

To: State Agency and Higher Education Institution Chief Audit Executives

The Texas Internal Auditing Act (Texas Government Code, Chapter 2102) requires certain state agencies and higher education institutions to submit an internal audit annual report each year to the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office (SAO), and the entities' governing boards and chief executives. The SAO is charged with prescribing the form and content of that annual report.

In compliance with that mandate, the SAO sets forth these guidelines to assist agencies and higher education institutions in preparing the internal audit annual report. These guidelines represent the SAO's minimum requirements and do not preclude an entity from including additional information in its annual report. The guidelines have been updated to reflect additional requirements in legislation passed by the 84th Legislature.

What's New

Higher Education Institution Benefits Proportionality Audit Work

Rider 8, page III-39, the General Appropriations Act (84th Legislature, Conference Committee Report), requires each higher education institution, excluding public community/junior colleges, to conduct an internal audit of benefits proportional by fund using a methodology approved by the SAO.

Contract Reform

Guidelines for the fiscal year 2016 internal audit plan have been updated to include identification of projects in the internal audit plan that address contract management and other requirements in Senate Bill 20 (84th Legislature).

Contact Information

Contact information for the Governor's Office has been updated in Attachment B.

Submitting and Posting the Internal Audit Plan and Internal Audit Annual Report

In accordance with Texas Government Code, Sections 2102.009 and 2102.0091, the annual report for fiscal year 2015 is **due November 1, 2015**. In addition, all periodic internal audit reports should be submitted "not later than the 30th day after the date the report is submitted to the state agency's governing board or the administrator of the state agency if the state agency does not have a governing board." The following attachments provide specific guidance on the annual report.

- Attachment A (see pages 2 and 3) describes the required items that should appear in the annual report. The reporting requirements can be found in Texas Government Code, Chapter 2102.
- Attachment B (see page 4) provides contact information for submitting the annual report electronically to the required agencies. Recommended electronic formats include Microsoft Word, Adobe Acrobat (PDF), or HTML.
- Attachment C (see page 5) contains details regarding the posting requirements in Texas Government Code, Section 2102.015.
- Attachment D (see page 6) contains details regarding higher education institution benefits proportionality audit requirements.

Questions?

If you have any questions, please contact Kelly Linder at (512) 936-9327 or Kathryn Hawkins at (512) 936-9658 at the SAO, or via e-mail at iacoordinator@sao.state.tx.us.

Attachment A: Requirements for the 2015 Internal Audit Annual Report

The purpose of the internal audit annual report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the annual report assists oversight agencies in their planning and coordination efforts.

Note: All periodic internal audit reports and annual reports that are sent to the SAO are presumed to be public information unless they are specifically marked as confidential. If you have a report with content that you consider confidential, contact your assigned SAO contact manager to discuss that prior to submitting the report.

Fiscal Year 2015 Internal Audit Annual Report Table of Contents:

The following information should be included in the fiscal year 2015 annual report:

- I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site**
 - Include a brief explanation of procedures your entity will follow to comply with the provisions of Texas Government Code, Section 2102.015, as detailed in Attachment C.

- II. Compliance with the Benefits Proportionality Audit Requirements for Higher Education Institutions**
 - If applicable, include a brief explanation of procedures your entity will follow to comply with Rider 8, page III-39, the General Appropriations Act (84th Legislature, Conference Committee Report), as detailed in Attachment D.
 - If applicable, include a certification if your entity's work performed in response to Governor Perry's letter dated May 29, 2014, requesting that internal auditors for higher education institutions conduct work to determine whether "proportionality is being applied according to the established guidelines" included the methodology prescribed in Attachment D.

- III. Internal Audit Plan for Fiscal Year 2015**
 - Include a list of fiscal year 2015 planned audits, and indicate report numbers, report dates, report titles, and whether the audits were completed (if an audit was not completed, include the current status of the audit).
 - Include a brief explanation for any deviations from the fiscal year 2015 audit plan that your entity submitted on or before November 1, 2014, as part of its annual report.

- IV. Consulting Services and Nonaudit Services Completed**
 - Include a list of consulting services, as defined in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*, and a list of nonaudit services, as defined in *Government Auditing Standards*, 2011 Revision, Sections 3.33 – 3.58, that were completed during fiscal year 2015.
 - Include report numbers, dates, and titles, as well as the high-level objective(s) of each project.
 - Summarize the key consulting services and nonaudit service observations, results, and recommendations, if applicable.

V. External Quality Assurance Review (Peer Review)

- Include a copy of the executive summary or a summary of issues from the most recent external quality assurance review or peer review report.

VI. Internal Audit Plan for Fiscal Year 2016

- Include the fiscal year 2016 approved audit plan. If you are awaiting approval from your governing board or chief executive for your entity's fiscal year 2016 audit plan and do not submit that plan with your annual report, specify the date on which you will submit your fiscal year 2016 audit plan.
- Include the budgeted hours for all projects.
- Indicate which projects in the audit plan, if any, address the following:
 - Expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act.
 - Contract management and other requirements of Senate Bill 20 (84th Legislature).
- Include a list of additional risks ranked as "high" that you have identified but have not included in the fiscal year 2016 audit plan.
- Include a brief description of the risk assessment or methodology used to develop the audit plan, including consideration, if any, of risks associated with the applicable information technology risks related to Title 1, Texas Administrative Code, Chapter 202, Information Security Standards.

Note: If you modify the audit plan during fiscal year 2016, please submit a copy of the modified plan to the oversight agencies listed in Attachment B.

VII. External Audit Services Procured in Fiscal Year 2015

- Include a list of all external audit services that were procured or were ongoing in fiscal year 2015. Examples of those services may include, but are not limited to, financial and performance audits and attestation engagements such as a review or an agreed-upon procedures engagement.

VIII. Reporting Suspected Fraud and Abuse

- Include a brief description of the entity's actions taken to comply with the fraud reporting requirements of Section 7.09, page IX-37, the General Appropriations Act (84th Legislature, Conference Committee Report).
- Include a brief description of the entity's process to comply with the investigation coordination requirements of Texas Government Code, Section 321.022.

Note: Examples could include (1) information provided on the entity's Internet Web site that indicates how to report suspected fraud, waste, and abuse involving state resources directly to the SAO and (2) a brief description of the entity's procedures for reporting suspected fraud, waste, and abuse involving state funds to the SAO.

Attachment B: Where to Send the Internal Audit Annual Report and Periodic Internal Audit Reports

Oversight Agencies

The Governor’s Office, the SAO, the Legislative Budget Board, and the Sunset Advisory Commission should receive the annual report **and** periodic internal audit reports.

- The internal audit annual report for the fiscal year 2015 is **due November 1, 2015**.
- All periodic internal audit reports should be submitted “not later than the 30th day after the date the report is submitted to the state agency’s governing board or the administrator of the state agency if the state agency does not have a governing board” (Texas Government Code, Section 2102.0091).
- Send the reports electronically in Microsoft Word, Adobe Acrobat (PDF), or HTML, attached to an e-mail, to the addresses below.
- As previously stated, if you have any concerns regarding the potential confidentiality of materials in reports you wish to submit to the SAO, contact your assigned SAO contact manager to discuss those concerns prior to submitting the report.

Important: Please include the phrase “Internal Audit Annual Report” or “Periodic Internal Audit Report” in the subject field of the e-mail.

Contact and Phone Number	Electronic Submission of Reports
Governor’s Office of Budget, Planning, and Policy Phone: (512) 463-1778	Send to: Kara Belew budgetandpolicyreports@gov.texas.gov
State Auditor’s Office Phone: (512) 936-9500	Send to: Internal Audit Coordinator iacoordinator@sao.state.tx.us
Legislative Budget Board Phone: (512) 463-1200	Send to: Ed Osner Ed.Osner@lbb.state.tx.us
Sunset Advisory Commission Phone: (512) 463-1300	Send to: Ken Levine sunset@sunset.state.tx.us

Attachment C: Summary of Texas Government Code, Section 2102.015

Texas Government Code, Section 2102.015, requires state agencies and higher education institutions, as defined in the statute, to **post certain information on their Internet Web sites**. Below is a summary of the provisions of that statute and guidance on submission of reports.

