

**AUDIT PLAN FOR FY 2010
TEXAS WATER DEVELOPMENT BOARD**

Submitted by

Office of Internal Audit

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The Texas Water Development Board FY 2010 Audit Plan

Introduction

This document outlines the Internal Audit risk assessment methodology and presents the approved project areas for FY 2010.

The Texas Legislature has recognized that agencies conduct programs and functions that merit review to ascertain whether systems operate in an effective and efficient manner. Knowing we do not have the resources to audit all significant areas each year, Internal Audit carefully and systematically selects areas for review where failure of a particular system to adequately perform could significantly impede TWDB's ability to advance its vision and mission.

TWDB's Vision

Water for Texas – Sustainable, affordable, quality water for Texans, our economy, and our environment.

TWDB's Mission

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

The audit plan is required by the Texas Internal Auditing Act (Chapter 2102, Title 10, Govt. Code, Vernon's Texas Codes Annotated), *Government Auditing Standards*, and *the Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors (IIA).

Objective and Mission

The primary objective of Internal Audit is to assist members of management and the Board in the effective discharge of their responsibilities. To this end, Internal Audit will furnish them with analyses, recommendations, counsel, and information concerning the activities reviewed.

Office of Internal Audit's Mission

Assist all members of management and the Audit Committee with objective reports, recommendations, counsel, and information on the adequacy and effectiveness of the organization's system of internal controls and the quality of performance in carrying out assigned responsibilities.

Audit Charter and Definition

The Internal Audit Charter, last approved by the Audit Committee in January 2008, clearly delineates the scope of activities. It also defines the purpose, function, role, mission, objectives, scope, conduct, professional standards, and statutory requirements.

As defined in the charter, internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the agency's system of internal control and the quality of performance in carrying out the goals and objectives of the agency. The profession of internal auditing has adopted this definition:

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.

Risk Assessment

The IIA defines risk as "the possibility of an event occurring that will have an impact on the achievement of objectives." Risk is measured in terms of impact and likelihood.

In conducting the risk assessment, Internal Audit received input from Board members, the Executive Administrator, Deputy Executive Administrators, Division Managers, and staff.

The TWDB universe consists of auditable activities including **Organizational Divisions** and **Agency Wide Processes**.

Each activity was risk ranked using specific elements. These elements are found on pages 9-12.

Selecting Audits

Divisions and processes which were ranked as high were selected as audit projects. One additional area was selected because it is mandatory.

Hours are also allocated to activities for management requests, routine planning, administration, and a reserve for contingencies. Audit related projects may include consulting services, follow-up to previous audits, external auditor coordination (with additional hours for American Recovery and Reinvestment Act (ARRA) activities), audit planning and reporting, and continuous analysis of the of the agency's budget and financial strength.

Consulting Services

The internal auditing profession considers consultative services to management an integral part of its mission. Internal Audit provides advice and suggestions on management issues, concerns, and draft policies and procedures.

External Auditor Coordination

Internal Audit coordinates activities for work required by the SAO and with any other external audit group reviewing TWDB business and/or financial operations. Because several external audits are expected for ARRA, additional hours were allocated specifically for this area.

Follow-up to Previous Audits

Follow-up is an important part of the audit effort and is required by professional standards. The status of internal and external recommended action plans is reported quarterly. The follow-up reporting continues until recommended action plans are implemented or a specific reported risk is otherwise resolved. The status of all recommendations for each fiscal year is also reported in the required Internal Audit 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.

Plan Revisions

Any revisions to the Audit Plan require the approval of the Audit Committee.

Acceptable Level of Risk

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 areas that appear to require the most 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 highest priorities and risks of TWDB, and allows flexibility to address other risk areas that may become known during the fiscal year.

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."

Internal Audit Department

The Director of Internal Audit at the TWDB presents audit activities at least quarterly to Audit Committee members and discusses the status of audits in progress and other activities with the Audit Committee chairman, or other committee members, on a regular basis. The auditors routinely discuss audit issues or provide consultative information to the TWDB Executive Administrator, management, and staff.

Audit Organization and Staffing

The Office of Internal Audit is authorized with four full-time equivalents: the Director of Internal Audit, who serves as the Chief Audit Executive, and three staff auditors. The Director and auditors report to the Board members through the standing Audit Committee. At the time of the development of this Plan, one position is unfilled.

The Director has almost 30 years of internal audit experience, eleven years with TWDB, a BBA with a major in accounting, and an MBA. Professional certifications are:

- Certified Public Accountant (CPA),
- Certified Internal Auditor (CIA), and
- Certified Fraud Examiner (CFE).

The audit staff has a combined 38 years of audit experience in state government as well as an additional 30 years of accounting and information technology experience. They have three degrees including BAs in mathematics and accounting/finance, and an MBA. Professional certifications include:

- Two Certified Public Accountants (CPA),
- Two Certified Fraud Examiners (CFE),
- Certified Information Systems Auditor (CISA), and
- Certified Government Financial Manager (CGFM).

Professional Organizations

The Director and audit staff actively participate in professional auditing organizations including:

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

These groups are excellent sources for obtaining up-to-date information and best practices on auditing, accounting, business management, fraud, state government, information systems, and other professional issues.

Quality Assurance

Internal quality assurance is an important component in providing high quality auditing services. The Director and auditors review all final products. Information gathered during the audit is often reviewed by deputies, managers, legal counsel, and executive staff. A performance questionnaire is sent to auditees upon completion of audits and reviews.

Additionally, audit standards require internal audit departments to undergo a periodic external quality assurance (peer) review. A review was last performed in January 2008. It was the opinion of the reviewer that the internal audit activity at the Texas Water Development Board generally conforms to professional standards and the Texas Internal Auditing Act. This opinion, representing the **best possible evaluation**, means that an internal audit charter, policies, procedures, and/or practices are in place at the TWDB that fosters compliance with professional standards and the Texas Internal Auditing Act.

**INTERNAL AUDIT
AUDIT PLAN WORK HOURS AND PERCENTAGES
FISCAL YEAR 2010**

Total Weekday Hours		8320
Leave and Holidays		<u>1760</u>
Total Available Work Hours		6560

	Percentage of Total Hours	Approximate Hours	
Training	5	330	
General Administration	<u>10</u>	<u>660</u>	
	15		990
Audits			
Budget/Financial Analysis		500	
Cash Inflows		500	
Contract Management		550	
Federal Funds Justification		500	
Financial Monitoring		500	
Public Funds Investment Act Funds		120	
Surface Water Resources		500	
Texas Natural Resources Information System		<u>500</u>	
	56		3670
Reserve for Contingencies	10		660
Audit Related Projects			
Annual Internal Audit Report	2	100	
ARRA Review/Audit Coordination	3	200	
Consulting Services	6	400	
External Auditor Coordination	3	200	
Follow-up to Previous Audits	3	200	
Monthly Budget/Financial Analysis	1	40	
Risk Assessment/Annual Internal Audit Plan	<u>2</u>	<u>100</u>	
	<u>19</u>		<u>1240</u>
	<u>100</u>		<u>6560</u>

RISK ASSESSMENT - FY 2010

UNIT	POINTS			PROCESS	POINTS
TNRIS	84	high	70-100	Contract Management	85
ARRA	84			Federal Funds Justification	80
Surface Water Resources	76			Budget/Financial Analysis	80
Financial Monitoring	72			Cash Inflows	80
Debt/Portfolio Management	68	medium	55-69	TxWISE	60
Project Engineering/Review	64			Employee Orientation/Separation	55
Project Integration/Fed Coord.	64			Financial Assistance Final	55
Flood Mitigation	64			Accounting	
Water Resources Planning	60			Financial Assistance Closing	55
Accounting/Financial Systems	56			Mailout	55
Budget Division	56			Media Communication	55
Project Development	56			Open Records Request	55
Program Development	56			Required Water Conservation/	55
Conservation	56			Drought Contingency Plans	
				Web Administration/Management	55
Governmental Relations	52	low	0-54	Loan Application	50
Information Technology	52			Purchasing/Accounts Payable	45
Support Services/Contract Adm	52			Fixed Assets	40
Groundwater Resources	52			Performance Measures	30
Legal Services	48				
Inspection/Field Support	40				
Human Resources	40				
Communication/	36				
Records Management					

AUDITABLE UNITS AND PROCESSES FY 2010

AREAS	<u>UNITS</u>
CA	(Construction Assistance) – Steve Rodriguez Inspection/Field Support Project Engineering/Review
EA	(Executive Administration) - Kevin Ward American Recovery/Reinvestment Act Governmental Relations Legal Services Policy Integration/Federal Coordination
FIN	(Finance) - Melanie Callahan Accounting/Financial Systems Budget Debt/Portfolio Management Financial Monitoring
OA	(Operations/Administration) - Lisa Glenn Communications/Strategic Planning/Records Management Human Resources Information Technology Support Services/Contract Administration
PF	(Project Finance) – Amanda Lavin Program Development Project Development
WRPI	(Water Resources Planning /Information) - Carolyn Brittin Flood Mitigation Planning Texas Natural Resources Information System (TNRIS) Water Resources Planning
WSC	(Water Science/Conservation) – Robert Mace Conservation Groundwater Resources Surface Water Resources

KEY PROCESSES (agency-wide)

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

**RISK ASSESSMENT
FACTOR EVALUATION AND RANKING QUESTIONNAIRE**

AUDITABLE UNIT _____

Assign 0-5 points.

1. Resources Allocation

Evaluation of the amount of resources as a percentage of the Board budget.

Evaluation_____	Points
0-2 % of budget	1
3-5 % of budget	2
6-9 % of budget	3
10-20 % of budget	4
Greater than 20 % of budget	5

2. Date of Last Audit

Date last audited internally or externally.

Evaluation_____	Points
One – two years (no recommendations, all risks reviewed)	0
One – two years (recommendations implemented and all risks reviewed)	1
One – two years (recommendations not implemented, but all risks reviewed)	2
One – two years (recommendations implemented, but all risks not reviewed)	3
Three – four years	4
More than four years	5

3. Work Complexity

Evaluation of the work needed to complete assignments or transactions, including amount of time, number of steps, and state and federal requirements.

Evaluation_____Points

4. Internal/External Special Interest

Evaluation of the operations of the unit that create a special interest by staff or external parties because of factors such as political exposure, legislative inquiry, SAO interest, EPA interest, recent issues, etc.

Evaluation_____Points

Little or no special internal or external interest 0

Some internal or external interest 1

Medium internal or external interest 2

Medium internal and external interest 3

High internal or external interest 4

High internal and external interest 5

5. Other Factors Noted by the Executive Administrator and Internal Audit Staff

Evaluation of factors not detailed above.

Evaluation_____Points

**RISK ASSESSMENT
FACTOR EVALUATION AND RANKING QUESTIONNAIRE**

AUDITABLE PROCESS _____

Assign 0-5 points.

1. Date of Last Audit

Date last audited internally or externally.

Evaluation _____	Points
One – two years (no recommendations, all risks reviewed)	0
One – two years (recommendations implemented and all risks reviewed)	1
One – two years (recommendations not implemented, but all risks reviewed)	2
One – two years (recommendations implemented, but all risks not reviewed)	3
Three – four years	4
More than four years	5

2. Work Complexity

Evaluation of the work needed to complete assignments or transactions, including amount of time, number of steps, and state and federal requirements.

Evaluation _____ Points
Comments:

3. Internal/External Special Interest

Evaluation of the operations of the process that create a special interest by staff or external parties because of factors such as political exposure, legislative inquiry, SAO interest, EPA interest, recent issues, etc.

Evaluation _____	Points
Little or no special internal <u>or</u> external interest	0
Some internal <u>or</u> external interest	1
Medium internal or external interest	2
Medium internal <u>and</u> external interest	3
High internal <u>or</u> external interest	4
High internal <u>and</u> external interest	5

Comments:

4. Other Factors Noted by the Executive Administrator and Internal Audit Staff

Evaluation of factors not detailed above.

Evaluation _____ Points
Comments: