

Table of Contents

Texas Workforce Commission Effectiveness of Internal Audit Engagement June 1997

Overall Conclusion	1
Communicating Audit Results	2
Assessing Entity Risks and Preparation of the Audit Plan ..	2
Organizing and Managing the Internal Audit Function	3
Planning and Conducting Audits	4
Ensuring Compliance With Audit Standards	5
Follow-Up on Audit Recommendations	5
Management's Response to all Recommendations	5
Appendix Objectives, Scope, and Methodology	7

Texas Workforce Commission

Detailed Issues and Recommendations

Overall Conclusion

The internal audit function at the Texas Workforce Commission (Commission) is ineffective:

Texas Workforce Commission facts:

- The Commission was created September 1, 1995, but did not begin full operations until June 1, 1996.
- On June 1, 1996, the Commission absorbed the Texas Employment Commission and workforce-related programs from other agencies.
- Three new Commissioners and a new Executive Director replaced the previous executive management.
- The Internal Audit Department personnel of the Texas Employment Commission transferred to the new Texas Workforce Commission.

- The internal audit function has not effectively assisted the new executive management in the discharge of its responsibilities since the Commission began operations on June 1, 1996. The Executive Director, two of three Commissioners, and two Department Heads stated that they do not consider current Internal Audit Department (Department) products useful. Commission executive management and the Internal Audit Director have not clearly determined what is useful information.
- The internal audit function did not meet six of eight effectiveness criteria developed from the Texas Internal Audit Act. Most of these conditions existed prior to the creation of the Texas Workforce Commission.

The Commission's internal audit function employs five auditors to assist executive management in identifying risk through assessments of agency operations. Commission management is responsible for implementing internal controls, ensuring program effectiveness, and monitoring risk in the Commission.

In fiscal year 1997, the Commission has responsibility for more than \$800 million in appropriations and has oversight responsibility for about \$430 million available to local workforce development programs. The Commission employs more than 5,500 workers.

The Commission has chosen to address all of our recommendations in one response. The Commission's response follows Section 6.

Texas Workforce Commission

Detailed Issues and Recommendations

Section 1:

Communicating Audit Results

Internal audit reports accurately reflect the results of the audits. However, the Executive Director, two of three Commissioners, and two Department Heads of the Commission stated that they do not get useful information from the Department.

Executive management and the Internal Audit Director have not reached a clear understanding on the definition of useful information. The lack of useful information impairs management's ability to make informed decisions and reduce risk in the Commission.

The Commissioners have demonstrated support of the internal audit function by proper placement to ensure independence of the Internal Audit Director. Also, the Commissioners have approved a model Internal Audit Department charter.

Recommendation:

We recommend that the Commission's executive management and the Internal Audit Director establish formal systems for timely information exchanges. Executive management should provide its concerns to the Internal Audit Director. The Internal Audit Director should provide management with timely and useful information on the effectiveness of internal control systems, high-risk operations, and the effectiveness of programs within the Commission.

Section 2:

Assessing Entity Risks and Preparation of the Audit Plan

The Department's risk assessments and audit plans for fiscal years 1995 and 1996 did not consider the following major auditable areas:

- Accounting systems
- Eleven regional offices
- Four departments listed on the Commission's organizational chart

The Department's methodology did not ensure that all material internal control systems, major accounting systems, material accounts, major programs, and major departments were considered in developing the risk assessment used to formulate the audit plan. Therefore, audit resources were not necessarily directed to the Commission's highest risk areas.

Texas Workforce Commission

Detailed Issues and Recommendations

Recommendation:

We recommend that the methodology used to prepare risk assessments ensures that all material internal control systems, major accounting systems, material accounts, major programs, and major departments are included.

A complete risk assessment should be prepared for each audit plan. All documentation to support the risk assessment should be maintained. Also, all auditable areas should be defined in a manner that makes clear what each auditable area includes.

Annual audit plans should be derived from a current, complete risk assessment. Annual audit plans should direct the Department resources to the high-risk areas of the Commission.

