# Texas Workforce Commission

## *Office of Internal Audit*

*Fiscal Year 2014*
*Annual Audit Report*

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

TWC Internal Audit (IA) will post the Internal Audit Plan at the first of each fiscal year within one month after it is approved by the Commission. The FY 15 Internal Audit plan was approved September 9, 2014 per Section 2102.008 of the Texas Internal Auditing Act. It was posted the following month to the "Reports, Plans, and Publications" page of the TWC Internet website. IA updated the plan to comply with accessibility requirements.

The Annual Report will be posted within one month after submission to the Commission to the "Reports, Plans and Publications" page of the TWC Internet website. The format and information provided in the report will comply with each year's guidance from the State Auditor's Office.

A "detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit" and a "summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report" are included in Section II of this report.

## II. Internal Audit Plan for Fiscal Year 2014

| Project Name & Objective | Project Number | Status | Report Issued |
|---|---|---|---|
| Field Tax Controls – to determine adequacy of controls over the functions performed by field tax accounts examiners. | 2014-014-20 | In Progress | In Planning Phase |
| Information Security – to determine the adequacy of controls over Information Security resources. | 2014-003-60 | In Progress | In Fieldwork Phase |
| Automated Job Matching Analysis – to analyze the effectiveness of the automated job matching function in the WIT application. | 2014-005-60 | Agency exploring alternate job matching applications therefore audit was cancelled | No Report |
| Records Retention – an analysis of records retention compliance. | 2014-007-30 | In progress | In Fieldwork Phase |
| Work Opportunity Tax Credit – to analysis controls over the new Work Opportunity Tax Credit process. | 2014-004-20 | Report Issued | July 2014 |
| Follow-up of the Skills Development Review (2010-012-10) | 2014-012-80 | Carry Over to FY15 | No Report |
| Follow-up of the LMCI IT Controls Audit (2010-011-60) | 2014-009-80 | In Progress | In Reporting Phase |
| Follow-up of the Civil Rights Division Review (2011-001-10) | 2014-011-80 | Report Issued | July 2014 |
| Follow-up of the IRS Safeguard Review (974-TX-SWA) | 2014-001-80 | Report Issued | April 2014 |
| IT Open FISMA | 2014-002-80 | Ongoing Project | No Report |
| Follow-up of UI Disclosures | 2014-010-80 | In Progress | In Fieldwork Phase |
| Organizational Strategy – to assess the agency's strategy for managing and maintaining its human capital | N/A | Carry Over to FY15 | No Report |
| TWIST – to analyze the controls over TWIST interfaces with external applications | N/A | Re-evaluated during the FY15 risk assessment. Carry Over to FY15 to be included in Workforce Systems Change Control audit | No Report |
| Work in Texas Access Controls – to evaluate the identity and access controls over the WIT application | N/A | Agency exploring alternate job matching applications therefore audit was cancelled | No Report |
| Commission Appeals – to analyze controls over the new Commission Appeals process | 2014-016-20 | Carry Over to FY15 | No Report |
| Follow-up of the Personally Identifiable Information Reviews (2012-012-50 and 2013-014-20) | N/A | Carry Over to FY15 | No Report |

| Data Sharing Agreement Control Review | 2012-002-20 | Report Issued | May 2014 |
|---|---|---|---|
| Child Care Automated Attendance System | 2012-001-10 | In progress | In Fieldwork Phase |
| Personally Identifiable Information | 2013-014-20 | Report Issued | April 2014 |
| Career Schools and Colleges Control Review | 2013-013-20 | In Progress | In Planning Phase |
| CATS Information Technology Applications Control Review | 2014-008-60 | In Progress | In Planning Phase |
| Hiring Process Effectiveness and Efficiency Review | 2013-001-10 | Report Issued | January 2014 |
| Child Labor Effectiveness Review | 2013-006-30 | In Progress | In Reporting Phase |
| UI Wage Data Reliability Review | 2013-005-60 | Report Issued | April 2014 |
| Quarterly Status & Verification – to determine status of management actions to address open audit findings | 2014-006-80 | Ongoing Project | No Report |

## Compliance with House Bill 16

| Project Number | Report Date | Project Name/ High Level Audit Objectives | Observations/Findings and Recommendations | Current Status with brief description if not yet implemented |
|---|---|---|---|---|
| 2014-004-20 | July 2014 | Work Opportunity Tax Credit - to analyze controls over the new Work Opportunity Tax Credit processes | Based on the results of our review and testing, the performance measures reported are accurate and controls provide reasonable assurance that determinations are issued in accordance with the DOL and IRS requirements. While our audit found sufficient controls exist to ensure the accuracy of determinations, controls over changes to the WOTC automated system need strengthening. Recommendations to strengthen system change controls have been provided to management and are included in the detailed finding of this report | In progress |
| 2014-011-80 | July 2014 | Follow-up of the Civil Rights Division (2011-001-10) - to determine the adequacy and effectiveness of action taken by management to address reported audit findings. | Management should streamline policy reviews, standardize investigations and mediations processes, and optimize training technology. | Resolved |
| 2014-0041-80 | April 2014 | Follow-up of the IRS Safeguard Review (974-TX-SWA) | No Findings | N/A |

