

**State Office of Administrative Hearings
Internal Audit Annual Report
for FY 2013**

September 20, 2013

As Prepared by
Jansen and Gregorczyk,
Certified Public Accountants

State Office of Administrative Hearings - FY 2013 Internal Audit Annual Report

**Jansen & Gregorczyk
Certified Public Accountants**

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P. O. Box 601
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September 20, 2013

The Honorable Rick Perry, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Mr. John Keel, CPA, State Auditor

Dear Ladies and Gentlemen:

Attached is a report on the internal activity at the State Office of Administrative Hearings as outlined in the Texas Internal Auditing Act.

Please contact Please contact Russell Gregorczyk, CPA at 512-468-2020 or Kim Dudish, Chief Financial Officer for SOAH at 512-463-8575 if you desire further information about the contents of this report.

Sincerely,

SIGNED COPY ON FILE

Russell Gregorczyk, Partner
Jansen & Gregorczyk, CPAs
Contract Internal Auditor for SOAH

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I. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web site

The Contract Internal Auditor will provide the required Internal Audit Plan, Internal Audit Annual Report and any other required internal audit information to the Chief Financial Officer who will ensure that the information is posted on the agency web site under the Publications and Reports Section.

II. Audit Plan for Fiscal Year 2013

The Audit Plan for Fiscal Year 2013 was approved by the Chief Administrative Law Judge Cathleen Parsley on October 17, 2012. All audits and projects in the FY 2013 Audit Plan (see page 11) were completed as scheduled.

**State Office of Administrative
Hearings
Internal Audit Plan
for FY 2013**

As Approved by the
Chief Administrative Law Judge Cathleen Parsley

on

October 17, 2012

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October 3, 2012

Cathleen Parsley,
Chief Administrative Law Judge
State Office of Administrative Hearings

The following document presents the fiscal year 2013 Internal Audit Plan for your consideration and approval. In accordance with the Texas Internal Auditing Act, the agency head or governing board must approve the annual audit plan. Chapter 2102 of the Government Code requires that the internal audit plan include areas identified through risk assessment. This document presents the risk assessment results and the audit plan based on the results of the risk assessment.

This document also includes the internal auditing guidelines and internal audit charter under which the SOAH internal audit program will operate. Approval by the Chief Administrative Law Judge signifies approval of the internal audit plan, the internal audit guidelines and the internal audit charter for FY 2013.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

**SECTION 1:
STATE OFFICE OF ADMINISTRATIVE HEARINGS
INTERNAL AUDITING GUIDELINES**

Certain operating guidelines are necessary for an effective internal auditing program. The purpose of this Section is to establish policies and guidelines to govern internal audits of all operations of the State Office of Administrative Hearings. These guidelines, as well as the FY 2013 Internal Audit Plan, are approved by the SOAH Chief Administrative Law Judge each year.

I. INTERNAL AUDIT CHARTER

The *Standards for the Professional Practice of Internal Auditing* state that the Internal Audit Charter should make clear the purposes of the internal auditing department, specify the unrestricted scope of its work, and declare that auditors are to have no authority or responsibility for the activities they audit.

The Internal Audit Charter is an extremely important document that sets out the statement of purpose, authority, and responsibility for the internal auditing department. It is an agreement between the Chief Administrative Law Judge and the SOAH Internal Auditor, which establishes the guidelines for an effective internal auditing program.

Although the Internal Audit Charter can include all relevant policies and procedures, a concise document is preferable. A concise document increases the likelihood that all parties will understand the purpose, authority, and responsibility of the internal auditing department. Exhibit 1 presents the SOAH Internal Audit Charter.

II. INTERNAL AUDITING STANDARDS

A. The Internal Auditor shall conduct his/her activities in a manner that is consistent with the most recent edition of the *Standards for the Professional Practice of Internal Auditing*, *Certified Internal Auditor Code of Professional Ethics*, and the *Statement of Responsibilities of Internal Auditing*.

B. Sufficient and relevant evidence shall be obtained to afford a reasonable basis for the auditor's findings and recommendations. A written record of the auditor's work shall be retained in the form of working papers.

C. Standards of conduct for the Internal Auditor require that the Internal Auditor shall:

- 1.** be free from personal or external impairments to independence in order that opinions, conclusions, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

2. be prudent in the use of information acquired in the course of his/her duties.
3. conduct all activities in accordance with the laws regarding confidentiality.
4. not use any information obtained in an audit for any personal gain nor in a manner, which would be detrimental to the welfare of the SOAH, the Chief Administrative Law Judge, or SOAH employees.

III. INTERNAL AUDITING POLICIES

A. The SOAH Chief Administrative Law Judge shall appoint the SOAH Internal Auditor. The Internal Auditor shall report directly to the Chief Administrative Law Judge, or her designee.

B. The Chief Audit Executive shall be responsible for the administrative supervision of the Internal Audit program and shall ensure the independence of the internal audit function.

C. The Internal Auditor shall submit to the Chief Administrative Law Judge for approval, the annual audit plan, which shall be based on risk analysis and which shall identify individual audits to be performed during the year.

D. The Internal Auditor shall be responsible for performance audits of the SOAH. Performance audit is defined as an independent appraisal activity performed by the Internal Auditor which includes determining whether the entity being reviewed is acquiring, protecting, and using its resources economically and efficiently, identifying the causes of inefficiency or uneconomical practice, and determining whether the entity has complied with laws, riders, rules and regulations.

E. The Internal Auditor's activities in reviewing, appraising and reporting established policies, plans and procedures shall not in any way relieve SOAH personnel of responsibilities assigned to them.

F. The implementation of, or action taken on, the Internal Auditor's recommendations shall be the duty of the Chief Audit Executive. The Internal Auditor will perform follow-up audits to determine what corrective action was taken and whether it is achieving the desired results.

IV. INTERNAL AUDITING PROCEDURES

A. The Internal Auditor prior to beginning an audit will inform the Chief Audit Executive and the appropriate directors or managers of the audit and its objectives by conducting an entrance conference.

B. The Internal Auditor will conduct an exit conference with the Chief Audit Executive and the appropriate directors or managers, at which time exceptions noted during the course of the audit will be discussed.

C. The Internal Auditor will independently make a determination on the results of the audit and issue a draft report to the Chief Audit Executive and the appropriate directors or managers for management response. A management response will be made within 14 calendar days of the issuance of the draft report.

D. The Internal Auditor will add the management response to the body of the report and issue a final draft report for the Chief Administrative Law Judge, Chief Audit Executive and the appropriate directors or managers within 14 calendar days of receiving the management response. After approval by the Chief Administrative Law Judge, the final report will be prepared.

E. If, during the course of an audit, the Internal Auditor detects situations or transactions that could be indicative of fraud or other illegal acts, or receives information from external sources alleging such actions, the Internal Auditor will:

- 1.** Provide all pertinent information to the Chief Administrative Law Judge and Chief Audit Executive.
- 2.** Formally request approval from the Chief Administrative Law Judge to expand audit procedures or perform an investigation.
- 3.** Upon approval, the Internal Auditor will extend audit procedures or perform an investigation to obtain sufficient evidence to determine whether in fact such acts have occurred and, if so, the cause of the problem and the possible effect on the SOAH's operations and programs.
- 4.** Provide the Chief Administrative Law Judge and Chief Audit Executive a formal report on the results. Upon receipt of evidence of illegality, the Chief Administrative Law Judge will forward findings to the appropriate legal entity.

**SECTION 2:
STATE OFFICE OF ADMINISTRATIVE HEARINGS
RISK ASSESSMENT**

This section presents the results of the SOAH Risk Assessment, and establishes the foundation for the Internal Audit Plan presented in the next section.

Purpose

One of the key findings in the State Auditor's Office report, *Statewide Review of Internal Auditing*, was that the scope of internal auditing is often limited in state agencies. The report states, "Because significant financial and operating risks to the agency may be overlooked if the scope of the internal auditors work is limited, we recommend that internal auditors:

- Document, in writing, a risk assessment that considers all the major systems and controls of the agency as part of the audit universe. The audit universe refers to all auditable subjects, activities, units, issues and functions within the organization.
- Identify the risk factors that affect the audit universe and weights that may be applied to the risk factors.
- Establish a method for combining and assigning risk factors and weights to develop a prioritized annual audit work plan.
- Develop an audit plan and work schedule based on the results of the risk assessment.
- Obtain written approval for the plan from the highest level within the organization.
- Implement the plan. Significant deviations from the audit plan should be supported by reasonable, documented explanations."