Section 3:

Organizing and Managing the Internal Audit Function

The Department is ineffective in organizing and managing the internal audit function. The Commission does not receive timely quality audits of the high risk areas because of the following conditions:

- The reasons for the reallocations of resources to audits other than those in the approved audit plan were not documented. Only four of nine (44 percent) scheduled control reviews included in the fiscal year 1995 audit plan were completed.
- The fiscal year 1996 audit plan was suspended in March 1996. Management decided that the plan was not adequate for the anticipated changes planned for the Commission beginning June 1, 1996. The Department operated without an approved audit plan from March 1996 to June 1, 1996.
- The Commission depends on at least six major electronic data processing systems to record information and disbursements of more than \$1 billion in public assistance benefits for fiscal year 1996. The Department has only one electronic data processing auditor to review all of the Commission's major computer systems. The Department does not have a documented plan to acquire expertise as needed.
- An internal quality assurance program does not ensure compliance with Institute of Internal Auditors standards. Examples of noncompliance include:
 - Working paper reviews that did not identify deviations from the Department's working paper documentation policies.
 - Internal audit goals and objectives that have not been updated in at least three years.

Texas Workforce Commission

Detailed Issues and Recommendations

- Periodic quality assurance questionnaires were not used to measure audit effectiveness and compliance with organizational policies and standards.

Recommendation:

We recommend that the Department improve operations by improving compliance with standards, maintaining current goals and objectives and measuring quality of audits. Improvements by the Department will help the Commission receive timely quality audits in high-risk areas.

Examples of improvements include:

- The Internal Audit Department should get Commissioner approval and fully document reasons for any deviations from the audit plans.
- Approved audit plans should remain in effect for the time period covered. Adjustments should be documented. Also, a new, approved audit plan could be substituted for the old plan.
- The Internal Audit Department should consider methods for improving its electronic data processing coverage.
- All Department working papers should be reviewed—and the review should be documented—to ensure all working papers conform to required Institute of Internal Auditors standards.
- The Department’s goals and objectives should be revised annually.
- The Internal Audit Director should provide quality assurance questionnaires to measure audit effectiveness and compliance with organizational policies and standards. These questionnaires should go to all auditees after the audit projects have been completed, or at least periodically (quarterly, semiannually, or annually). Consideration should also be given to providing the Commissioners and executive management with copies of the evaluations.

Section 4:

Planning and Conducting Audits

Department auditors were not developing useful findings and recommendations. Our interviews with management and a recent peer review determined that the audit staff should become more knowledgeable about the areas they are going to audit before they start fieldwork.

By gaining specific knowledge related to the Commission’s operations in the planning stages of the audit, both the auditees’ and auditors’ time will be used more effectively.

Texas Workforce Commission

Detailed Issues and Recommendations

Recommendation:

We recommend that the Internal Audit Department staff members obtain more knowledge of the specific Commission operation during the planning stages of the audit. They should also work with the various department heads to develop more useful cost-effective recommendations for their audit findings.

Section 5:

Ensuring Compliance With Audit Standards

The Department's ability to ensure compliance with auditing standards addressed in state law is impaired. The primary reason is that the Department has policies and procedures which are not being fully followed. The effects of noncompliance are discussed in the previous sections of the report.

Recommendation:

We recommend that the Internal Audit Department develop a comprehensive plan to resolve the issues in the other five key areas and ensure compliance with standards.

Section 6:

Follow-Up on Audit Recommendations

The Department does not have a system to ensure that recommendations are implemented within a reasonable time period. Delays in implementing recommendations create a risk that problems which have been identified, documented, and reported will continue to negatively affect the operations of the Commission.

Most recommendations included in the Department's status reports are described as "In Process." Some recommendations have been in this status for over a year.

Recommendation:

We recommend that the Department and the Commission improve follow-up procedures by requiring auditees to commit to a reasonable time period for implementing corrective action. The Commissioners and executive management may find it helpful to know the original date of pending recommendations in the monthly status reports.

Management's Response to all Recommendations

The agency appreciates the efforts of the State Auditor's team and looks forward to acting upon all items of concern articulated within the report.

Texas Workforce Commission

Detailed Issues and Recommendations

Since the onset of consolidation mandated by H.B. 1863, the Commission has recognized that the internal audit systems absorbed from the Texas Employment Commission would require modification. In September, informal plans were created for restructuring the Commission's internal audit procedures. The State Auditor's Report was foreseen as a key component of those plans.

The Commission is committed to utilizing the report as a guide for restructuring its Internal Audit function. The agency now formalizes its plans with the following schedule:

- 1) December 1996, through January 1997: Convene a panel to report recommended changes to the Commission's internal audit methods and systems.*
- 2) January 1997, through February 1997: Promulgate a plan to implement the panel's recommendations.*
- 3) February 1997: Submit plan to State Auditor's Office for review.*
- 4) March 1997: Integrate State Auditor's recommendations into plan.*
- 5) April 1997: Present plan to Commission for adoption and, when approved, charge the Commission's Internal Auditor with implementation.*

The Commission appreciates the cooperation and assistance of your staff as we work to improve our internal audit system.

Objectives, Scope, and Methodology

Objective

The objectives of Evaluating the Effectiveness of Internal Audit were to:

- Evaluate the effectiveness of the state's internal audit departments.
- Determine whether internal audit departments meet the key objectives of internal auditing and assist agency administrators in carrying out their assigned responsibilities.

Scope

The scope of the audit included:

- Evaluating the effectiveness of 12 of the larger state agency internal audit departments
- Surveying the board chairs, elected officials, audit committee chairs, and internal audit department directors of the 79 agencies and universities with internal audit departments to obtain their opinions and comments on the effectiveness of internal auditing; and compiling the results of the survey

Methodology

The methodology used on this engagement consisted of developing criteria, obtaining information on each of the 12 agencies selected for review, analyzing the information, and evaluating the information against the criteria.

Information collected to accomplish the audit objective included the following:

- Interviews with management of oversight agencies
- Interviews with management and staff of individual agencies
- Documentary evidence, including:
 - State statutes
 - Internal auditing standards
 - Government Auditing Standards
 - Agency documents including plans, policies, procedures, manuals, reports, memoranda and other written communications
 - Internal audit reports

Procedures and tests conducted:

Internal audit function information collected in the current fiscal year and the last two completed fiscal years were evaluated against criteria developed from the Texas Internal Auditing Act.

Objectives, Scope, and Methodology

Criteria used:

- Criteria developed from the Texas Internal Auditing Act

The following are the eight basic effectiveness criteria and a brief definition of each:

- **Board/Management Involvement in Internal Audit Function** - The agency's board or elected official and executive management are adequately involved in the internal audit function and in completing their responsibilities under the Texas Internal Auditing Act.
- **Organizing and Managing the Internal Audit Function** - The internal audit director is effective in managing and organizing the internal audit department.
- **Assessing Entity Risks** - A risk assessment was used in the audit planning process and all agency risks were identified and appropriately ranked.
- **Preparation of the Audit Plan** - The audit plan includes those areas identified as high risk and resources are available to complete the plan.
- **Planning and Conducting Audits** - Audit projects were properly planned and due professional care was used in performing the audits.
- **Communicating Audit Results** - The results of audits were appropriately communicated in written format to the proper level to ensure corrective action is taken.
- **Ensuring Compliance With Audit Standards** - The internal audit department takes steps to ensure work conforms to audit standards.
- **Follow-Up on Audit Recommendations** - The internal audit department follows-up recommendations in audit reports from prior periods.

Other Information

Fieldwork was conducted from April to September 1996. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

Objectives, Scope, and Methodology

The audit work was performed by the following members of the State Auditor's staff:

- Terry Holderman, MBA (Team Leader)
- Kimberly Builta, CPA
- Tom McGaha
- Larry Vinyard, CPA, CIA (Project Manager)
- Carol Noble, CPA, CISA (Quality Control Reviewer)
- Charlie Hrcir, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Audit Director)