| 2012-002-20 | May 2014 | Data Sharing Agreement Control Review - to evaluate the controls over the use, privacy, and security of TWC data provided to other entities through data sharing agreements. | Management should: Develop a corrective action plan with timelines to ensure that receiving agencies comply with requirements. Strengthen contract administration. Develop data sharing monitoring functions | In Progress |
|---|---|---|---|---|
| 2013-014-20 | April 2014 | PII Physical Security - to evaluate internal controls over protection of personal identifying information maintained in paper documents. | Management should: develop and document minimum security requirements in the Privacy Manual to protect sensitive PII at all times. develop and administer privacy training that is job specific and commensurate with employees' responsibilities. continue to increase awareness and address weaknesses in physical security over sensitive PII. assign formal responsibility for ongoing monitoring and reporting of staff compliance to privacy policies and procedures to ensure timely identification and mitigation of privacy lapses. | In Progress |
| 2013-001-10 | January 2014 | Hiring Process - to evaluate the effectiveness and efficiency of the Hiring Process | Management should: ensure the 10-day job vacancy posting requirement is consistently being met. Ensure the hiring process is consistent for internal and external applicants who are applying for the same job vacancy. Strengthen the quality review process by selecting reviews based on risk of non-compliance and by formally documenting the review process in written procedures. Improve communication of the hiring process requirements to ensure all involved in the process are aware of the steps and requirements needed to fill a job vacancy. | In Progress |
| 2013-005-60 | April 2014 | UI Wage Data - to evaluate the reliability of UI wage data | Management should determine whether the risk and potential impact of decreased UI data integrity caused by the elimination of SSN edit checks in the Tax System and the lack of these edit checks in Quickfile outweighs the risks and cost of not having the checks. In the event management accepts the risk, they should consider alternate controls. | In Progress |

## III. Consulting Engagements and Non-audit Services Completed

| Report No. | Report Date | Report Title | High-Level Consulting Engagement/Non-audit Services Objective(s) | Key Observations and Results |
|---|---|---|---|---|
| N/A | N/A | Rapid Process Improvement | To provide advisory services related to controls and process efficiency | Participated in selected Rapid Process Improvement (RPI) meetings to provide advisory information. |
| N/A | N/A | Monitoring, Meetings, and Committees | To participate in an observatory and advisory role in various meetings throughout the agency. | Information is gathered on an on-going basis to ensure risks are appropriately addressed when identified. |
| 2014-013-70 | N/A | SAO Hotline | To investigate complaints forwarded from the State Auditor's Office. | Perform audit work to address allegations in any complaints forwarded from the State Auditor's Office. |

## IV. External Quality Assurance Review

TWC OFFICE OF INTERNAL AUDIT
EXTERNAL QUALITY ASSURANCE REVIEW – February 2013
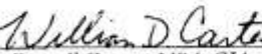
### OVERALL OPINION

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Workforce Commission's Office of Internal Audit receives a rating of "pass" and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Audit Act (*Texas Government Code*, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We found that the Office of Internal Audit (OIA) is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. Audit personnel are qualified, proficient, and knowledgeable in the areas they audit. Audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly and concisely. These statements are based upon our review and validation of information provided by the OIA and comments gathered during the peer review process.

The Office of Internal Audit is well managed internally. In addition, the OIA has effective relationships with the Board and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit an integral part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

### ACKNOWLEDGEMENTS

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, the Commissioners, the Executive Director, and the senior managers who participated in the interview process. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Office of Internal Audit and its relationship with management.

_Christopher Williams, CIA, CGAP_        2/8/13          _William D Carter_          2/8/13
Christopher Williams, CIA, CGAP     Date            Darrell Carter, MBA, CIA        Date
Audit Project Manager                            Internal Audit Director
Office of the Attorney General                   Public Utilities Commission of Texas
SAIAF Peer Review Team Leader                     SAIAF Peer Review Team Member

February 2013                                    1

# V. Office of Internal Audit Plan for Fiscal Year 2015

## Performance Audits

| Auditable Units | Objectives | Budget Hours |
|---|---|---|
| Workforce Development Division/Business Operations | Contracting Processes - to evaluate the efficiency of the contracting process for Workforce Special Initiative contracts. | 700 |
| Information Technology | Workforce Systems Change Control - to evaluate the controls over the change management process for workforce systems. | 600 |
| Regulatory Integrity Division | Collections Processes - to evaluate controls over the collections and reporting process for TWC programs. | 700 |
| Finance | Revenue & Trust Management - to evaluate controls over the receipt and recording of transactions processed. | 450 |
| General Counsel / Regulatory Integrity Division | Prosecutions & Legal Services - to evaluate the efficiency and effectiveness of the management and tracking of legal cases. | 500 |
| Business Operations | Infrastructure Planning & Budget - to evaluate the efficiency and effectiveness of the budgeting processes. | 500 |
| Agency Wide | Follow-up of Prior Findings - to determine the status of corrective actions taken by management to address prior issues reported in audits. | 450 |
|  | Commission Requests – additional project requests | 1000 |

