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An Audit Report on
The Red River Authority of Texas

June 2022
Report No. 22-032



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Overall Conclusion

The Red River Authority of Texas (Authority) has taken steps to address the operational challenges identified in the Sunset Advisory Commission's *Report to the 86th Legislature*¹ (Sunset Report) issued in June 2019 (see text box for more information about the Sunset Commission and the Authority).

Among the most significant challenges discussed in the Sunset Report was that three of the Authority's water systems did not meet the federal minimum safety standards for nitrate levels. The Authority has taken some action to address the water quality issues of those three water systems. However, as of March 2022, only one of those systems was in full compliance with the federal Safe Drinking Water Act². To assist it in continuing to address the water quality concerns, the Authority has developed a comprehensive *Asset Management Plan* that incorporates all the elements recommended in the Sunset Report.

In addition, to address weaknesses identified in the transparency of its operations, the Authority has adopted policies and processes to implement best practices to increase openness and public involvement in its operations, including its rate setting process.

The Authority has also taken steps to address identified weaknesses in its complaint tracking and documentation, workforce planning, and governing board oversight. Specifically, the Authority updated its complaint system to maintain documentation of all complaints and periodically notify the related parties about the complaints. It also developed and documented job descriptions and provided some training to its board members. However, it should continue to prepare for workforce changes and update its bylaws and certain policies and procedures.

Background

The Sunset Commission (Commission) periodically evaluates the need for and value of state programs and services. As part of that mission, Sunset staff performs research and analysis to evaluate the need for, performance of, and improvements to the agency under review.

In its June 2019 report, the Commission identified several operational challenges and made recommendations to the Red River Authority of Texas (Authority), a conservation and reclamation district that is also a political subdivision of the state.

The Authority's territorial jurisdiction encompasses 43 Texas counties lying wholly or in part within the watershed of the Red River and its tributaries upstream from the northeast corner of Bowie County.

Texas Special District Local Laws Code, Section 8510.01045, requires the State Auditor to conduct an audit of the Authority to evaluate whether the authority has addressed the operational challenges identified in the Sunset Report.

Sources: The Commission, the Authority, and Texas Special District Local Laws Code, Section 8510.01045.

¹ See the *Sunset Advisory Commission Staff Report with Final Results: Guadalupe-Blanco River Authority, Red River Authority of Texas, Nueces River Authority*, 2018-2019, 86th Legislature, June 2019.

² See Title 42, United States Code, Section 300f et seq. (1974).

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating ^a
1-A	The Authority Has Taken Steps to Address Water Quality Issues; However, Two Systems Still Do Not Comply with Federal Requirements for Nitrate Levels	High
1-B	The Authority Implemented a Comprehensive Asset Management Plan to Help Address Water Quality Issues	Low
2	The Authority Has Adopted Policies and Practices to Enhance Transparency and Openness	Low
3	The Authority Made Improvements to Its Complaint System; However, It Should Continue to Prepare for Workforce Changes and Update Its Bylaws and Certain Policies and Procedures	Medium

^a A chapter/subchapter is rated **Priority** if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated **High** if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated **Medium** if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter/subchapter is rated **Low** if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Authority agreed with the recommendations in this report.

Audit Objective and Scope

The objective of this audit was to determine whether the Authority has addressed the operational challenges identified in the Sunset Advisory Commission's report to the 86th Legislature.

The scope of this audit covered actions taken by the Authority to address the issues identified in the Sunset Report from June 2019 through January 2022. The scope also included a review of significant internal control components related to operation management.

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Detailed Results

Chapter 1

The Authority Took Steps to Address Water Quality Issues; However, Two Water Systems Still Have High Nitrate Levels

The Red River Authority of Texas (Authority) has taken some action to address water quality issues related to three of its water systems identified in the Sunset Advisory Commission’s *Report to the 86th Legislature* (Sunset Report). However, as of March 2022, only one of those systems was in full compliance with the federal Safe Drinking Water Act³. To assist it in continuing to address the water quality concerns, the Authority has developed a comprehensive *Asset Management Plan* that incorporates all the elements recommended in the Sunset Report.

Chapter 1-A

The Authority Has Taken Steps to Address Water Quality Issues; However, Two Systems Still Do Not Comply with Federal Requirements for Nitrate Levels

During the Sunset Commission’s review of the Authority, the following three water systems were in violation of the drinking water standards for nitrates: Truscott-Gilliland Water System, Guthrie-Dumont Water System, and the Hinds-Wildcat Water System. Excessive nitrates can create a serious health risk to the public (see text box).

The Authority has taken action to address the excessive nitrates in all three water systems. However, as of March 2022, only the Truscott Gilliland Water System was in full compliance with the Safe Drinking Water Act. Specifically, on July 9, 2019, the Authority received a letter from the U.S. Environmental Protection Agency (EPA) indicating that the Authority had successfully taken steps to correct the nitrate maximum contaminant level violations at that system.

Nitrates in Groundwater

Nitrates are naturally occurring contaminants that are regulated under the federal Safe Drinking Water Act. Elevated levels of nitrates in drinking water may interfere with the ability of an infant’s blood to carry oxygen, which can result in the potentially fatal condition known as “blue baby syndrome.”

Sources: Sunset Report; the U.S. Environmental Protection Agency, and the Texas Department of State Health Services.

**Chapter 1-A
Rating:
High⁴**

³ See Title 42, United States Code, Section 300f et seq. (1974)

⁴ The risk related to the issues discussed in Chapter 1-A is rated as High because they present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

The Authority has initiated projects to bring the remaining two water systems into compliance and the Authority has provided the EPA with project status updates. According to the most recent project update, a notice to proceed with construction was issued on December 1, 2020, for the Guthrie-Dumont Water System with an initial project completion date of December 14, 2021. According to the Authority's management, this project encountered delays and the new expected project completion date is June 30, 2022. For the Hinds-Wildcat Water System, a notice to proceed with construction was issued on March 25, 2022, with an expected completion date of April 8, 2023.

Recommendation

The Authority should continue to address the high levels of nitrates in the Guthrie-Dumont Water System and Hinds-Wildcat Water Systems to comply with the federal Safe Drinking Water Act.

Management's Response

The Authority agrees with the SAO Audit in regard to the Authority's efforts to address the Administrative Orders with the Environmental Protection Agency (EPA). There were 3 original water systems that were not in compliance with EPA standards for nitrate in drinking water; Truscott/Gilliland, Guthrie/Dumont, and the Hinds/Wildcat Systems. The Authority resolved the Truscott/Gilliland Water System compliance by installing 20 miles of transmission line to blend treated water with the high nitrate wells supplying the system. For the Guthrie/Dumont Water System, the Authority is constructing a similar pipeline of 23 miles of transmission line and a new well field to bring low nitrate water from the Ogallala Aquifer to blend with the high nitrate water in the existing Dumont wells. This project has had many delays brought on by the Covid 19 Pandemic, supply chain problems and contractor issues. The project is over 95% complete, and is expected to be in service by July 2022.

The remaining water system, Hinds/Wildcat, was plagued with contested easements and pipe availability that delayed the ability to bid the project. We were finally able to bid the project in early 2022, and as reported, the Notice to Proceed was issued in March 2022, with a 365-day completion deadline. It has been a long and tedious process, but the Authority has kept the EPA up to date on the progress, and remains in compliance with the Administrative Order.

These efforts will be coordinated and implemented by the Assistant General Manager, with oversight from the General Manager.

Chapter 1-B
Rating:
Low ⁵

Chapter 1-B

The Authority Implemented a Comprehensive Asset Management Plan to Help Address Water Quality Issues

The Sunset Report had determined that the Authority lacked a comprehensive asset management approach; such an approach could improve the Authority's ability to address water quality concerns. The Sunset Report was also critical of the Authority's approval of a \$15 million bond issuance in 2017 without sufficient consideration of other financing options, which the Sunset Commission said may have reduced the associated rate increase for customers.

In response, the Authority developed a comprehensive *Asset Management Plan* in July 2020, and has since updated it, pending its governing board's approval. The Authority's Board of Directors reviewed and approved the initial plan, which incorporates all of the elements and activities recommended by the Sunset Report. Specifically, as part of the plan, the Authority:

- Created an asset inventory list.
- Completed a condition assessment for each asset using documented criteria based on Standard Engineering tables.
- Used a risk assessment to rank assets for prioritization for repairs or replacement. That assessment considered the condition assessment scores for all categories (physical, performance, consequence of failure, and redundancy) and estimated useful life. The consequence of failure category scores an asset's importance (1) for complying with federal and regulatory standards and (2) to the overall system. This risk assessment helped the Authority prioritize the repairs or replacement of the systems that are not in compliance with federal or regulatory standards.

Financing Projects. In addition, the *Asset Management Plan* states that the Authority should conduct an analysis to determine whether projects to repair or replace assets should be funded by a rate change, debt financing, or grants, including a combination of those methods. The Authority's Board has not considered or approved any financing since the Sunset Report was issued in June 2019 and the Authority is still using funds from the \$15 million bond issuance.

⁵ The risk related to the issues discussed in Chapter 1-B is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

The Authority asserted that it considers the prioritization of projects in the *Asset Management Plan* when creating its operating budget. Auditors confirmed that the Authority's operating budget for the fiscal year 2021–2022 included capital funding for the projects listed as most critical in the *Asset Management Plan*.

Management's Response

The Authority agrees with the State Auditor's Office that a current Asset Management Plan is essential in projecting future costs and ensuring that equipment and materials are not extended beyond their useful life. The Board of Directors adopted an Asset Management Plan in July 2020. The Plan has been used to forecasting and prioritizing equipment and asset replacement in the both Fiscal Years 2021 and 2022 budgets. The plan was updated in January 2022 and will be crucial in determining the scope of any future indebtedness. The Authority will consider all available funding options when considering any future indebtedness, including utilizing state and federal grants, the open bond market and/or any Texas Water Development Board available funding.

This effort will be ongoing by the Assistant General Manager and Controller, with oversight from the General Manager.

The Authority Has Adopted Policies and Practices to Enhance Transparency and Openness

**Chapter 2
Rating:
Low ⁶**

The Sunset Report concluded that river authorities, including the Red River Authority, had not implemented several best practices that would improve openness and transparency. The report recommended several operational improvements the river authorities should make to “encourage transparency of, and meaningful public involvement in, river authority operations.”

The Authority has adopted policies and processes to implement those best practices and increase transparency and openness. Specifically, the Authority:

- **Developed a public input policy** to provide customers with an opportunity to review and comment on potential significant rate changes prior to Board decisions. The policy requires the Authority to notify customers of a proposed rate change on its website, by mail, on customers’ utility bills, and during a minimum of four rate hearings. The policy also requires the Authority to inform customers about the appeal process for proposed rate changes.
- **Has included an agenda item for public testimony** in its regular board meetings since the Sunset Report’s release in June 2019.
- **Updated its website** to ensure that urgent information, such as boil water notices, are clearly labeled and accessible from the main page. Board meeting dates and related agendas/packets also are posted clearly on the website in easily accessible locations.
- **Developed a written, five-year Strategic Plan** and processes to review and update the plan as needed. The Authority provided the public with opportunities for input during the preparation of the Strategic Plan, which was approved by the Board and is available on the Authority’s website.
- **Filed the required record retention schedules** with the Texas State Library and Archives Commission to comply with state and local record retention requirements.

⁶ The risk related to the issues discussed in Chapter 2 is rated as Low because the audit identified strengths that support the audited entity’s ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

Management's Response

The Authority agrees with the State Auditor's Office that the Authority has adopted policies that have improved openness and transparency. The Authority has made significant changes to its website to include making it easier to scroll through pages, access the calendar and search archived data. The Authority also moved all important notifications to the front webpage to ensure easy one touch access. These enhancements are fluid, and we will continue to keep abreast of any improvements that we can implement to enhance the public's experience while on our site. The Authority has adopted all policies and processes recommended by the Texas Sunset Advisory Commission, including the adoption of a 5-Year Strategic Plan (2020), that's the progress of which is reported at every regular Board Meeting and the plan itself is reviewed annually for necessary updates.

This effort will be ongoing by the General Manager.

The Authority Made Improvements to Its Complaint System; However, It Should Continue to Prepare for Workforce Changes and Update Its Bylaws and Certain Policies and Procedures

Chapter 3
Rating:
Medium ⁷

The Sunset Report identified weaknesses in the Authority's operations related to complaint tracking and documentation, workforce planning, and governing board oversight. It also determined that the Authority should strengthen its policies and procedures for ethics and contracting.

While the Authority has taken steps to address those weaknesses, it should continue to strengthen certain processes.

Complaint Tracking and Documentation

The Sunset Report recommended that river authorities maintain a system for acting on complaints and keeping proper documentation to better ensure they address problems in a timely fashion.

The Authority updated its complaint system to maintain documentation of all complaints and periodically notify the related parties about the complaints. The Authority received six complaints between July 2020 and January 2022. For all six complaints that auditors tested, the Authority complied with its policy to provide updates to the complaint parties within 15 days of official receipt. All six complaints were resolved within one month from receipt.

Workforce Planning

The Sunset Report noted that several key staff will be eligible to retire in the near future and identified weaknesses in the Authority's readiness to prepare for these departures due to its lack of documentation of day-to-day responsibilities and guidance on how to accomplish key tasks. To address this issue, the Authority developed and documented job descriptions for every position and asserted that they provided additional training for certain positions. To prepare for potential retirements, the Authority has reinstated its internship program and created new positions within its Environmental Services and Utility divisions.

However, as of March 2022, the Authority had not conducted an analysis to identify which positions and duties are key for the continuity of business operations and ensure that it has documented guidance on how to accomplish key tasks for those positions. In addition, the Authority had not identified the positions at a high risk for vacancy in the near future, such as

⁷ The risk related to the issues discussed in Chapter 3 is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

those filled with employees eligible for retirement or those with higher-than-average turnover rates. For example, it had not started to prepare documented guidance on the job functions for the General Manager and Executive Assistant positions, although the employees currently in those roles were or would soon be eligible to retire. To help the Authority effectively continue its operations when such experienced staff departs, it is important for the Authority to identify and ensure that it has documented key processes for all significant positions expected to experience turnover.

Governing Board Oversight

The Sunset Report identified opportunities for the Authority to improve its governance and accountability by providing training to board members, updating governing laws, and promoting segregation of duties.

Board training. The Authority provided training to each board member regarding the Authority's governing laws, programs, functions, rules, budget, audits, and the requirements of laws related to open meetings, public information, administrative procedures, and disclosure of conflict of interest. However, this training was not provided to all the board members annually as required by Senate Bill 627 (86th Legislature). Because of their key oversight role, it is important that board members receive the required training so they are aware of any changes in government requirements and other information affecting river authorities.

Bylaws and segregation of duties. The 86th Legislature passed Senate Bill 627 (S.B. 627), which contained or modified several requirements for the Authority, effective September 1, 2019. The Authority had modified its own bylaws to match most of those changes. However, as of March 2022, the Authority's bylaws describing the grounds for the removal of a board member did not align with those in S.B. 627. The Authority's bylaws also stated that a board member could be removed on an affirmative vote of 5 of its board members, but S.B. 627 stated that if a potential ground for removal exists, the General Manager shall notify the president of the board who in turn shall notify the Governor and the Attorney General. In addition, while the Authority updated its bylaws to match the prohibition on a board member also serving as the General Manager, it had not adopted additional policies to clearly separate the Board's oversight functions from the Authority's day-to-day operations.

Policies and Procedures for Ethics and Contracting

The Sunset Report determined that the Authority had not fully complied with certain Texas Commission on Environmental Quality (TCEQ) rules (see text box). Since the report was released, the Authority adopted ethics policies that complied with most of those identified TCEQ rules. However, as of March 2022, the policy that the Authority adopted did not include a provision that would require a list of at least three pre-qualified persons or firms for professional services contract expected to exceed \$25,000.

Compliance with TCEQ Rules

To fully comply with TCEQ rules the Authority needed to adopt to following:

- A policy prohibiting it from granting money or other valuable property to individual citizens, associations, or corporations.
- A policy prohibiting nepotism.
- A policy requiring a list of three pre-qualified persons or firms for professional services contracts expected to exceed \$25,000.

Source: Sunset Report.

In addition, the Sunset Report identified weaknesses in the Authority's contracting policies. In response, the Authority adopted a policy for alternative dispute resolution procedures. But it had not yet adopted a policy requiring a review of all professional service contracts every five years and a compilation of best value practices for cost savings.

Recommendations

The Authority should:

- Continue to strengthen its workforce planning processes by:
 - ♦ Conducting and documenting an analysis to identify (1) which positions and duties are key for the continuity of business operations and (2) which positions are at high risk of turnover.
 - ♦ Documenting guidance on how to accomplish key tasks for all positions identified in the analysis.
- Comply with all requirements in Senate Bill 627 (86th Legislature), including:
 - ♦ Having Board members complete required training annually.
 - ♦ Developing policies to clearly separate the Board's oversight duties from Authority management's day-to-day operations.
 - ♦ Updating its Board bylaws to align with S.B. 627.

- Update its policies to ensure they comply with required TCEQ rules, require a review of all professional service contracts every five years, and require a compilation of best value practices for cost savings.

Management's Response

The Authority agrees that it has made many of the improvements suggested by the Texas Sunset Advisory Commission and that we will continue to identify areas in our Bylaws and Policies that do not currently meet Senate Bill 627 (Board Training and Oversight) or TCEQ's Rules (Professional Service Acquisitions over \$25,000 and Granting of Money to Individuals, and Nepotism), and prepare those changes for adoption by our Board. The Authority appreciates both the Sunset Commission and the State Auditor's Office emphasis on transition training. As suggested, the Authority is in the process of identifying key staff and the accompanying tasks associated with the positions. As most of our basin is rural and some areas remote, it is a challenge to attract and then keep certified/trained staff. In the last two years, the Authority has made efforts to create some mid-level manager roles to better prepare candidates for upper-level administrative roles in the future. The Authority will continue to plan for retirements and openings by preparing SOPS and identifying other key tasks. Additionally, the Authority will better account for compliance with required Board training and record keeping.

This effort will be ongoing and implemented by the Executive Assistant, with oversight by the General Manager.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Red River Authority has addressed the operational challenges identified in the Sunset Advisory Commission's report to the 86th Legislature.

Scope

The scope of this audit covered actions taken by the Authority to address the issues identified in the Sunset Report from June 2019 through January 2022. The scope also included a review of significant internal control components related to operation management (see Appendix 3 for more information about internal control components).

Methodology

The audit methodology included conducting interviews with the Authority's staff, reviewing applicable statutes and rules, reviewing policies and procedures, testing the Authority's complaint system and compliance with record retention requirements, reviewing the Authority's website, reviewing job descriptions and a sample of standard operating procedures for specific job responsibilities, reviewing a list of contracts, reviewing the Authority's *Asset Management Plan* and *Strategic Plan*, and reviewing the Authority's board meeting minutes and training of board members.

Data Reliability and Completeness

To determine the reliability of the Authority's complaint system, auditors performed procedures to assess the reliability of the complaint information by observing an extraction of data and reviewing the query used to extract the data. Auditors determined that the complaint data was sufficiently reliable for the purpose of this audit.

Auditors verified the completeness of the Authority's list of employees by observing staff extract a list of employees from the Authority's payroll system. Auditors determined that the employee data was sufficiently reliable for the purpose of this audit.

Sampling Methodology

To test the documentation of job descriptions and documented guidance on how to accomplish key tasks, auditors selected a nonstatistical sample of 3 out of 15 job positions through random selection. This sample design was chosen to ensure that the sample included a cross section of job descriptions. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the Authority's:

- *Administrative Policy and Procedure Manual.*
- Website content.
- Board meeting minutes, including agendas and board packets.
- *Asset Management Plan and Strategic Plan.*
- Payroll files, job descriptions, and documented standard operating procedures.
- Complaints database.
- Record retention schedule.
- Professional services contracts.
- Board members' training packets and acknowledgment forms.

Procedures and tests conducted included the following:

- Interviewed Authority staff.
- Reviewed board meeting minutes and evidence of approval of key resolutions.
- Compared the Authority's bylaws and administrative policies to statutes.
- Tested complaints resolution data.
- Reviewed the Authority's *Asset Management Plan and Strategic Plan*, including board approval.
- Tested board members' training certificates and acknowledgement forms.
- Tested Authority's documented guidance on how to perform key tasks.

Criteria used included the following:

- *Sunset Advisory Commission Staff Report with Final Results: Guadalupe-Blanco River Authority, Red River Authority of Texas, Nueces River Authority, 2018–2019, 86th Legislature.*
- Senate Bill 627 (86th Legislature, Regular Session).
- Texas Commission on Environmental Quality rules.
- *Red River Authority of Texas Administrative Policy and Procedure Manual.*
- Texas Administrative Code, Title 13, Chapter 6.
- Texas Administrative Code, Tile 30, Chapter 292.
- Texas Special District Local Laws Code, Section 8510.01045.

Project Information

Texas Special District Local Laws Code, Section 8510.01045(a), requires the State Auditor to conduct an audit of the Red River Authority “to evaluate whether the authority has addressed the operational challenges identified in the report on the authority by the Sunset Advisory Commission presented to the 86th Legislature.” Section 8510.01045(b) states that “the State Auditor may not begin the audit required in Subsection (a) before December 1, 2021, and shall prepare and submit a report of the findings of the audit to the chairman and executive director of the Sunset Advisory Commission not later than December 1, 2022.” Pursuant to these requirements, the State Auditor’s Office conducted an audit and reviewed the actions taken by the Authority to address the operational challenges identified in the Sunset Report.

Audit fieldwork was conducted from January 2022 through April 2022. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Amadou Ngaide, MBA, CFE, CIDA, CICA, (Project Manager)
- Jessica I. Prieto, CPA, CISA (Assistant Project Manager)
- Allison Fries, CFE
- Ashlie Garcia, CFE
- Daniel Spencer, CFE
- Ann E. Karnes, CPA (Quality Control Reviewer)
- Cesar Saldivar, CIA, CFE, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgment and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Internal Control Components

Internal control is a process used by management to help an entity achieve its objectives. The U.S. Government Accountability Office's *Government Auditing Standards* require auditors to assess internal control when internal control is significant to the audit objectives. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a framework for five integrated components of internal control, which are listed in Table 3.

Table 3

Internal Control Components	
Component	Component Description
Control Environment	The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
Risk Assessment	Risk assessment is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.
Control Activities	Control activities are the policies and procedures that help ensure that management's directives are carried out.
Information and Communication	Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
Monitoring Activities	Monitoring is a process that assesses the quality of internal control performance over time.

Source: Internal Control - Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dade Phelan, Speaker of the House, Joint Chair
The Honorable Joan Huffman, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable Greg Bonnen, House Appropriations Committee
The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Red River Authority of Texas

Members of the Red River Authority of Texas Board of Directors

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Mr. Jerry Bob Daniel, Vice President
Mr. Michael R. Sandefur, Secretary/Treasurer
Mr. Stephen A. Thornhill, Assistant Secretary
Ms. Mary Lou Bradley
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Mr. Conrad J. Masterson Jr.
Mr. Joe L. Ward

Mr. Randall W. Whiteman, General Manager

Sunset Advisory Commission

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