.

Although the Internal Audit Charter can include all relevant policies and procedures, a concise document is preferable. A concise document increases the likelihood that all parties will understand the purpose, authority, and responsibility of the internal auditing department. Exhibit 1 presents the TVC Internal Audit Charter.

II. INTERNAL AUDITING STANDARDS

A. The Internal Auditor shall conduct his/her activities in a manner that is consistent with the most recent edition of the *Standards for the Professional Practice of Internal Auditing*, *Certified Internal Auditor Code of Professional Ethics*, and the *Statement of Responsibilities of Internal Auditing*.

B. Sufficient and relevant evidence shall be obtained to afford a reasonable basis for the auditor's findings and recommendations. A written record of the auditor's work shall be retained in the form of working papers.

C. Standards of conduct for the Internal Auditor require that the Internal Auditor shall:

- 1.** be free from personal or external impairments to independence in order that opinions, conclusions, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

2. be prudent in the use of information acquired in the course of his/her duties.
3. conduct all activities in accordance with the laws regarding confidentiality.
4. not use any information obtained in an audit for any personal gain nor in a manner, which would be detrimental to the welfare of the TVC, the Commissioners, or TVC employees.

III. INTERNAL AUDITING POLICIES

A. The Internal Auditor shall be responsible for performance audits of the TVC. Performance audit is defined as an independent appraisal activity performed by the Internal Auditor which includes determining whether the entity being reviewed is acquiring, protecting, and using its resources economically and efficiently, identifying the causes of inefficiency or uneconomical practice, and determining whether the entity has complied with laws, riders, rules and regulations.

B. The TVC Commissioners shall appoint the TVC Internal Auditor.

1. The Internal Auditor shall report directly to the Commissioners.
2. The Executive Director shall be responsible for the administrative supervision of the Internal Audit program.
3. The TVC Commissioners shall ensure the independence of the internal audit function.

C. The Internal Auditor shall submit to the Commissioners for approval, the annual audit plan, which shall be based on risk analysis and which shall identify individual audits to be performed during the year.

D. On a quarterly basis as audits are completed, the Internal Auditor shall meet with the Commission to discuss the status of implementing the Internal Audit Plan, including exceptions to the timely accomplishment of the plan; the status of management's resolution of audit findings and other significant issues involving the internal audit function.

E. Special audit projects not included in the approved annual audit plan may be authorized by the Commissioners.

F. The Internal Auditor's activities in reviewing, appraising and reporting established policies, plans and procedures shall not in any way relieve TVC personnel of responsibilities assigned to them.

G. The implementation of, or action taken on, the Internal Auditor's recommendations shall be the duty of the Executive Director. The Internal Auditor will perform follow-up audits to determine what corrective action was taken and whether it is achieving the desired results.

IV. INTERNAL AUDITING PROCEDURES

A. The Internal Auditor prior to beginning an audit will inform the Executive Director and the appropriate division director(s) of the audit and its objectives by conducting an entrance conference.

B. The Internal Auditor will conduct an exit conference with the Executive Director and appropriate division director, at which time exceptions noted during the course of the audit, will be discussed.

C. The Internal Auditor will independently make a determination on the results of the audit and issue a draft report to the Executive Director, or the Executive Director's designee for management response. A management response will be made within 14 calendar days of the issuance of the draft report.

D. The Internal Auditor will add the management response to the body of the report and issue a final draft report for the Executive Director and division directors within 14 calendar days of receiving the management response. After approval by the Commissioners, the final report will be prepared.

E. 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:

- 1.** Immediately provide all pertinent information to the Executive Director and members of the Commission.
- 2.** Formally request approval from the Commission to expand audit procedures or perform an investigation.
- 3.** 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 TVC's operations and programs.
- 4.** Provide the Executive Director and the Commissioners a formal report on the results. Upon receipt of evidence of illegality, the Executive Director will forward findings to the appropriate legal entity.

**SECTION 2:
TEXAS VETERANS COMMISSION RISK ASSESSMENT**

This section presents the results of the TVC Risk Assessment, and establishes the foundation for the Internal Audit Plan presented in the next section.

