

ATTACHMENT 18

A list of internal audit reports from FY 2005 – 2009 completed by or in progress at the TSSWCB

1. Quality Assurance Review Report on Internal Audit Activity, July 2006
2. Internal Audit of the Section 319 Program Final Report, September 28, 2006
3. Internal Audit of Human Resources Systems and Controls Final Report, September 28, 2006
4. Internal Audit Follow-up Review of the Status of Implementing FY 2005 Internal Audit Recommendations, September 7, 2006
5. Internal Audit Annual Report for FY 2006, October 19, 2006
6. Internal Audit of the Grant and Contract Management System Final Report, July 19, 2007
7. Internal Audit of Information Resources Systems and Controls Final Report, July 19, 2007
8. Internal Audit Annual Report for FY 2007, November 1, 2007
9. Report on the Status of Implementing FY 2006 Audit Recommendations, September 20, 2007
10. Internal Audit of Purchasing, Property and Fleet Management Functions Final Report, January 17, 2008
11. Internal Audit of the Accounting, Payroll & Travel Systems and Controls Final Report,, September 18, 2008
12. Report on the Status of Implementing FY 2007 Audit Recommendations Final Report, September 18, 2008
13. Internal Audit of Poultry Water Quality Management Plan Program Final Report, September 18, 2008
14. Internal Audit Annual Report for FY 2008, October 7, 2008

Texas State Soil and Water Conservation Board

QUALITY ASSURANCE REVIEW REPORT on Internal Audit Activity

July 2006

Prepared by:
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Texas State Soil and Water Conservation Board Quality Assurance Review July 2006

Executive Summary

As required by the Texas Internal Auditing Act (article 6252-5d, V.A.C.S.), the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing*, (Standard 1312 – External Assessments), and the Government Accountability Office's (GAO) *Government Auditing Standards*, an external quality assurance review (QAR) was conducted of the Texas State Soil and Water Conservation Board's (TSSWCB) internal audit activity. The Texas Internal Auditing Act requires that internal auditors, for agencies meeting the requirements of the Act, conduct a comprehensive external peer review, also known as a quality assurance review, every three years. An external quality assurance review, as part of a quality assurance program, is intended to provide reasonable assurance that internal audit work is being conducted in accordance with professional standards.

The principal objectives of the review were to assess whether the internal audit activity at TSSWCB conforms to the Texas Internal Auditing Act and whether Jansen & Gregorczyk, Certified Public Accountants (the Contractor), is performing the work in compliance with professional standards. Also, during the review an attempt was made to identify opportunities that would enhance the audit process and improve the value of the internal auditing activity at TSSWCB.

Contracting for internal auditing services has been a very efficient and effective way for smaller agencies to meet the requirements of the Texas Internal Auditing Act. Because TSSWCB cannot utilize a full-time internal staff to conduct internal audits, it has an agreement with an outside contractor to conduct its internal auditing work. While 35% of the available staff hours of in-house internal audit departments will typically be used for tasks not directly related to individual audit projects (holidays, vacations, administration, training, etc.), TSSWCB only pays for the hours spent directly on their audit projects. Any inefficiency in performing the work is at the risk of the Contractor because the project hours and costs are reviewed and approved by the Board in advance of the work being performed. This approach is very

efficient for small agencies and also helps insure that the agency undertakes only worthwhile audit projects.

The scope of the review included a review of existing internal auditing policies, procedures, and audit project workpaper files, as well as interviews with a member of the Board, the Chief Financial Officer, and the Contractor's staff.

The Internal Audit Charter, reporting relationships, communications with the Board, the Executive Director, and the objectivity of the work performed were reviewed to determine the independence of the Contractor. An examination of the Contractor's administrative records and a review of selected workpapers were done to evaluate the staff's knowledge, skills, discipline and training. An inventory of current audit work and the scope and performance of the audit work that had been performed was evaluated. A review was also conducted of the risk assessment and audit planning processes, and the Contractor's engagement and staff management processes.

**Overall
Opinion**

Based on the work outlined above, it is the opinion of the reviewer that the internal audit activity, at the Texas State Soil and Water Conservation Board, is in accordance with the Texas Internal Auditing Act, and the audit work being performed by the Contractor **fully complies** with applicable professional standards.

This opinion, representing the best possible evaluation, means that the Texas State Soil and Water Conservation Board, and the Contractor, have in place the relevant structures, policies, and procedures, including the processes by which they are applied, that comply with the Texas Internal Auditing Act and the professional standards in all material respects.

Mr. Russell Gregorczyk, CPA, a principal in the Contract firm, manages the audit work conducted at TSSWCB. He has extensive audit experience, is well respected and has a good relationship with both agency management and the Board.

His reporting relationship to the Board and his communication with the Board complies with the requirements of the Texas Internal Auditing Act and enables him to be independent and have an impartial and unbiased attitude, essential to the proper conduct of audit work. He annually performs a thorough risk assessment and develops an audit plan that is reviewed and approved by the Board.

A review of selected workpapers showed that Mr. Gregorczyk's staff is proficient and knowledgeable in the areas they review. He makes available continuing professional education and training for his staff. Each staff member receives, on average, 40 hours of internal audit related training each year. Mr. Gregorczyk and his staff have extensive experience with Texas government agencies.

The workpapers that were reviewed showed that individual audit projects are well planned and audit conclusions and recommendations are adequately supported. The workpapers were very professionally prepared and supported levels of professional care appropriate for the complexities of the work being performed. The audit programs were appropriately referenced to the audit steps and tests performed during the audit and the support for the conclusions expressed in the audit reports. They contained evidence that they are thoroughly reviewed by Mr. Gregorczyk before audit reports were issued.

While the internal activity at TSSWCB is complying with the Texas Internal Auditing Act and the Contractor is fully complying with professional standards, there are opportunities that could improve the activity that should be considered. The following comments and recommendations are intended to build on the foundation that is already in place with the objective of further improving the value and the effectiveness of the audit work being performed.

The recommendations are divided into two groups:

- Part I - Matters for the consideration of the Board and the Executive Director. Those that concern TSSWCB as a whole and suggest actions that can be taken by the Board and the Executive Director. We believe these recommendations will be useful because they impact the effectiveness and efficiency of the internal auditing activity overall and the value it can add.
- Part II - Improvement opportunities specific to the internal audit activity. Those that relate to the internal auditing activity's structure, staffing, deployment of resources, and other matters that should be implemented by the Contractor, with the support of the Board and the Executive Director.

The implementation of these recommendations will enhance the internal audit activity at the Texas State Soil and Water Conservation Board and improve the value, efficiency and effectiveness of the services being provided by Jansen & Gregorczyk, Certified Public Accountants.

Recommendations

Part I - Matters for the consideration of the Board and the Executive Director.

1. The Executive Director should maintain a quarterly schedule of the status of open recommendations and share that schedule with the Board each time it meets. This would enable the Board to better oversee the prompt implementation by management of the recommendations to which it has agreed. This quarterly status schedule would be more effective if the recommendations were classified as to their significance (high, medium, low), and presented in a simplified matrix format (spreadsheet) that shows whether or not they have been implemented according to the action plan to which management committed in the audit report.
2. TSSWCB management when responding to the recommendations contained in an audit draft report from the internal audit Contractor, should include in their response an action plan for the implementation of the recommendation. The action plan should identify the individual who will be directly responsible for the implementation of each recommendation and the date that management has committed to having each recommendation implemented. This would enable the Contractor to efficiently and effectively follow up and report to the Board the status of prior recommendations.

Part II - Improvement opportunities specific to the internal audit activity

Audit workpapers provide the principal support for an audit report and aid in the supervision of the work being performed. Workpapers also allow for the review of the quality of the audit work by providing a reviewer written documentation of the evidence supporting an auditor's conclusions and recommendations.

A review of selected workpapers showed that the work performed by the Contractor was meeting the intended audit objectives. The workpapers contained evidence that the audits were well planned and included objectives, an appropriate scope of work, background information, evidence of audit tests, and summaries of the purpose, procedures performed, results, conclusions, and recommendations.

However, in the workpapers that were reviewed, the references forward from the steps in the audit program to where the work was performed, and then to the disposition of any findings or observations, (audit report, discussion, etc.), were not always clear. While it was noted that findings and observations in the various sections of the workpapers appeared to always be included in the audit report, it was difficult to follow each item to a final disposition.

The Contractor should consider referencing each finding or observation item to a schedule or point sheet. The items on the point sheet could then be documented as to the disposition of the item. (Audit report, discussion, etc.). This approach would aid in any review of the audit workpapers and help insure that all findings and observations are properly addressed.

A handwritten signature in cursive script, appearing to read "Richard Tarr".

Richard Tarr, CIA, CISA

Reviewers Qualifications and Experience

Richard H. Tarr, CIA, CISA, MBA

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Richard Tarr is an internal audit and information systems (IT) consultant who specializes in peer reviews (Quality Assurance Reviews) of internal audit departments.

A 26-year internal audit and IT veteran, Mr. Tarr has extensive experience in the development, training, and evaluation of internal audit departments in both the public and private sectors.

When he was with the Walt Disney Company, he initiated and developed the information systems audit function at Walt Disney World, and served as the Corporate Information Systems Audit Manager.

He was the Manager of Quality Assurance Review Services for the Institute of Internal Auditors (IIA), and has traveled worldwide conducting quality assurance reviews of internal auditing departments. He has conducted over fifty Quality Assurance Reviews in industry, government and higher education. He is the author of the IIA's recent publication *Establishing an Internal Audit Activity*.

Education: and Certifications:

Florida State University - MBA (Management); BS (Accounting and Management)
Certified Internal Auditor (CIA) – Institute of Internal Auditors
Certified information Systems Auditor (CISA) – Information Systems Audit and Control Association

Publications

Establishing an Internal Audit Activity Manual, The Institute of Internal Auditors,
Altamonte Springs, Florida, 2003.

**List of some of the Quality Assurance Reviews
(by organization)
conducted by Richard H. Tarr, CIA, CISA
Since January 2004**

Atlantic Mutual Insurance Companies – 4/06
Capital Metro – 8/05
George Mason University – 1/06
Maryland Department of Public Safety and Corrections – 1/06
Nova Southeastern University – 9/04
TECO Energy Inc. – 3/06
Texas Children’s Hospital – 1/05
Texas Lottery Commission – 11/05
Texas Southern University – 2/06
Texas Water Development Board – 5/05
University of North Texas System – 7/04
University of Virginia – 8/04
University of Virginia Health Services Foundation – 11/05
West Virginia Investment Management Board – 9/05
Virginia Commonwealth University
Virginia Tech – 3/05
Virginia Treasury Department – 6/05

**Texas State Soil and Water
Conservation Board
Internal Audit of the
Section 319 Program**

Final Report

As Approved by the TSSWCB Board on
September 28, 2006

As Prepared by
Jansen & Gregorczyk
Certified Public Accountants

TABLE OF CONTENTS

Auditor's Transmittal Letter	2
Executive Summary	3
Audit Background, Purpose and Scope	4
Audit Results and Recommendations	5

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September 28, 2006

Members of Board
Texas State Soil and Water Conservation Board

The following report provides the results and recommendations noted during the internal audit of the Section 319 Program.

The internal audit was conducted in accordance with generally accepted government auditing standards and *Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

EXECUTIVE SUMMARY

Audit Purpose

The purpose of the internal audit of the Section 319 Program was to determine if the program is operating in compliance with federal requirements and if appropriate operating policies and procedures have been established for effectively administering the program.

Key Findings

- TSSWCB has established an equitable, objective and documented process for allocating Section 319 grant funds in the priority areas that have been identified.
- There is an effective process for contracting Section 319 grant funds.
- There is an effective process in place for monitoring and reporting on the use of Section 319 Program funds.
- There are adequate internal controls and effective procedures for making Section 319 payments.
- The monetary status of each project and grant is tracked as payments are made using spreadsheets, but these spreadsheets are not always reconciled to the financial status reports submitted by the projects.

- Using budgeted costs for salary charges without supporting documentation violates Office of Management and Budget (OMB) Circular A-87, Attachment B. This was noted in our internal audit performed in FY 2003. If a federal compliance audit was performed by the State Auditor's Office, we believe they would take exception to the current method of charging salary costs to Section 319, even though TSSWCB's EPA representative has indicated that using budgeted costs is acceptable.
- There are adequate internal controls and effective procedures for drawing down Section 319 program funds. Drawdowns of federal funds are made in a timely manner and adequately documented for payments to be made to projects, as well as to reimburse TSSWCB for administrative and program costs.
- Financial and programmatic reports required by EPA for the Section 319 Program are accurate and are supported by appropriate documentation; however, some of the financial reports were submitted late.
- The Section 319 Program is operating in compliance with all significant federal requirements governing the program.

Recommendations

- A reconciliation between project sheets and Financial Status Reports submitted by 319 projects should be completed each quarter.
- Each grant year TSSWCB should obtain written approval from EPA to charge salary costs based on costs budgeted in the funding application approved by EPA.
- A reconciliation should be performed between the total federal expenditures on the Financial Status Reports submitted to EPA and the expenditures out of the 319 appropriation as reflected on the 62 appropriation screen in the Uniform Statewide Accounting System (USAS).
- The Fiscal Director should ensure that all financial reports are submitted to EPA by the established deadline.

Management's Response

Management concurs with the four recommendations made in the report. Each of the four recommendations has been implemented.

AUDIT BACKGROUND, PURPOSE & SCOPE

The purposes of the internal audit of the Section 319 Program were to determine if the program is operating in compliance with federal requirements, if there are appropriate internal controls over federal funds and if appropriate operating policies and procedures have been established for effectively administering the program.

The scope of internal audit work included review and testing of the following areas:

- Process for allocating Section 319 funds to priority areas;
- Section 319 contracts;
- Processes for monitoring Section 319 projects and funding status;
- Processes for paying Section 319 funds and drawing down federal funds;
- Compliance with federal reporting requirements; and
- Compliance with federal grant terms and conditions.

Specific audit objectives were developed and coordinated with TSSWCB management. These audit objectives and the results of our audit work are reported in the following section, "Audit Results and Recommendations."

AUDIT RESULTS AND RECOMMENDATIONS

The results and recommendations of the internal audit are presented in this section for each of the seven audit objectives that were established and coordinated with TSSWCB management.

Audit Objective 1: Determine if there is an equitable, objective and documented process for allocating Section 319 Program funds in the priority areas that have been identified.

TSSWCB has established an equitable, objective and documented process for allocating Section 319 grant funds in the priority areas that have been identified. A process is in place which assures that allocations are based on the criteria established by EPA and in accordance with state priorities. TSSWCB typically allocates approximately half of the grant to projects determined to contribute to maximum attainment of the goals in the Texas Nonpoint Source Management Program Report. These grant projects are identified by TSSWCB through internal evaluation. The remaining funds are allocated to recipients through a request for proposal (RFP) process.

The RFP evaluation process considers primarily the requirements specified

in the Texas Nonpoint Source Management Program Report (i.e. priority water bodies, long and short term goals, pollution sources identified by area). Each proposal received is scored on the basis of eight criteria. A minimum score of 70 (out of a possible 100) is required to be eligible for funding consideration. Five different TSSWCB staff members score and rank the proposals. Recommended proposals are assigned to a TSSWCB project manager who will work with the applicant to amend and finalize the proposal prior to submission to EPA. Overall, the process appears to be equitable, objective and well documented.

Recommendation: None.

Audit Objective 2: Determine if there is an effective process for contracting Section 319 grant funds.

There is an effective process for contracting Section 319 grant funds. Audit review and testing indicated that all contracts were signed and all had standard contract provisions regarding work expectations, measurable outcomes, sanctions for non-performance, remedies for non-compliance, spending restrictions, audit clauses and various certifications required for participation in federally-funded projects. The current contracting

instrument was reviewed by the agency's legal representative at the Attorney General's Office. The only one minor issue noted during testing of Section 319 contracts for 2005 was that some of the signature pages were not dated. Although all signature pages should be dated, failure to indicate the date of signature does not invalidate the contract.

Recommendations: None.

Audit Objective 3: Determine if there is an effective process for monitoring and reporting on the use of Section 319 grant funds.

There is an effective process in place for monitoring and reporting on the use of Section 319 Program funds. Each project is assigned a project manager who: has frequent communications with the performing entity, files quarterly status reports, and reports to his/her supervisor any developing problem areas before the problem becomes significant. Frequent communication with EPA also occurs concerning the progress of individual projects. Accounting personnel maintain spreadsheets which are updated each time a payment is made toward a contract, showing the total expenditures (current and year to date) compared to the budget in the contract.

There is also an effective process for de-obligating and re-obligating funds as evidenced by the fact that funds are not lapsed back to EPA.

Recommendations: None.

Audit Objective 4: Determine if there are adequate internal controls and effective procedures for making Section 319 Program payments and accounting for Section 319 Program expenditures.

There are adequate internal controls and effective procedures for making Section 319 payments. There is a segregation of duties that ensures that every payment is reviewed by at least three individuals to ensure that it meets the contract provisions. Audit testing indicated that all Section 319 payments tested were accurate and contained adequate supporting documentation. The monetary status of each project and grant is tracked as payments are made using spreadsheets.

Financial status reports are submitted by all entities at some point of time and staff is performing some reconciliations between the project spreadsheets and the financial status reports that are submitted. This process needs to be performed each quarter in order to detect errors made by either the performing entity or by TSSWCB. For example, an error

could be made in recording an expenditure to the wrong project. Controls are in place to check the validity of expenditures at the grant level through reconciliations that are performed for revenue and expenditure between internal spreadsheets and the Uniform Statewide Accounting System (USAS).

Section 319 salary expenses for TSSWCB are drawn down at the end of each quarter based on a salary and benefits schedule prepared at the beginning of the year (budgeted costs approved by EPA). Some staff members are charged 100% to the Section 319 grant, but other staff members work less than 100% on Section 319 grant activities. EPA has indicated to TSSWCB that it is not necessary for TSSWCB to maintain timesheets or certifications to support the salaries and matching costs for the Section 319 Program. Using budgeted costs for salary charges without supporting documentation violates Office of Management and Budget (OMB) Circular A-87, Attachment B. This was noted in our internal audit performed in FY 2003. If a federal compliance audit was performed by the State Auditor's Office, we believe they would take exception to the current method of charging salary costs to Section 319, even though TSSWCB's EPA representative has indicated that using budgeted costs is

acceptable.

Administrative expenses such as telephone, copier, building maintenance and other indirect (joint) costs are allocated based on the number of full-time equivalent staff in Section 319 as compared to the agency. This appears to be an allowable allocation method under the *Uniform Grant Management Standards*.

Recommendation 1: *A reconciliation between the project sheets and Financial Status Reports submitted by 319 projects should be completed each quarter.*

TSSWCB Management Response: Staff concurs with recommendation. A reconciliation process has been established.

Recommendation 2: *Each grant year TSSWCB should obtain written approval from EPA to charge salary costs based on budgeted costs in the funding application approved by EPA.*

TSSWCB Management Response: Staff concurs with recommendation. Written approval from EPA has been requested and received.

Audit Objective 5: Determine if there are adequate internal controls and effective procedures for drawing down Section 319 Program funds.

There are adequate internal controls and effective procedures for drawing down Section 319 program funds. Drawdowns of federal funds are made in a timely manner and adequately documented for payments to be made to projects, as well as to reimburse TSSWCB for administrative and program costs.

Recommendations: None.

Audit Objective 6: Determine if all financial and programmatic reports required by EPA for the Section 319 Program are accurate, submitted timely and supported by appropriate documentation.

Financial and programmatic reports required by EPA for the Section 319 Program are accurate and supported by appropriate documentation. The 319 staff maintains detailed spreadsheets necessary for accurate reporting and TSSWCB has received favorable reviews from EPA for effective project oversight.

The Federal Cash Transactions Report, as well as the Financial Status Reports tested during the audit were submitted late (the first report was submitted 46 days after the deadline

and the other was submitted 22 days after the deadline). Also, since the supporting spreadsheets are being maintained independently of the agency accounting system, a reconciliation should be performed between the total expenditures as reflected on the Financial Status Reports and the Uniform Statewide Accounting System (USAS) to ensure the accuracy of information reported to EPA.

Recommendation 3: A reconciliation should be performed between the total federal expenditures on the Financial Status Reports submitted to EPA and the expenditures out of the Section 319 appropriation as reflected on the 62 appropriation screen in USAS (or that appropriation's SIRS report on the comptroller website, if more detail is needed).

TSSWCB Management Response: Staff concurs. A reconciliation process has been established.

Recommendation 4: The Fiscal Director should ensure that all financial reports are submitted to EPA by the established deadline.

TSSWCB Management Response: Staff concurs.

Audit Objective 7: Determine if the Section 319 Program is operating in compliance with all federal requirements governing the program.

The Section 319 Program is operating in compliance with all significant federal requirements governing the program.

Recommendations: None.

**Texas State Soil and Water
Conservation Board
Internal Audit of Human Resources
Systems and Controls**

Final Report

As Approved by the TSSWCB Board on
September 28, 2006

As Prepared by
Jansen & Gregorczyk
Certified Public Accountants

TABLE OF CONTENTS

Auditor's Transmittal Letter	2
Executive Summary	3
Audit Purpose and Scope	5
Audit Results and Recommendations	6

**TSSWCB Internal Audit of Human Resources Systems and Controls
Final Report – September 28, 2006**

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September 28, 2006

Board Members
Texas State Soil and Water Conservation Board

The following report provides the results and recommendations noted during the internal audit of the Human Resources Systems and Controls.

The internal audit was conducted in accordance with generally accepted government auditing standards and *Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

EXECUTIVE SUMMARY

Audit Purpose

The purposes of the internal audit of human resources systems and controls were to determine if TSSWCB: is complying with federal and state laws regarding human resources issues; has all necessary policies, procedures and practices for effectively managing the agency's human resources and protecting the agency against liability related to adverse personnel actions; and is adhering to all established human resources policies and procedures.

Key Audit Observations

- The TSSWCB human resources policies and procedures comply with federal and state requirements and they contain most required provisions designed to protect the agency against liability related to discriminatory practices, sexual harassment, and other potential adverse actions.
- There are a number of topics that could be added to the Human Resources Policies and Procedures Manual to provide more comprehensive information on human resources-related issues for TSSWCB employees.

- TSSWCB does not have a written policy and procedures regarding the required steps and documentation that must be prepared regarding applicant screening, interviewing and selection. As a result there are inconsistencies from region to region in maintaining documentation regarding the steps in the applicant selection process.
- The TSSWCB classification and compensation systems are in compliance with state and federal laws and they appear to be effective in attracting and retaining employees, promoting effective human resource utilization, and enabling the agency to meet its goals and objectives.
- TSSWCB employee relations practices promote a positive workplace environment for employees and minimize negative consequences to the agency by clearly communicating agency and employee expectations.
- The employee performance evaluation system is providing constructive feedback to employees on job performance and performance evaluations are up-to-date.

- Training is well documented, and efforts are made to evaluate the effectiveness of training.
- Leave accounting and time reporting practices are in compliance with federal and state laws, but all compensatory time should be entered and tracked in the official leave accounting system rather than in the regional offices.
- TSSWCB is under no obligation to establish any type of disciplinary process up to and leading to termination, but the agency has chosen to do so as good business practice.
- TSSWCB has a grievance policy, which appears to provide employees with an objective mechanism for addressing complaints that may arise.
- Employee personnel files are up-to-date and organized well so that it is easy to locate documents. There are, however, several documents that are being maintained in the regular personnel files, which should be kept in a separate file that is not subject to the Open Records Act.
- Human resources reports are accurate, submitted timely and supported by appropriate documentation.

Significant Recommendations

- In order to provide a more comprehensive Human Resources Policies and Procedures Manual that addresses topics found in federal and state human resources statutes, the Human Resources Director should consider adding a number of topics to the Manual.
- The Human Resources Director should develop procedures that will result in consistent documentation of the steps followed in the hiring files.
- The Executive Director should not approve hiring recommendations from managers unless all required steps in the hiring process have been documented and verified by the Human Resources Director.
- Timesheets and supporting compensatory time request forms for non-exempt employees should reflect all hours worked. All compensatory time should then be maintained in the Uniform Statewide Payroll System (USPS), making it the sole source of leave information.
- Confidential employee information should be maintained in a file separate from the regular personnel file.

Management's Response

TSSWCB appreciates the observations and recommendations prepared by Jansen & Gregorczyk, CPAs. TSSWCB staff respectfully offers the following comments about the overall key audit observations.

TSSWCB staff understands individual scoring of job applicants is considered a "best practice" As always, TSSWCB staff will continue to refine current hiring practices to ensure we are in compliance with state and federal law.

TSSWCB will implement the recommendations as indicated under each management response.

Again, we would like to thank Jansen & Gregorczyk CPAs for their input as to how we can improve internal procedures and continue our efforts to operate with utmost efficiency and integrity.

AUDIT PURPOSE & SCOPE

The purposes of the internal audit of human resources systems and controls were to determine if TSSWCB: is complying with federal and state laws regarding human resources issues; has all necessary policies, procedures and practices for effectively managing the agency's human resources and protecting the agency against liability related to adverse personnel actions; and is adhering to all established human resources policies.

The scope of audit work involved the review, analysis and/or testing of the following areas:

- human resources policies and procedures;
- recruitment and selection processes;
- classification and compensation systems;
- employee relations practices;
- employee performance appraisals;
- training and staff development;
- leave and time accounting practices and record keeping;
- disciplinary and grievances processes;
- personnel records; and
- human resources reports.

AUDIT RESULTS AND RECOMMENDATIONS

The results and recommendations of the internal audit are presented in this section for each of the eleven audit objectives that were established and coordinated with TSSWCB management.

***Audit Objective 1:** Determine if the human resources policies and practices are in compliance with federal and state requirements and if they contain all required provisions designed to protect the agency against liability related to discriminatory practices, sexual harassment, and other potential adverse actions arising from applicants, employees, and former employees.*

The TSSWCB human resources policies and procedures comply with federal and state requirements and they contain most required provisions designed to protect the agency against liability related to discriminatory practices, sexual harassment, and other potential adverse actions arising from applicants, employees, and former employees. The *Human Resources Policy and Procedures Manual* is well organized and information within the *Manual* is easy to locate. A comparison of the *Human Resources Policies and*

Procedures Manual to federal and state human resources laws and other authoritative sources indicated that there are a number of topics that could be added to provide more comprehensive information on human resources-related issues for TSSWCB employees. These specific topics are identified in Recommendation 1.

We noted during our review of the *Human Resources Policies and Procedures Manual* that approximately half of the *Manual* is devoted to Information Technology (IT) Security Policies. Since this information is developed and maintained by the Information Resources Manager it would probably be more appropriate as a separate manual rather than as an appendix in the *Human Resources Policies and Procedures Manual*. If TSSWCB decides the information technology security procedures should remain in the current manual, it would be more appropriate to title the document as the TSSWCB Employee Handbook.

***Recommendation 1:** In order to provide a more comprehensive Human Resources Policies and Procedures Manual that addresses topics found in federal and state human resources statutes, the Human Resources Director should*

consider adding the following issues to the Manual:

- *The FLSA Status Procedure should be revised to include the FLSA fair pay rules and regulations.*
- *The Compensatory Time Section should be revised to state that employees may not accrue compensatory time if working at any location other than the employee's regular or temporarily-assigned duty point. Also, all references in the Manual to compensatory time currently relate to Fair Labor Standards Act (FLSA) non-exempt employees. Compensatory time policy in regards to FLSA exempt employees should also be covered in the Manual.*
- *In order to comply with state requirements, a statement should be added to the performance evaluation section stating that "the employee's performance expectations will be linked to the agency's strategic plan when appropriate."*
- *The Manual should be revised to discuss the following types of changes that can affect an employee's salary:*
 - *demotions*
 - *salary reduction for disciplinary reasons*
 - *lateral transfers*
 - *equity adjustments*

➤ *salary group reclassification or reallocation*

These topics could be included along with merit increases and promotions under a subcategory entitled "Salary related changes" in the "Your Career With TSSWCB" section.

- *Employees are entitled to leave without a deduction in pay for certain types of activities that are not specified in the Manual. Activities that should be addressed and included in the Manual include the following:*
 - *bone marrow or organ donors*
 - *blood donors*
 - *foster parents' attendance at foster child meetings*
 - *emergency medical services volunteer training*
 - *volunteers of the American Red Cross*
 - *disabled employees training with assistance dogs*
- *Administrative leave for outstanding performance is granted by TSSWCB, but should be addressed in the Manual.*
- *Information on unemployment compensation benefits should be developed and included in the Manual.*
- *The Equal Employment Opportunity Policy Statement should be amended to address non-discrimination for pregnancy and filing of*

bankruptcy by employees and applicants.

- *Training required of each new employee on policies and procedures regarding employment discrimination and sexual harassment, as well as supplemental training required every two years is being performed at TSSWCB, but should be addressed in the Manual.*
- *The following new topics should be developed and included in the Manual:*
 - *salary limitations for retirees resuming state service*
 - *inclement weather closing*
 - *intra-agency career ladder*
 - *professional fees and dues*

TSSWCB Management Response:
TSSWCB will implement this recommendation.

Recommendation 2: *Information Technology (IT) Security Policies should be issued as a separate manual rather than as an appendix in the Human Resources Policies and Procedures Manual or the Manual should be titled the TSSWCB Employee Handbook.*

TSSWCB Management Response:
TSSWCB will continue to include the Information Technology (IT) Security Policies in the Manual and it will be titled the TSSWCB Employee Handbook.

Audit Objective 2: *Determine if the recruitment and selection processes for filling positions are in compliance with federal and state laws, if the processes are being adhered to in filling positions, if the selection criteria are documented, and if the overall recruitment and selection processes are effective in ensuring the best applicants are selected from a qualified applicant pool.*

TSSWCB does not have a written policy and procedures regarding the required steps and documentation that must be prepared regarding applicant screening, interviewing and selection. As a result there are inconsistencies from region to region in maintaining documentation regarding the steps in the applicant selection process. There is no documentation of the initial screening which is performed by the Human Resource Director, which in many cases eliminates applicants from any further consideration. Interviews occur at the regional office level, where those conducting the interview are the most familiar with the attributes essential for success in the position. Some of the regional offices compile well-documented hiring files, while others contain only the applications. Some of the hiring files did not

contain any interview questions or even documentation of the applicants who were being interviewed. In the files containing scored interview questions, there was no sheet summarizing the resulting ranking of interviewees. Some contained no academic credential verification or professional credential verification. Consistency regarding the steps in the applicant selection process needs to be established and monitored by the Human Resources Director.

Recommendation 3: *The Human Resources Director should develop procedures that will result in maintaining consistent documentation in the hiring files. The components of this procedure should include a documented:*

- *application screening process that rates applicants based on the applicants' qualifications as compared to the job qualifications in the position posting;*
- *ranking and scoring process for all qualified applicants with a notation of the minimum score or ranking required for an interview;*
- *process for ensuring that all interviewees are asked the same questions using questions and scoring approved in advance by the Human Resources Director; and*
- *process for verifying education credentials, professional*

credentials and similar information that is the basis for the applicant's selection for the position.

TSSWCB Management Response: TSSWCB will implement internal procedures to assure that we continue to abide by all applicable laws.

Recommendation 4: *The Executive Director should not approve hiring recommendations from managers unless all required steps in the hiring procedures have been documented and verified by the Human Resources Director.*

TSSWCB Management Response: TSSWCB will implement this recommendation.

***Audit Objective 3:** Determine if the classification and compensation systems are in compliance with state and federal laws and if they are effective in attracting and retaining employees, promoting effective human resource utilization, and enabling the agency to meet its goals and objectives.*

The TSSWCB classification and compensation systems are in compliance with state and federal laws and they appear to be effective in attracting and retaining employees, promoting effective human resource utilization, and enabling the agency to meet its goals and objectives. In addition to awarding annual merit increases based upon performance evaluations, TSSWCB has implemented other mechanisms to reward and encourage their employees—one time merits, administrative leave, service awards, and flexibility in work schedules.

Audit testing of employee salary adjustments indicated that all salary adjustments were based on approved personnel action forms and up-to-date employee performance evaluations.

Annual classification reviews are required of all classified employee positions. These classification reviews were formerly performed

annually as an independent function. Now, they are being performed in conjunction with performance reviews; however, there is no documentation in the files indicating that this classification review was performed.

***Recommendation 5:** Documentation of the annual classification review should also be prepared and maintained when the annual employee performance evaluation is performed.*

TSSWCB Management Response: TSSWCB will implement this recommendation.

***Audit Objective 4:** Determine if employee relations' practices minimize negative consequences to the agency by clearly communicating agency and employee expectations and complying with applicable laws and regulations.*

Communications can be difficult in an environment where the parties are separated geographically; however, TSSWCB appears to be doing a good job at communicating agency expectations to employees through the *Human Resources Policies and Procedures Manual*, by displaying required workplace posters, and

through annual employee performance evaluations. Communication of employee expectations is encouraged through an open door policy and feedback during the employee performance appraisal process. Overall our review indicates that TSSWCB employee relations practices promote a positive workplace environment for employees and minimize negative consequences to the agency by clearly communicating agency and employee expectations. We did note that certain court decisions relating to at-will employment are not addressed in the *Human Resources Policies and Procedures Manual*.

Recommendation 6: *In addition to those topics identified in Recommendation 1, the Human Resources Policy and Procedures Manual should be revised to include information stating that:*

- *an employer cannot fire a worker for refusing to perform an illegal act;*
- *an employee cannot be fired for filing a workers' compensation claim; and*
- *an employee cannot be dismissed because of their political party affiliation.*

TSSWCB Management Response:

TSSWCB will implement this recommendation.

Audit Objective 5: *Determine if the employee performance appraisal system is effective in providing constructive feedback to employees on job performance and if performance evaluations are up-to-date and being performed in accordance with state requirements and agency guidelines.*

The *Human Resources Policy and Procedures Manual* addresses employee performance evaluations. The policy requires evaluations to be conducted at least once a year, or after the first six continuous months of employment. A standardized performance evaluation form is used that has both general and job specific performance requirements.

Testing of employee performance evaluations indicated that the employee performance evaluation system is effective in providing constructive feedback to employees on job performance, performance evaluations are up-to-date and they are being performed in accordance with state requirements and agency guidelines.

Recommendations: *None.*

Audit Objective 6: Determine if the training and development programs optimize employee productivity, enhance professional and personal development, and assist the agency in accomplishing its goals and objectives.

TSSWCB encourages its employees to participate in training to enable them to perform their jobs more effectively as well as to address safety and health concerns. Individual training needs are assessed, as well as agency needs such as safety and discrimination training. Training is well documented, and efforts are made to evaluate the effectiveness. Regular reports are provided to the TSSWCB Board on training hours and training costs. Our review indicates that the training and development programs optimize employee productivity, enhance professional and personal development, and assist the agency in accomplishing its goals and objectives.

Recommendations: None.

Audit Objective 7: Determine if the leave and timekeeping functions are in compliance with state and federal laws, if the guidelines for leave and time keeping are being adhered to, and if the overall leave and timekeeping functions are effective and efficient.

Leave accounting and time reporting practices are in compliance with federal and state laws. Time sheets are maintained for all Fair Labor Standards Act (FLSA) non-exempt employees and these employees receive compensatory at the rate of 1.5 hours for each hour worked over 40 hours per week as required by law. Leave records are maintained in the Uniform Statewide Payroll System (USPS) for all employees. Time sheets of FLSA non-exempt employees do not reflect extra hours that these non-exempt employees work. These extra hours are tracked at each regional office, with time and one half compensatory time awarded, but not on the official USPS leave accounting system. Even though these situations are rare according to the staff member responsible for leave accounting, this compensatory time should be reflected in the time sheets submitted, and this compensatory time should be entered and tracked in the USPS.

Audit testing did not reveal any errors in posting to USPS from the leave request sheets. Three errors were found, however, in comparing the timesheets to leave requests and leave information maintained in USPS.

Recommendation 7: *In order to ensure compliance with FLSA requirements, timesheets and supporting compensatory time request forms for non-exempt employees should reflect all hours worked. All compensatory time should then be maintained in USPS, making it the sole source of leave information. Information on FLSA non-exempt employee timesheets should be reconciled to USPS leave accounting information to ensure that errors are detected and corrected.*

TSSWCB Management Response: TSSWCB will implement this recommendation.

Audit Objective 8: *Determine if the disciplinary process is in compliance with federal and state laws, if it is being adhered to in dealing with disciplinary issues, and if it is effective in dealing with disciplinary problems that arise.*

There are no federal or state laws that require any specific type of disciplinary process. Employees at TSSWCB are employed “at will” meaning that TSSWCB may terminate the employment relationship at any time, for any reason, except as otherwise prohibited by law. Because of this employment at will doctrine, TSSWCB is under no obligation to establish any type of disciplinary process up to and leading to termination, but the agency has chosen to do so as good business practice. A progressive disciplinary action process has been incorporated into the *Human Resources Policies and Procedures Manual*. The procedure provides a reasonable, objective approach to dealing with employee performance and conduct problems. TSSWCB has had one disciplinary action in the past several years and review of that documentation indicated compliance with the steps outlined in the disciplinary process.

Recommendations: None.

Audit Objective 9: *Determine if the grievance process is in compliance with federal and state laws, if it is being adhered to in dealing with grievances, and if it is effective in dealing with grievances that are submitted.*

TSSWCB has a grievance policy, which appears to provide employees with an objective mechanism for addressing complaints that may arise. There have been no formal grievances filed; however, based on an informal complaint that was received, TSSWCB took appropriate actions to address the employee's concerns.

Recommendations: None.

Audit Objective 10: *Determine if the employee personnel files contain all required information and if all information is up-to-date.*

Employee personnel files are up-to-date and organized well so that it is easy to locate documents. There are, however, several documents that are being maintained in the regular personnel files, which should be kept in a separate file that is not subject to the Open Records Act. These documents are: beneficiary

information, insurance forms, medical information, and photo IDs. Currently, separate files are maintained only for I-9 forms, Worker's compensation Reports, and EEO/Sexual Harassment information.

In addition, required employee acknowledgments could be expanded and perhaps consolidated on one form, to conserve filing space.

Recommendation 8: *The following items should be maintained in a file separate from the regular personnel file:*

- *EEO Status*
- *Credit Reports*
- *Worker's Compensation Reports*
- *Medical Records*
- *Legal Actions*
- *Insurance/Retirement forms*
- *Photographs*
- *I-9 Forms*
- *Beneficiary Information*

TSSWCB Management Response: TSSWCB will implement this recommendation.

Recommendation 9: *The consolidation of employee acknowledgment forms onto one form would be more efficient. Potential subjects that should be considered for inclusion on the*

**TSSWCB Internal Audit of Human Resources Systems and Controls
Final Report – September 28, 2006**

Employee Acknowledgments Form
are:

- *Continuation of Coverage Notification (COBRA)*
- *Dual Employment with the State Notice*
- *Illegal Discrimination Notice*
- *HIPPA—Summary Notice of Privacy Practices*

TSSWCB Management Response:
TSSWCB will implement this recommendation.

Audit Objective 11: Determine if reports prepared by the Human Resource Department are accurate, timely, and supported by appropriate documentation.

Human resources reports are accurate, submitted timely and supported by appropriate documentation. Most of the required human resources reports that must be submitted are generated from the Uniform Statewide Payroll System (USPS) and the Human Resources Director simply corrects or updates any necessary information and then certifies the accuracy of the information when the report is submitted.

Recommendations: None.

**Texas State Soil and Water
Conservation Board
Internal Audit Follow-up Review of
the Status of Implementing FY 2005
Internal Audit Recommendations**

September 7, 2006

As Prepared by
Jansen and Gregorczyk,
Certified Public Accountants

TABLE OF CONTENTS

Transmittal Letter.....2

Executive Summary.....3

Follow-up Review of SWCDs Participating in the
Brush Control Program Audit.....4

Follow-up Review of Regional Office Administration of WQMPs
and Cost Share Programs Audit.....7

**Jansen & Gregorczyk
Certified Public Accountants**

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(512) 268-0070

P. O. Box 601
Kyle, Tx 78640

September 7, 2006

Members of the Board,
Texas State Soil and Water Conservation Board

The following report provides the results noted during the internal audit follow-up review of recommendations made in the internal audit reports issued in FY 2005.

The follow-up review was conducted in accordance with generally accepted government auditing standards and *Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

Executive Summary

Two internal audits were performed in FY 2005. Both audits contained recommendations for corrective actions or improvements to agency operations. The purpose of this report is to indicate the status of implementation of recommendations made in those internal audit reports. Overall, TSSWCB management has done an excellent job of implementing the internal audit recommendations in these reports.

Five recommendations were made in the internal audit of Soil and Water Conservation Districts Participating in the Brush Control Program. All five recommendations were implemented.

Eleven recommendations were made in the internal audit of Regional Office Administration of Water Quality Management Plans and Cost Share Programs. Nine recommendations have been implemented or resolved. The remaining two recommendations are in the process of being implemented.

Status of Implementing FY 2005 Internal Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Rpt No. 1 Audit of Soil and Water Conservation Districts Participating in the Brush Control Program Issued May 19, 2005	Determine if the SWCDs have adequate processes for approving all Brush Control cost-share applications and contracts.	Audit testing indicated only 19 Brush Control cost-share applications out of 109 reviewed, where the Board minutes of the SWCD reflected approval by the Board on the date the applications were signed and submitted to TSSWCB. <i>Recommendation 1: TSSWCB should require all SWCDs participating in the Brush Control Program to formally approve Brush Control cost-share applications in the SWCD Board minutes prior to submission to TSSWCB.</i>	Implemented	Comply with the brush control program statute and the agency's administrative rules for the brush control program.
		Most SWCDs are approving Brush Control cost-share applications after-the-fact at the next scheduled Board meeting where the Board minutes reflect ratification of the contract or application <i>Recommendation 2: TSSWCB management should consult with the agency's Attorney General's Office representative to determine whether the Brush Control Program statute allows retroactive approval of cost-share applications by the District Boards.</i>	Resolved. SWCD's have been instructed not to ratify applications after they have already been signed.	Comply with agency's administrative rules for the brush control program.

TSSWCB Follow-up Review of FY 2005 Internal Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Rpt No. 1</p> <p>Audit of Soil and Water Conservation Districts Participating in the Brush Control Program</p> <p>Issued May 19, 2005</p>	<p>Determine if the SWCDs have adequate processes for approving all Brush Control cost-share performance certifications.</p>	<p>Audit testing only indicated 36 specific references in the SWCDs Board minutes for the 142 performance certifications reviewed, and only six of those were on or before submission to TSSWCB for payment</p> <p>Recommendation 3: <i>TSSWCB management should amend the Texas Administrative Code rule to authorize retroactive approval by the SWCD District Board of cost-share performance certifications for the Brush Control program. If management makes no changes to the administrative rules, then the SWCDs should be instructed to approve all performance certifications in the Board minutes before they are signed and submitted to TSSWCB.</i></p>	<p>Implemented</p>	<p>Comply with agency's administrative rules for the brush control program.</p>

TSSWCB Follow-up Review of FY 2005 Internal Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Rpt No. 1</p> <p>Audit of Soil and Water Conservation Districts Participating in the Brush Control Program</p> <p>Issued May 19, 2005</p>	<p>Determine if the SWCD District Directors with Brush Control contracts are adhering to all rules established for the program.</p>	<p>For Brush Control performance certifications, it appeared that District Directors abstained from voting when their own performance certifications were being considered, but the lack of information on specific performance certifications approved in the Board minutes made it difficult to determine full compliance.</p> <p>Recommendation 4: <i>SWCDs should be instructed in writing by TSSWCB of the requirement for any District Director to recuse himself/herself from the deliberations on their own applications, contract amendments or performance certifications. The Board minutes should specifically state that the District Director recused himself/herself from discussion on the matter rather than merely abstaining from voting.</i></p>	<p>Implemented</p>	<p>Comply with agency's administrative rules for the brush control program.</p>
		<p>The Crockett SWCD did not have their District Director complete the required Addendum.</p> <p>Recommendation 5: <i>The Crockett SWCD should be requested to submit the District Director Addendum for the FY 2004 contract.</i></p>	<p>Implemented</p>	<p>Comply with agency's administrative rules for the brush control program.</p>

TSSWCB Follow-up Review of FY 2005 Internal Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Rpt No. 2</p> <p>Audit of Regional Office Administration of Water Quality Management Plans and Cost Share Programs</p> <p>Issued May 19, 2005</p>	<p>Determine if effective procedures have been developed for the regional offices to assist producers in preparing Water Quality Management Plans.</p>	<p>Only one region maintains copies of the WQMPs.</p> <p>Recommendation 1: <i>Regional offices should maintain copies of WQMPs where they anticipate a need for information in the plan that is not available from the data sheets.</i></p>	<p>Implemented</p> <p>The regional offices have the option of maintaining copies of WQMPs if they so desire.</p>	<p>Increase efficiency by having WQMPs available at the regional offices.</p>
		<p>The same landowner or operator may have multiple WQMPs and cost share assistance programs covering several conservation management units.</p> <p>Recommendation 2: <i>Management should review the guidelines for determining a conservation management unit to evaluate whether parcels of land owned by the same person or the same family members and used for the same purpose should be allowed to be broken down into different conservation management units with separate WQMPs, each of which is eligible for cost share assistance</i></p>		

TSSWCB Follow-up Review of FY 2005 Internal Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Rpt No. 2</p> <p>Audit of Regional Office Administration of Water Quality Management Plans and Cost Share Programs</p> <p>Issued May 19, 2005</p>	<p>Determine if there are effective processes at the regional offices for certifying Water Quality Management Plans and approving cost-share applications.</p>	<p>The data sheet has a block to be signed and dated by the persons performing the review, the approval and the data entry. One problem noted was inconsistency in completing these blocks on some of the data sheets that were tested.</p> <p><i>Recommendation 3: The regional directors should ensure that all reviews and approvals of data sheets are documented before WQMPs are approved.</i></p>	Implemented	<p>Ensure that quality control procedures are documented.</p>
		<p>The ability to complete cost share applications correctly would be enhanced considerably if a template was available on the TSSWCB website that could be filled out and then printed by the person preparing the cost share application.</p> <p><i>Recommendation 4: A forms section should be established on the home page of the TSSWCB website so that the application for cost share assistance and the performance certification form are readily available to be completed and printed out by anyone who needs these forms.</i></p>	In Process	<p>Cost-share assistance forms are being converted to Excel spreadsheets so calculations can be performed.</p> <p>Increase efficiency and reduce errors in submitting cost share applications and performance certifications.</p>

TSSWCB Follow-up Review of FY 2005 Internal Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Rpt No. 2</p> <p>Audit of Regional Office Administration of Water Quality Management Plans and Cost Share Programs</p> <p>Issued May 19, 2005</p>	<p>Determine if there are effective processes at the regional offices for certifying Water Quality Management Plans and approving cost-share applications.</p>	<p>The Addendum to the Application for Cost Share Assistance (Form TSSWCB 002 Ad) used to obtain information needed to make payments is very confusing.</p> <p>Recommendation 5: <i>The Regional Office Coordinator and fiscal staff at headquarters should review the proposed Addendum to the Application for Cost Share Assistance (Form TSSWCB 002 Ad) developed by the Hale Center staff to determine if it could be used by all regions.</i></p>	<p>Resolved. The form has been eliminated.</p>	<p>Reduce errors in completing the form.</p>
		<p>There is a great deal of duplicate record keeping that occurs in managing WQMPs and cost share projects.</p> <p>Recommendation 6: <i>The regional office directors, the Regional Office Coordinator and TSSWCB management should review the various automated systems in use and planned to determine if some of the redundant information can be consolidated or eliminated.</i></p>	<p>In Process. Redundant information is being consolidated or eliminated over time.</p>	<p>Eliminate duplicate record-keeping.</p>

TSSWCB Follow-up Review of FY 2005 Internal Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Rpt No. 2 Audit of Regional Office Administra- tion of Water Quality Management Plans and Cost Share Programs Issued May 19, 2005	Determine if there are adequate internal controls and effective procedures at the regional offices for approving WQMP cost- share performance certifications.	The design of the performance certification form and the lack of detailed instructions for completing the form contribute to errors. <i>Recommendation 7: The performance certification form should be revised to add all information essential to correctly calculate the amount and to ensure the amount is within the limits authorized by each SWCD.</i>	Implemented The form and instructions were revised.	Reduce errors in completing performance certifications.
		Internal controls at the regional offices are not always effective in ensuing accurate payment of performance certifications. <i>Recommendation 8: A standard review and approval procedure should be established at each regional office that requires review of the following: invoices agree in amount and units with the information on the performance certification, practice unit and field number agree to cost share application and data sheet, actual costs do not exceed average approved costs as shown on the performance certification, and amount to be paid is correctly calculated.</i>	Implemented Standard review and approval procedure is in place.	Reduce errors in completing performance certifications.

TSSWCB Follow-up Review of FY 2005 Internal Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Rpt No. 2 Audit of Regional Office Administra- tion of Water Quality Management Plans and Cost Share Programs Issued May 19, 2005	Determine if effective processes have been established at the regional offices for performing WQMP status reviews.	A clear purpose for conducting WQMP status reviews has not been identified . Recommendation 9: <i>TSSWCB management should determine and document the purposes of the WQMP status reviews and then structure the reviews to achieve those purposes.</i>	Implemented Plan status reviews are being used to address the priority issues in each region.	Ensure that WQMP status reviews achieve a clear purpose.
		Several regions do not use the follow-up assistance item of the form to document follow actions that are necessary. Recommendation 10: <i>Item 2 on the status review form should be used to identify all follow-up actions necessary by the producer or landowner and the regional office.</i>	Implemented Follow-up actions are being tracked and monitored.	Ensure that necessary follow-up actions are documented and performed.
		One region did not use TSSWCB staff to perform all WQMP status reviews as specified in the <i>WQMP Reference Guide</i> . Recommendation 11: <i>A determination should be made as to whether it is necessary to have TSSWCB staff perform all WQMP status reviews.</i>	Implemented	Free up regional office staff in cases where the SWCD staff are qualified and able to perform WQMP status reviews.

**Texas State Soil and Water
Conservation Board
Internal Audit Annual Report
for FY 2006**

October 19, 2006

As Prepared by
Jansen and Gregorczyk,
Certified Public Accountants

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October 19, 2006

The Honorable Rick Perry, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Mr. John Keel, CPA, State Auditor

Dear Ladies and Gentlemen:

Attached is a report on the internal activity at the Texas State Soil and Water Conservation Board as required by the Texas Internal Auditing Act. The report provides a summary of audits completed and significant recommendations for fiscal year 2006.

Please contact me at (512) 268-0070 if you desire further information about the contents of this report.

Sincerely,

SIGNED COPY ON FILE

Russell Gregorczyk, Partner
Jansen & Gregorczyk, CPAs

TABLE OF CONTENTS

Section 1: Internal Audit Plan for FY 2006 3

Section 2: External Quality Assurance Review5

Section 3: Key Audit Findings/Recommendations9

Section 4: Consulting Engagements and Non-Audit Services Completed 16

Section 5: Organizational Chart 16

Section 6: Report on Other Internal Audit Activities16

Section 7: Internal Audit Plan for FY 200716

Section 8: External Audit Services 19

I. Audit Plan for Fiscal Year 2006

All audits in the audit plan were completed as scheduled, except for the audit of the Total Maximum Daily Load Program. Discussions with TSSWCB management indicated that there was nothing to audit for this program since there are no specific funds or projects administered by TSSWCB for this program.

TEXAS STATE SOIL AND WATER CONSERVATION BOARD FY 2006 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, electronic data processing 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, 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 and goals, and whether the operations or programs are being carried out as planned.

The FY 2006 Internal Audit Plan for the Texas State Soil and Water Conservation Board is based on the Risk Assessment presented in the previous section. One potential auditable topic ranked as high risk, two average risk audit topics and one required periodic audit topic are included in the Internal Audit Plan for FY 2006. For FY 2006, the following areas will be audited:

- 319 Federal Grants
- Nonpoint Source Coastal Zone Management Program
- Total Maximum Daily Load Program
- Human Resources Systems and Controls

The audits 319 Federal Grants, Nonpoint Source Coastal Zone Management Program and the Total Maximum Daily Load Program will focus on evaluating compliance with laws and regulations and the effectiveness and efficiency of operating these programs. The three topics will be audited at the same time and one audit report will be issued.

The audit of Human Resources Systems and Controls is a required periodic audit that has not been performed since FY 2002. The audit will focus on evaluating the adequacy of human resources policies for protecting the agency against adverse personnel actions and the effectiveness and efficiency of operating procedures for managing the agency's human resources.

In addition to these proposed audits and audit work, a report will be issued on the status of recommendations made for all audits performed in FY 2005. A quality review of the TSSWCB internal audit program will be conducted by an independent contractor. The quality review will enable TSSWCB to comply with the requirements of the Texas Internal Auditing Act. Finally, a risk assessment will be performed and an audit plan developed for FY 2007.

II. External Quality Assurance Review

Texas State Soil and Water Conservation Board July 2006

Executive Summary

As required by the Texas Internal Auditing Act (article 6252-5d, V.A.C.S.), the Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing, (Standard 1312 – External Assessments), and the Government Accountability Office's (GAO) Government Auditing Standards, an external quality assurance review (QAR) was conducted of the Texas State Soil and Water Conservation Board' (TSSWCB) internal audit activity. The Texas Internal Auditing Act requires that internal auditors, for agencies meeting the requirements of the Act, conduct a comprehensive external peer review, also known as a quality assurance review, every three years. An external quality assurance review, as part of a quality assurance program, is intended to provide reasonable assurance that internal audit work is being conducted in accordance with professional standards.

The principal objectives of the review were to assess whether the internal audit activity at TSSWCB conforms to the Texas Internal Auditing Act and whether Jansen & Gregorczyk, Certified Public Accountants (the Contractor), is performing the work in compliance with professional standards. Also, during the review an attempt was made to identify opportunities that would enhance the audit process and improve the value of the internal auditing activity at TSSWCB.

Contracting for internal auditing services has been a very efficient and effective way for smaller agencies to meet the requirements of the Texas Internal Auditing Act. Because TSSWCB cannot utilize a full-time internal staff to conduct internal audits, it has an agreement with an outside contractor to conduct its internal auditing work. While 35% of the available staff hours of in-house internal audit departments will typically be used for tasks not directly related to individual audit projects (holidays, vacations, administration, training, etc.), TSSWCB only pays for the hours spent directly on their audit projects. Any inefficiency in performing the work is at the risk of the Contractor because the project hours and costs are reviewed and approved by the Board in advance of the work being performed. This approach is very efficient for small agencies and also helps insure that the agency undertakes only worthwhile audit projects.

The scope of the review included a review of existing internal auditing policies, procedures, and audit project workpaper files, as well as interviews with a member of the Board, the Chief Financial Officer, and the Contractor's staff.

The Internal Audit Charter, reporting relationships, communications with the Board, the Executive Director, and the objectivity of the work performed were reviewed to determine the independence of the Contractor. An examination of the Contractor's administrative records and a review of selected workpapers were done to evaluate the staff's knowledge, skills, discipline and training. An inventory of current audit work and the scope and performance of the audit work that had been performed was evaluated. A review was also conducted of the risk assessment and audit planning processes, and the Contractor's engagement and staff management processes.

**Overall
Opinion**

Based on the work outlined above, it is the opinion of the reviewer that the internal audit activity, at the Commission for State Emergency Communications, is in accordance with the Texas Internal Auditing Act, and the audit work being performed by the Contractor fully complies with applicable professional standards.

This opinion, representing the best possible evaluation, means that the Texas State Soil and Water Conservation Board, and the Contractor, have in place the relevant structures, policies, and procedures, including the processes by which they are applied, that comply with the Texas Internal Auditing Act and the professional standards in all material respects.

Mr. Russell Gregorczyk, CPA, a principal in the Contract firm, manages the audit work conducted at TSSWCB. He has extensive audit experience, is well respected and has a good relationship with both agency management and the Board.

His reporting relationship to the Board and his communication with the Board complies with the requirements of the Texas Internal Auditing Act and enables him to be independent and have an impartial and unbiased attitude, essential to the proper conduct of audit work. He annually performs a thorough risk assessment and develops an audit plan that is reviewed and approved by the Board.

A review of selected workpapers showed that Mr. Gregorczyk's staff is proficient and knowledgeable in the areas they review. He makes available continuing professional education and training for his staff. Each staff member receives, on average, 40 hours of internal audit related training each year. Mr. Gregorczyk and his staff have extensive experience with Texas government agencies.

The workpapers that were reviewed showed that individual audit projects are well planned and audit conclusions and recommendations are adequately supported. The workpapers were very professionally prepared and supported levels of professional care appropriate for the complexities of the work being performed. The audit programs were appropriately referenced to the audit steps and tests performed during the audit and the support for the conclusions expressed in the audit reports. They contained evidence that they are thoroughly reviewed by Mr. Gregorczyk before audit reports were issued.

While the internal activity at TSSWCB is complying with the Texas Internal Auditing Act and the Contractor is fully complying with professional standards, there are opportunities that could improve the activity that should be considered. The following comments and recommendations are intended to build on the foundation that is already in place with the objective of further improving the value and the effectiveness of the audit work being performed.

The recommendations are divided into two groups:

- **Part I - Matters for the consideration of the Board and the Executive Director. Those that concern TSSWCB as a whole and suggest actions that can be taken by the Board and Executive Director. We believe these recommendations will be useful because they impact the effectiveness and efficiency of the internal auditing activity overall and the value it can add.**

- **Part II - Improvement opportunities specific to the internal audit activity. Those that relate to the internal auditing activity's structure, staffing, deployment of resources, and other matters that should be implemented by the Contractor, with the support of the Executive Director.**

The implementation of these recommendations will enhance the internal audit activity at the Texas State Soil and Water Conservation Board and improve the value, efficiency and effectiveness of the services being provided by Jansen & Gregorczyk, Certified Public Accountants.

Recommendations

Part I - Matters for the consideration of the Board and the Executive Director.

1. The Executive Director should maintain a quarterly schedule of the status of open recommendations and share that schedule with the Board each time it meets. This would enable the Board to better oversee the prompt implementation by management of the recommendations to which it has agreed. This quarterly status schedule would be more effective if the recommendations were classified as to their significance (high, medium, low), and presented in a simplified matrix format (spreadsheet) that shows whether or not they have been implemented according to the action plan to which management committed in the audit report.

2. TSSWCB management when responding to the recommendations contained in an audit draft report from the internal audit Contractor, should include in their response an action plan for the implementation of the recommendation. The action plan should identify the individual who will be directly responsible for the implementation of each recommendation and the date that management has committed to having each recommendation implemented. This would enable the Contractor to efficiently and effectively follow up and report to the Board the status of prior recommendations.

Part II -

Audit workpapers provide the principal support for an audit report and aid

Improvement opportunities specific to the internal audit activity

in the supervision of the work being performed. Workpapers also allow for the review of the quality of the audit work by providing a reviewer written documentation of the evidence supporting an auditor's conclusions and recommendations.

A review of selected workpapers showed that the work performed by the Contractor was meeting the intended audit objectives. The workpapers contained evidence that the audits were well planned and included objectives, an appropriate scope of work, background information, evidence of audit tests, and summaries of the purpose, procedures performed, results, conclusions, and recommendations.

However, in the workpapers that were reviewed, the references forward from the steps in the audit program to where the work was performed, and then to the disposition of any findings or observations, (audit report, discussion, etc.), were not always clear. While it was noted that findings and observations in the various sections of the workpapers appeared to always be included in the audit report, it was difficult to follow each item to a final disposition.

The Contractor should consider referencing each finding or observation item to a schedule or point sheet. The items on the point sheet could then be documented as to the disposition of the item. (Audit report, discussion, etc.). This approach would aid in any review of the audit workpapers and help insure that all findings and observations are properly addressed.



Richard Tarr, CIA, CISA

III. Key Audit Findings/Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Rpt No. 1 Audit of Human Resources Systems and Controls Report Issued September 28, 2006	To determine if the human resources policies and practices are in compliance with federal and state requirements and if they contain all required provisions designed to protect the agency against arising from applicants, employees, and former employees.	There are a number of topics that could be added to the <i>Human Resource Policies and Procedures Manual</i> to provide more comprehensive information on human resources-related issues for TSSWCB employees. Recommendation 1: <i>The Human Resources Director should revise the Human Resources Policies and Procedures Manual to address topics found in federal and state human resources statutes (as specifically identified in the audit report).</i>	In Progress This will be completed by the end of the first quarter of FY 2007	Provide more comprehensive information on human resources- related issues for TSSWCB employees.
		The <i>Human Resources Policies and Procedures Manual</i> includes information technology policies. Recommendation 2: <i>Information Technology (IT) Security Policies should be issued as a separate manual rather than as an appendix in the Human Resources Policies and Procedures Manual or the Manual should be titled the TSSWCB Employee Handbook.</i>	Implemented	Avoid confusion about agency policies and procedures.

Texas State Soil and Water Conservation Board - FY 2006 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Rpt No. 1 Audit of Human Resources Systems and Controls Report Issued September 28, 2006	To determine if the recruitment and selection processes for filling positions are in compliance with federal and state laws, if the processes are being adhered to in filling positions, if the selection criteria are documented, and if the overall recruitment and selection processes are effective in ensuring the best applicants are selected from a qualified applicant pool.	There are inconsistencies from region to region in maintaining documentation regarding the steps in the applicant selection process. <i>Recommendation 3: The Human Resources Director should develop procedures that will result in maintaining consistent documentation in the hiring files.</i>	Implemented	Ensure that all recruitment and selection processes are adequately documented for each position filled.
		<i>Recommendation 4: The Executive Director should not approve hiring recommendations from managers unless all required steps in the hiring procedures have been documented and verified by the Human Resources Director.</i>	Implemented	Ensure that all recruitment and selection processes are adequately documented before a person is hired.

Texas State Soil and Water Conservation Board - FY 2006 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Rpt No. 1 Audit of Human Resources Systems and Controls Report Issued September 28, 2006	To determine if the position classification system is in compliance with state requirements.	Annual classification reviews are being performed in conjunction with performance reviews; however, there is no documentation in the files indicating that these classification reviews were performed. Recommendation 5: <i>Documentation of the annual classification review should also be prepared and maintained when the annual employee performance evaluation is performed.</i>	Implemented	Document compliance with state requirements regarding annual classification reviews.
	To determine if employee relations' practices minimize negative consequences to the agency by clearly communicating agency and employee expectations and complying with applicable laws and regulations.	Certain court decisions relating to at-will employment are not addressed in the <i>Human Resources Policies and Procedures Manual</i> . Recommendation 6: <i>The Human Resources Policy and Procedures Manual should be revised to include information stating that:</i> <i>1.) an employer cannot fire a worker for refusing to perform an illegal act;</i> <i>2.) an employee cannot be fired for filing a workers' compensation claim; and</i> <i>3.) an employee cannot be dismissed because of their political party affiliation.</i>	Implemented	Provide comprehensive information to employees regarding their employment rights.

Texas State Soil and Water Conservation Board - FY 2006 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Rpt No. 1</p> <p>Audit of Human Resources Systems and Controls</p> <p>Report Issued</p> <p>September 28, 2006</p>	<p>To determine if the leave and timekeeping functions are in compliance with state and federal laws, if the guidelines for leave and time keeping are being adhered to, and if the overall leave and timekeeping functions are effective and efficient.</p>	<p>Time sheets of Fair Labor Standards Act (FLSA) non-exempt employees are tracked at each regional office, but not on the official Uniform Statewide Payroll System (USPS) leave accounting system. This compensatory time should be entered and tracked in the USPS.</p> <p>Three errors were found in comparing the timesheets to leave requests and leave information maintained in USPS.</p> <p>Recommendation 7: <i>Timesheets and supporting compensatory time request forms for non-exempt employees should reflect all hours worked. All compensatory time should then be maintained in USPS, making it the sole source of leave information. Information on FLSA non-exempt employee timesheets should be reconciled to USPS leave accounting information.</i></p>	<p>Implemented</p>	<p>Ensure compliance with FLSA requirements and ensure that errors are detected and corrected.</p>
Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact

Texas State Soil and Water Conservation Board - FY 2006 Internal Audit Annual Report

Rpt No. 1 Audit of Human Resources Systems and Controls Report Issued September 28, 2006	To determine if the employee personnel files contain all required information and if all information is up-to-date.	Documents are in the regular personnel files that should be in a separate file that is not subject to the Open Records Act. <i>Recommendation 8: The following items should be maintained in a file separate from the regular personnel file:</i> <ul style="list-style-type: none"> • <i>EEO Status</i> • <i>Credit Reports</i> • <i>Worker's Compensation Reports</i> • <i>Medical Records</i> • <i>Legal Actions</i> • <i>Insurance/Retirement forms</i> • <i>Photographs</i> • <i>I-9 Forms</i> • <i>Beneficiary information</i> 	Implemented	Ensure that confidential information not subject to the Open Records Act is not included in employee personnel files.
		Required employee acknowledgments are not consolidated on one form. <i>Recommendation 9: The Employee Acknowledgments Form should be consolidated to include information on:</i> <ul style="list-style-type: none"> • <i>Continuation of Coverage Notification (COBRA)</i> • <i>Dual Employment with the State Notice</i> • <i>Illegal Discrimination Notice</i> • <i>HIPPA—Summary Notice of Privacy Practices</i> 	In Progress This will be completed by the end of the first quarter of FY 2007.	Streamline the documentation for required employee acknowledgments.

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
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Texas State Soil and Water Conservation Board - FY 2006 Internal Audit Annual Report

<p>Rpt No. 2</p> <p>Audit of the Section 319 Program</p> <p>Report Issued</p> <p>September 28, 2006</p>	<p>To determine if there are adequate internal controls and effective procedures for making Section 319 Program payments and accounting for Section 319 Program expenditures.</p>	<p>Staff is performing some reconciliations between the project spreadsheets and the financial status reports that are submitted, but not each quarter.</p> <p>Recommendation 1: <i>A reconciliation between the project sheets and Financial Status Reports submitted by 319 projects should be completed each quarter.</i></p>	<p align="center">Implemented</p>	<p>Detect errors made by either the performing entity or by TSSWCB.</p>
		<p>EPA has indicated to TSSWCB that it is not necessary for TSSWCB to maintain timesheets or certifications to support the salaries and matching costs for the Section 319 Program. Using budgeted costs for salary charges without supporting documentation violates Office of Management and Budget (OMB) Circular A-87, Attachment B.</p> <p>Recommendation 2: <i>Each grant year TSSWCB should obtain written approval from EPA to charge salary costs based on budgeted costs in the funding application approved by EPA.</i></p>	<p align="center">Implemented</p>	<p>Documentation that TSSWCB is complying with EPA requirements for reporting salary costs.</p>

Texas State Soil and Water Conservation Board - FY 2006 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Rpt No. 2 Audit of the Section 319 Program Report Issued September 28, 2006	To determine if all financial and programmatic reports required by EPA for the Section 319 Program are accurate, submitted timely and supported by appropriate documenta- tion.	Supporting spreadsheets are being maintained independently of the agency accounting system and a reconciliation is not performed between the total expenditures as reflected on the Financial Status Reports and the Uniform Statewide Accounting System (USAS). <i>Recommendation 3: A reconciliation should be performed between the total federal expenditures on the Financial Status Reports submitted to EPA and the expenditures out of the Section 319 appropriation as reflected on the 62 appropriation screen in USAS.</i>	Implemented	Ensure the accuracy of financial information reported to EPA.
		The Federal Cash Transactions Report, as well as the Financial Status Reports tested during the audit were submitted late. <i>Recommendation 4: The Fiscal Director should ensure that all financial reports are submitted to EPA by the established deadline.</i>	Implemented	Ensure that reports are submitted to EPA by the established deadlines.

IV. Consulting Engagements and Non-Audit Services Completed

The internal auditor did not provide any consulting or non-audit services during FY 2006.

V. Organizational Chart

The following excerpt from the internal audit policies defines the reporting lines of the internal audit function.

“The Board will appoint the TSSWCB Internal Auditor.

- 1. The Internal Auditor will report directly to the Board.*
- 2. The Board will monitor the internal audit function to assure compliance with the requirements of the Internal Auditing Charter and all Internal Auditing Guidelines.*
- 3. The Board shall provide guidance to the Internal Auditor regarding issues not specifically addressed by the Charter or the Guidelines.”*

Kenny Zajicek, Chief Fiscal Officer, is the designated Chief Audit Executive for the agency. The Board does not have an audit committee.

VI. Report on Other Internal Audit Activities

The internal auditor was not involved in any activities other than those activities outlined in the FY 2006 Internal Audit Plan.

VII. Audit Plan for Fiscal Year 2007

The Audit Plan for Fiscal Year 2007 was approved by the TSSWCB Board on September 28, 2006.

**TEXAS STATE SOIL AND WATER CONSERVATION BOARD
FY 2007 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, 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 and goals, and whether the operations or programs are being carried out as planned.

The FY 2007 Internal Audit Plan for the Texas State Soil and Water Conservation Board is based on the Risk Assessment presented in the previous section. None of the audit topics in the Maximum Risk category is proposed for audit in FY 2007 because each of these three audit topics was audited in either FY 2004 or FY 2005 and there have not been significant changes in any of these three areas since the internal audits were performed.

Three potential auditable topics ranked as high risk are proposed for audit in the Internal Audit Plan for FY 2007. Two of these topics are required periodic audits that have not been audited in several years and the other topic has never been audited. For FY 2007, the following areas are proposed for audit:

- Grant and Contract Management System
- Information Resources Systems and Controls
- Poultry Water Quality Management Program

A comprehensive audit of the Grant and Contract Management System has not been performed since FY 2001. This audit topic is one of the audits required to be performed on a periodic basis by the Texas Internal Auditing Act. The audit will focus on evaluating the adequacy of controls and the effectiveness and efficiency of processes and procedures for managing all contracts and grants administered by TSSWCB. Compliance with legal requirements regarding grants and contracts will also be evaluated.

The audit of Information Resources Systems and Controls is also a required periodic audit that has not been performed since FY 2003. The audit will focus on compliance with all statutory requirements for information resources management; the adequacy of security and controls over computer operations, access controls involving automated resources, and physical security over automated resources; and determining if information resources functions of the agency are effective and efficient.

An audit of the Poultry Water Quality Management Program has never been performed. This audit will focus on the effectiveness and efficiency of processes for carrying out the TSSWCB water quality management planning for poultry operations and compliance with any statutory requirements regarding water quality management planning for poultry operations.

In addition to these proposed audits and audit work, a report will be issued on the status of recommendations made for all audits performed in FY 2006. The annual internal audit report for FY 2006 will be prepared and finally a risk assessment will be performed and an audit plan developed for FY 2008.

VIII. External Audit Services Procured in Fiscal Year 2006

The Texas State Soil and Water Conservation Board contracted with the CPA firm of Jansen & Gregorczyk to provide contract internal audit services for the agency in FY 2006. No other external audit services were procured in FY 2006.

**Texas State Soil and Water
Conservation Board
Internal Audit of the
Grant and Contract Management System**

Final Report

As Approved by the TSSWCB Board on
July 19, 2007

As Prepared by
Jansen & Gregorczyk
Certified Public Accountants

TABLE OF CONTENTS

Auditor's Transmittal Letter	1
Executive Summary.....	2
Audit Purpose and Scope	2
Audit Results and Recommendations	3

**TSSWCB Internal Audit of the Grant and Contract Management System
Final Report – July 19, 2007**

Jansen & Gregorczyk
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**Telephone
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**P. O. Box 601
Kyle, Tx. 78640**

July 19, 2007

Board Members
Texas State Soil and Water
Conservation Board

The following report provides the results and recommendations noted during the internal audit of the Grant and Contract Management System.

The internal audit was conducted in accordance with generally accepted government auditing standards and *Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

EXECUTIVE SUMMARY

Audit Purpose

The primary purposes of the internal audit were to evaluate the effectiveness of the grant and contract management system for ensuring compliance with laws governing grants and for ensuring that grantees and contractors meet expected outcomes.

Key Audit Observations

- There is an effective procurement process for ensuring that the most qualified contractors are fairly and objectively selected in compliance with state procurement guidelines when contracts for professional services are required.
- TSSWCB generally has an effective grant establishment process; however, some vendor and individual contracts lack required and necessary administrative contract provisions.
- There are effective processes for paying grantees and contractors that ensure that TSSWCB pays a fair and reasonable price for the goods and services specified in the grants and contracts.
- Program monitoring is done on a routine basis, but often the results of these reviews are not documented.

Significant Recommendations

- TSSWCB should establish a standard contract template that contains standard administrative contract provisions, clearly specifies the scope of work, payment rates for specific staff, scheduled deliverables, etc. for use in contracting with vendors, individuals or entities other than local soil and water conservation boards.
- The Manual of Fiscal Operations should be revised at the next available opportunity to include all new requirements communicated to the SWCDs and all reporting requirements and forms such as the Technical Assistance Grant Program Performance Report
- A standardized monitoring report should be developed that incorporates key compliance requirements established for the grant funds issued to the SWCDs.
- TSSWCB should develop and use written grant and contract closeout checklists.

Management's Response

Management concurs with the recommendations made in the report and plans to implement each recommendation.

AUDIT PURPOSE & SCOPE

The primary purposes of the internal audit were to evaluate the effectiveness of the grant and contract management system for ensuring compliance with laws that govern grant programs and contracts and for ensuring that grantees and contractors meet expected grant and contract outcomes.

The scope of internal audit work on grants did not include grants and cost share agreements for the S.B. 503 Program, the Section 319 Program or the Brush Control Program, since each of these programs have undergone internal audits in the past two years. The scope of audit work included review, analysis, and/or testing of the following areas:

- procurement process for selecting contractors;
- grant and contract establishment process;
- grant and contract payments;
- grant and contract monitoring activities; and
- grant and contract closeout and evaluation procedures.

Specific audit objectives for each of these audit areas were developed and coordinated with TSSWCB management.

AUDIT RESULTS & RECOMMENDATIONS

The results and recommendations of the internal audit work are presented in this section for each of the five audit objectives that were established and coordinated with TSSWCB management.

***Audit Objective 1:** Determine if there is an effective procurement process for ensuring that the most qualified contractors are fairly and objectively selected in compliance with state procurement guidelines.*

TSSWCB enters into very few contracts that require a formal procurement process to be followed. Audit review and testing indicated that there is an effective procurement process for ensuring that the most qualified contractors are fairly and objectively selected in compliance with state procurement guidelines when contracts for professional services are required.

***Recommendations:** None.*

TSSWCB Internal Audit of the Grant and Contract Management System
Final Report – July 19, 2007

Audit Objective 2: Determine if there is an effective grant and contract establishment process that holds grantees and contractors accountable for delivery of quality services, prevents the inappropriate or inefficient use of state funds, and includes all required and necessary grant and contract provisions.

TSSWCB generally has an effective grant establishment process; however, some vendor and individual contracts lack required and necessary administrative contract provisions.

Most agreements entered into by the TSSWCB are for specific conservation services or administrative support of the local soil and water conservation boards. There are a number of formats in use by TSSWCB for these types of grants including documents entitled “cooperative agreements,” “grant agreements,” “letters of agreement” and “contribution agreements.” In developing the various documents for award of funds to these entities, TSSWCB has worked and consulted with representatives of the Attorney General’s office to develop the methods of award that are currently used.

For contracts with vendors, individuals or entities other than local soil and water conservation boards,

TSSWCB uses a variety of different documents to contract for services. Some of these documents (for example, the letters of agreement for contractual financial services and contractual technical support for the Environmental Quality Incentives Program) lack some administrative contract provisions that should be included such as provisions related to independent contractor, franchise taxes, discrimination prohibited, compliance with applicable laws and regulations related to discrimination, indemnification, dispute resolution, contract suspension or termination for cause and contract closeout.

Recommendation 1: TSSWCB should work with its representative from the Attorney General’s Office to establish a standard contract template (similar to contract for internal audit services) that contains standard administrative contract provisions, clearly specifies the scope of work, payment rates for specific staff, scheduled deliverables, etc.) for use in contracting with vendors, individuals or entities other than local soil and water conservation boards.

TSSWCB Management Response:
Management concurs.

Audit Objective 3: Determine if there is an effective process for paying grantees and contractors that ensures

TSSWCB Internal Audit of the Grant and Contract Management System
Final Report – July 19, 2007

that the agency pays a fair and reasonable price for the goods and services specified in the grants and contracts.

There are effective processes for paying grantees and contractors that ensure that TSSWCB pays a fair and reasonable price for the goods and services specified in the grants and contracts. Audit testing indicated that all payments were accurate, supported by appropriate documentation and paid in a timely manner.

Recommendations: None.

Audit Objective 4: Determine if there are effective grant and contract monitoring functions that focus on both outcomes and compliance with grant and contract requirements.

TSSWCB has developed a very useful and comprehensive *Manual of Fiscal Operations* that is provided to each Soil and Water Conservation District. TSSWCB has also recently established new requirements for the SWCDs regarding procedures that must be implemented and documentation that must be maintained to strengthen internal controls. The *Manual* and these new requirements were provided to the SWCDs to ensure compliance with grant requirements and to ensure the

efficient and effective use of public funds.

TSSWCB has established controls to ensure that grant funds are adequately monitored. The primary financial controls are the requirement for an annual independent audit, or for SWCDs that qualify for exemption from the audit requirements, annual financial statements certified by the SWCD Director. These audits and financial statements are reviewed by staff and a review form is maintained in the files. Annual Technical Assistance Program Performance Reports are required to be submitted at the end of each year; however, audit testing indicated that 3 of 29 (10%) of SWCDs tested did not submit reports for FY 2006. Program monitoring is done on a routine basis, but often the results of these reviews are not documented.

The new requirements sent to the SWCDs on April 1, 2007 establish new reporting and documentation requirements. Monitoring of these new requirements by TSSWCB and documentation of the results of monitoring should be considered to strengthen TSSWCB oversight of the SWCDs' program and financial operations.

The best method of monitoring contracts is by using contracts with well established contract provisions, scope of work requirements,

**TSSWCB Internal Audit of the Grant and Contract Management System
Final Report – July 19, 2007**

scheduled deliverables and established rates of pay for completion of work specified in the contracts as discussed in Audit Objective 2.

closeout and evaluation process for determining whether grants and contracts achieved the desired purpose.

Recommendation 2: *The Manual of Fiscal Operations should be revised at the next available opportunity to include all new requirements communicated to the SWCDs and all reporting requirements and forms such as the Technical Assistance Grant Program Performance Report.*

TSSWCB Management Response:
Management concurs.

Recommendation 3: *A standardized monitoring report should be developed that incorporates key compliance requirements established for the grant funds issued to the SWCDs. A brief one to two page checklist with a place for comments or corrective action needed should be used to document the results of field visits. Reports should be prepared by field personnel, provided to the SWCD and forwarded to headquarters for inclusion in the grant files.*

TSSWCB Management Response:
Management concurs.

Audit Objective 5: *Determine if there is an effective grant and contract*

There is an effective grant closeout process although the closeout process is not documented using a checklist or form that identifies the closeout actions taken. As noted in Audit Objective 4, a form is completed for reviewing the annual audit or financial statements. TSSWCB withholds payments of new funds if a SWCD has not submitted refunds due back to TSSWCB. Use of a closeout checklist would document that all necessary actions to closeout the fiscal year grants have been completed and all required claims, refunds and reports have been submitted.

A contract closeout checklist also should be used to document that all contract deliverables have been received, accepted and final payment has been made. This checklist should include a statement of any problems or issues that arose during the contract and whether or not the contractor is eligible for future contracts with TSSWCB.

Recommendation 4: *TSSWCB should develop written grant and contract closeout checklists based on current procedures and best practices*

TSSWCB Internal Audit of the Grant and Contract Management System
Final Report – July 19, 2007

*outlined in Chapter 8 of the State of
Texas Contract Management Guide.*

TSSWCB Management Response:
Management concurs.

**Texas State Soil and Water
Conservation Board
Internal Audit of
Information Resources Systems
and Controls**

Final Report

As Approved by the TSSWCB Board on
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TABLE OF CONTENTS

Auditor's Transmittal Letter	2
Executive Summary	3
Audit Purpose and Scope	4
Audit Results and Recommendations	4

**TSSWCB Internal Audit of Information Resources Systems and Controls
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July 19, 2007

Members of the Board
Texas State Soil and Water Conservation Board

The following report provides the results and recommendations noted during the internal audit of Information Resources Systems and Controls.

The internal audit was conducted in accordance with generally accepted government auditing standards and *Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

EXECUTIVE SUMMARY

Audit Purpose

The internal audit of the Information Resources Systems and Controls was conducted to determine:

- compliance with statutory requirements for information resources (IR) management;
- the adequacy of controls and procedures for managing information resources; and
- the effectiveness of IR policies and procedures for meeting user needs.

- TSSWCB has implemented adequate internal controls and effective procedures for managing software licenses.
- TSSWCB has developed effective processes for meeting the needs of the users of the agency's automated information resources.
- Additional action is necessary to ensure to improve physical security of information resources at some field offices and to ensure that all field office backup computer files and store these backup files offsite.

Key Audit Observations

- TSSWCB is in compliance with all statutory requirements for state agencies regarding information resources management.
- TSSWCB has implemented adequate security measures and effective procedures for the security of automated information resources.
- TSSWCB has implemented adequate internal controls and effective procedures over computer operations, including procedures for back-up and recovery, disaster recovery planning, data communications and other computer operations functions.
- There is a need to complete and test the disaster recovery plan.

Significant Recommendations

- The disaster recovery plan should be completed and tested as soon as possible. The plan should be tested annually to comply with good business practices and DIR requirements.
- Management should require that all field offices perform weekly backups of computer files, with offsite storage of these backups.

Management's Response

Management concurs with the recommendations made in the report and plans to implement each recommendation.

AUDIT PURPOSE & SCOPE

The primary purposes of the internal audit of Information Resources Systems and Controls were to determine if:

- TSSWCB is in compliance with all statutory and Department of Information Resources (DIR) requirements for state agencies regarding information resources management;
- there are adequate controls and effective operating procedures for managing automated information resources; and
- there are effective processes and procedures for meeting the needs of IR users.

The scope of the audit included review, analysis, testing and/or surveys of the following areas:

- IR plans and reports;
- IR security measures;
- IR computer operations;
- IR operating policies and procedures;
- software inventory; and
- IR users.

Specific audit objectives were developed and coordinated with TSSWCB management. These audit objectives and the results of our audit work are presented in the next section, "Audit Results and Recommendations."

AUDIT RESULTS AND RECOMMENDATIONS

The results and recommendations of the internal audit are presented in this section for each of the nine audit objectives that were established and coordinated with TSSWCB management.

Audit Objective 1: Determine if the TSSWCB is in compliance with all statutory requirements for state agencies regarding information resources management.

There are two primary sources of requirements regarding information resources management, the Information Resources Management Act (IRMA) and Department of Information Resources (DIR) administrative rules. Audit review of key compliance requirements in these laws and administrative rules indicates that the TSSWCB is in compliance with all statutory requirements for state agencies regarding information resources management except for one requirement found in the DIR administrative rules as follows:

- §2054.116 Spanish Language Content on Agency Websites. "Each state agency shall make a reasonable effort to ensure that Spanish-speaking persons of limited English proficiency can

**TSSWCB Internal Audit of Information Resources Systems and Controls
Final Report – July 19, 2007**

meaningfully access state agency information online.” TSSWCB has not taken any action regarding this requirement.

Recommendation 1: *The Information Officer should determine the actions necessary to comply with the DIR administrative rule related to “Spanish language content” on the TSSWCB website.*

TSSWCB Management Response: The Information Officer will work with DIR and the public, as needed, to determine the extent it is necessary to provide Spanish content on the agency’s website and take measures necessary to ensure adequate access.

Audit Objective 2: *Determine if TSSWCB has implemented adequate security measures and effective procedures for the security of automated information resources, including physical security, access controls and network security.*

TSSWCB has implemented adequate security measures and effective procedures for the security of automated information resources, including physical security, access controls and network security. Review of the location of TSSWCB servers at headquarters confirmed that adequate and appropriate measures have been taken to minimize vulnerable to water

damage or other environmental threats. Physical security measures were adequate to ensure that the threat posed by loss of equipment due to theft is minimal; however, some vulnerabilities were noted by field office staff in response to an internal audit survey (see Audit Objective 8).

Review of penetration tests conducted by the Information Officer indicates that measures have been taken to install firewalls and other equipment that protects TSSWCB computer assets from attack by worms, Trojan horses, viruses, suspicious files and other attempts to penetrate computer security.

The Information Officer has assessed current computer security operating environment at headquarters and field offices and has identified additional actions he intends to implement to enhance TSSWCB computer and internet security.

Recommendations: None.

Audit Objective 3: Determine if TSSWCB has implemented adequate internal controls and effective procedures over computer operations, including procedures for back-up and recovery, disaster recovery planning, data communications and other computer operations functions.

TSSWCB has implemented adequate internal controls and effective procedures over computer operations, including procedures for back-up and recovery, disaster recovery planning, data communications and other computer operations functions. There is a need to complete and test the disaster recovery plan.

The disaster recovery plan is currently in the approval process (pending receipt of this internal audit) and has not been tested (as of the date of completion of audit fieldwork in April 2007).

There is no computer operations procedures manual that documents all tasks that must be performed by the Information Officer related to computer operations. There is, however, extensive documentation maintained in an electronic information technology library about various aspects of the TSSWCB computer operations.

Recommendation 2: The disaster recovery plan should be completed and tested as soon as possible. The plan should be tested annually to comply with good business practices and DIR requirements.

TSSWCB Management Response:
Management concurs.

Audit Objective 4: Determine if TSSWCB has implemented adequate internal controls and effective procedures for managing and maintaining the agency website.

TSSWCB has implemented adequate internal controls and effective procedures for managing and maintaining the agency's website. The agency has recently been significantly upgraded from a collection of static pages to a content management system. The Department of Information Resources requires state agencies to adhere to a number of requirements regarding state agency websites. TSSWCB is in compliance with all of these requirements except one as noted in Audit Objective 1.

There is a requirement that all HTML documents on a state agency website that meet the criteria of a "state publications" as defined by the Texas State Library and Archives Commission must include a "meta

tag.” A meta tag provides information about a given webpage, most often to help search engines categorize them correctly. They are inserted into the HTML document, but are often not directly visible to a user visiting the site. Currently, the TSSWCB website is not in compliance with this requirement; however, a plan to migrate the web server to a new host and put the appropriate meta tags into the required documents is anticipated in mid-May.

Recommendation 3: *The Information Officer should take the action necessary to ensure that meta tags are inserted into state publications placed on the TSSWCB website.*

TSSWCB Management Response:

This will be overseen by the Information Officer, who will educate other content editors on this requirement.

Audit Objective 5: *Determine if TSSWCB has implemented adequate internal controls and effective procedures for managing software licenses and for ensuring that all software is used in accordance with the software license agreements.*

TSSWCB has implemented adequate internal controls and effective procedures for managing software

licenses and for ensuring that all software is used in accordance with the software license agreements. TSSWCB policies and procedures prohibit the use of unauthorized software or personal software. The Information Officer tracks software licensing agreements and ensures that all software used is in accordance with licensing agreements. He performs routine testing of the software that resides on employee computers to ensure that only authorized software is used.

Recommendations: *None.*

Audit Objective 6: *Determine if all key software applications used by agency staff are adequately documented and can be accessed by a designated back-up staff member.*

All key software applications used by agency staff are adequately documented and can be accessed by a designated back-up member or members. An agency-wide inventory of key software applications has been developed. Two employees serve as onsite support to the Information Officer and the have received training on accessing these applications. An information technology library is available to the backup employees and the fiscal officer.

Recommendations: *None.*

Audit Objective 7: Determine if TSSWCB has developed effective processes for meeting the needs of the users of the agency's automated information resource.

TSSWCB has developed effective processes for meeting the needs of the users of the agency's automated information resources. Procedures established to meet the needs of TSSWCB staff include the development of a comprehensive policy and a procedure manual on the use and maintenance of automated information resources and a Help Desk for TSSWCB staff statewide. The Help Desk ensures that agency personnel know how to report issues regarding computer problems or questions. Issues are recorded and prioritized, and tracked to resolution using an automated tracking system.

An email survey of TSSWCB staff to assess the adequacy of TSSWCB in meeting user needs regarding information resources indicated that, of the personnel who responded to the surveys (approximately 50%), all users knew how and to whom to report computer problems. Additionally, an outside survey indicated that the agency website contained useful information and was easy to use.

Recommendations: None.

Audit Objective 8: Determine if TSSWCB field offices have adequate security measures and effective procedures for the security of automated information resources, including physical security, access controls and back-up and recovery.

The scope of audit work did not include any visits to TSSWCB field offices. Adequacy of security measures regarding automated information resources was evaluated based upon discussion with the Information Officer and a survey distributed to field office staff. Based on this work, it appears that field office generally have adequate security measures and effective procedures for the security of automated information resources, including physical security, access controls and back-up and recovery; however, additional action is necessary to ensure to improve physical security of information resources at some field offices and to ensure that all field office backup computer files and store these backup files offsite.

The survey sent to all TSSWCB employees, including the field offices, included questions regarding physical security controls, access controls and back-up and recovery procedures. All 34 respondents to the survey indicated a strong understanding of procedures

**TSSWCB Internal Audit of Information Resources Systems and Controls
Final Report – July 19, 2007**

established for access to and use of computer resources: however, the following responses to the survey indicated some issues that need to be addressed by TSSWCB management:

- Not all files are backed up weekly (8 respondents) and copies of backup files are not stored offsite (21 respondents).
- Smoke and heat detectors are not installed in all buildings (11 respondents).

***Recommendation 4:** Management should ensure that working smoke detectors are installed in all buildings where computer equipment is located. Where feasible, automated fire alarms should be installed.*

TSSWCB Management Response:

Smoke detectors are currently installed and operational at each TSSWCB office. Staff will continue to ensure that battery changes, testing, and other maintenance is performed as needed.

***Recommendation 5:** Management should require that all field offices perform weekly backups of computer files, with offsite storage of these backups.*

TSSWCB Management Response:

The TSSWCB will procure the hardware necessary to accomplish this during FY 2007. The Network Specialist will work with the regional

offices during FY 2008 to ensure implementation of this recommendation.

***Audit Objective 9:** Determine if the network and related information resources operating procedures of TSSWCB are documented and up-to-date so that a third party or knowledgeable employee could perform the duties currently performed by the Information Officer if necessary.*

The network operating procedures of TSSWCB are documented and up-to-date so that a third party or knowledgeable employee could perform the duties currently performed by the Information Officer if necessary. A comprehensive library of information technology documentation is established and stored in a secure location. Two other staff members have been identified and trained to assist the Information Officer with onsite issues that may arise.

***Recommendations:** None.*

**Texas State Soil and Water
Conservation Board
Internal Audit Annual Report
for FY 2007**

November 1, 2007

As Prepared by
Jansen and Gregorczyk,
Certified Public Accountants

Jansen & Gregorczyk
Certified Public Accountants

Telephone
(512) 268-0070

P. O. Box 601
Kyle, TX 78640

November 1, 2007

The Honorable Rick Perry, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Mr. John Keel, CPA, State Auditor

Dear Ladies and Gentlemen:

Attached is a report on the internal activity at the Texas State Soil and Water Conservation Board as required by the Texas Internal Auditing Act. The report provides a summary of audits completed and significant recommendations for fiscal year 2007.

Please contact me at (512) 268-0070 if you desire further information about the contents of this report.

Sincerely,

SIGNED COPY ON FILE

Russell Gregorczyk, Partner
Jansen & Gregorczyk, CPAs

TABLE OF CONTENTS

Section 1: Internal Audit Plan for FY 2007 1

Section 2: External Quality Assurance Review3

Section 3: Key Audit Findings/Recommendations7

Section 4: Consulting Engagements and Non-Audit Services Completed 12

Section 5: Organizational Chart 12

Section 6: Report on Other Internal Audit Activities12

Section 7: Internal Audit Plan for FY 200812

Section 8: External Audit Services 14

I. Audit Plan for Fiscal Year 2007

All audits in the audit plan were completed as scheduled, except for the audit of the Poultry Water Quality Management Program. For time and budgetary reasons this audit was postponed until FY 2008.

TEXAS STATE SOIL AND WATER CONSERVATION BOARD FY 2007 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, 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 and goals, and whether the operations or programs are being carried out as planned.

The FY 2007 Internal Audit Plan for the Texas State Soil and Water Conservation Board is based on the risk assessment performed in August 2006. None of the audit topics in the Maximum Risk category is proposed for audit in FY 2007 because each of these three audit topics was audited in either FY 2004 or FY 2005 and there have not been significant changes in any of these three areas since the internal audits were performed.

Three potential auditable topics ranked as high risk are proposed for audit in the Internal Audit Plan for FY 2007. Two of these topics are required periodic audits that have not been audited in several years and the other topic has never been audited. For FY 2007, the following areas are proposed for audit:

Texas State Soil and Water Conservation Board - FY 2007 Internal Audit Annual Report

- Grant and Contract Management System
- Information Resources Systems and Controls
- Poultry Water Quality Management Program

A comprehensive audit of the Grant and Contract Management System has not been performed since FY 2001. This audit topic is one of the audits required to be performed on a periodic basis by the Texas Internal Auditing Act. The audit will focus on evaluating the adequacy of controls and the effectiveness and efficiency of processes and procedures for managing all contracts and grants administered by TSSWCB. Compliance with legal requirements regarding grants and contracts will also be evaluated.

The audit of Information Resources Systems and Controls is also a required periodic audit that has not been performed since FY 2003. The audit will focus on compliance with all statutory requirements for information resources management; the adequacy of security and controls over computer operations, access controls involving automated resources, and physical security over automated resources; and determining if information resources functions are effective and efficient.

An audit of the Poultry Water Quality Management Program has never been performed. This audit will focus on the effectiveness and efficiency of processes for carrying out the TSSWCB water quality management planning for poultry operations and compliance with any statutory requirements regarding water quality management planning for poultry operations.

In addition to these proposed audits and audit work, a report will be issued on the status of recommendations made for all audits performed in FY 2006. The annual internal audit report for FY 2006 will be prepared and finally a risk assessment will be performed and an audit plan developed for FY 2008.

II. External Quality Assurance Review

Texas State Soil and Water Conservation Board July 2006

Executive Summary

As required by the Texas Internal Auditing Act (article 6252-5d, V.A.C.S.), the Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing, (Standard 1312 – External Assessments), and the Government Accountability Office's (GAO) Government Auditing Standards, an external quality assurance review (QAR) was conducted of the Texas State Soil and Water Conservation Board' (TSSWCB) internal audit activity. The Texas Internal Auditing Act requires that internal auditors, for agencies meeting the requirements of the Act, conduct a comprehensive external peer review, also known as a quality assurance review, every three years. An external quality assurance review, as part of a quality assurance program, is intended to provide reasonable assurance that internal audit work is being conducted in accordance with professional standards.

The principal objectives of the review were to assess whether the internal audit activity at TSSWCB conforms to the Texas Internal Auditing Act and whether Jansen & Gregorczyk, Certified Public Accountants (the Contractor), is performing the work in compliance with professional standards. Also, during the review an attempt was made to identify opportunities that would enhance the audit process and improve the value of the internal auditing activity at TSSWCB.

Contracting for internal auditing services has been a very efficient and effective way for smaller agencies to meet the requirements of the Texas Internal Auditing Act. Because TSSWCB cannot utilize a full-time internal staff to conduct internal audits, it has an agreement with an outside contractor to conduct its internal auditing work. While 35% of the available staff hours of in-house internal audit departments will typically be used for tasks not directly related to individual audit projects (holidays, vacations, administration, training, etc.), TSSWCB only pays for the hours spent directly on their audit projects. Any inefficiency in performing the work is at the risk of the Contractor because the project hours and costs are reviewed and approved by the Board in advance of the work being performed. This approach is very efficient for small agencies and also helps insure that the agency undertakes only worthwhile audit projects.

