

**Texas State Soil and Water
Conservation Board
Internal Audit Annual Report
for FY 2016**

October 7, 2016

As Prepared by
Jansen and Gregorczyk,
Certified Public Accountants

Texas State Soil and Water Conservation Board - FY 2016 Internal Audit Annual Report

**Jansen & Gregorczyk
Certified Public Accountants**

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P. O. Box 601
Kyle, TX 78640

October 7, 2016

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

Dear Ladies and Gentlemen:

Attached is a report on the FY 2016 internal audit activity at the Texas State Soil and Water Conservation Board as required by the Texas Internal Auditing Act.

Please contact Russell Gregorczyk, CPA at 512-468-2020 or Kenny Zajicek, Chief Audit Executive for TSSWCB, at 254-773-2250, Ext. 236, if you desire further information about the contents of this report.

Sincerely,

SIGNED COPY ON FILE

Russell Gregorczyk, Partner
Jansen & Gregorczyk, CPAs

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

The Contract Internal Auditor will provide the required Internal Audit Plan, Internal Audit Annual Report and any other required internal audit information to the Information Officer who will post the information on the agency web site under the Agency Reports Section.

II. Audit Plan for Fiscal Year 2016

The Audit Plan for Fiscal Year 2016 was approved by the TSSWCB Board on May 21, 2015. All audits and projects in the FY 2016 Audit Plan (see page 12) were completed as scheduled.

**Texas State Soil and Water
Conservation Board
Internal Audit Plan
for FY 2016**

As Approved by the TSSWCB Board on

May 21, 2015

As Prepared by
Jansen & Gregorczyk
Certified Public Accountant

Texas State Soil and Water Conservation Board - FY 2016 Internal Audit Annual Report

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P. O. Box 601
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May 7, 2015

Texas State Soil and Water Conservation Board
Members of the Board

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

This document also includes the internal auditing guidelines and internal audit charter under which the TSSWCB internal audit program will operate.

Sincerely,

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

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SECTION 1:
TEXAS STATE SOIL AND WATER CONSERVATION BOARD
INTERNAL AUDITING GUIDELINES

Certain operating guidelines are necessary for an effective internal auditing program. The purpose of this section is to establish policies and guidelines to govern internal audits of all operations of the Texas State Soil and Water Conservation Board (TSSWCB). These guidelines, as well as the FY 2016 Internal Audit Plan, are reviewed and approved by the TSSWCB Board.

I. INTERNAL AUDIT CHARTER

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

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

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

II. INTERNAL AUDITING STANDARDS

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

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

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

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

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

III. INTERNAL AUDITING POLICIES

A. 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.

B. The Executive Director will be responsible for the administrative supervision of the internal audit program. The Executive Director will ensure the independence of the internal audit function.

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

1. The Internal Auditor will submit to the Board for approval the annual audit plan, which will be based on risk analysis and which will identify individual audits to be performed during the year.
2. On a quarterly basis, or as determined by the Board and Executive Director, the Internal Auditor will meet with the Board to discuss the status of implementing the internal audit plan, including management's resolution of audit findings and other significant issues involving the internal audit function.

D. Special audit projects not included in the approved annual audit plan may be authorized by the Board.

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

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

IV. INTERNAL AUDITING PROCEDURES

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

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

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

D. The Internal Auditor will add the management response to the body of the report and issue a final draft report to the Executive Director and division director(s) within 14 calendar days of receiving the management response. The final report will be issued after approval by the TSSWCB Board.

E. If, during the course of an audit, the Internal Auditor detects situations or transactions that could be indicative of fraud or other illegal acts, or receives information from external sources alleging such actions, the Internal Auditor will:

- 1.** Provide all pertinent information to the Executive Director and request approval to expand audit procedures or perform an investigation. If the Executive Director denies the request, the auditor will seek approval from the Board Chairperson.
- 2.** Upon approval from the Executive Director or Board Chairperson, the Internal Auditor will extend audit procedures or perform an investigation to obtain sufficient evidence to determine whether in fact such acts have occurred and, if so, the cause of the problem and the possible effect on the TSSWCB's operations and programs.
- 3.** Provide the Executive Director and the Board a formal report on the results. Upon receipt of evidence of illegality, the Executive Director or Board Chairperson will forward findings to the appropriate legal entity.

**SECTION 2:
TEXAS STATE SOIL AND WATER CONSERVATION BOARD
RISK ASSESSMENT**

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

Purpose

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

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

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

Concept of Risk

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

Texas State Soil and Water Conservation Board - FY 2016 Internal Audit Annual Report

Risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Since controls are anything that improve the likelihood that goals and objectives will be achieved, controls and risk are inversely related by definition. Better control means less risk.

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

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

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

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

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

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

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

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

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

- *Public Service Exposure:* A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.

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

Methodology

The risk variables utilized for the Texas State Soil and Water Conservation Board Risk Assessment combined measures of the various controls and exposure types described in the previous section. Exhibit 2 presents the risk survey instrument utilized. Fifteen risk variables or risk factors were selected to provide a cross-section of overall risk. These fifteen factors were weighted according to their perceived importance, i.e. the higher the weighting, the higher the risk. The risk variables and their weightings are presented in Exhibit 3.

The first step in conducting the Risk Assessment involved defining the potential audit universe. To be in compliance with the Texas Internal Auditing Act, all potential auditable units and required auditable functions were determined. The universe of potential audit topics was developed by utilizing the TSSWCB organizational chart, Appropriations Bill and operating budget for FY 2016 and by reviewing the Texas Internal Auditing Act to determine all auditable functions, which are required to be audited on a periodic basis.

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

The third phase of the Risk Assessment involved scoring and ranking the answers to the survey questions. By weighting the values of the different risk indicators, the survey was individualized for the Texas State Soil and Water Conservation Board.

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

High Risk	- Above 214
Moderate Risk	- 157 to 214
Low Risk	- Below 157

Results

Exhibit 4 presents the results of the Risk Assessment for each potential audit topic. Three potential audit topics are rated as high risk as follows:

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- Water Quality Management Planning Program
- Water Supply Enhancement Program
- Texas Nonpoint Source Management Program

Seven topics were ranked as moderate risk and four topics were ranked as low risk as shown on Exhibit 4.

**SECTION 3:
TEXAS STATE SOIL AND WATER CONSERVATION BOARD
FY 2016 INTERNAL AUDIT PLAN**

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

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

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

- **Safeguarding of Assets** - Internal auditors should review the means of safeguarding assets and, 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 2016 Internal Audit Plan for the Texas State Soil and Water Conservation Board is based on the Risk Assessment presented in the previous section, as well as audits that are required to be audited periodically under the Texas Internal Auditing Act. All three topics in the High Risk category have been audited during the past two fiscal years, so none of these topics is proposed for audit in FY 2016. There are three topics required to be audited periodically by the Texas Internal Auditing Act and none of these areas have been audited in the last four fiscal years. These topics are Information Resources Systems and Controls, Human Resources Systems and Controls and Performance Measures Reporting. Each of these areas is proposed for audit in FY 2016 as shown in Exhibit 5.

In addition to these proposed audits and audit work, the annual internal audit report for FY 2015 will be prepared and a risk assessment will be performed and an audit plan developed for FY 2017. A required internal audit peer review will also be completed.

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

- Prepare Annual Internal Audit Report for FY 2015 – 2 hours (September 2015)
- Audit of Human Resources Systems and Controls– 110 hours (September to October 2015)
- Audit of Performance Measures Reporting– 40 hours (November 2015)
- Complete and external quality assurance review of the internal audit program – 4 hours (January 2016)
- Audit of Information Resources Systems and Controls - 80 hours (February to March 2016)
- Follow-up Review of Prior Years' Audit Recommendations – 2 hours (April 2016)
- Update Risk Assessment and Prepare FY 2017 Audit Plan – 2 hours (May 2016)

Our fees for these deliverables in FY 2016 will be approximately \$24,000, plus the internal audit peer review costs of \$2,250 for a total cost of \$26,250. This estimate is based on 190 hours of staff time @ \$85 per hour and 50 hours of time for Russell Gregorczyk, CPA at \$125 per hour, plus estimated travel costs of \$1,600. The time required to complete any given project may vary but overall our costs will not exceed \$26,250.

EXHIBIT 1
TEXAS STATE SOIL AND WATER CONSERVATION BOARD
INTERNAL AUDITING CHARTER

This charter identifies the purpose, authority, and responsibility of the TSSWCB Internal Auditing program.

