

**Guidelines for the Annual Internal Audit Report**  
**State Auditor's Office**  
**August 2011**

To: State Agency and Higher Education Institution Chief Audit Executives

The Texas Internal Auditing Act requires you to file an annual internal audit report on your agency's or institution's internal audit activity and the individual internal audit reports prepared for your governing board or administrator. The attached guidelines for preparing the annual internal audit report represent the State Auditor's Office's minimum requirements and do not preclude your agency or institution from including additional information.

According to Texas Government Code, Sections 2102.009 and 2102.0091, the annual internal audit report for fiscal year 2011 is due November 1, 2011. All individual 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."

Attachment A lists the required items and the order in which they should appear in the report. The reporting requirements can be found in Texas Government Code, Chapter 2102.

The required items for the annual internal audit report include the Internal Audit Plan for fiscal year 2012. If you are awaiting approval of the Internal Audit Plan for fiscal year 2012 from your governing board and do not submit that plan with your annual internal audit report, please indicate the date the Internal Audit Plan will be submitted.

Please note the requirement in Section VII, related to amending the Internal Audit Plan for fiscal year 2012. If you make a change to your Internal Audit Plan, please submit a copy of your amended plan to the oversight agencies (the Governor's Office, the State Auditor's Office, the Legislative Budget Board, and the Sunset Advisory Commission). Please include a list of risks ranked as "high" that you have identified but have not scheduled for audits in your Internal Audit Plan for fiscal year 2012.

The reporting guidelines ask for information about consulting engagements and other non-audit services, as well as audits and the budgets for all projects in the Internal Audit Plan. Additionally, we are requesting a list of all external audit services that were procured or were ongoing in fiscal year 2011.

Please submit the annual internal audit report electronically to the oversight agencies. Recommended electronic formats include Microsoft Word, Adobe Acrobat (PDF), or HTML. Attachment B provides the contact person and e-mail address for each agency requiring the report.

If you have any questions, please contact the State Auditor's Office's Internal Audit Coordinator, Babette Laibovitz, at (512) 936-9603 or via e-mail at [iacoordinator@sao.state.tx.us](mailto:iacoordinator@sao.state.tx.us).

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**Attachment A**

**Purpose of the Annual Internal Audit Report:** To provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the annual internal audit report assists oversight agencies in their planning and coordination efforts.

**Table of Contents** (example)

<b>I.</b>	<b>Internal Audit Plan for Fiscal Year 2011</b> .....	1
	(Include audits, consultations, reviews, special projects, all project budgets, and explanations for deviations from the audit plan.)	
<b>II.</b>	<b>External Quality Assurance Review</b> .....	1
	(Include the executive summary or a summary of issues from the most recent external quality assurance or peer review report.)	
<b>III.</b>	<b>List of Audits Completed</b> .....	2
	(Using a format similar to the table provided, list audits completed during fiscal year 2011 and indicate the high-level objective(s) of each project. Summarize key audit observations/findings and recommendations. For each key recommendation, show the current implementation status and impact.)	
<b>IV.</b>	<b>List of Consulting Engagements and Non-audit Services Completed</b> .....	5
	(Using a format similar to the table provided, list consulting engagements, as defined in <i>The International Standards for the Professional Practice of Internal Auditing</i> , and non-audit services, as defined in <i>Government Auditing Standards, July 2007 Revision</i> , Sections 3.25 – 3.30. Indicate the high-level objective(s) of each project. Summarize key consulting engagement and non-audit services observations/results and recommendations, if applicable. For each recommendation, show the impact and implementation status.)	
<b>V.</b>	<b>Organizational Charts</b> .....	6
	(Include (1) an organizational chart that reflects the position of the internal audit department and the chief audit executive in the organizational structure and (2) an organizational chart of the internal audit department. The organizational chart should include all divisions of the agency. Also, indicate whether the agency’s or institution’s board has an audit committee.)	
<b>VI.</b>	<b>Report on Other Internal Audit Activities</b> .....	6
	(Report on internal audit department activities in fiscal year 2011 that did not result in an audit report but added value to the organization. Other activities may include serving on professional committees and participating in external quality assurance reviews.)	
<b>VII.</b>	<b>Internal Audit Plan for Fiscal Year 2012</b> .....	6
	(If the Internal Audit Plan is not submitted with this report, indicate the date the Internal Audit Plan will be submitted. If the Internal Audit Plan is amended during the year, please submit a copy of the amended plan to the oversight agencies.) Include a list of additional risks ranked as “high” that you have identified but have not included in the Internal Audit Plan for fiscal year 2012.	

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**VIII. External Audit Services.....6**  
(List of all external audit services that were procured or were ongoing in fiscal year 2011.)

**IX. Reporting Suspected Fraud and Abuse.....7**  
(Actions taken to implement the requirements of Article IX, Section 17.05, and Article XII, Section 5(c), the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022.)