The purpose of conducting a Risk Assessment for the SOAH was to incorporate all these recommended elements in an objective assessment of the agency. This should ensure that the scope of internal audit work at the SOAH is not limited and that the Internal Audit Plan for FY 2013 is based on documented, written findings.

Concept of Risk

The concept of risk is fundamental in internal auditing. Given the importance of the concept of risk, it is necessary to define what risk is, describe types of risk and describe how risk was measured in performing the State Office of Administrative Hearings Risk Assessment.

Risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Since controls are anything that improve the likelihood that goals and objectives will be achieved, controls and risk are inversely related by definition. Better control means less

risk. The Risk Assessment was designed to detect and evaluate the controls in place to reduce different types of risk exposure.

The SOAH Risk Assessment was designed to measure different types of "risk exposure" and to assess the controls in place to compensate for different levels of risk. The types of risk exposure that are relevant to the SOAH are:

- *Audit Exposure*: Audit exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.

- *Regulatory Exposure*: Regulatory exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.

- *Information Exposure*: An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.

- *Efficiency Exposure*: An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.

- *Human Resource Exposure*: A human resource exposure exists whenever an area is managing human resources in a way, which is contrary to agency policy.

- *Environmental Exposure*: An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:

- Recent changes in key personnel
- Changing economic conditions
- Time elapsed since last audit
- Pressures on management to meet objectives
- Past audit findings and quality of internal control

- *Political Exposure*: A political exposure exists whenever an event in an audit area could cause the agency to be subjected to adverse political consequences.

- *Public Service Exposure*: A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.

The SOAH Risk Assessment Survey was designed to measure various types of risk ranging from the risk of loss of assets to the risk of adverse publicity due to erroneous information. The survey instrument allows meaningful comparisons among very different activities and types of risk by assigning all potential auditable topics a numeric score.

Methodology

The risk variables utilized for the State Office of Administrative Hearings Risk Assessment combined measures of the various controls and exposure types described in the previous section. Exhibit 2 presents the risk survey instrument utilized. Sixteen risk variables or risk factors were selected to provide a cross-section of overall risk. These sixteen factors were weighted according to their perceived importance, i.e. the higher the weighting, the higher the risk.

The first step in conducting the Risk Assessment involved defining the potential audit universe. To be in compliance with the Texas Internal Auditing Act, all potential auditable subjects, activities, units, issues and functions were determined. The universe of potential audit topics was developed through interviews with the State Office of Administrative Hearings staff and by reviewing materials such as the agency organizational chart, the agency Strategic Plan, Legislative Appropriations Request, etc.

The second step in the process was to utilize the survey instrument to assess the risk for each potential audit topic. After completing the risk survey for all potential auditable topics, each survey response was reviewed for consistency based on the knowledge of the auditor. This phase was a means of assuring "quality control," since the completion of the survey instruments was based on information provided by various management members of the State Office of Administrative Hearings.

The third phase of the Risk Assessment involved scoring and ranking the answers to the survey questions. By weighting the values of the different risk indicators, the survey was individualized for the State Office of Administrative Hearings.

The final step in conducting the Risk Assessment was to rank and categorize every potential auditable topic. Based on the average score and the standard deviation of the potential audit universe, the potential auditable topics were categorized as follows:

| | |
|---------------|--------------|
| High Risk | - Above 200 |
| Moderate Risk | - 169 to 200 |
| Low Risk | - Below 169 |

Results

Exhibit 3 presents the weighted risk scores and overall risk categorization. Five potential audit topics are rated as high risk, with ten other topics categorized as moderate risk. The high risk potential audit topics are:

- Accounting, Budgeting and Payroll
- Information Resources- Key Business Systems
- Billing Process
- Information Resources- Operations and Security
- Docketing Section

**SECTION 3:
STATE OFFICE OF ADMINISTRATIVE HEARINGS
FY 2013 INTERNAL AUDIT PLAN**

The Texas Internal Auditing Act requires certain audits to be performed on a periodic basis. Required audits include audits of the department's accounting systems and controls, administrative systems and controls, information resources systems and controls, and other major systems and controls. In addition, five general types of audits are required by the *Standards for the Professional Practice of Internal Auditing* as follows:

Reliability and Integrity of Information - Internal Auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

Compliance with Policies, Plans, Procedures, Laws, and Regulations - Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance with them.

Safeguarding of Assets - Internal auditors should review the means of safeguarding assets and, as appropriate verify the existence of such assets.

Economical and Efficient Use of Resources - Internal auditors should appraise the economy and efficiency with which assets are employed.

Accomplishment of Established Objectives and Goals for Operations and Programs - Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives/goals, and whether the operations or programs are being carried out as planned.

The FY 2013 Internal Audit Plan for the State Office of Administrative Hearings is based on the Risk Assessment presented in the previous section. For FY 2013, one topic categorized as high risk as determined by the risk assessment (Exhibit 3) is included in the audit plan. That is an audit Information Resources Operations and Security. The highest rated risk topic is the Accounting and Payroll Systems and Controls. This topic is not proposed for audit because changes are underway in how the agency budgets and accounts for revenues as a result of recommendations made in a State Auditor's Office report on SOAH that was issued in FY 2012. Recommendations made in that audit report also affect the Billings Process and Key Automated Business Systems (two other high risk areas). Therefore, these topics were also not included in the FY 2013 internal audit plan since changes will be underway during FY 2013 to address problems already identified in these systems. An internal audit of the Docketing Section (the other high risk area) was performed in FY 2012 and a follow-up review will be performed in FY 2013 instead of another audit. As a result, the two audits that will be performed in FY 2013 are:

State Office of Administrative Hearings - FY 2013 Internal Audit Annual Report

- Information Resources Operations and Security (High Risk)
- Administrative License Revocation Hearings (Average Risk)

In addition to these proposed audits, the internal audit annual report for FY 2013 will be prepared, and a follow-up review and report will be issued on audit recommendations made in prior years. A Quality Assurance Review of the SOAH internal audit program is also required to be performed by an independent third party during FY 2013. Finally, a risk assessment will be performed and an audit plan developed for FY 2014.

The following estimated time and timeframes for performing internal audit work during the project are as follows:

- Complete the FY 2012 Internal Audit Annual Report – 3 hours (September 2012)
- Update Risk Assessment and Prepare FY 2013 Audit Plan – 3 hours (October 2012)
- Audit of Administrative License Revocation Hearings - 140 hours (October to December 2012)
- SOAH Quality Assurance Review – 6 hours (January 2013)
- Audit of Information Resources Operations & Security - 120 hours (January to February 2013)
- Prior Years' Audit Follow-up Review – 10 hours (April 2013)
- Update Risk Assessment and Prepare FY 2013 Audit Plan – 4 hours (May 2013)

Based on 228 hours of estimated work for a Senior Auditor at \$85/hour and 58 hours of estimated work for the Audit Manager at \$125/hour, audit fees for FY 2012 are projected at \$26,630. Travel costs for the Administrative License Revocation Hearing audit are estimated at \$1,000. The quality assurance review will cost \$2,000. The time required to complete any given project may vary from the estimates shown, but overall fees for all deliverables will not exceed \$29,630.

**EXHIBIT 1
STATE OFFICE OF ADMINISTRATIVE HEARINGS
INTERNAL AUDITING CHARTER**

PURPOSE

Internal Auditing is an independent appraisal activity established to conduct reviews of operations and procedures and to report findings and recommendations to the State Office of Administrative Hearings Chief Administrative Law Judge and Chief Audit Executive.

AUTHORITY

The Internal Auditor reports directly to the Chief Administrative Law Judge. This reporting relationship ensures independence, promotes comprehensive audit coverage and assures adequate consideration of audit recommendations.

The Internal Auditor, in the performance of audits and with stringent accountabilities of safekeeping and confidentiality, will be granted unlimited access to all SOAH activities, records, property, and staff members.

The Internal Auditor will have no responsibilities assigned other than those related to developing and implementing the internal audit program for SOAH.

