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Fiscal Year 2027 Annual Risk Assessment and Audit Plan

Date: October 23, 2026

1. Introduction

The Internal Audit Division (IAD) is pleased to present the proposed audit plan and strategic vision for the Railroad Commission of Texas (RRC) for Fiscal Year (FY) 2027.

This plan is the culmination of a comprehensive risk assessment conducted by the Chief Audit Officer (CAO), evaluating risk exposure across internal agency processes, expenditures, revenues, and information technology systems. The proposed audit and advisory service project areas detailed herein represent the highest potential return on the agency's audit resource investment.

2. Purpose and Mission

This audit plan fulfills the statutory requirements of the Texas Internal Auditing Act (Texas Government Code, Chapter 2102) and adheres to Government Auditing Standards and the International Professional Practices Framework promulgated by the Institute of Internal Auditors (IIA).

The IAD delivers independent, objective assurance and advisory services to assist the Commissioners and executive management in achieving agency objectives. By providing data-driven analyses and actionable recommendations, the IAD supports management in driving constructive change, mitigating business risk, and enhancing accountability across the regulated community and business partnerships.

3. Audit Charter and Authority

The roles, scope, and responsibilities of the IAD are governed by the Audit Charter, which was formally approved by the Commission in April 2018. This Charter establishes the IAD's independence, authority, professional standards, reporting relationships, and quality assurance frameworks.

Per the Texas Internal Auditing Act, the IAD adopts the IIA definition of internal auditing:

> *"An independent, objective assurance and advisory service designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes."*

4. Engagement Categories

The IAD executes two primary categories of engagements:

Assurance Engagements

Assurance projects are primarily executed as performance audits or Agreed-Upon Procedures (AUP) engagements.

- **Performance Audits:** Defined by Government Auditing Standards as engagements providing objective analysis, findings, and conclusions to improve program performance, reduce costs, facilitate informed oversight, and contribute to public accountability.
- **Agreed-Upon Procedures (AUP):** Attestation engagements requested by RRC management where auditors issue specific findings based on predetermined procedures applied to targeted subject matter. AUP reports do not contain formal corrective recommendations.

Advisory Engagements

Advisory services provide stakeholders with expert advice without assuming management responsibilities or providing formal assurance. Governed by specific engagement letters, these projects aim to add value and strengthen governance, risk management, and operational controls.

5. Risk Assessment Methodology

Risk assessment is a dynamic, continuous process designed to identify and analyze internal and external risks that could impact the achievement of organizational goals, evaluated through the lenses of likelihood and impact.

During this cycle, the IAD gathered strategic input from RRC Commissioners, Executive Management, and Division Directors, while also analyzing historical audit data, legislative priorities, and public interest matters.

Key Assessment Outcomes:

Risk Categorization: Identified activities were ranked by risk exposure, including fraud risk assessments where applicable. High-risk areas were prioritized into actionable project designs.

Comprehensive Coverage: No areas identified as "high risk" were omitted from the FY 2027 plan.

Funding and Contract Reviews: Auditable activities were cross-referenced against strategies funded by the General Appropriations Act, agency fee collections, and IT infrastructure. Fee collections were determined to be low-to-moderate risk; high-risk agency contracts have been integrated directly into the proposed project list.

Plan Adaptability: The risk assessment remains fluid. The IAD will continuously monitor emerging risks and collaborate with the Commissioners and Executive Management to adjust the plan as operational realities, resource availability, or workloads shift.

6. Proposed Fiscal Year 2027 Audit Projects

The following schedule details the assurance, advisory, and administrative projects slated for execution:

FY 2026 Carry-Over Projects

Fuel & Maintenance Card Follow-up

Critical Infrastructure Activities at the Railroad Commission Follow-up (SAO Audit 25-037)

FY 2027 Assurance Projects

Selected Key Performance Measures (Up to 4 projects)

Selected Contract Audits (Up to 2 projects)

Texas Administrative Code (TAC) 202 / 477 (Information Security Standards) Compliance Audit

Identity Management Audit

Divisional & Administrative Projects

FY 2028 Risk Assessment & Audit Plan Development

Internal Audit Annual Report Completion

Special Requests from Commissioners / Executive Director

Fraud, Waste, and Abuse Investigations

Continuing Professional Education (CPE) & Staff Training

7. Resource Adequacy and Risk Acceptance

The proposed portfolio optimizes available resources to target the agency's highest priorities. However, internal auditing cannot eliminate or review all institutional risks. Executive leadership must recognize the inherent limitations of audit coverage regarding unaudited operational segments.

Per Senate Bill 1694 (78th Legislative Session) amending the Texas Internal Auditing Act, the governing board holds the ultimate responsibility to determine if resources dedicated to the audit program are adequate to address identified risks within a reasonable timeframe.

Personnel Resources: The CAO asserts that current staffing levels are adequate to cover the high-risk projects outlined in this plan. Expanding audit coverage would require additional full-time equivalents (FTEs).

Operational Budget: The current operating budget is sufficient to cover administrative costs. Historically, the Commission has accommodated requests for supplemental audit resources in good faith, and the CAO remains confident this collaborative support will continue.

8. Operational Contingencies and Functions

Contingency Allocations

Resources have been explicitly reserved within the plan to accommodate unprogrammed, high-priority special requests originating from the Commissioners or the Executive Director.

Planning and Administration

A defined percentage of total available hours is allocated to required non-fieldwork tasks, including external audit liaison duties, mandated follow-up processes, and ongoing risk modeling.

Advisory Committees

Audit staff will continue to participate in an ex-officio, non-voting capacity within internal agency committees and working groups to offer real-time control insights and policy reviews without impairing independence.

Audit Follow-Up

Per professional standards, the IAD will issue semi-annual (Fall and Spring) follow-up reports tracking the implementation status of management action plans. Follow-up monitoring persists until the underlying risk is mitigated, resolved, or formally accepted by executive management.

External Audit Liaison Functions

The CAO serves as the primary liaison between the RRC and external oversight bodies, including the Texas State Auditor’s Office (SAO). The IAD coordinates with external auditors to optimize efficiency, eliminate duplicative testing, and ensure seamless public accountability.

9. Management Controls

Management retains primary responsibility for designing, implementing, and maintaining a robust internal control infrastructure to ensure organizational objectives are met. As noted in the COSO Internal Control—Integrated Framework, internal control is an ongoing process driven by leadership and personnel to provide reasonable assurance regarding operations, reporting, and compliance. All performance audits executed under this plan will evaluate controls relevant to specific project objectives.

10. Closing

The IAD appreciates the active cooperation of the RRC Commissioners, leadership, and staff during the development of this plan. We look forward to supporting the agency's operational integrity and mission in FY 2027.

Respectfully submitted,
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