

Texas Workforce Commission

Office of Internal Audit

*Fiscal Year 2021
Annual Audit Report*



October 2021

TWC Office of Internal Audit Mission Statement

The mission of the OIA is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight to the Commission and agency management.

TWC Commission

Bryan Daniel, Chairman and Commissioner Representing the Public
Julian Alvarez III, Commissioner Representing Labor
Aaron Demerson, Commissioner Representing Employers

Office of Internal Audit

Ashley Sagebiel, CIA, CGAP, Director of Internal Audit

Susan Cunningham, CISA, Audit Manager
Luis Solis, CGAP, CRMA, Audit Manager

Sheryl Walton, Executive Assistant

Harold Rogers, CIA, CISA, CCNA, Special Projects Auditor

Information Technology Auditors:

Ron Titus, CISA
Martin Torres, CISA

Auditors:

Camilla Cannon, CGAP
Terry Harris, CPA
Michelle Joseph, CPA
John Kim
Melanie Molien
Anita Salinas, CGAP
Juan Sanchez, CGAP

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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

The Commission approved the Fiscal Year 2022 Audit Plan on November 23, 2021. The Office of Internal Audit (OIA) will post the approved plan to the “Reports, Plans, and Publications” page of the TWC’s Internet website within 30 days.

The TWC OIA will post the Fiscal Year 2021 Annual Audit Report to the “Reports, Plans and Publications” page of the TWC’s Internet website within 30 days after the report’s submission to all required recipients. The organizational format of the report and the information provided in the report complies with the “State Auditor’s Office Fiscal Year 2021 Guidelines for Submitting and Posting the Internal Audit Annual Report and Periodic Internal Audit Reports.”

II. Internal Audit Plan for Fiscal Year 2021

The Texas Workforce Commission Office of Internal Audit's list of planned audits for fiscal year 2021 follows in the table below. The table provides project numbers, report dates, project titles, and whether the audits were completed. If an audit was not completed, the table states the status of the audit as of the submission of the report. If applicable, the table also provides brief explanations for any deviations from the fiscal year 2021 audit plan.

Project Number	Report Date	Project Title and Objective	Status	Deviations from Plan
N/A	N/A	Contracting Compliance Review - To determine if a sample of contracts comply with contracting and monitoring controls and processes.	Cancelled	Contracting was covered in other audits so this audit was not required
2020-004-30	Pending	Review of Agency Monitoring Processes - To determine if monitoring functions are appropriately performing required monitoring processes and accurately reporting findings.	In Fieldwork	
2021-004-30	Pending	Succession Planning - To determine if controls are in place to minimize loss of knowledge and skills if turnover occurs in key roles across the agency.	In Fieldwork	
2021-010-10	Pending	VR Quality Reviews - To determine if Quality Assurance and Quality Improvement are conducting effective case reviews.	In Planning	

Project Number	Report Date	Project Title and Objective	Status	Deviations from Plan
2021-006-20	Pending	Fraud Controls - To determine if controls are effective to maximize fraud prevention, detection, and response related to Unemployment Insurance claims.	In Planning	
N/A	N/A	Cybersecurity - To determine if security and privacy controls are effective to protect organizational operations, assets, and customers.	Postponed until winter 2021	
2021-009-60	Pending	IT Customer Support - To determine if IT Customer Support provided effective support for agency hardware and software to agency employees to ensure services are confidential and available	In Fieldwork	
2021-003-30	AUG 2021	Pandemic Procurement Compliance - To determine if emergency purchases are compliant with state laws.	Report Issued	Project renamed from Emergency Procurement Compliance
N/A	N/A	Job Classifications - To determine if positions are reviewed annually for proper classification as defined by Texas Government Code 654.0155.	Cancelled	Classification information was reviewed in the HR Audit