RESPONSIBILITIES

The Internal Auditor is responsible for assessing the various functions and control systems in the SOAH and for advising the SOAH Chief Administrative Law Judge and Chief Audit Executive concerning their condition. The fulfillment of this accountability is not confined to but includes:

- Appraising the effectiveness and application of accounting systems and controls, administrative systems and controls, information resources systems and controls, and other major systems and controls, so as to ensure that all the major systems and controls are reviewed on a periodic basis.
- Evaluating the sufficiency of and adherence to SOAH plans, policies, and procedures and compliance with all governmental laws and regulations.
- Performing special reviews requested by the Chief Administrative Law Judge.
- Conducting appraisals of the economy and efficiency with which resources are employed.
- Coordinating audit planning and audit work with the State Auditor's Office.

**EXHIBIT 2
STATE OFFICE OF ADMINISTRATIVE HEARINGS
FY 2013 RISK ASSESSMENT INSTRUMENT**

1. Annual Dollars Involved

The dollar amount per year of assets, receipts, or disbursements involved in the program or for which the auditable unit is responsible. The auditable unit has responsibility if it identifies, measures, classifies, reports, or monitors the assets, receipts, or disbursements. Dollar amounts can be included in determining the evaluation for more than one auditable unit.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|--|---------------|----------|------------------|----------|--------------|
| Less than \$100 thousand per year or not applicable | 1 | x | 7.5 | = | 7.5 |
| At least \$100 thousand per year but less than \$500 thousand per year | 2 | x | 7.5 | = | 15.0 |
| At least \$500 thousand per year but less than \$1 million per year | 3 | x | 7.5 | = | 22.5 |
| More than \$1 million per year | | | 4 | x | 7.5 |
| | | | | = | 30.0 |

2. Transaction Volume

The number of transactions for which the auditable unit is responsible. The auditable unit has responsibility if it identifies, measures, classifies, reports, or reconciles the transaction. A transaction can be included in determining the evaluation for more than one auditable unit. Also, some auditable units are responsible for only summary transactions while others are responsible for the detailed transactions that make up the summary transactions.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|--|---------------|----------|------------------|----------|--------------|
| Less than 1,000 per year or not applicable | 1 | x | 5.0 | = | 5.0 |
| Greater than 1,000 per year but less than 3,000 per year | 2 | x | 5.0 | = | 10.0 |
| Greater than 3,000 per year | 3 | x | 5.0 | = | 15.0 |

3. Safeguarding Assets

Personnel in the auditable unit safeguard assets if they control access to assets. Access to assets includes both direct physical access and indirect access through the preparation and processing of documents that authorize the use or disposition of assets.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|---------------------------------------|---------------|----------|------------------|----------|--------------|
| No access to assets or not applicable | 1 | x | 7.50 | = | 7.5 |
| Limited access to assets | 2 | x | 7.50 | = | 15.0 |
| Some access to assets | 3 | x | 7.50 | = | 22.5 |
| Substantial access to assets | 4 | x | 7.50 | = | 30.0 |

4. Impact of Adverse Publicity

This factor includes those circumstances that increase the adverse impact of errors. An auditable unit's visibility results from several sources, including: 1.) the Chief Administrative Law Judge's interest in the auditable unit's activities; 2.) involvement of outside groups, such as an advocacy group or the Legislature; or 3.) direct interaction with the public or clients.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|-------------------------------------|---------------|----------|------------------|----------|--------------|
| Little visibility or not applicable | 1 | x | 7.50 | = | 7.5 |
| Some visibility | 2 | x | 7.50 | = | 15.0 |
| High visibility | 3 | x | 7.50 | = | 22.5 |

5. Time Since Last Audit or Review

The number of years between the date of the previous audit or review and the date of the risk assessment.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|---|---------------|----------|------------------|----------|--------------|
| One year or less | 1 | x | 7.25 | = | 7.25 |
| More than one year, but less than three years | 2 | x | 7.25 | = | 14.5 |
| No prior audit or more than three years | 3 | x | 7.25 | = | 21.75 |

6. Results of Last Audit or Review

Auditor's evaluation of the results of the previous audit or review.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|-------------------------------------|---------------|----------|------------------|----------|--------------|
| Positive findings or not applicable | 1 | x | 6.5 | = | 6.5 |
| Some findings or no prior audit | 2 | x | 6.5 | = | 13.0 |
| Negative findings | 3 | x | 6.5 | = | 19.5 |

7. Operational Changes

Auditor's evaluation of the impact on the auditable unit from changes in its operations, including changes in staff, size, funding, budget, responsibilities, or processing data. Changes include those made within the last year or anticipated to be made in the next year.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|-------------------------------|---------------|----------|------------------|----------|--------------|
| Few changes or not applicable | 1 | x | 6.25 | = | 6.25 |
| Some changes | 2 | x | 6.25 | = | 12.5 |
| Extensive changes | 3 | x | 6.25 | = | 18.75 |

8. Personnel Turnover

In the last 12 months, the number of personnel leaving the auditable unit.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|--|---------------|----------|------------------|----------|--------------|
| Low turnover (10% or less) or not applicable | | | 1 | x | 5.0 |
| | | | | | 5.0 |
| Average turnover (10% to 20%) | 2 | x | 5.0 | = | 10.0 |
| High turnover (more than 20%) | 3 | x | 5.0 | = | 15.0 |

9. Policies and Procedures

The existence of policies and procedures documenting the auditable unit's activities.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|---|---------------|----------|------------------|----------|--------------|
| Up-to-date written procedures or not applicable | 1 | x | 5.0 | = | 5.0 |
| Some written procedures or not up-to-date | 2 | x | 5.0 | = | 10.0 |
| No written procedures | 3 | x | 5.0 | = | 15.0 |

10. Training

Auditor's evaluation of the auditable unit's staff training, including cross training.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|--|---------------|----------|------------------|----------|--------------|
| Substantial training or not applicable | 1 | x | 5.0 | = | 5.0 |
| Some training | 2 | x | 5.0 | = | 10.0 |
| Little training | 3 | x | 5.0 | = | 15.0 |

11. Work Complexity

Auditor's evaluation of the work needed to complete assignments or transactions, including amount of time, number of steps, and familiarity with agency laws, policies, and rules.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|---------------------------------------|---------------|----------|------------------|----------|--------------|
| Low work complexity or not applicable | 1 | x | 7.0 | = | 7.0 |
| Medium work complexity | 2 | x | 7.0 | = | 14.0 |
| High work complexity | 3 | x | 7.0 | = | 21.0 |

12. Work Load Fluctuations

Auditor's evaluation of the fluctuations in the auditable unit's workload.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|---|---------------|----------|------------------|----------|--------------|
| Steady workload or not applicable | 1 | x | 5.5 | = | 5.5 |
| Some fluctuations in workload | 2 | x | 5.5 | = | 11.0 |
| Substantial fluctuation in workload (yearly pattern) | 3 | x | 5.5 | = | 16.5 |

13. Sensitivity of Data

Auditor's evaluation of the type of data collected, processed, and prepared by the auditable unit.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|---|---------------|----------|------------------|----------|--------------|
| Little sensitive or confidential data or not applicable | 1 | x | 7.5 | = | 7.5 |
| Some sensitive or confidential data | 2 | x | 7.5 | = | 15.0 |
| Most data sensitive or confidential | 3 | x | 7.5 | = | 22.5 |

14. Impact of Inaccurate Information

Auditor's evaluation of the impact of incorrect data processed by the auditable unit or supplied to organizations outside of the State Office of Administrative Hearings.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|--|---------------|----------|------------------|----------|--------------|
| Little information provided outside the agency | 1 | x | 7.5 | = | 7.5 |
| Some information provided outside the agency | 2 | x | 7.5 | = | 15.0 |
| Most information provided outside the agency | 3 | x | 7.5 | = | 22.5 |

15. Management Review

Auditor's evaluation of the review given by the manager of the auditable unit's activities.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|--|---------------|----------|------------------|----------|--------------|
| 5.0 Frequent or detailed review or not applicable | | | 1 | x | 5.0 = |
| Some direct review | 2 | x | 5.0 | = | 10.0 |
| Little direct review | 3 | x | 5.0 | = | 15.0 |

16. Potential for Fraud, Waste or Abuse

Auditor's evaluation of the potential for fraud, waste, or abuse as compared to other agency programs and functions.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|---------------------------------|---------------|----------|------------------|----------|--------------|
| Low potential or not applicable | 1 | x | 7.0 | = | 7.0 |
| Average potential | 2 | x | 7.0 | = | 14.0 |
| Higher than average potential | 3 | x | 7.0 | = | 21.0 |

