

**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 2018**

**Project No. 2019-402**

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**Section I.**  
**Compliance with Texas Government Code, Section 2102.015**

The Public Utility Commission's (PUC) Internal Audit intends to fully comply with all applicable requirements of Texas Government Code, Section 2102.015 by posting the 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 and Findings, Recommendations, and Implementation Status.

**Section II.**  
**LIST OF FISCAL YEAR 2018 PLANNED AUDITS**

Public Utility Commission of Texas  
Internal Audit Fiscal Year 2018 Annual Report

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<b>Report Number</b>	<b>Report Title</b>	<b>Report Date</b>	<b>Status</b>
2018-300	Electric Registration Process Audit	July 2018	Completed
2018-301	Certification of Convenience and Necessity Audit	April 2018	Completed

**Section III.**

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

Public Utility Commission of Texas  
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Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing or Not Implemented) with brief description if not yet implemented
2018-300	July 2018	Electric Registration Process Audit	To determine if controls over the Retail Electric Provider Certification Process are adequate to ensure compliance with applicable laws, rules, and policies.	The Competitive Markets Division should work with Information Technology to develop a centralized system to schedule and track information received from Retail Electric Providers. This would allow for better access management, system documentation, continuity of operations, reduced data redundancy, and information backup.	Incomplete/Ongoing



Public Utility Commission of Texas  
 Internal Audit Fiscal Year 2018 Annual Report

<b>Report No.</b>	<b>Report Date</b>	<b>Name of Report</b>	<b>High-Level Audit Objective(s)</b>	<b>Observations/Findings and Recommendations</b>	<b>Current Status</b> (Fully Implemented, Substantially Implemented, Incomplete/Ongoing or Not Implemented) with brief description if not yet implemented
2018-301	April 2018	Certification of Convenience and Necessity Audit	To Determine if controls over the Certificate of Convenience and Necessity (CCN) processes for Generation and Transmission are adequate to ensure compliance with applicable laws, rules, policies, and procedures.	Internal Audit did not find any exceptions during testing and determined that all procedural schedules were followed.	Not applicable

**Section IV.**  
**EXTERNAL QUALITY ASSURANCE REVIEW**

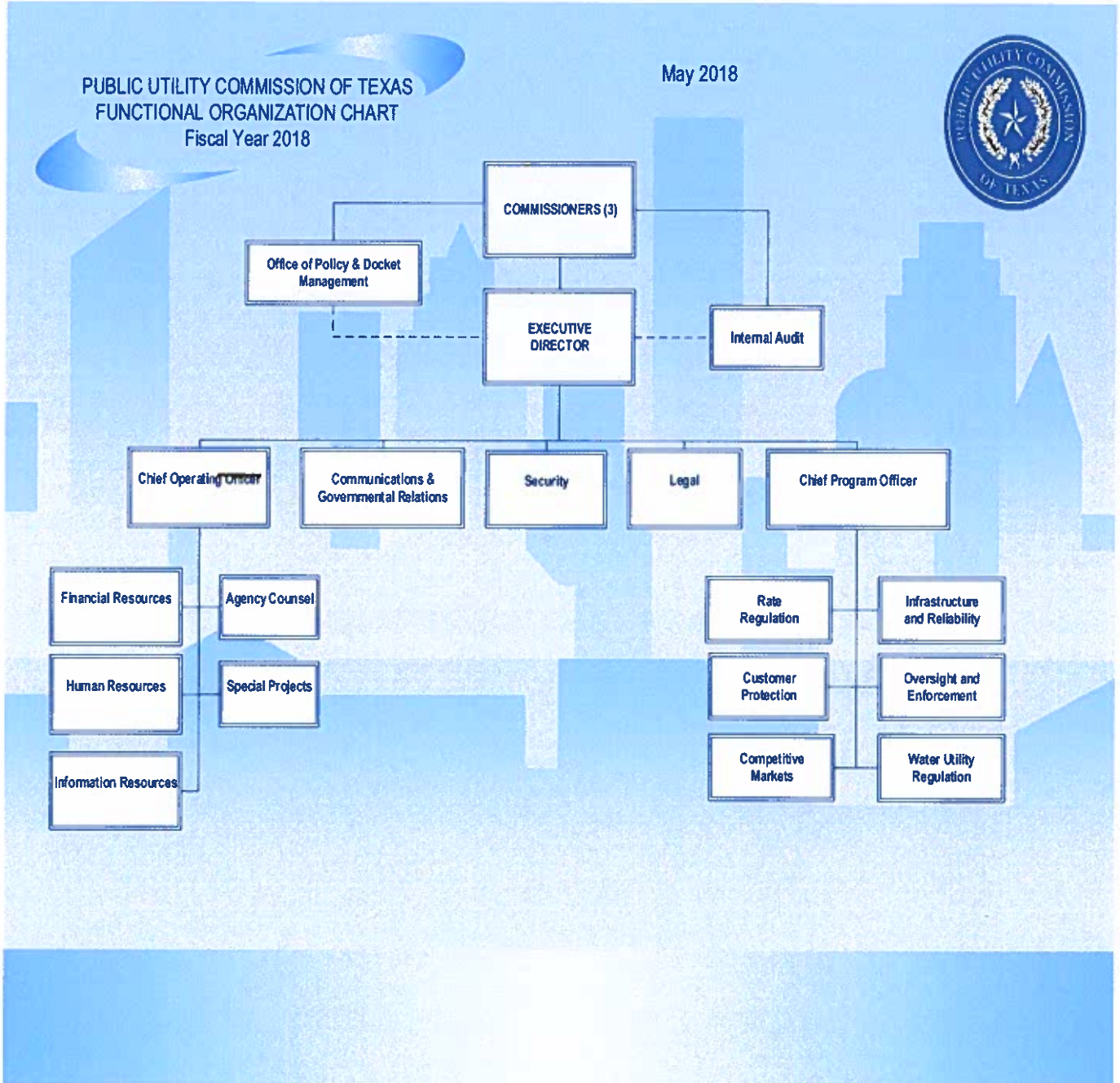
No quality assurance review has been carried out in the past three years.

**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 2018.

**Section VI.**  
**ORGANIZATIONAL CHART**

**PUBLIC UTILITY COMMISSION OF TEXAS  
FUNCTIONAL ORGANIZATION CHART  
Fiscal Year 2018**



**Section VII.**  
**Report on Other Internal Audit Activities**



**Report on Other Internal Audit Activities.**

<b>REPORT ON OTHER INTERNAL AUDIT ACTIVITIES</b>	<b>Description</b>	<b>Impact/Value Added</b>
Continuing Professional Education	Each professional member of the Internal Auditor 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 Institute of Internal Auditors standards on professional proficiency.
Internal Audit Community	<p>Public Utility Commission's Internal Auditor is a member of the State Agency Internal Audit Forum (SAIAF).</p> <p>Public Utility Commission's Internal Auditor is an active member in the Austin Chapter of the Institute of Internal Auditors and routinely attends monthly meetings.</p> <p>Positions held during the past fiscal year included:</p> <p>Board of Governor's member for the Austin Chapter and</p> <p>By-laws Committee Chairman.</p> <p>Public Utility Commission's Internal Auditor also attends quarterly Board of Governor's 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.</p> <p>Participation also confirms that Public Utility Commission's Internal Auditor pursues excellence in the quality of the work, as well as compliance with professional standards.</p>

**Section VIII.**  
**INTERNAL AUDIT PLAN FOR FISCAL YEAR 2019.**

## INTERNAL AUDIT

### Fiscal Year 2019 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 2019 Annual Audit Plan**

### **Introduction**

This document provides the Fiscal Year 2019 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 judgement 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 September 2018 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 2017

### **Risk Assessment**

Internal Audit 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 that is sent to management in order to solicit feedback regarding areas of risk or concern. Internal Audit had a 79% 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.

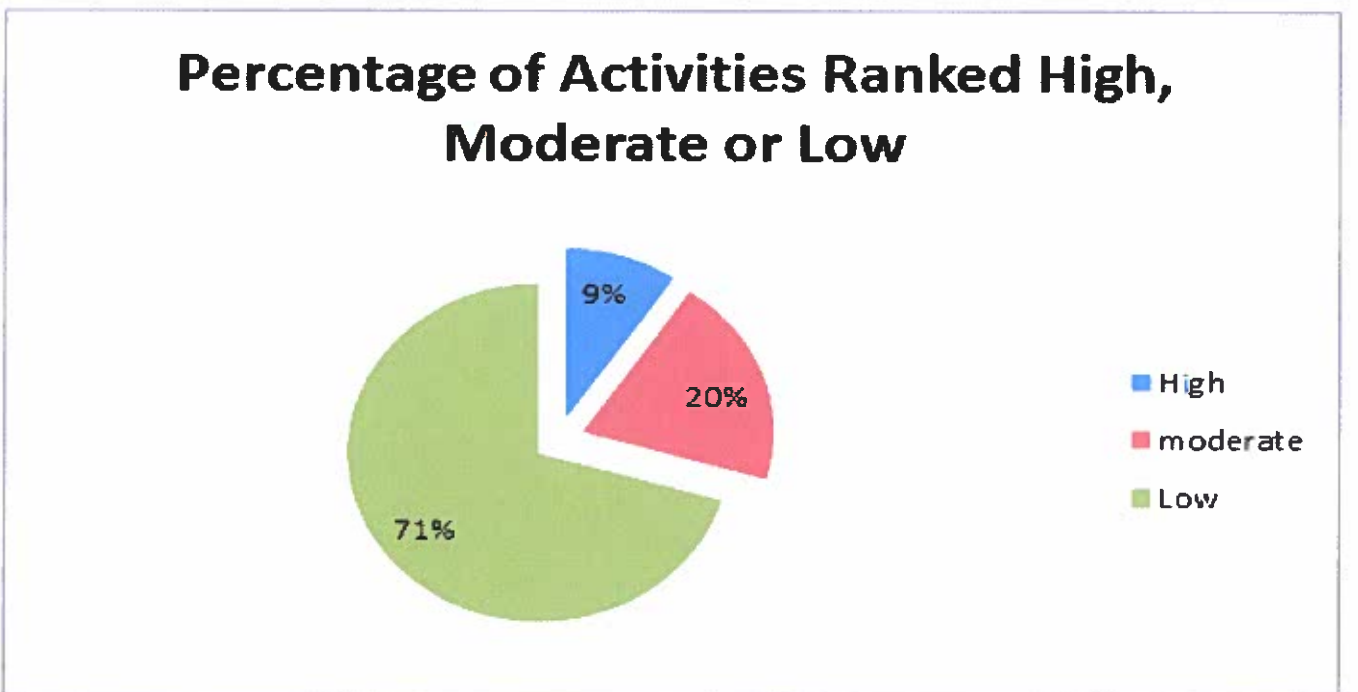
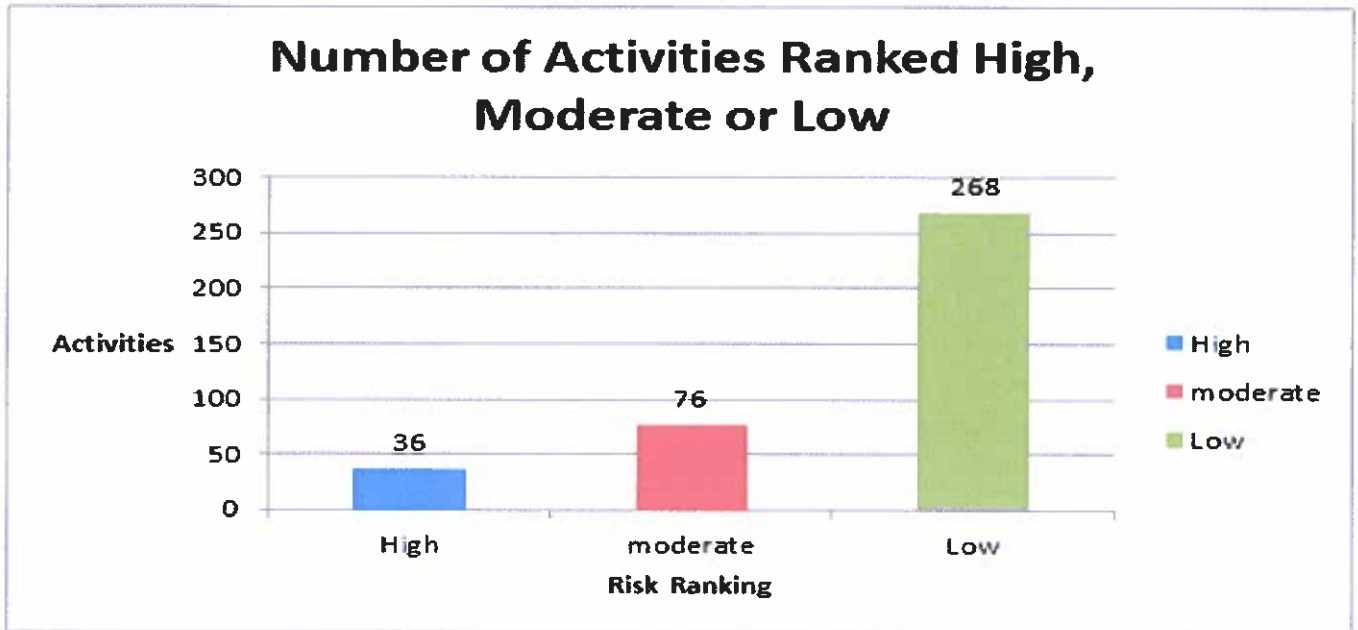
The following functional areas were asked to participate in the risk assessment process:

- Office of Policy and Docket Management
- Information Resources
- Agency Counsel
- Communications
- Government Relations
- Financial Resources
- 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 79% response rate from the 14 functional areas.

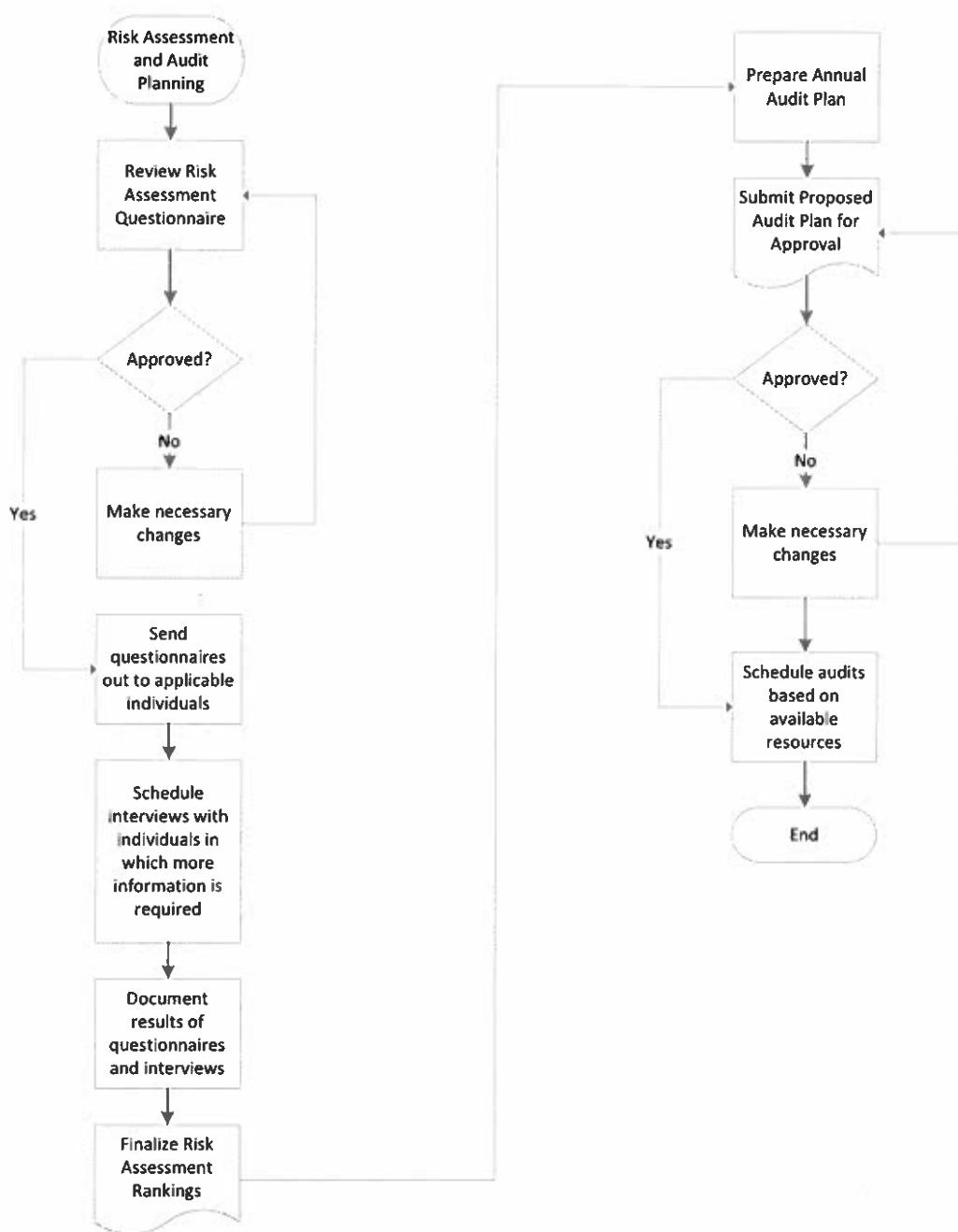
Individual activities were ranked based on probability and impact and assigned a score from one (low risk) to five (high risk) and the sum of all those scores determined the audit's risk ranking.

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, 76 or 20% were ranked moderate, and 268 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.



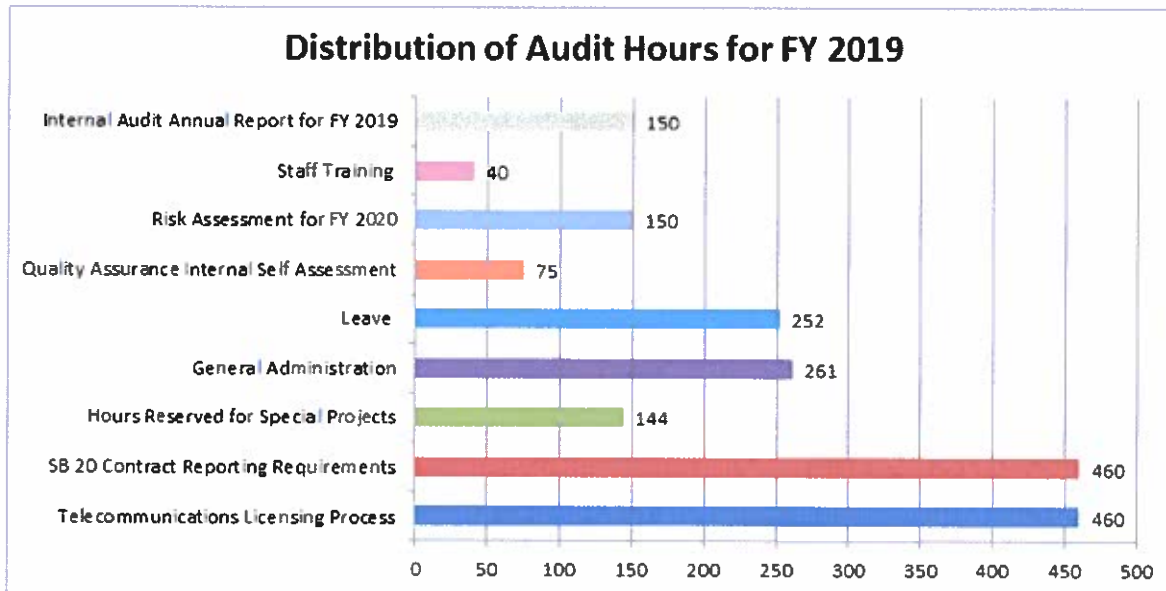
The following diagram depicts a high level view of the risk assessment and audit planning process.

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 2019 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 2018.

#### **Financial and 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 that may occur during the year and special requests to be responsive to the immediate needs of the Commissioners and management.

### **Consulting and 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 the 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.

Public Utility Commission of Texas  
Internal Audit Fiscal Year 2019 Annual Audit Plan

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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 2019 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)

Public Utility Commission of Texas  
 Internal Audit Fiscal Year 2019 Annual Audit Plan

Schedule 1 - Fiscal Year 2019 Internal Audit Plan

PROJECT NUMBER	PROJECT DESCRIPTION (Note E)	Program (Note A)	BUDGETED FY 2019 HOURS
<b>Projects Started and Carried Forward From Fiscal Year 2018</b>			
	<b>Subtotal Carry Forward Projects</b>		<b>0</b>
	<b>Financial / Performance Assurance Activities</b>		
2019-300	Telecommunications Licensing Process	CM	460
2019-301	SB 20 Contract Reporting Requirements	AW	460
	<b>Subtotal Financial / Performance Audits</b>		<b>920</b>
	<b>Special Initiatives</b>		
Various	<b>Hours Reserved for Special Assigned Audits, Investigations or Advisory Projects</b>	N/A	<b>144</b>
	<b>Consulting / Advisory Activities</b>		
	<b>Subtotal Advisory / Liaison Projects</b>		<b>0</b>
	<b>Subtotal - Audits, Investigations and Advisory Projects</b>		<b>1,064</b>

Public Utility Commission of Texas  
Internal Audit Fiscal Year 2019 Annual Audit Plan

**Administrative & Required Internal Audit Activities**

2019-400	General Administration (Note B)	N/A	261
2019-000	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 2020	N/A	150
2019-401	Staff Training (Note F)	N/A	40
2019-402	Internal Audit Annual Report for FY 2019 to the Governor, LBB, Sunset, and SAO	N/A	150
	<b>Subtotal - Administrative &amp; Other Internal Audit Projects</b>		<b>928</b>
	<b>Total Available Hours (Note D)</b>		<b>1,992</b>

**Notes:**

- A** Acronyms: PUC-Public Utility Commission of Texas; IR-Information Resources; AW-Agency Wide; FR-Financial Resources; AG-Agency Counsel; HR-Human Resources; OPDM-Office of Policy 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; GR-Govt Relations; CM-Communications
- B** Administration / Special Projects of the Internal Audit Function (Ave 15%)
- C** Based on maximum annual accrual (vacation & sick) for 12 months
- D** Available Hours: (40 hrs. wk. X 52 wks X 8 hrs./day) - (11 holidays X 8 hrs. / day) = 1,992 total Audit hour
- 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 2019 Annual Audit Plan

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PUBLIC UTILITY COMMISSION OF TEXAS


Internal Audit Fiscal Year 2019 Annual Audit Plan

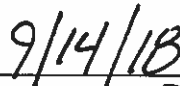
September 2018

Plan Approved:

  
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DeAnn T. Walker  
Chairman

  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Arthur C. D'Andrea  
Commissioner

  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Shelly Botkin  
Commissioner

  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
John Paul Urban  
Executive Director, Public Utility Commission

  
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Date

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

  
\_\_\_\_\_  
Date

**Section IX.**  
**EXTERNAL AUDIT SERVICES**



The following represents PUC external audit services procured or in progress in fiscal year 2018.

<b>Auditee</b>	<b>Auditor</b>
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.

<b>Requirement</b>	<b>Actions Taken</b>
Reporting Requirements: Article IX-38, Section 7.09, Fraud Reporting, General Appropriations Act (85th Legislature)	The agency provides a link to the State Auditor's Office (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.