



# RAILROAD COMMISSION OF TEXAS

## INTERNAL AUDIT

October 31, 2018

Ms. Lisa Collier, First Assistant State Auditor  
State Auditor's Office  
1501 N. Congress Ave.  
Austin, Texas 78701

Re: Fiscal Year (FY) 2018 Internal Audit Annual Report

Dear Ms. Collier:

Chapter 2102 of the Texas Government Code requires that each state agency submit an annual audit report to the State Auditor's Office (SAO) by November 1 of each year.

In accordance with the statute, the FY 2018 Internal Audit Annual Report for the Texas Railroad Commission (RRC) is attached. The design of the report and the information contained within the report comply with the form and content requirements prescribed by the SAO.

Should you have any questions regarding this report, please do not hesitate to contact me at (512) 463-6502.

Sincerely,

A handwritten signature in cursive script that reads "Paul S. Delaney".

Paul S. Delaney, CPA  
Internal Auditor  
Railroad Commission of Texas

Attachments: FY 2018 Internal Audit Annual Report  
FY 2019 Internal Audit Plan  
Final Report – External Quality Assurance Review

Cc: Wei Wang, Executive Director, Railroad Commission of Texas  
John Colyandro, Governor's Office – Budget and Policy Division  
Julie Ivie, Legislative Budget Board  
Jennifer Jones, Sunset Advisory Commission

# FISCAL YEAR 2018 INTERNAL AUDIT ANNUAL REPORT

## **I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit information on Internet Web site**

The FY 2019 Internal Audit Plan was approved by the agency's Commissioners on October 30, 2018. In accordance with the reporting requirements of Section 2102.015 of the Texas Government Code, the FY 2018 Internal Audit Annual Report (which includes the FY 2019 Internal Audit Plan) will be posted to the Railroad Commission's website no later than November 1, 2018.

## **II. Internal Audit Plan for Fiscal Year 2018**

- Human Resources – Completed on November 30, 2017
- External Peer Review – Completed on February 22, 2018
- Oil & Gas Division (Drilling Permits) – Completed on August 2, 2018

## **III. Consulting Services and Non-audit Services Completed**

None

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

The RRC's Internal Audit Department received an external quality assurance review during FY 2018. The peer review report is dated February 22, 2018 and a rating of "pass" was received. A copy of the peer review report is attached.

## **V. Internal Audit Plan for Fiscal Year 2019**

An annual risk assessment was performed which took the following risk factors into consideration:

- Strength of internal controls
- Number of years since last audit
- Number of findings on last audit
- Processing of cash payments
- Processing of credit card payments

Based upon the results of the annual risk assessment, the internal auditor developed the FY 2019 Internal Audit Plan. The scheduled engagements and their estimated number of hours to complete are shown below.

- Capital and Controlled Assets – 240 hours
- Follow-up to SAO Report No. 13-040 (Well Plugging and P-5 Financial Assurance) – 310 hours
- Contract Management (Compliance with State Laws, Regulations and Procedures) – 385 hours

A copy of the agency's approved FY 2019 Internal Audit Plan is attached.

## FISCAL YEAR 2018 INTERNAL AUDIT ANNUAL REPORT (*Cont'd*)

### **VI. External Audit Services Procured in Fiscal Year 2018**

None

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

The Commission is in compliance with the fraud reporting requirements contained in Section 321.022 of the Texas Government Code and Section 7.09 of the General Appropriations Act. The RRC's intranet homepage contains an internal Fraud Hotline to assist any employee who wishes to anonymously report fraud, waste or abuse within the agency. In addition, the website also contains a direct link to the SAO Fraud Hotline in case an employee wishes to send their complaint directly to the state auditor.



# RAILROAD COMMISSION OF TEXAS

## INTERNAL AUDIT

### MEMORANDUM

TO: Chairman Christi Craddick  
Commissioner Ryan Sitton  
Commissioner Wayne Christian

FROM: Paul S. Delaney, CPA  
Internal Auditor

DATE: October 30, 2018

SUBJECT: Proposed Internal Audit Plan for Fiscal Year (FY) 2019

October 30, 2018		
APPROVED	DENIED	ABSTAIN
		

Chapter 2102 of the Texas Government Code requires state agencies to develop an annual Internal Audit Plan that is prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year. The Internal Audit Plan must be approved by the agency's governing board or by the administrator of a state agency if the state agency doesn't have a governing board. Once approved, the plan will be included in the agency's 2018 Annual Audit Report, which is due to the State Auditor's Office no later than November 1, 2018.

As per the statute, the Internal Audit Department has performed a risk assessment to determine which areas within the agency should be considered for audit. Based upon that risk assessment and input from Executive Management, the following areas are recommended for audit in FY 2019:

- Capital and Controlled Assets
- Follow-up to SAO Report No. 13-040 – Well Plugging and P-5 Financial Assurance
- Contract Management – Compliance with State Laws, Regulations and Procedures

Your approval of the proposed Internal Audit Plan is requested.

Cc: Wei Wang, Executive Director



# Texas School for the Blind and Visually Impaired

A center for educational services for all blind and visually impaired students in Texas

William Daugherty, Superintendent  
1100 W. 45<sup>th</sup> Street Austin, Texas 78756  
(512) 454-8631 Toll-free: (800) TSB-KARE  
www.tsbvi.edu

February 22, 2018

Mr. Paul Delaney, CPA  
Internal Auditor  
Railroad Commission of Texas  
P O Box 12967  
Austin, Texas 78711-2967

Dear Mr. Delaney,

I have completed a peer review of the Railroad Commission of Texas for the fiscal years 2015 through 2017. In conducting the review, I followed the standards and guidelines contained in the Peer Review Manual published by the State Agency Internal Audit Forum (SAIAF).

The Institute of Internal Auditors (IIA) *International Standards for the Professional Practices of Internal Auditing and Code of Ethics*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102) require that internal audit functions obtain external quality assurance reviews (peer reviews) to assess compliance with standards and the Act and to appraise the quality of their operations.

I reviewed the internal quality control system of your audit organization and conducted tests in order to determine if your internal quality control system operated to provide reasonable assurance of conformance with the IIA *Standards*, the GAO *Standards*, and the Texas Internal Auditing Act. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case, but does imply adherence in most situations. Minor issues were verbally discussed. Recommendations based on our review follow:

- Internal Audit Charter – the Internal Audit Department Charter must be periodically reviewed and presented to senior management and the Commissioners for review and approval. (Standard 1000)
- The Definition of Internal Auditing, the Code of Ethics, and the IIA Standards should be discussed with senior management and the Commissioners (Standard 1010)
- The results of the Quality Assurance and Improvement Program (QAIP) must be communicated to senior management and the Commissioners periodically. (Standard 1320)
- The internal audit activity may effectively monitor open audit recommendations by reporting to senior management and to the Commissioners on the status of responses to engagement observations and recommendations periodically. (Standard 2500)

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Railroad Commission of Texas' Internal Audit Department receives a rating of **"Pass/Generally Conforms"** and is in compliance with the IIA Standards, the GAO Standards, and the Texas Internal Auditing Act. This opinion, which is the highest of the three possible ratings, means that

---

#### BOARD OF TRUSTEES:

Parents of Persons with Visual Impairments:  
Mary K. Alexander, Vice-Pres., Valley View  
Caroline Daley, Kingwood  
Lee Sonnenberg, Lubbock

Consumers with Visual Impairments:  
Anne Com, Austin  
Michael Garrett, Missouri City  
Joseph Muniz, President, Harlingen

Persons Working with the Visually Impaired:  
Bobby Druessedow, Jr., Glen Rose  
Mike Hanley, Leander  
Vacant Position

#### FAX:

Business Office (512)206-9452  
Central Mail Room (512)206-9450  
Outreach Services (512)206-9320  
Superintendent (512)206-9453  
Admissions (512)206-9148

Quality Assurance Review Report on the  
Internal Audit Department of the Railroad Commission of Texas

policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

The Railroad Commission of Texas has reviewed the results of the work performed by the peer reviewer and accepted them to be an accurate representation of their operations. To the extent lawful, Railroad Commission of Texas agrees to hold SAIAF and its officers and representatives harmless of any liability arising from the actions of the peer review team or issues resulting from the peer review.

  
\_\_\_\_\_  
Jaye Stepp, CPA, CIA, CGAP, CRMA  
Internal Audit Director  
Texas School for the Blind and Visually Impaired

CC: Christi Craddick, Chairman  
Ryan Sitton, Commissioner  
Wayne Christian, Commissioner  
Wei Wang, Interim Executive Director  
SAIAF Peer Review Committee

Attachment A: Conformance Rating Definitions

Attachment B: Certificate Memo

## ATTACHMENT A

### Conformance Rating Definitions

Based on the documentation reviewed and interviews conducted, the Peer Review team can conclude that an internal audit function conforms or does not conform to auditing standards using the following ratings:

- 1. Pass/Generally Conforms.** A rating of *Pass/Generally Conforms* means that the internal audit function is in compliance with the IIA Standards, the GAO Standards, and the Texas Internal Auditing Act. The internal audit function's policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency.
- 2. Pass with Deficiencies/Partially Conforms.** A rating of *Pass with Deficiencies/Partially Conforms* means that the internal audit function generally complies with the IIA Standards, the GAO Standards, and the Texas Internal Auditing Act. The internal audit function has an internal quality control system that is suitably designed and operating effectively to provide reasonable assurance of conformance with *the Standards* for assurance and consulting engagements during the review period. However, deficiencies in the internal quality control system have been noted that resulted in nonconformance with the IIA Standards, the GAO Standards, and/or the Texas Internal Auditing Act.
- 3. Fail/Does Not Conform.** A rating of *Fail/Does Not Confirm* means that the internal audit function is not in compliance with the *Standards* for assurance and consulting engagements during the review period. The Peer Review team found serious deficiencies in the internal quality control system for the internal audit function.

# ATTACHMENT B



Internal Audit Department of the  
**Railroad Commission of Texas**

Receives a rating of

**"PASS"**

In compliance with the Institute of Internal Auditors' International Professional Practices Framework, Government Auditing Standards, and the Texas Internal Auditing Act.

This opinion is based on a quality assessment review conducted by members of the Texas State Agency Internal Audit Forum (SAIAF) during the period of February, 2018.

The review was based on the methodology developed by the Texas State Agency Internal Audit Forum.



  
\_\_\_\_\_  
*Jaye Stepp, CPA, CIA, CGAP, CRMA*  
*Internal Audit Director*  
*Texas School for the Blind and Visually Impaired*