Within 30 days of approval, an entity should post the following information on its Internet Web site:

- An approved fiscal year 2016 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2015 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The above reports are considered to be approved if they are approved by an entity's governing board or by the chief executive if the entity does not have a governing board.

Texas Government Code, Section 2102.015, also requires entities to update the posting described above to include the following information on the Web site:

- A "detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns, if any, raised by the audit plan or annual report."
- A "summary of the action taken by the agency to address concerns, if any, that are raised by the audit plan or annual report."

Including the summaries outlined above in the fiscal year 2015 annual report and posting that annual report on an entity's Internet Web site fulfills the minimum requirement but does not preclude an entity from posting more frequent updates to its Web site. To address these requirements, an entity could summarize fiscal year 2015 internal audit recommendations and report on its action and progress toward implementing those recommendations. Suggested progress classifications include: fully implemented, substantially implemented, incomplete/ongoing, or not implemented.

Texas Government Code, Section 2102.015, also specifies that a "state agency is not required to post information contained in the agency's internal audit plan or annual report if the information is excepted from public disclosure under [Chapter 552](#) [of the Texas Government Code]." If you have questions about whether information in your internal audit plan or annual report is excepted from disclosure under Chapter 552, consult with your entity's legal counsel or public information officer, as appropriate.

Entities that are not subject to the Texas Internal Auditing Act and that do not prepare internal audit plans or internal audit annual reports are not required to post those items on their Internet Web sites.

Entities that contract for internal audit services should post internal audit plans, the annual report, and required updates as prepared by the contracted auditor.

Attachment D: Higher Education Institution Benefits Proportionality Audit Requirements

Rider 8, page III-39, the General Appropriations Act (84th Legislature, Conference Committee Report) requires each higher education institution, excluding public community/junior colleges, to **conduct an internal audit of benefits proportional by fund using a methodology approved by the SAO**. Below is a summary of the provisions of that rider.

The rider requires the following:

- The audit must be conducted using the methodology approved by the SAO.
- The audit must examine fiscal years 2012 through 2014.
- Higher education institutions must submit a copy of the audit report to the Legislative Budget Board, the Comptroller of Public Accounts, and the SAO no later than August 31, 2016.
- If the audit identifies that the institution received excess General Revenue due to noncompliance with the proportionality requirements provided by Section 6.08, page IX-27, the General Appropriations Act (84th Legislature, Conference Committee Report), the institution must submit a reimbursement payment to the Comptroller of Public Accounts within two years from the conclusion of the audit.
- Higher education institutions must consider audits of benefits proportionality when developing their annual internal audit plans for fiscal years 2016 and 2017.

Audit Methodology

In compliance with the rider requirements, the SAO prescribes the following methodology for higher education institution internal audits of benefits proportional by fund. These guidelines represent the minimum requirements and do not preclude an entity from incorporating additional procedures in its audit(s).

The methodology for the higher education institution benefits proportional internal audit should, at a minimum, comply with Texas Government Code, Section 2102.011, and include the following areas:

1. Ensuring that (a) payments for benefits that are paid from appropriated funds are made proportionately from the same source as the related salaries and (b) salaries paid from General Revenue funds are related to positions authorized for General Revenue funds.
2. Reviewing salary expense transfers and refunds of expenditure transactions to verify that, if the higher education institution reduced salary expenditures from General Revenue, it also made a corresponding reduction in benefit expenditures from General Revenue.
3. Disclosing in the audit report (a) the aggregate dollar amount of all instances of noncompliance with the proportionality requirements identified during the audit, regardless of materiality, and (b) the status of any resulting reimbursement payments to the Comptroller of Public Accounts.

In addition, the audit report must include a statement certifying that the audit incorporated the methodology prescribed by the SAO.

The scope of the audit(s) should include fiscal years 2012 through 2014.

For questions regarding the benefits proportional internal audit methodology approved by the SAO, contact your assigned SAO contact manager.