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**Detailed Description of the Internal Audit Report Components**

**I. Internal Audit Plan for Fiscal Year 2011**

- Include consultations, reviews, special projects, and project budgets.
- Include brief explanations of any deviations from the audit plan submitted with the fiscal year 2010 annual internal audit report.

**II. External Quality Assurance Review (Peer Review)**

- Include a copy of the most recent external quality assurance review's executive summary or a summary of issues.

**III. See next page.**

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**III. List of Audits Completed Showing High-level Objectives, Observations/Findings, Recommendations, and Implementation Status (Example)**

<b>Report No.</b>	<b>Report Date</b>	<b>Name of Report</b>	<b>High-level Audit Objective(s)</b>	<b>Observations/Findings and Recommendations</b>	<b>Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with Brief Description If Not Yet Implemented <sup>1</sup></b>	<b>Fiscal Impact/ Other Impact</b>
11-001	October 5, 2010	Fixed Asset Review	<p>To determine the adequacy of accounting records and the ability to identify the assets listed on them.</p> <p>To determine whether fixed asset acquisitions and dispositions were properly documented and approved in accordance with established procedures.</p>	<p>Inventory tags are not placed on newly acquired equipment within five working days as required by policy.</p> <p>Procedures should be developed to ensure that inventory numbers are assigned and permanently affixed to items in accordance with agency policy.</p>	<p>Incomplete/Ongoing</p> <p>The department has drafted procedures but will not adopt them until the new fiscal year.</p>	<p>Reduce the risk of equipment loss and failure to comply with agency policy.</p>

<sup>1</sup> Definitions of implementation status are as follows:

- Fully Implemented: Successful development and use of a process, system, or policy to implement a prior recommendation.
- Substantially Implemented: Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.
- Incomplete/Ongoing: Ongoing development of a process, system, or policy to address a prior recommendation.
- Not Implemented: Lack of a formal process, system, or policy to address a prior recommendation.

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<b>Report No.</b>	<b>Report Date</b>	<b>Name of Report</b>	<b>High-level Audit Objective(s)</b>	<b>Observations/Findings and Recommendations</b>	<b>Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with Brief Description If Not Yet Implemented <sup>1</sup></b>	<b>Fiscal Impact/ Other Impact</b>
				<p>Access for modifying, creating, or deleting fixed asset records may not be appropriately restricted because the system security list is not periodically reviewed to ensure that only current authorized users have access.</p> <p>Guidelines should be established for periodic review of the security report list for all users.</p>	<p>Substantially Implemented</p> <p>The security officer who should review these reports has resigned, and the agency is currently trying to fill the position.</p>	<p>Limit the risk of inaccurate or fraudulent transactions in the fixed asset system.</p>
11-002	February 23, 2011	Special Education Compliance	To determine whether the Special Education Program complies with state and federal rules and requirements.	<p>The agency can improve compliance with state and federal requirements for notification, time lines, and transition.</p> <p>Procedures should be implemented by the assessment staff to ensure that appropriate notices are sent for all identified students.</p>	<p>Incomplete/Ongoing</p> <p>Management agrees that procedures should be implemented and has assigned the responsibility for doing so to the federal issues manager.</p>	<p>Reduce the risk of noncompliance with state and federal regulations and the risk of losing federal grant funding or incurring federal sanctions.</p>
11-003	July 6, 2011	Audit of Payroll and Personnel	<p>To ensure that payroll and personnel processes and operations are in place and functioning properly.</p> <p>To ensure that calculation of earnings, special payments,</p>	<p>Agency policy was overridden when current employees were paid for unaccumulated vacation time.</p> <p>Management should enforce agency policy, and any overpayments should be collected.</p>	<p>Fully Implemented</p> <p>Not Implemented</p>	<p>Identified \$50,000 in overpayment of benefits.</p>

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<b>Report No.</b>	<b>Report Date</b>	<b>Name of Report</b>	<b>High-level Audit Objective(s)</b>	<b>Observations/Findings and Recommendations</b>	<b>Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with Brief Description If Not Yet Implemented <sup>1</sup></b>	<b>Fiscal Impact/ Other Impact</b>
			<p>employee benefits, employee taxes, and voluntary/involuntary deductions are accurate, complete, and performed in a timely manner.</p> <p>To ensure that employment tax processes and tax and non-tax reporting comply with applicable federal/state laws.</p>	<p>Payroll department violates principle of segregation of responsibilities by maintaining custodial and record keeping responsibilities for payroll checks. Management should segregate responsibilities for payroll or establish compensating control.</p>	<p>Agency does not plan to implement recommendation due to limited staffing issues.</p>	<p>Reduce the risk for errors, irregularities, and fraud related to payroll.</p>

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**IV. List of Consulting Engagements and Non-audit Services Completed Showing High-Level Objectives, Observations/Results, Recommendations, and Implementation Status (Example)**

<b>Report No.</b>	<b>Report Date</b>	<b>Name of Report</b>	<b>High-level Consulting Engagement/Non-audit Service Objective(s)</b>	<b>Observations/ Results and Recommendations</b>	<b>Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with Brief Description If Not Yet Implemented <sup>2</sup></b>	<b>Fiscal Impact/ Other Impact</b>
11-00A	January 20, 2011	Consulting engagement on Automated Information System Development	Verify that the information system will meet planned objectives and be completed on a timely basis.	The system will meet planned objectives. However, the anticipated completion date has been extended by six months, resulting in an added cost of \$500,000.  Establish project monitoring procedures to more accurately track the development and implementation of new information systems.	Incomplete/Ongoing  New system completion has been delayed.	Identified additional cost of \$500,000 due to delayed implementation of new system.

<sup>2</sup> Definitions of implementation status are as follows:

- Fully Implemented: Successful development and use of a process, system, or policy to implement a prior recommendation.
- Substantially Implemented: Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.
- Incomplete/Ongoing: Ongoing development of a process, system, or policy to address a prior recommendation.
- Not Implemented: Lack of a formal process, system, or policy to address a prior recommendation.

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**V. Organizational Charts**

Include an organizational chart that reflects the position of the internal audit department, chief audit executive, and the governing board’s audit committee (if applicable) in the organizational structure. The organizational chart should include all divisions within the agency. Also include an organizational chart of the internal audit department.

**VI. Report on Other Internal Audit Activities (Example)**

Activity	Impact
Participated in external quality assurance review.	Internal audit participated in an external quality assurance review of the XYZ Agency. Internal audit prepared the report and presented the findings to the agency’s board.
Facilitated control self-assessment workshops.	Internal audit completed self-assessment workshops in four departments. The departments have prepared reports on assessed risk and changes needed to limit or reduce risk.
Served on task force assigned to study and make recommendations on wage and salary rates.	Internal audit strengthened the task force’s process for gathering evidence for a compelling report.

**VII. Internal Audit Plan for Fiscal Year 2012**

Internal Audit Plans for the coming year provide information for oversight agencies to use when planning their work. Agencies and institutions may include the risk assessment or methodology used to develop the plan. Please include the budgeted hours for all projects. If you are awaiting approval of the Internal Audit Plan for fiscal year 2012 from your governing board and do not submit the Internal Audit Plan with your annual internal audit report, please indicate the date the Internal Audit Plan will be submitted. If you make a change to your Internal Audit Plan, please submit a copy of your amended plan to the oversight agencies. Include a list of risks ranked as “high” that you have identified but have not scheduled for audits in your fiscal year 2012 Internal Audit Plan.

**VIII. External Audit Services Procured in Fiscal Year 2011**

Include a list of all external audit services that were procured or were ongoing in fiscal year 2011. These services include, but are not limited to, attestation, compliance, contracting,

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financial, information systems, internal audit, investment, performance, and risk assessment services.

**IX. Reporting Suspected Fraud and Abuse**

Actions taken to implement the requirements of:

- **Fraud Reporting.** Article IX, Section 17.05, the General Appropriations Act (81st Legislature).
- **Reporting Requirements.** Article XII, Section 5(c), the General Appropriations Act (81st Legislature).
- Texas Government Code, Section 321.022.

The General Appropriations Act (82nd Legislature) includes the same fraud reporting requirement in Article IX, Section 7.10.

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**Attachment B**

**Where to Send the Annual and Individual Internal Audit Reports**

The Governor’s Office, the State Auditor’s Office, the Legislative Budget Board, and the Sunset Advisory Commission should receive **both** the annual and individual internal audit reports. All internal audit reports should be submitted by the 30th day after the date the report is submitted to the state agency’s or institution’s governing board or the administrator of the state agency if the state agency does not have a governing board.

Send the reports electronically in Microsoft Word, Adobe Acrobat [PDF], or HTML, attached to an e-mail, to the addresses below. Please include the phrase “Annual Internal Audit Report” or “Individual Internal Audit Report” in the subject field of the e-mail.

<b>Contact and Phone Number</b>	<b>Electronic Submission of Reports</b>
Governor’s Office of Budget, Planning, and Policy Phone: (512) 463-1778	Send to: Jonathan Hurst <a href="mailto:internalaudits@governor.state.tx.us">internalaudits@governor.state.tx.us</a>
Legislative Budget Board Phone: (512) 463-1200	Send to: Ed Osner <a href="mailto:Ed.Osner@lbb.state.tx.us">Ed.Osner@lbb.state.tx.us</a>
State Auditor’s Office Phone: (512) 936-9500	Send to: Internal Audit Coordinator <a href="mailto:iacoordinator@sao.state.tx.us">iacoordinator@sao.state.tx.us</a>
Sunset Advisory Commission Phone: (512) 463-1300	Send to: Ken Levine <a href="mailto:sunset@sunset.state.tx.us">sunset@sunset.state.tx.us</a>