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**General Services Commission
The Effectiveness of Internal Audit
May 1997**

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Overall Conclusion

The Office of Internal Audit (Internal Audit) at the General Services Commission (Commission) is effective:

- Internal Audit met criteria used in seven of eight effectiveness criteria developed from the Texas Internal Auditing Act.
- Internal Audit assists members of the organization in the discharge of their responsibilities.
- Internal Audit provides analyses of the adequacy and effectiveness of internal control systems, policies, procedures, and departmental performance.
- Auditees perceive Internal Audit staff to be qualified professionals, providing logical, understandable, useful recommendations.
- Internal Audit complies with state law in all of the effectiveness criteria, but should improve in one.

Internal Audit employs three auditors and an administrative assistant to provide audit coverage for the activities of the Commission. In fiscal year 1996, those activities include collecting more than \$135.5 million in revenues and disbursing about \$129.7 million on Commission programs. The Commission was authorized to have 796 employees in fiscal year 1996. The Commission affects other state agencies through its administration of state purchasing laws and policies.

Section 1:

The Office of Internal Audit Is Effective

The Office of Internal Audit is effective in seven effectiveness criteria:

- **Management involvement in the internal audit function** - Internal Audit's charter, annual audit plan, and departmental budget are approved by executive management and the Commissioners. Additionally, all audit reports are discussed with executive management and the Commissioners.
- **Assessing entity risks** - Internal Audit prepares a comprehensive risk assessment which appropriately identifies and ranks the Commission's auditable areas. Management input is obtained when identifying and ranking these areas. The assessment is well documented and is linked to the annual audit plan.
- **Preparation of the audit plan** - The audit plan reflects the high-risk areas of the Commission. Internal Audit uses input from many sources to determine these areas and expends its resources on them.

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- **Planning and conducting audits** - Internal Audit plans and conducts audits according to the Institute of Internal Auditing standards.
- **Communicating audit results** - Audit reports contain the scope, purpose, objectives, executive summary, overall opinion, appropriate references, and responses from management and auditees. The reports are sent to the Executive Director and all Commissioners, which ensures auditees will take corrective action.
- **Follow-up on audit recommendations** - Internal Audit performs timely follow-ups on audit recommendations. Follow-up review procedures are outlined in Internal Audit's handbook.
- **Ensuring compliance with audit standards** - Internal Audit is in compliance with requirements of the Texas Internal Auditing Act and the Institute of Internal Auditing Standards. It is also in compliance with the Institute of Internal Auditing *Code of Ethics*.

Through compliance with the laws and standards, Internal Audit meets the key objectives of internal auditing and assists Commission administrators in carrying out their assigned responsibilities.

Section 2:

The Office of Internal Audit Should Formalize Plans for EDP Resources

No formal plan for obtaining electronic data processing (EDP) auditor resources has been documented. The Commission is highly automated, but Internal Audit does not have EDP auditor resources. Without EDP auditor resources, Internal Audit may not be able to provide management with independent, objective evaluations of the automated data processing systems in the Commission.

Recommendation:

We recommend that Internal Audit formalize plans for acquiring EDP auditor resources. Internal Audit should identify the automated systems with highest risks and document plans for acquiring EDP auditor resources necessary to address the risks.

Management's Response:

Management agrees with the recommendation. In the past, we have requested EDP auditor assistance from the State Auditor's Office. Due to limited resources, the State Auditor's Office was unable to provide us with assistance. However, the General Services Commission is currently undergoing a Management Control Audit by the

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State Auditor's Office. This audit has included a significant amount of work on the status and risks of the Commission's automated information system.

The Commission has recently hired a new Director of Information Resources and is in the process of reinstating the Information Resources Steering Committee. This group, which includes the Director of Internal Audit, will evaluate the Commission's information systems and needs on an ongoing basis. The Office of Internal Audit's annual risk assessment will also address the agency's information resource risks and needs. If EDP auditor resources are determined to be required, the Commission will contract with an outside party or with another state agency.

Objectives, Scope, and Methodology

Objectives

The objectives of Evaluating the Effectiveness of Internal Audit were to:

- Evaluate the effectiveness of the State's internal audit departments.
- Determine whether internal audit departments meet the key objectives of internal auditing and assist agency administrators in carrying out their assigned responsibilities.

Scope

The scope of the audit included:

- Evaluating the effectiveness of 12 of the larger state agencies' internal audit departments
- Surveying the board chairs, elected officials, audit committee chairs, and internal audit department directors of the 79 agencies and universities with internal audit departments to obtain their opinions and comments on the effectiveness of internal auditing; and compiling the results of the survey.

Methodology

The methodology used on this engagement consisted of developing criteria, obtaining information on each of the 12 agencies selected for review, analyzing the information, and evaluating the information against the criteria.

Information collected to accomplish the audit objective included the following:

- Interviews with management of oversight agencies
- Interviews with management and staff of individual agencies
- Documentary evidence, including:
 - State statutes
 - Internal auditing standards
 - Agency documents including plans, policies, manuals, reports, memoranda, and other written communications
 - Internal audit reports

Objectives, Scope, and Methodology

Procedures and tests conducted:

Internal audit function information collected in the current fiscal year and the last two completed fiscal years was evaluated against criteria developed from the Texas Internal Auditing Act.

Criteria used:

- Criteria developed from the Texas Internal Auditing Act

The following are the eight basic effectiveness criteria and a brief definition of each:

- **Board/Management Involvement in Internal Audit Function** - The agency's board or elected official and executive management are adequately involved in the internal audit function and in completing their responsibilities under the Texas Internal Auditing Act.
- **Organizing and Managing the Internal Audit Function** - The internal audit director is effective in managing and organizing the internal audit department.
- **Assessing Entity Risks** - A risk assessment is used in the audit planning process and all agency risks are identified and appropriately ranked.
- **Preparation of the Audit Plan** - The audit plan includes those areas identified as high risk, and resources are available to complete the plan.
- **Planning and Conducting Audits** - Audit projects are properly planned, and due professional care is used in performing the audits.
- **Communicating Audit Results** - The results of audits are appropriately communicated in written format to the proper level to insure corrective action is taken.
- **Ensuring Compliance With Audit Standards** - The internal audit department takes steps to ensure work conforms to audit standards
- **Follow-Up on Audit Recommendations** - The internal audit department follows-up recommendations in audit reports from prior periods.

Objectives, Scope, and Methodology

Other Information

Fieldwork was conducted from April to September 1996. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

The audit work was performed by the following members of the State Auditor's staff:

- Terry Holderman, MBA (Team Leader)
- Jay L. LaBlanc
- Tom McGaha
- Larry Vinyard, CPA, CIA (Project Manager)
- Carol Noble, CPA, CISA (Quality Control Reviewer)
- Charlie Hrcir, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Audit Director)