The scope of the review included a review of existing internal auditing policies, procedures, and audit project workpaper files, as well as interviews with a member of the Board, the Chief Financial Officer, and the Contractor's staff.

The Internal Audit Charter, reporting relationships, communications with the Board, the Executive Director, and the objectivity of the work performed were reviewed to determine the independence of the Contractor. An examination of the Contractor's administrative records and a review of selected workpapers were done to evaluate the staff's knowledge, skills, discipline and training. An inventory of current audit work and the scope and performance of the audit work that had been performed was evaluated. A review was also conducted of the risk assessment and audit planning processes, and the Contractor's engagement and staff management processes.

Texas State Soil and Water Conservation Board - FY 2007 Internal Audit Annual Report

**Overall
Opinion**

Based on the work outlined above, it is the opinion of the reviewer that the internal audit activity, at the Commission for State Emergency Communications, is in accordance with the Texas Internal Auditing Act, and the audit work being performed by the Contractor fully complies with applicable professional standards.

This opinion, representing the best possible evaluation, means that the Texas State Soil and Water Conservation Board, and the Contractor, have in place the relevant structures, policies, and procedures, including the processes by which they are applied, that comply with the Texas Internal Auditing Act and the professional standards in all material respects.

Mr. Russell Gregorczyk, CPA, a principal in the Contract firm, manages the audit work conducted at TSSWCB. He has extensive audit experience, is well respected and has a good relationship with both agency management and the Board.

His reporting relationship to the Board and his communication with the Board complies with the requirements of the Texas Internal Auditing Act and enables him to be independent and have an impartial and unbiased attitude, essential to the proper conduct of audit work. He annually performs a thorough risk assessment and develops an audit plan that is reviewed and approved by the Board.

A review of selected workpapers showed that Mr. Gregorczyk's staff is proficient and knowledgeable in the areas they review. He makes available continuing professional education and training for his staff. Each staff member receives, on average, 40 hours of internal audit related training each year. Mr. Gregorczyk and his staff have extensive experience with Texas government agencies.

The workpapers that were reviewed showed that individual audit projects are well planned and audit conclusions and recommendations are adequately supported. The workpapers were very professionally prepared and supported levels of professional care appropriate for the complexities of the work being performed. The audit programs were appropriately referenced to the audit steps and tests performed during the audit and the support for the conclusions expressed in the audit reports. They contained evidence that they are thoroughly reviewed by Mr. Gregorczyk before audit reports were issued.

While the internal activity at TSSWCB is complying with the Texas Internal Auditing Act and the Contractor is fully complying with professional standards, there are opportunities that could improve the activity that should be considered. The following comments and recommendations are intended to build on the foundation that is already in place with the objective of further improving the value and the effectiveness of the audit work being performed.

Recommendations

The recommendations are divided into two groups:

- **Part I - Matters for the consideration of the Board and the Executive Director.** Those that concern TSSWCB as a whole and suggest actions that can be taken by the Board and Executive Director. We believe these recommendations will be useful because they impact the effectiveness and efficiency of the internal auditing activity overall and the value it can add.
- **Part II - Improvement opportunities specific to the internal audit activity.** Those that relate to the internal auditing activity's structure, staffing, deployment of resources, and other matters that should be implemented by the Contractor, with the support of the Executive Director.

The implementation of these recommendations will enhance the internal audit activity at the Texas State Soil and Water Conservation Board and improve the value, efficiency and effectiveness of the services being provided by Jansen & Gregorczyk, Certified Public Accountants.

Part I - Matters for the consideration of the Board and the Executive Director.

1. The Executive Director should maintain a quarterly schedule of the status of open recommendations and share that schedule with the Board each time it meets. This would enable the Board to better oversee the prompt implementation by management of the recommendations to which it has agreed. This quarterly status schedule would be more effective if the recommendations were classified as to their significance (high, medium, low), and presented in a simplified matrix format (spreadsheet) that shows whether or not they have been implemented according to the action plan to which management committed in the audit report.

2. TSSWCB management when responding to the recommendations contained in an audit draft report from the internal audit Contractor, should include in their response an action plan for the implementation of the recommendation. The action plan should identify the individual who will be directly responsible for the implementation of each recommendation and the date that management has committed to having each recommendation implemented. This would enable the Contractor to efficiently and effectively follow up and report to the Board the status of prior recommendations.

Part II - Improvement opportunities specific to the internal audit activity

Audit workpapers provide the principal support for an audit report and aid in the supervision of the work being performed. Workpapers also allow for the review of the quality of the audit work by providing a reviewer written documentation of the evidence supporting an auditor's conclusions and recommendations.

A review of selected workpapers showed that the work performed by the Contractor was meeting the intended audit objectives. The workpapers contained evidence that the audits were well planned and included objectives, an appropriate scope of work, background information, evidence of audit tests, and summaries of the purpose, procedures performed, results, conclusions, and recommendations.

However, in the workpapers that were reviewed, the references forward from the steps in the audit program to where the work was performed, and then to the disposition of any findings or observations, (audit report, discussion, etc.), were not always clear. While it was noted that findings and observations in the various sections of the workpapers appeared to always be included in the audit report, it was difficult to follow each item to a final disposition.

The Contractor should consider referencing each finding or observation item to a schedule or point sheet. The items on the point sheet could then be documented as to the disposition of the item. (Audit report, discussion, etc.). This approach would aid in any review of the audit workpapers and help insure that all findings and observations are properly addressed.



Richard Tarr, CIA, CISA

III. Key Audit Findings/Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Report No. 1 Audit of Information Resources Systems and Controls Report Issued: July 19, 2007</p>	<p>To determine if the TSSWCB is in compliance with all statutory requirements for state agencies regarding information resources management.</p>	<p>TSSWCB has not addressed the statutory requirement to ensure that Spanish- speaking persons of limited English proficiency can meaningfully access state agency information online. <i>Recommendation 1: The Information Officer should determine the actions necessary to comply with the DIR administrative rule related to “Spanish language content” on the TSSWCB website.</i></p>	<p>Planned. The agency will contract the translation of selected material to a qualified third party.</p>	<p>Provide agency information to Spanish- speaking persons online.</p>

Texas State Soil and Water Conservation Board - FY 2007 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
	<p>To determine if TSSWCB has implemented adequate internal controls and effective procedures over computer operations, including procedures for back-up and recovery, disaster recovery planning, data communications and other computer operations functions.</p>	<p>The disaster recovery plan is currently in the approval process and has not been tested.</p> <p>Recommendation 2: <i>The disaster recovery plan should be completed and tested as soon as possible. The plan should be tested annually to comply with good business practices and DIR requirements.</i></p>	<p>Planned. The agency will test the Business Continuity Plan during FY 2008.</p>	<p>Ensure TSSWCB has a viable and workable plan for recovering lost data in case of disaster.</p>

Texas State Soil and Water Conservation Board - FY 2007 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Report No. 1 Audit of Information Resources Systems and Controls Report Issued: July 19, 2007	To determine if TSSWCB has implemented adequate internal controls and effective procedures for managing and maintaining the agency website.	TSSWCB is not in compliance with the DIR requirement that state publications on state agency websites must include a “meta tag.” <i>Recommendation 3: The Information Officer should take the action necessary to ensure that meta tags are inserted into state publications placed on the TSSWCB website.</i>	Planned. This will be implemented by the Information Officer and will involve all agency web editors in implement- ation and awareness training.	Provide information about a given webpage, allowing search engines to categorize them correctly.
	To determine if TSSWCB field offices have adequate security measures and effective procedures for the security of automated information resources, including physical security, access controls and back-up and recovery.	Smoke and heat detectors are not installed in all buildings. <i>Recommendation 4: Management should ensure that working smoke detectors are installed in all buildings where computer equipment is located. Where feasible, automated fire alarms should be installed.</i>	Implemented	Improve physical security measures regarding information resources.

Texas State Soil and Water Conservation Board - FY 2007 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Report No. 1</p> <p>Audit of Information Resources Systems and Controls</p> <p>Report Issued: July 19, 2007</p>	<p>To determine if TSSWCB field offices have adequate security measures and effective procedures for the security of automated information resources, including physical security, access controls and back-up and recovery.</p>	<p>Not all files are backed up weekly, and copies of backup files are not stored offsite.</p> <p>Recommendation 5: <i>Management should require that all field offices perform weekly backups of computer files, with offsite storage of these backups.</i></p>	<p>In progress. This has been fully implemented at one field office with the remaining offices scheduled for implementation.</p>	<p>Ensure all files are sufficiently backed up and stored offsite.</p>
<p>Report No. 2</p> <p>Audit of the Grant and Contract Management System</p> <p>Report Issued: July 19, 2007</p>	<p>To determine if there is an effective grant and contract establishment process that holds grantees and contractors accountable for delivery of quality services, prevents the inappropriate or inefficient use of state funds, and includes all required and necessary grant and contract provisions.</p>	<p>TSSWCB uses a variety of different documents to contract for services, some of which lack necessary administrative contract provisions.</p> <p>Recommendation 1: <i>TSSWCB should work with its representative from the Attorney General's Office to establish a standard contract template that contains standard administrative contract provisions, clearly specifies the scope of work, payment rates for specific staff, scheduled deliverables, etc. for use in contracting with vendors, individuals or entities other than local soil and water conservation boards.</i></p>	<p>Implemented</p>	<p>Ensure that TSSWCB contracts are uniform and contain all necessary provisions.</p>

Texas State Soil and Water Conservation Board - FY 2007 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Report No. 2 Audit of the Grant and Contract Management System Report Issued: July 19, 2007	To determine if there are effective grant and contract monitoring functions that focus on both outcomes and compliance with grant and contract requirements.	New requirements for the SWCDs have not yet been incorporated into the Manual of Fiscal Operations. <i>Recommendation 2: The Manual of Fiscal Operations should be revised at the next available opportunity to include all new requirements communicated to the SWCDs and all reporting requirements and forms such as the Technical Assistance Grant Program Performance Report.</i>	Implemented	Provide Soil and Water Conservation Districts with a comprehensive document outlining all currently required procedures and requirements.

Texas State Soil and Water Conservation Board - FY 2007 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Report No. 2 Audit of the Grant and Contract Management System Report Issued: July 19, 2007	To determine if there are effective grant and contract monitoring functions that focus on both outcomes and compliance with grant and contract requirements.	Compliance with grant requirements is not always documented when monitoring is performed during field visits. <i>Recommendation 3: A standardized monitoring report should be developed that incorporates key compliance requirements established for the grant funds issued to the SWCDs. A brief one to two page checklists with a place for comments or corrective action needed should be used to document the results of field visits. Reports should be prepared by field personnel, provided to the SWCD and forwarded to headquarters for inclusion in the grant files.</i>	Implemented	Ensure documentation of all compliance requirements established for grant funds.
	To determine if there is an effective grant and contract closeout and evaluation process for determining whether grants and contracts achieved the desired purpose.	The current grant closeout process is not documented using a checklist or form that identifies the closeout actions taken <i>Recommendation 4: TSSWCB should develop written grant and contract closeout checklists based on current procedures and best practices outlined in Chapter 8 of the State of Texas Contract Management Guide.</i>	Planned. This will be implemented during FY 2008.	Document that all necessary actions to closeout the fiscal year grants have been completed and all required claims, refunds and reports have been submitted.

IV. Consulting Engagements and Non-Audit Services Completed

The internal auditor did not provide any consulting or non-audit services during FY 2007.

V. Organizational Chart

The following excerpt from the internal audit policies defines the reporting lines of the internal audit function.

“The Board will appoint the TSSWCB Internal Auditor.

- 1. The Internal Auditor will report directly to the Board.*
- 2. The Board will monitor the internal audit function to assure compliance with the requirements of the Internal Auditing Charter and all Internal Auditing Guidelines.*
- 3. The Board shall provide guidance to the Internal Auditor regarding issues not specifically addressed by the Charter or the Guidelines.”*

Kenny Zajicek, Chief Fiscal Officer, is the designated Chief Audit Executive for the agency. The Board does not have an audit committee.

VI. Report on Other Internal Audit Activities

The internal auditor was not involved in any activities other than those activities outlined in the FY 2007 Internal Audit Plan.

VII. Audit Plan for Fiscal Year 2008

The Audit Plan for Fiscal Year 2008 was approved by the TSSWCB Board on September 28, 2007.

***TEXAS STATE SOIL AND WATER CONSERVATION BOARD
FY 2008 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, 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 and goals, and whether the operations or programs are being carried out as planned.

The FY 2008 Internal Audit Plan for the Texas State Soil and Water Conservation Board is based on the risk assessment performed in July 2007. Only one audit in the Maximum Risk category is planned for audit (Accounting System and Controls) because one of the other audit topics (Regional Office Cost Share Administration) was audited in FY 2005 and the other topic (Total Maximum Daily Load Program) is a newly funded program that will be implemented during FY 2008 and should not be considered for audit until FY 2009. The audit of Accounting System and Controls will also include Travel Policies and Procedures, since an audit of this area has not been performed since FY 2001.

One potential auditable topic ranked as high risk is proposed for audit in the Internal Audit Plan for FY 2008. This is an audit of the Poultry Water Quality Management System. This audit was included in the FY 2007 audit plan, but was postponed.

One potential audit (Purchasing System and Controls) in the low risk category is included in the audit plan because this audit is required to be audited on a periodic basis and it has not been audited since FY 2003. This audit will include an audit of Inventory and Fleet

Texas State Soil and Water Conservation Board - FY 2007 Internal Audit Annual Report

Management since these functions have never been audited and they are performed by the same staff person who performs Purchasing. The audit will focus on evaluating the compliance with state purchasing laws and the effectiveness and efficiency of purchasing procedures. Inventory and Fleet Management will also be audited for compliance with state requirements and effectiveness and efficiency of operating procedures.

The audit of the Accounting System and Accounting Internal Controls will focus on evaluating the adequacy of the accounting system and the effectiveness of accounting internal controls. Compliance with state laws and Comptroller requirements will be evaluated, as well as the effectiveness and efficiency of accounting procedures. The reliability and integrity of financial reporting will also be included within the scope of audit work.

An audit of the Poultry Water Quality Management Program has never been performed. This audit will focus on the effectiveness and efficiency of processes for carrying out the TSSWCB water quality management planning for poultry operations and compliance with any statutory requirements regarding water quality management planning for poultry operations.

In addition to these proposed audits and audit work, a report will be issued on the status of recommendations made for all audits performed in FY 2006. The annual internal audit report for FY 2007 will be prepared and finally a risk assessment will be performed and an audit plan developed for FY 2009.

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

- Prepare Annual Internal Audit Report for FY 2007 – 6 hours (October 2007)
- Audit of Purchasing, Inventory & Fleet Management- 100 hours (November 2007 to December 2007)
- Audit of Poultry Water Quality Management Program – 80 hours (February 2008 to March 2008)
- Prior Years Audit Follow-up Reviews – 6 hours (March 2008)
- Audit of Accounting and Travel – 100 hours (May 2008 to June 2008)
- Update Risk Assessment and Prepare FY 2009 Audit Plan – 8 hours (July 2008)

VIII. External Audit Services Procured in Fiscal Year 2007

The Texas State Soil and Water Conservation Board contracted with the CPA firm of Jansen & Gregorczyk to provide contract internal audit services for the agency in FY 2007. No other external audit services were procured in FY 2007.

**Texas State Soil and Water
Conservation Board
Report on the Status of Implementing
FY 2006 Audit Recommendations**

As Approved by the TSSWCB Board on
September 20, 2007

As Prepared by
Jansen and Gregorczyk,
Certified Public Accountants

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August 25, 2007

Board Members
Texas State Soil and Water
Conservation Board

The following report provides the results and recommendations noted during the internal audit follow-up review on the status of implementing internal audit recommendations made in the FY 2006 internal audits of Human Resources Systems and Controls and the Section 319 Program. As indicated in the attached report, all recommendations in both audits were implemented.

The internal audit follow-up review was conducted in accordance with generally accepted government auditing standards and *Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

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Jansen & Gregorczyk
Certified Public Accountants

Status of Implementing FY 2006 Internal Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Rpt No. 1 Audit of Human Resources Systems and Controls Report Issued September 28, 2006	To determine if the human resources policies and practices are in compliance with federal and state requirements and if they contain all required provisions designed to protect the agency against arising from applicants, employees, and former employees.	There are a number of topics that could be added to the <i>Human Resource Policies and Procedures Manual</i> to provide more comprehensive information on human resources-related issues for TSSWCB employees. Recommendation 1: <i>The Human Resources Director should revise the Human Resources Policies and Procedures Manual to address topics found in federal and state human resources statutes (as specifically identified in the audit report).</i>	Implemented	Provide more comprehensive information on human resources- related issues for TSSWCB employees.
		The <i>Human Resources Policies and Procedures Manual</i> includes information technology policies. Recommendation 2: <i>Information Technology (IT) Security Policies should be issued as a separate manual rather than as an appendix in the Human Resources Policies and Procedures Manual or the Manual should be titled the TSSWCB Employee Handbook.</i>	Implemented	Avoid confusion about agency policies and procedures.

TSSWCB Report on Status of Implementing FY 2006 Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Rpt No. 1 Audit of Human Resources Systems and Controls Report Issued September 28, 2006	To determine if the recruitment and selection processes for filling positions are in compliance with federal and state laws, if the processes are being adhered to in filling positions, if the selection criteria are documented, and if the overall recruitment and selection processes are effective in ensuring the best applicants are selected from a qualified applicant pool.	There are inconsistencies from region to region in maintaining documentation regarding the steps in the applicant selection process. <i>Recommendation 3: The Human Resources Director should develop procedures that will result in maintaining consistent documentation in the hiring files.</i>	Implemented	Ensure that all recruitment and selection processes are adequately documented for each position filled.
		<i>Recommendation 4: The Executive Director should not approve hiring recommendations from managers unless all required steps in the hiring procedures have been documented and verified by the Human Resources Director.</i>	Implemented	Ensure that all recruitment and selection processes are adequately documented before a person is hired.

TSSWCB Report on Status of Implementing FY 2006 Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Rpt No. 1 Audit of Human Resources Systems and Controls Report Issued September 28, 2006	To determine if the position classification system is in compliance with state requirements.	Annual classification reviews are being performed in conjunction with performance reviews; however, there is no documentation in the files indicating that these classification reviews were performed. Recommendation 5: <i>Documentation of the annual classification review should also be prepared and maintained when the annual employee performance evaluation is performed.</i>	Implemented	Document compliance with state requirements regarding annual classification reviews.
	To determine if employee relations' practices minimize negative consequences to the agency by clearly communicating agency and employee expectations and complying with applicable laws and regulations.	Certain court decisions relating to at-will employment are not addressed in the <i>Human Resources Policies and Procedures Manual</i> . Recommendation 6: <i>The Human Resources Policy and Procedures Manual should be revised to include information stating that:</i> <i>1.) an employer cannot fire a worker for refusing to perform an illegal act;</i> <i>2.) an employee cannot be fired for filing a workers' compensation claim; and</i> <i>3.) an employee cannot be dismissed because of their political party affiliation.</i>	Implemented	Provide comprehensive information to employees regarding their employment rights.

TSSWCB Report on Status of Implementing FY 2006 Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Rpt No. 1 Audit of Human Resources Systems and Controls Report Issued September 28, 2006	To determine if the leave and timekeeping functions are in compliance with state and federal laws, if the guidelines for leave and time keeping are being adhered to, and if the overall leave and timekeeping functions are effective and efficient.	<p>Time sheets of Fair Labor Standards Act (FLSA) non-exempt employees are tracked at each regional office, but not on the official Uniform Statewide Payroll System (USPS) leave accounting system. This compensatory time should be entered and tracked in the USPS.</p> <p>Three errors were found in comparing the timesheets to leave requests and leave information maintained in USPS.</p> <p>Recommendation 7: <i>Timesheets and supporting compensatory time request forms for non-exempt employees should reflect all hours worked. All compensatory time should then be maintained in USPS, making it the sole source of leave information. Information on FLSA non-exempt employee timesheets should be reconciled to USPS leave accounting information.</i></p>	Implemented	Ensure compliance with FLSA requirements and ensure that errors are detected and corrected.
Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact

TSSWCB Report on Status of Implementing FY 2006 Audit Recommendations

<p>Rpt No. 1</p> <p>Audit of Human Resources Systems and Controls</p> <p>Report Issued</p> <p>September 28, 2006</p>	<p>To determine if the employee personnel files contain all required information and if all information is up-to-date.</p>	<p>Documents are in the regular personnel files that should be in a separate file that is not subject to the Open Records Act.</p> <p>Recommendation 8: <i>The following items should be maintained in a file separate from the regular personnel file:</i></p> <ul style="list-style-type: none"> • <i>EEO Status</i> • <i>Credit Reports</i> • <i>Worker's Compensation Reports</i> • <i>Medical Records</i> • <i>Legal Actions</i> • <i>Insurance/Retirement forms</i> • <i>Photographs</i> • <i>I-9 Forms</i> • <i>Beneficiary information</i> 	<p>Implemented</p>	<p>Ensure that confidential information not subject to the Open Records Act is not included in employee personnel files.</p>
		<p>Required employee acknowledgments are not consolidated on one form.</p> <p>Recommendation 9: <i>The Employee Acknowledgments Form should be consolidated to include information on:</i></p> <ul style="list-style-type: none"> • <i>Continuation of Coverage Notification (COBRA)</i> • <i>Dual Employment with the State Notice</i> • <i>Illegal Discrimination Notice</i> • <i>HIPPA—Summary Notice of Privacy Practices</i> 	<p>Implemented</p>	<p>Streamline the documentation for required employee acknowledgments.</p>

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
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TSSWCB Report on Status of Implementing FY 2006 Audit Recommendations

<p>Rpt No. 2</p> <p>Audit of the Section 319 Program</p> <p>Report Issued</p> <p>September 28, 2006</p>	<p>To determine if there are adequate internal controls and effective procedures for making Section 319 Program payments and accounting for Section 319 Program expenditures.</p>	<p>Staff is performing some reconciliations between the project spreadsheets and the financial status reports that are submitted, but not each quarter.</p> <p>Recommendation 1: <i>A reconciliation between the project sheets and Financial Status Reports submitted by 319 projects should be completed each quarter.</i></p>	<p align="center">Implemented</p>	<p>Detect errors made by either the performing entity or by TSSWCB.</p>
		<p>EPA has indicated to TSSWCB that it is not necessary for TSSWCB to maintain timesheets or certifications to support the salaries and matching costs for the Section 319 Program. Using budgeted costs for salary charges without supporting documentation violates Office of Management and Budget (OMB) Circular A-87, Attachment B.</p> <p>Recommendation 2: <i>Each grant year TSSWCB should obtain written approval from EPA to charge salary costs based on budgeted costs in the funding application approved by EPA.</i></p>	<p align="center">Implemented</p>	<p>Documentation that TSSWCB is complying with EPA requirements for reporting salary costs.</p>

TSSWCB Report on Status of Implementing FY 2006 Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Rpt No. 2 Audit of the Section 319 Program Report Issued September 28, 2006	To determine if all financial and programmatic reports required by EPA for the Section 319 Program are accurate, submitted timely and supported by appropriate documenta- tion.	Supporting spreadsheets are being maintained independently of the agency accounting system and a reconciliation is not performed between the total expenditures as reflected on the Financial Status Reports and the Uniform Statewide Accounting System (USAS). <i>Recommendation 3: A reconciliation should be performed between the total federal expenditures on the Financial Status Reports submitted to EPA and the expenditures out of the Section 319 appropriation as reflected on the 62 appropriation screen in USAS.</i>	Implemented	Ensure the accuracy of financial information reported to EPA.
		The Federal Cash Transactions Report, as well as the Financial Status Reports tested during the audit were submitted late. <i>Recommendation 4: The Fiscal Director should ensure that all financial reports are submitted to EPA by the established deadline.</i>	Implemented	Ensure that reports are submitted to EPA by the established deadlines.

**Texas State Soil and
Water Conservation Board
Internal Audit of
Purchasing, Property and
Fleet Management Functions**

Final Report

As Approved by the TSSWCB Board on
January 17, 2008

As Prepared by
Jansen & Gregorczyk
Certified Public Accountants

TABLE OF CONTENTS

Auditor's Transmittal Letter 2

Executive Summary..... 3

Audit Purpose and Scope 4

Audit Results and Recommendations 5

**TSSWCB Internal Audit of Purchasing, Property and Fleet Management Functions
Final Report – January 17, 2008**

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January 17, 2008

Board Members
Texas State Soil and Water Conservation Board

The following report provides the results and recommendations noted during the internal audit of Purchasing, Property and Fleet Management Functions.

The internal audit was conducted in accordance with generally accepted government auditing standards and *Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

EXECUTIVE SUMMARY

Audit Purpose

The purposes of the internal audit of the purchasing, property and fleet management functions were to determine if these functions are in compliance with state laws and if adequate internal controls and effective procedures have been established for these functions.

- The TSSWCB has a well developed fleet management plan that encompasses all the requirements of the state Office of Vehicle Fleet Management Plan (OVFM). The plan is being administered efficiently and in line with all the dictates of the state plan.

Key Audit Observations

- Purchases and purchasing procedures comply with state laws and regulations governing the various types of purchases made by TSSWCB.
- TSSWCB has adequate internal controls and effective and efficient procedures for purchasing, receiving, and purchase voucher payment functions.
- Several purchases tested had minor omissions in the supporting documentation. One purchase tested did not comply with purchasing requirements.
- The TSSWCB has only one staff member with the required level of training required to conduct most of the purchases needed by the agency.
- There are effective and efficient processes for performing the agency property management functions and the property management functions comply with all requirements governing property management by state agencies.
- While the TSSWCB has a good record of securing its property, there is some exposure to theft since there are no security fences or secure storage buildings at TSSWCB headquarters or field offices in which to store property such as four-wheelers and tools.

Audit Recommendations

- The purchaser should use the Texas Comptroller of Public Accounts Post-Payment & Procurement Review Agency Document Checklist found in Section 3.0 of the State of Texas Procurement Manual to ensure that all necessary documentation is included in future purchase files.
- The TSSWCB internal purchasing procedures should be amended to clearly define what constitutes a spot purchase.
- An additional staff member should receive the training necessary to act as the backup to the Purchaser.
- TSSWCB should investigate the feasibility of renting secure storage buildings to better secure small vehicles and tools in those locations where there is no other viable alternative for securing and protecting equipment from damage and/or theft.
- Vehicle repair and maintenance downtime should be added to the Monthly Vehicle report logs.

Management's Response

Management concurs with the recommendations made in the report, except for one recommendation as noted in the management response.

AUDIT PURPOSE & SCOPE

The purposes of the internal audit of the purchasing and contracting systems and controls were to determine if purchasing, property and fleet management functions are in compliance with state laws and regulations and if adequate internal controls and effective procedures have been established for each of these functions.

The scope of the audit included review, analysis and testing of the following areas:

- purchasing procedures;
- purchases;
- purchase orders;
- purchase requests;
- receiving functions;
- payment of purchases;
- purchaser training and certification;
- property records, procedures and reports; and
- fleet management records, procedures and reports.

Field office personnel were interviewed during the audit, but all audit work was performed at the Temple headquarters.

Specific audit objectives for each of these audit areas were developed and coordinated with TSSWCB management.

AUDIT RESULTS AND RECOMMENDATIONS

The results and recommendations of the internal audit work are presented in this section for each of the five audit objectives that were established and coordinated with TSSWCB management.

***Audit Objective 1:** To determine if purchases and purchasing procedures comply with state laws and regulations governing the various types of purchases made by TSSWCB.*

Audit review and testing indicates that purchases and purchasing procedures comply with state laws and regulations governing the various types of purchases made by TSSWCB. The state procurement rules are complex and require considerable training and knowledge to use properly. The TSSWCB purchaser is very knowledgeable about the requirements of state purchasing and, in particular, is very knowledgeable about the State of Texas Procurement Manual and how to use it to determine the proper purchase type.

Audit testing of purchase orders and invoices indicated that the majority of purchases comply with all procurement steps and documentation requirements, although several purchases tested had minor errors in either the procedures used or missing documentation. Most deviations noted were small documentation omissions and many were repetitive. For instance, a credit card purchase requires that the documentation include a Comptroller's hold printout for purchases over \$150, and a list of the credit cardholders and their credit limit. These two items were consistently not included in the documentation. Other errors

**TSSWCB Internal Audit of Purchasing, Property and Fleet Management Functions
Final Report – January 17, 2008**

included failure to include the commodity code in the documentation and the failure to obtain the Executive Director signature on one purchase order over \$2,000 as required by internal procedures.

Some of the documentation issues noted involved “spot purchases.” These spot purchases are almost always associated with some type of emergency purchase and while the Procurement Manual makes provision for emergency purchases, it also establishes requirements for documenting the purchase. Some of the spot purchases sampled during the audit were made by TSSWCB without a purchase requisition or a purchase order. The internal purchasing documentation of TSSWCB needs to be reviewed to ensure that it is clear what constitutes a spot purchase and the purchaser needs to ensure that the actual purchase fits one of the criteria established for a spot purchase before utilizing this method.

One significant purchase noted during audit testing did not comply with state purchasing requirements. The wrong purchasing method was used in purchasing software and as a result required steps in the procurement process were not followed. This purchase occurred during a period when the purchaser was out of the office on leave and indicates the need to have another staff member trained to perform purchasing functions.

Recommendation 1: *The purchaser should use the Texas Comptroller of Public Accounts Post-Payment & Procurement Review Agency Document Checklist found in Section 3.0 of the State of Texas Procurement Manual to ensure that all necessary documentation is included in future purchase files.*

TSSWCB Management Response: Since the purchasing oversight was transferred

from the Texas Building and Procurement Commission to the Comptroller of Public Accounts, there have been some updates made to Section 3.0 of the State of Texas Procurement Manual. Management agrees that the purchaser will immediately begin to use the Document Checklist from Section 3.0 to ensure necessary documentation is included in future purchase files.

Recommendation 2: *The TSSWCB internal purchasing procedures should be amended to clearly define what constitutes a spot purchase. The current practice of using spot purchases should be reviewed to ensure that the use of spot purchases is minimized and preference is given to the use of purchase orders when making purchases.*

TSSWCB Management Response: A spot purchase has been defined in the internal purchasing procedure as an immediate local purchase of an item required by agency personnel to carry out their job duties in a timely manner, or to enable work flow to resume or continue as soon as possible to minimize downtime. Spot purchases made in the future will adhere to this definition.

Recommendation 3: *To reduce the risk in having only one person available to make agency purchases, an additional staff member should receive the training necessary to be able to make purchases up to \$25,000.*

TSSWCB Management Response: Management agrees that another person should receive basic purchasing training necessary to serve as a back-up for the purchaser. This would give them the authority to make purchases on behalf of the state from \$0 to \$ 25,000. Since the majority of the agency purchases are below \$ 25,000, we believe that this would be the level of

**TSSWCB Internal Audit of Purchasing, Property and Fleet Management Functions
Final Report – January 17, 2008**

training necessary for agency personnel to serve as a backup for the purchaser. This training will be completed by August 31, 2008.

Audit Objective 2: *To determine if there are adequate internal controls and effective and efficient procedures for purchasing, receiving, and purchase voucher payment-processing functions.*

Internal controls over purchasing, receiving and payment processing are adequate as a result of the segregation of duties with different staff performing the purchasing, receiving and payment processing functions. There is also documented supervisory review and approval of the purchasing and payment processing functions. Internal purchasing procedures are documented and there is a well developed Office Procedures Manual for accounts payable, voucher preparation and voucher entry.

TSSWCB purchasing is centralized in the Temple Office. The employees in the field offices are well aware of this and direct purchasing needs to Temple for resolution. No significant or routine purchasing is done out of the field offices. The field office directors and headquarters division managers interviewed during the audit all expressed strong confidence in the ability of the current purchaser to timely obtain the commodities and services needed. Purchases sampled and tested during the audit for adherence to established procedures and timeliness of processes for purchasing, receiving and payment processing indicated that all three categories are being handled in a very timely manner.

Some documentation issues were noted in testing of purchases for compliance with

state purchasing requirements and there is a need to have a trained backup for the purchaser as noted in audit objective 1, but overall there are adequate internal controls and effective and efficient procedures for purchasing, receiving, and purchase voucher payment-processing functions.

Recommendations: *See recommendations' 1, 2 and 3 under audit objective 1.*

Audit Objective 3: *To determine if all personnel involved in performing purchasing functions have been trained and certified as required by the Comptroller of Public Accounts.*

The TSSWCB purchasing needs are handled by a single purchaser. The purchaser has passed the training courses and examinations needed to qualify as a Certified Texas Purchaser. The purchaser has also completed the continuing education hours needed to maintain this certification. This level of certification allows the purchaser to handle all purchase needs up to and including, \$100,000 per transaction.

The review of TSSWCB purchases performed in this audit indicated that purchases by TSSWCB in excess of \$100,000 are very rare. Therefore, the level of training and certification achieved by the TSSWCB purchaser is adequate for almost all purchasing needs. On those occasions when purchases larger than \$100,000 are necessary, the purchase can be handled through the Comptroller's Office.

Recommendations: *None.*

Audit Objective 4: *To determine if there are effective and efficient processes for*

**TSSWCB Internal Audit of Purchasing, Property and Fleet Management Functions
Final Report – January 17, 2008**

performing the agency property management functions and if the property management functions comply with all statutes and administrative rules governing property management by state agencies.

There are effective and efficient processes for performing the agency property management functions and the property management functions comply with all statutes and administrative rules governing property management by state agencies. The responsibilities for managing property have been clearly established and are functioning effectively. Employees are well informed of their responsibilities before property is issued to them.

No irregularities were noted regarding property tagging or the property inventory at headquarters. The field offices also follow a consistent and well supervised pattern in tagging property and reconciling it. Missing and stolen property is properly reported and proper and effective processes are followed when property is lost. While the TSSWCB has a good record of securing its property, there is some exposure to theft since there are no security fences or secure storage buildings at TSSWCB headquarters or field offices in which to store property such as four-wheelers and tools. TSSWCB has had property stolen, with the most serious incident being property stolen at the Wharton field office in 2004.

Recommendation 4: *TSSWCB should investigate the feasibility of renting secure storage buildings to better secure small vehicles and tools in those locations where there is no other viable alternative for securing and protecting equipment from damage and/or theft.*

TSSWCB Management Response: Management concurs. The purchaser will investigate this possibility and if feasible rental of such space will be done by August 31, 2008.

Audit Objective 5: *To determine if there are effective and efficient processes for performing the agency fleet management functions and if the fleet management functions comply with all statutes and administrative rules governing fleet management by state agencies.*

The TSSWCB has a well developed fleet management plan that encompasses all the requirements of the state Office of Vehicle Fleet Management Plan (OVFM). The TSSWCB plan has been approved by OVFM. The plan is being administered efficiently and in line with all the dictates of the state plan.

Audit testing of the vehicle logs indicated that TSSWCB is properly and timely reporting all required data in the Vehicle Fleet Focus Data Base, with one exception. Repair or maintenance downtime is not shown on the reporting form as required. While some downtime can be determined from the receipts attached to the vehicle report forms, this item should be added to the form to meet the requirements to report this information.

Recommendation 5: *Vehicle repair and maintenance downtime should be added to the Monthly Vehicle report logs.*

TSSWCB Management Response: Management concurs. The purchaser will make this change and provide instructions to staff for reporting this required information by August 31, 2008.

TSSWCB Internal Audit of Purchasing, Property and Fleet Management Functions
Final Report – January 17, 2008

**Texas State Soil and
Water Conservation Board
Internal Audit of the Accounting, Payroll
& Travel Systems and Controls**

Final Report

As Approved by the TSSWCB Board on

September 18, 2008

As Prepared by
Jansen & Gregorczyk
Certified Public Accountants

TSSWCB Internal Audit of Accounting, Payroll & Travel Systems and Controls
Final Report – September 18, 2008

TABLE OF CONTENTS

Auditor's Transmittal Letter2

Executive Summary..... 3

Audit Purpose and Scope4

Audit Results and Recommendations 5

**TSSWCB Internal Audit of Accounting, Payroll & Travel Systems and Controls
Final Report – September 18, 2008**

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September 18, 2008

Board Members
Texas State Soil and Water Conservation Board

The following report provides the results and recommendations noted during the internal audit of the Accounting, Payroll and Travel Systems and Controls.

The internal audit was conducted in accordance with generally accepted government auditing standards and *Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

EXECUTIVE SUMMARY

Audit Purpose and Scope

The primary purposes of the internal audit were to evaluate the adequacy of the accounting system for providing financial information for decision-making and reporting, the adequacy of internal controls over the agency accounting, payroll and travel functions and the effectiveness and efficiency of operating procedures.

Key Audit Observations

- The accounting system is adequately structured to comply with the agency's Appropriation Bill and adequate controls have been established within the accounting system to ensure compliance with all legislative requirements and restrictions regarding the agency's spending authority.
- There are adequate internal controls over purchase voucher and interagency transaction processing, the procedures are effective and efficient, and purchase and interagency transaction vouchers are being processed in a timely manner.
- Many of the SWCD vouchers tested had changes in amounts with no explanation or insufficient explanation. The explanations for these changes need to be documented on the voucher or the supporting documentation for the payment.
- Payments to individuals classified as Technical Service Providers were based on a brief one-page contract. TSSWCB needs to have the agency's Attorney General's Office representative determine if a more comprehensive contract should be used to contract with Technical Service Providers.

- Travel is being conducted in accordance with State travel requirements and the agency's travel vouchers are being processed and travel documented in accordance with State requirements.
- Currently, the agency does not obtain any information from the airlines to substantiate the validity of the airline charges made to the JP Morgan Chase Corporate Business Travel Account.
- There are effective and efficient procedures for receiving and depositing incoming checks/cash and checks/cash are being processed in accordance with established State timeframes. There is an inherent weakness in internal controls that presents some level of risk that incoming checks/cash could be lost, stolen or otherwise not deposited into the Treasury.
- All journal vouchers for FY 2008 had appropriate management approval and adequate supporting documentation.
- There are adequate internal controls over the processing of payroll, processing procedures are effective and efficient, and there is appropriate management approval and supporting documentation for all payroll transactions.
- There appears to be an effective management reporting system for providing operating budget reports and similar financial reports to management and the Board.
- TSSWCB has documented most accounting policies and procedures and as compared to other state agencies, the policies and procedures are more thorough than those found in many agencies; however, some procedures are highly summarized and not adequate as instructions for another staff member.

Significant Recommendations

- TSSWCB should have the agency's Attorney General's Office representative determine if a more comprehensive contract similar to the professional services contract should be used to contract with Technical Service Providers.
- Employees and board members using the agency credit card to book airline travel should forward an email confirmation of the airline charges to the administrative coordinator to be used to validate and support the monthly credit card payments that are made.
- Management should evaluate the risk posed by the current procedures for receiving and depositing checks/cash in the Treasury and determine whether the current procedures should be revised to address the internal control weakness.
- The accounting policies and procedures should be reviewed, revised where necessary to add adequate detail of all processing steps and revision dates should be included on each procedure. Ideally, a standardized format should be used, with a procedure number reference so that all procedures can be easily found and followed when there is a need to do so.

Management's Response

Management concurs with the recommendations made in the report and has assigned staff responsibilities and timelines for implementing each recommendation.

AUDIT PURPOSE & SCOPE

The primary purposes of the internal audit were to evaluate the adequacy of the accounting system for providing financial information for decision-making and reporting, the adequacy of internal controls over the agency accounting, payroll and travel functions and the effectiveness and efficiency of operating procedures

The scope of internal audit work included review, analysis, and/or testing of the following areas:

- structure of the accounting system;
- processing of purchase vouchers, travel vouchers, interagency transaction vouchers and journal vouchers;
- processing of incoming revenues and deposit vouchers;
- operating budget reports and other financial reports provided to management;
- payroll processing; and
- accounting policies and procedures.

Specific audit objectives for each of these audit areas were developed and coordinated with TSSWCB management.

AUDIT RESULTS AND RECOMMENDATIONS

The results and recommendations of the internal audit work are presented in this section for each of the ten audit objectives that were established and coordinated with TSSWCB management.

***Audit Objective 1:** Determine if the accounting system is adequately structured to comply with the agency's Appropriation Bill and if adequate controls have been established within the accounting system to ensure compliance with all legislative requirements and restrictions regarding the agency's spending authority.*

The accounting system is adequately structured to comply with the agency's Appropriation Bill and adequate controls have been established within the accounting system to ensure compliance with all legislative requirements and restrictions regarding the agency's spending authority. The Finance Officer has effectively structured the agency's operating budget using the Uniform Statewide Accounting System (USAS) to appropriately track and report all strategies, programs and special grants utilized by the agency in carrying out the agency's functions.

Recommendations: *None.*

***Audit Objective 2:** Determine if there are adequate internal controls over purchase voucher and interagency transaction processing, if the procedures are effective and efficient, and if purchase and interagency transaction vouchers are being processed in a timely manner.*

There are adequate internal controls over purchase voucher and interagency transaction processing, the procedures are effective and efficient, and purchase and interagency transaction vouchers are being processed in a timely manner once a correct payment request has been received. Audit testing indicated that the payment processing documentation is excellent with one minor exception. The part-time bookkeepers for the Soil and Water Conservation Boards (SWCDs) often submit incorrect requests for grant payments that must be corrected before payment can be made. This requires the administrative coordinator to contact the person, explain what needs to be done, obtain their verbal approval for the change, make the correction on the request and change the date of receipt to the current date since that is when a correct payment request has been made. Many of the SWCD vouchers tested had changes in amounts with no explanation or insufficient explanation. The explanations for these changes need to be documented on the voucher or the supporting documentation for the payment.

In testing purchase vouchers, we noted that payments to individuals classified as Technical Service Providers were based on a brief one-page contract with the individual that establishes the hourly rate and invoice processing procedure, but little else. However, payments for professional services contracts were based on a detailed

TSSWCB Internal Audit of Accounting, Payroll & Travel Systems and Controls
Final Report – September 18, 2008

multi-page contract for professional services that spells out all of the individual's contractual obligations and TSSWCB's legal rights. TSSWCB needs to have the agency's Attorney General's Office representative determine if a more comprehensive contract similar to the professional services contract should be used to contract with Technical Service Providers. At a minimum, it would appear that the contract should cover provisions such as status as an independent contractor, compliance with state laws requiring up-to-date child support payments, indemnification and hold harmless clauses, and similar provisions.

***Recommendation 1:** When a change is made on a payment voucher or on a request for payment, the reasons for the change should be documented, including the person at the SWCD who approved the change.*

TSSWCB Management Response:
Concur

Responsible employee title: Fiscal Officer
Target date for completion: September 2, 2008

***Recommendation 2:** TSSWCB should have the agency's Attorney General's Office representative determine if a more comprehensive contract similar to the professional services contract should be used to contract with Technical Service Providers.*

TSSWCB Management Response:
Concur

Responsible employee title: Fiscal Officer
Target date for completion: January 1, 2009

***Audit Objective 3:** Determine if the agency has adequate travel policies and procedures, if the procedures are in compliance with all state requirements and if the agency is following all established travel policies and procedures.*

TSSWCB has not established any specific travel policies and procedures for the agency. The agency follows the travel requirements found in the *State of Texas Travel Allowance Guide* developed by the Comptroller's Office. Audit review and testing indicates that travel is being conducted in accordance with State travel requirements and the agency's travel vouchers are being processed and travel documented in accordance with State requirements. All vouchers tested during the audit were accurately processed and had excellent supporting documentation.

Recommendations: None.

***Audit Objective 4:** Determine if there are adequate internal controls over travel voucher processing, if the procedures are effective and efficient, and if travel vouchers are being processed in a timely manner.*

There are adequate internal controls over travel voucher processing, and travel vouchers are processed effectively and efficiently. In most cases travel vouchers are processed and paid in one to two days after being received in Accounting.

Most travel vouchers are prepared by knowledgeable employees who have performed this function for many years. An audit checklist must be completed by the person preparing the travel vouchers to help catch any potential mistakes before the

TSSWCB Internal Audit of Accounting, Payroll & Travel Systems and Controls
Final Report – September 18, 2008

voucher is submitted. Travel vouchers are reviewed by two different individuals before payment is made and these reviews are documented by the initials of these staff members on the travel voucher. One person enters the travel vouchers for payment and another staff member releases the vouchers for payment. Automated internal controls in the Uniform Statewide Accounting System (USAS) will not allow the same person to both enter and release a voucher. Finally, a travel voucher log is maintained by the administrative coordinator to track all travel by employee against their assigned travel budget or the travel budget of their department.

Audit testing of travel voucher processing indicated all vouchers tested were accurate except one and one had a minor coding error. The one inaccurate payment resulted in an underpayment to an employee for mileage because the employee used an outdated mileage reimbursement rate when submitting the voucher and this was not caught during the voucher review. However, overall effective internal controls have been established for processing travel vouchers. Travel vouchers met all State travel requirements and there was excellent supporting documentation for all travel vouchers and the travel voucher review process.

Recommendations: None.

Audit Objective 5: Determine if there are adequate internal controls and effective and efficient procedures for accounting for direct billings used for payment of travel expenses.

Currently, the agency does not obtain any information from the airlines to substantiate

the validity of the airline charges made to the JP Morgan Chase Corporate Business Travel Account. The administrative coordinator does verify that the employee or board member traveled and she documents the purpose of the travel on the payment voucher, but these actions are not adequate to ensure that all charges and credits were accurate before the payment is made. Travelers making airline reservations using the business travel account receive an email confirmation that shows any charges or credits if a flight is canceled. These confirmations need to be forwarded to the administrative coordinator so that they can be used to validate all charges on the monthly invoice and as documentation to support the payment that is made.

Recommendation 3: Employees and board members using the agency credit card to book airline travel should forward an email confirmation of the airline charges to the administrative coordinator to be used to validate and support the monthly credit card payments that are made.

TSSWCB Management Response:
Concur.

Responsible employee title: Fiscal Officer
Target date for completion: September 2, 2008

Audit Objective 6: Determine if there are adequate internal controls over the processing of incoming revenues and deposit vouchers, if the procedures are effective and efficient, and if deposits are being processed in accordance with required state time frame.

There are effective and efficient procedures for receiving and depositing incoming checks/cash and checks/cash are being processed in accordance with established

TSSWCB Internal Audit of Accounting, Payroll & Travel Systems and Controls
Final Report – September 18, 2008

State timeframes. There is an inherent weakness in internal controls that presents some level of risk that incoming checks/cash could be lost, stolen or otherwise not deposited into the Treasury.

The mail is opened by two persons and all checks are endorsed “Deposit Only, TSSWCB”. Checks/cash are then given to the accountant who logs the checks/cash into a checks/cash log and then prepares a deposit voucher and mails or sends the checks/cash to the Comptroller for deposit. There is an internal control weakness in this process. Ideally checks would be endorsed and logged in by the staff opening the mail and the checks/cash and the log would be taken to accountant who would initial the log indicating her receipt of the checks/cash. The accountant would prepare the deposit voucher and send it to the State Treasury upon approval by the Finance Officer. At the end of each month, another staff member would then verify (reconcile) the cash receipts log to the deposits made at the Treasury to ensure that all cash/checks received by the agency were deposited. The current process could result in failure to make a deposit without any record that the checks/cash was received by the agency.

Recommendation 4: *Management should evaluate the risk posed by the current procedures for receiving and depositing checks/cash in the Treasury and determine whether the current procedures should be revised to address the internal control weakness.*

TSSWCB Management Response:
Concur

Responsible employee title: Fiscal Officer
Target date for completion: September 2, 2008

Audit Objective 7: *Determine if there is appropriate management approval and supporting documentation for all journal vouchers.*

Journal vouchers are used for a variety of reasons such as transferring funds from one fiscal year to another, transferring from one fund to another or from one appropriation to another, recording or revising budget amounts, and correcting transactions previously entered. Because journal vouchers can be used to correct payments that have already been approved and processed by management, it is important to have adequate supporting documentation and management approval for all journal entries. All journal vouchers for FY 2008 had appropriate management approval and adequate supporting documentation.

Recommendations: None.

Audit Objective 8: *Determine if there are adequate internal controls over the processing of payroll, if the procedures are effective and efficient, and if there is appropriate management approval and supporting documentation for all payroll transactions.*

There are adequate internal controls over the processing of payroll, processing procedures are effective and efficient, and there is appropriate management approval and supporting documentation for all payroll transactions.

All payroll transactions tested were correct and had adequate supporting documentation. Effective processes have been established for reconciling payroll changes between

**TSSWCB Internal Audit of Accounting, Payroll & Travel Systems and Controls
Final Report – September 18, 2008**

periods and for reconciling monthly payrolls to financial information in the USAS.

Recommendations: *None.*

Audit Objective 9: *Determine if there is an effective management reporting system for providing operating budget reports and similar financial reports to management and the Board.*

Monthly budget reports are not usually provided to management. In most cases ad hoc reports are provided when requested by the Executive Director or other managers; however, this system appears to meet the needs of TSSWCB management. Operating budget reports are provided to the TSSWCB Board and discussed at each meeting. Overall, there appears to be an effective management reporting system for providing operating budget reports and similar financial reports to management and the Board.

Recommendations: *None.*

Audit Objective 10: *Determine if there are adequately documented and up-to-date accounting policies and procedures.*

TSSWCB has documented most accounting policies and procedures and as compared to other state agencies, the policies and procedures are more thorough than those found in many agencies. Some procedures are very comprehensive and include screen prints and step-by-step instructions for processing, but some procedures are highly summarized and not adequate as instructions for another staff member. A standardized format and number referencing system was not used in developing the procedures and

many procedures are not dated, making it difficult to determine if the procedures are up-to-date.

Recommendation 5: *The accounting policies and procedures should be reviewed, revised where necessary to add adequate detail of all processing steps and revision dates should be included on each procedure. Ideally, a standardized format should be used, with a procedure number reference so that all procedures can be easily found and followed when there is a need to do so.*

TSSWCB Management Response:
Concur.

Responsible employee title: Fiscal Officer
Target date for completion: January 1, 2009

**Texas State Soil and Water
Conservation Board
Report on the Status of
Implementing
FY 2007 Audit Recommendations**

Final Report

As Approved by the TSSWCB Board on

September 18, 2008

As Prepared by

**Department of Information Resources Internal Audit of the Contract Management
Section
Draft Report – March 26, 2001 – Not For Public Release**

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September 18, 2008

Board Members
Texas State Soil and Water
Conservation Board

The following report provides the results and recommendations noted during the internal audit follow-up review on the status of implementing internal audit recommendations made in the FY 2007 internal audits of Information Resources Systems and Controls and the Grant and Contract Management System. As indicated in the attached report, most recommendations were implemented or will soon be completed; however, no action was taken on the final two recommendations in the Grant and Contract Management System audit. Management indicated that one of the recommendations will not be implemented for the reasons noted. Management intends to implement the other recommendation.

The internal audit follow-up review was conducted in accordance with generally accepted government auditing standards and *Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

Status of Implementing FY 2007 Internal Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Report No. 1 Audit of Information Resources Systems and Controls Report Issued: July 19, 2007	To determine if the TSSWCB is in compliance with all statutory requirements for state agencies regarding information resources management.	TSSWCB has not addressed the statutory requirement to ensure that Spanish- speaking persons of limited English proficiency can meaningfully access state agency information online. <i>Recommendation 1: The Information Officer should determine the actions necessary to comply with the DIR administrative rule related to “Spanish language content” on the TSSWCB website.</i>	Implemented	Provide agency information to Spanish- speaking persons online.
	To determine if TSSWCB has implemented adequate internal controls and effective procedures over computer operations, including procedures for back-up and recovery, disaster recovery planning, data communicatio ns and other computer operations functions.	The disaster recovery plan is currently in the approval process and has not been tested. <i>Recommendation 2: The disaster recovery plan should be completed and tested as soon as possible. The plan should be tested annually to comply with good business practices and DIR requirements.</i>	Implemented	Ensure TSSWCB has a viable and workable plan for recovering lost data in case of disaster.

TSSWCB Report on Status of Implementing FY 2007 Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Report No. 1 Audit of Information Resources Systems and Controls Report Issued: July 19, 2007	To determine if TSSWCB has implemented adequate internal controls and effective procedures for managing and maintaining the agency website.	TSSWCB is not in compliance with the DIR requirement that state publications on state agency websites must include a “meta tag.” <i>Recommendation 3: The Information Officer should take the action necessary to ensure that meta tags are inserted into state publications placed on the TSSWCB website.</i>	Planned. Target date for completion is 12/31/08.	Provide information about a given webpage, allowing search engines to categorize them correctly.
	To determine if TSSWCB field offices have adequate security measures and effective procedures for the security of automated information resources, including physical security, access controls and back-up and recovery.	Smoke and heat detectors are not installed in all buildings. <i>Recommendation 4: Management should ensure that working smoke detectors are installed in all buildings where computer equipment is located. Where feasible, automated fire alarms should be installed.</i>	Partially Implemented Smoke detectors have been installed in some buildings. Target date for completion is 12/31/08.	Improve physical security measures regarding information resources.

TSSWCB Report on Status of Implementing FY 2007 Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Report No. 1</p> <p>Audit of Information Resources Systems and Controls</p> <p>Report Issued: July 19, 2007</p>	<p>To determine if TSSWCB field offices have adequate security measures and effective procedures for the security of automated information resources, including physical security, access controls and back-up and recovery.</p>	<p>Not all files are backed up weekly, and copies of backup files are not stored offsite.</p> <p>Recommendation 5: <i>Management should require that all field offices perform weekly backups of computer files, with offsite storage of these backups.</i></p>	<p>In progress</p> <p>This has been fully implemented at six field offices with the remaining one office scheduled for implementation by September 1, 2008.</p>	<p>Ensure all files are sufficiently backed up and stored offsite.</p>
<p>Report No. 2</p> <p>Audit of the Grant and Contract Management System</p> <p>Report Issued: July 19, 2007</p>	<p>To determine if there is an effective grant and contract establishment process that holds grantees and contractors accountable for delivery of quality services, prevents the inappropriate or inefficient use of state funds, and includes all required and necessary grant and contract provisions.</p>	<p>TSSWCB uses a variety of different documents to contract for services, some of which lack necessary administrative contract provisions.</p> <p>Recommendation 1: <i>TSSWCB should work with its representative from the Attorney General's Office to establish a standard contract template that contains standard administrative contract provisions, clearly specifies the scope of work, payment rates for specific staff, scheduled deliverables, etc. for use in contracting with vendors, individuals or entities other than local soil and water conservation boards.</i></p>	<p>Implemented</p>	<p>Ensure that TSSWCB contracts are uniform and contain all necessary provisions.</p>

TSSWCB Report on Status of Implementing FY 2007 Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Report No. 2 Audit of the Grant and Contract Management System Report Issued: July 19, 2007	To determine if there are effective grant and contract monitoring functions that focus on both outcomes and compliance with grant and contract requirements.	New requirements for the SWCDs have not yet been incorporated into the Manual of Fiscal Operations. <i>Recommendation 2: The Manual of Fiscal Operations should be revised at the next available opportunity to include all new requirements communicated to the SWCDs and all reporting requirements and forms such as the Technical Assistance Grant Program Performance Report.</i>	Implemented	Provide Soil and Water Conservation Districts with a comprehensive document outlining all currently required procedures and requirements.

TSSWCB Report on Status of Implementing FY 2007 Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Report No. 2 Audit of the Grant and Contract Management System Report Issued: July 19, 2007	To determine if there are effective grant and contract monitoring functions that focus on both outcomes and compliance with grant and contract requirements.	Compliance with grant requirements is not always documented when monitoring is performed during field visits. <i>Recommendation 3: A standardized monitoring report should be developed that incorporates key compliance requirements established for the grant funds issued to the SWCDs. A brief one to two page checklists with a place for comments or corrective action needed should be used to document the results of field visits. Reports should be prepared by field personnel, provided to the SWCD and forwarded to headquarters for inclusion in the grant files.</i>	Not Implemented Management believes the current process used by the field representatives coupled with the daily activity reports they prepare provides an appropriate mechanism for ensuring compliance with grant requirements and adequately documents the monitoring performed by the field representatives.	Ensure documentation of all compliance requirements established for grant funds.

TSSWCB Report on Status of Implementing FY 2007 Audit Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
	To determine if there is an effective grant and contract closeout and evaluation process for determining whether grants and contracts achieved the desired purpose.	<p>The current grant closeout process is not documented using a checklist or form that identifies the closeout actions taken</p> <p>Recommendation 4: <i>TSSWCB should develop written grant and contract closeout checklists based on current procedures and best practices outlined in Chapter 8 of the State of Texas Contract Management Guide.</i></p>	<p>Planned Target date for completion is 12/31/08.</p>	<p>Document that all necessary actions to closeout the fiscal year grants have been completed and all required claims, refunds and reports have been submitted.</p>

**Texas State Soil and Water Conservation
Board Internal Audit of Poultry Water
Quality Management Plan Program**

Final Report

As Approved by the TSSWCB Board on

September 18, 2008

As Prepared by
Jansen & Gregorczyk
Certified Public Accountants

TSSWCB Internal Audit of the Poultry WQMP Program
Final Report – September 18, 2008

TABLE OF CONTENTS

Auditor's Transmittal Letter 2

Executive Summary 3

Audit Background, Purpose and
Scope.....4

Audit Results and Recommendations 5

**TSSWCB Internal Audit of the Poultry WQMP Program
Final Report – September 18, 2008**

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September 18, 2008

Members of Board
Texas State Soil and Water Conservation Board

The following report provides the results and recommendations noted during the internal audit of the Poultry Water Quality Management Plan Program.

The internal audit was conducted in accordance with generally accepted government auditing standards and *Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

**TSSWCB Internal Audit of the Poultry WQMP Program
Final Report – September 18, 2008**

EXECUTIVE SUMMARY

Audit Purpose

The purpose of the internal audit of was to determine if there are adequate internal controls and effective procedures for managing Poultry WQMP Program funds and contracts, developing WQMPs for poultry operators, performing annual status reviews of WQMPs, responding to complaints about poultry operators with WQMPs, and performing Confined Animal Feed Operations (CAFO) inspections to be submitted to the Texas Commission on Environmental Quality (TCEQ).

Key Audit Observations

- There are adequate internal controls and effective processes for budgeting, expending and reporting on funds for the poultry WQMP program.
- Headquarters has adequate internal controls and effective processes for managing all contracts for the poultry WQMP program. All contracts contain adequate contract provisions and clearly defined scope of work and deliverables.
- Effective quality control measures are in place to ensure that the poultry Water Quality Management Plans (WQMP) prepared by the Texas State Soil and Water Conservation Board (TSSWCB) are consistently prepared following established guidelines.
- Effective processes have been established at the poultry WQMP program field offices for performing status reviews of conservation practices contained in WQMPs for poultry producers.

- Testing of a sample of complaints processed in FY 2008 indicated compliance with the administrative rule and complaint policy until approximately mid-May, 2008. While the investigation reports and follow-up actions have continued to be timely completed, the paperwork necessary to complete the investigation and properly contact the required parties has lagged behind. The log information required by the policy has not been consistently completed since mid-June 2008.
- Because there is no administrative staff available in the field office, the supervisor has to prepare the letters, certified mail tags and log updates himself. In addition, the new CAFO inspections will also significantly increase the administrative workload of the Poultry Program Supervisor. These significantly increased clerical and administrative burdens would be more cost-effectively completed by an administrative assistant, rather than the Poultry Program Supervisor.
- Overall, the TSSWCB Concentrated Animal Feeding Operations (CAFO) inspection program is ready for implementation except for the tracking and reporting requirement.

Management's Response

Management concurs with the findings and recommendations made in the report.

TSSWCB Internal Audit of the Poultry WQMP Program
Final Report – September 18, 2008

**AUDIT BACKGROUND,
PURPOSE AND SCOPE**

In 1993, the seventy-third Legislature passed Senate Bill 503 which designated TSSWCB as the lead agency to abate agricultural and silvicultural nonpoint source pollution in Texas. The bill authorized the establishment of a water quality management plan (WQMP) program and created a cost-share program to provide agricultural and silvicultural producers an opportunity to comply with state water quality laws through traditional voluntary incentive-based programs.

In 2001, the 77th Legislature amended the Texas Water Code to require all persons who own or operate a poultry facility to implement and maintain a water quality management plan that is certified by the State Soil and Water Conservation Board. The new law provides a staggered-schedule of deadlines by which each producer, depending on their initial date of operation, must have requested the development of a WQMP from their local Soil and Water Conservation District. All known poultry facilities in Texas currently operate under a certified Water Quality Management Plan.

The Legislature appropriated \$550,000 each year in the current biennium (FY 2008-09) for additional administrative costs associated with the preparation of water quality management plans for poultry operators. An office was established in Nacogdoches to oversee the poultry water quality management program.

The purpose of the internal audit of was to determine if there are adequate internal controls and effective procedures for managing Poultry WQMP Program funds

and contracts, developing WQMPs for poultry operators, performing annual status reviews of WQMPs, responding to complaints about poultry operators with WQMPs and performing Confined Animal Feed Operations (CAFO) inspections to be submitted to the Texas Commission on Environmental Quality (TCEQ).

Audit work was performed at the Temple and Nacogdoches offices. The scope of internal audit work included review and testing of the following areas:

- Budgeting, expending and reporting on program funds;
- Poultry WQMP Program contacts;
- Water Quality Management Plan (WQMP) development and certification;
- Annual status reviews of WQMPs;
- Complaint processing; and
- CAFO) inspections.

Specific audit objectives were developed and coordinated with TSSWCB management. These audit objectives and the results of our audit work are reported in the following section, "Audit Results and Recommendations."

TSSWCB Internal Audit of the Poultry WQMP Program
Final Report – September 18, 2008

**AUDIT RESULTS AND
RECOMMENDATIONS**

The results and recommendations of the internal audit are presented in this section for the six audit objectives that were established and coordinated with TSSWCB management.

***Audit Objective 1:** Determine if headquarters has adequate internal controls and effective processes for budgeting, expending and reporting on funds for the poultry WQMP program.*

There are adequate internal controls and effective processes for budgeting, expending and reporting on funds for the poultry WQMP program. The finance officer is responsible for budgeting and reporting on the poultry WQMP program. An appropriate budgeting system has been established and regular financial reports are provided to the executive director and the Board.

Audit testing of poultry WQMP expenses indicated that all expenses were correctly paid, adequately documented and appropriately charged to the poultry WQMP program except one. One expenditure charged to the program, although not material, was an agency-wide joint charge that should have only been partially charged to the poultry program.

Recommendation 1: *The finance officer should ensure that only costs directly related to the poultry program are charged 100% to the program. Any joint costs should be allocated to the poultry program based on the number of full-time equivalent*

(FTEs) in the poultry program as compared to the number of agency FTEs.

TSSWCB Management Response: Concur. The Finance Officer will ensure that any joint costs are appropriately charged.

Responsible employee title: Finance Officer
Target date for completion: Implemented

***Audit Objective 2:** Determine if headquarters has adequate internal controls and effective processes for managing all contracts for the poultry WQMP program.*

Headquarters has adequate internal controls and effective processes for managing all contracts for the poultry WQMP program. All contracts contain adequate contract provisions and clearly defined scope of work and deliverables. Quarterly performance reports must be submitted for each contract and contract payments are not made until approved by the contract manager. A contract closeout process has been established to ensure all deliverables have been provided before final payment is made.

Recommendations: *None.*

***Audit Objective 3:** Determine if there are effective quality control processes at the poultry WQMP program field offices for developing and recertifying WQMPs for poultry producers.*

Effective quality control measures are in place to ensure that the poultry Water Quality Management Plans (WQMP) prepared by the Texas State Soil and Water Conservation Board (TSSWCB) are

TSSWCB Internal Audit of the Poultry WQMP Program
Final Report – September 18, 2008

consistently prepared following established guidelines. The processes for preparing the initial WQMP are well established and documented both at the Temple headquarters office and in the field offices where the plans are written. These guidelines aid the technician in understanding the process for preparing a WQMP and developing the actual workflow that goes into the plan. However, the plan itself is written largely with reference to the Natural Resources Conservation Services (NRCS) Field Office Technical Guide and other documentation prepared by the TSSWCB. TSSWCB has developed several documents that guide employees in preparing a WQMP. The agency has prepared a complete sample plan showing all the documentation that can be included in the WQMP. While not every WQMP will contain every document shown in the sample WQMP, the sample is an excellent guide. By checking the sample, an employee can determine all the potential documents that may be needed to complete the WQMP. In addition, the sample plan also is illustrative of how the plan must be organized in accordance with the Field Office Technical Guide.

In addition to the sample WQMP, the agency developed a one page checklist entitled “Order of Plan” designed primarily to show how the WQMP should be organized to ensure that all the needed documents have been included in the final product.

Employees also receive training before they begin developing WQMPs. Training for new employees in developing WQMPs begins with a mentor based, hands-on training approach. Veteran personnel are paired up with the new person and the new person is shown the procedures in the field and the

office. Training is also provided on how to use software involved in developing WQMPs and other technical areas such as nutrient management. It is clear that the TSSWCB technicians are provided training for properly developing WQMPs and understanding the process by which the plan is certified.

The final step in ensuring quality control over the poultry WQMPs is the review and approval by the poultry program supervisor, who reviews the WQMPs and recertification drafts before they are sent on for subsequent certification.

Recommendations: None.

Audit Objective 4: Determine if effective processes have been established at the poultry WQMP program field offices for performing status reviews of conservation practices contained in WQMPs for poultry producers.

Effective processes have been established at the poultry WQMP program field offices for performing status reviews of conservation practices contained in WQMPs for poultry producers. A status review is an onsite review to check the status of the WQMP and see if anything significant has changed since the plan initially went into effect or was last revised. The procedure for performing a status review is outlined in the TSSWCB Reference Guide. A status review report (generally just a page long) is completed and any changes noted. If the producer has changed things, then recertification occurs.

A sample was taken from all status review reports that were available for review in the Nacogdoches field office to determine if the reviews were conducted and documented

TSSWCB Internal Audit of the Poultry WQMP Program
Final Report – September 18, 2008

using the established procedures in the TSSWCB Reference Guide. This review indicated that the agency is following the established criteria for performing status reviews. Timely follow-up action was taken for all reviews tested where problems were noted.

Recommendations: None.

Audit Objective 5: *Determine if effective processes have been established at the poultry WQMP program field offices for receiving, investigating and responding to complaints involving WQMPs for poultry producers.*

The Texas Soil and Water Conservation Board Regional Offices provide first response services on complaints concerning certain nonpoint source water discharges, including those associated with poultry production and holders of water quality management plans. The types of complaints handled by the TSSWCB are delineated in the Texas Administrative Code, Title, 31, Sec. 523.4. In addition, in January, 2008, the TSSWCB approved a new complaint policy and supplemental procedures for handling nonpoint source agricultural and silvicultural water quality and dry-litter poultry complaints. The new policy elaborates on the type of complaints that TSSWCB personnel will handle and which complaints are properly referred to the Texas Commission on Environmental Quality (TCEQ). In addition to clarifying some jurisdictional issues, the new policy also establishes detailed procedures for responding to complaints. Together, these two sources comprise the basis for TSSWCB's response to complaints.

The TSSWCB complaint policy requires that all complainants be contacted within

two working days of the complaint to ensure that the complainant knows the complaint is being processed. A visit to the site must be scheduled within five working days. Upon receipt the complaint is logged in and given a reference number by the appropriate TSSWCB regional office. The field office dispatches personnel to conduct an investigation and prepare a report concerning the complaint. The investigator prepares the report using a form also found in the policy. A copy of the report is sent to the local SWCD and is reviewed and signed by the TSSWCB Regional Manager. Where appropriate, TCEQ is notified by letter of the investigation findings. The producer is required by the TSSWCB to take corrective action if a valid complaint is detected and the poultry producer is in violation of their WQMP. If the complaint is valid, and the producer will not or can not take corrective action, the complaint is referred to TCEQ.

While there are no deadlines established for conducting the investigation in either the administrative rule or the complaint policy, the policy contains timeframes for contacting the complainant, the producer and agencies that are involved in enforcement of these and related pollution laws.

The Poultry Program Supervisor supervises all TSSWCB personnel that are responsible for investigating poultry and WQMP complaints. This comprises seven personnel located in several local TSSWCB and SWCD offices in areas where poultry production is concentrated. While he handles many complaint investigations himself, he also supervises and reviews all complaint reports performed by these personnel.

TSSWCB Internal Audit of the Poultry WQMP Program
Final Report – September 18, 2008

Testing of a sample of complaints processed in FY 2008 indicated compliance with the administrative rule and complaint policy until approximately mid-May, 2008. While the investigation reports and follow-up actions have continued to be timely completed, the paperwork necessary to complete the investigation and properly contact the required parties has lagged behind. The log information required by the policy has not been consistently completed since mid-June 2008. As a result of a significant increase in the number of complaints over the last year (70 this fiscal year to date), the program supervisor has been unable to keep up with the increased paperwork. Because there is no administrative staff available in the field office, the supervisor has to prepare the letters, certified mail tags and log updates himself. Thus, while the investigations and follow-ups to ensure correction have been timely completed, it is clear that the report documentation and final contacts are not being completed in a timely fashion. In addition, as discussed in Audit Objective 6, the new CAFO inspections will also significantly increase the administrative workload of the Poultry Program Supervisor. These significantly increased clerical and administrative burdens would be more cost-effectively completed by an administrative assistant, rather than the Poultry Program Supervisor.

Recommendation 2: *Executive management should work with the Poultry Program Supervisor to determine the best means of addressing the significant increase in administrative responsibilities the office has experienced and will continue to experience.*
TSSWCB Management Response: The Executive Director will task the Statewide Programs Officer, the Regional Office Coordinator and the Poultry Program

Supervisor to come up with alternatives to address the timely completion of the administrative and clerical duties of the Poultry Program office.

Responsible employee title: Statewide Programs Director, Regional Office Coordinator and Poultry Program Supervisor

Target date for completion: 11/30/08

Audit Objective 6: *Determine if effective processes have been established for performing, administering, reporting and filing Confined Animal Feeding Operation (CAFO) inspections for the Texas Commission on Environmental Quality (TCEQ).*

The Concentrated Animal Feeding Operation (CAFO) inspection process is a relatively new function for the Texas State Soil and Water Conservation Board. The poultry program inspection process is consistent with the Texas Commission on Environmental Quality (TCEQ) Pollution Prevention Plan (PPP) inspection process. The role of the TSSWCB was initiated by a Letter of Agreement between the TCEQ and TSSWCB amending an existing Memorandum of Understanding made earlier between those parties. The Letter of Agreement noted that a majority of dry litter poultry operations already have a WQMP in place that meets the requirements of the TCEQ's PPP. Because of this, the TCEQ agreed that the TSSWCB should assume compliance monitoring regarding the dry-litter, poultry CAFO operations where the owner (producer) has a certified WQMP in place. TSSWCB officially begins the inspection program on September 1, 2008.

TSSWC retained a consultant to assist in preparing the CAFO inspection form,

**TSSWCB Internal Audit of the Poultry WQMP Program
Final Report – September 18, 2008**

selection process and advise the agency on other issues relating to the inspection program. TSSWCB has also held a number of regional meetings in areas exhibiting a concentration of CAFO qualified poultry operations in Texas. The purpose of these meetings was to introduce to the producers the rules, selection process and inspection procedures that TSSWCB will follow in CAFO inspections.

A review was conducted of the TCEQ CAFO Rules to ensure that the TSSWCB Poultry Farm Inspection Form included all necessary information to ensure that the producers were operating in accordance with the key provisions of the rule. The report form appears to be complete for ensuring that all essential information will be gathered by TSSWCB inspectors for a determination of whether the producer is in compliance with his WQMP and the CAFO rules.

The TSSWCB has developed an efficient plan for selecting the farms that will be inspected in a given year. Because there are approximately 500 CAFO qualifying poultry farms currently in operation, the plan is that 20% will be inspected each year and all will have an inspection within five years of initiation of the program. The hierarchy for selection is based on a tiered approach. The hierarchy is as follows:

- citizen complaints;
- a history of WQMP non-compliance;
- time elapsed time since the last review; and
- random selection (at the regional office level).