**EXHIBIT 3
STATE OFFICE OF ADMINISTRATIVE HEARINGS
FY 2013 AUDIT UNIVERSE RISK ANALYSIS RESPONSES**

| AUDITABLE UNIT/FUNCTION | | RISK QUESTION RESPONSES | | | | | | | | | | | | | | | | RISK SCORE |
|---------------------------------|--|-------------------------|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|------------|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | |
| HIGH RISK- ABOVE 200 | | | | | | | | | | | | | | | | | | |
| 1 | Accounting, Budgeting and Payroll | 30 | 15 | 30 | 15 | 22 | 13 | 19 | 15 | 10 | 10 | 14 | 11 | 23 | 15 | 5 | 21 | 267 |
| 2 | Information Resources- Key Business Systems | 30 | 15 | 30 | 8 | 22 | 13 | 13 | 15 | 5 | 5 | 21 | 6 | 15 | 23 | 5 | 21 | 245 |
| 3 | Billings Process | 30 | 5 | 30 | 15 | 15 | 7 | 19 | 15 | 10 | 15 | 14 | 6 | 8 | 23 | 5 | 21 | 235 |
| 4 | Information Resources- Operations & Security | 23 | 5 | 30 | 8 | 15 | 13 | 13 | 15 | 5 | 5 | 21 | 6 | 23 | 15 | 5 | 21 | 220 |
| 5 | Docketing Section | 8 | 15 | 23 | 23 | 7 | 13 | 13 | 10 | 5 | 5 | 7 | 11 | 23 | 23 | 5 | 21 | 209 |
| AVERAGE RISK- 169 TO 200 | | | | | | | | | | | | | | | | | | |
| 6 | Field Office Hearings | 8 | 5 | 8 | 23 | 22 | 7 | 13 | 5 | 5 | 5 | 14 | 11 | 15 | 23 | 5 | 14 | 180 |
| 7 | Human Resources | 30 | 5 | 15 | 15 | 15 | 13 | 6 | 15 | 5 | 5 | 7 | 6 | 23 | 8 | 5 | 7 | 178 |
| 8 | Administrative License Revocation Hearings | 8 | 5 | 8 | 23 | 22 | 7 | 13 | 5 | 5 | 5 | 7 | 6 | 15 | 23 | 15 | 14 | 177 |
| 9 | Field Office Operations | 8 | 5 | 15 | 15 | 22 | 7 | 13 | 5 | 5 | 5 | 7 | 11 | 15 | 15 | 10 | 21 | 177 |
| 10 | Tax Case Hearings | 8 | 5 | 8 | 23 | 22 | 7 | 6 | 5 | 5 | 5 | 21 | 6 | 15 | 23 | 5 | 14 | 175 |
| 11 | Utilities Case Hearings | 8 | 5 | 8 | 23 | 22 | 7 | 6 | 5 | 5 | 5 | 21 | 6 | 15 | 23 | 5 | 14 | 175 |
| 12 | Natural Resources Case Hearings | 8 | 5 | 8 | 23 | 22 | 7 | 6 | 5 | 5 | 5 | 21 | 6 | 15 | 23 | 5 | 14 | 175 |
| 13 | Hearings Support | 8 | 5 | 8 | 23 | 22 | 7 | 6 | 15 | 10 | 5 | 7 | 11 | 15 | 23 | 5 | 7 | 175 |
| LOW RISK- BELOW 169 | | | | | | | | | | | | | | | | | | |
| 14 | Economic Case Hearings | 8 | 5 | 8 | 23 | 22 | 7 | 6 | 5 | 5 | 5 | 14 | 6 | 15 | 23 | 5 | 14 | 168 |
| 15 | License & Enforcement Case Hearings | 8 | 5 | 8 | 23 | 22 | 7 | 6 | 5 | 5 | 5 | 14 | 6 | 15 | 23 | 5 | 14 | 168 |
| 16 | Legal Support | 8 | 5 | 8 | 23 | 22 | 7 | 6 | 5 | 10 | 5 | 7 | 11 | 15 | 15 | 10 | 7 | 162 |
| 17 | Alternative Dispute Resolution Cases | 8 | 5 | 8 | 23 | 22 | 7 | 6 | 5 | 5 | 5 | 14 | 6 | 15 | 23 | 5 | 7 | 161 |
| 18 | Purchasing and Contracting | 15 | 5 | 30 | 8 | 7 | 7 | 6 | 5 | 5 | 5 | 7 | 11 | 8 | 8 | 10 | 21 | 157 |
| 19 | Facilities Management/Other Support Services | 8 | 5 | 15 | 8 | 22 | 13 | 6 | 5 | 10 | 10 | 7 | 6 | 8 | 8 | 5 | 14 | 148 |
| 20 | Performance Reporting | 8 | 5 | 8 | 8 | 22 | 7 | 6 | 5 | 5 | 5 | 7 | 6 | 8 | 23 | 5 | 7 | 132 |

**AVERAGE SCORE: 184
STANDARD DEVIATION: 33**

**EXHIBIT 4: STATE OFFICE OF ADMINISTRATIVE HEARINGS
FY 2013 PROPOSED AUDITS AND AUDIT HISTORY**

| AUDITABLE UNIT/FUNCTION | RISK SCORE | FY 13 PLAN | AUDIT HISTORY | | | | | | | | |
|---|------------|------------|---------------|-------|-------|-------|-------|-------|-------|-------|---|
| | | | FY 12 | FY 11 | FY 10 | FY 09 | FY 08 | FY 07 | FY 06 | FY 05 | |
| 1 Accounting, Budgeting and Payroll | 267 | | | X(2) | | | X | | | | |
| 2 Information Resources- Key Business Systems | 245 | | | X(2) | | | X | | | X(2) | |
| 3 Billings Process | 235 | | | X(2) | | | | | | X(2) | |
| 4 Information Resources- Operations & Security | 220 | X | | | | X | | | | | X |
| 5 Docketing Section | 209 | | X | | | | | | X(1) | X(2) | |
| 6 Field Office Hearings | 180 | | | | | | | | | | |
| 7 Human Resources | 178 | | | | X | | | | | | X |
| 8 Field Office Operations | 177 | | | | | | | | | | |
| 9 Administrative License Revocation Hearings | 177 | X | | | | | | | | | |
| 10 Natural Resources Case Hearings | 175 | | | | | | | | | | |
| 11 Tax Case Hearings | 175 | | | | | | | | | | |
| 12 Utilities Case Hearings | 175 | | | | | | | | | | |
| 13 Hearings Support | 175 | | | | | | | X | | | |
| 14 Economic Case Hearings | 168 | | | | | | | | | | |
| 15 License & Enforcement Case Hearings | 168 | | | | | | | | | | |
| 16 Legal Support | 162 | | | | | | | | | | |
| 17 Alternative Dispute Resolution Cases | 161 | | | | | | | | | | |
| 18 Purchasing and Contracting | 157 | | X | | | | | | | | |
| 19 Facilities Management/Other Support Services | 148 | | | | | | | | | | |
| 20 Performance Reporting | 132 | | | | | | | | | | |

- (1) Partially covered during an internal audit of Hearings Administration.
- (2) Partially covered during a State Auditor's Office audit of SOAH.

III. Consulting Engagements and Non-Audit Services Completed

The internal auditor did not provide any consulting or non-audit services during FY 2013.

IV. External Quality Assurance Review

State Office of Administrative Hearings

Quality Assurance Review

January 2013

Opinion

Based on the work outlined below, it is the opinion of the reviewer that the internal audit activity at the State Office of Administrative Hearings is in accordance with the Texas Internal Auditing Act and the audit work being performed by Jansen & Gregorczyk, Certified Public Accountants (the Contractor) **fully complies** with all applicable professional auditing standards.

This opinion, representing the best possible evaluation, means that the State Office of Administrative Hearings, and the Contractor, have in place all of the relevant structures and policies that are required as well as the processes necessary to insure they are effectively applied.



Richard H. Tarr, CISA, CIA

V. Audit Plan for Fiscal Year 2014

The Audit Plan for Fiscal Year 2014 was approved by the Chief Administrative Law Judge on August 7, 2013. The budgeted hours for all planned work are shown on page 31. Topics ranked as high risk but not included in the audit plan are discussed on page 30. The risk assessment methodology is on page 29.

**State Office of Administrative
Hearings
Internal Audit Plan
for FY 2014**

As Approved by
Chief Administrative Law Judge Cathleen Parsley

August 7, 2013

As Prepared by
Jansen & Gregorczyk
Certified Public Accountants

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**Jansen & Gregorczyk
Certified Public Accountants**

Telephone
(512) 468-2020

P. O. Box 601
Kyle, Tx. 78640

August 7, 2013

Cathleen Parsley,
Chief Administrative Law Judge
State Office of Administrative Hearings

The following document presents the fiscal year 2014 Internal Audit Plan for your consideration and approval. In accordance with the Texas Internal Auditing Act, the agency head or governing board must approve the annual audit plan. Chapter 2102 of the Government Code requires that the internal audit plan include areas identified through risk assessment. This document presents the risk assessment results and the audit plan based on the results of the risk assessment.

This document also includes the internal auditing guidelines and internal audit charter under which the SOAH internal audit program will operate. Approval by the Chief Administrative Law Judge signifies approval of the internal audit plan, the internal audit guidelines and the internal audit charter for FY 2014.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

**SECTION 1:
STATE OFFICE OF ADMINISTRATIVE HEARINGS
INTERNAL AUDITING GUIDELINES**

Certain operating guidelines are necessary for an effective internal auditing program. The purpose of this Section is to establish policies and guidelines to govern internal audits of all operations of the State Office of Administrative Hearings. These guidelines, as well as the FY 2014 Internal Audit Plan, are approved by the SOAH Chief Administrative Law Judge each year.

I. INTERNAL AUDIT CHARTER

The *Standards for the Professional Practice of Internal Auditing* state that the Internal Audit Charter should make clear the purposes of the internal auditing department, specify the unrestricted scope of its work, and declare that auditors are to have no authority or responsibility for the activities they audit.

The Internal Audit Charter is an extremely important document that sets out the statement of purpose, authority, and responsibility for the internal auditing department. It is an agreement between the Chief Administrative Law Judge and the SOAH Internal Auditor, which establishes the guidelines for an effective internal auditing program.

Although the Internal Audit Charter can include all relevant policies and procedures, a concise document is preferable. A concise document increases the likelihood that all parties will understand the purpose, authority, and responsibility of the internal auditing department. Exhibit 1 presents the SOAH Internal Audit Charter.

II. INTERNAL AUDITING STANDARDS

A. The Internal Auditor shall conduct his/her activities in a manner that is consistent with the most recent edition of the *Standards for the Professional Practice of Internal Auditing*, *Certified Internal Auditor Code of Professional Ethics*, and the *Statement of Responsibilities of Internal Auditing*.

B. Sufficient and relevant evidence shall be obtained to afford a reasonable basis for the auditor's findings and recommendations. A written record of the auditor's work shall be retained in the form of working papers.

C. Standards of conduct for the Internal Auditor require that the Internal Auditor shall:

1. be free from personal or external impairments to independence in order that opinions, conclusions, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

2. be prudent in the use of information acquired in the course of his/her duties.
3. conduct all activities in accordance with the laws regarding confidentiality.
4. not use any information obtained in an audit for any personal gain nor in a manner, which would be detrimental to the welfare of the SOAH, the Chief Administrative Law Judge, or SOAH employees.

III. INTERNAL AUDITING POLICIES

A. The SOAH Chief Administrative Law Judge shall appoint the SOAH Internal Auditor. The Internal Auditor shall report directly to the Chief Administrative Law Judge, or her designee.

B. The Chief Audit Executive shall be responsible for the administrative supervision of the Internal Audit program and shall ensure the independence of the internal audit function.

C. The Internal Auditor shall submit to the Chief Administrative Law Judge for approval, the annual audit plan, which shall be based on risk analysis and which shall identify individual audits to be performed during the year.

D. The Internal Auditor shall be responsible for performance audits of the SOAH. Performance audit is defined as an independent appraisal activity performed by the Internal Auditor which includes determining whether the entity being reviewed is acquiring, protecting, and using its resources economically and efficiently, identifying the causes of inefficiency or uneconomical practice, and determining whether the entity has complied with laws, riders, rules and regulations.

E. The Internal Auditor's activities in reviewing, appraising and reporting established policies, plans and procedures shall not in any way relieve SOAH personnel of responsibilities assigned to them.

F. The implementation of, or action taken on, the Internal Auditor's recommendations shall be the duty of the Chief Audit Executive. The Internal Auditor will perform follow-up audits to determine what corrective action was taken and whether it is achieving the desired results.

IV. INTERNAL AUDITING PROCEDURES

A. The Internal Auditor prior to beginning an audit will inform the Chief Audit Executive and the appropriate directors or managers of the audit and its objectives by conducting an entrance conference.

B. The Internal Auditor will conduct an exit conference with the Chief Audit Executive and the appropriate directors or managers, at which time exceptions noted during the course of the audit will be discussed.

C. The Internal Auditor will independently make a determination on the results of the audit and issue a draft report to the Chief Audit Executive and the appropriate directors or managers for management response. A management response will be made within 14 calendar days of the issuance of the draft report.

D. The Internal Auditor will add the management response to the body of the report and issue a final draft report for the Chief Administrative Law Judge, Chief Audit Executive and the appropriate directors or managers within 14 calendar days of receiving the management response. After approval by the Chief Administrative Law Judge, the final report will be prepared.

E. If, during the course of an audit, the Internal Auditor detects situations or transactions that could be indicative of fraud or other illegal acts, or receives information from external sources alleging such actions, the Internal Auditor will:

- 1.** Provide all pertinent information to the Chief Administrative Law Judge and Chief Audit Executive.
- 2.** Formally request approval from the Chief Administrative Law Judge to expand audit procedures or perform an investigation.
- 3.** Upon approval, the Internal Auditor will extend audit procedures or perform an investigation to obtain sufficient evidence to determine whether in fact such acts have occurred and, if so, the cause of the problem and the possible effect on the SOAH's operations and programs.
- 4.** Provide the Chief Administrative Law Judge and Chief Audit Executive a formal report on the results. Upon receipt of evidence of illegality, the Chief Administrative Law Judge will forward findings to the appropriate legal entity.

**SECTION 2:
STATE OFFICE OF ADMINISTRATIVE HEARINGS
RISK ASSESSMENT**

This section presents the results of the SOAH Risk Assessment, and establishes the foundation for the Internal Audit Plan presented in the next section.

Purpose

One of the key findings in the State Auditor's Office report, *Statewide Review of Internal Auditing*, was that the scope of internal auditing is often limited in state agencies. The report states, "Because significant financial and operating risks to the agency may be overlooked if the scope of the internal auditors work is limited, we recommend that internal auditors:

- Document, in writing, a risk assessment that considers all the major systems and controls of the agency as part of the audit universe. The audit universe refers to all auditable subjects, activities, units, issues and functions within the organization.
- Identify the risk factors that affect the audit universe and weights that may be applied to the risk factors.
- Establish a method for combining and assigning risk factors and weights to develop a prioritized annual audit work plan.
- Develop an audit plan and work schedule based on the results of the risk assessment.
- Obtain written approval for the plan from the highest level within the organization.
- Implement the plan. Significant deviations from the audit plan should be supported by reasonable, documented explanations."

The purpose of conducting a Risk Assessment for the SOAH was to incorporate all these recommended elements in an objective assessment of the agency. This should ensure that the scope of internal audit work at the SOAH is not limited and that the Internal Audit Plan for FY 2014 is based on documented, written findings.

Concept of Risk

The concept of risk is fundamental in internal auditing. Given the importance of the concept of risk, it is necessary to define what risk is, describe types of risk and describe how risk was measured in performing the State Office of Administrative Hearings Risk Assessment.

Risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Since controls are anything that improve the likelihood that goals and objectives will be achieved, controls and risk are inversely related by definition. Better control means less

risk. The Risk Assessment was designed to detect and evaluate the controls in place to reduce different types of risk exposure.

The SOAH Risk Assessment was designed to measure different types of "risk exposure" and to assess the controls in place to compensate for different levels of risk. The types of risk exposure that are relevant to the SOAH are:

- *Audit Exposure*: Audit exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.

- *Regulatory Exposure*: Regulatory exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.

- *Information Exposure*: An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.

- *Efficiency Exposure*: An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.

- *Human Resource Exposure*: A human resource exposure exists whenever an area is managing human resources in a way, which is contrary to agency policy.

- *Environmental Exposure*: An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:

- Recent changes in key personnel
- Changing economic conditions
- Time elapsed since last audit
- Pressures on management to meet objectives
- Past audit findings and quality of internal control

- *Political Exposure*: A political exposure exists whenever an event in an audit area could cause the agency to be subjected to adverse political consequences.

- *Public Service Exposure*: A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.

The SOAH Risk Assessment Survey was designed to measure various types of risk ranging from the risk of loss of assets to the risk of adverse publicity due to erroneous information. The survey instrument allows meaningful comparisons among very different activities and types of risk by assigning all potential auditable topics a numeric score.

Methodology

The risk variables utilized for the State Office of Administrative Hearings Risk Assessment combined measures of the various controls and exposure types described in the previous section. Exhibit 2 presents the risk survey instrument utilized. Sixteen risk variables or risk factors were selected to provide a cross-section of overall risk. These sixteen factors were weighted according to their perceived importance, i.e. the higher the weighting, the higher the risk.

The first step in conducting the Risk Assessment involved defining the potential audit universe. To be in compliance with the Texas Internal Auditing Act, all potential auditable subjects, activities, units, issues and functions were determined. The universe of potential audit topics was developed through interviews with the State Office of Administrative Hearings staff and by reviewing materials such as the agency organizational chart, the agency Strategic Plan, Legislative Appropriations Request, etc.

The second step in the process was to utilize the survey instrument to assess the risk for each potential audit topic. After completing the risk survey for all potential auditable topics, each survey response was reviewed for consistency based on the knowledge of the auditor. This phase was a means of assuring "quality control," since the completion of the survey instruments was based on information provided by various management members of the State Office of Administrative Hearings.

The third phase of the Risk Assessment involved scoring and ranking the answers to the survey questions. By weighting the values of the different risk indicators, the survey was individualized for the State Office of Administrative Hearings.

The final step in conducting the Risk Assessment was to rank and categorize every potential auditable topic. Based on the average score and the standard deviation of the potential audit universe, the potential auditable topics were categorized as follows:

| | |
|--------------|--------------|
| High Risk | - Above 198 |
| Average Risk | - 171 to 198 |
| Low Risk | - Below 171 |

Results

Exhibit 3 presents the weighted risk scores and overall risk categorization. Five potential audit topics are rated as high risk, with ten other topics categorized as moderate risk. The high risk potential audit topics are:

- Accounting, Budgeting and Payroll
- Information Resources- Key Business Systems
- Billing Process
- Docketing Section
- Information Resources- Operations and Security

**SECTION 3:
STATE OFFICE OF ADMINISTRATIVE HEARINGS
FY 2014 INTERNAL AUDIT PLAN**

The Texas Internal Auditing Act requires certain audits to be performed on a periodic basis. Required audits include audits of the department's accounting systems and controls, administrative systems and controls, information resources systems and controls, and other major systems and controls. In addition, five general types of audits are required by the *Standards for the Professional Practice of Internal Auditing* as follows:

Reliability and Integrity of Information - Internal Auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.

Compliance with Policies, Plans, Procedures, Laws, and Regulations - Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance with them.

Safeguarding of Assets - Internal auditors should review the means of safeguarding assets and, as appropriate verify the existence of such assets.

Economical and Efficient Use of Resources - Internal auditors should appraise the economy and efficiency with which assets are employed.

Accomplishment of Established Objectives and Goals for Operations and Programs - Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives/goals, and whether the operations or programs are being carried out as planned.

The FY 2014 Internal Audit Plan for the State Office of Administrative Hearings is based on the Risk Assessment presented in the previous section. For FY 2014, one topic categorized as high risk as determined by the risk assessment (Exhibit 3) is included in the audit plan. That is an audit of Accounting, Budgeting and Payroll Systems and Controls. This is the highest risk audit topic and this topic has not been audited since FY 2009. The other four topics in the high risk category are not proposed for audit in FY 2014 for the following reasons. Information Resources-Key Automated Systems and the Billing Process were both included in the audit of SOAH performed by the State Auditor's Office in FY 2012. Therefore, these topics were not included in the FY 2014 internal audit plan since changes have been made and are still underway to address problems already identified in these systems and the SAO may perform follow-up work on these audit topics during FY 2014. It is anticipated that both of these topics will be included as proposed audits in the FY 2015 Internal Audit Plan. An internal audit of the Docketing Section (another other high risk area) was performed in FY 2012 and a follow-up review was performed in FY 2013. An audit of Information Resources-Operations and Security was completed in FY 2013 and a follow-up will be performed in FY 2014. As a result, the two

State Office of Administrative Hearings - FY 2013 Internal Audit Annual Report

audits are also not proposed for audit in FY 2014. The two audits that will be performed in FY 2014 are:

- Accounting, Payroll and Budgeting Systems and Controls (High Risk)
- Performance Measures Reporting (Low Risk)

Performance Measures Reporting has been included in the FY 2014 Internal Audit Plan because this is considered a component of the administrative systems and controls and audits of administrative systems and controls are required to be audited periodically under the provisions of the Texas Internal Auditing Act. In addition, an audit of this topic will assist SOAH in the event a performance measures certification audit is performed by the State Auditor's Office.

In addition to these proposed audits, the internal audit annual report for FY 2013 will be prepared, a follow-up review and report will be issued on audit recommendations made in prior years and a risk assessment will be performed and an audit plan developed for FY 2015.

The following estimated time and timeframes for performing internal audit work during the project are as follows:

- Complete the FY 2013 Internal Audit Annual Report – 2 hours (September 2013)
- Audit of Accounting, Budgeting & Payroll Systems and Controls - 160 hours (January to February 2014)
- Audit of Performance Measures Reporting - 140 hours (March to April 2014)
- Prior Years' Audit Follow-up Review – 12 hours (April 2014)
- Update Risk Assessment and Prepare FY 2015 Audit Plan – 4 hours (July 2014)

Based on 268 hours of estimated work for a Senior Auditor at \$85/hour and 50 hours of estimated work for the Audit Manager at \$125/hour, audit fees for FY 2012 are projected at \$29,030. The time required to complete any given project may vary from the estimates shown, but overall fees for all deliverables will not exceed \$29,030.

EXHIBIT 1
STATE OFFICE OF ADMINISTRATIVE HEARINGS
INTERNAL AUDITING CHARTER

PURPOSE

Internal Auditing is an independent appraisal activity established to conduct reviews of operations and procedures and to report findings and recommendations to the State Office of Administrative Hearings Chief Administrative Law Judge and Chief Audit Executive.

AUTHORITY

The Internal Auditor reports directly to the Chief Administrative Law Judge. This reporting relationship ensures independence, promotes comprehensive audit coverage and assures adequate consideration of audit recommendations.

The Internal Auditor, in the performance of audits and with stringent accountabilities of safekeeping and confidentiality, will be granted unlimited access to all SOAH activities, records, property, and staff members.

The Internal Auditor will have no responsibilities assigned other than those related to developing and implementing the internal audit program for SOAH.

RESPONSIBILITIES

The Internal Auditor is responsible for assessing the various functions and control systems in the SOAH and for advising the SOAH Chief Administrative Law Judge and Chief Audit Executive concerning their condition. The fulfillment of this accountability is not confined to but includes:

- Appraising the effectiveness and application of accounting systems and controls, administrative systems and controls, information resources systems and controls, and other major systems and controls, so as to ensure that all the major systems and controls are reviewed on a periodic basis.
- Evaluating the sufficiency of and adherence to SOAH plans, policies, and procedures and compliance with all governmental laws and regulations.
- Performing special reviews requested by the Chief Administrative Law Judge.
- Conducting appraisals of the economy and efficiency with which resources are employed.
- Coordinating audit planning and audit work with the State Auditor's Office.