PURPOSE

Internal Auditing is an independent appraisal activity established to conduct reviews of operations and procedures and to report findings and recommendations to the Board and Executive Director of the Texas State Soil and Water Conservation Board.

AUTHORITY

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

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

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

RESPONSIBILITIES

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

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

EXHIBIT 2
FY 2016 RISK ASSESSMENT
TEXAS STATE SOIL AND WATER CONSERVATION BOARD

1. Annual Dollars Involved

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

<u>Evaluation</u>	<u>Points</u>
Less than \$100 thousand per year or N/A	1
At least \$100 thousand per year but less than \$1 million per year	2
At least \$1 million per year but less than \$3 million per year	3
More than \$3 million per year	4

2. Transaction Volume

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

<u>Evaluation</u>	<u>Points</u>
Less than 100 per year or N/A	1
Greater than 100 per year but less than 500 per year	2
Greater than 500 per year	3

3. Safeguarding Assets

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

<u>Evaluation</u>	<u>Points</u>
Limited access to assets or N/A	1
Some access to assets	2
Substantial access to assets	3

EXHIBIT 2
FY 2016 RISK ASSESSMENT
TEXAS STATE SOIL AND WATER CONSERVATION BOARD

4. Impact of Adverse Publicity

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

<u>Evaluation</u>	<u>Points</u>
Little visibility or N/A	1
Some visibility	2
High visibility	3

5. Time Since Last Audit or Review

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

<u>Evaluation</u>	<u>Points</u>
One year or less	1
Two to three years	2
More than three years or no prior audit	3

6. Results of Last Audit or Review

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

<u>Evaluation</u>	<u>Points</u>
Positive findings or N/A	1
Some findings or no prior audit	2
Substantial findings or negative findings	3

7. Operational Changes

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

<u>Evaluation</u>	<u>Points</u>
Few changes or N/A	1
Some changes	2
Extensive changes	3

EXHIBIT 2
FY 2016 RISK ASSESSMENT
TEXAS STATE SOIL AND WATER CONSERVATION BOARD

8. Personnel Turnover

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

<u>Evaluation</u>	<u>Points</u>
Low turnover (10% or less) or N/A	1
Average turnover (10% to 20%)	2
High turnover (more than 20%)	3

9. Policies and Procedures

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

<u>Evaluation</u>	<u>Points</u>
Current written procedures or N/A	1
Some written procedures	2
No written procedures	3

10. Training

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

<u>Evaluation</u>	<u>Points</u>
Substantial training or N/A	1
Some training	2
Little training	3

11. Work Complexity

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

<u>Evaluation</u>	<u>Points</u>
Low work complexity or N/A	1
Medium work complexity	2
High work complexity	3

EXHIBIT 2
FY 2016 RISK ASSESSMENT
TEXAS STATE SOIL AND WATER CONSERVATION BOARD

12. Work Load Fluctuations

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

<u>Evaluation</u>	<u>Points</u>
Steady workload or N/A	1
Some fluctuations in workload	2
Substantial fluctuation in workload (yearly pattern)	3

13. Sensitivity of Data

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

<u>Evaluation</u>	<u>Points</u>
Little sensitive or confidential data or N/A	1
Some sensitive or confidential data	2
Most data sensitive or confidential	3

14. Impact of Inaccurate Data

Auditor's evaluation of the impact of incorrect data processed by the auditable unit or supplied to organizations outside of the Texas State Soil and Water Conservation Board.

<u>Evaluation</u>	<u>Points</u>
Little data provided outside the agency or N/A	1
Some data provided outside the agency	2
Most data provided outside the agency	3

15. Management Review

Auditor's evaluation of the review given by upper management (Executive Director or Division Directors) of the auditable unit's activities.

