

**INTERNAL AUDIT ANNUAL REPORT TO THE GOVERNOR, LEGISLATIVE
BUDGET BOARD, SUNSET ADVISORY COMMISSION, STATE AUDITOR, PUBLIC
UTILITY COMMISSION AND PUBLIC UTILITY COMMISSION EXECUTIVE
DIRECTOR**



PUBLIC UTILITY COMMISSION OF TEXAS
Internal Audit

Fiscal Year 2015

Project No. 2016-402

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Section I.
Compliance with Texas Government Code, Section 2102.015

It is the intent of the Public Utility Commission's (PUC) Internal Audit Function to be fully compliant with all applicable requirements of Texas Government Code, Section 2102.015. Internal Audit intends to comply with the requirements of Texas Government Code, Section 2102.015 by posting their annual internal audit plan and the annual internal audit report on the agency's internet website.

Additionally, Internal Audit has incorporated in the annual report a Listing of Audits Showing High-Level Objectives, Observations/Findings, Recommendations, and Implementation Status.

Section II.
LIST OF FISCAL YEAR 2015 PLANNED AUDITS

Public Utility Commission of Texas
Internal Audit Fiscal Year 2015 Annual Report

Report Number	Report Title	Report Date	Status
2015-100	Access Security Audit	April 2015	Completed
2015-300	Capital Asset Audit	May 2015	Completed

Section III.

**List of Audits Showing High-Level Objectives, Observations/Findings,
Recommendations, and Implementation Status**

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/Findings and Recommendations	Current Status ¹ (Fully Implemented, Substantially Implemented, Incomplete/Ongoing or Not Implemented) with brief description if not yet implemented
2015-100	April 2015	PUC System Access Audit	Determine that controls are in place and working as intended to ensure that user access administration is managed and monitored according to PUC policies, standards and procedures.	<p>The retention period for the emails requesting access is limited to the current retention period within the email system, which is two years.</p> <p>The Information Services Division should require division management to periodically review the access rights of their staff and any staff that has access to systems they are responsible for.</p> <p>Additionally, the review process would serve as a compensating control and an ongoing authorization of user access.</p>	Incomplete/ongoing

¹ Definitions of implementation status are as follows:

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

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/Findings and Recommendations	Current Status ¹ (Fully Implemented, Substantially Implemented, Incomplete/Ongoing or Not Implemented) with brief description if not yet implemented
2015-300	May 2015	PUC Capital Asset Audit	Determine if the PUC has controls in place over the tracking, monitoring, recording, reporting and disposal of capital assets.	<p>Capital Assets not affixed with the required property tag.</p> <p>PUC management should periodically inspect all capital assets to ensure that each capital asset is tagged with the required property tags. By ensuring that a unique identification tag is affixed to all capital assets will aid in performing inventory counts, identifying a specific asset, and allowing both accounting and the departments to maintain a uniform fixed asset register.</p>	Implemented
				<p>Acknowledgement of receipt and acceptance of the asset by the employee that received the asset is currently only retained for approximately six months.</p> <p>Information Services should update its policies and procedures to include the use of asset transfer forms when assets are initially deployed and when assets change</p>	Implemented

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/Findings and Recommendations	Current Status ¹ (Fully Implemented, Substantially Implemented, Incomplete/Ongoing or Not Implemented) with brief description if not yet implemented
				possession or are replaced/retired	
				<p>No documentation of the required "Certificate of Acquisition" form as required by the Texas Facilities Commission.</p> <p>Assistance organization was not on the approved list of eligible assistance organizations with the Texas Facilities Commission. Their eligibility had expired prior to the transfer of the surplus property. PUC management should develop policies and procedures relating to the disposition of state surplus property.</p> <p>The procedures should include but not be limited to, training and cross training of staff involved in the processing of surplus property on the requirements for disposing</p>	Implemented

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/Findings and Recommendations	Current Status¹ (Fully Implemented, Substantially Implemented, Incomplete/Ongoing or Not Implemented) with brief description if not yet implemented
				of property, a documented management review process prior to finalizing any transfers of surplus property.	

Section IV.
EXTERNAL QUALITY ASSURANCE REVIEW

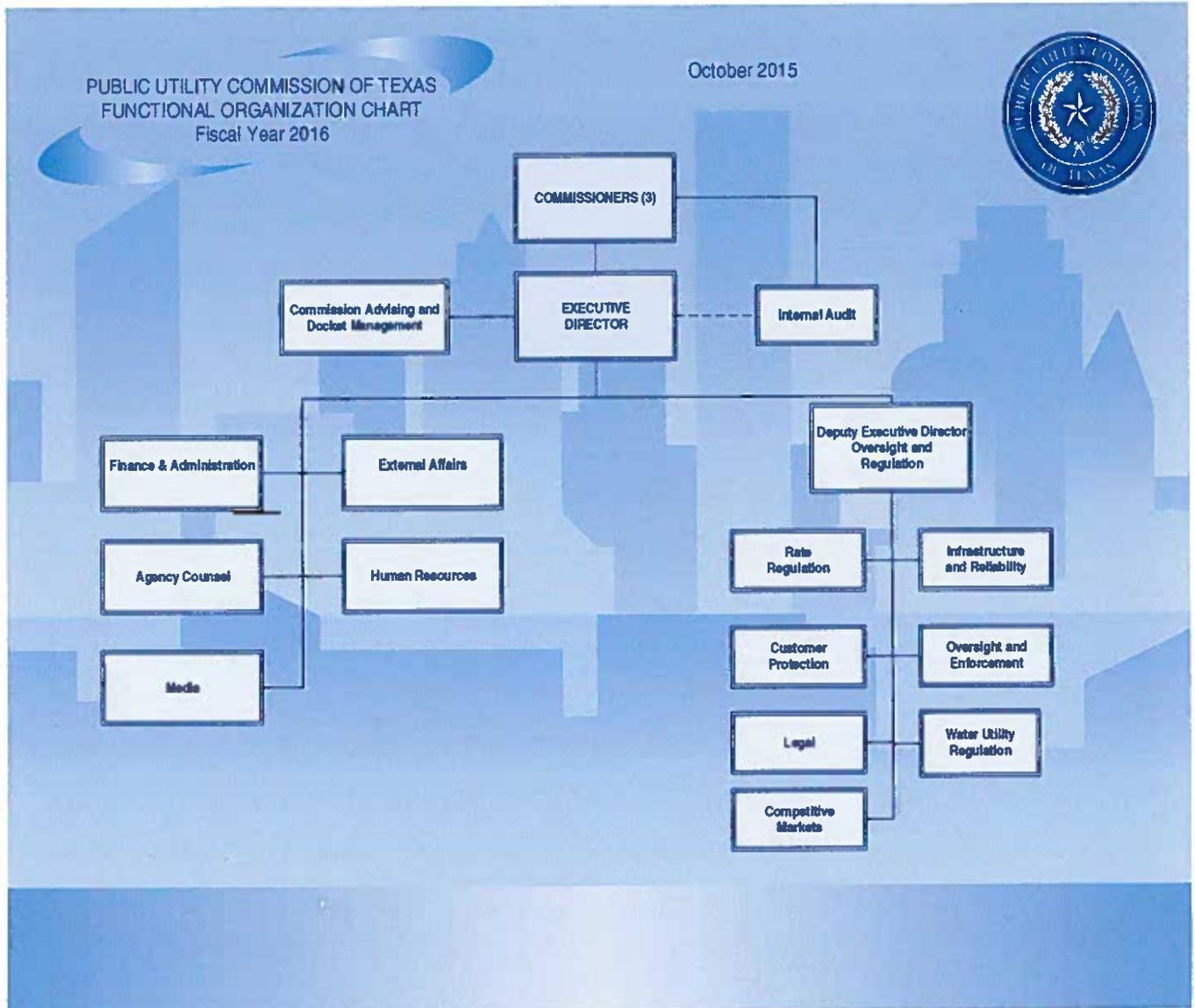
No quality assurance review has been carried out in the past three years.

Section V.
LIST OF CONSULTING ENGAGEMENTS AND
NON-AUDIT SERVICES COMPLETED

No consulting engagements or non-audit services as defined by the *International Standards for the Professional Practice of Internal Auditing (IPPF)*, or *Government Auditing Standards*, were completed in FY 2015.

Section VI.
ORGANIZATIONAL CHART

PUBLIC UTILITY COMMISSION OF TEXAS FUNCTIONAL ORGANIZATION CHART Fiscal Year 2016



Section VII.
Report on Other Internal Audit Activities

Report on Other Internal Audit Activities.

REPORT ON OTHER INTERNAL AUDIT ACTIVITIES	Description	Impact/Value Added
Continuing Professional Education	Each professional member of IA is required by professional standards to earn a minimum of 80 hours of continuing professional education every two years with at least 24 of the 80 hours in subjects directly related to government auditing or the industry the agency operates.	Training adds value to the organization by enhancing the knowledge, skills and technical expertise of staff and improves overall compliance with <i>Government Audit Standards</i> and IIA standards on professional proficiency.
Internal Audit Community	<p>PUCs Internal Auditor is a member of the State Agency Internal Audit Forum (SAIAF).</p> <p>PUCs Internal Auditor is an active member in the Austin Chapter of the Institute of Internal Auditors (IIA) and routinely attends monthly meetings.</p> <p>Positions held during the past fiscal year included Board of Governor's member for the Austin Chapter.</p> <p>District Representative for the Southern Region District 3 for the Institute of Internal Auditor's (IIA).</p> <p>PUCs Internal Auditor also attends quarterly Board of Governor's meetings, and Southern Regional meetings.</p>	<p>Networking with other internal auditors and participating in leadership roles in the professional community increases the knowledge and resources available to audit staff to enhance the quality of audit work performed at PUC.</p> <p>Participation also confirms that PUCs Internal Audit Department pursues excellence in the quality of its work, as well as compliance with professional standards.</p>

Section VIII.
INTERNAL AUDIT PLAN FOR FISCAL YEAR 2016.

INTERNAL AUDIT

Fiscal Year 2016 Annual Audit Plan



PUBLIC UTILITY COMMISSION OF TEXAS
Internal Audit
1701 N. Congress Ave., P.O. Box 13326
Austin, TX 78711-3326

Overview of PUC Internal Audit Fiscal Year 2016 Annual Audit Plan

Introduction

This document provides the Fiscal Year 2016 Annual Audit Plan as required by *The Texas Internal Auditing Act (Texas Government Code, Ch. §2102.008)*. This plan provides our vision of Internal Audit efforts for the fiscal year, allocating resources to the most critical areas within the Public Utility Commission (PUC). Projects were identified for the Audit Plan by using a risk assessment model that considered input from PUC management. Using that input, Internal Audit exercised auditor judgment in prioritizing projects for the coming year.

Internal Audit's Vision

To be a valued, trusted and sought after partner with management. To provide a product that contributes to the enhanced value of the Public Utility Commission of Texas.

Internal Audit Objective

To assist in the effective discharge of the agencies responsibility to maintain:

- 1) Effective and efficient operations
- 2) Reliability of financial and operational reporting
- 3) Compliance with laws and regulations
- 4) The safeguarding of agency assets

Audit Charter and Definition

The Audit Charter approved by the Commission January 2013 provides authorization to Internal Audit personnel for full, free, and unrestricted access to any of the agency's systems, records (manual or electronic), functions, property, and personnel relevant to the performance of statutory responsibilities and duties assigned by the Commissioners or the Executive Director. The charter also defines reporting relationships, the scope of audit work, audit reporting and follow-up responsibilities.

The Definition of Internal Auditing states the fundamental purpose, nature, and scope of internal auditing.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.²

² Institute of Internal Auditors – *International Professional Practices Framework*, January 2009

Risk Assessment

Internal Audit (IA) develops the Audit Plan by first conducting a comprehensive risk assessment of agency program and activities which includes obtaining input from agency management. Part of the risk assessment process is preparing a risk assessment matrix which is sent to management in order to solicit feedback regarding areas of risk or concern. Internal Audit had a 100% response rate to the risk assessment matrix.

A risk assessment is performed each year to continually identify the agency's audit universe and to prioritize the relative risk of each auditable activity within the audit universe. Through this ranking process, the auditor can more objectively and effectively identify and present a risk based plan to agency management and the Commission, for review and approval.

The goal of the risk assessment process is to determine units exposed to high risk and to allocate limited audit resources appropriate to that level of risk. Steps to accomplish this purpose, which ultimately results in audit selection and inclusion in the annual audit plan, include the following:

1. Identifying and cataloging auditable activities (the "audit universe") of the agency.
2. Selecting the criteria (risk categories) used to identify the significance of and likelihood that conditions and/or events may occur that would adversely affect the organization.
3. Weighting the risk factors in terms of importance to management, external influences, and the auditor.
4. Preparing an audit selection schedule that includes the factors for each audit universe item.
5. Computing the weighted score for each universe item and the cumulative factor score.
6. Selecting and prioritizing the audits to be conducted.
7. Examining available resources.

The following functional areas were asked to participate in the risk assessment process:

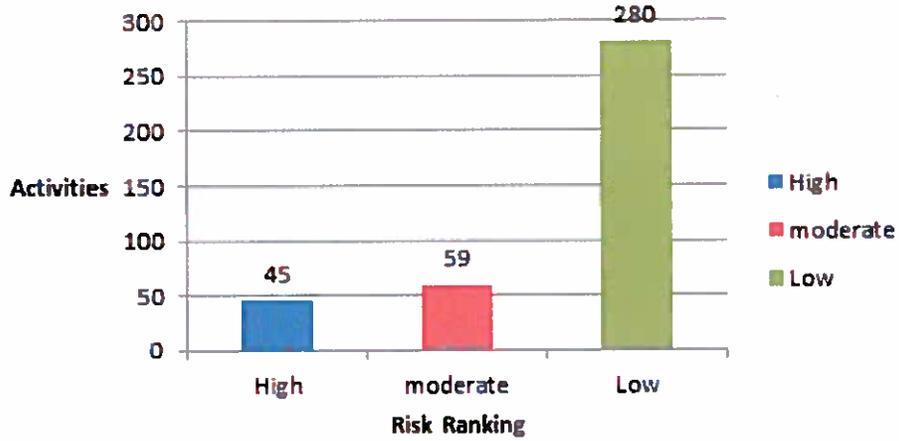
- Commission Advising and Docket Management
- Information Services
- Agency Counsel
- Media
- External Affairs
- Budget and Fiscal Oversight
- Human Resources
- Rate Regulation
- Customer Protection
- Legal
- Competitive Markets
- Infrastructure and Reliability
- Oversight and Enforcement
- Water Utilities

Internal Audit prepared a worksheet for each functional area that contained a listing of activities conducted in each area. Each functional area was asked to complete the worksheet by reviewing the activities previously identified by Internal Audit and providing any updates, deletions or corrections.

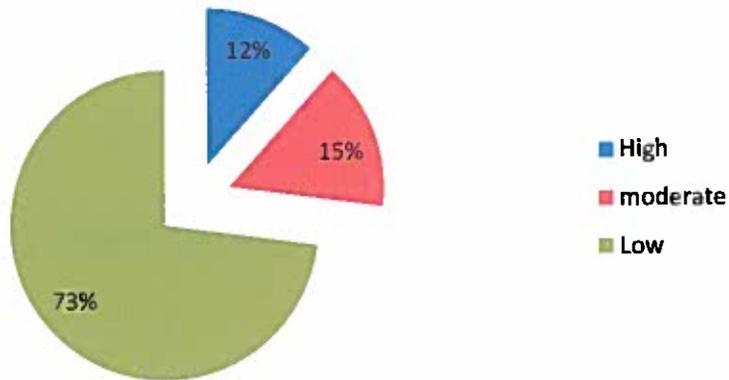
Individual activities were ranked based on probability and impact and assigned a score from one (low risk) to five (high risk) and the sum of all those scores determined the audit's risk ranking.

The scores were divided into the following categories, high = 5.00 - 3.75; moderate = 3.74 - 2.50; low = 2.49 - 1.00. Those activities with a high risk ranking were evaluated in order to prepare the annual audit plan. A total of 384 activities were identified and ranked, 45 or 12% were ranked high, 59 or 15% were ranked moderate and 280 or 73% were ranked low. There was an increase in the number of activities identified this year compared to last year, this increase can be attributed to a higher rate of return of the risk assessment compared to last year.

Number of Activities Ranked High, Moderate or Low

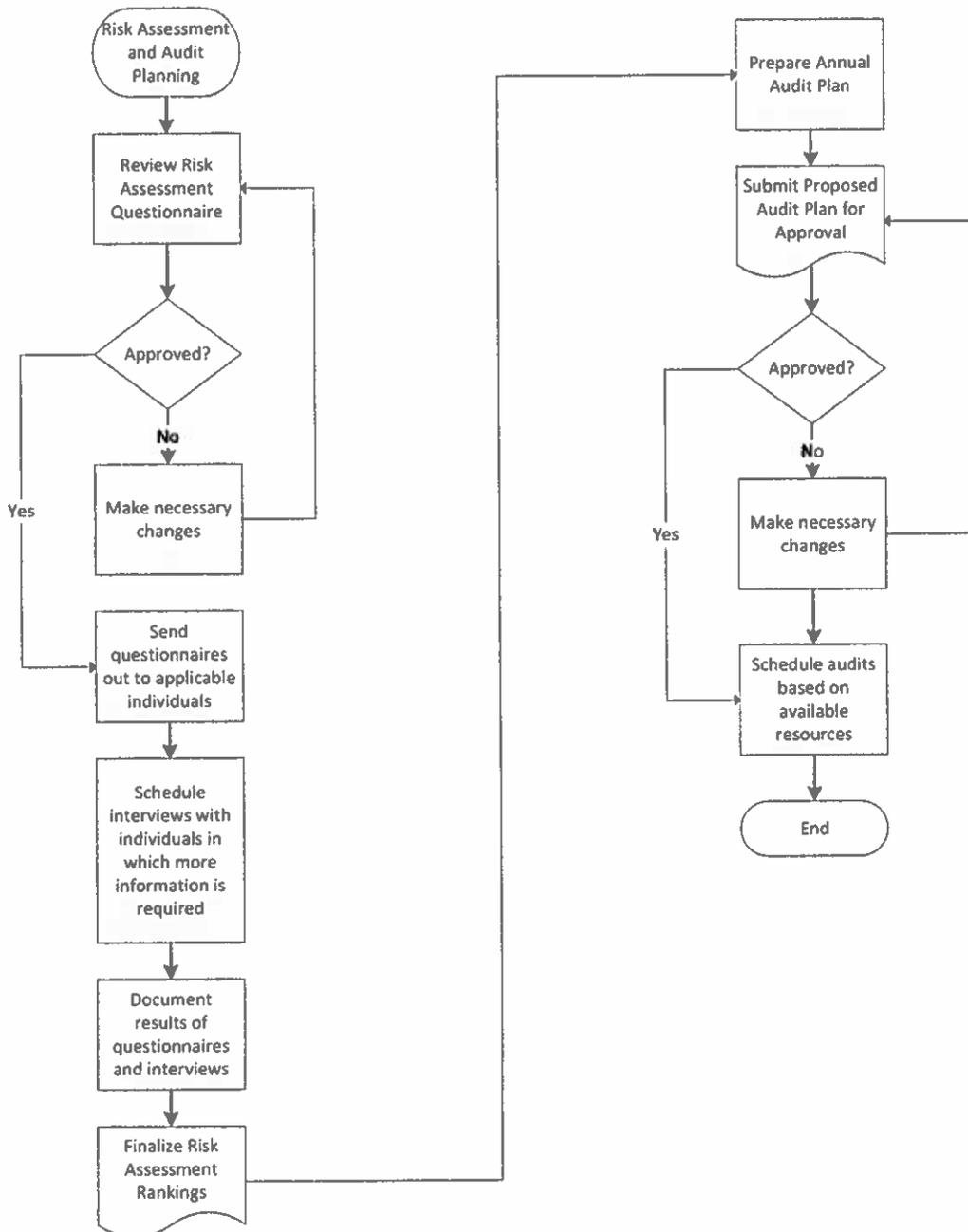


Percentage of Activities Ranked High, Moderate or Low

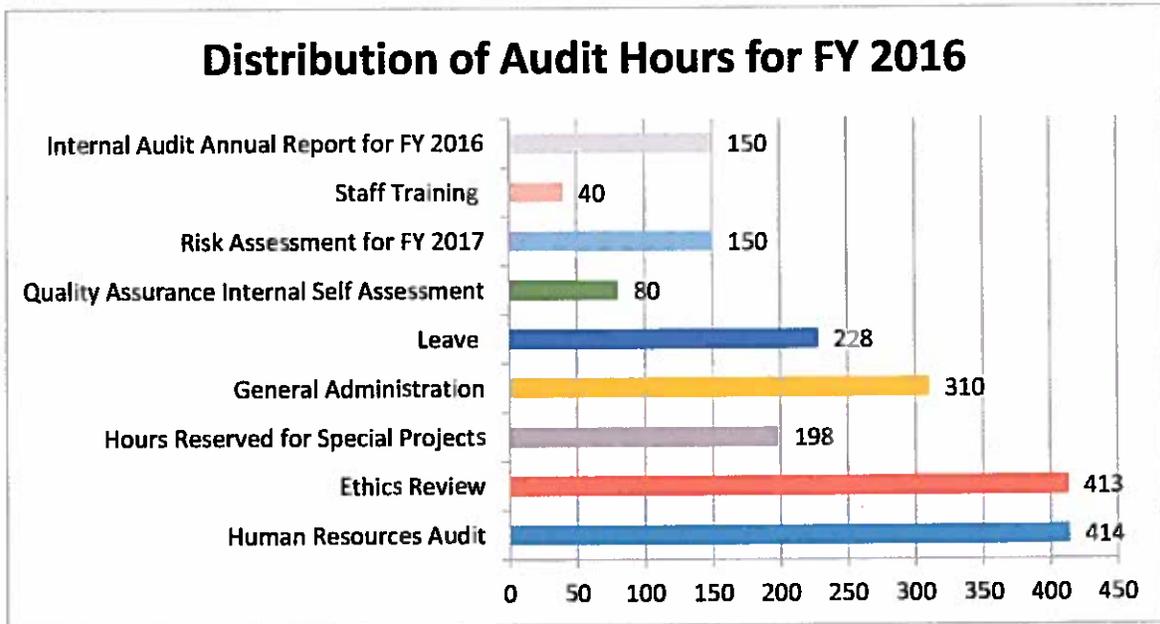


The following diagram depicts a high level view of the risk assessment and audit planning process.

Public Utility Commission
Internal Audit
Risk Assessment and Audit Planning Process



The Chart below shows Internal Audit's budgeted time allocations for the coming fiscal year.



Acceptable Level of Risk

Although the audit plan contemplates a range of audit effort, it does not provide coverage for all PUC components or systems. Internal Audit attempted to maximize limited Internal Audit resources to provide reasonable coverage of the business activities requiring the most attention.

However, because Internal Audit cannot address every risk area, it is important for the Commission and management to understand the limitations of the audit coverage and the risks they assume in areas not audited. Internal Audit believes that this plan allocates Internal Audit resources to the most important priorities and risks of the agency at this point in time.

Internal Audit is committed to being a valuable resource in improving the agency's operations and proposes a plan that targets key processes, yet builds flexibility to allow for Commission and management requests that require immediate attention.

Fiscal Year 2016 Internal Audit Plan Allocation

The Audit Plan depicts hours allocated to audit engagements in various programs and Divisions of the commission and is shown in Schedule 1. Detailed objectives will be formalized for each engagement during the planning process. The Audit Plan includes the following sections:

Projects Carried Forward

No projects were carried forward from FY 2015.

Financial / Performance Assurance Activities

Internal Audit provides assurance services for the agency which are defined as objective examinations of evidence for the purpose of providing an independent assessment on risk management, control, and governance processes for the organization. Examples may include financial, compliance, economy and efficiency, effectiveness, investigations, and information technology engagements.

Special Initiatives

In addition to assurance and consulting engagements, Internal Audit allocates resources toward special initiatives. These initiatives include any liaison activities which may occur during the year and special requests to be responsive to the immediate needs of the Commissioners and management.

Consulting / Advisory Activities

By definition, internal auditing includes the provision of consulting services. Consulting services are advisory and related client service activities, the nature and scope of which are agreed upon with the client. These activities are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

Examples include counsel, advice, facilitation, and training. Progressive Internal Audit departments provide additional management assistance or consulting services to their organizations. Upon request, Internal Audit will provide both formal and informal advice and suggestions on management issues, concerns, and draft policies and procedures.

Additionally, Internal Audit will provide representation on PUC committees and work groups as needed and requested by the Commission or executive management. By providing consulting or advisory activities, Internal Audit adds value to PUC beyond assurance services and assists in strengthening agency internal controls.

Administrative Activities

Internal Audit included hours for various administrative activities, some of which are mandated either by the professional standards or required by statute. Leave time for Internal Audit is also included to show a full picture of hours to be used by Internal Audit during the year.

Professional Standards

Internal Audit adheres to *Government Auditing Standards*, as promulgated by the U.S. Government Accountability Office and the *International Standards for the Professional Practice of Internal Auditing*, as promulgated by the Institute of Internal Auditors which includes the *Code of Ethics*. In addition, Internal Audit conforms to requirements found in the *Texas Internal Auditing Act* (Texas Government Code §2102) and complies with all policies and procedures of the PUC.

Closing

Audit plans act as a guide for audit departments. Internal Audit's plan includes proposed projects and other initiatives to perform during the year. Internal Audit budgeted time for special requests in order to be responsive to the immediate needs of the Commission and management as they may arise throughout the fiscal year.

As discussed above under "Acceptable Level of Risk" the Internal Audit plan does not, nor is it intended to, address or provide complete coverage for all PUC components or system risks. Internal Audit believes that this plan allocates the

resources of Internal Audit to the most important priorities and risks of the agency at this point in time.

Internal Audit wishes to thank PUC management and staff for their assistance in providing information which led to the development of this proposed plan. In addition, Internal Audit looks forward to helping the agency meet its objectives this fiscal year. For further information on the FY 2016 Internal Audit Plan, please contact Darrell Carter, at (512) 936-7448 or by email at darrell.carter@puc.texas.gov

Schedule 1 - Fiscal Year 2016 Internal Audit Plan

PROJECT NUMBER	PROJECT DESCRIPTION (Note E)	Program (Note A)	BUDGETED FY 2016 HOURS
	Projects Started and Carried Forward From Fiscal Year 2015		
	Subtotal Carry Forward Projects		0
	Financial / Performance Assurance Activities		
2016-300	Human Resources Audit	HR	414
	Subtotal Financial / Performance Audits		414
	Special Initiatives		
Various	Hours Reserved for Special Assigned Audits, Investigations or Advisory Projects	N/A	198
	Consulting / Advisory Activities		
2016-600	Ethics Review		413
	Subtotal Advisory / Liaison Projects		413
	Subtotal - Audits, Investigations and Advisory Projects		1,025
	Administrative & Required Internal Audit Activities		
2016-400	General Administration (Note B)	N/A	310

Public Utility Commission of Texas
Internal Audit Fiscal Year 2016 Annual Audit Plan

2016-000	Leave (Note C)	N/A	228
Pending	Quality Assurance Internal Self-Assessment (Note G)	N/A	80
Pending	Risk Assessment for FY 2017	N/A	150
2016-401	Staff Training (Note F)	N/A	40
2016-402	Internal Audit Annual Report for FY 2015 to the Governor, LBB, Sunset, and SAO	N/A	150
Subtotal - Administrative & Other Internal Audit Projects			958
Total FY 2016 Project Hours			1,984
Total Available Hours (Note D)			available 1,984

Notes:

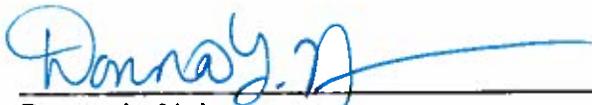
- Acronyms: PUC-Public Utility Commission of Texas; IT-Information Technology; BFO-Budget and Fiscal Oversight; GL-General Law; HR-Human Resources;
- A** CR-Central Records; CADM-Commission Advising and Docket Mgmt.; CM-Competitive Markets; CP-Customer Protection; IR-Infrastructure and Reliability; LG-Legal; OE-Oversight and Enforcement; RR-Rate Regulation
- B** Administration / Special Projects of the Internal Audit Function (Ave 17.5%)
- C** Based on maximum annual accrual (vacation & sick) for 12 months
- D** Available Hours: (40 hrs. wk. X 52 wks) - (12 holidays X 8 hrs. / day) = 1,984 total hour
1,984 minus (228 hr. leave based on 11 hr. vac a month * 12 and 8 hr. sick a month * 12 equals 1,772 minus
310.10 Gen Admin equals 1,445.9 minus 40 hours of training minus work required by Auditing Standards and The Texas Internal Auditing Act equals 1,025 Hours available for Audits, Advisory and Investigations
- E** Detailed objectives will be formalized for each engagement during the planning process.
- F** Internal Auditors are required by professional standards to obtain forty hours of Continuing Professional Education (CPE) each year.
- G** Internal Auditors are required by professional standards.

PUBLIC UTILITY COMMISSION OF TEXAS

Internal Audit Fiscal Year 2016 Annual Audit Plan

September 2015

Plan Approved:



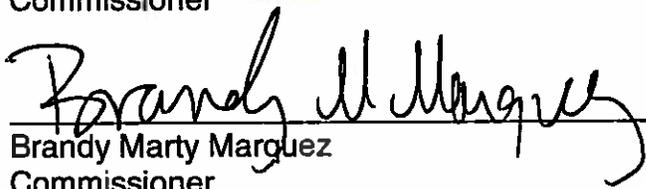
Donna L. Nelson
Chairman

Oct 7, 2015
Date



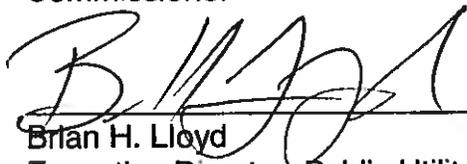
Kenneth W. Anderson, Jr.
Commissioner

7 Oct 2015
Date



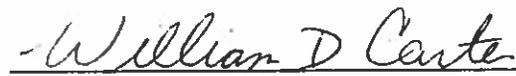
Brandy Marty Marquez
Commissioner

25 Sept 2015
Date



Brian H. Lloyd
Executive Director, Public Utility Commission

10/12/15
Date



Darrell Carter, CPA, CIA, CRMA
Internal Auditor, Public Utility Commission

OCT 12, 2015
Date

Section IX.
EXTERNAL AUDIT SERVICES

The following represents PUC external audit services procured or in progress in fiscal year 2015.

Auditee	Auditor
Solix, Inc	Vic Hurlbert, CPA

Section X.
REPORTING SUSPECTED FRAUD AND ABUSE

The following represent PUC actions taken to meet suspected fraud and abuse reporting requirements.

Requirement	Actions Taken
Reporting Requirements: Article IX, Section 7.09, Fraud Reporting, General Appropriations Act (84th Legislature)	The agency received no American Recovery and Reinvestment Act funds during the past fiscal year, but has provided a link to the SAO fraud hotline on the home page of the agency's internet and intranet websites. In addition, the agency has internal procedures for staff to report fraud, waste or abuse.
Texas Government Code, Section §321.022	The Internal Auditor sends reports of any suspected fraud, waste, or abuse to the SAO Special Investigative Unit. Any incident considered as remarkable will be immediately reported to the SAO.