**EXHIBIT 2
STATE OFFICE OF ADMINISTRATIVE HEARINGS
FY 2014 RISK ASSESSMENT INSTRUMENT**

1. Annual Dollars Involved

The dollar amount per year of assets, receipts, or disbursements involved in the program or for which the auditable unit is responsible. The auditable unit has responsibility if it identifies, measures, classifies, reports, or monitors the assets, receipts, or disbursements. Dollar amounts can be included in determining the evaluation for more than one auditable unit.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|--|---------------|----------|------------------|----------|--------------|
| Less than \$100 thousand per year or not applicable | 1 | x | 7.5 | = | 7.5 |
| At least \$100 thousand per year but less than \$500 thousand per year | 2 | x | 7.5 | = | 15.0 |
| At least \$500 thousand per year but less than \$1 million per year | 3 | x | 7.5 | = | 22.5 |
| More than \$1 million per year | | | 4 | x | 7.5 |
| | | | | = | 30.0 |

2. Transaction Volume

The number of transactions for which the auditable unit is responsible. The auditable unit has responsibility if it identifies, measures, classifies, reports, or reconciles the transaction. A transaction can be included in determining the evaluation for more than one auditable unit. Also, some auditable units are responsible for only summary transactions while others are responsible for the detailed transactions that make up the summary transactions.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|--|---------------|----------|------------------|----------|--------------|
| Less than 1,000 per year or not applicable | 1 | x | 5.0 | = | 5.0 |
| Greater than 1,000 per year but less than 3,000 per year | 2 | x | 5.0 | = | 10.0 |
| Greater than 3,000 per year | 3 | x | 5.0 | = | 15.0 |

3. Safeguarding Assets

Personnel in the auditable unit safeguard assets if they control access to assets. Access to assets includes both direct physical access and indirect access through the preparation and processing of documents that authorize the use or disposition of assets.

| <u>Evaluation</u> | <u>Points</u> | x | <u>Weighting</u> | = | <u>Score</u> |
|---------------------------------------|---------------|---|------------------|---|--------------|
| No access to assets or not applicable | 1 | x | 7.50 | = | 7.5 |
| Limited access to assets | 2 | x | 7.50 | = | 15.0 |
| Some access to assets | 3 | x | 7.50 | = | 22.5 |
| Substantial access to assets | 4 | x | 7.50 | = | 30.0 |

4. Impact of Adverse Publicity

This factor includes those circumstances that increase the adverse impact of errors. An auditable unit's visibility results from several sources, including: 1.) the Chief Administrative Law Judge's interest in the auditable unit's activities; 2.) involvement of outside groups, such as an advocacy group or the Legislature; or 3.) direct interaction with the public or clients.

| <u>Evaluation</u> | <u>Points</u> | x | <u>Weighting</u> | = | <u>Score</u> |
|-------------------------------------|---------------|---|------------------|---|--------------|
| Little visibility or not applicable | 1 | x | 7.50 | = | 7.5 |
| Some visibility | 2 | x | 7.50 | = | 15.0 |
| High visibility | 3 | x | 7.50 | = | 22.5 |

5. Time Since Last Audit or Review

The number of years between the date of the previous audit or review and the date of the risk assessment.

| <u>Evaluation</u> | <u>Points</u> | x | <u>Weighting</u> | = | <u>Score</u> |
|---|---------------|---|------------------|---|--------------|
| One year or less | 1 | x | 7.25 | = | 7.25 |
| More than one year, but less than three years | 2 | x | 7.25 | = | 14.5 |
| No prior audit or more than three years | 3 | x | 7.25 | = | 21.75 |

6. Results of Last Audit or Review

Auditor's evaluation of the results of the previous audit or review.

| <u>Evaluation</u> | Points | x | Weighting | = | Score |
|-------------------------------------|--------|---|-----------|---|-------|
| Positive findings or not applicable | 1 | x | 6.5 | = | 6.5 |
| Some findings or no prior audit | 2 | x | 6.5 | = | 13.0 |
| Negative findings | 3 | x | 6.5 | = | 19.5 |

7. Operational Changes

Auditor's evaluation of the impact on the auditable unit from changes in its operations, including changes in staff, size, funding, budget, responsibilities, or processing data. Changes include those made within the last year or anticipated to be made in the next year.

| <u>Evaluation</u> | Points | x | Weighting | = | Score |
|-------------------------------|--------|---|-----------|---|-------|
| Few changes or not applicable | 1 | x | 6.25 | = | 6.25 |
| Some changes | 2 | x | 6.25 | = | 12.5 |
| Extensive changes | 3 | x | 6.25 | = | 18.75 |

8. Personnel Turnover

In the last 12 months, the number of personnel leaving the auditable unit.

| <u>Evaluation</u> | Points | x | Weighting | = | Score |
|--|--------|---|-----------|---|-------|
| Low turnover (10% or less) or not applicable | | | 1 | x | 5.0 |
| | | | | | = 5.0 |
| Average turnover (10% to 20%) | 2 | x | 5.0 | = | 10.0 |
| High turnover (more than 20%) | 3 | x | 5.0 | = | 15.0 |

9. Policies and Procedures

The existence of policies and procedures documenting the auditable unit's activities.

| <u>Evaluation</u> | Points | x | Weighting | = | Score |
|---|--------|---|-----------|---|-------|
| Up-to-date written procedures or not applicable | 1 | x | 5.0 | = | 5.0 |
| Some written procedures or not up-to-date | 2 | x | 5.0 | = | 10.0 |
| No written procedures | 3 | x | 5.0 | = | 15.0 |

10. Training

Auditor's evaluation of the auditable unit's staff training, including cross training.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|--|---------------|----------|------------------|----------|--------------|
| Substantial training or not applicable | 1 | x | 5.0 | = | 5.0 |
| Some training | 2 | x | 5.0 | = | 10.0 |
| Little training | 3 | x | 5.0 | = | 15.0 |

11. Work Complexity

Auditor's evaluation of the work needed to complete assignments or transactions, including amount of time, number of steps, and familiarity with agency laws, policies, and rules.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|---------------------------------------|---------------|----------|------------------|----------|--------------|
| Low work complexity or not applicable | 1 | x | 7.0 | = | 7.0 |
| Medium work complexity | 2 | x | 7.0 | = | 14.0 |
| High work complexity | 3 | x | 7.0 | = | 21.0 |

12. Work Load Fluctuations

Auditor's evaluation of the fluctuations in the auditable unit's workload.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|---|---------------|----------|------------------|----------|--------------|
| Steady workload or not applicable | 1 | x | 5.5 | = | 5.5 |
| Some fluctuations in workload | 2 | x | 5.5 | = | 11.0 |
| Substantial fluctuation in workload (yearly pattern) | 3 | x | 5.5 | = | 16.5 |

13. Sensitivity of Data

Auditor's evaluation of the type of data collected, processed, and prepared by the auditable unit.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|---|---------------|----------|------------------|----------|--------------|
| Little sensitive or confidential data or not applicable | 1 | x | 7.5 | = | 7.5 |
| Some sensitive or confidential data | 2 | x | 7.5 | = | 15.0 |
| Most data sensitive or confidential | 3 | x | 7.5 | = | 22.5 |

14. Impact of Inaccurate Information

Auditor's evaluation of the impact of incorrect data processed by the auditable unit or supplied to organizations outside of the State Office of Administrative Hearings.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|--|---------------|----------|------------------|----------|--------------|
| Little information provided outside the agency | 1 | x | 7.5 | = | 7.5 |
| Some information provided outside the agency | 2 | x | 7.5 | = | 15.0 |
| Most information provided outside the agency | 3 | x | 7.5 | = | 22.5 |

15. Management Review

Auditor's evaluation of the review given by the manager of the auditable unit's activities.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|--|---------------|----------|------------------|----------|--------------|
| 5.0 Frequent or detailed review or not applicable | | | 1 | x | 5.0 = |
| Some direct review | 2 | x | 5.0 | = | 10.0 |
| Little direct review | 3 | x | 5.0 | = | 15.0 |

16. Potential for Fraud, Waste or Abuse

Auditor's evaluation of the potential for fraud, waste, or abuse as compared to other agency programs and functions.

| <u>Evaluation</u> | <u>Points</u> | <u>x</u> | <u>Weighting</u> | <u>=</u> | <u>Score</u> |
|---------------------------------|---------------|----------|------------------|----------|--------------|
| Low potential or not applicable | 1 | x | 7.0 | = | 7.0 |
| Average potential | 2 | x | 7.0 | = | 14.0 |
| Higher than average potential | 3 | x | 7.0 | = | 21.0 |

**EXHIBIT 3
STATE OFFICE OF ADMINISTRATIVE HEARINGS
FY 2014 AUDIT UNIVERSE RISK SCORES AND RISK RANKINGS**

| AUDITABLE UNIT/FUNCTION | RISK QUESTION RESPONSES | | | | | | | | | | | | | | | | RISK SCORE | |
|---------------------------------|--|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|------------|-----|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | | |
| HIGH RISK- ABOVE 198 | | | | | | | | | | | | | | | | | | |
| 1 | Accounting, Budgeting and Payroll | 30 | 15 | 30 | 15 | 22 | 13 | 19 | 5 | 10 | 10 | 14 | 11 | 23 | 15 | 5 | 21 | 257 |
| 2 | Information Resources- Key Business Systems | 30 | 15 | 30 | 8 | 22 | 13 | 13 | 5 | 5 | 5 | 21 | 6 | 15 | 23 | 5 | 21 | 235 |
| 3 | Billings Process | 30 | 5 | 30 | 15 | 15 | 7 | 19 | 5 | 10 | 10 | 14 | 6 | 8 | 23 | 5 | 21 | 220 |
| 4 | Docketing Section | 8 | 15 | 23 | 23 | 15 | 13 | 13 | 10 | 5 | 5 | 7 | 11 | 23 | 23 | 5 | 21 | 217 |
| 5 | Information Resources- Operations & Security | 23 | 5 | 30 | 8 | 7 | 13 | 13 | 5 | 5 | 5 | 21 | 6 | 23 | 15 | 5 | 21 | 203 |
| AVERAGE RISK- 171 TO 198 | | | | | | | | | | | | | | | | | | |
| 6 | Tax Case Hearings | 8 | 5 | 8 | 23 | 22 | 13 | 6 | 15 | 5 | 5 | 21 | 6 | 15 | 23 | 5 | 14 | 192 |
| 7 | Field Office Hearings | 8 | 5 | 8 | 23 | 22 | 13 | 13 | 5 | 5 | 5 | 14 | 11 | 15 | 23 | 5 | 14 | 186 |
| 8 | Utilities Case Hearings | 8 | 5 | 8 | 23 | 22 | 13 | 6 | 5 | 5 | 5 | 21 | 6 | 15 | 23 | 5 | 14 | 182 |
| 9 | Natural Resources Case Hearings | 8 | 5 | 8 | 23 | 22 | 13 | 6 | 5 | 5 | 5 | 21 | 6 | 15 | 23 | 5 | 14 | 182 |
| 10 | Field Office Operations | 8 | 5 | 15 | 15 | 22 | 13 | 13 | 5 | 5 | 5 | 7 | 11 | 15 | 15 | 10 | 14 | 177 |
| 11 | Hearings Support | 8 | 5 | 8 | 23 | 22 | 13 | 6 | 10 | 10 | 5 | 7 | 11 | 15 | 23 | 5 | 7 | 176 |
| 12 | Economic Case Hearings | 8 | 5 | 8 | 23 | 22 | 13 | 6 | 5 | 5 | 5 | 14 | 6 | 15 | 23 | 5 | 14 | 175 |
| 13 | License & Enforcement Case Hearings | 8 | 5 | 8 | 23 | 22 | 13 | 6 | 5 | 5 | 5 | 14 | 6 | 15 | 23 | 5 | 14 | 175 |
| LOW RISK- BELOW 171 | | | | | | | | | | | | | | | | | | |
| 14 | Administrative License Revocation Hearings | 8 | 5 | 8 | 23 | 7 | 13 | 13 | 5 | 5 | 5 | 7 | 6 | 15 | 23 | 15 | 14 | 169 |
| 15 | Legal Support | 8 | 5 | 8 | 23 | 22 | 13 | 6 | 5 | 10 | 5 | 7 | 11 | 15 | 15 | 10 | 7 | 169 |
| 16 | Human Resources | 30 | 5 | 15 | 15 | 15 | 13 | 6 | 5 | 5 | 5 | 7 | 6 | 23 | 8 | 5 | 7 | 168 |
| 17 | Alternative Dispute Resolution Cases | 8 | 5 | 8 | 23 | 22 | 13 | 6 | 5 | 5 | 5 | 14 | 6 | 15 | 23 | 5 | 7 | 168 |
| 18 | Purchasing and Contracting | 15 | 5 | 30 | 8 | 15 | 7 | 6 | 5 | 5 | 5 | 7 | 11 | 8 | 8 | 10 | 21 | 164 |
| 19 | Facilities Management/Other Support Services | 8 | 5 | 15 | 8 | 22 | 13 | 6 | 5 | 10 | 10 | 7 | 6 | 8 | 8 | 5 | 14 | 148 |
| 20 | Performance Measures Reporting | 8 | 5 | 8 | 8 | 22 | 13 | 6 | 5 | 5 | 5 | 7 | 6 | 8 | 23 | 5 | 7 | 138 |

**AVERAGE SCORE: 185
STANDARD DEVIATION: 28**

**EXHIBIT 4: STATE OFFICE OF ADMINISTRATIVE HEARINGS
FY 2014 PROPOSED AUDITS AND AUDIT HISTORY**

| | AUDITABLE UNIT/FUNCTION | RISK SCORE | FY 14 PLAN | AUDIT HISTORY | | | | | | | |
|----|--|------------|------------|---------------|-------|-------|-------|-------|-------|-------|-------|
| | | | | FY 13 | FY 12 | FY 11 | FY 10 | FY 09 | FY 08 | FY 07 | FY 06 |
| 1 | Accounting, Budgeting and Payroll | 257 | X | | | | | X | | | |
| 2 | Information Resources- Key Business Systems | 235 | | | X(2) | | | X | | | X(2) |
| 3 | Billings Process | 220 | | | X(2) | X | | | | | X(2) |
| 4 | Docketing Section | 217 | | | X | | | | | X(1) | X(2) |
| 5 | Information Resources- Operations & Security | 203 | | X | | | X | | | | |
| 6 | Tax Case Hearings | 192 | | | | | | | | | |
| 7 | Field Office Hearings | 186 | | | | | | | | | |
| 8 | Natural Resources Case Hearings | 182 | | | | | | | | | |
| 9 | Utilities Case Hearings | 182 | | | | | | | | | |
| 10 | Field Office Operations | 177 | | | | | | | | | |
| 11 | Hearings Support | 176 | | | | | | | X | | |
| 12 | Economic Case Hearings | 175 | | | | | | | | | |
| 13 | License & Enforcement Case Hearings | 175 | | | | | | | | | |
| 14 | Administrative License Revocation Hearings | 169 | | X | | | | | | | |
| 15 | Legal Support | 169 | | | | | | | | | |
| 16 | Human Resources | 168 | | | | X | | | | | |
| 17 | Alternative Dispute Resolution Cases | 168 | | | | | | | | | |
| 18 | Purchasing and Contracting | 164 | | | X | | | | | | |
| 19 | Facilities Management/Other Support Services | 148 | | | | | | | | | |
| 20 | Performance Measures Reporting | 138 | X | | | | | | | | |

(1) Partially covered during an internal audit of Hearings Administration.

(2) Partially covered during a State Auditor's Office audit of SOAH.

VI. External Audit Services

The State Office of Administrative Hearings contracted with the CPA firm of Jansen & Gregorczyk to provide contract internal audit services for the agency in FY 2013. No other external audit services were procured in FY 2013.

VII. Reporting Suspected Fraud and Abuse

The State Office of Administrative Hearings has posted the required information on reporting suspected fraud, waste or abuse involving state resources directly to the State Auditor's Office on the home page of the agency's website and has included information in the agency's policies on how to report suspected fraud to the State Auditor's Office.

State Office of Administrative Hearings - FY 2013 Internal Audit Annual Report

No instances of suspected fraud, waste or abuse were reported by SOAH to the State Auditor's Office during FY 2013.

If the Chief Administrative Law (ALJ) Judge has reasonable cause to believe that money received from the state by the agency or by a client or contractor of the agency may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the agency or if this is brought to the attention of the Chief ALJ, the Chief ALJ will report the reason and basis for the belief to the state auditor. This is spelled out in Section I of the Internal Audit Guidelines as shown on page 26 of the FY 2014 Internal Audit Plan.
