

# Public Utility Commission of Texas

## Fiscal Year 2023 Internal Audit Annual Report Internal Audit Division

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### Regulated Industries:



Electricity



Telecommunications



Water & Sewer

**Public Utility Commission of Texas  
Fiscal Year 2023 Internal Audit Annual Report**

**Table of Contents**

<b>I.</b>	<a href="#"><u>Compliance with Texas Government Code, Section 2102.015</u></a>	<a href="#"><u>1</u></a>
<b>II.</b>	<a href="#"><u>Internal Audit Plan for Fiscal Year 2023</u></a>	<a href="#"><u>1</u></a>
<b>III.</b>	<a href="#"><u>Consulting Services and Non-Audit Services Completed</u></a>	<a href="#"><u>1</u></a>
<b>IV.</b>	<a href="#"><u>External Quality Assurance Review (Peer Review)</u></a>	<a href="#"><u>2</u></a>
<b>V.</b>	<a href="#"><u>Internal Audit Plan for Fiscal Year 2024</u></a>	<a href="#"><u>2</u></a>
<b>VI.</b>	<a href="#"><u>External Audit Services Procured in Fiscal Year 2023</u></a>	<a href="#"><u>4</u></a>
<b>VII.</b>	<a href="#"><u>Reporting Suspected Fraud and Abuse</u></a>	<a href="#"><u>4</u></a>



# Public Utility Commission of Texas 2023 Internal Audit Annual Report

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## I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan and Internal Audit Annual Report on the website.

Section 2102.015 of the Texas Internal Auditing Act (Act) requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports on the agency's Internet website at the time and in the manner provided by the State Auditor's Office. Agencies are also required to post any weaknesses, deficiencies, wrongdoings, or other concerns, if any, raised by the audit plan or annual report and a summary of actions taken to address the issues raised by the audit plan or annual report.

The Public Utility Commission of Texas (PUC), Internal Audit Division will ensure compliance with the Act by posting the approved annual audit plans, internal audit annual reports, individual internal audit reports, and the audit recommendations implementation status reports to the agency's Internet website. These reports can be accessed at <https://www.puc.texas.gov/agency/about/audit/default.aspx>.

## II. Internal Audit Plan for Fiscal Year 2023

<u>Audit Number</u>	<u>Audit Title</u>	<u>Audit Status</u>
2023-400	Division of Utility Outreach Audit	Canceled
2023-500	Information Technology Division Audit	Ongoing

The Division of Utility Outreach Audit was canceled to accommodate changes in resource availability. In addition, the Information Technology Division Audit was carried forward from fiscal year 2023 to the fiscal year 2024 audit plan for completion based on a reassessment of risk in the related area. The title of the audit was modified from the initial title listed above to an Audit of Compliance with Select Texas Administrative Code, Chapter 202, Information Security Standards.

## III. Consulting Services and Nonaudit Services Completed

Consulting services are advisory and related client service activities. The nature and scope of consulting services are agreed upon with the client and are intended to add value and improve the PUC's operations without the internal auditors assuming management responsibility. Consulting services were not performed during fiscal year 2023. However, the Internal Audit Division performed the following key non-audit services and administrative activities:

- Conducted the annual agency-wide risk assessment using a risk-based methodology, which included gathering and analyzing information from risk assessment questionnaires and interview questionnaires.
- Developed the Annual Audit Plan and prepared the Internal Audit Annual Report,



# Public Utility Commission of Texas 2023 Internal Audit Annual Report

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as required by the Texas Internal Auditing Act.

- Attended on-line and in-person trainings throughout the year to ensure compliance with continuing professional education requirements.
- Updated internal audit processes, policy manual, and templates to ensure compliance with applicable auditing standards.
- Participated in various workgroups and committees as members of professional organizations (e.g., State Agency Internal Audit Forum) to stay abreast of applicable state and federal laws, rules and regulations and provide input on ways to enhance our internal audit activities.
- Participated in executive leadership meetings in an advisory capacity to provide management with technical assistance and guidance in a variety of areas and serve as an available resource on risk-related issues.

#### **IV. External Quality Assurance Review (Peer Review)**

In accordance with the Texas Internal Auditing Act, the Internal Audit Division will complete an external peer review at least once every three years. The purpose of the review is to evaluate conformance with professional standards and identify opportunities to improve the efficiency and effectiveness of audit activities. An external quality assurance review will be conducted during fiscal year 2026.

#### **V. Internal Audit Plan for Fiscal Year 2024**

The fiscal year 2024 audit plan was developed using a risk-based methodology to determine the priorities of the internal audit activity, consistent with the PUC's goals. Risk was measured in terms of impact and likelihood. Various levels of management and staff completed a risk assessment questionnaire which required them to rank specific risk factors that applied to the organization's significant operational activities. Those risk factors included financial activity, grant and contract management, legislative interest, prior audit activity, operational complexity, potential fraud, information systems and technology, governmental relations, performance measures, and reputational risks.

Interviews were conducted with key management and staff to gain a better understanding of the PUC's programs and processes and to seek input regarding high risk areas. Input from the Commissioners and executive administration regarding high risk areas was also incorporated into the analysis and this information was then used to determine the impact and likelihood of select risk factors, and an overall risk score was developed.

As required by the Texas Internal Auditing Act, Section 2102.005(b), management and staff provided input on the risk of non-compliance associated with the contracting processes, including contract monitoring as well as the effectiveness of related internal controls. This information was analyzed and considered throughout the risk assessment process and during the development of the fiscal year 2024 audit plan.



# Public Utility Commission of Texas 2023 Internal Audit Annual Report

The audit plan below outlines the risk-based audits and other audit activities that the Division will conduct during the year and is aligned with the strategies, objectives, and risks of the organization. The audit plan was approved by the Commission on October 12, 2023.

<b>Fiscal Year 2024 Audit Plan</b>	
<b>Risk-based Audits</b>	<b>Budgeted Hours</b>
Audit of the Consumer Complaint Process	650
<b>Carry-forward Audits</b>	
Audit of Compliance with Select Texas Administrative Code, Chapter 202, Information Security Standards	750
<b>Follow-up Reviews</b>	
Assess the status of previously reported internal and external audit findings and recommendations and report whether corrective actions have been implemented.	270
<b>Consultations and Non-Audit Services</b>	
Perform advisory and related client service activities requested by the Commission and management which add value and improve the agency's governance, risk management, and control processes.	300
<b>Investigative Reviews</b>	
Detect, track, and review allegations of fraud, waste, and abuse received through the agency's hotline as well as those referred by the State Auditor's Office.	220
<b>Administrative Audit Activities</b>	
TeamMate+ Migration	260
Annual Risk Assessment & Internal Audit Plan	240
Internal Audit Annual Report (SAO)	80
External Audit and Review Coordination	110
Technical Assistance	100
Annual Review of Internal Audit Policies and Procedures, Charter, and Templates	170

The audit plan was designed to maximize the coverage of overall agency risks with available internal resources; however, it does not provide coverage for all Divisions, programs, and processes. The plan provides reasonable coverage of agency operations, over a reasonable period of time, given existing resources. Budgeted hours for all projects are based on one staff auditor and the Director of Internal Audit.

Additional risks that ranked high and were not included in the fiscal year 2024 audit plan are listed below:



# Public Utility Commission of Texas 2023 Internal Audit Annual Report

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- Rate Regulation Process
- Records Management Process
- Telecommuting Program
- Employee Retention Process
- Recruitment and Hiring Practices
- Communications Process

These risks should be addressed by the agency through the establishment of adequate internal controls. Other risks identified will be considered through contingency audit engagements, or will be addressed through other agency initiatives or oversight activities, such as the Texas Workforce Commission's Personnel Policy and Procedure System Review.

## **VI. External Audit Services Procured in Fiscal Year 2023**

The Internal Audit Division did not procure external audit services during fiscal year 2023.

## **VII. Reporting Suspected Fraud and Abuse**

In accordance with the fraud reporting requirements in Section 7.09, page IX-38, the General Appropriation Act (87th Legislature), and Texas Government Code, Section 321.022, the PUC provides instructions on how to report suspected fraud, waste, and abuse on the agency's website at <https://www.puc.texas.gov/agency/about/contact/default.aspx>. The link also references the State Auditor Office's (SAO) fraud hotline number and includes a link to the SAO's fraud, waste, and abuse web page.

Additionally, the PUC has established policies and procedures that include guidance on how employees may report suspected fraud, waste, and abuse. The Internal Auditor is responsible for investigating all suspected fraudulent acts and coordinating investigative activities with General Counsel. The policy also requires the Executive Director to report suspected fraud or unlawful conduct to the SAO.