Purpose

One of the key findings in the State Auditor's Office report, *Statewide Review of Internal Auditing*, was that the scope of internal auditing is often limited in state agencies. The report states, "Because significant financial and operating risks to the agency may be overlooked if the scope of the internal auditors work is limited, we recommend that internal auditors:

- Document, in writing, a risk assessment that considers all the major systems and controls of the agency as part of the audit universe. The audit universe refers to all auditable subjects, activities, units, issues and functions within the organization.
- Identify the risk factors that affect the audit universe and weights that may be applied to the risk factors.
- Establish a method for combining and assigning risk factors and weights to develop a prioritized annual audit work plan.
- Develop an audit plan and work schedule based on the results of the risk assessment.
- Obtain written approval for the plan from the highest level within the organization.
- Implement the plan. Significant deviations from the audit plan should be supported by reasonable, documented explanations."

The purpose of conducting a Risk Assessment for the TVC was to incorporate all these recommended elements in an objective assessment of the agency. This should ensure that the scope of internal audit work at the TVC is not limited and that the Internal Audit Plan for FY 2017 is based on documented, written findings.

Concept of Risk

The concept of risk is fundamental in internal auditing. Given the importance of the concept of risk, it is necessary to define what risk is, describe types of risk and describe how risk was measured in performing the Texas Veterans Commission Risk Assessment.

Risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Since controls are anything that improve the likelihood that goals and objectives

will be achieved, controls and risk are inversely related by definition. Better control means less risk. The Risk Assessment was designed to detect and evaluate the controls in place to reduce different types of risk exposure.

The TVC Risk Assessment was designed to measure different types of "risk exposure" and to assess the controls in place to compensate for different levels of risk. The types of risk exposure that are relevant to the TVC are:

- *Audit Exposure:* Audit exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.

- *Regulatory Exposure:* Regulatory exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.

- *Information Exposure:* An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.

- *Efficiency Exposure:* An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.

- *Human Resource Exposure:* A human resource exposure exists whenever an area is managing human resources in a way, which is contrary to agency policy.

- *Environmental Exposure:* An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:

- Recent changes in key personnel
- Changing economic conditions
- Time elapsed since last audit
- Pressures on management to meet objectives
- Past audit findings and quality of internal control

- *Political Exposure:* A political exposure exists whenever an event in an audit area could cause the agency to be subjected to adverse political consequences.

- *Customer Service Exposure:* A customer service exposure exists whenever an event in an audit area could jeopardize existing public services or result in the failure to meet customer service needs.

The TVC Risk Assessment Survey was designed to measure various types of risk ranging from the risk of loss of assets to the risk of adverse publicity due to erroneous information. The survey instrument allows meaningful comparisons among very different activities and types of risk by assigning all potential auditable topics a numeric score.

Methodology

The risk variables utilized for the Texas Veterans Commission Risk Assessment combined measures of the various controls and exposure types described in the previous section. Exhibit 2 presents the risk survey instrument utilized. Sixteen risk variables or risk factors were selected to provide a cross-section of overall risk. These sixteen factors were weighted according to their perceived importance, i.e. the higher the weighting, the higher the risk as shown in Exhibit 3.

The first step in conducting the Risk Assessment involved defining the potential audit universe. To be in compliance with the Texas Internal Auditing Act, all potential auditable subjects, activities, units, issues and functions were determined. The universe of potential audit topics was developed through interviews with the Texas Veterans Commission staff and by reviewing material such as the Commission's organizational chart, the agency strategic plan, etc.

The second step in the process was to utilize the survey instrument to assess the risk for each potential audit topic. After completing the risk survey for all potential auditable topics, each survey response was reviewed for consistency based on the knowledge of the auditor. This phase was a means of assuring "quality control," since the completion of the survey instruments was based on information provided by various management members of the Texas Veterans Commission.

The third phase of the Risk Assessment involved scoring and ranking the answers to the survey questions. By weighting the values of the different risk indicators, the survey was individualized for the Texas Veterans Commission.

The final step in conducting the Risk Assessment was to rank and categorize every potential auditable topic. Based on the average score and the standard deviation of the potential audit universe, the potential auditable topics were categorized as follows:

High Risk	- Over 218
Moderate Risk	- 191 to 218
Low Risk	- Below 191

Results

Exhibit 4 presents the weighted risk scores and overall risk categorization. Five potential audit topics are rated as high risk as follows:

- Accounting/Payroll Systems and Controls
- Fund for Veterans' Assistance
- Claims Representation and Counseling
- Veterans Education State Funded Programs
- Veterans Employment Services

**SECTION 3:
TEXAS VETERANS COMMISSION
FY 2017 INTERNAL AUDIT PLAN**

The Texas Internal Auditing Act requires certain audits to be performed on a periodic basis. Required audits include audits of the department's accounting systems and controls, administrative systems and controls, information resources systems and controls, and other major systems and controls. In addition, five general types of audits are required by the *Standards for the Professional Practice of Internal Auditing* as follows:

Reliability and Integrity of Information - Internal Auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

Compliance with Policies, Plans, Procedures, Laws, and Regulations - Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance with them.