<u>Evaluation</u>	<u>Points</u>
Frequent or detailed review or N/A	1
Some direct review	2
Little direct review	3

Texas State Soil and Water Conservation Board - FY 2016 Internal Audit Annual Report

EXHIBIT 3
FY 2016 RISK ASSESSMENT FACTOR WEIGHTINGS
TEXAS STATE SOIL AND WATER CONSERVATION BOARD

RISK FACTOR:	Weight	*	Maximum Points	=	Maximum Score
1. Annual Dollars Involved	8.25	*	4	=	33.00
2. Transaction Volume	5.00	*	3	=	15.00
3. Safeguarding Assets	8.00	*	3	=	24.00
4. Impact of Adverse Publicity	7.50	*	3	=	22.50
5. Time Since Last Audit or Review	6.50	*	3	=	19.50
6. Results of Last Audit or Review	5.00	*	3	=	15.00
7. Operational Changes	7.00	*	3	=	21.00
8. Personnel Turnover	6.50	*	3	=	19.50
9. Policies and Procedures	5.00	*	3	=	15.00
10. Training	5.25	*	3	=	15.75
11. Work Complexity	7.00	*	3	=	21.00
12. Work Load Fluctuations	5.75	*	3	=	17.25
13. Sensitivity of Data	7.75	*	3	=	23.25
14. Impact of Inaccurate Data	7.75	*	3	=	23.25
15. Management Review	<u>5.00</u>	*	<u>3</u>	=	<u>15.00</u>
Maximum Score					300.00

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**EXHIBIT 4
TEXAS STATE SOIL AND WATER CONSERVATION BOARD
FY 2016 RISK SCORE RANKINGS**

NO.	POTENTIAL AUDIT TOPIC	WEIGHTED RISK ASSESSMENT SCORES															RISK SCORE
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
HIGH RISK (ABOVE 214)																	
1	Water Quality Management Planning Program	33	15	24	23	7	5	14	13	5	11	21	12	16	23	5	225
2	Water Supply Enhancement Program	25	10	24	23	13	5	14	13	10	5	21	12	16	23	5	218
3	Texas Nonpoint Source Management Program	33	10	24	23	7	5	7	13	10	5	21	12	16	23	10	218
MODERATE RISK (157 TO 214)																	
4	SWCD Grants and Financial Assistance	25	15	24	15	20	10	7	7	10	11	14	12	16	16	10	209
5	Accounting System and Controls	33	15	24	15	13	5	7	7	5	11	14	12	23	16	10	208
6	Flood Control Programs	25	10	24	15	13	5	14	7	5	11	21	12	16	23	5	204
7	Information Resources Systems & Controls	17	5	24	8	20	10	7	7	5	11	21	6	16	16	15	184
8	Human Resources System and Controls	8	5	16	15	20	10	7	7	10	11	14	12	23	16	10	182
9	SWCD Field Representatives Program	17	5	8	23	20	10	7	7	10	5	14	12	8	23	10	177
10	Conservation Outreach Programs	17	5	8	23	20	10	14	7	10	5	14	12	8	16	5	171
LOW RISK (BELOW 157)																	
11	Purchasing System and Controls	17	10	24	8	13	5	7	7	5	11	14	12	8	8	10	156
12	Travel Policies and Procedures	17	15	16	8	13	5	7	7	5	11	14	6	16	8	10	155
13	Inventory and Fleet Management	17	5	24	8	13	5	7	7	5	11	7	6	8	8	15	143
14	Performance Measure Reporting	8	5	8	15	20	5	7	7	5	5	7	6	8	23	5	133

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EXHIBIT 5
TEXAS STATE SOIL AND WATER CONSERVATION BOARD
AUDITS PLANNED FOR FY 2016 AND AUDIT HISTORY

NO.	POTENTIAL AUDIT TOPIC	RISK SCORE	PLAN FY 16	AUDITS CONDUCTED									
				FY15	FY14	FY13	FY 12	FY 11	FY 10	FY09	FY08	FY07	
1	Water Quality Management Planning Program	225		X							X		
2	Water Supply Enhancement Program	218			X						X		
3	Texas Nonpoint Source Management Program	215		X						X			
4	SWCD Grants & Financial Assistance	209					X						X
5	Accounting System and Controls	208				X						X	
6	Flood Control Programs	204			X					X			
7	Information Resources Systems & Controls	184	X					X					X
8	Human Resources System and Controls	182	X					X					
9	SWCD Field Representatives Programs	177											
10	Conservation Outreach Programs	171											
11	Purchasing System and Controls	156				X						X	
12	Travel Policies and Procedures	155				X						X	
13	Inventory and Fleet Management	143				X						X	
14	Performance Measure Reporting	133	X					X					

III. Consulting Engagements and Non-Audit Services Completed

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

IV. External Quality Assurance Review

Texas State Soil and Water Conservation Board
Quality Assurance Review
January 2016

Opinion

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

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


Richard H. Tarr, CISA, CIA


Date

V. Audit Plan for Fiscal Year 2017

The Audit Plan for Fiscal Year 2017 was approved by the TSSWCB Commission on August 4, 2016. The budgeted hours for all planned work are shown on page 33. Topics ranked as high risk but not included in the audit plan are discussed on page 32. The risk assessment methodology is on pages 30-31. The risk assessment included evaluating the risks associated with contract management and information technology.

**Texas State Soil and Water
Conservation Board
Internal Audit Plan
for FY 2017**

As Approved by the TSSWCB Board on

August 4, 2016

As Prepared by
Jansen & Gregorczyk
Certified Public Accountants

Texas State Soil and Water Conservation Board - FY 2016 Internal Audit Annual Report

**Jansen & Gregorczyk
Certified Public Accountants**

Telephone
(512) 468-2020

P. O. Box 601
Kyle, Tx. 78640

August 4, 2016

Texas State Soil and Water Conservation Board
Members of the Board

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

This document also includes the internal auditing guidelines and internal audit charter under which the TSSWCB internal audit program will operate.

Sincerely,

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

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SECTION 1:
TEXAS STATE SOIL AND WATER CONSERVATION BOARD
INTERNAL AUDITING GUIDELINES

Certain operating guidelines are necessary for an effective internal auditing program. The purpose of this section is to establish policies and guidelines to govern internal audits of all operations of the Texas State Soil and Water Conservation Board (TSSWCB). These guidelines, as well as the FY 2017 Internal Audit Plan, are reviewed and approved by the TSSWCB Board.

I. INTERNAL AUDIT CHARTER

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

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

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

II. INTERNAL AUDITING STANDARDS

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

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

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

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

Texas State Soil and Water Conservation Board - FY 2016 Internal Audit Annual Report

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

III. INTERNAL AUDITING POLICIES

A. 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.

B. The Executive Director will be responsible for the administrative supervision of the internal audit program. The Executive Director will ensure the independence of the internal audit function.

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

1. The Internal Auditor will submit to the Board for approval the annual audit plan, which will be based on risk analysis and which will identify individual audits to be performed during the year.
2. On a quarterly basis, or as determined by the Board and Executive Director, the Internal Auditor will meet with the Board to discuss the status of implementing the internal audit plan, including management's resolution of audit findings and other significant issues involving the internal audit function.

D. Special audit projects not included in the approved annual audit plan may be authorized by the Board.

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

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

IV. INTERNAL AUDITING PROCEDURES

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

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

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

D. The Internal Auditor will add the management response to the body of the report and issue a final draft report to the Executive Director and division director(s) within 14 calendar days of receiving the management response. The final report will be issued after approval by the TSSWCB Board.

E. If, during the course of an audit, the Internal Auditor detects situations or transactions that could be indicative of fraud or other illegal acts, or receives information from external sources alleging such actions, the Internal Auditor will:

- 1.** Provide all pertinent information to the Executive Director and request approval to expand audit procedures or perform an investigation. If the Executive Director denies the request, the auditor will seek approval from the Board Chairperson.
- 2.** Upon approval from the Executive Director or Board Chairperson, the Internal Auditor will extend audit procedures or perform an investigation to obtain sufficient evidence to determine whether in fact such acts have occurred and, if so, the cause of the problem and the possible effect on the TSSWCB's operations and programs.
- 3.** Provide the Executive Director and the Board a formal report on the results. Upon receipt of evidence of illegality, the Executive Director or Board Chairperson will forward findings to the appropriate legal entity.

**SECTION 2:
TEXAS STATE SOIL AND WATER CONSERVATION BOARD
RISK ASSESSMENT**

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

Purpose

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

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

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

Concept of Risk

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

Texas State Soil and Water Conservation Board - FY 2016 Internal Audit Annual Report

Risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Since controls are anything that improve the likelihood that goals and objectives will be achieved, controls and risk are inversely related by definition. Better control means less risk.

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

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

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

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

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

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

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

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

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

- *Public Service Exposure:* A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.

Texas State Soil and Water Conservation Board - FY 2016 Internal Audit Annual Report

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

Methodology

The risk variables utilized for the Texas State Soil and Water Conservation Board Risk Assessment combined measures of the various controls and exposure types described in the previous section. Exhibit 2 presents the risk survey instrument utilized. Fifteen risk variables or risk factors were selected to provide a cross-section of overall risk. These fifteen factors were weighted according to their perceived importance, i.e. the higher the weighting, the higher the risk. The risk variables and their weightings are presented in Exhibit 3.

The first step in conducting the Risk Assessment involved defining the potential audit universe. To be in compliance with the Texas Internal Auditing Act, all potential auditable units and required auditable functions were determined. The universe of potential audit topics was developed by utilizing the TSSWCB organizational chart, Appropriations Bill and operating budget for FY 2017 and by reviewing the Texas Internal Auditing Act to determine all auditable functions, which are required to be audited on a periodic basis.

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

The third phase of the Risk Assessment involved scoring and ranking the answers to the survey questions. By weighting the values of the different risk indicators, the survey was individualized for the Texas State Soil and Water Conservation Board.

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

High Risk	- Above 199
Moderate Risk	- 163 to 199
Low Risk	- Below 163

Results

Exhibit 4 presents the results of the Risk Assessment for each potential audit topic. Five potential audit topics are rated as high risk as follows:

Texas State Soil and Water Conservation Board - FY 2016 Internal Audit Annual Report

- Flood Control Program
- Water Quality Management Planning Program
- Texas Nonpoint Source Management Program
- Accounting System and Controls
- Water Supply Enhancement Program

Five topics were ranked as moderate risk and four topics were ranked as low risk as shown on Exhibit 4.

**SECTION 3:
TEXAS STATE SOIL AND WATER CONSERVATION BOARD
FY 2017 INTERNAL AUDIT PLAN**

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

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

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

- **Safeguarding of Assets** - Internal auditors should review the means of safeguarding assets and, 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 2017 Internal Audit Plan for the Texas State Soil and Water Conservation Board is based on the Risk Assessment presented in the previous section, as well as audits that are required to be audited periodically under the Texas Internal Auditing Act. All audit areas in High Risk category have been audited during the past three fiscal years except the Accounting System and Controls, so none of these topics is proposed for audit in FY 2017. The Accounting System will be changing during FY 2017 so it is also not proposed for audit in FY 2017. The Conservation Outreach Program has never been audited and the SWCD Grants and Financial Assistance area has not been audited since FY 2012 so both of these Moderate Risk areas are proposed for audit. The Travel Policies and Procedures is an audit area required to be audited periodically by the Texas Internal Auditing Act and it has not been audited for the past four years so it is included in the FY 2017 Internal Audit Plan. Each of these areas is proposed for audit in FY 2017 as shown in Exhibit 5.

Texas State Soil and Water Conservation Board - FY 2016 Internal Audit Annual Report

In addition to these proposed audits and audit work, the annual internal audit report for FY 2016, a follow-up review will be conducted on the status of implementing audit recommendations made in FY 2016, and a risk assessment will be performed and an audit plan developed for FY 2018.

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

- Prepare Annual Internal Audit Report for FY 2016 – 2 hours (September 2016)
- Audit of Conservation Outreach Programs– 110 hours (October to November 2016)
- Audit of Travel Policies and Procedures– 60 hours (January 2017)
- Audit of SWCD Grants and Financial Assistance - 100 hours (February to March 2017)
- Follow-up Review of Prior Years' Audit Recommendations – 2 hours (April 2017)
- Update Risk Assessment and Prepare FY 2018 Audit Plan – 4 hours (June 2017)

Our fees for these deliverables in FY 2017 will be approximately \$26,000. This estimate is based on 240 hours of staff time @ \$85 per hour and 38 hours of time for Russell Gregorczyk, CPA at \$125 per hour, plus estimated travel costs of \$850. The time required to complete any given project may vary but overall our costs will not exceed \$26,000.

EXHIBIT 1
TEXAS STATE SOIL AND WATER CONSERVATION BOARD
INTERNAL AUDITING CHARTER

This charter identifies the purpose, authority, and responsibility of the TSSWCB Internal Auditing program.

PURPOSE

Internal Auditing is an independent appraisal activity established to conduct reviews of operations and procedures and to report findings and recommendations to the Board and Executive Director of the Texas State Soil and Water Conservation Board.

AUTHORITY

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

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

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

RESPONSIBILITIES

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

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

EXHIBIT 2
FY 2017 RISK ASSESSMENT
TEXAS STATE SOIL AND WATER CONSERVATION BOARD

1. Annual Dollars Involved

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

<u>Evaluation</u>	<u>Points</u>
Less than \$100 thousand per year or N/A	1
At least \$100 thousand per year but less than \$1 million per year	2
At least \$1 million per year but less than \$3 million per year	3
More than \$3 million per year	4

2. Transaction Volume

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

<u>Evaluation</u>	<u>Points</u>
Less than 100 per year or N/A	1
Greater than 100 per year but less than 500 per year	2
Greater than 500 per year	3

3. Safeguarding Assets

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

<u>Evaluation</u>	<u>Points</u>
Limited access to assets or N/A	1
Some access to assets	2
Substantial access to assets	3

EXHIBIT 2
FY 2017 RISK ASSESSMENT
TEXAS STATE SOIL AND WATER CONSERVATION BOARD

4. Impact of Adverse Publicity

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

<u>Evaluation</u>	<u>Points</u>
Little visibility or N/A	1
Some visibility	2
High visibility	3

5. Time Since Last Audit or Review

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

<u>Evaluation</u>	<u>Points</u>
One year or less	1
Two to three years	2
More than three years or no prior audit	3

6. Results of Last Audit or Review

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

<u>Evaluation</u>	<u>Points</u>
Positive findings or N/A	1
Some findings or no prior audit	2
Substantial findings or negative findings	3

7. Operational Changes

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

<u>Evaluation</u>	<u>Points</u>
Few changes or N/A	1
Some changes	2
Extensive changes	3

EXHIBIT 2
FY 2017 RISK ASSESSMENT
TEXAS STATE SOIL AND WATER CONSERVATION BOARD

8. Personnel Turnover

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

<u>Evaluation</u>	<u>Points</u>
Low turnover (10% or less) or N/A	1
Average turnover (10% to 20%)	2
High turnover (more than 20%)	3

9. Policies and Procedures

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

<u>Evaluation</u>	<u>Points</u>
Current written procedures or N/A	1
Some written procedures	2
No written procedures	3

10. Training

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

<u>Evaluation</u>	<u>Points</u>
Substantial training or N/A	1
Some training	2
Little training	3

11. Work Complexity

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

<u>Evaluation</u>	<u>Points</u>
Low work complexity or N/A	1
Medium work complexity	2
High work complexity	3

EXHIBIT 2
FY 2017 RISK ASSESSMENT
TEXAS STATE SOIL AND WATER CONSERVATION BOARD

12. Work Load Fluctuations

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

<u>Evaluation</u>	<u>Points</u>
Steady workload or N/A	1
Some fluctuations in workload	2
Substantial fluctuation in workload (yearly pattern)	3

13. Sensitivity of Data

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

<u>Evaluation</u>	<u>Points</u>
Little sensitive or confidential data or N/A	1
Some sensitive or confidential data	2
Most data sensitive or confidential	3

14. Impact of Inaccurate Data

Auditor's evaluation of the impact of incorrect data processed by the auditable unit or supplied to organizations outside of the Texas State Soil and Water Conservation Board.

<u>Evaluation</u>	<u>Points</u>
Little data provided outside the agency or N/A	1
Some data provided outside the agency	2
Most data provided outside the agency	3

15. Management Review

Auditor's evaluation of the review given by upper management (Executive Director or Division Directors) of the auditable unit's activities.

