

**AUDIT PLAN FOR FY 2011
TEXAS WATER DEVELOPMENT BOARD**

Submitted by

INTERNAL AUDIT

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TABLE OF CONTENTS

Introduction	1
Objective and Mission	1
Audit Charter and Definition	1
Risk Assessment	2
Selecting Audits	2
Quality Assurance Review.....	2
Reserve for Contingencies	2
Annual Internal Audit Report	2
Consulting Services	2
External Auditor Coordination	2
Follow-up to Previous Audits	2
Monthly Budget / Financial Analysis	2
Plan Revisions.....	2
Acceptable Level of Risk.....	3
Internal Audit Department	3
Audit Plan Fiscal Year 2011	4
Risk Assessment Points and Ranking	5
Auditable Units and Processes FY 2011.....	6
Factor Evaluation and Ranking Questionnaires.....	7

The Texas Water Development Board FY 2011 Audit Plan

Introduction

This document outlines the Internal Audit risk assessment methodology and presents the approved project areas for FY 2011.

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.

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 Units** and **Agency Wide Processes**.

Each activity was risk ranked using specific elements. These elements are found on pages 7-8.

Selecting Audits

Divisions and processes which were ranked “high” were selected as audit projects. One additional area (Public Funds Investment Act) was selected because it is mandatory.

Quality Assurance Review

Audit standards require internal audit departments to undergo a periodic external quality assurance (peer) review. The previous review was performed in January 2008. One is scheduled for January 2011.

Reserve for Contingencies

Audit plans are developed based on priorities and estimations of time allocation. Because it is important to remain flexible to meet the changing needs of the TWDB and address high priority issues as they arise, time is allocated for unplanned special projects, investigations, or audit plan audits and projects as needed.

Annual Internal Audit Report

The Texas Internal Auditing Act requires each agency to file an annual internal audit report by November 1. The report recaps all Internal Audit activities of the previous year.

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.

Monthly Budget / Financial Analysis

This item is part of the Internal Audit Director’s Performance Plan.

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

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.

The Director has 30 years of internal audit experience (including twelve years with TWDB), nine years of other state and private accounting experience, 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 60 years of audit experience in state government as well as an additional 49 years of accounting and information technology experience. They collectively have three Bachelors degrees and two Masters degrees. Professional certifications include:

- Three 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),
- Information Systems Audit and Control Association (ISACA), and
- Association of Government Accountants (AGA).

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

**INTERNAL AUDIT
AUDIT PLAN WORK HOURS AND PERCENTAGES
FISCAL YEAR 2011**

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			
Agriculture Water Conservation Demonstration Initiatives		550	
ARRA		550	
Fixed Assets		500	
Human Resources		550	
Loan Application Process		550	
Quarterly Reports for Public Funds Investment Act Funds		50	
Travel Advance Account		350	
	47	<u> </u>	3100
Quality Assurance Review	5		300
Reserve for Contingencies	10		660
Transition to new IA Director	4		270
Audit Related Projects			
Annual Internal Audit Report	3	200	
Consulting Services	6	400	
External Audit Coordination for ARRA	2	100	
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 POINTS AND RANKING - FY 2011

UNIT	POINTS			PROCESS	POINTS
Conservation	80	high	70-100	Loan Application	75
ARRA	80			Fixed Assets	75
Accounting/Financial Systems	72				
Human Resources	72				
Project Integration/Fed Coordination	64	medium	56-69	Employee Orientation/ Separation	60
Flood Mitigation	64			Budget/Financial Analysis	60
Debt/Portfolio Management	64				
Financial Monitoring	60				
Water Resources Planning	56				
Surface Water Resources	56				
Program Development	56				
Budget Division	56				
TNRIS	52	low	0-55	Web Adm./Management	55
Project Development	52			Water Conservation Plans	55
Governmental Relations	52			Open Records Request	55
Legal Services	48			Mailout	55
Information Technology	48			Financial Asst./Final Acct.	55
Groundwater Resources	48			Financial Asst. Closing	55
Support Services/Contract Adm	44			Fed. Funds Justification	55
Project Engineering/ Review	44			Cash Inflows	55
Inspection/Field Support	40			TxWISE	45
Communications/Rec. Mgt	36			Purchasing/Accts. Payable	45
				Contract Management	45
				Media Communication	35
				Performance Measures	30

AUDITABLE UNITS AND PROCESSES FY 2011

AREAS	<u>UNITS</u>
CA	(Construction Assistance) – Steve Rodriguez Inspection/Field Support Project Engineering/Review
EA	(Executive Administration) - Kevin Ward American Recovery/Reinvestment Act (ARRA) 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	TxWISE
Financial Assistance Closing	Water Conservation Plans
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 (or responsible for large quantity of assets)	5

- 2. Date of Last Audit** - Date last audited internally or externally.

Evaluation _____	Points
One – two years (no recommendations, all risks evaluated)	0
One – two years (recommendations implemented and all risks evaluated)	1
One – two years (recommendations not implemented, but all risks evaluated)	2
One – two years (recommendations implemented, but all risks not evaluated)	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
Comments:

- 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 <u>or</u> external interest	0
Some internal <u>or</u> external interest	1
Medium internal <u>or</u> 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:	

- 5. Other Factors Noted by the Executive Administrator and Internal Audit Staff** - Evaluation of factors not detailed above.

Evaluation _____ Points
Comments:

**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 evaluated)	0
One – two years (recommendations implemented and all risks evaluated)	1
One – two years (recommendations not implemented, but all risks evaluated)	2
One – two years (recommendations implemented, but all risks not evaluated)	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 <u>or</u> 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: