



RAILROAD COMMISSION OF TEXAS

INTERNAL AUDIT

October 25, 2023

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

Re: Fiscal Year (FY) 2023 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 2023 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 2023 Internal Audit Annual Report
FY 2024 Internal Audit Plan
Final Report – External Quality Assurance Review

Cc: Wei Wang, CPA, Executive Director, Railroad Commission of Texas
Sarah Hicks, Governor's Office – Budget and Policy Division
Christopher Mattsson, Legislative Budget Board

FISCAL YEAR 2023 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 the website

The FY 2024 Internal Audit Plan was approved by the agency's Commissioners on October 24, 2023. In accordance with the reporting requirements of Section 2102.015 of the Texas Government Code, the FY 2023 Internal Audit Annual Report (which includes the FY 2024 Internal Audit Plan) will be posted to the Railroad Commission's website within 30 days of its approval.

II. Internal Audit Plan for Fiscal Year 2023

- Surface Mining & Reclamation Division – Completed March 23, 2023
- Capital and Controlled Assets – Completed October 13, 2023
- Alternative Fuels Safety – Training (not yet started)

III. Consulting Services and Non-audit Services Completed

None

IV. External Quality Assurance Review (Peer Review)

The RRC's Internal Audit Department's most recent peer review report is dated December 15, 2021, and a rating of "pass" was received. A copy of the peer review report is attached.

V. Internal Audit Plan for Fiscal Year 2024

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 2024 Internal Audit Plan. The scheduled engagements and their estimated number of hours to complete are shown below.

- Alternative Fuels Safety – Training – 275 hours
- Accounts Payable – Financial Services Division – 350 hours
- Compliance with Commission Telework Plan – 260 hours

A copy of the agency's approved FY 2024 Internal Audit Plan is attached.

VI. External Audit Services Procured in Fiscal Year 2023

None

FISCAL YEAR 2023 INTERNAL AUDIT ANNUAL REPORT (*Cont'd*)

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.

CHRISTI CRADDICK, CHAIRMAN
WAYNE CHRISTIAN, COMMISSIONER
JIM WRIGHT, COMMISSIONER

PAUL DELANEY
INTERNAL AUDITOR



RAILROAD COMMISSION OF TEXAS

INTERNAL AUDIT





MEMORANDUM

TO: Chairman Christi Craddick
Commissioner Wayne Christian
Commissioner Jim Wright

FROM: Paul S. Delaney, CPA
Internal Auditor

DATE: October 24, 2023

SUBJECT: Proposed Internal Audit Plan for Fiscal Year (FY) 2024

October 24, 2023		
APPROVED	DENIED	ABSTAIN
<small>DS</small> 	<small>DS</small> 	
<small>DS</small> 	<small>DS</small> 	

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 2023 Annual Audit Report, which is due to the State Auditor's Office no later than November 1, 2023.

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 assessment and input from Executive Management, the following areas are recommended for audit in FY 2024:

- Alternative Fuels Safety – Training (carryover from FY 2023)
- Accounts Payable – Financial Services Division
- Compliance with Commission Telework Plan

Your approval of the proposed Internal Audit Plan is requested.

Cc: Wei Wang, CPA, Executive Director

SECRET

CONFIDENTIAL

MEMORANDUM FOR THE DIRECTOR



TO : DIRECTOR, FBI

FROM : SAC, [City]

SUBJECT: [Topic]

Reference is made to your memorandum dated [Date].

The following information was obtained from a review of the files of the [Agency] and the [Agency]. It is noted that [Name] was born on [Date] at [Location]. [Name] is currently residing at [Address]. [Name] is employed as [Position] at [Company]. [Name] has a record of [Details].

It is recommended that [Action] be taken regarding [Name]. [Reasoning].

Very truly yours,
[Signature]

[Name]

[Title]

15 December 2021

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

Dear Mr. Delaney

I have completed a peer review of the Railroad Commission of Texas Internal Audit Department for the period between February 2018 and August 2021. 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. Based on this review, I recommend:

- Internal audit establish routines to ensure required discussions with the Commission and Senior Management are completed systematically (Attribute Standard 1010)
- Internal audit establish a routine to communicate the potential impact of resource limitations as required by audit standards (Performance Standard 2020).

We also verbally discussed less significant opportunities to more explicitly conform to audit standards related to governance, risk management, and controls. Based on the information received and evaluated during this external quality assurance review, it is my 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 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 Internal Audit Department has reviewed the results of the work performed by the peer review team and accepted them to be an accurate representation of their operations. To the extent lawful, the 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.

Rene
Valadez

Digitally signed
by Rene Valadez
Date: 2021.12.15
09:17:16 -06'00'

Rene Valadez CIA
Director of Internal Audit
Texas Education Agency

CC: Wayne Christian, Chairman
Christi Craddick, Commissioner
Jim Wright, Commissioner
Wei Wang, Executive Director

Attachment A: Conformance Ratings Definitions

Attachment B: Certification Memo