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AGENDA ITEM MEMO

BOARD MEETING DATE: October 1, 2026

TO: Board Members

THROUGH: Bryan McMath, Executive Administrator
Ashely Harden, General Counsel

FROM: Nicole Campbell, Internal Audit Director

SUBJECT: Fiscal Year 2027 Internal Audit Plan

ACTION REQUESTED

Consider approving Internal Audit's Fiscal Year 2027 Audit Plan.

BACKGROUND

Texas Internal Auditing Act (Texas Government Code, Chapter 2102) and the International Professional Practices Framework, which includes the Global Internal Audit Standards, Topical Requirements, and Global Guidance, require the development of an annual internal audit plan based on a systematic assessment of risk for the agency. The Texas Internal Auditing Act also requires that the annual internal audit plan be presented to the Board for review and approval. In accordance with these requirements, the attached document provides the internal audit plan for the Texas Water Development Board and establishes the framework for the audit activities to be performed during Fiscal Year (FY) 2027.

KEY ISSUES

A risk-based methodology was used to prioritize audit coverage for FY 2027. Agency operations were analyzed based on multiple risk factors. Input from Board members, Executive Administration, Deputy Executive Administrators, Assistant Deputy Executive Administrators, and other key staff regarding high-risk areas, was also incorporated into the analysis.

The FY 2027 Internal Audit Plan allocates hours to risk-based and statutorily required audits, follow-up on prior audits, consultations, and non-audit services. Risk-based audits that were in progress at fiscal year-end were carried forward to the FY 2027 plan for completion. Administrative responsibilities and requirements, and other audit activities anticipated for FY 2027, were also included in the internal audit plan.

Our Mission
Leading the state's efforts in ensuring a secure water future for Texas

Board Members
L'Oreal Stepney, P.E., Chairwoman | W. Brady Franks, Board Member | Ashley Morgan, Board Member
Bryan McMath, Executive Administrator

RECOMMENDATION

The Board's Internal Audit Director recommends approval of the proposed FY 2027 Internal Audit Plan.

Attachment:

1. Attachment 1 – Fiscal Year 2027 Internal Audit Plan

TEXAS WATER DEVELOPMENT BOARD

FISCAL YEAR 2027
INTERNAL AUDIT PLAN

Internal Audit Division
Project #2027.02
September 2026

Introduction

Professional and Statutory Requirements

Texas Internal Auditing Act[1] and the International Professional Practices Framework, which includes the Global Internal Audit Standards, Topical Requirements, and Global Guidance, require the development of an annual internal audit plan based on a systematic assessment of risk for the agency. The Texas Internal Auditing Act stipulates that the annual internal audit plan must be submitted to the Board for review and approval. This document outlines the internal audit plan for the Texas Water Development Board (TWDB) and sets the framework for the internal audit activities to be performed during Fiscal Year (FY) 2027.

Role of Internal Audit

TWDB's Internal Audit Division is organizationally independent of management, and provides objective assurance and consulting services designed to add value and improve the agency's operations. The Division assists the agency in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of the organization's governance, risk management, and internal controls.

Risk Assessment

A risk-based methodology was used to prioritize coverage for FY 2027. Agency operations were analyzed based on multiple risk factors, including:

- Financial Activity
- Grant and Contract Management
- Legislative Interest
- Changes in Staffing and Organizational Structure
- Information Systems and Technology
- Operational Complexity
- Strength of Internal Controls
- Performance Measures
- Prior Audit Coverage
- Potential for Fraud

Input from Board members, Executive Administration, Deputy Executive Administrators, Assistant Deputy Executive Administrators, and other key staff regarding high-risk areas, was also incorporated into the analysis. This information was then used to determine the likelihood and impact of select risk factors, and an overall risk score was calculated for each auditable activity.

[1] Texas Government Code, Chapter 2102

Fiscal Year 2027 Internal Audit Plan

The Fiscal Year (FY) 2027 Internal Audit Plan was designed to ensure timely reviews of the highest overall risk ranked areas and includes coverage of organizational units, as well as agency-wide processes. Development of the plan was consistent with the agency's strategic objectives and goals, and internal audit resources were allocated commensurately.

The internal audit plan allocates hours to risk-based and statutorily required audits, follow-up on prior audits, consultations, and non-audit services. Risk-based audits that were in progress at fiscal year-end were carried forward to the FY 2027 internal audit plan for completion. Administrative responsibilities and requirements, and other audit activities anticipated for FY 2027, were also included in the internal audit plan.

Risk-based & Required Audits
Annual Review of Quarterly Investment Reports
Review of Outlays & Escrow Processes
Review of Contract Management, Monitoring, and Oversight
Review of Information Technology (IT) Project Management and Project Delivery Processes
In Progress & Carry-forward Audits
Review of Select Budget Processes
Review of IT Purchases and Contracts
Review of Select Agency Quality Assurance and Quality Control Processes (Consultation)
Follow-up on Prior Audits
Assess the implementation status of corrective actions taken in response to prior internal and external audit findings and recommendations.
Consultations & Non-Audit Services
Ad hoc special project or unanticipated evaluations requested by the Board and management.
Investigative Reviews
Administer the agency's fraud hotline and review allegations of fraud, waste, and abuse received through the hotline and referred by the State Auditor's Office.
Administrative Audit Activities
External Audit Coordination
TeamMate+ Maintenance
Self-Assessment, Reciprocal Peer Review
Annual Risk Assessment & Internal Audit Plan
Internal Audit Annual Report

In the event that hours allocated towards the above projects are not fully expended, or agency priorities change, alternative contingency projects will be performed.

The specific scope and objectives of each project will be established through the internal audit planning process, which consists of a comprehensive risk assessment of the relevant area and activity. In addition, tests of selected general and application controls based on business risk, in accordance with state and agency information security standards, will be considered for each audit.

Although the internal audit plan consists of a wide range of projects and activities, it does not provide coverage for all Divisions, programs, and/or processes. This audit plan attempts to maximize internal audit resources by providing reasonable coverage of agency operations that warrant the Division's attention in the current environment, while allowing flexibility to address other risk areas that may occur throughout the year.

Significant Interim Changes

The internal audit plan will be reviewed and adjusted, as necessary, in response to changes in audit resources, or agency risks, operations, programs, systems, and controls. Additional projects may be conducted, and subsequently, some of the projects included in the plan may not be performed. The impact of any resource limitations and any significant interim changes to the approved plan will be discussed with the Board and Executive Administration. Additionally, any significant changes to the plan will be presented to the Board for approval.