

**INTERNAL AUDIT**

**Fiscal Year 2018 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 2018 Annual Audit Plan**

### **Introduction**

This document provides the Fiscal Year 2018 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 materially to the work of the Public Utility Commission of Texas.

### **Internal Audit Objective**

To assist effectively the agency's 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 February 2017 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.*<sup>1</sup>

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<sup>1</sup> 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. Additionally, this year Internal Audit sent out a risk assessment questionnaire to division manager's and team leads. Internal Audit sent out twenty questionnaires and had 80% response rate.

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.

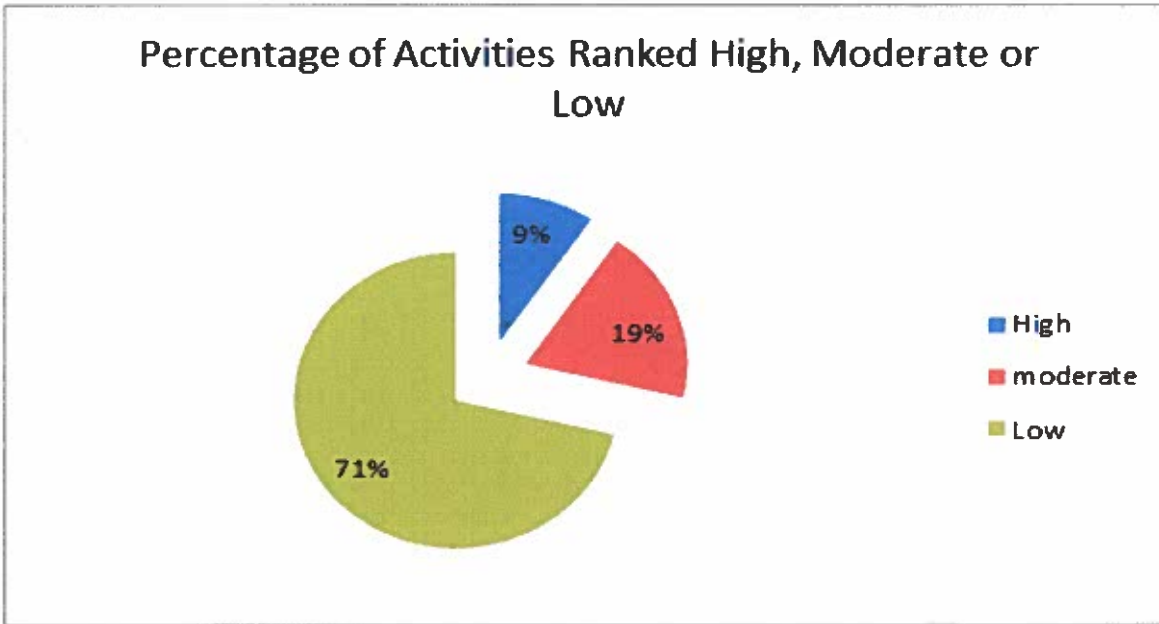
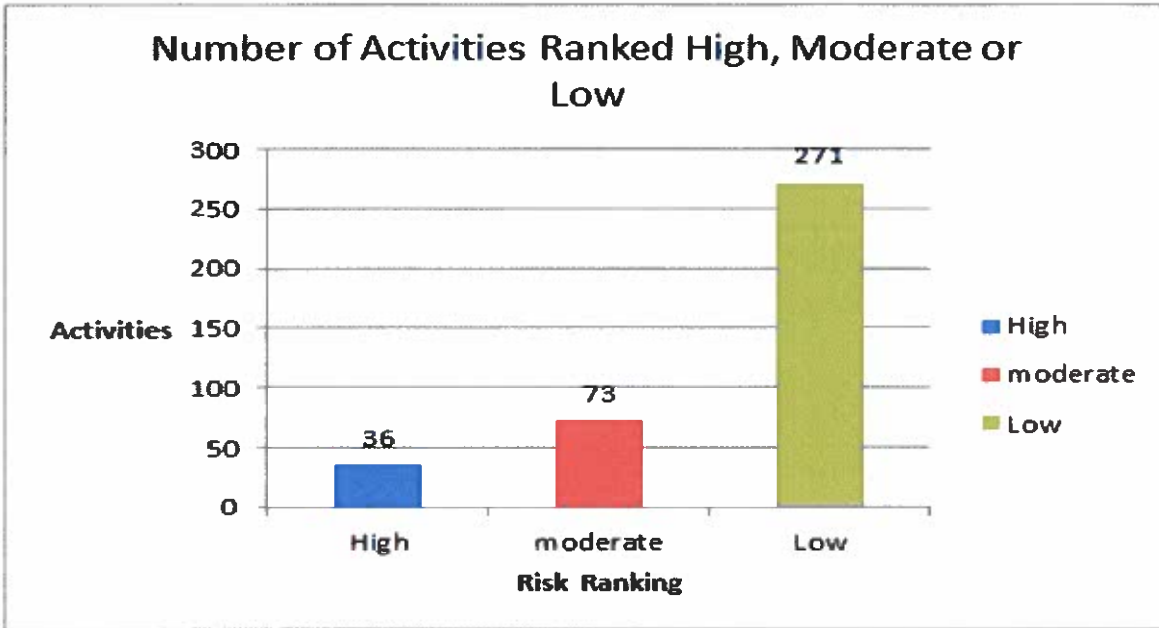
The following functional areas were asked to participate in the risk assessment process:

- Commission Advising and Docket Management
- Information Services
- Agency Counsel
- Media
- External Affairs
- Finance and Administration
- 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, internal audit received a 100% response rate from the 14 functional areas.

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. There were a total of 380 activities identified. Those activities with a high risk ranking were evaluated in order to prepare the annual audit plan. A total of 380 activities were identified and ranked, 36 or 9% were ranked high, 73 or 19% were ranked moderate and 271 or 71% were ranked low. Overall there was a decrease in the number of activities ranked high and low and an increase in the number of activities ranked moderate.

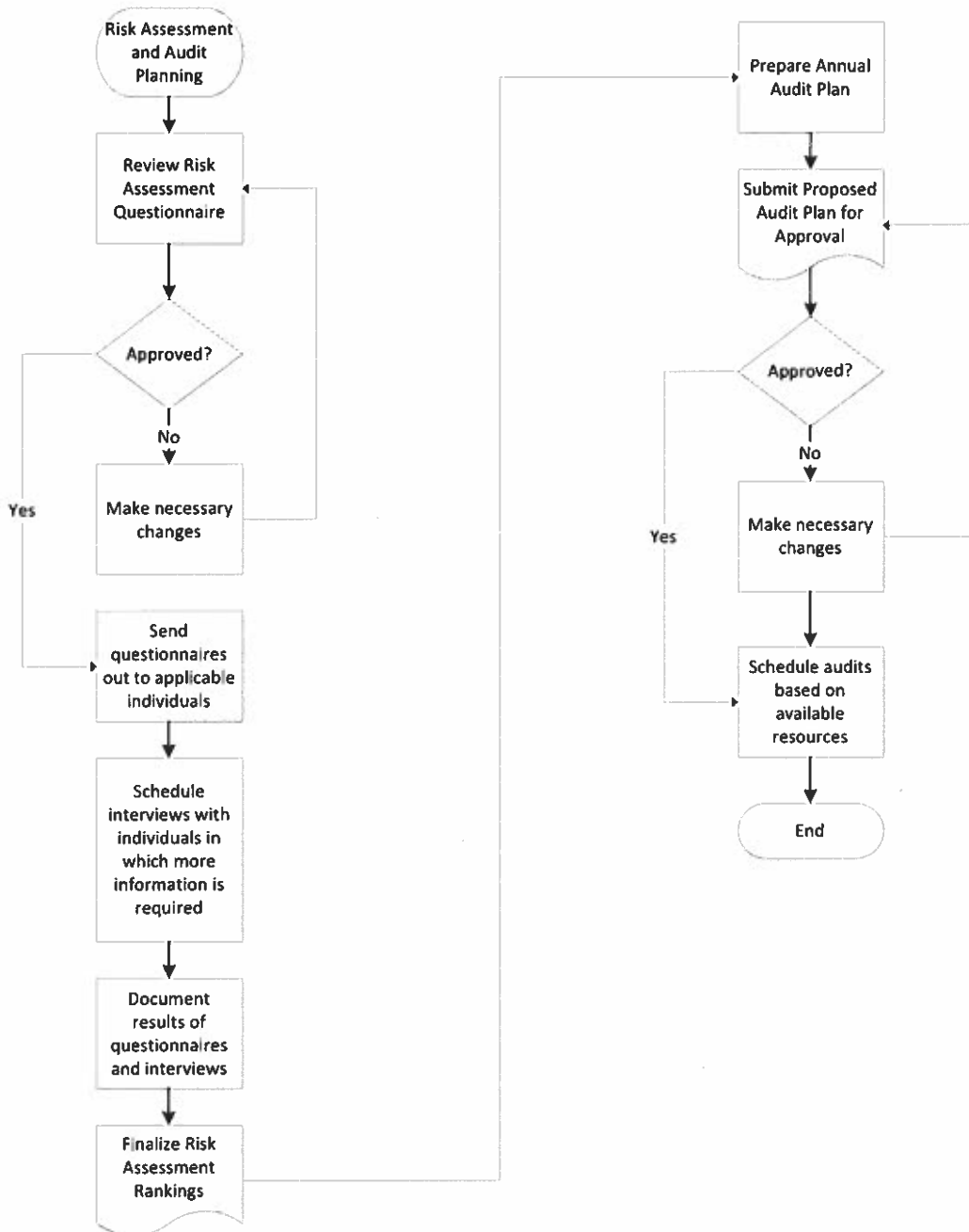


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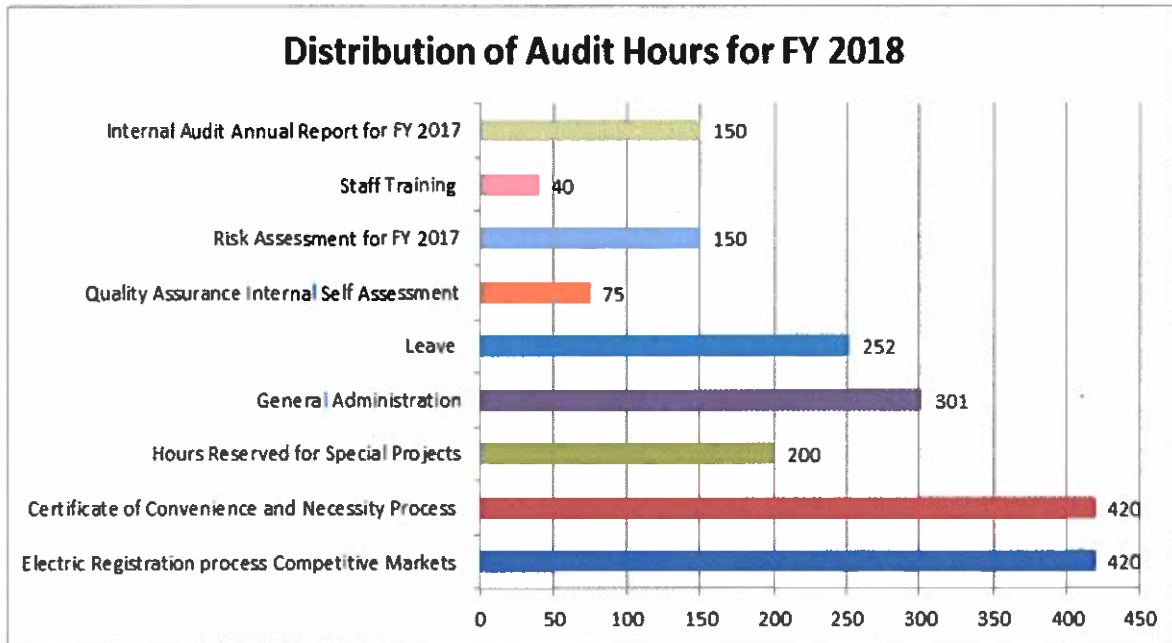
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The following diagram depicts a high level view of the risk assessment and audit planning process.

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.

In recognition that operating environments and risks are subject to change, Internal Audit may adjust its Internal Audit Plan to address significant changes that occur throughout the year. In response to unanticipated changes in the operating environment, some projects included in the plan may not be performed and other may be added. Proposed modifications to the Internal Audit Plan will be communicated to the Commission and Executive Director for approval.

### **Fiscal Year 2018 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 2017.

#### **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 working 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

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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 2018 Internal Audit Plan, please contact Darrell Carter, at (512) 936-7448 or by email at [darrell.carter@puc.texas.gov](mailto:darrell.carter@puc.texas.gov)

Schedule 1 - Fiscal Year 2018 Internal Audit Plan

PROJECT NUMBER	PROJECT DESCRIPTION (Note E) Projects Started and Carried Forward From Fiscal Year 2017	Program (Note A)	BUDGETED FY 2018 HOURS
	<b>Subtotal Carry Forward Projects</b>		<b>0</b>
	<b>Financial / Performance Assurance Activities</b>		
2018-300	Electric Registration process Competitive Markets	CM	420
2018-301	Certificate of Convenience and Necessity Process for generation and/or transmission facilities.	IR	420
	<b>Subtotal Financial / Performance Audits</b>		<b>840</b>
	<b>Special Initiatives</b>		
Various	Hours Reserved for Special Assigned Audits, Investigations or Advisory Projects	N/A	200
	<b>Consulting / Advisory Activities</b>		
	<b>Subtotal Advisory / Liaison Projects</b>		<b>0</b>
	<b>Subtotal - Audits, Investigations and Advisory Projects</b>		<b>1,040</b>

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**Administrative & Required Internal Audit Activities**

2018-400	General Administration (Note B)	N/A	301
2018-000	Leave (Note C)	N/A	252
<b>Pending</b>	Quality Assurance Internal Self-Assessment (Note G)	N/A	75
<b>Pending</b>	Risk Assessment for FY 2019	N/A	150
2018-401	Staff Training (Note F)	N/A	40
2018-402	Internal Audit Annual Report for FY 2017 to the Governor, LBB, Sunset, and SAO	N/A	150
<b>Subtotal - Administrative &amp; Other Internal Audit Projects</b>			<b>968</b>
<b>Total Available Hours (Note D)</b>			<b>2,008</b>

**Notes:**

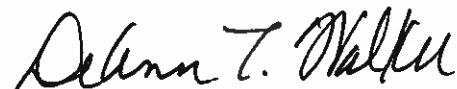
- Acronyms: PUC-Public Utility Commission of Texas; IT-Information Technology; FA-Finance and Administration; AG-Agency Counsel; HR-Human Resources; CR-Central Records; CADM-Commission Advising and Docket Mgmt.; CM-Competitive Markets; CP-Customer Protection; IR-Infrastructure and Reliability; LG-Legal; OE-Oversight and Enforcement; RR-Rate Regulation; WA-Water Utility Reg; EA-External Affairs; MD-Media
- A** Administration / Special Projects of the Internal Audit Function (Ave 15%)
  - B** Based on maximum annual accrual (vacation & sick) for 12 months
  - C** Available Hours: (40 hrs. wk. X 52 wks X 8 hrs./day) - (10 holidays X 8 hrs. / day) = 2,008 total hour
  - D** Detailed objectives will be formalized for each engagement during the planning process.
  - E** Internal Auditors are required by professional standards to obtain forty hours of Continuing Professional Education (CPE) each year.
  - F** Internal Auditors are required by professional standards.

PUBLIC UTILITY COMMISSION OF TEXAS

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October 2017

Plan Approved:



DeAnn T. Walker  
Chairman

10-11-17

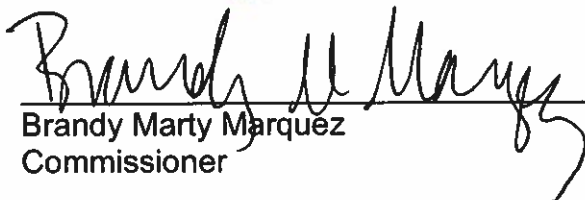
Date



Kenneth W. Anderson, Jr.  
Commissioner

11 OCT 2017

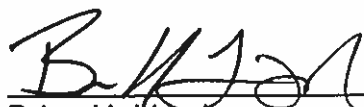
Date



Brandy Marty Marquez  
Commissioner

12 OCT 2017

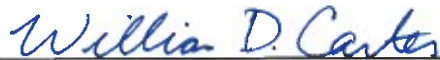
Date



Brian H. Lloyd  
Executive Director, Public Utility Commission

OCTOBER 12, 2017

Date



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

10-17-17

Date