



RAILROAD COMMISSION OF TEXAS INTERNAL AUDIT DIVISION

October 29, 2013

Mr. John Keel, Texas State Auditor
State Auditor's Office
1501 N. Congress Ave.
Austin, Texas 78701

Re: Fiscal Year 2013 Internal Audit Annual Report

Dear Mr. Keel:

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 Fiscal Year 2013 Internal Audit Annual Report for the Texas Railroad Commission 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 Audit Director
Railroad Commission of Texas

Attachments: FY 2013 Internal Audit Annual Report
FY 2014 Internal Audit Plan

cc: Milton Rister, Executive Director, Railroad Commission of Texas
Araminta Everton, Deputy Executive Director, Railroad Commission of Texas
Kate McGrath, Governor's Office of Budget, Planning and Policy
Ed Osner, Legislative Budget Board
Ken Levine, Sunset Advisory Commission

FISCAL YEAR 2013 INTERNAL AUDIT ANNUAL REPORT

I. Compliance with House Bill 16

The FY 2014 Internal Audit Plan was approved by the agency's commissioners on October 22, 2013. In accordance with the reporting requirements of House Bill 16, the FY 2013 Internal Audit Annual Report (which includes the FY 2014 Internal Audit Plan) will be posted to the Railroad Commission's website home page no later than November 21, 2013.

II. Internal Audit Plan for Fiscal Year 2013

The agency's Internal Auditor resigned on December 31, 2012, and his replacement accepted another position within the agency in July 2013. As a result of this turnover in key personnel, an Internal Audit Plan for FY 2013 was never formulated nor submitted by the Railroad Commission.

III. Consulting Services and Non-audit Services Completed

None

IV. External Quality Assurance Review (Peer Review)

No recent external quality assurance review has been performed on the agency's internal audit department. An external peer review will be received in fiscal year 2014.

V. Internal Audit Plan for Fiscal Year 2014

A risk assessment was conducted by internal audit staff 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 auditors developed the FY2014 Internal Audit Plan. The scheduled engagements and their estimated number of hours to complete are shown below.

- Capital and Controlled Assets – 425 hours
- Voyager Fuel and Maintenance Credit Card Program – 350 hours
- Gas Services Division (carryover from FY 2013) – 208 hours

A copy of the agency's approved FY 2014 Internal Audit Plan is attached at the end of this document.

VI. External Audit Services Procured in Fiscal Year 2013

None

FISCAL YEAR 2013 INTERNAL AUDIT ANNUAL REPORT (*Cont'd*)

VII. Reporting Suspected Fraud and Abuse

The Railroad Commission's website includes a direct link to the SAO Hotline for reporting fraud, waste and abuse. Also, the agency's intranet home page contains an internal Fraud Hotline to assist any employee who wishes to anonymously report fraud, waste or abuse within the agency. This site also contains a direct link to the SAO Hotline should the employee wish to report the activity to an external organization.



RAILROAD COMMISSION OF TEXAS

INTERNAL AUDIT DIVISION

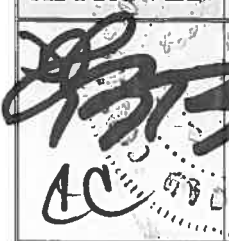
MEMORANDUM

TO: Chairman Barry T. Smitherman
Commissioner David Porter
Commissioner Christi Craddick

FROM: Paul S. Delaney, CPA
Internal Auditor

DATE: October 22, 2013

SUBJECT: Proposed Internal Audit Plan for Fiscal Year 2014

October 22, 2013		
APPROVED	DENIED	ABSTAI
		

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 2013 Annual Audit Report, which is due to the State Auditor's Office no later than November 1, 2013.

As per the statute, the Internal Audit Division has performed a risk assessment to determine which areas within the agency should be considered for audit. Based upon that risk assessment, the following areas are recommended for audit in FY 2014:

- Physical Inventory of Capital and Controlled Assets
- Fuel and Maintenance (Voyager) Credit Card Program
- Gas Services Division (continuation from FY 2013)

Your approval of the proposed Internal Audit Plan is requested.

cc: Milton Rister, Executive Director