

**TEXAS FACILITIES COMMISSION  
OFFICE OF INTERNAL AUDIT**

**COMMISSION**

Betty Reinbeck, Chairman  
William D. Darby, Commissioner  
Virginia Hermosa, Commissioner  
Brant C. Ince, Commissioner  
Mike Novak, Commissioner  
Jack Perry, Commissioner  
Alvin Shaw, Commissioner



**Fiscal Year 2014 Annual Audit Report**

**EXECUTIVE MANAGEMENT**

Terry Keel  
Executive Director  
  
Kay Molina  
General Counsel  
  
Diana Warner  
Chief Financial Officer  
  
John Raff  
Deputy Executive Director  
for Facilities Design and Construction  
  
Peter Maass  
Deputy Executive Director  
Planning and Asset Management  
  
Tommy Oates  
Deputy Executive Director  
Risk Management and  
Human Resources

November 19, 2014

Office of Internal Audit, PO Box 13047

Austin, TX 78711-3047

**Audit Report**

**Fiscal Year 2014 Annual Report**

**Internal Audit Director**

**Mark E. Scott, CPA, CIA, CISA, MBA**

**Audit Team**

**Judy Shao, MAcy**



**Chair**  
Betty Reinbeck

**Commissioners**  
William D. Darby  
Douglas Hartman  
Virginia Hermosa  
Brant C. Ince  
Mike Novak  
Alvin Shaw



**Executive Director**  
Terry Keel

*Mailing address:*  
P. O. Box 13047  
Austin, TX 78711-3047

(512) 463-3446  
[www.tfc.state.tx.us](http://www.tfc.state.tx.us)

November 19, 2014

The Honorable Rick Perry, Governor  
Members, Legislative Budget Board  
Members, Sunset Advisory Commission  
Mr. John Keel, State Auditor  
Chairman Betty Reinbeck and Members of the Texas Facilities Commission

Attached is the annual report for fiscal year 2014 on the program of internal auditing at the Texas Facilities Commission (TFC). It has been prepared in accordance with the Texas Internal Auditing Act (Texas Government Code, Chapter 2102), in the format prescribed by the State Auditor's Office. This report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the annual internal audit report assists oversight agencies in planning and coordination efforts.

This annual report includes activities of TFC Internal Audit performed during fiscal year 2014. It also includes the internal audit plan for 2015.

For further information about the contents of this annual report, or to request copies, please contact me at (512) 463-1438.

Sincerely,

A handwritten signature in black ink that reads "Mark Scott".

Mark Scott, CPA, CIA, CISA, MBA  
Director of Internal Audit

## Table of Contents

<b>I.</b>	<b>Compliance with House Bill 16 .....</b>	<b>3</b>
<b>II.</b>	<b>Internal Audit Plan for Fiscal Year 2014 .....</b>	<b>4</b>
<b>III.</b>	<b>Consulting Engagements and Non-Audit Services Completed .....</b>	<b>11</b>
<b>IV</b>	<b>External Quality Assurance Review .....</b>	<b>12</b>
<b>V.</b>	<b>Internal Audit Plan for Fiscal Year 2015.....</b>	<b>13</b>
<b>VI.</b>	<b>External Audit Services Procured in Fiscal Year 2014 .....</b>	<b>18</b>
<b>VII.</b>	<b>Reporting Suspected Fraud and Abuse .....</b>	<b>19</b>

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

Internal Audit is in the process to complying with House Bill 16. Annual Plans and Annual reports, as well as periodic internal audit reports, are posted on the TFC intranet. The internet posting is in progress.

