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**INTERNAL AUDIT DEPARTMENT**

**EXECUTIVE MANAGEMENT**

Dwight Harris  
Executive Director

Linda S. Reyes, PH.D.  
Deputy Executive Director

**Fiscal Year 2006  
Annual Internal Audit Report**

**INTERNAL AUDIT DIRECTOR**

Karin L. Hill, CIA, CGAP

Internal Audit Department  
P.O. Box 4260  
Austin, TX 78765

September 2006

**Annual Internal Audit Report  
Fiscal Year 2006**

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# TEXAS YOUTH COMMISSION

**DWIGHT HARRIS**  
Executive Director

**LINDA S. REYES, Ph.D.**  
Deputy Executive Director

## COMMISSION MEMBERS

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Equal Opportunity Employer

September 21, 2006

Honorable Rick Perry, governor  
The Legislative Budget Board  
The Sunset Advisory Commission  
Mr. John Keel, CPA, State Auditor

Dear Sirs:

Attached is the Fiscal Year 2006 Annual Internal Audit Report from the Texas Youth Commission's Internal Audit Department. This report is provided in accordance with the Texas Internal Auditing Act requirements for internal auditors to prepare and distribute an annual report of accomplishments.

The Internal Audit Department continues to provide value-added assistance, through independent and objective audit work, to management. During Fiscal Year 2006, the Department published nine reports, completed the work for four other items being submitted to the September 2006 Board meeting, and verified the implementation of 40 recommendations from previous audit work. The work the Internal Audit Department completed this past year provided the agency with information on the reliability of information, the effectiveness of internal control systems, operational efficiency and effectiveness, and program results. In addition to conducting audit work, the Department prepared for and received an External Quality Assurance Review as required by the Texas Internal Auditing Act and professional standards.

Internal Audit staff also continue to participate in activities to increase their audit skills and to further the internal audit profession. Some of these include being active members of the State Agency Internal Audit Forum and Austin Chapter of the Institute of Internal Auditors, attending training courses, and actively working toward professional certification.

If you have any questions, please contact Karin Hill, Director of Internal Audit, 512/424-6070.

Sincerely,

Dwight Harris  
Executive Director

Karin Hill, CIA, CGAP  
Director of Internal Audit

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## **Fiscal Year 2006 Internal Audit Plan and Status**

As of September 21, 2006

<b>FULL-SCOPE PROJECTS</b>	
<b>REPORT TITLE</b>	<b>STATUS</b>
Staff Development	Report approved at September 2005 Board meeting.
Special Education	Report approved at November 2005 Board meeting
Staffing and Coverage	Report approved at May 2006 Board meeting.
Youth Grievances	Audit underway. Completion included as part of the FY 2007 Audit Plan. Scheduled to be completed in January 2007.
Parole	Audit underway. Included as a major part of the FY 2007 Audit Plan. Estimated to be completed in March 2007.
<b>LIMITED-SCOPE PROJECTS</b>	
<b>REPORT TITLE</b>	<b>STATUS</b>
Texas Administrative Code, Chapter 202 Compliance	Report approved at September 2005 Board meeting.
Student Transportation	Report approved at November 2005 Board meeting.
Public Funds Investment Act Compliance	Report approved at February 2006 Board meeting.
Alleged Mistreatment	Report approved at July 2006 Board meeting.
Assessment and Evaluation	Submitted for approval at September 2006 Board meeting.
Human Resources – Hiring	Report scheduled for submission to November 2006 Board meeting.
Information Technology: Security – Youth Access	Report scheduled for submission to November 2006 Board meeting.
Annual Risk Assessment/Audit Plan (FY 2007)	Submitted for approval at the September 2006 Board meeting.
FY 2006 Annual Internal Audit Report	Submitted for approval at the September 2006 Board meeting.
Semi-Annual Implementation Status of Audit Recommendations (Follow-up)	Reports approved at February and July 2006 Board meetings.
Verification of Implemented Audit Recommendations	Reported as part of the Semi-Annual Implementation Status of Audit Recommendations.

## EXTERNAL QUALITY ASSURANCE REVIEW

Issued July 2006

The External Quality Assurance Review was conducted using the State Agency Internal Audit Forum's Peer Review Process. It was completed by Ms. Susan Driver, Director of Internal Audit for the Texas Comptroller of Public Accounts and Mr. Greg Royal, Director of Internal Audit for the Texas Department of Insurance.

### Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Youth Commission (TYC) Internal Audit Department "fully complies" with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*, the United States General Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (*Texas Government Code*, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We found that the Internal Audit Department is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff is qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers; and findings and recommendations are communicated clearly, concisely, and timely. The Internal Audit Director has been with TYC for almost ten years and has been the director since 2001. She was the Internal Audit Director for the prior peer review in 2003 and this current peer review occurred within the required timeframe.

The Internal Audit Department is well managed internally. In addition, the Department has effective relationships with the Board and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers Internal Audit a useful part of the overall agency operations and finds that the audit process and report recommendations add value and help improve the agency's operations.

## Audits Completed in FY 2006

Includes high-level objectives, issues, recommendations, and status of recommendations.

The Texas Youth Commission Internal Audit Department, in partnership with the Management Audit Committee, tracks the status of implementation of all audit recommendations. Reports are provided to the Board twice each year on the status for all recommendations two years old or less and all older recommendations that remain outstanding (not implemented). Management provided the status, as of August 31, 2006, for key audit issues and recommendations.

The TYC Internal Audit Department uses different terminology for the reporting status of recommendations with implementation as “in progress.” Instead of “in progress”, TYC reports these recommendations as “underway.” Additionally, the Internal Audit Department provides a fourth status for management’s use, “unable to implement”. This status allows management to provide explanations as to why recommendations, which they agree with, cannot or will not be implemented. This status has yet to be used, nor do we expect it to be used with any frequency. The definitions of the statuses used by TYC are as follows:

- Planned – management concurs with the recommendation but actual implementation of the recommendation has not begun.
- Underway – the implementation process of the recommendation has been started.
- Implemented – all new procedures, policies, systems, processes, related documents, and other elements relevant to the audit recommendation have been prepared, approved, and put into operation.
- Unable to Implement – management concurs with the recommendation; however, due to resource constraints and/or competing priorities is not able to implement or can only partially implement the recommendation.

**05-2 SPECIAL EDUCATION (November 2005)**

High-Level Objectives:

- Determine whether Special Education legal obligations are being met for critical timelines.
- Determine whether Special Education planning is conducted in accordance with established standards.

**Conclusions/Issues**

The agency substantially complies with critical timelines for Special Education.

- Required informational documents are generally distributed in a timely manner.
- Full and Individual Evaluations are generally completed as required.
- The agency’s timelines for Admission, Review and Dismissal (ARD) meetings should be reviewed.

Opportunities exist for improvement in Special Education planning.

- All of the required parties attend Admission, Review and Dismissal meetings.
- Individualized Education Program (IEP) goals and objectives should be written to address the youth’s specific disability.
- Including benchmarks or short-term objectives in Individualized Education Program objectives would aid in planning and tracking progress.
- Inclusion of information regarding Special Education needs and modifications in the Individual Case Plan could improve progress in the Behavior and Correctional Therapy areas of Resocialization©.
- Transition planning should include additional detail to direct future activities.

Efficiencies can be gained by increasing the use of existing tools.

<b>Recommendations</b>	<b>Status as of 8/31/06</b>	<b>Impact</b>
1. To ensure staff have adequate time to complete review ARDs, the manager of Special Education should review existing requirements and make changes as necessary.	Implemented	Strengthen accountability
2. Provide training to improve the effectiveness of IEPs.	Implemented	Improve effectiveness
3. To increase the efficiency of managing Special Education activities, the Manager of Special Education should enforce the use of Special Education Manager through routine monitoring and reporting.	Implemented	Strengthen accountability

<b>05-3 STAFF DEVELOPMENT (September 2005)</b>		
<p>High-Level Objectives:</p> <ul style="list-style-type: none"> <li>• Determine whether staff are meeting established training requirements.</li> <li>• Determine the efficiency/effectiveness of the reporting and monitoring processes.</li> <li>• Determine whether training requirements for trainers are adequate and being met.</li> </ul>		
<b>Conclusions/Issues</b>		
<p>Staff are not meeting all training requirements established in the Training Requirements Manual.</p> <ul style="list-style-type: none"> <li>• While some staff are meeting initial one-time training requirements, the majority are not.</li> <li>• Other training requirements are not always completed as required.</li> <li>• The method for tracking and documenting training requirements should be reviewed.</li> </ul> <p>Opportunities exist to improve the reporting process.</p> <ul style="list-style-type: none"> <li>• Manual processes affect the accuracy of the training reports.</li> <li>• The Information Resources Department (IRD) is currently developing a training database that will improve the reporting process.</li> </ul> <p>The monitoring process needs to be strengthened.</p> <ul style="list-style-type: none"> <li>• Manual and duplicative processes render monitoring inefficient.</li> <li>• Monitoring visits should be conducted more frequently.</li> </ul>		
<b>Recommendations</b>	<b>Status as of 8/31/06</b>	<b>Impact</b>
1. Evaluate the timeframes established to complete training for sole supervision staff and make changes as determined necessary.	Implemented	Strengthen accountability
2. Review the Training Requirements Manual and ensure that it provides instructions for documenting, tracking and reporting all required training.	Implemented	Improve effectiveness
3. Develop additional job related annual requirements for the institutional field trainers.	Implemented	Improve effectiveness
4. To ensure the new training tracking system meets the agency's needs, the Assistant Deputy Executive Director for Human Resources should work closely with IRD through the implementation of the system.	Implemented	Strengthen accountability
5. Streamline the monitoring process and increase the frequency in which it is conducted.	Implemented	Improve effectiveness

**05-4 STAFFING AND COVERAGE (May 2006)**

High-Level Objectives:

- Evaluate the relationship of key factors and determine their impact on coverage.
- Determine whether Case Manager caseloads are commensurate with staffing levels.

**Conclusions/Issues**

The relief factor does not accurately reflect current operations.

- There are several areas where the information in the relief factor is outdated.
- Changes in law and agency policy have increased the amount of time JCO staff are not available for coverage.

Generally accepted staffing ratios cannot be achieved.

- Based on actual staff and youth data, there are not enough JCO staff to operate at the agency's acceptable level for most institutions.
- Most institutions are not budgeted enough staff to meet the generally acceptable ratios.

Management needs more information on how other routine JCO duties dilute dorm coverage.

- A variety of additional tasks take JCOs away from dorm coverage.
- While routine JCO duties may dilute dorm coverage, it is difficult for them to rise to the level where they impact overall coverage ratios.
- The agency does not currently track actual JCO-to-youth ratios.

It is difficult for Case Managers to meet agency expectations with current resources.

- Leave, training requirements, and vacancies impact the time Case Managers have available to complete case management duties.
- Current caseloads are often higher than can be accomplished.
- Case Manager job requirements include some non-case management duties.
- Case Management Standards are not being met.
- Case Managers reported working more hours than are being recorded on their timesheets.

<b>05-4 STAFFING AND COVERAGE (continued)</b>		
<b>Recommendations</b>	<b>Status as of 8/31/06</b>	<b>Impact</b>
1. To improve the agency's planning abilities and better identify resource needs, Juvenile Corrections and Finance should collaborate to update the relief factor.	Implemented	Improve effectiveness
2. Develop an annual report of actual leave taken and training hours attended for direct-care staff.	Underway	Provide information for decisions
3. Develop a procedure to periodically check actual coverage at the dorm level against information in ScheduleSoft and the achievable ratio to determine where management assistance may be needed.	Planned	Provide information for decisions
4. Review the case management and non-case management responsibilities for Case Managers and collaborate to ensure that agency expectations can be met with the resources available.	Underway	Improve effectiveness

<b>05-6 STUDENT TRANSPORTATION (November 2005)</b>		
<p>High-Level Objective:</p> <ul style="list-style-type: none"> <li>Determine whether the agency transports youth in a safe and efficient manner.</li> </ul>		
<b>Conclusions/Issues</b>		
<p>An efficient and effective youth transportation system is in place.</p> <ul style="list-style-type: none"> <li>The student transportation system is efficient and effective despite the size of Texas and resulting complexities of transporting youth between facilities.</li> </ul> <p>While TYC is moving toward acquiring specialized vehicles for youth transportation, additional attention is needed to ensure vehicles currently used are safe.</p> <ul style="list-style-type: none"> <li>The agency has begun standardizing the vans used for secure transport.</li> <li>Youth are also transported in non-secure vehicles.</li> <li>Safety equipment in vehicles is not always properly maintained.</li> </ul> <p>Long travel hours put both youth and staff at risk.</p> <ul style="list-style-type: none"> <li>Long travel hours for medical services increases the agency's risk for an accident.</li> <li>Other factors increase the travel hours and put youth and staff at risk.</li> </ul> <p>Opportunities exist for improving tracking and oversight of the maintenance of vehicles.</p> <ul style="list-style-type: none"> <li>Preventive maintenance schedules are not always followed.</li> <li>Increased use of management information could improve monitoring and tracking of preventive maintenance, thereby better enforcing maintenance schedules.</li> </ul>		
<b>Recommendations</b>	<b>Status as of 8/31/06</b>	<b>Impact</b>
1. Develop and implement a plan to replace the vans used for statewide transportation with vehicles designed for use by corrections organizations.	Implemented	Improve effectiveness
2. Develop a procedure that requires inspection of vehicles to ensure mandated safety equipment is in the vehicle and in working order on a routine basis.	Implemented	Strengthen accountability
3. Research and establish standards for transporting youth long distances on extended work hours.	Implemented	Strengthen accountability
4. Require all facilities to reinstate the medical trip log.	Implemented	Strengthen accountability
5. Utilize the Fleet Focus system to monitor and report on maintenance activities.	Implemented	Strengthen accountability

**05-8 TEXAS ADMINISTRATIVE CODE, CHAPTER 202 COMPLIANCE  
(September 2005)**

High-Level Objectives:

- Determine the agency’s compliance with the requirements of TAC 202.

**Conclusions/Issues**

The Texas Youth Commission substantially complies with the Texas Administrative Code, Chapter 202.

- A formal information security program has been approved.
- Completion of the agency-wide information security risk analysis has been delayed.

No recommendations were made in this report.

**06-1A SEMI-ANNUAL IMPLEMENTATION STATUS OF AUDIT  
RECOMMENDATIONS (February 2006)**

High-Level Objectives:

- Determine the status of recommendations made during audit work.

**Conclusions/Issues**

Management reports continued progress toward implementing outstanding audit recommendations.

- Twenty-nine (29) of the 43 (67%) recommendations that have been issued since December 2003 have been implemented.
- Twenty-eight (28) of 31 (90%) implemented recommendations that were verified since the July 2005 follow-up report were verified as either implemented or implemented, needs improvement.

No recommendations were made in this report.

**06-1B SEMI-ANNUAL IMPLEMENTATION STATUS OF AUDIT  
RECOMMENDATIONS (July 2006)**

High-Level Objectives:

- Determine the status of recommendations made during audit work.

**Conclusions/Issues**

Management reports continued progress toward implementing outstanding audit recommendations.

- Twenty-eight (28) of the 40 (70%) recommendations that have been issued since July 2004 have been implemented.
- All nine implemented recommendations that were verified since the February 2006 follow-up report were verified as either implemented or implemented, needs improvement.