Safeguarding of Assets - Internal auditors should review the means of safeguarding assets and, as appropriate verify the existence of such assets.

Economical and Efficient Use of Resources - Internal auditors should appraise the economy and efficiency with which assets are employed.

Accomplishment of Established Objectives and Goals for Operations and Programs - Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives/goals, and whether the operations or programs are being carried out as planned.

The FY 2017 Internal Audit Plan for the Texas Veterans Commission is based on the risk assessment presented in the previous section. Audit risk scores and the audit history for each potential audit topic (Exhibit 5) were used in developing the proposed audit topics for FY 2017. For FY 2017 two high risk topics and one moderate risk audit topic as determined by the risk assessment (Exhibit 4) are included in the audit plan. The other three high risk topics are not proposed for audit for the following reasons. A new accounting system will be implemented during FY 2017 and an audit of Accounting/Payroll will not be useful until this new system has been fully implemented and new processing procedures have been developed. It is anticipated this area would be audited in FY 2018. The Claims Representation and Counseling Division has undergone a significant organizational restructuring and this division also would be more feasible to audit in FY 2018 after the division fully implements new operating and reporting procedures. The Veterans Education State Funded programs is currently being audited during FY 2016 and is therefore not included in the FY 2017 internal audit plan. One audit in the moderate risk category

Texas Veterans Commission- FY 2016 Internal Audit Annual Report

is included in the audit plan because the audit topic (Agency-wide Training and Event Support) has never been the subject of an internal audit.

The three audits that will be performed in FY 2017 are:

- Fund for Veterans Assistance (High Risk)
- Veterans Employment Services Program (High Risk)
- Agency-wide Training & Events Support (Moderate Risk)

In addition to these proposed audits and audit work, a review will be conducted of compliance with Department of Information Resources information security standards to comply with requirements for an annual review performed by an independent party. A review will be performed of the status of implementing all audit recommendations made by the internal auditor in prior years.

The following estimated time and timeframes for performing internal audit work during the project are as follows:

- Complete all prior years audit projects- 12 hours (September 2016)
- Prepare the FY 2016 Internal Audit Annual Report – 4 hours (October 2015)
- Audit of Fund for Veterans Assistance – 160 hours (October through November 2016)
- Audit of Veterans Employment Services Program – 140 hours (January through February 2017)
- Audit of Agency-wide Training and Event Support – 120 hours (April through May 2017)
- Information Security Standards Review – 16 hours (June 2017)
- Prior Years' Follow-up Review – 20 hours (June 2017)

Our fees during FY 2017 will be \$125/hour for the Partner and Audit Manager and \$85/hour for a Senior Auditor. Our total fees for these deliverables in FY 2017 are estimated to be \$43,400. This estimate is based on 390 hours of staff time @ \$85 per hour and 82 hours of time for Russell Gregorczyk, CPA at \$125 per hour. Any additional work requested by TVC will be billed at the same rates shown. Invoices will be submitted monthly. If travel is necessary for any audit, it will be billed at State rates.

**EXHIBIT 1
TEXAS VETERANS COMMISSION
INTERNAL AUDITING CHARTER**

PURPOSE

Internal Auditing is an independent appraisal activity established to conduct reviews of operations and procedures and to report findings and recommendations to the Executive Director and Commissioner's of the Texas Veterans Commission.

AUTHORITY

The Internal Auditor reports directly to the TVC Commission. This reporting relationship ensures independence, promotes comprehensive audit coverage and assures adequate consideration of audit recommendations.

The Internal Auditor, in the performance of audits and with stringent accountabilities of safekeeping and confidentiality, will be granted unrestricted access to all TVC activities, records, property, and staff members.

The Internal Auditor will have no responsibilities assigned other than those related to developing and implementing the internal audit program for TVC.