**II. Internal Audit Plan for Fiscal Year 2014**

<b>Annual Audit Plan – Fiscal Year 2014 Audits, Consulting, and Other Projects</b>			
<b>Project Topic</b>	<b>Potential Risks/Concerns</b>	<b>Preliminary Objectives</b>	<b>Audit report and Status</b>
<b>AUDITS</b>			
<b>State Parking and Tailgating Program</b>	<p>Underutilization of green space to earn tailgating revenue.</p> <p>TFC’s Liability for space usage.</p> <p>Monitoring of Cash handling by third party vendor.</p> <p>Development and Management of Program.</p> <p>Contract Procedures.</p>	<p>Evaluate Program plans for reservation of green space and for charging to earn tailgating revenue.</p> <p>Liability for tailgating and parking programs for property damage, injuries of participants, alcohol on state property, etc.</p> <p>Evaluate HBA revenue reports and cash handling policies and procedures.</p> <p>Evaluate program goals and management of staff and vendors.</p> <p>Evaluate periodic review of contracts including third party vendors HBA and University of Texas.</p> <p>Evaluate Program Policies and Procedures.</p>	<p>Audit #14-02 --  <b>Review of Commercial Parking and Special Events</b></p> <p>February 2014</p> <p>Completed</p>
<b>Information Technology</b>	<p>Effects of the termination of the IBM contract.</p> <p>Establishment of ISO function.</p> <p>Migration to Outlook.</p> <p>Communication Channels.</p> <p>System Migration Evaluation.</p>	<p>Evaluate termination of IBM contract and the effects on TFC.</p> <p>Evaluate standards for the ISO function.</p> <p>Evaluate how the migration to Outlook was completed.</p> <p>Evaluate Communication with other departments, which include security of system, change in personnel, system access levels.</p>	<p>Audit #14-08 –  <b>Limited Review of the TFC Information Technology Program</b></p> <p>August 2014</p> <p>Completed</p>

Annual Audit Plan – Fiscal Year 2014 Audits, Consulting, and Other Projects			
Project Topic	Potential Risks/Concerns	Preliminary Objectives	Audit report and Status
continued <b>Information Technology</b>	Disaster Recovery Plan.  Security.	Evaluate updates and preparation status of Disaster Recovery Plan.  Evaluate Security of technology systems, mainframes, desk computers, staff access levels.  Evaluate Program Policies and Procedures.	
<b>Internal Procurement</b>	Follow up on Sunset Report Recommendations.  Compliance with policy and procedures.  Not Meeting HUB goals.  Procurement Card and Purchase Order.  Automatic Procurement System (APS)	Evaluate response to Sunset recommendations for this program.  Evaluate Program Policies and Procedures.  Evaluate whether HUB goals are being met.  Evaluate Procurement Card and Purchase order processes.  Evaluate migration from Lotus Notes to Automatic Procurement System.	Audit #14-04 – <b>Review of Selected Purchasing Practices at TFC</b>  May 2014  Completed
<b>Contract Management</b>	Follow up on Sunset Report Recommendations.  All required documents and certificates may not be obtained or kept in the files. Communication between the programs and the Legal Division may not specify all required contractual elements  Programs may not adequately	Evaluate progress in responding to Sunset recommendations for this program  Evaluate procedures for ensuring retention of required documentation.  Evaluate information sharing between programs and Legal staff.  Evaluate procedures for contract monitoring.	Audit #14-10  In Progress   Audit #14-10  In Progress

Annual Audit Plan – Fiscal Year 2014 Audits, Consulting, and Other Projects			
Project Topic	Potential Risks/Concerns	Preliminary Objectives	Audit report and Status
Continued <b>Contract Management</b>	monitor vendor performance after award of the contracts.  Certificate of Insurance for all Contracts not covering TFC's liabilities and possible cost to the state.	Evaluate Certificate of Insurance (COI) and determine if TFC Liabilities are covered by insurance.  Evaluate Program Policies and Procedures.	
<b>Recycling</b>	Loss of Revenue due to theft.  Controls over the recycling property until items have been sold to third party vendor.  Mileage Logs and Fuel Credit Cards following Fleet Management policies and procedures.	Evaluate policies and procedures to prevent or detect theft by staff  Evaluate the securing of state property until property can be disposed of by approved methods.  Evaluate operation control and reporting requirements and documentation.  Follow up on prior audit (Audit #12-02) finding on mileage cards, mileage logs and fleet management policies and procedures.  Evaluate Program Policies and Procedures.	Audit #14-07— <b>Review of the TFC Recycling Program</b>  June 2014  Completed
<b>Follow-up of Management Corrective Action of Prior Findings</b>	IIA and professional standards.	Conform to Standards	Audit #14-09— <b>Report on Implementation Status of Prior Internal Audit Recommendations</b> July 2014  Completed

Annual Audit Plan – Fiscal Year 2014 Audits, Consulting, and Other Projects			
Project Topic	Potential Risks/Concerns	Preliminary Objectives	Audit report and Status
<b>Facilities Operations and Controls including Deferred Maintenance (PREM)</b>	Proper use of bond money.	Evaluate process by which projects are developed and completed using bond funding.	Carried Over to FY2015 Audit Plan
	Follow up on Sunset Report Recommendations.	Evaluate progress in responding to Sunset recommendations for this program.	Carried Over to FY2015 Audit Plan
	Plan to maintain and protect building condition.	Evaluate plan for assessing and determining building conditions. Determine how bond money for deferred maintenance projects is distributed.	
		Evaluate plan for maintaining building conditions including heating and safety priorities. Evaluate Program Policies and Procedures.  Evaluate Program Policies and Procedures.	
<b>Facilities Maintenance (FDC)</b>	Service to client agencies	Evaluate customer satisfaction	Carried Over to FY2015 Audit Plan
	Coordination of activities	Evaluate scheduling of activities	
	Accounting for HB 3042/ General Revenue/ Inter-Agency Agreements	Test accounting for services/ charges to client agencies  Evaluate Program Policies and Procedures.	
<b>Human Resources</b>	Follow up on Sunset Report Recommendations.	Evaluate progress in responding to Sunset recommendations for this program.	Audit #14-06
	Training Opportunities for staff.	Evaluate training opportunities for staff and New Employee Orientation	It was decided to procure an

Annual Audit Plan – Fiscal Year 2014 Audits, Consulting, and Other Projects			
Project Topic	Potential Risks/Concerns	Preliminary Objectives	Audit report and Status
	Staffing budgets, Staff Evaluations, Merit Raises and promotions.  Services Provided to Texas State Cemetery	(NEO).  Evaluate staffing budgets, policies regarding evaluations, merit raises, promotions, etc.  Evaluate Administrative Services provided to Texas State Cemetery.  Evaluate Policies and Procedures.	external audit of this function.
<b>Federal Surplus Property Program</b>	Audit required by state plan.  Inventory Control.  Date and Time of Property Receipt  Donation Documentation.	Evaluate Compliance with Federal regulations.  Evaluate Accuracy of Inventory Control and year-end counts.  Evaluate Program Policies and Procedures.	Audit #14-11  In Progress.
MANAGEMENT ASSISTANCE, CONSULTING, AND OTHER PROJECTS			
<b>Public Private Partnerships</b>		Review Public Private Partnership projects – as required per legislative mandate	None
<b>Sunset Review</b>		Monitor and report status of Sunset Review recommendations	Management Letter #14-05 <b>Update of External Audit Activities</b> March 2014
<b>Management and Commission Requests</b>		As needed	Management Letter #14-01 – <b>Preliminary</b>

<b>Annual Audit Plan – Fiscal Year 2014 Audits, Consulting, and Other Projects</b>			
<b>Project Topic</b>	<b>Potential Risks/Concerns</b>	<b>Preliminary Objectives</b>	<b>Audit report and Status</b>
			<b>Review of the Parking and Tailgating Activities</b> September 2013  And  <b>Management Letter #14-03 Preliminary Review of Parking Revenues</b> November 2013
<b>PROJECTS</b>			
<b>REQUIRED ADMINISTRATIVE PROJECTS</b>			
<b>Participation in Peer Review Process</b>	IIA and professional standards.	Conform to Standards	In Progress
<b>Internal Audit Annual Risk Assessment and Annual Plan</b>	Noncompliance with IIA standards and Internal Audit Act	Statutory Requirement	Done
<b>Internal Audit Annual Report</b>	Noncompliance with IIA standards and Internal Audit Act	Statutory Requirement	Done
<b>Report of Outstanding Issues to the</b>	Additional oversight by external auditors	Statutory Requirement	Management Letter #14-05

<b>Annual Audit Plan – Fiscal Year 2014 Audits, Consulting, and Other Projects</b>			
<b>Project Topic</b>	<b>Potential Risks/Concerns</b>	<b>Preliminary Objectives</b>	<b>Audit report and Status</b>
<b>State Auditor's Office</b>	Performance Measure Audit	Follow up on Status of Recommendations	<b>Update of External Audit Activities</b>  March 2014
<b>External Audit Coordination</b>	Additional oversight by external auditors	Statutory Requirement	None

**III. Consulting Engagements and Non-Audit Services Completed**

<b>Project No Report Date Name of Report</b>	<b>High Level Objective(s)</b>	<b>Observations/Findings and Recommendations by (Year-Project- Recommendations #)</b>	<b>Current Status</b>	<b>Fiscal Im- pact/ Other Impact</b>
None				

#### **IV. External Quality Assurance Review**

Due to budget constraints and because of the availability of a reciprocal peer review process through the State Agency Internal Audit Forum (SAIAF), TFC is participating in the SAIAF peer review process rather than paying approximately \$5,000 to \$10,000 to hire a firm to perform such a review. In the SAIAF process, agencies earn points by participating in peer reviews for other agencies, and then use the points earned to pay for their own peer reviews.

In preparation for the peer review, OIA has reviewed and updated our internal audit procedures and policies and have also completed the self-assessment process of our program. OIA has contacted other agencies regarding scheduling of peer reviews.

V. Internal Audit Plan for Fiscal Year 2015

**COMMISSION APPROVED**

<b>Annual Audit Plan – Fiscal Year 2015 Audits, Consulting, and Other Projects</b>			
<b>Project Topic</b>	<b>Potential Risks/Concerns</b>	<b>Preliminary Objectives</b>	<b>Percentage of Available Project Hours</b>
<b>AUDITS</b>			<b>64%</b>
<b>Facilities Operations and Controls including Deferred Maintenance</b>  <b>Carried-over from FY2014</b>	Proper use of bond money.	Evaluate process by which projects are developed and completed using bond funding.	12%
	Follow up on Sunset Report Recommendations.	Evaluate progress in responding to Sunset recommendations for this program.	
	Plan to maintain and protect building condition.	Evaluate plan for assessing and determining building conditions. Determine how bond money for deferred maintenance projects is distributed.  Evaluate plan for maintaining building conditions including heating and safety priorities. Evaluate Program Policies and Procedures.  Evaluate Program Policies and Procedures.	
<b>Facilities Maintenance (PREM)</b>  <b>Carried-over from FY2014</b>	Service to client agencies	Evaluate customer satisfaction	10%
	Coordination of activities	Evaluate scheduling of activities	
	Accounting for HB 3042/ General Revenue/ Inter-Agency Agreements	Test accounting for services/ charges to client agencies	
	HVAC, Repairs, etc.	Evaluate Program Policies and Procedures.	

Annual Audit Plan – Fiscal Year 2015 Audits, Consulting, and Other Projects			
Project Topic	Potential Risks/Concerns	Preliminary Objectives	Percentage of Available Project Hours
<b>Management of TFC Assets</b>	<p>Tracking of SPA assets and assets below the SPA threshold</p> <p>Potential theft of items</p> <p>Financial accounting for the assets</p> <p>ADA, access, &amp; security</p> <p>Use of Asset-Works System</p>	<p>Verify that assets on hand and per books reconcile</p> <p>Test purchases and inventory</p> <p>Test expensing and capitalization of assets</p> <p>Evaluate functionality of asset – works.</p>	7%
<b>Badging and Key management</b>	<p>Coordination with DPS and client agencies</p> <p>Follow-up on issues identified in SAO audit 14-041 - <i>An Audit Report on Physical Controls at Selected State Agency Data Centers</i></p>	<p>Test for over-lap of functions; or of function that may “fall between the cracks” and not be accomplished</p> <p>Verify that reported corrective actions have been implemented.</p>	9%
<b>Follow-up on SAO Audits (Contracts, Security, Performance Measures)</b>	<p>Verify that corrective action has been reported to SAO</p> <p>Verify that corrective action has been implemented</p> <p>Evaluate whether further internal control adjustments are needed to address findings</p>	<p>Test implementation status related to SAO recommendations.</p>	7%
<b>Property Management</b>	<p>Monitoring of Tarantino contract</p> <p>Reconciliations of vendor invoices</p>	<p>Ensure that all contract deliverables are received and reviewed</p>	9%

Annual Audit Plan – Fiscal Year 2015 Audits, Consulting, and Other Projects			
Project Topic	Potential Risks/Concerns	Preliminary Objectives	Percentage of Available Project Hours
	Overhead charges for HB 3042 buildings  Potential lack of policies and procedures	Test accounting for HB3042 expenditures  Review policies and procedures	
Fiscal Year 2014 Audits In Progress			
<b>Contract Management</b>	Follow up on Sunset Report Recommendations.  All required documents and certificates may not be obtained or kept in the files. Communication between the programs and the Legal Division may not specify all required contractual elements  Programs may not adequately monitor vendor performance after award of the contracts.  Certificate of Insurance for all Contracts not covering TFC's liabilities and possible cost to the state.	Evaluate progress in responding to Sunset recommendations for this program  Evaluate procedures for ensuring retention of required documentation  Evaluate information sharing between programs and Legal staff.  Evaluate procedures for contract monitoring.  Evaluate Certificate of Insurance (COI) and determine if TFC liabilities are covered by insurance.  Evaluate Program Policies and Procedures.	5%
<b>Federal Surplus Property Program</b>	Annual audit required by state plan.  Inventory Control.  Date and Time of Property Receipt	Evaluate Compliance with Federal regulations.  Evaluate Accuracy of Inventory Control and year-end counts.  Evaluate Program Policies and Procedures.	5%

<b>Annual Audit Plan – Fiscal Year 2015 Audits, Consulting, and Other Projects</b>			
<b>Project Topic</b>	<b>Potential Risks/Concerns</b>	<b>Preliminary Objectives</b>	<b>Percentage of Available Project Hours</b>
	Donation Documentation. Compliance with OMB Circulars including new “omni-circular”	Evaluate awareness of and compliance with the OMB Circulars	
<b>Management Assistance, Consulting, and Other Projects</b>			<b>14%</b>
<b>Public Private Partnerships</b>		Review Public Private Partnership (P-3) projects – as required per legislative mandate, if such projects are implemented	2%
<b>Management and Commission Requests</b>		As needed	12%
<b>REQUIRED ADMINISTRATIVE PROJECTS</b>			<b>22%</b>
<b>Participation in Peer Review Process</b>	IIA and professional standards.	Ongoing quality assurance process	5%
<b>Internal Audit Annual Risk Assessment and Annual Plan</b>	Noncompliance with IIA standards and Internal Audit Act	Statutory Requirement	5%
<b>Internal Audit Annual Report</b>	Noncompliance with IIA standards and Internal Audit Act	Statutory Requirement	3%
<b>Follow-up of Management Corrective Action of Prior Findings</b>	IIA and professional standards.	Conform to Standards regarding audit follow up; Evaluate effectiveness of actions taken in response to audit recommendations	5%

Annual Audit Plan – Fiscal Year 2015 Audits, Consulting, and Other Projects			
Project Topic	Potential Risks/Concerns	Preliminary Objectives	Percentage of Available Project Hours
<b>Report of Outstanding Issues to the State Auditor's Office</b>	<p>Additional oversight by external auditors</p> <p>Performance Measure Audit</p> <p>Contract Management Audit</p> <p>(Per the SAO, follow-up status on:</p> <p><i>14-041 - An Audit Report on Physical Controls at Selected State Agency Data Centers</i></p> <p>is not to be reported on the SAO web portal, for I.T. security reasons.)</p>	<p>Statutory Requirement</p> <p>Follow up on Status of Recommendations</p>	1%
<b>External Audit Coordination</b>	Additional oversight by external auditors	Statutory Requirement	3%

**VI. External Audit Services**

No external audit services were procured in fiscal year 2014.

## **VII. Reporting Suspected Fraud and Abuse**

- 1) In accordance with the General Appropriations Act (81<sup>st</sup> Legislature), Article IX, and in order to facilitate reporting suspected fraud waste and abuse involving state resources, TFC provides a direct link to the State Auditor's Office via the agency website.

Information on how to report suspected fraud involving state funds has also been included in TFC's internal Ethics Policy, as documented in the Human Resources Employee Manual. TFC also has a tip line for this purpose.

- 2) In accordance with the General Appropriations Act (81<sup>st</sup> Legislature), Article XII, Section 5(c), State agencies that receive funds as a result of the American Recovery and Reinvestment Act (ARRA) must report on the use of these funds to various government agencies. During Fiscal Year 2014, TFC did not receive any funds as a result of the ARRA.
- 3) Various issues related to this section are discussed with State Auditor staff; and audits and other reports are filed as required.

