



TEXAS
JUVENILE JUSTICE
DEPARTMENT

TRANSFORMING YOUNG LIVES AND CREATING SAFER COMMUNITIES

**Report on the External Quality Assurance Review of the
Internal Audit Department February, 2019**



Performed by

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**Performed in Accordance with the State Agency Internal Audit Forum
Peer Review Policies and Procedures**

Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Juvenile Justice Department Internal Audit Department receives a rating of **“Pass/Generally Conforms”** 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 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 Internal Audit Department 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 Internal Audit Department is well managed internally. In addition, the Department 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 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.

The Internal Audit Department has reviewed the results of the peer review team's work and has accepted them to be an accurate representation of the Department's operations.

Acknowledgements

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, the Chairman of the Board, the Chief Inspector General, the Chief Financial Officer, 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 Internal Audit Department and its relationship with management.


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2/21/19  2/21/19
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Background

The Institute of Internal Auditors (IIA) *International Professional Practices Framework*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act require that internal audit functions obtain external quality assurance reviews to assess compliance with standards and the Act and to appraise the quality of their operations. Government auditing standards require these reviews at least every three years. A periodic external quality assurance review, or peer review, of the internal audit function is an essential part of a comprehensive quality assurance program. This quality assurance review was performed in accordance with State Agency Internal Audit Forum (SAIAF) Peer Review guidelines. No member of the review team had a conflict of interest with the Texas Juvenile Justice Department or its Internal Audit Department.

The most recent quality assurance review for the Texas Juvenile Justice Department Internal Audit Department was performed in November 2015.

Objectives, Scope, and Methodology

The primary objective of the quality assurance review was to evaluate the Texas Juvenile Justice Department Internal Audit Department's compliance with auditing standards and the Texas Internal Auditing Act. Additional objectives included identifying best practices as well as areas where improvement may be needed. The review covered all completed audit and management assistance projects performed by the Texas Juvenile Justice Department Internal Audit Department from November 1, 2017 through November 30, 2018.

The work performed during the review included:

- Review, verification, and evaluation of the self-assessment prepared by the Internal Audit Department according to SAIAF guidelines.
- Review and evaluation of e-mailed surveys completed by management.
- Interviews with the Internal Audit Director, Internal Audit Department staff, two senior directors, one facility superintendent, and the Chairman of the Governing Board.
- Review and evaluation of audit working papers.
- Review of Internal Audit's policies and procedures, annual risk assessment, annual audit plan, and other relevant documents.

Detailed Results

The results of the quality assurance review for the Texas Juvenile Justice Department (TJJD) Internal Audit Department are presented in the order of the *Standards for the Professional Practice of Internal Auditing*. No significant weaknesses were identified during the review that would prevent the Department from fulfilling its responsibilities. The detailed results include identification of best practices as well as some opportunities for improvement that the Internal Audit Department may wish to consider.

IIA Code of Ethics

Internal Audit demonstrates its commitment to the IIA *Code of Ethics* by including it in the *Internal Audit Policies and Procedures Manual*, attending periodic ethics training classes, and practicing ethical behavior in the course of daily work. TJJD Internal Audit has established the expectation that staff will conform to IIA's Code of Ethics.

Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of Internal Audit have been defined in a charter that is consistent with auditing standards. The current charter was signed by the Board and the Executive Director in October, 2018. It defines the nature of audit and consulting services and grants the Internal Audit Department unrestricted access to agency records, property, and personnel.

Independence and Objectivity

The Internal Audit Department is independent both in terms of the agency's organizational structure and the Department's practices. The Internal Audit Director reports directly to the Board, which provides sufficient authority to promote independence and to ensure adequate consideration of audit reports and appropriate action on audit issues and recommendations. Removal of the Internal Audit Director requires Board approval.

The charter helps ensure continued independence by specifying that internal auditors must remain free of operational and management responsibilities that could impair their ability to make independent reviews of all areas of the agency's operations. None of the internal auditors has had prior responsibility for any areas that the Department audits. In addition, auditors are required to sign independence statements for each audit they perform. The audit organization, the individual auditors, and audit work is objective and independent in all matters relating to audit work performed.

Proficiency and Due Professional Care

The internal auditors individually and collectively possess the knowledge, skills, and abilities to perform their responsibilities. Three of the six current auditors have at least one relevant professional certification. Internal auditors are required by the Department's policies and procedures to enhance their knowledge, skills, and abilities by obtaining at least 40 hours of continuing professional education each year. The Department has not had the need to hire external contractors to satisfy the audit objectives.

Quality Assurance and Improvement Program

The Internal Audit Director has implemented a quality assurance and improvement program to help ensure that Internal Audit adds value and improves the agency's operations and to provide assurance that the Department complies with *Standards* and the IIA Code of Ethics. The quality assurance program involves auditor performance evaluations, annual customer surveys, and periodic peer reviews, which are communicated to the Board and made available on the agency's Intranet. Each audit report indicates that the work was performed in accordance with *Standards*.

Opportunity for Improvement.

- 1.) The agency's tracking documentation on course trainings classes completed by staff could be enhanced to reflect specific training on IT, Fraud, & Audit Proficiency.
- 2.) An Opportunity for Improvement was identified pertaining to due professional care, related to documenting costs on consulting engagements in relation to potential benefits. After further consideration of the number of consulting engagements previously performed, the peer review team agreed with the Chief Auditor's rational below.

Director's Response:

- 1.) As a response, the department's excel tracking worksheet has been enhanced with additional columns to track the specific courses of IT, Fraud, & Audit Proficiency. The recommendation has been implemented.
- 2.) Consulting engagements take place very sparingly and therefore do not enhance the need to implement a cost benefit analysis (CBA) procedure step. The Chief Auditor's rational for not implementing CBA procedure, was that the lack of a CBA step does not hinder performance proficiency or add value to the agency when conducting consulting engagements.

Managing the Internal Audit Activity

The Internal Audit Director conducts an annual risk assessment that forms the basis for the Annual Audit Plan, which is approved by the Board. Each internal audit report addresses risk and control issues within the agency. The Director has developed policies and procedures to guide the internal audit activity. The Director reports the Department's performance relative to the annual plan in an annual report submitted to the agency's Executive Director, Board of Directors, the Governor's Office, Legislative Budget Board, Sunset Advisory Commission, and the State Auditor.

Nature of Work

Internal Audit evaluates risks related to financial and operating information as well as the effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws and regulations. The Department also evaluates the extent to which operating and program objectives have been achieved.

To comply with the 2017 revision to the IIA *Standards* that requires Internal Audit to contribute to the organization's risk management and governance processes, the Department provides information and assistance to Executive Management and the Board about how the accomplishment of goals is monitored and how accountability is ensured. Internal Audit evaluates the effectiveness of programs and operations, while safeguarding assets. Their approach is a disciplined evaluation of risks related to program and operation objectives, financial, and information systems assessments.

Engagement Planning

During planning, internal auditors consider the objectives of the activity being reviewed and the related risks and controls. Resources needed for each audit are adequately considered during planning. Risk assessments are used to develop the objectives of each audit. Auditors adequately developed and documented work programs to accomplish the audit objectives. Surveys and interviews conducted during this quality assurance review indicated that the objectives of audits are clearly communicated to the auditees. An Audit Plan and an Audit Program are documented and approved for each audit. The scope of audits is adequately planned and documented in planning documents and audit reports. The boundaries of each audit are directly tied to the audit objectives.

Performing the Engagement

Internal auditors evaluate and document sufficient, reliable, relevant, and useful information to achieve their audit objectives. Results and conclusions are based on analysis. Department policies and procedures contain guidance on sampling techniques. The auditor's work related to planning, fieldwork, and reporting was well documented and organized to facilitate an experienced auditor who had no previous connection with the engagement an understanding of the nature, timing, extent, and results of the audit procedures performed.

Audits are properly supervised by the Internal Audit Director. The Auditor-in-Charge for each project monitors the progress of the individual audits. The Internal Audit Director attends planning meetings, approves all control documents, and reviews working papers to ensure sufficiency of evidence and compliance with Standards.

Communicating Results

Audit results are communicated in a timely manner to those charged with governance of the audited entity, the appropriate officials, and oversight bodies of the organization. Potential findings are communicated throughout the audits, which provide management the opportunity to provide additional information and/or to start taking corrective action. Audit results are presented to management before they are finalized in a report, which helps ensure there is agreement about the areas for improvement and the recommended solutions. In addition, audit reports submitted to the Governor's Office, Legislative Budget Board, Sunset Advisory Commission, and the State Auditor.

Audit reports contain the audit objectives, results, conclusions, recommendations, and management's responses and action plans. The results of our surveys and interviews with management indicated that internal audit reports are accurate, objective, clear, concise, and complete. The Internal Audit Director distributes internal audit reports to the Board, to Executive Management, and to management of the activity being audited. In addition, internal audit reports are placed on the agency Intranet and hard copies are available.

Monitoring Progress

The agency established a system to monitor and verify the implementation of audit recommendations as initially communicated to management. Internal audit uses a database system for tracking issues and performance follow-up reviews. Annual reports are available to all levels of management on the status of recommendations to be implemented. Additionally, the Department verifies recommendations that have been implemented and assesses their effectiveness during the survey phase of audits and as time permits during the year.

Resolution of Senior Management's Acceptance of Risks

During the quality assurance review, no instances were identified of management accepting an inappropriate level of risk that would require the Internal Audit Director to notify the Board. Those charged with governance of a facility or program agreed with the audit recommendations and implementation of those recommendations.

Best Practices

Internal Audit's mission is "to provide the agency audit and consulting services that enhance accountability and assists the agency in accomplishing its mission and objectives through managing risk, increasing control awareness, improving processes, facilitating change, and promoting best practices". During the quality assurance review, we observed a number of practices that demonstrated the audit organization's commitment to its mission and the audit profession. These leading practices include the following:

- Collectively, internal auditor (IA) staff have over 70 years of audit and/or evaluation and program monitoring experience. Additionally, audit staff collectively have over 44 years of government experience.
- The IA staff are professional and proficient. They collectively hold seven professional certifications, six bachelor, and two master's degree. Certifications held include Certified Internal Auditor, Certified Professional Accountants of Canada, Certified Information Technology Professional, Certified Government Auditing Professional, and a Certification in Risk Management.
- All IA staff members obtain at least 80 hours of continuing professional education (CPE) each two-year period provided by local professional auditing organizations that may include the State Auditor's Office (SAO) and local chapters of the Institute of Internal Auditors (IIA), and the Association of Government Accountants (AGA).
- The Audit Department developed a tracking tool to monitor staff's CPE credits earned, and training activity.
- IA has relationships with executive and division management based on mutual respect and commitment to improving controls within the agency. The IA Director and staff work in concert with executive management on diverse audit engagements and consulting projects.
- The audit organization has an excellent system for tracking and reporting the status of prior audit recommendations. The audit follow-up system includes periodic reviews and updates provided to line management and executive management.
- IA has developed the Internal Audit Policies & Procedures Manual, an excellent guide that provides direction to staff auditors and assures more consistent IA practices.
- IA summarizes its audit engagement planning process in a comprehensive manner to include the identification of potential risks, testing methodology, preliminary interviews, and audit objectives and scope.

Texas Juvenile Justice Department Internal Audit Department
External Quality Assurance Review – February, 2019

The Honorable Wes Ritchy, Chairman of the Board

Scott W. Fisher, Chairman of the Audit Committee

Camille Cain, Executive Director

Eleazar Garcia, Chief Audit Executive