RESPONSIBILITIES

The Internal Auditor is responsible for assessing the various functions and control systems in the TVC and for advising the TVC Executive Director and Commission concerning their condition. The fulfillment of this accountability is not confined to but includes:

- Appraising the effectiveness and application of accounting systems and controls, administrative systems and controls, information resources systems and controls, and other major systems and controls, so as to ensure that all the major systems and controls are reviewed on a periodic basis.
- Evaluating the sufficiency of and adherence to TVC plans, policies, and procedures and compliance with all governmental laws and regulations.
- Performing special reviews requested by the Executive Director or Commission.
- Conducting appraisals of the economy and efficiency with which resources are employed.
- Coordinating audit planning and audit work with the State Auditor's Office.

**EXHIBIT 2
TEXAS VETERANS COMMISSION
FY 2017 RISK ASSESSMENT INSTRUMENT**

1. Annual Dollars Involved

The dollar amount per year of assets, receipts, or disbursements involved in the program or for which the auditable unit is responsible. The auditable unit has responsibility if it identifies, measures, classifies, reports, or monitors the assets, receipts, or disbursements. Dollar amounts can be included in determining the evaluation for more than one auditable unit.

<u>Evaluation</u>	Points	x	Weighting	=	Score
Less than \$500 thousand per year or not applicable	1	x	7.5	=	7.5
At least \$500 thousand per year but less than \$1 million per year	2	x	7.5	=	15.0
At least \$1 million per year but less than \$3 million per year	3	x	7.5	=	22.5
More than \$3 million per year	4	x	7.5	=	30.0

2. Transaction Volume

The number of transactions for which the auditable unit is responsible. The auditable unit has responsibility if it identifies, measures, classifies, reports, or reconciles the transaction. A transaction can be included in determining the evaluation for more than one auditable unit. Also, some auditable units are responsible for only summary transactions while others are responsible for the detailed transactions that make up the summary transactions.

<u>Evaluation</u>	Points	x	Weighting	=	Score
Less than 1,000 per year or not applicable	1	x	5.0	=	5.0
Greater than 1,000 per year but less than 3,000 per year	2	x	5.0	=	10.0
Greater than 3,000 per year	3	x	5.0	=	15.0

3. Safeguarding Assets

Personnel in the auditable unit safeguard assets if they control access to assets. Access to assets includes both direct physical access and indirect access through the preparation and processing of documents that authorize the use or disposition of assets.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
No access to assets or not applicable	1	x	7.50	=	7.5
Limited access to assets	2	x	7.50	=	15.0
Some access to assets	3	x	7.50	=	22.5
Substantial access to assets	4	x	7.50	=	30.0

4. Impact of Adverse Publicity

This factor includes those circumstances that increase the adverse impact of errors. An auditable unit's visibility results from several sources, including: 1.) the Commission's interest in the auditable unit's activities; 2.) involvement of outside groups, such as an advocacy group or the Legislature; or 3.) direct interaction with the public or clients.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Little visibility or not applicable	1	x	7.50	=	7.5
Some visibility	2	x	7.50	=	15.0
High visibility	3	x	7.50	=	22.5

5. Time Since Last Audit or Review

The number of years between the date of the previous audit or review and the date of the risk assessment.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
One year or less	1	x	7.25	=	7.25
More than one year, but less than three years	2	x	7.25	=	14.5
No prior audit or more than three years	3	x	7.25	=	21.75

6. Results of Last Audit or Review

Auditor's evaluation of the results of the previous audit or review.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Positive findings or not applicable	1	x	6.5	=	6.5
Some findings or no prior audit	2	x	6.5	=	13.0
Negative findings	3	x	6.5	=	19.5

7. Operational Changes

Auditor's evaluation of the impact on the auditable unit from changes in its operations, including changes in staff, size, funding, budget, responsibilities, or processing data. Changes include those made within the last year or anticipated to be made in the next year.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Few changes or not applicable	1	x	6.25	=	6.25
Some changes	2	x	6.25	=	12.5
Extensive changes	3	x	6.25	=	18.75

8. Personnel Turnover

In the last 12 months, the number of personnel leaving the auditable unit.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Low turnover (10% or less) or not applicable	1	x	5.0	=	5.0
Average turnover (10% to 20%)	2	x	5.0	=	10.0
High turnover (more than 20%)	3	x	5.0	=	15.0

9. Policies and Procedures

The existence of policies and procedures documenting the auditable unit's activities.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Up-to-date written procedures or not applicable	1	x	5.0	=	5.0
Some written procedures or not up-to-date	2	x	5.0	=	10.0
No written procedures	3	x	5.0	=	15.0

10. Training

Auditor's evaluation of the auditable unit's staff training, including cross training.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Substantial training or not applicable	1	x	5.0	=	5.0
Some training	2	x	5.0	=	10.0
Little training	3	x	5.0	=	15.0

11. Work Complexity

Auditor's evaluation of the work needed to complete assignments or transactions, including amount of time, number of steps, and familiarity with agency laws, policies, and rules.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Low work complexity or not applicable	1	x	7.0	=	7.0
Medium work complexity	2	x	7.0	=	14.0
High work complexity	3	x	7.0	=	21.0

12. Work Load Fluctuations

Auditor's evaluation of the fluctuations in the auditable unit's workload.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Steady workload or not applicable	1	x	5.5	=	5.5
Some fluctuations in workload	2	x	5.5	=	11.0
Substantial fluctuation in workload (yearly pattern)	3	x	5.5	=	16.5

13. Sensitivity of Data

Auditor's evaluation of the type of data collected, processed, and prepared by the auditable unit.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Little sensitive or confidential data or not applicable	1	x	7.5	=	7.5
Some sensitive or confidential data	2	x	7.5	=	15.0
Most data sensitive or confidential	3	x	7.5	=	22.5

14. Impact of Inaccurate Information

Auditor's evaluation of the impact of incorrect data processed by the auditable unit or supplied to organizations outside of the Texas Veterans Commission.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Little information provided outside the agency	1	x	7.5	=	7.5
Some information provided outside the agency	2	x	7.5	=	15.0
Most information provided outside the agency	3	x	7.5	=	22.5

15. Management Review

Auditor's evaluation of the review given by the Executive Director, Deputy Executive Director or the Division Directors of the auditable unit's activities.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Frequent or detailed review or not applicable	1	x	5.0	=	5.0
Some direct review	2	x	5.0	=	10.0
Little direct review	3	x	5.0	=	15.0

16. Potential for Fraud, Waste or Abuse

Auditor's evaluation of the potential for fraud, waste, or abuse as compared to other agency programs and functions.

<u>Evaluation</u>	<u>Points</u>	<u>x</u>	<u>Weighting</u>	<u>=</u>	<u>Score</u>
Low potential or not applicable	1	x	7.0	=	7.0
Average potential	2	x	7.0	=	14.0
Higher than average potential	3	x	7.0	=	21.0

**EXHIBIT 3: TEXAS VETERANS COMMISSION
FY 2017 RISK ASSESSMENT RISK FACTOR WEIGHTINGS**

RISK FACTOR:	Maximum Weigh	*	Maximum Points	=	Score
1. Annual Dollars Involved	7.50	*	4	=	30.00
2. Transaction Volume	5.00	*	3	=	15.00
3. Safeguarding Assets	7.50	*	4	=	30.00
4. Impact of Adverse Publicity	7.50	*	3	=	22.50
5. Time Since Last Audit or Review	7.25	*	3	=	21.75
6. Results of Last Audit or Review	6.50	*	3	=	19.50
7. Operational Changes	6.25	*	3	=	18.75
8. Personnel Turnover	5.00	*	3	=	15.00
9. Policies and Procedures	5.00	*	3	=	15.00
10. Training	5.00	*	3	=	15.00
11. Work Complexity	7.00	*	3	=	21.00
12. Work Load Fluctuations	5.50	*	3	=	16.50
13. Sensitivity of Data	7.50	*	3	=	22.50
14. Impact of Inaccurate Data	7.50	*	3	=	22.50
15. Management Review	5.00	*	3	=	15.00
16. Potential for Fraud/Abuse	<u>7.00</u>	*	<u>3</u>	=	<u>21.00</u>
Maximum Score					300.00