<u>Evaluation</u>	<u>Points</u>
Frequent or detailed review or N/A	1
Some direct review	2
Little direct review	3

**EXHIBIT 3
FY 2017 RISK ASSESSMENT FACTOR WEIGHTINGS
TEXAS STATE SOIL AND WATER CONSERVATION BOARD**

RISK FACTOR:	Weight	*	Maximum Points	=	Maximum Score
1. Annual Dollars Involved	8.25	*	4	=	33.00
2. Transaction Volume	5.00	*	3	=	15.00
3. Safeguarding Assets	8.00	*	3	=	24.00
4. Impact of Adverse Publicity	7.50	*	3	=	22.50
5. Time Since Last Audit or Review	6.50	*	3	=	19.50
6. Results of Last Audit or Review	5.00	*	3	=	15.00
7. Operational Changes	7.00	*	3	=	21.00
8. Personnel Turnover	6.50	*	3	=	19.50
9. Policies and Procedures	5.00	*	3	=	15.00
10. Training	5.25	*	3	=	15.75
11. Work Complexity	7.00	*	3	=	21.00
12. Work Load Fluctuations	5.75	*	3	=	17.25
13. Sensitivity of Data	7.75	*	3	=	23.25
14. Impact of Inaccurate Data	7.75	*	3	=	23.25
15. Management Review	<u>5.00</u>	*	<u>3</u>	=	<u>15.00</u>
Maximum Score					300.00

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**EXHIBIT 4
TEXAS STATE SOIL AND WATER CONSERVATION BOARD
FY 2017 RISK SCORE RANKINGS**

NO.	POTENTIAL AUDIT TOPIC	WEIGHTED RISK ASSESSMENT SCORES															RISK SCORE
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
HIGH RISK (ABOVE 199)																	
1	Flood Control Programs	33	10	24	23	13	5	14	13	5	11	21	12	16	23	5	226
2	Water Quality Management Planning Program	33	15	24	23	13	5	14	7	5	11	21	12	16	23	5	225
3	Texas Nonpoint Source Management Program	33	10	24	23	13	5	7	7	10	5	21	12	16	23	10	218
4	Accounting System and Controls	33	15	24	15	20	5	7	7	5	11	14	12	23	16	10	215
5	Water Supply Enhancement Program	25	10	24	23	13	5	14	7	10	5	21	12	16	23	5	211
MODERATE RISK (163 TO 199)																	
6	SWCD Grants and Financial Assistance	25	15	24	15	20	10	7	7	10	11	14	12	16	16	10	209
7	Information Resources Systems & Controls	17	5	24	8	7	10	7	7	5	11	21	6	16	16	15	171
8	Human Resources System and Controls	8	5	16	15	7	10	7	7	10	11	14	12	23	16	10	169
9	Conservation Outreach Programs	17	5	8	23	20	10	7	7	10	5	14	12	8	16	5	164
10	Purchasing System and Controls	17	10	24	8	20	5	7	7	5	11	14	12	8	8	10	163
LOW RISK (BELOW 163)																	
11	SWCD Field Representatives Program	17	5	8	15	20	10	7	7	10	5	14	6	8	16	10	156
12	Travel Policies and Procedures	17	15	16	8	20	5	7	7	5	11	7	6	16	8	10	155
13	Inventory and Fleet Management	17	5	24	8	20	5	7	7	5	11	7	6	8	8	15	150
14	Performance Measure Reporting	8	5	8	8	7	5	7	7	5	5	7	6	8	23	5	113

**AVERAGE SCORE = 182
STANDARD DEVIATION = 34**

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EXHIBIT 5

**TEXAS STATE SOIL AND WATER CONSERVATION BOARD
AUDITS PLANNED FOR FY 2017 AND AUDIT HISTORY**

NO.	POTENTIAL AUDIT TOPIC	RISK SCORE	PLAN FY 17									
				FY16	FY15	FY14	FY13	FY 12	FY 11	FY 10	FY09	FY08
1	Flood Control Programs	226				X					X	
2	Water Quality Management Planning Program	225			X							X
3	Texas Nonpoint Source Management Program	218			X						X	
4	Accounting System and Controls	215					X					X
5	Water Supply Enhancement Program	211				X						X
6	SWCD Grants & Financial Assistance	209	X					X				
7	Information Resources Systems & Controls	171		X					X			
8	Human Resources System and Controls	169		X					X			
9	Conservation Outreach Programs	164	X									
10	Purchasing System and Controls	163					X					X
11	SWCD Field Representatives Program	156										
12	Travel Policies and Procedures	155	X				X					X
13	Inventory and Fleet Management	150					X					X
14	Performance Measure Reporting	113		X					X			

VI. External Audit Services

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 2016. No other external audit services were procured in FY 2016.

VII. Reporting Suspected Fraud and Abuse

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

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

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