



BROWNSVILLE
PUBLIC UTILITIES BOARD

Audit Report Findings

RANKINGS INITIATIVE OVERVIEW

● ● ● AUDIT COMMITTEE | December 10, 2025

David A. Medrano CPA, CFA, CIA, CFE, CCEP

Director of Finance

Finance



Guiding Principles

Build Trust Through Transparency, Collaboration and Timely, Honest Communication

Demonstrate Thoughtful Consideration to the Significance and Materiality of Findings Being Evaluated

Provide A Reasonable Depiction of BPUB's Risk Profile With Respect to Audit Report Findings

Continuous Improvement in Regards to Identifying, Evaluating and Remediating Issues Posing Material (Significant) Risks to Achievement of BPUB Objectives

Reference Guidelines**

ISO 9001:2015 – Quality Management System (*used to help in establishing guiding principles*)

ISO 31000:2018 – Risk Management Guidelines (*used to help guide principles for materiality*)

IIA Global Internal Audit Standards v.2024 (*used to help guide key terms*)

Government Auditing Standards (publisher: US Government Accountability Office by the Comptroller General of the United States)

Committee of Sponsoring Organizations of the Treadway Commission (COSO) Enterprise Risk Management - Integrated Framework v.2004

***used in identifying relevant key terms/definitions, concepts, common practices, etc.*



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Phases of Initiative

BPUB management transforms current process-
Implements risk management principles, concepts and practices

Q1 FY2026

Management Develops
Transparent, Standardized
Methodology/Model To
Rank Findings; presents
concept to Audit
Committee

Q2-Q3 FY2026

Management to review
sample of outstanding audit
report Findings using the
methodology developed
and agreed upon for proof
of concept results.

Management fine tunes
methodology/model based
upon results

Q4 FY2026

Management begins
screening audit report
Findings on go-forward
basis using
methodology/model
developed. Should be
used prioritize
management actions with
regard to Findings and
provide objective
assessment of BPUB risk
profile

Risk- Based Approach

Benefits

- Consistent with professional standards
 - Enhanced Insight
 - Improved Decision Making
 - Efficient Resource Allocation
- Enhanced Strategic Alignment
- Proactive Risk Management
- Improved Efficiency and Performance

Conformance-
(Gap)
Based
Approach



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Objectives of Initiative

- Establish a practical, standardized enterprise-level approach which management may use in monitoring and addressing audit report Finding(s)
- Facilitate added stakeholder transparency regarding audit finding(s) and enterprise-level risks
- Enable distinguishing between (i) a audit Finding and, (ii) a Risk
- Enable development of a comprehensive risk profile of audit Findings across the enterprise
- Effective allocation of resources by prioritizing management attention to Finding(s) that pose an unreasonable level of risk and are likely to have a material adverse impact on BPUB
- Promote ongoing, timely collaboration between management and internal audit in timely addressing material risks and material control deficiencies
- Serve as a complement to BPUB's Enterprise Risk Management strategic initiative



Working Definitions – Key Concepts

Control* -

Action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved

Control Process*

Activities designed and operated to manage risks to be within the level of an organization's risk tolerance

MATERIALITY –**

The concept of identifying and focusing on risks that are significant enough to influence the decisions of stakeholders or impact the organization's ability to achieve its' objectives

Risk* –**

The possibility that an event will occur and adversely affect the achievement of objectives

Risk Tolerance* –

Acceptable variations in performance related to achieving objectives.

SIGNIFICANCE* -

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, relevance, and impact.

* The Institute of Internal Auditors Global Internal Audit Standards v2024

** Google AI

*** COSO (ERM) Integrated Framework v.2004



Finding

“...the determination that a gap exists between the evaluation criteria and the condition of the activity under review...”

Source: Institute of Internal Auditors – Global Internal Audit Standards v.2024

“An issue that may involve: a deficiency in internal control; non-compliance with provisions of laws, regulations, contracts, or grant agreements, or instances of fraud. Elements of a finding generally include: Criteria, Condition, Cause, and Effect or potential Effect.”

Source: Government Auditing Standards v. 2024 revision



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Introduction

As of October 31, 2025 BPUB had 103 audit findings outstanding across the following 38 audit reports

| Count of Requested Audit Reports | Audit Report Requested | Number of Findings | Date Audit Completed | Follow-up Audit Report Date |
|---|---|--------------------|----------------------|-----------------------------|
| 1 | Water & Wastewater Operations | 1 | 5/2/2025 | |
| 2 | Environmental Compliance | 1 | 5/19/2025 | |
| 3 | Accounting Petty Cash Counts #1 #2 | 1 | 6/2/2025 | |
| 4 | Analytical Laboratory | 2 | 6/27/2025 | |
| 5 | Raw Water Supply | 1 | 6/27/2025 | |
| 6 | Cross Connection Control | 6 | 7/24/2025 | |
| 7 | Facility Maintenance - Annex | 2 | 7/24/2025 | |
| 8 | Water & Waste Water(W/WW) Plant Maintenance | 5 | 7/31/2025 | |
| 9 | Pretreatment | 4 | 9/17/2025 | |
| 10 | Call Center | 1 | 9/17/2025 | |
| 11 | Asset Management & CIP Delivery | 1 | 9/17/2025 | |
| 12 | Overtime-Company Wide | 1 | 9/17/2025 | |
| 13 | General Manager | 2 | 9/26/2025 | |
| 14 | Electric Transmission & Distribution (T&D) Construction & Maintenance (C&M) | 15 | 9/26/2025 | |
| 15 | Digital Information Platforms | 3 | 9/26/2025 | |
| 16 | Communications & Public Relations | 4 | 9/26/2025 | |
| 17 | Accounting & Treasury Accts Receivable | 4 | 9/30/2025 | |
| 18 | Training & Organizational Development | 2 | 10/31/2025 | |
| 19 | Accounting & Treasury Accts Payable | 4 | 10/31/2025 | |
| 20 | Legal Services - Contracts | 4 | 10/31/2025 | |
| 21 | Compensation & Benefits | 3 | 10/31/2025 | |
| 22 | Electric Meter Shop Operational Follow Up | 1 | | 11/7/2024 |
| 23 | Energy Efficiency & Conservation Follow Up | 1 | | 11/7/2024 |
| 24 | Talent Acquisition & Staffing Follow Up | 1 | | 11/7/2024 |
| 25 | Customer Service Follow Up | 1 | | 1/31/2025 |
| 26 | Electric Transmission & Distribution New Connections Follow Up | 1 | | 3/27/2025 |
| 27 | Human Resources Follow Up | 1 | | 3/27/2025 |
| 28 | Procurement Card Follow Up | 2 | | 3/27/2025 |
| 29 | Water & Wastewater (W/WW) Engineering Follow Up | 4 | | 4/11/2025 |
| 30 | Water & Wastewater (W/WW) Project Development Follow Up | 4 | | 4/11/2025 |
| 31 | Real Estate Follow Up | 2 | | 3/27/2025 |
| 32 | Facility Maintenance 511 Service Yard Follow Up | 3 | | 5/2/2025 |
| 33 | Warehouse Annual Inventory Count Follow Up | 1 | | 6/13/2025 |
| 34 | Legal Services - Contracts Follow Up | 5 | | 6/27/2025 |
| 35 | Safety & Security Operations Follow Up | 1 | | 7/31/2025 |
| 36 | Wastewater Lift Stations Follow Up | 1 | | 9/26/2025 |
| 37 | Warehouse Follow Up | 4 | | 9/17/2025 |
| 38 | Payroll Follow Up | 3 | | 10/31/2025 |
| Beginning Inventory of Findings to Target | | 103 | | |

NOTES:

1. Data as of October 31, 2025
2. Source Of Data: Department of Internal Audit



Standard 14.3**

EVALUATION OF AUDIT FINDINGS

The Institute of Internal Auditors - *Global Internal Audit Standards*

Requirements

“Internal auditors must evaluate each potential engagement finding to determine its significance....To determine the significance of the risk, internal auditors must consider the likelihood of the risk occurring and the impact the risk may have on the organization.... Internal auditors must prioritize each engagement finding based on its significance..... if....the organization is exposed to a significant risk, it must be documented and communicated as a finding.”

Considerations for Implementation

“...A rating or ranking can be an effective communication tool for describing the significance of each finding and may assist management with prioritizing its action plans. When determining the significance, internal auditors should consider:

- The Impact and likelihood of the risk*
- The risk tolerance*
- Any additional factors important to the organization.....”*

**Under Global Internal Audit Standards, for purposes of providing guidance to users for what qualifies as a Finding, the Standards emphasize that the set of circumstances which create a gap between the evaluation criteria and condition under review, have reached such a degree as expose the organization to Significant risk. Language in the Standards was crafted so as to help prevent users from characterizing gaps which pose non-significant risks to the organization, as a Finding which has met the threshold for documenting and reporting as a significant risk. The Standards provides a protocol that guides and allows users to communicate gaps that do not pose significant risks in some way other than as Findings..



Domains Which Management Will Review in Evaluation of Audit Findings

Financial

Safety

Affordability

Regulatory Compliance/Legal

Reputational

Service Delivery

Ethical Culture



The purpose of the Audit Report Finding Ranking model below is to ensure individuals review the materiality of audit report findings in respect to various BPUB objectives domains outlined below. The Objective with regard to each Domain outlined below should be to manage BPUB's operations such that event triggers thresholds (IMPACT) identified are not breached. Managers should assess the likelihood that one or more of the Event Trigger Thresholds outlined would be breached should BPUB's fail to address the audit report finding for which the Materiality and Significance are to be assessed

PROTOTYPE
TOOL

RISK ASSESSMENT COMPONENTS

| | | OBJECTIVES | | | | | | | | | |
|--|-----------|---|--|--|---|---|---|--|--------------------------------|------------------------------------|------|
| | Domain | Financial | Safety | Affordability | Regulatory Compliance / Legal | Reputational | Service Delivery | Ethical Culture | MATERIALITY across all Domains | SIGNIFICANCE Audit Finding Ranking | |
| | Weighting | 15% | 15% | 20% | 15% | 10% | 20% | 5% | 100% | | |
| IMPACT (i.e. Event Trigger Threshold) Q: Would BPUB's Failure to Address Audit Report Finding <i>reasonably</i> * result in a breach of one or more of the following event thresholds | | credit rating downgrade and/or unplanned, cumulative adverse financial impact (asset impairment and/or budgetary),within forward 12 month period, >=.001 of BPUB's Most Recent Fiscal Year End Net Position | Injury causing extended hospitalization, loss of limb or death to customer, employee/board member, or other interested stakeholder | unplanned, cumulative increase of >=10% in electric rates and/or water/wastewater rates over forward 12 month period | criminal prosecution, civil court judgement/fine or regulatory non-compliance violation penalty of >=\$200K | unplanned, untimely Board Member, Executive or Senior Management level separation | failure to meet service delivery target for electric and/or water/wastewater units over forward 12 month period | fraud, theft, unauthorized, intentional destruction of BPUB asset(s), or intentional, willful violation of policy with adverse impact to BPUB >=\$25,000 | | | |
| | | LIKELIHOOD (i.e. probability of occurrence; please select from options below, based upon management's professional judgement) High (76%-100%) = 10 Elevated (75%-51%) = 7 Moderate (50%- 26%) = 4 Low (25%- 1%) = 1 | | 4 | 4 | 4 | 4 | 4 | | | 4 |
| | | MAXIMUM MATERIALITY LEVEL FOR EACH DOMAIN | 1.50 | 1.50 | 2.00 | 1.50 | 1.00 | 2.00 | | | 0.50 |
| | | MATERIALITY LEVEL ASSESSED FOR EACH DOMAIN (Weighting x Likelihood) | 0.60 | 0.60 | 0.80 | 0.60 | 0.40 | 0.80 | 0.20 | 3.80 | