



**TEXAS MILITARY DEPARTMENT
INTERNAL AUDIT**

FY2015 ANNUAL REPORT



Prepared By:

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS



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October 30, 2015

The Honorable Greg Abbott, 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 the fiscal year 2015 Internal Audit Annual Report for the Texas Military Department (TMD). This annual audit report is submitted in accordance with the Texas Internal Auditing Act requirement for state agency internal auditors to prepare and distribute an annual report (Government Code, Chapter 2102). McConnell & Jones LLP (MJ) was engaged on September 17, 2013 to provide internal audit services to the TMD in accordance with The Texas Internal Auditing Act. Pursuant to the Request for Proposals (RFP) issued March, 2013 MJ submits this internal audit annual report for fiscal year 2015 on behalf of the Texas Military Department Internal Audit Steering Committee (IASC).

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for your governing board. The purpose of the Annual Internal Audit Report is 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. According to Texas Government Code, Sections 2102.009 and 2102.0091, the annual internal audit report for fiscal year 2015 is due November 1, 2015.

Please contact Odysseus Lanier at 713.968.1603 or Duane Waddill at 512.782.7219 if you should have any questions about this audit report.

Sincerely,

Odysseus Lanier, CPA
Partner



I. COMPLIANCE WITH HOUSE BILL 16: PUBLICATION OF AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

House Bill 16 amended the Texas Internal Auditing Act to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans and internal audit annual reports to the agency's Internet website within 30 days of approval. House Bill 16 also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of House Bill 16, McConnell & Jones LLP (MJ) will ensure the required internal audit plan, internal audit annual report and any other required internal audit information is provided to the Texas Military Department (TMD) for posting to their website.

II. FISCAL YEAR 2015 INTERNAL AUDIT PLAN STATUS

The fiscal year 2015 annual audit plan was prepared by McConnell & Jones LLP based on a comprehensive risk assessment and approved by the TMD Internal Audit Steering Committee (IASC) on October 30, 2014. The chart below reflects the fiscal year 2015 audit plan status as of August 31, 2015.

Fiscal Year 2015 Internal Audit Plan Status

Task #	Description	Risk Rating	Estimated Hours	Audit Status
1	Unit Funds	Medium	200	Completed
2	Human Resources	High	280	In-Progress – fieldwork completed. Final report will be issued October 2015
3	Behavioral Health Funds	Medium	136	In-Progress – draft report issued. Final report will be issued October 2015
4	Interagency Transfer Vouchers * (Border Star and Border Security)	Compliance	288	Completed
5	Master Cooperative Agreement (MCA) Carswell Appendix 21 – Facilities O&M	Compliance	160	In-Progress – fieldwork completed. Final report will be issued October 2015
6	General Officer's Time & Attendance	Compliance	112	In-Progress – draft report issued. Final report will be issued October 2015
7	Follow-Up on Open Audit Findings	Compliance	96	In-Progress – draft report issued. Final report will be issued October 2015
8	iEMS Purchasing System Controls	Medium	80	Cancelled – TMD implementing CAPPs system



Task #	Description	Risk Rating	Estimated Hours	Audit Status
9	Update Annual Risk Assessment & Audit Plan	Compliance	65	Completed
10	Annual Audit Report	Compliance	25	To be approved and issued in October 2015
11	Audit Communications, Project Management	Compliance	82	On-going - this is an Internal Audit management activity
Total			1,524	

III. DEVIATION FROM 2015 AUDIT PLAN

Deviations from the approved internal audit plan included cancelling the iEMS purchasing system audit until FY2017 due to funding received to implement the state’s CAPPs system. These changes were discussed with and approved by the TMD Internal Audit Steering Committee. All other planned internal audits were completed.

IV. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal Audit provided consultative services to TMD management during FY2015. These services were included in the approved fiscal year 2015 annual audit plan and consisted of assisting management to assess the Human Resources Department operations.

V. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

MJ has been a member of the AICPA since 1987, and is subject to the AICPA’s peer review process every three years. Our commitment to quality is underscored by the fact that we have consistently received an unqualified opinion in our external peer review of our accounting and auditing practice by the AICPA in the most recent three peer reviews. After a thorough review of our procedures and work practices, which include reviews of our nonprofit, governmental, and commercial engagements, the reviewers concluded that MJ complies with the stringent quality control standards established by the American Institute of Certified Public Accountants. Our last peer review was completed in December 2014. However our letter has not been issued by the AICPA as of this report date. Therefore, we provide a copy of the 2011 peer review letter.



Your Vision Our Focus



System Review Report

December 8, 2011

To the Owners of
McConnell & Jones, LLP
and the National Peer Review Committee of the AICPA

We have reviewed the system of quality control for the non-SEC accounting and auditing practice of **McConnell & Jones, LLP** (the firm) in effect for the year ended June 30, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the non-SEC accounting and auditing practice of **McConnell & Jones, LLP** in effect for the year ended June 30, 2011, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. **McConnell & Jones, LLP** has received a peer review rating of *pass*.

Turner, Stone & Company, LLP



VI. FISCAL YEAR 2016 INTERNAL AUDIT PLAN

MJ developed the fiscal year 2016 audit plan based on results of the annual risk assessment. The State Auditor’s Office guidelines to consider the agency’s implementation of SB20 was incorporated into the assessment.

MJ will conduct six audits, update the risk assessment, prepare the fiscal year 2017 annual audit plan and prepare the fiscal year 2016 annual audit report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **1,453 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

Fiscal Year 2016 Annual Audit Plan Activities

<i>Audit Activity #</i>	<i>Description</i>	<i>Risk Rating</i>	<i>Estimated Timing</i>	<i>Estimated Hours</i>
1	Operation Strong Safety	High	October – December 2015	261
2	Financial Reporting Process	High	January– February 2016	220
3	SB20 – Contract Management	Compliance	February – March 2016	177
4	Challenge Program	Compliance	April - May 2016	120
5	Inventory Management	Medium	May – June 2016	176
6	Payroll Processing	Medium	June – July 2016	176
7	General Officer’s Time & Attendance	Compliance	July 2016	111
8	Follow-Up on Open Audit Findings	Compliance	July 2016	74
9	Update Annual Risk Assessment & Audit Plan	Compliance	August 2016	60
10	Annual Audit Report	Compliance	August 2016	10
11	Audit Communications, Project Management	Compliance	On-Going	68
Total				1,453

Proposed audits will focus on internal controls and business processes



VII. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2015

The following represent external audit services that were procured by the Texas Military Department or were ongoing in fiscal year 2015.

<i>Audit / Review</i>	<i>Auditor</i>
<i>EEO Review</i>	<i>Texas Workforce Commission</i>
<i>On-Site Consultation</i>	<i>State Office of Risk Management</i>
<i>Single Audit</i>	<i>State Auditor's Office (All Findings Closed)</i>

VIII. REPORTING SUSPECTED FRAUD AND ABUSE

Texas Military Department has implemented measures to comply with Article IX, Section 7.10, the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022. These measures include, but are not limited to, the following:

The Texas Military Department includes a link to the State Auditor's Office (SAO) website for fraud reporting at the footer of the Texas Military Department website. In addition, information on reporting suspected fraud to the State Auditor is included in the agency's policies and procedures.

IX. SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to TMD's executive management and present these changes to the Internal Audit Steering Committee (IASC) for review and approval. Notification of significant changes to the Internal Audit Plan approved by the IASC will be submitted to the State Auditor's Office (SAO).

This annual internal audit report was presented to the Adjutant General and approved on October 30, 2015.



Major General John Nichols, Adjutant General