**EXHIBIT 4: TEXAS VETERANS COMMISSION
FY 2017 RISK ASSESSMENT WEIGHTED RESPONSE SCORES
AND RISK CATEGORIZATION**

AUDITABLE UNIT/FUNCTION		WEIGHTED RISK ASSESSMENT SCORES																RISK SCORE
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	
HIGH RISK - OVER 218																		
1	Accounting/Payroll Systems & Controls	30	15	8	8	15	13	13	15	10	10	21	11	23	15	5	21	231
2	Fund for Veterans' Assistance	30	10	30	23	15	7	13	10	10	10	7	11	8	23	5	21	230
3	Claims Representation & Counseling	30	15	15	23	22	7	19	10	5	5	21	6	23	15	5	7	226
4	Veterans Education State Funded Programs	30	5	30	15	7	13	13	10	10	10	14	6	15	15	10	21	223
5	Veterans Employment Services	30	15	15	23	22	7	13	10	5	5	14	6	15	23	5	14	219
MODERATE RISK - 191 TO 218																		
6	Agency-wide Training & Event Support	8	5	23	15	22	13	19	15	10	5	14	11	8	23	10	14	213
7	Agency-wide Planning & Budgeting	30	5	8	23	22	13	6	10	5	5	14	11	15	23	5	14	208
8	Information Resources Systems & Controls	8	5	23	15	15	13	13	10	10	10	21	6	15	15	10	21	208
9	Purchasing/Contracting Systems & Controls	15	5	23	8	15	20	19	15	5	5	14	11	8	15	10	21	206
10	Veterans Ed. Federally Funded Programs	23	15	15	23	15	13	6	5	5	5	14	11	15	23	5	14	205
LOW RISK - BELOW 191																		
11	Human Resources Systems & Controls	8	5	23	8	22	20	13	10	5	5	14	11	23	8	5	14	190
12	Ext. Relations-Communications	8	5	8	23	15	13	19	10	5	10	7	11	15	23	10	7	186
13	Ext. Relations-MVPN, VEP & Women Vets.	8	5	8	15	7	13	19	10	10	10	14	11	15	23	10	7	184
14	Agency-wide Records Retention & Storage	8	5	15	8	22	13	13	5	5	10	7	11	8	8	15	7	157
15	Performance Measure Reporting	8	5	8	8	7	20	6	5	5	5	7	6	8	23	5	7	130

AVERAGE SCORE: 201

STANDARD DEVIATION: 27

Legend:

MVPN- MilitaryVeteran Peer Network

VEP- Veterans Entrepreneur Program

**EXHIBIT 5
TEXAS VETERANS COMMISSION
AUDIT RISK RANKING AND INTERNAL AUDIT HISTORY**

	POTENTIAL AUDIT TOPIC	RISK SCORE	FY 17 PLAN	INTERNAL AUDIT HISTORY								
				FY 16	FY 15	FY 14	FY 13	FY 12	FY 11	FY 10	FY 09	FY 08
HIGH RISK - OVER 218												
1	Accounting/Payroll Systems & Controls	231			X				X			
2	Fund for Veterans' Assistance	230	X			X			X(2)	X(3)		
3	Claims Representation & Counseling	226					X					X
4	Vets Education State Funded Programs	223		X								
5	Veterans Employment Services	219	X					X				
MODERATE RISK - 191 TO 218												
6	Agency-wide Training & Event Support	213	X					X(4)				
7	Information Resources Systems & Controls	208				X				X		
8	Agency-wide Planning & Budgeting	208										
9	Purchasing/Contracting Systems & Controls	206			X				X			
10	Vets Education Federally Funded Programs	205				X					X	
LOW RISK - BELOW 191												
11	Human Resources Systems & Controls	190					X				X	
12	Ext. Relations-Communications	186			X						X(1)	
13	Ext. Relations-MVPN, VEP & Women Vets.	184		X								
14	Agency-wide Records Retention & Storage	157										
15	Performance Measure Reporting	130		X								

- Notes:** (1) Audit covered the marketing and outreach functions.
 (2) Audit covered the grants administration functions.
 (3) Audit covered the RFP process and contracting functions.
 (4) Audit covered only Veterans County Service Officer training.

Legend:

- MVPN- Military Veteran Peer Network
 VEP- Veterans Entrepreneur Program

VI. External Audit Services

The Texas Veterans Commission contracted with the CPA firm of Jansen & Gregorczyk to provide contract internal audit services for the agency in FY 2016. No other external audit services were procured in FY 2016.

VII. Reporting Suspected Fraud and Abuse

The Texas Veterans Commission has posted the required information on reporting suspected fraud, waste or abuse involving state resources directly to the State Auditor's Office on the home page of the agency's website and has included information in the agency's policies on how to report suspected fraud to the State Auditor's Office.

No instances of suspected fraud, waste or abuse were reported by TVC to the State Auditor's Office during FY 2016.

If the Executive Director has reasonable cause to believe that money received from the state by the agency or by a client or contractor of the agency may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the agency or if this is brought to the attention of the Executive Director, the Executive Director will report the reason and basis for the belief to the appropriate legal authority. This is spelled out in the Internal Audit Guidelines as shown in Section I on page 27 of the FY 2017 Internal Audit Plan.