No farm will undergo an additional CAFO inspection until all farms have been inspected, although other investigations and inspections related to complaints and

periodic WQMP status reviews will continue as needed.

All CAFO inspections will be coordinated and managed through the poultry program supervisor. All inspection reports will be prepared using the same form. However, the TSSWCB has not completed the steps needed to assure that the results of the CAFO inspections can be electronically communicated to and tracked by the TCEQ. The TSSWCB has taken steps to modify its TOCA data base (used currently for tracking WQMPs) to also track the results of the inspections, but the process is not yet complete. The electronic reporting system associated with the CAFO inspection reports should be completed as soon as possible to ensure that the results of the inspections are transmitted efficiently to TCEQ.

Overall, the TSSWCB CAFO inspection program is ready for implementation except for the tracking and reporting requirement. The inspections have actually already begun. A review of the completed inspection forms filed in the Nacogdoches Field Office indicates that the form is being properly filled out, reviewed by the program supervisor and processed.

Recommendations: None.

**Texas State Soil and Water
Conservation Board
Internal Audit Annual Report
for FY 2008**

October 7, 2008

As Prepared by
Jansen and Gregorczyk,
Certified Public Accountants

Texas State Soil and Water Conservation Board - FY 2008 Internal Audit Annual Report

Jansen & Gregorczyk
Certified Public Accountants

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P. O. Box 601
Kyle, TX 78640

October 7, 2008

The Honorable Rick Perry, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Mr. John Keel, CPA, State Auditor

Dear Ladies and Gentlemen:

Attached is a report on the internal activity at the Texas State Soil and Water Conservation Board as required by the Texas Internal Auditing Act. The report provides a summary of audits completed and significant recommendations for fiscal year 2008.

Please contact Mr. Kenny Zajicek, Chief Audit Executive, at (254) 773-2250, extension 236 if you desire further information about the contents of this report.

Sincerely,

SIGNED COPY ON FILE

Russell Gregorczyk, Partner
Jansen & Gregorczyk, CPAs
Contract Internal Audit Firm for TSSWCB

TABLE OF CONTENTS

Section 1: Internal Audit Plan for FY 2008 1

Section 2: External Quality Assurance Review 3

Section 3: Key Audit Findings/Recommendations 7

Section 4: Consulting Engagements and Non-Audit Services Completed 16

Section 5: Organizational Chart 16

Section 6: Report on Other Internal Audit Activities 16

Section 7: Internal Audit Plan for FY 2009 16

Section 8: External Audit Services 18

I. Audit Plan for Fiscal Year 2008

All audits in the audit plan were completed as scheduled.

**TEXAS STATE SOIL AND WATER CONSERVATION BOARD
FY 2008 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, 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 and goals, and whether the operations or programs are being carried out as planned.

The FY 2008 Internal Audit Plan for the Texas State Soil and Water Conservation Board is based on the risk assessment performed in July 2007. Only one audit in the Maximum Risk category is planned for audit (Accounting System and Controls) because one of the other audit topics (Regional Office Cost Share Administration) was audited in FY 2005 and the other topic (Total Maximum Daily Load Program) is a newly funded program that will be implemented during FY 2008 and should not be considered for audit until FY 2009. The audit of Accounting System and Controls will also include Travel Policies and Procedures, since an audit of this area has not been performed since FY 2001.

Texas State Soil and Water Conservation Board - FY 2008 Internal Audit Annual Report

One potential auditable topic ranked as high risk is proposed for audit in the Internal Audit Plan for FY 2008. This is an audit of the Poultry Water Quality Management System. This audit was included in the FY 2007 audit plan, but was postponed.

One potential audit (Purchasing System and Controls) in the low risk category is included in the audit plan because this audit is required to be audited on a periodic basis and it has not been audited since FY 2003. This audit will include an audit of Inventory and Fleet Management since these functions have never been audited and they are performed by the same staff person who performs Purchasing. The audit will focus on evaluating the compliance with state purchasing laws and the effectiveness and efficiency of purchasing procedures. Inventory and Fleet Management will also be audited for compliance with state requirements and effectiveness and efficiency of operating procedures.

The audit of the Accounting System and Accounting Internal Controls will focus on evaluating the adequacy of the accounting system and the effectiveness of accounting internal controls. Compliance with state laws and Comptroller requirements will be evaluated, as well as the effectiveness and efficiency of accounting procedures. The reliability and integrity of financial reporting will also be included within the scope of audit work.

An audit of the Poultry Water Quality Management Program has never been performed. This audit will focus on the effectiveness and efficiency of processes for carrying out the TSSWCB water quality management planning for poultry operations and compliance with any statutory requirements regarding water quality management planning for poultry operations.

In addition to these proposed audits and audit work, a report will be issued on the status of recommendations made for all audits performed in FY 2006. The annual internal audit report for FY 2007 will be prepared and finally a risk assessment will be performed and an audit plan developed for FY 2009.

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

- Prepare Annual Internal Audit Report for FY 2007 – 6 hours (October 2007)
- Audit of Purchasing, Inventory & Fleet Management- 100 hours (November 2007 to December 2007)
- Audit of Poultry Water Quality Management Program – 80 hours (February 2008 to March 2008)
- Prior Years Audit Follow-up Reviews – 6 hours (March 2008)
- Audit of Accounting and Travel – 100 hours (May 2008 to June 2008)
- Update Risk Assessment and Prepare FY 2009 Audit Plan – 8 hours (July 2008)

II. External Quality Assurance Review

Texas State Soil and Water Conservation Board July 2006

Executive Summary

As required by the Texas Internal Auditing Act (article 6252-5d, V.A.C.S.), the Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing, (Standard 1312 – External Assessments), and the Government Accountability Office's (GAO) Government Auditing Standards, an external quality assurance review (QAR) was conducted of the Texas State Soil and Water Conservation Board' (TSSWCB) internal audit activity. The Texas Internal Auditing Act requires that internal auditors, for agencies meeting the requirements of the Act, conduct a comprehensive external peer review, also known as a quality assurance review, every three years. An external quality assurance review, as part of a quality assurance program, is intended to provide reasonable assurance that internal audit work is being conducted in accordance with professional standards.

The principal objectives of the review were to assess whether the internal audit activity at TSSWCB conforms to the Texas Internal Auditing Act and whether Jansen & Gregorczyk, Certified Public Accountants (the Contractor), is performing the work in compliance with professional standards. Also, during the review an attempt was made to identify opportunities that would enhance the audit process and improve the value of the internal auditing activity at TSSWCB.

Contracting for internal auditing services has been a very efficient and effective way for smaller agencies to meet the requirements of the Texas Internal Auditing Act. Because TSSWCB cannot utilize a full-time internal staff to conduct internal audits, it has an agreement with an outside contractor to conduct its internal auditing work. While 35% of the available staff hours of in-house internal audit departments will typically be used for tasks not directly related to individual audit projects (holidays, vacations, administration, training, etc.), TSSWCB only pays for the hours spent directly on their audit projects. Any inefficiency in performing the work is at the risk of the Contractor because the project hours and costs are reviewed and approved by the Board in advance of the work being performed. This approach is very efficient for small agencies and also helps insure that the agency undertakes only worthwhile audit projects.

The scope of the review included a review of existing internal auditing policies, procedures, and audit project workpaper files, as well as interviews with a member of the Board, the Chief Financial Officer, and the Contractor's staff.

The Internal Audit Charter, reporting relationships, communications with the Board, the Executive Director, and the objectivity of the work performed were reviewed to determine the independence of the Contractor. An examination of the Contractor's administrative records and a review of selected workpapers were done to evaluate the staff's knowledge, skills, discipline and training. An inventory of current audit work and the scope and performance of the audit work that had been performed was evaluated. A review was also conducted of the risk assessment and audit planning processes, and the Contractor's engagement and staff management processes.

**Overall
Opinion**

Based on the work outlined above, it is the opinion of the reviewer that the internal audit activity, at the Commission for State Emergency Communications, is in accordance with the Texas Internal Auditing Act, and the audit work being performed by the Contractor fully complies with applicable professional standards.

This opinion, representing the best possible evaluation, means that the Texas State Soil and Water Conservation Board, and the Contractor, have in place the relevant structures, policies, and procedures, including the processes by which they are applied, that comply with the Texas Internal Auditing Act and the professional standards in all material respects.

Mr. Russell Gregorczyk, CPA, a principal in the Contract firm, manages the audit work conducted at TSSWCB. He has extensive audit experience, is well respected and has a good relationship with both agency management and the Board.

His reporting relationship to the Board and his communication with the Board complies with the requirements of the Texas Internal Auditing Act and enables him to be independent and have an impartial and unbiased attitude, essential to the proper conduct of audit work. He annually performs a thorough risk assessment and develops an audit plan that is reviewed and approved by the Board.

A review of selected workpapers showed that Mr. Gregorczyk's staff is proficient and knowledgeable in the areas they review. He makes available continuing professional education and training for his staff. Each staff member receives, on average, 40 hours of internal audit related training each year. Mr. Gregorczyk and his staff have extensive experience with Texas government agencies.

The workpapers that were reviewed showed that individual audit projects are well planned and audit conclusions and recommendations are adequately supported. The workpapers were very professionally prepared and supported levels of professional care appropriate for the complexities of the work being performed. The audit programs were appropriately referenced to the audit steps and tests performed during the audit and the support for the conclusions expressed in the audit reports. They contained evidence that they are thoroughly reviewed by Mr. Gregorczyk before audit reports were issued.

While the internal activity at TSSWCB is complying with the Texas Internal Auditing Act and the Contractor is fully complying with professional standards, there are opportunities that could improve the activity that should be considered. The following comments and recommendations are intended to build on the foundation that is already in place with the objective of further improving the value and the effectiveness of the audit work being performed.

Recommendations

The recommendations are divided into two groups:

- **Part I - Matters for the consideration of the Board and the Executive Director.** Those that concern TSSWCB as a whole and suggest actions that can be taken by the Board and Executive Director. We believe these recommendations will be useful because they impact the effectiveness and efficiency of the internal auditing activity overall and the value it can add.
- **Part II - Improvement opportunities specific to the internal audit activity.** Those that relate to the internal auditing activity's structure, staffing, deployment of resources, and other matters that should be implemented by the Contractor, with the support of the Executive Director.

The implementation of these recommendations will enhance the internal audit activity at the Texas State Soil and Water Conservation Board and improve the value, efficiency and effectiveness of the services being provided by Jansen & Gregorczyk, Certified Public Accountants.

Part I - Matters for the consideration of the Board and the Executive Director.

1. The Executive Director should maintain a quarterly schedule of the status of open recommendations and share that schedule with the Board each time it meets. This would enable the Board to better oversee the prompt implementation by management of the recommendations to which it has agreed. This quarterly status schedule would be more effective if the recommendations were classified as to their significance (high, medium, low), and presented in a simplified matrix format (spreadsheet) that shows whether or not they have been implemented according to the action plan to which management committed in the audit report.

2. TSSWCB management when responding to the recommendations contained in an audit draft report from the internal audit Contractor, should include in their response an action plan for the implementation of the recommendation. The action plan should identify the individual who will be directly responsible for the implementation of each recommendation and the date that management has committed to having each recommendation implemented. This would enable the Contractor to efficiently and effectively follow up and report to the Board the status of prior recommendations.

Part II - Improvement opportunities specific to the internal audit activity

Audit workpapers provide the principal support for an audit report and aid in the supervision of the work being performed. Workpapers also allow for the review of the quality of the audit work by providing a reviewer written documentation of the evidence supporting an auditor's conclusions and recommendations.

A review of selected workpapers showed that the work performed by the Contractor was meeting the intended audit objectives. The workpapers contained evidence that the audits were well planned and included objectives, an appropriate scope of work, background information, evidence of audit tests, and summaries of the purpose, procedures performed, results, conclusions, and recommendations.

However, in the workpapers that were reviewed, the references forward from the steps in the audit program to where the work was performed, and then to the disposition of any findings or observations, (audit report, discussion, etc.), were not always clear. While it was noted that findings and observations in the various sections of the workpapers appeared to always be included in the audit report, it was difficult to follow each item to a final disposition.

The Contractor should consider referencing each finding or observation item to a schedule or point sheet. The items on the point sheet could then be documented as to the disposition of the item. (Audit report, discussion, etc.). This approach would aid in any review of the audit workpapers and help insure that all findings and observations are properly addressed.

A handwritten signature in black ink, appearing to read "Richard Tarr". The signature is fluid and cursive, with a large initial "R" and "T".

Richard Tarr, CIA, CISA

III. Key Audit Findings/Recommendations

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
Report No. 1 Audit of Purchasing, Property and Fleet Management Functions Report Issued: January 17, 2008	To determine if purchases and purchasing procedures comply with state laws and regulations governing the various types of purchases made by TSSWCB.	Several purchases tested had minor errors in the procedures used or lacked adequate documentation. <i>Recommendation 1: The purchaser should use the Texas Comptroller of Public Accounts Post- Payment & Procurement Review Agency Document Checklist found in Section 3.0 of the State of Texas Procurement Manual to ensure that all necessary documentation is included in future purchase files.</i>	Fully Implemented	Ensure that all necessary documentation is included in future purchase files.
		Some of the emergency “spot purchases” sampled during the audit were made without a purchase requisition or a purchase order. <i>Recommendation 2: The TSSWCB internal purchasing procedures should be amended to clearly define what constitutes a spot purchase. The current practice of using spot purchases should be reviewed to ensure that the use of spot purchases is minimized and preference is given to the use of purchase orders when making purchases.</i>	Fully Implemented	Clearly establish what constitutes a spot purchase in order to reduce waste and ensure that the use of spot purchases is not abused.

Texas State Soil and Water Conservation Board - FY 2008 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Report No. 1</p> <p>Audit of Purchasing, Property and Fleet Management Functions</p> <p>Report Issued: January 17, 2008</p>	<p>To determine if purchases and purchasing procedures comply with state laws and regulations governing the various types of purchases made by TSSWCB.</p>	<p>One significant purchase did not comply with state purchasing requirements primarily due to the fact that the agency’s purchaser was out of the office on leave at the time the purchase was made.</p> <p>Recommendation 3: <i>To reduce the risk in having only one person available to make agency purchases, an additional staff member should receive the training necessary to be able to make purchases up to \$25,000.</i></p>	Fully Implemented	<p>Improve compliance with state purchasing requirements by training a staff member to act as a back-up purchaser, if necessary.</p>
	<p>To determine if there are effective and efficient processes for performing the agency property management functions and if the property management functions comply with all statutes and administrative rules governing property management by state agencies.</p>	<p>While the TSSWCB has a good record of securing its property, there is some exposure to theft since there are no security fences or secure storage buildings at TSSWCB headquarters or field offices in which to store property such as four-wheelers and tools.</p> <p>Recommendation 4: <i>TSSWCB should investigate the feasibility of renting secure storage buildings to better secure small vehicles and tools in those locations where there is no other viable alternative for securing and protecting equipment from damage and/or theft.</i></p>	Fully Implemented	<p>Potentially reduce theft of TSSWCB property and equipment.</p>

Texas State Soil and Water Conservation Board - FY 2008 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Report No. 1</p> <p>Audit of Purchasing, Property and Fleet Management Functions</p> <p>Report Issued: January 17, 2008</p>	<p>To determine if there are effective and efficient processes for performing the agency fleet management functions and if the fleet management functions comply with all statutes and administrative rules governing fleet management by state agencies.</p>	<p>TSSWCB is properly and timely reporting all required data in the Vehicle Fleet Focus Data Base, with one exception: repair or maintenance downtime is not shown on the reporting form as required.</p> <p>Recommendation 5: <i>Vehicle repair and maintenance downtime should be added to the Monthly Vehicle report logs.</i></p>	<p>Fully Implemented</p>	<p>Ensure complete compliance with the Office of Vehicle Fleet Management Plan.</p>

Texas State Soil and Water Conservation Board - FY 2008 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Report No. 2</p> <p>Audit of Accounting, Payroll & Travel Systems and Controls</p> <p>Report Issued: September 18, 2008</p>	<p>To determine if there are adequate internal controls over purchase voucher and interagency transaction processing, if the procedures are effective and efficient, and if purchase and interagency transaction vouchers are being processed in a timely manner.</p>	<p>Payment processing documentation is excellent with one minor exception: the part-time bookkeepers for the Soil and Water Conservation Boards (SWCDs) often submit incorrect requests for grant payments that must be corrected before payment can be made.</p> <p>Recommendation 1: <i>When a change is made on a payment voucher or on a request for payment, the reasons for the change should be documented, including the person at the SWCD who approved the change.</i></p>	<p>Fully Implemented</p>	<p>Reduce time spent on grant payment requests, and improve documentation of such requests.</p>
		<p>Payments made to Technical Service Providers are often based on a brief one-page contract with the individual that establishes the hourly rate and invoice processing procedure, but little else.</p> <p>Recommendation 2: <i>TSSWCB should have the agency's Attorney General's Office representative determine if a more comprehensive contract similar to the professional services contract should be used to contract with Technical Service Providers.</i></p>		

Texas State Soil and Water Conservation Board - FY 2008 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Report No. 2</p> <p>Audit of Accounting, Payroll & Travel Systems and Controls</p> <p>Report Issued: September 18, 2008</p>	<p>To determine if there are adequate internal controls and effective and efficient procedures for accounting for direct billings used for payment of travel expenses.</p>	<p>Currently, the agency does not obtain any information from the airlines to substantiate the validity of the airline charges made to the JP Morgan Chase Corporate Business Travel Account.</p> <p>Recommendation 3: <i>Employees and board members using the agency credit card to book airline travel should forward an email confirmation of the airline charges to the administrative coordinator to be used to validate and support the monthly credit card payments that are made.</i></p>	<p>Fully Implemented</p>	<p>Ensure that all travel charges and credits are accurate before payment is made.</p>

Texas State Soil and Water Conservation Board - FY 2008 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Report No. 2</p> <p>Audit of Accounting, Payroll & Travel Systems and Controls</p> <p>Report Issued: September 18, 2008</p>	<p>To determine if there are adequate internal controls over the processing of incoming revenues and deposit vouchers, if the procedures are effective and efficient, and if deposits are being processed in accordance with required state time frame.</p>	<p>Currently, the agency does not reconcile the cash receipts log to the deposits made at the Treasury in order to ensure that all cash/checks received by the agency are actually deposited. This could result in a failure to make a deposit without any record that the checks/cash was received by the agency.</p> <p>Recommendation 4: <i>Management should evaluate the risk posed by the current procedures for receiving and depositing checks/cash in the Treasury and determine whether the current procedures should be revised to address the internal control weakness.</i></p>	<p>Fully Implemented</p>	<p>Reduce the risk that incoming checks/cash could be lost, stolen or otherwise not deposited into the Treasury.</p>

Texas State Soil and Water Conservation Board - FY 2008 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Report No. 2</p> <p>Audit of Accounting, Payroll & Travel Systems and Controls</p> <p>Report Issued:</p> <p>August 14, 2008</p>	<p>To determine if there are adequately documented and up-to-date accounting policies and procedures.</p>	<p>Some accounting procedures are highly summarized and not adequate as instructions for another staff member.</p> <p><i>Recommendation 5: The accounting policies and procedures should be reviewed, revised where necessary to add adequate detail of all processing steps and revision dates should be included on each procedure. Ideally, a standardized format should be used, with a procedure number reference so that all procedures can be easily found and followed when there is a need to do so.</i></p>	<p>Incomplete/Ongoing</p> <p>Target date for completion is January 1, 2009.</p>	<p>Ensure that all accounting procedures can be easily found and followed if necessary by staff members that may be unfamiliar with the current procedures.</p>

Texas State Soil and Water Conservation Board - FY 2008 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Report No. 3</p> <p>Audit of Poultry Water Quality Management Plan Program</p> <p>Report Issued: September 18, 2008</p>	<p>To determine if headquarters has adequate internal controls and effective processes for budgeting, expending and reporting on funds for the poultry WQMP program.</p>	<p>All expenses were correctly paid, adequately documented and appropriately charged to the poultry WQMP program with one exception. One expenditure charged to the program, although not material, was an agency-wide joint charge that should have only been partially charged to the poultry program.</p> <p><i>Recommendation 1: The finance officer should ensure that only costs directly related to the poultry program are charged 100% to the program. Any joint costs should be allocated to the poultry program based on the number of full-time equivalent (FTEs) in the poultry program as compared to the number of agency FTEs.</i></p>	<p>Fully Implemented</p>	<p>Ensure that only costs directly related to the poultry program are charged 100% to the program.</p>

Texas State Soil and Water Conservation Board - FY 2008 Internal Audit Annual Report

Rpt No./ Name/Date	High Level Audit Objectives	Findings/ Recommendations	Status	Impact
<p>Report No. 3</p> <p>Audit of Poultry Water Quality Management Plan Program</p> <p>Report Issued: September 18, 2008</p>	<p>To determine if effective processes have been established at the poultry WQMP program field offices for receiving, investigating and responding to complaints involving WQMPs for poultry producers.</p>	<p>Because of a significant increase in the number of complaints over the last year, the program supervisor has been unable to keep up with the increased paperwork. While the investigations and follow-ups to ensure correction have been timely completed, the report documentation and final contacts are not being completed in a timely fashion.</p> <p>Recommendation 2: <i>Executive management should work with the Poultry Program Supervisor to determine the best means of addressing the significant increase in administrative responsibilities the office has experienced and will continue to experience.</i></p>	<p>Incomplete/Ongoing Target date for completion is November 30, 2008.</p>	<p>Ensure that the Poultry Program supervisor is able to carry out his primary supervisory and investigatory responsibilities without becoming bogged down by administrative duties.</p>

IV. Consulting Engagements and Non-Audit Services Completed

The internal auditor did not provide any consulting or non-audit services during FY 2008.

V. Organizational Chart

The following excerpt from the internal audit policies defines the reporting lines of the internal audit function.

“The Board will appoint the TSSWCB Internal Auditor.

- 1. The Internal Auditor will report directly to the Board.*
- 2. The Board will monitor the internal audit function to assure compliance with the requirements of the Internal Auditing Charter and all Internal Auditing Guidelines.*
- 3. The Board shall provide guidance to the Internal Auditor regarding issues not specifically addressed by the Charter or the Guidelines.”*

Kenny Zajicek, Chief Fiscal Officer, is the designated Chief Audit Executive for the agency. The Board does not have an audit committee.

VI. Report on Other Internal Audit Activities

The internal auditor was not involved in any activities other than those activities outlined in the FY 2008 Internal Audit Plan.

VII. Audit Plan for Fiscal Year 2009

The Audit Plan for Fiscal Year 2009 was approved by the TSSWCB Board on September 18, 2008.

**TEXAS STATE SOIL AND WATER CONSERVATION BOARD
FY 2009 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:

Texas State Soil and Water Conservation Board - FY 2008 Internal Audit Annual Report

- **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, 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 and goals, and whether the operations or programs are being carried out as planned.

The FY 2009 Internal Audit Plan for the Texas State Soil and Water Conservation Board is based on the Risk Assessment presented in the previous section. One audit in the Maximum Risk category is planned for audit (Water Quality Management Planning Program) and one audit in the High Risk Category is planned for audit (Water Supply Enhancement Program). The Water Supply Enhancement Program has been included in the FY 2009 audit plan rather than the Texas Nonpoint Source Management Program (Maximum Risk Category) because it has been five years since this program was last audited.

In addition to these proposed audits and audit work, a report will be issued on the status of recommendations made for all audits performed in FY 2008. The annual internal audit report for FY 2008 will be prepared and finally a risk assessment will be performed and an audit plan developed for FY 2010.

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

- Prepare Annual Internal Audit Report for FY 2008 – 6 hours (September 2008)
- Audit of Water Quality Management Planning Program- 130 hours (April 2009 to May 2009)
- Audit of Water Supply Enhancement Program – 130 hours (June 2009 to July 2009)
- Prior Years Audit Follow-up Reviews – 4 hours (July 2009)
- Update Risk Assessment and Prepare FY 2010 Audit Plan – 4 hours (July 2009)

VIII. External Audit Services Procured in Fiscal Year 2008

The Texas State Soil and Water Conservation Board contracted with the CPA firm of Jansen & Gregorczyk to provide contract internal audit services for the agency in FY 2008. No other external audit services were procured in FY 2008.