Project Number	Report Date	Project Title and Objective	Status	Deviations from Plan
2021-001-80(a)	DEC 2020	Quarterly Follow-Up Reviews - To determine the adequacy and effectiveness of corrective actions taken by management to address previously reported audit findings.	Reports Issued	
2021-001-80(b)	MAR 2021			
2021-001-80(c)	JUN 2021			
2020-001-80(d)	SEPT 2021			
2021-007-30	Pending	Career Schools - To determine if current processes ensure compliance with State Laws and Rules.	In Planning	
2019-008-60	MAY 2020	Controls Over Change Requests - To determine whether controls over change requests provide reasonable assurance that change management is effective.	Report Issued	
2019-013-20	APRIL 2021	Internal Control Review of HR and HR Systems - To determine whether controls over Human Resources (HR) systems and processes ensure accuracy, reliability, and integrity in personnel records.	Report Issued	
2020-005-35	DEC 2020	Contracting Compliance Review - To determine if a sample of contracts comply with contracting and monitoring controls and processes.	Report Issued	

Project Number	Report Date	Project Title and Objective	Status	Deviations from Plan
2020-007-10	Pending	Collection Activities - To determine if collection activities are efficient and effective and if collection processes maximize collection potential.	In Reporting	
2020-002-30	DEC 2020	Compliance Review of VR Field Guidance - To determine whether guidance provided to Vocational Rehabilitation field offices comply with Federal and State laws.	Report Issued	
2019-015-20	JULY 2021	Open Records Compliance Review - To determine whether controls over agency open records policies and procedures provide reasonable assurance that the Agency is in compliance with State laws.	Report Issued	
2020-004-30	JAN 2021	Review of Agency Monitoring Responsibilities - To determine if agency management has identified and assigned required monitoring responsibilities.	Report Issued	

III. Consulting Services and Non-Audit Services Completed

A list of consulting and non-audit services completed by the Texas Workforce Commission Office of Internal Audit during fiscal year 2021 follows in the table below. The table provides project or report numbers, report dates, project name titles, and the high-level objective of each project, if applicable. The table also provides summaries of observations, results, and recommendations, if applicable.

Project Number	Report Date	Project Name	High-Level Project Objective	Observations, Results, and Recommendations
N/A	N/A	Commission Quarterly Work Sessions	To participate in an observation role in Commission Work Sessions that are held to update the Commission on system performance and include Commission discussion, consideration, and action regarding the performance and budget of IT projects and ongoing IT operations.	Information is monitored on an on-going basis to ensure risks are appropriately addressed when identified.
N/A	N/A	Rapid Process Improvement (RPI) Steering Committee Monthly Meetings	To participate in an observation role in RPI Steering Committee meetings that are held to provide oversight by hearing RPI project presentations, providing advice and guidance to managers new to RPI, and tracking each undertaking to sustain the changes.	Information is monitored on an on-going basis to ensure risks are appropriately addressed when identified.

Project Number	Report Date	Project Name	High-Level Project Objective	Observations, Results, and Recommendations
N/A	N/A	Business Enterprise Strategic Technology (BEST) Quarterly Meetings	To participate in an observation role in BEST meetings that are held to determine enterprise business strategy and appropriate application of technology and review business outcomes and lessons learned for completed projects.	Information is monitored on an on-going basis to ensure risks are appropriately addressed when identified.
N/A	N/A	Change Advisory Board (CAB) Weekly Meetings	To participate in an observation role in CAB meetings that are held to approve or reject submitted change requests for applications and systems in use at TWC that are maintained by TWC IT and/or contracted third-party vendors.	Information is monitored on an on-going basis to ensure risks are appropriately addressed when identified.
N/A	N/A	Quarterly Cybersecurity Meetings	To participate in an observation role in the Quarterly Cybersecurity Steering Committee meetings that are held to determine enterprise cybersecurity strategies, compliance, and issues.	Information is monitored on an on-going basis to ensure OIA is aware of changes in the control structure of the IT Division as it impacts the cybersecurity risks throughout the agency.

Project Number	Report Date	Project Name	High-Level Project Objective	Observations, Results, and Recommendations
N/A	N/A	IT Steering Committee Meetings	To participate in an observation role in the IT Steering Committee meetings that are held to track high level IT initiatives and strategies, including procurement, development, replacement, and outreach projects.	Information is monitored on an on-going basis to ensure OIA is aware of changes in the control structure of the IT Division as it impacts the agency.
21-2329	MAY 2021	Fraud Waste, and Abuse Investigations - SAO Requested	To perform view of an allegation of suspected fraud, waste, abuse, or inefficient operations, as required by the Texas Government Code, Section 321.013(d), that had been referred to the TWC OI by the State Auditor's Office.	No further action; closed compliant.
N/A	OCT 2021	Peer Review of OAG	The primary object of the quality assurance review was to evaluate Office of the Attorney General Audit Division's compliance with auditing standards and the Texas Internal Audit At.	Provide opportunities for improvement for the Internal Audit functions.

Project Number	Report Date	Project Name	High-Level Project Objective	Observations, Results, and Recommendations
N/A	AUG 2021	Peer Review of TxDMV	The primary object of the quality assurance review was to evaluate Office of the Attorney General Audit Division’s compliance with auditing standards and the Texas Internal Audit At.	Provide opportunities for improvement for the Internal Audit functions.
N/A	JAN 2021	Self - Assessment	To ensure compliance with auditing standards, the quality improvement program, and the IIA Code of Ethics.	The external reviewers determined the TWC Office of Internal Audit complies with auditing standards, the Texas Internal Auditing Act, and the IIA Code of Ethics.
N/A	OCT 2020	FY 2020 Annual Internal Audit Report	To provide information on the assurance services, consulting services, and other activities of the internal audit function.	
N/A	OCT 2020	Risk Assessment and Audit Plan	To prepare an annual audit plan using risk assessment techniques that identifies the individual audits to be conducted during the year	A risk assessment was performed and projects were selected for audit coverage. The audit plan was presented to and approved by the Commission
N/A	N/A	Coordination of External Auditors	To provide responsive information to external auditors.	External audit activity is tracked agency-wide.

IV. External Quality Assurance Review (Peer Review)

Texas Workforce Commission Office of Internal Audit
External Quality Assurance Review – March 2020

Overall Opinion

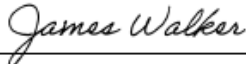


Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Workforce Commission OIA Office of Internal Audit (OIA) receives a rating of “Pass/Generally Conforms” and is in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing 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 OIA is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual 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.

The OIA has established policies and procedures to carry out their functions. In addition, the OIA has effective relationships with the Commission and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers the OIA a useful 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 Chief Audit Executive (CAE), OIA staff, the Chairman and 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 OIA and its relationship with management.

 _____ James Walker, CPA, CFE, CISA Assistant Chief Auditor Texas Commission on Environmental Quality SAIAF Peer Review Team Leader	4/6/2020 _____ Date
 _____ Darrell Carter, CPA, CIA, CRMA Director Internal Audit Texas Secretary of State SAIAF Peer Review Team Member	4/6/2020 _____ Date
 _____ Gail Zambie, CPA, CFE Audit Services Work Lead Texas Commission on Environmental Quality SAIAF Peer Review Team Member	4/6/2020 _____ Date

V. Internal Audit Plan for Fiscal Year 2022

Performance Audits

Auditable Units	Objectives	Budget Hours
Vocational Rehabilitation	Controls Review of VR Providers – to determine what controls are in place to ensure safety of Vocational Rehabilitation customers.	800
Information Technology	Access Control Review of ReHabWorks – to determine if controls in VR Systems ensure appropriate roles, access rights, and privileges.	800
Finance	Vendor Setup Audit – to determine the efficiency and effectiveness of the vendor set-up process.	750
Employer Initiatives	JET Program Compliance Review – to determine if controls in the JET program ensure compliance with State laws.	800
General Counsel	Contract Review Efficiency Audit – to determine efficiency of contracting reviews by General Counsel staff.	800
Vocational Rehabilitation	Compliance Review of Blind Services – to determine if controls are in place in the Blind Services program to ensure compliance with Federal and State requirements.	1,000
Child Care	Child Care Compliance – to ensure controls are in place in the Child Care program to ensure compliance with Federal and State requirements.	800
Workforce Development	Migrant Seasonal Farm Worker (MSFW) Compliance Review – to ensure controls are in place in the MSFW program to ensure compliance with Federal and State requirements.	750
Fraud Deterrence and Compliance Monitoring	Audit of Labor Law – to ensure controls are in place in the Labor Law program to ensure compliance with Federal and State requirements.	800
Agency-wide	Review of Monitoring Results – to determine if the results of monitoring activities are properly addressed by Agency management.	1,000
Agency-wide	Quarterly Follow-Up Reviews – to determine the adequacy and effectiveness of corrective actions implemented by management to address previously reported audit findings and recommendations.	3,000
Agency-wide	Commission Requests - additional projects requested by the Commission.	1,000

Carry Forward Projects

Auditable Units	Objectives	Budget Hours
Finance	Collection Activities - to determine if UI Tax collection activities by the Collections and Civil Actions department are efficient and effective.	190
Agency-wide	Review of Agency Monitoring Processes - to determine if required monitoring is occurring and if controls are in place to ensure accurate reporting.	400
Agency-wide	Succession Planning – to determine if controls are in place to minimize loss of knowledge and skills if turnover occurs in key roles across the Agency.	205
Vocational Rehabilitation	VR Quality Reviews – to determine if Quality Assurance and Quality Improvement are conducting effective case reviews.	695
Unemployment Insurance/ Fraud Deterrence and Compliance Monitoring	Fraud Controls – to determine if controls are effective to maximize fraud prevention, detection, and response related to Unemployment Insurance claims.	500
Information Technology	Cybersecurity – to determine if security and privacy controls are effective to protect organizational operations, assets, and customers.	800
Information Technology	IT Customer Support – to determine whether controls exist to ensure the IT Service Desk provides customer support to Agency employees.	550
Workforce Development	Career Schools - to determine if current processes ensure compliance with State Laws and Rules.	470

Risk Assessment Methodology

The Texas Workforce Commission (TWC) Office of Internal Audit allocates its resources in a manner that is consistent with the mission and goals of the TWC. To support the TWC’s mission, audit coverage is considered across the agency. The audit plan is designed to provide coverage of key business processes, over a reasonable period of time, given the existing staff.

The Office of Internal Audit (OIA) has implemented the COSO Framework in developing the methodology for the assessment of Agency risks for the Fiscal Year 2022 Risk Assessment and Audit Plan.

OIA assessed the Agency risk across the five internal control components:

- Control Environment – Includes how management oversees the internal control system, establishes organizational structure and addresses staffing, turnover, change in management, and succession planning.

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- Risk Assessment – includes how management identifies, analyzes and responds to risks related to achieving their objectives. Includes the consideration of fraud, waste and abuse.
 - Control Activities – Includes how management designs control activities to achieve objectives and respond to risks. Includes information technology risks and changes to program objectives and systems.
 - Information and Communication – Includes how management oversees the communication of policies internally and Agency-wide.
 - Monitoring Activities – Includes how management oversees compliance with State and Federal statutes and guidance and includes an assessment of external and internal reviews and audits in the auditable units.

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

Internal Audit is also required by laws and auditing standards to conduct certain activities on an annual and/or periodic basis, such as an internal quality control assessment, an annual audit report, and a peer review. Those required activities are also included in the audit plan.

To ensure the auditors maintain a steady workload throughout the year, some audit projects are scheduled to start near the end of one fiscal year and require time in the following year to complete. There are several carry-forward projects identified on the Fiscal Year 2021 audit plan.

VI. External Audit Services Procured in Fiscal Year 2021

During Fiscal Year 2021, the Office of Internal Audit did not procure or have any ongoing external audit services.

VII. Reporting Suspected Fraud and Abuse

The Texas Workforce Commission Office of Investigations conducts inquiry and investigative services pertaining to allegations of fraud, theft, program abuse, or misconduct. The Office of Investigations reports cases of suspected fraud and coordinates with the State Auditors' Office as required by Article IX, Section 7.09 of the General Appropriations Act (86th Legislature) and the Texas Government Code, Section 321.022.

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.

VIII. Contract Audit Reporting

Audit Reports

Report Title	Report Number	Report Date
Ethics and Compliance Audit	2016-016-30	SEP 2016
Contract Administration & Tracking System Application Controls Review	2014-008-60	DEC 2016
Purchasing from People with Disabilities	2016-009-30	DEC 2016
Criss Cole Rehabilitation Center	2017-001-60	MAR 2017
IT Procurement Controls	2016-015-20	MAY 2017
Statewide Initiatives	2017-009-10	DEC 2017
Subrecipient Monitoring	2017-007-50	JAN 2018
Controls Over Maintenance in Agency-Owned Buildings	2018-004-20	JUL 2018
Accuracy and Timeliness of Payments	2018-001-30	AUG 2018
VR Division Oversight Processes	2018-012-60	FEB 2019
Controls Over Procurement for Vocational Rehabilitation Customers	2017-026-20	APR 2019
Apprenticeship Compliance Review	2019-005-30	NOV 2019
Compliance Review of Workforce Guidance to Boards	2019-010-30	DEC 2019
Skill Development Fund	2018-010-10	FEB 2020
Travel Compliance	2019-007-30	MAR 2020

Report Title	Report Number	Report Date
Controls Over Vocational Rehabilitation Contracts	2019-014-20	SEP 2020
Contracting Compliance Review	2020-005-35	DEC 2020
Pandemic Procurement Review	2021-003-30	AUG 2021

Follow-Up Reports

Report Title	Report Number	Report Date	Related
Follow-Up Results of Previously Reported Recommendations (FY 2018 – First Quarter)	2018-001-80(a)	December 11, 2017	2016-015-20
Follow-Up Results of Previously Reported Recommendations (FY 2018 – Second Quarter)	2018-001-80(b)	March 26, 2018	2014-008-60 2016-009-30 2016-015-20 2016-016-30
Follow-Up Results of Previously Reported Recommendations (FY 2018 – Third Quarter)	2018-001-80(c)	June 25, 2018	2014-008-60 2016-009-30 2017-001-60
Follow-Up Results of Previously Reported Recommendations (FY 2019 – First Quarter)	2019-001-80(a)	December 10, 2018	2016-009-30 2016-015-20

Report Title	Report Number	Report Date	Related
Follow-Up Results of Previously Reported Recommendations (FY 2019 – Second Quarter)	2019-001-80(b)	March 25, 2019	2014-008-60 2016-015-20 2016-016-30 2017-001-60 2017-009-10
Follow-Up Results of Previously Reported Recommendations (FY 2019 – Third Quarter)	2019-001-80(c)	June 24, 2019	2018-001-30
Follow-Up Results of Previously Reported Recommendations (FY 2019 – Fourth Quarter)	2019-001-80(d)	September 23, 2019	2018-004-20
Follow-Up Results of Previously Reported Recommendations (FY 2020 – First Quarter)	2021-001-80(a)	December 9, 2019	2017-001-60
Follow-Up Results of Previously Reported Recommendations (FY 2020 – Second Quarter)	2021-001-80(b)	March 23, 2020	2016-009-30 2016-015-20 2017-009-10
Follow-Up Results of Previously Reported Recommendations (FY 2020 – Third Quarter)	2021-001-80(c)	June 23, 2020	2017-009-10

Report Title	Report Number	Report Date	Related
Follow-Up Results of Previously Reported Recommendations (FY 2020 – Fourth Quarter)	2021-001-80(d)	September 22, 2020	2017-026-20 2019-005-30
Follow-Up Results of Previously Reported Recommendations (FY 2021 – First Quarter)	2021-001-80(a)	December 10, 2020	2016-009-30 2017-026-20 2018-001-30 2018-004-20 2018-010-10 2019-007-30
Follow-Up Results of Previously Reported Recommendations (FY 2021 – Second Quarter)	2021-001-80(b)	March 24, 2021	2016-009-30 2017-012-20 2018-004-20 2019-005-30 2019-007-30
Follow-Up Results of Previously Reported Recommendations (FY 2021 – Third Quarter)	2021-001-80(c)	June 22, 2021	2018-001-30 2018-004-20
Follow-Up Results of Previously Reported Recommendations (FY 2021 – Fourth Quarter)	2021-001-80(d)	September 23, 2021	2016-009-30 2018-001-30 2018-004-20 2018-010-10 2019-014-20

NOTE: No follow-up audit work was performed in FY 2017 on reports of original audit work that were issued in FY 2017.