

## 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.

## What's New

### **Contract Reform**

Guidelines for the fiscal year 2016 internal audit plan section of the internal audit annual report have been updated to include clarification regarding acceptable reporting formats for the annual higher education institution assessment required by Texas Education Code, Section 51.9337(h), prescribed by Senate Bill 20 (84th Legislature).

### **Report Submission**

Attachment B has been updated to include revised contact information for the oversight agencies and new procedures for submitting confidential reports and large files to the SAO.

## 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 2016 is **due November 1, 2016**. 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 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 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 contains details regarding the posting requirements in Texas Government Code, Section 2102.015.

## Questions?

If you have any questions, contact Kathryn Hawkins at (512) 936-9658 or Michael Stiernberg at (512) 936-9455 at the SAO, or via e-mail at [iacoordinator@sao.texas.gov](mailto:iacoordinator@sao.texas.gov).

## Attachment A: Requirements for the 2016 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 entity's assigned SAO contact manager to discuss that prior to submitting the report.

### Fiscal Year 2016 Internal Audit Annual Report

The following information should be included in the fiscal year 2016 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. Internal Audit Plan for Fiscal Year 2016

- Include a list of fiscal year 2016 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 2016 audit plan that your entity submitted on or before November 1, 2015, as part of its annual report.

**Note:** For higher education institutions:

- Clearly indicate which audit(s) were performed to address the benefits proportionality audit requirement prescribed in Rider 8, page III-41, the General Appropriations Act (84th Legislature).
- Report the findings for the higher education institution assessment required by Texas Education Code, Section 51.9337(h), as added by Senate Bill 20 (84th Legislature), in this section or in a separate report to the SAO.

#### III. 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 2016.
- 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.

**IV. 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.

**V. Internal Audit Plan for Fiscal Year 2017**

- Include the fiscal year 2017 approved audit plan. If you are awaiting approval from your governing board or chief executive for your entity's fiscal year 2017 audit plan and do not submit that plan with your annual report, specify the date on which you will submit your fiscal year 2017 audit plan.
- Include the budgeted hours for all projects.
- Indicate which projects in the audit plan, if any, address the following:
  - Benefits proportionality, 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 are not included in the fiscal year 2017 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 (1) the applicable information technology risks related to Title 1, Texas Administrative Code, Chapter 202, Information Security Standards, and (2) benefits proportionality.

**Note:** If the audit plan is modified during fiscal year 2017, submit a copy of the revised plan to the oversight agencies listed in Attachment B.

**VI. External Audit Services Procured in Fiscal Year 2016**

- Include a list of all external audit services that were procured or were ongoing in fiscal year 2016. 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.

**VII. 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-39, the General Appropriations Act (84th Legislature).
- 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 fiscal year 2016 is **due November 1, 2016**.
- 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.
- Send **confidential reports and files larger than 30 MB** to the SAO via the secure FTP server (see steps on page 5).

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

Agency and Phone Number	Electronic Submission of Reports
Governor’s Office of Budget, Planning, and Policy Phone: (512) 463-1778	Send to: Drew DeBerry <a href="mailto:budgetandpolicyreports@gov.texas.gov">budgetandpolicyreports@gov.texas.gov</a>
State Auditor’s Office Phone: (512) 936-9500	Send to: Internal Audit Coordinator <a href="mailto:iacoordinator@sao.texas.gov">iacoordinator@sao.texas.gov</a>  Confidential & Large Reports - SAO FTP Server (see page 5)
Legislative Budget Board Phone: (512) 463-1200	Send to: Julie Ivie <a href="mailto:audit@lbb.state.tx.us">audit@lbb.state.tx.us</a>
Sunset Advisory Commission Phone: (512) 463-1300	Send to: Ken Levine <a href="mailto:sunset@sunset.texas.gov">sunset@sunset.texas.gov</a>

## Attachment B (Continued): Where to Send the Internal Audit Annual Report and Periodic Internal Audit Reports

### Instructions for Uploading Confidential and Large Reports to the SAO's Secure FTP Server

Prior to uploading reports, rename the report file(s) to include the word "Confidential" and any other useful descriptors such as agency/higher education institution number, report name, etc.

Log into the SAO's secure FTP server at <https://ftp.sao.texas.gov/thinclient/login.aspx> using the following login:

Username: ConfidentialReports  
Password: ftpTX@1501

1. Click the Upload Files button.
2. Click the Browse button to browse for the file you want to upload.
3. Select the file(s) you want to upload. (Up to five files can be selected.)
4. Click the Upload button to start the uploading process.
5. The file(s) will be uploaded to the SAO over an encrypted connection and you will receive a message when that load was successful.
6. Click Logout when done.

You will not have rights to view or erase files. The files will be removed promptly from the secure FTP server and placed in a highly-restricted location on the SAO network.

### 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:

- The approved fiscal year 2017 audit plan, as required by Texas Government Code, Section 2102.008.
- The fiscal year 2016 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 the concerns, if any, that are raised by the audit plan or annual report."

Including the summaries outlined above in the fiscal year 2016 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 2016 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.