



An Audit Report on

# **Financial Processes at the Public Utility Commission of Texas**

July 2016  
Report No. 16-033



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## Overall Conclusion

The Public Utility Commission of Texas (Commission) had processes and related controls in fiscal year 2015 and the first two quarters of fiscal year 2016 to ensure that it administered financial transactions in accordance with applicable statutes, rules, and Commission policies and procedures. However, it should improve certain controls over payroll and access to its accounting system and timekeeping system. It should also document its policies and procedures for its revenue processes. Specifically:

- System Benefit Fund expenditures. The Commission uses the System Benefit Fund to reimburse retail electric providers for discounts given to qualified customers (see text box for more information about retail electric providers). All 60 payments auditors tested were appropriately supported and **approved by the Commission's assigned contract administrator**.
- Contracting process. **The Commission's** process for the solicitation and formation of two contracts tested complied with the *State of Texas Contract Management Guide*. The Commission also had adequate controls over the administration and monitoring of the contracts tested.
- Procurement process. The Commission appropriately supported and approved all 32 purchasing transactions tested.
- Revenue process. The Commission had adequate controls in place over the collection and recording of revenue. In addition, the Commission accurately calculated and reported the staff time it spent administering the Texas

### Background Information

The Public Utility Commission of Texas (Commission) regulates the state's electric, telecommunication, and water and sewer utilities; implements respective legislation; and offers customer assistance in resolving consumer complaints. In 1975, the Legislature enacted the Public Utility Regulatory Act and created the Public Utility Commission of Texas to provide statewide regulation of the rates and services of utilities. In addition, with deregulation of the electricity and telecommunications industries, the **Commission's mission and focus have** shifted from regulation of rates and services to oversight of competitive markets and compliance enforcement of statutes and rules for the electric and telecommunication industries.

For the 2016-2017 biennium, the Commission received \$358.9 million in appropriated funds, which was a 53 percent decrease from the appropriated funds it received for the 2014-2015 biennium.

The Commission was authorized to have 217 full-time-equivalent employees for the 2016-2017 biennium.

Sources: The Commission and General Appropriations Acts (83rd and 84th Legislatures).

### Retail Electric Providers

Retail electric providers sell electric energy to retail customers in areas of Texas. A provider buys wholesale electricity, delivery service, and related services and sells that electricity to retail customers.

The Commission requires retail electric providers to give discounts to low-income customers, either as discounts on the customers' monthly electricity bills or as one-time discounts. The Commission uses the System Benefit Fund to reimburse retail electric providers for those discounts.

Source: The Commission.

This audit was conducted in accordance with Texas Government Code, Sections 321.0131 and 321.0132.

For more information regarding this report, please contact Michael Simon, Audit Manager, or Lisa Collier, First Assistant State Auditor, at (512) 936-9500.

Universal Service Fund<sup>1</sup>, for which the Commission receives reimbursement. However, the Commission should develop written policies and procedures on collecting, processing, and depositing revenue.

- Payroll process. The Commission appropriately completed, approved, and accurately paid all 60 payroll transactions tested. It also had completed and approved personnel action forms for all personnel actions tested. However, it did not complete employee performance evaluations, as required by its policy, before approving personnel actions such as merit increases, one-time merits, and promotions.

The Commission should improve certain information technology controls over its accounting system and its timekeeping system. Specifically:

- Access to its accounting system. The Commission should improve controls over access to its accounting system (the Centralized Accounting and Payroll/Personnel System, or CAPPS). Segregation of duties was not properly implemented in CAPPS for agency employees involved in the purchasing process. In addition, some Commission employees had high-level access to CAPPS that allowed them to make untracked changes to financial data.
- Controls over its timekeeping system. The Commission did not have adequate controls over its timekeeping system (the Work Allocation System) to ensure that employee leave data and benefit calculations were accurate and complete. While controls were in place over the network supporting the Work Allocation System, the controls in that system were not adequate to ensure that data entered was accurate and complete.

Auditors communicated other, less significant issues related to purchasing, payroll, and the System Benefit Fund in writing to the Commission. In addition, to minimize the risks associated with public disclosure, auditors communicated additional details about information technology controls to the Commission in writing.

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<sup>1</sup> The Texas Universal Service Fund provides funding to programs that assist Texas residents, as needed, in obtaining basic telecommunications services.

Table 1 presents a summary of the findings in this report and the related issue rating. (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 <sup>a</sup>
1-A	The Commission Had Adequate Controls Over System Benefit Fund Expenditures	Low
1-B	The Commission Had Adequate Controls Over Its Contracting Process	Low
1-C	The Commission Had Adequate Controls Over Its Procurement Process	Low
1-D	The Commission Had Adequate Controls Over Revenue Transactions; However, It Should Document Its Processes and Ensure Segregation of Duties	Low
2	The Commission Had Adequate Controls Over Its Payroll Process; However, It Should Complete Performance Evaluations Before Approving Personnel Actions	Low
3-A	The Commission Should Improve Access Controls Over Its Accounting System	Medium
3-B	The Commission Should Improve Controls Over Its Timekeeping System to Ensure That Data on Employee Leave Is Accurate and Complete	Medium

<sup>a</sup> A 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 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 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 program(s)/function(s) audited. Action** is needed to address the noted concern and reduce risks to a more desirable level.

A subchapter is rated Low if the audit identified strengths that support the audited **entity's ability to administer the program(s)/functions(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 Commission agreed with the recommendations in this report.

## ***Audit Objective and Scope***

The objective of this audit was to determine whether the Commission has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and Commission policies and procedures.

The scope of this audit covered the Commission's activities related to purchasing, payroll, revenue collection, contracting, the System Benefit Fund, and the related information systems between September 1, 2014, and February 29, 2016.

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# Detailed Results

Chapter 1

## The Commission Had Adequate Processes and Related Controls Over Financial and Operational Processes

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Overall, the Public Utility Commission of Texas (Commission) had adequate processes and related controls over System Benefit Fund expenditures, contracting, procurement, and revenue to ensure that it administered financial transactions in accordance with applicable statutes, rules and Commission policies and procedures. However, it should document its revenue processes and strengthen its controls over revenue deposits to ensure adequate segregation of duties.

Chapter 1-A

### The Commission Had Adequate Controls Over System Benefit Fund Expenditures

Chapter 1-A  
Rating:  
Low<sup>2</sup>

The Commission had processes and related controls to ensure that the payments it made to retail electric providers from the System Benefit Fund were in accordance with the applicable rules, statutes, and Commission's policies and procedures (see text box for more information about the System Benefit Fund).

#### System Benefit Fund

The System Benefit Fund is a General Revenue dedicated fund. Until September 1, 2013, it was funded through a fee that retail electric providers charged on the utility bills of electricity consumers in competitive markets in Texas. The Commission set that fee annually.

The Commission requires retail electric providers to give discounts to low-income customers, either as discounts on a customer's monthly electricity bills or as a one-time discount. The Commission uses the System Benefit Fund to reimburse the retail electric providers for those discounts.

The System Benefit Fund is scheduled to be eliminated at the end of fiscal year 2017.

Source: Texas Utilities Code, Chapter 39 (Public Utility Regulatory Act).

Reimbursements from the System Benefit Fund to retail electric providers accounted for most of the Commission's total expenditures for fiscal year 2015 and the first two quarters of fiscal year 2016. Of the \$357 million in expenditures that the Commission recorded in the Uniform Statewide Accounting System (USAS), approximately \$323 million (91 percent) were reimbursements to retail electric providers.

All 60 reimbursement payments tested that the Commission made to the retail electric providers were appropriately documented, adequately supported, properly approved, and correctly paid. In addition, the Commission ensured that it reimbursed retail electric providers for the correct,

preapproved discount rates.

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<sup>2</sup> The risk related to the issues discussed in Chapter 1-A 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 Commission Had Adequate Controls Over Its Contracting Process

Chapter 1-B  
Rating:  
Low<sup>3</sup>

The Commission had processes and related controls to ensure that its contracting processes complied with applicable statutes, rules, and Commission policies and procedures. The Commission also had adequate controls over its contracting process to ensure that it solicited, formed, and administered contracts appropriately.

For fiscal year 2015 and the first two quarters of fiscal year 2016, the Commission had a total of 36 active contracts totaling approximately \$92 million.

Auditors tested the Commission's two largest contracts: (1) a contract for low-income discount administration and (2) a contract for the Texas Universal Service Fund. Both contracts were between the Commission and Solix, Inc. For both contracts tested:

- The Commission followed the contract solicitation and formation process that the *State of Texas Contract Management Guide* required. That process included:
  - ♦ Documenting a needs assessment for the contract.
  - ♦ Documenting the solicitation and request for proposals, and ensuring that the request for proposals was approved and posted to the *Electronic State Business Daily Web* site.
  - ♦ Evaluating the vendor and documenting that evaluation.
  - ♦ Ensuring that all contract evaluation team members signed nondisclosure/conflict of interest forms.
  - ♦ Including all required contract clauses as stated in the *State of Texas Contract Management Guide*.
  - ♦ Assigning a contract administrator to monitor the contract.

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<sup>3</sup> 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 Commission appropriately monitored and verified the deliverables and invoices from the contractor to verify compliance with contract stipulations. For example, the Commission monitored to verify that:
  - ♦ It received contract deliverables according to the contract deliverables checklist and schedule.
  - ♦ It received contractor invoices according to the contract stipulations and schedule and that the invoices included all information the contract required.
  - ♦ Personnel appropriately approved contract payments.
  - ♦ The amounts paid were accurate.

Chapter 1-C

The Commission Had Adequate Controls Over Its Procurement Process

Chapter 1-C  
Rating:  
Low <sup>4</sup>

The Commission had processes and related controls in fiscal year 2015 and the first two quarters of fiscal year 2016 to ensure that it administered procurement transactions in accordance with applicable statutes, rules, and Commission policies and procedures. The Commission appropriately authorized, approved, and properly supported all 32 purchasing transactions tested totaling \$849,708. For fiscal year 2015 and the first two quarters of fiscal year 2016, the Commission recorded in USAS total expenditures of approximately \$357 million, of which \$6.2 million (2 percent) were purchasing transactions.

For all 32 purchasing transactions tested, the Commission had documentation showing that it:

- Made purchases for goods and services that were allowable.
- Followed the appropriate procurement method.
- Obtained authorization and approval prior to processing the purchase.
- Maintained proper support.

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<sup>4</sup> The risk related to the issues discussed in Chapter 1-C 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.

- Coded purchases correctly in its accounting system (the Centralized Accounting and Payroll/Personnel System, or CAPPs) and USAS.

Chapter 1-D

The Commission Had Adequate Controls Over Revenue Transactions; However, It Should Document Its Processes and Ensure Adequate Segregation of Duties

Chapter 1-D  
Rating:  
Low<sup>5</sup>

The Commission had adequate controls over the collecting, recording, and depositing of revenue. It adequately supported, correctly calculated and recorded, and appropriately deposited all 44 revenue transactions tested. However, the Commission should ensure that there is adequate segregation of duties over revenue collection and that policies and procedures for revenue are documented.

For fiscal year 2015 and the first two quarters of fiscal year 2016, the Commission recorded in USAS approximately \$2.8 million in revenue. Auditors tested 44 revenue transactions totaling \$1.6 million (57 percent). For all 44 revenue transactions tested, the Commission:

- Maintained adequate supporting documentation.
- Appropriately recorded and deposited transactions.
- Accurately calculated and reported the staff time spent administering the Texas Universal Service Fund<sup>6</sup>, for which the Commission receives reimbursement. Eleven (25 percent) of the 44 revenue transactions tested were reimbursement calculations for staff time spent on the Texas Universal Service Fund, and all 11 of those transactions were accurate.

For 7 (16 percent) of the 44 revenue transactions tested, auditors could not determine whether there was segregation of duties in collecting, recording, and depositing of revenue. Specifically:

- Three revenue transactions tested did not have documented approval of the deposit voucher.

<sup>5</sup> The risk related to the issues discussed in Chapter 1-D 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.

<sup>6</sup> The Texas Universal Service Fund provides funding to programs that assist Texas residents, as needed, in obtaining basic telecommunications services.

- Four revenue transactions tested were processed and approved by the same division.

In addition, although the Commission had processes for collecting, recording, and depositing revenue, those processes were not documented. Without documented policies and procedures, the Commission could be at risk that revenue could be inconsistently or inappropriately collected, recorded, and deposited.

#### Recommendations

##### The Commission should:

- Ensure that segregation of duties exists among employees who collect, record, and deposit revenue.
- Develop written policies and procedures for collecting, recording, and depositing revenue.

#### Management's Response

*PUC agrees with the recommendations and will develop a written policies and procedures manual for collecting, recording, and depositing revenue, which will be approved by management. The PUC's fiscal/accounting department is small, employing just six full-time employees. As such, employee turnover in the department may require fiscal/accounting staff to perform overlapping functions for short amounts of time until new staff can be hired in order to ensure all required activities are completed in a timely manner. However, the PUC recognizes that duties should be segregated amongst employees who collect, record, and deposit revenue. Therefore, the policies and procedures manual will contain a description of the duties performed by PUC fiscal/accounting staff to help ensure a segregation of duties among employees who collect, record, and deposit revenue. Target Date: August 31, 2016.*

*The Commission Had Adequate Controls Over Its Payroll Process; However, It Should Complete Performance Evaluations Before Approving Personnel Actions*

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Chapter 2  
Rating:  
Low <sup>7</sup>

The Commission had processes and related controls to ensure that it made payroll payments in accordance with applicable statutes and Commission policies and procedures. However, the Commission should strengthen controls over personnel actions.

In fiscal year 2015 and the first two quarters of fiscal year 2016, approximately \$19.6 million (5 percent) of the Commission's \$357 million in expenditures recorded in USAS were for payroll-related transactions for Commission employees and board members.

For all 60 payroll transactions totaling \$301,738 tested, the Commission:

- Made accurate payments.
- Completed and approved all 60 timesheets associated with the payroll transactions tested.
- Verified that all employees tested had sufficient leave balances prior to approving employees' use of that leave.
- Completed and approved all personnel action forms tested. The Commission uses the personnel action forms to initiate and process merit increases, one-time merit awards, promotions, and other changes in employees' pay.

However, the Commission's policy and procedures on personnel actions did not match its current process. The Commission's documented policies and procedures stated that performance evaluations should be completed within six months prior to approving employees merit increases or one-time merit awards. However, the Commission's current practice is to complete a performance evaluation within 12 months prior to approving a merit salary increase or one-time merit award to an employee.

In addition, for 4 (7 percent) of the 60 payroll transactions tested, the Commission processed merit pay increases without completing the required performance evaluations. Those four merit pay increases totaled \$23,000.

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<sup>7</sup> 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.

## Recommendations

### The Commission should:

- Update its policies and procedures for approving personnel actions to match its current process or modify its current process for approving personnel actions to comply with its internal policies and procedures.
- Verify that it completes a performance evaluation within the required time frame before approving a personnel action.

### Management's Response

*PUC agrees with the recommendations and implemented this recommendation beginning July 1, 2016. On a monthly basis, HR staff informs managers and directors of the due dates for each employee's performance review. Upon requesting a personnel action for an employee, the director or manager is notified if the employee's performance evaluation is past due. If the performance evaluation is not completed by the last day of the month prior to the enactment of the personnel action, the action is delayed until the evaluation is completed. Target Date: Implemented July 1, 2016.*

## *The Commission Should Improve Certain Information Technology Controls Over Its Accounting and Timekeeping Systems*

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Auditors reviewed controls over the automated systems at the Commission that supported the financial processes audited. The Commission had controls in place to ensure that it administered financial transactions in accordance with applicable statutes, rules, and Commission policies and procedures. However, auditors identified weaknesses in the Commission's controls over its accounting and timekeeping systems. Specifically:

- The Commission did not have a formal, documented process for requesting and monitoring access to its accounting system.
- The Commission did not ensure that it adequately tracked all changes made to financial data in its accounting system.
- The Commission's timekeeping system did not have edit checks and audit trails, and certain employees had the ability to edit their timesheets after their timesheets had been submitted and approved.

### Chapter 3-A

#### The Commission Should Improve Access Controls Over Its Accounting System

Chapter 3-A  
Rating:  
Medium<sup>8</sup>

The Commission uses CAPPS for all financial transactions. The Commission's procedures for processing a purchase ensured that the data in CAPPs was complete and accurate. The Commission also used controls in CAPPs to help ensure the accuracy of data entered and that it processed payment vouchers only for valid purchase order items.

The Office of the Comptroller of Public Accounts (Comptroller's Office) maintains the CAPPs system. However, the Commission did not have a formal, documented process for requesting access and monitoring its access to CAPPs, even though the Commission's account management policy states that all accounts created must have an associated request and approval. Instead, the Commission relied on the Comptroller's Office to designate access roles, user preferences, and required approvals in CAPPs. As a result, the Commission did not verify that the access provided was for roles that tracked changes made to financial data, and it did not ensure that there was

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<sup>8</sup> The risk related to the issues discussed in Chapter 3-A is rated as Medium because it presents risks or results that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concerns and reduce risks to a more desirable level.

adequate segregation of duties for employees involved in the purchasing process. Specifically:

- Four Commission employees had access to add, update, and post payment vouchers, and override a payment release control, which requires purchase order and receiving information to be entered prior to issuing payment in CAPPs.
- Three Commission employees had access to enter, update, and approve purchase requisitions and purchase orders. One employee also had access to enter and update purchase requisitions and approve the purchase requisitions entered.

The Commission had a compensating control that required one of two supervisors in the accounting division to approve payments before they were finalized. However, to reduce the risk that users may complete inappropriate transactions, such as creating a false requisition or processing a payment without necessary review and approval, access controls should ensure that separate employees enter, update, and approve purchasing-related information, including payment vouchers and purchase requisitions.

In addition, the Commission did not adequately track all changes to financial data in CAPPs. Specifically, four user accounts had “correction access,” which allowed them to update and add data in CAPPs without an audit trail that tracks those changes. That increases the risk that unauthorized changes could be made to the Commission’s financial data and not be detected. Title 1, Texas Administrative Code, Section 202.21, and the Department of Information Resources’ *Security Control Standards Catalog* require state agencies to have adequate controls, including access controls, to ensure data security and integrity. It should be noted that there is a similar type of high-level access in CAPPs that could be assigned to Commission employees that would allow users to make the same type of changes as “correction access,” but those changes would be tracked.

#### Recommendations

The Commission should:

- Review and improve access to CAPPs to ensure proper segregation of duties for employees involved in the purchasing process.
- Develop a formal process to request access to CAPPs from the Comptroller's Office and verify that access levels provided are appropriate for each employee.

- Restrict employees' access privileges only to accounts that have audit trails.

### Management's Response

*PUC agrees with the recommendations and will update policies and procedures to improve access control and define the segregation of duties in the purchasing process. All updated policies will be approved by management. Additionally, we will request the application support group from the Comptroller's Office to implement audit trails for employee access to CAPPs. Target Date: August 31, 2016.*

#### Chapter 3-B

The Commission Should Improve Controls Over Its Timekeeping System to Ensure That Data on Employee Leave Is Accurate and Complete

Chapter 3-B  
Rating:  
Medium <sup>9</sup>

The Commission had adequate controls over the network supporting its Workforce Accounting System (WAS), the timekeeping system that the Commission uses to track employees' time worked and benefits. For example, the Commission:

- Had a formal, documented change management process.
- Had adequately designed and active network password security settings.

However, the Commission did not have sufficient controls within WAS to ensure that data was accurate and complete. Specifically:

- WAS did not have (1) application controls in the form of field edit checks, such as limiting data entry to minimum or maximum values, to prevent negative leave balances from accruing, or (2) audit trail capabilities to track changes made to data.
- While all users who had access to WAS were current employees and had valid reasons for their level of access, users with "timekeepers" and "administrator" roles had the ability to edit their own timesheets after their timesheets had been submitted and approved.

<sup>9</sup> The risk related to the issues discussed in Chapter 3-B is rated as Medium because it presents risks or results that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

The lack of edit checks and audit trails and the ability of some employees to edit their own timesheets could allow employees to change leave balances to their advantage, and those changes may not be detected.

The Department of Information Resources' *Security Control Standards Catalog* states that state agencies should maintain appropriate audit trails to provide accountability for changes to mission-critical information, hardware, software, and automated security or access rules.

#### Recommendations

##### The Commission should:

- Improve application controls in its timekeeping system to ensure that only appropriate data can be entered and that appropriate audit trails are maintained.
- Limit access within its timekeeping system so that employees do not have access to edit their own timesheets.

#### Management's Response

*PUC will implement edit checks and audit trail capabilities to track changes made in the Workforce Accounting System. Target Date: August 31, 2016.*

# Appendices

## Appendix 1

### *Objective, Scope, and Methodology*

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#### Objective

The objective of this audit was to determine whether the Public Utility Commission of Texas (Commission) has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and agency policies and procedures.

#### Scope

The scope of this audit covered the Commission's activities related to purchasing, payroll, revenue collection, contracting, the System Benefit Fund, and the related information systems between September 1, 2014, and February 29, 2016.

#### Methodology

The audit methodology included collecting information and documentation; interviewing Commission staff regarding financial and operational processes; testing documentation related to purchasing, payroll, revenue collection, contracting, the System Benefit Fund, and information technology; and analyzing and evaluating the results of the tests.

Auditors selected non-statistical, random samples of transactions and expenditures related to purchasing, payroll, revenue collection, and the System Benefit Fund. Those samples were designed to be representative of the population and results may be extrapolated to the population, but the accuracy of the extrapolation cannot be measured.

For purchasing, revenue collection, and contracting, auditors used professional judgement to select additional items for testing. Those sample items generally were not representative of the population; therefore, it would not be appropriate to extrapolate those results to the population.

#### Data Reliability

Auditors assessed the reliability of the data used for purposes of this audit by (1) determining population completeness and reasonableness; (2) reviewing queries used to generate data; (3) interviewing Commission employees and information technology administrators knowledgeable about the data and systems; (4) reviewing source documentation for payroll and contract data, and (5) performing walkthroughs of processes with Commission employees.

Auditors determined that the data was sufficiently reliable for the purposes of this audit.

Information collected and reviewed included the following:

- Commission policies, procedures, and guidelines.
- Expenditure and revenue data from the Uniform Statewide Accounting System (USAS).
- Purchase requisitions, purchase orders, invoices, purchase vouchers, and supporting documentation for Commission purchases from the Centralized Accounting and Payroll/Personnel System (CAPPS).
- Employee payroll and personnel action information from the Uniform Statewide Payroll/Personnel System (USPS).
- Employee personnel files, time sheets, and leave balance reports.
- Selected Commission contracts in place during fiscal year 2015 and the first two quarters of fiscal year 2016.
- Supporting documentation for the Commission's retail electric provider reimbursement transactions for the System Benefit Fund.
- Supporting documentation related to the general controls and application controls over the Commission's network, accounting, and timekeeping systems.

Procedures and tests conducted included the following:

- Interviewed Commission staff to identify the Commission's financial and operational processes, including financial and administrative internal controls, and the information systems that support those processes.
- Tested transactions related to purchasing, contracting, revenue processing, payroll, and reimbursement transactions for the System Benefit Fund to determine compliance with the Commission's policies and procedures and state laws and regulations.
- Analyzed payroll transactions to determine whether payments were appropriate and made only to Commission employees and whether leave balances were sufficient.
- Reviewed supporting documentation related to the general controls and application controls over the Commission's network, accounting, and timekeeping system.

Criteria used included the following:

- Texas Government Code, Chapters 659 and 661.
- The General Appropriations Act (83rd Legislature).
- Title 16, Texas Administrative Code, Chapter 25.
- Title I, Texas Administrative Code, Chapter 202.
- Texas Utilities Code, Section 39.903.
- Office of the Comptroller of Public Accounts' eXpendit purchasing procedures.
- Office of the Comptroller of Public Accounts' manual of accounts.
- Office of the Comptroller of Public Accounts' *Reporting Requirements for Fiscal 2015 Annual Financial Reports of State Agencies and Universities*.
- *USAS Accounting and Payment Control Fiscal Policy and Procedure*.
- *State of Texas Procurement Manual*, 2012 version.
- *State of Texas Contract Management Guide*, version 1.13.
- Commission internal policies, procedures, and guidelines.
- Department of Information Resources' *Security Controls Standard Catalog*, version 1.3.

#### Project Information

Audit fieldwork was conducted from January 2016 through May 2016. 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:

- Namita Pai, CPA (Project Manager)
- Karen S. Mullen, CGAP (Assistant Project Manager)
- Kelsey A. Arnold, CGAP

- Ryan Marshall Belcik
- Valerie W. Bogan
- Taylor L. Huff
- Nicole D. McClusky
- J. Scott Killingsworth, CIA, CGAP, CGFM (Quality Control Reviewer)
- Michael Simon, MBA, CGAP (Audit Manager)

## Issue Rating Classifications and Descriptions

Auditors used professional judgement 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 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.

## **Related State Auditor's Office Work**

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Related State Auditor's Office Work		
Number	Product Name	Release Date
11-043	An Audit Report on the System Benefit Fund and the Low-Income Electric Discount Program at the Public Utility Commission	July 2011

Copies of this report have been distributed to the following:

### Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Otto, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

### Office of the Governor

The Honorable Greg Abbott, Governor

### Public Utility Commission of Texas

Members of the Public Utility Commission of Texas

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