Texas Water Development Board

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TO: Audit Committee Members

FROM: Amanda Jenami, Director of Internal Audit

DATE: October 12, 2011

SUBJECT: FY 2012 Audit Plan

ACTION REQUESTED

Internal Audit staff request approval of the FY 2012 Audit Plan.

RISK ASSESSMENT

Audits included in this Plan were primarily identified through a risk assessment process, in collaboration with Board members, the Executive Administrator, Deputy Executive Administrators, Division Managers, and staff. The TWDB's auditable activities include both organizational units and Agency-wide processes, each of which was risk ranked using specific elements including relative size of the unit in relation to overall TWDB budget, work complexity, date of last audit, items of internal and external special interest, and other factors deemed relevant by Internal Audit and Executive Management.

AUDIT PLAN HOURS

Available work hours for the 2 FTEs were determined by reducing the standard (2,080) work hours in a year by a provision for leave and holidays (370) and multiplying by two i.e. 2(2,080 – 370) = 3,420. See page 6 of the attached Audit Plan. General administration comprises of time set aside for meetings, Audit Committee preparation, and other duties that do not fall under other categories. Reducing available hours by time set aside for administration and training leaves 2,970 hours for audit activities.

AUDITS

Due to time constraints, only auditable units or processes which were ranked "high" in the risk assessment were selected for audit. One of the projects, the Public Funds Investment Act Audit, is included to assist TWDB in complying with the Public Funds Investment Act. Planned audits for fiscal year 2012 are as follows:

Our Mission

To provide leadership, planning, financial assistance, information, and education for the conservation and responsible development of water for Texas

Board Members

Edward G. Vaughan, Chairman
Joe M. Crutcher, Vice Chairman
Thomas Weir Labatt III, Member
Lewis H. McMahan, Member
Billy R. Bradford Jr., Member
Monte Cluck, Member

Melanie Callahan, Interim Executive Administrator

(i) Review of Communications
(ii) Review of Desired Future Conditions
(iii) Public Funds Investment Act Compliance Audit
(iv) Review of the Loan Application Process
(v) Review of the State Water Planning Process

See pages 4 and 5 of the attached plan.

RESERVE FOR CONTINGENCIES

Audit plans are developed based on priorities and estimations of time. Because it is important to remain flexible to address high priority issues as they arise, 330 hours were reserved for unplanned special projects and investigations, as needed.

AUDIT-RELATED PROJECTS

The remaining hours were assigned to activities that are generally required by statute and are not audit specific. Most internal audit activities are mandated by the Texas Internal Auditing Act (Act). The Act requires internal auditors to follow generally accepted government auditing standards and *the Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

While the list of approved projects resulted from the consideration of a wide scope of auditable activities, it does not address or provide coverage for all TWDB components or systems. The goal is to maximize limited resources and to provide reasonable coverage to the projects that appear to require attention.

Ultimately, not every risk can be addressed. It is important that the Board and Executive Administrator understand the limitations of the audit coverage and the attendant risk for areas not audited. This listing of approved projects is intended to allocate Internal Audit resources to the most important priorities and risks of TWDB, and allows flexibility to address other risk areas that may become known during the fiscal year.

Attachment

c w/att: Edward G. Vaughan
Weir Labatt
Monte Cluck
Melanie Callahan

AUDIT PLAN FOR FY 2012

TEXAS WATER DEVELOPMENT BOARD

Submitted by

INTERNAL AUDIT

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Gilbert W. Mokry, Jr., CPA, CIA, CFE

TABLE OF CONTENTS

Introduction 1

The Risk Assessment Process & Planned Audits 1

Planned Audits……..……1-2

Follow-up on Implementation of Prior Audits.....3

Consulting Services and Contingencies.....3

Annual Internal Audit Report 3

Coordination with External Audit Groups.....3

Periodic Reporting to the Audit Committee and Executive Management.....3

Involvement with Professional Organizations…….3

Audit Plan Fiscal Year 2012.....4

Risk Assessment Points and Ranking.....5

Auditable Units and Processes FY 2012.....6

The Texas Water Development Board
FY 2012 Audit Plan

Introduction

The purpose of the Audit Plan is to outline audits and other activities Internal Audit will conduct during fiscal year 2012. The Plan is developed to satisfy responsibilities established by the TWDB's Internal Audit Charter, Texas Internal Auditing Act (Chapter 2102, Title 10, Government Code), Government Auditing Standards, and the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA). Any revisions to the Audit Plan require the approval of the Audit Committee.

Internal Audit is an independent, objective assurance and consulting function designed to add value to the operations of the TWDB. It assists the TWDB in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes through providing objective reports, recommendations, counsel, and information on the adequacy and effectiveness of the TWDB's system of internal controls and the quality of performance.

THE RISK ASSESSMENT PROCESS & PLANNED AUDITS

The Risk Assessment Process

Audits included in this Plan were primarily identified through a risk assessment process, in collaboration with Board members, the Executive Administrator, Deputy Executive Administrators, Division Managers, and staff. The IIA defines risk as "the possibility of an event occurring that will have an impact on the achievement of objectives." The audit planning process considered both the impact and likelihood of such events occurring. The TWDB's auditable activities include both organizational units and Agency-wide processes, each of which was risk-ranked using specific elements including relative size of the unit in relation to overall TWDB budget, work complexity, date of last audit, items of internal and external special interest, and other factors deemed relevant by Internal Audit and Executive Management.

Planned Audits

Units and processes which were risk-ranked "high" were selected as audit projects. However, one of the projects, the Public Funds Investment Act Compliance Audit, is included to assist TWDB in complying with the Public Funds Investment Act. Planned audits for fiscal year 2012 are as follows:

(i) Review of Communications

Determine the extent to which management communication processes ensure that strategic and operational results and outcomes are achieved in an efficient and effective manner, that dissemination of information is timely and accurate, and that records management is performed in compliance with relevant laws, policies and procedures. The Communications, Strategic Planning and Records Management division is comprised of Communications, Web Administration, Publications & Graphic Support and Records Management Services.

(ii) Review of Desired Future Conditions

Review the processes and controls over TWDB's involvement with the desired future condition process including technical assistance, processing desired future conditions, delivering managed/modeled available groundwater numbers, and processing petitions. Determine the extent to which the processes ensure the state's goals on the desired future conditions process are met effectively and efficiently and in compliance with relevant laws.

(iii) Public Funds Investment Act Compliance Audit

In accordance with guidelines set by the State Auditor's Office (SAO), determine the extent to which TWDB's investment activities for Fiscal Year 2011 comply with the Public Funds Investment Act, Chapter 2256, Government Code bond covenants and TWDB's investment strategy. The Board maintains an investment portfolio of approximately $1,300,000,000.

(iv) Review of the Loan Application Process

Determine the extent to which TWDB's loan application process ensures that strategic and operational results and outcomes are achieved in an efficient and effective manner, and in compliance with relevant laws, policies and procedures. In addition, determine the extent to which the process ensures the reliability and integrity of information and that the Board's assets are safeguarded. TWDB has loans receivable of approximately $4 billion.

(v) Review of the State Water Planning Process

Determine the extent to which TWDB's water resources planning processes follow a systematic, comprehensive state-wide approach designed to ensure data integrity, security, timeliness and compliance with state law. State water planning includes Regional Water Planning, and Water Planning Research and Analysis.

The result of the risk assessment is an informed perspective on the current risk environment, including a prioritization of risks that are scalable to available resources. Chapter 2102.005 of the Government Code requires an agency's governing board to "periodically review the resources dedicated to the internal audit program and determine if adequate resources exist to ensure that risk identified in the annual risk assessment are adequately covered within a reasonable time frame."

OTHER PLANNED INTERNAL AUDIT ACTIVITIES

Follow-up on Management Implementation of Prior Audits

IIA professional standards require Internal Audit to follow-up on audit recommendations to ensure implementation. Internal Audit reports on the status of implementation of management action plans from both internal and external audit reports on a quarterly basis. In addition, Internal Audit provides an update on the status of audit recommendations in its Annual Report that is distributed to the State Auditor's Office (SAO); Governor's Office of Budget, Planning, and Policy; Legislative Budget Board, and Sunset Advisory Commission.

Consulting Services and Contingencies

The internal auditing profession considers consulting and advisory services to management an integral part of its mission. Internal Audit provides advice and suggestions on management issues, concerns, and draft policies and procedures. In addition, to ensure Internal Audit has the flexibility to meet changing needs of the TWDB and address high priority issues as they arise, time is allocated for unplanned special projects, investigations, and other projects as needed.

Annual Internal Audit Report

The Texas Internal Auditing Act requires state agencies to file an annual internal audit report by November 1. The report summarizes Internal Audit activities of the previous year.

Coordination with External Audit Groups

Internal Audit coordinates the audit activities of external groups, including the SAO.

Periodic Reporting to the Audit Committee and Executive Management

The Director of Internal Audit reports on status of audit activities to the Audit Committee and executive management on a regular basis. In addition, Internal Audit provides consultative information to the TWDB Executive Administrator, management, and staff.

Involvement with Professional Organizations

In an effort to keep abreast of changes in the internal audit profession and best practices in auditing, fraud, state government and information security management issues, Internal Audit actively participates in professional auditing organizations including:

- Institute of Internal Auditors (IIA),
- Texas State Agency Internal Audit Forum (SAIAF),
- Association of Certified Fraud Examiners (ACFE),
- Information Systems Audit and Control Association (ISACA), and
- Association of Government Accountants (AGA).

INTERNAL AUDIT
AUDIT PLAN WORK HOURS AND PERCENTAGES
FISCAL YEAR 2012

Total Weekday Hours	4160
Leave and Holidays	740
Total Available Work Hours	3420

		Percentage of Total Hours		Approximate Hours	
Training		4		120	
General Administration		10		330	
			14		450
Audits					
	Review of Communications			400	
	Review of Desired Future Conditions			400	
	Review of the Loan Application Process			500	
	Public Funds Investment Act			120	
	Review of the State Water Planning Process			450	
			55		1870
Reserve for Contingencies			10		330
Audit Related Projects					
	Annual Internal Audit Report	1		50	
	Consulting Services	9		300	
	External Auditor Coordination	3		100	
	Follow-up to Previous Audits	4		140	
	Monthly Budget/Financial Analysis	1		40	
	Risk Assessment/Annual Internal Audit Plan	4		140	
			21		770
			100		3420

RISK ASSESSMENT POINTS AND RANKING - FY 2012

UNIT	POINTS			PROCESS	POINTS
Communications/Records Mgmt	72	high	70-100	State Water Plan	100
Debt/Portfolio Mgmt	72			Desired Future Conditions	100
				Loan Application	95
Program Development	64	med	56-69		
Flood Mitigation	64				
Project Development	60				
Information Technology	60				
Groundwater Resources	60				
Budget Division	56				
Project Engineering/Review	56				
Water Resources Planning	52	low	0-55	Budget/Financial Analysis	55
Surface Water Resources	52			Water Conservation Plans	55
Governmental Relations	52			Web Administration/Mgmt	55
Project Oversight	52			Open Records Requests	55
Conservation	48			Financial Asst./Final Acct.	55
Accounting/Financial Systems	48			Financial Assistance Closing	55
TNRIS	48			Federal Funds Justification	55
Legal Services	48			Cash Inflows	55
Innovative Water Technologies	48			Mailout	55
ARRA	44			Media Communication	55
Inspection/Field Support	44			Purchasing/Accounts Payable	50
Financial Monitoring	40			TxWISE	45
Support Services/Contracting Adm	40			Contract Management	40
Human Resources	32			Employee Orientation/Separation	35
				Performance Measures	35
				Fixed Assets	30

AUDIT UNIVERSE: UNITS AND PROCESSES - FY 2012

AREAS	UNITS
CA	**Construction Assistance**
	Inspection/Field Support Services
	Project Engineering/Review
EA	**Executive Administration**
	American Recovery/Reinvestment Act (ARRA)
	Governmental Relations
	Legal Services
FIN	**Finance**
	Accounting/Financial Systems
	Budget
	Debt/Portfolio Management
	Financial Monitoring
	Project Development
OA	**Operations/Administration**
	Communications/Strategic Planning/Records Management
	Human Resources
	Information Technology
	Support Services/Contract Administration
PO	**Project Oversight**
PPD	**Program & Policy Development**
WRPI	**Water Resources Planning /Information**
	Flood Mitigation Planning
	Texas Natural Resources Information System (TNRIS)
	Water Resources Planning
WSC	**Water Science/Conservation**
	Conservation
	Groundwater Resources
	Innovative Water Technologies
	Surface Water Resources

KEY AGENCY-WIDE PROCESSES

Budget/Financial Analysis
Cash Inflows
Contract Management
Desired Future Conditions
Employee Orientation/Separation
Federal Funds Justification
Financial Assistance Final Accounting
Financial Assistance Closing
Fixed Assets
Loan Application
Mailout
Media Communication
Open Records Request
Performance Measures
Purchasing/Accounts Payable
State Water Plan
TxWISE
Water Conservation Plans
Web Administration/Management