## Carry Forward Projects

| Auditable Units | Objectives | Budget Hours |
|---|---|---|
| External Relations | LMCI IT Controls Follow-up (2010-011-60) | 50 |
| Regulatory Integrity Division | Child Labor | 60 |
| Agency Wide | UI Disclosures Follow-up (2009-015-20) | 80 |
| Business Operations | CATS IT Controls | 250 |
| Business Operations/Agency Wide | Records Retention | 250 |
| Unemployment Insurance & Regulation | Field Tax Controls | 450 |
| Workforce Development Division | Child Care Automated Attendance System | 350 |
| Workforce Development Division | Skills Development Follow-up (2010-012-10) | 200 |
| Information Technology | Information Security | 360 |
| Unemployment Insurance & Regulation | Commission Appeals | 250 |
| Workforce Development Division | Career Schools and Colleges | 470 |
| Agency Wide | Federal Reporting Accuracy | 550 |
| Agency Wide | Organizational Strategy | 600 |

In addition to planned audit and non-audit services, Internal Audit has ongoing administrative responsibilities, which include:

• Annual Internal Audit Report issuance
• Annual Risk Assessment and Audit Plan development
• Commission and Management briefings on reports

- • TeamMate, website, and database maintenance
- • Annual Quality Self-Assessment
- • Professional development

**Projects that may relate to expenditure transfers capital budget controls or any other limitation or restriction in the General Appropriations Act.**

- • Infrastructure Planning & Budget - to evaluate the efficiency and effectiveness of the budgeting processes

**All other projects identified as HIGH risks that were not included on the FY2015 Audit Plan included:**

- • Infrastructure Services and Risk Management & Headquarters Services– because management is in the process of a major reorganization in this area, no audit work will be included in the FY15 audit plan. The risk of this area will be re-evaluated after the reorganization has been completed.
- • Construction Management– because management is in the process of a major reorganization in this area, no audit work will be included in the FY15 audit plan. The risk of this area will be re-evaluated after the reorganization has been completed.
- • Austin Adjudication Unit– because of current process changes as a result of an audit in FY13 and potential changes at the tele-centers, no audit work will be scheduled for FY15. The risk of this area will be re-evaluated in FY16.
- • Tele-Centers– because of a project currently underway to address issues resulting from upcoming budget reductions, no audit work will be scheduled for FY15. The risk of this area will be re-evaluated in FY16.
- • Appeals Department– area has completed a process improvement project therefore will not be included in FY15 plan. If hours become available, this could be added to the plan.
- • Conference Planning & Media Services– this area scored high because it has a new manager and high turnover; however, the processes have not changed. The risk of this area will be re-evaluated in FY16.
- • Procurement & HUB Services– area is undergoing a process improvement project therefore will not be included in FY15 plan. If hours become available, this could be added to the plan.
- • Adult Education & Literacy– because this program recently transitioned to TWC sufficient time has not passed to be able to perform an analysis on the program. The risk of this area will be re-evaluated in FY16.

**Risk assessment Methodology:**

The Office of Internal Audit allocates its resources in a manner that is consistent with the mission and goals of TWC. To support TWC's mission, audit coverage is considered across the agency. The audit plan is designed to provide coverage of key business processes. Risk is assigned based on research related to each risk area as well as input from Commissioners and agency management.

The following key factors were considered to assess risk and develop the audit plan:

- • Commission and Management Interest
- • Program and Information Technology Changes or Concerns

- •          Critical Nature of the Business Function to the Mission of the Agency
- •          Strength of Internal Controls
- •          Staff Turnover and Retirement
- •          Prior Audit Coverage
- •          Potential for Fraud

A separate risk assessment was performed to identify risks regarding Information Technology systems.

In addition to the projects selected based on risk assessment results, audit hours are also dedicated to follow-up reviews and carry-forward projects.

## VI. External Audit Services

Office of Internal Audit did not procure external audit services in Fiscal Year 2014.

## VII. Reporting Suspected Fraud and Abuse

The TWC Office of Investigations conducts inquiry and investigative services pertaining to allegations of fraud, theft, program abuse, or misconduct. The agency lists its fraud hotline number on the TWC internet site. The internet site also contains a link to report fraud directly to the State Auditor's Office. The Office of Investigations reports cases of suspected fraud and coordinates with the State Auditor's Office as required by Article IX, Section 17.10 of the General Appropriations Act (82nd Legislature) and Texas Government Code, Section 321.022.