No recommendations were made in this report.

**06-2 PUBLIC FUNDS INVESTMENT ACT COMPLIANCE (February 2006)**

High-Level Objectives:

- Determine the agency’s compliance with the Public Funds Investment Act during fiscal years 2004 and 2005 in its administration of the John C. Wende and Parrie Haynes trust funds.

**Conclusions/Issues**

The Texas Youth Commission complies with the Public Funds Investment Act.

- TYC has appointed an investment officer and developed an investment policy and strategies.
- Investments are made with judgment and care.
- Investment training is completed within the timeframe outlined in the Act.
- TYC ensures safe and secure investments by limiting the diversity of its investments to Certificates of Deposits and U.S. Treasury Notes.
- Members of the Charitable Trust Committee are provided quarterly bank account and investment statements.

No recommendations were made in this report.

**06-4 ALLEGED MISTREATMENT (July 2006)**

High-Level Objectives:

- Identify trends in alleged mistreatments and evaluate the effectiveness of corrective action plans in addressing trends, as applicable.

**Conclusions/Issues**

Trend reporting is limited and does not provide management with needed information.

- Limited reporting of trends is currently being conducted.
- Database limitations make it difficult to identify trends in alleged mistreatments.
- In developing the new Alleged Mistreatment database, the agency should maximize participation by affected stakeholders.

Corrective Action Plans are effective in addressing areas of concern.

- Focused Corrective Action Plans are successful at addressing patterns identified by management.

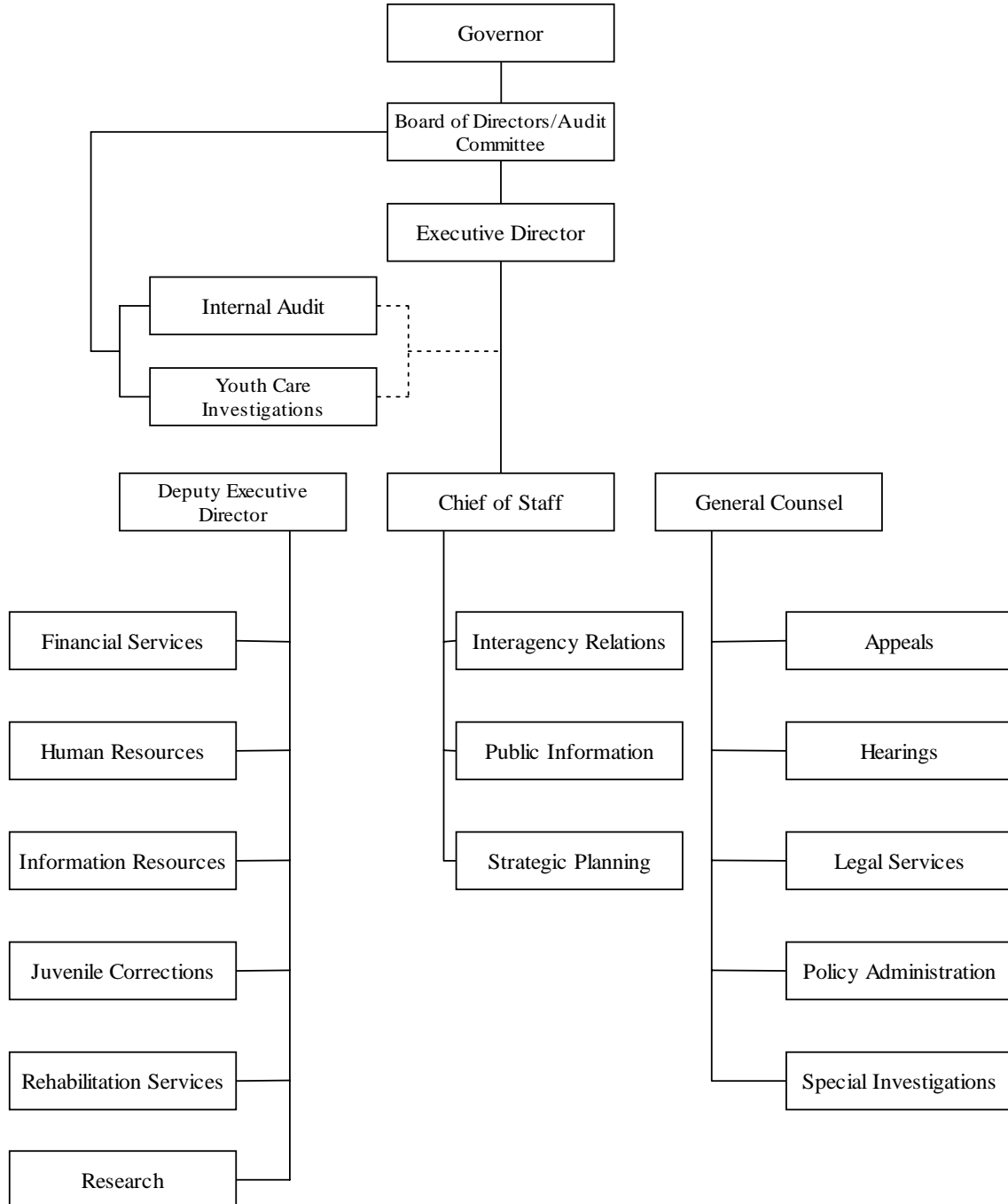
<b>Recommendations</b>	<b>Status as of 8/31/06</b>	<b>Impact</b>
1. Ensure that the new Alleged Mistreatment database provides management with the information it needs through a collaborative effort in developing the Alleged Mistreatment database.	Underway	Provide information for decisions
2. Collaborate in developing a users’ manual for the database and provide training on how to use the system.	Planned	Improve effectiveness

**Consulting Engagements and Non-Audit Services Completed**

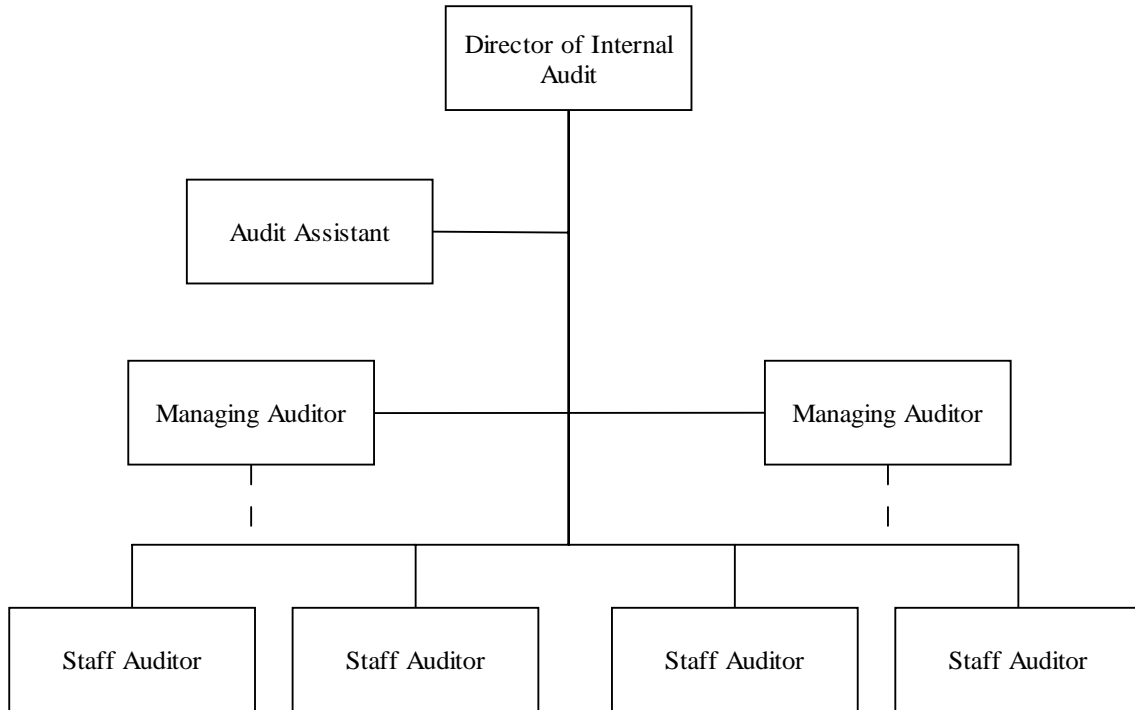
With the exception of committees and ad hoc taskforces, the Internal Audit Department did not conduct any consulting engagements or non-audit services during Fiscal Year 2006. The committees in which the Department participated are as follows:

<b>ACTIVITY</b>	<b>IMPACT</b>
<b>Correctional Care System User Group</b>	Attends monthly meetings and advises on controls and setting priorities in developing and revising IT systems.
<b>Data Integrity Taskforce</b>	Attends monthly meetings and advises on controls to ensure data integrity.
<b>Data Analysis and Calculation Committee</b>	Attends meetings and advises on controls.
<b>Contract System Project</b>	Attends meetings and advises on controls during the development stage of a contract tracking system.
<b>External Audit Activity</b>	Attends meetings and assists with logistics as needed when external agencies are conducting audit work.

## Texas Youth Commission Organizational Chart



**Internal Audit Department's Organizational Chart**



The Internal Audit Department consists of an Audit Assistant (Auditor I) who is responsible for verification work on implemented audit recommendations and some of the administrative duties for the office, four Staff Auditors (Auditor II – IV), and two Managing Auditors (Auditor V). All staff report directly to the Director of Internal Audit for personnel purposes but also report to the Managing Auditors based on their audit assignments.

## Report on Other Internal Audit Activities

Includes only activities that improve the internal auditing profession. Projects to improve Internal Audit Department systems and processes are not listed.

ACTIVITY	IMPACT
<p><b>Coordination of External Audits/Reviews</b></p>	<p>Reviewed and assisted in the response to external entities that conducted audits/reviews throughout the year.</p>
<p><b>Contributions to the Auditing Profession:</b> Internal Audit staff participated in a variety of roles to serve those organizations that further the practice of internal auditing.</p>	<ul style="list-style-type: none"> <li>• Director has been the Vice Chair for the State Agency Internal Audit Forum and served on the joint State Agency Internal Audit Forum/State Auditor’s Office Communications Committee as well as the Peer Review committee.</li> <li>• The Director participated as a co-sponsor of the Internal Audit Leadership Development Program – Session 3.</li> <li>• One of the Managing Auditors serves on the Institute of Internal Auditor’s Austin Chapter’s Continuing Education committee as well as the SAIAF’s Information Technology committee.</li> </ul>

## Fiscal Year 2007 Internal Audit Plan

Approved at the September 21, 2006 TYC Board meeting.

### Full-Scope Audits

#### Discretionary

- Parole (carryover from FY 06)
- Youth Grievances (carryover from FY 06)
- Population Management
- Control and Supervision
- Halfway Houses (will be completed over FY 07 and 08)
- Basic Education (will be completed over FY 07 and 08)

### Limited-Scope Audits

#### Mandatory

- Texas Administrative Code, Chapter 202 Compliance

#### Discretionary

- Information Technology: Security – Youth Access (carryover from FY 06)
- Human Resources – Timekeeping
- Ethics – Non-Audit Service

### Other Projects

#### Mandatory

- Semi-Annual Follow-up
- Annual Risk Assessment/Audit Plan
- Annual Report

#### Discretionary

- Title IV-E
- Peer Review – Reciprocating Services
- Miscellaneous Management Assistance
- Verification of Implemented Recommendations

## External Audit Services

The Texas Youth Commission did not procure external audit services during Fiscal Year 2006.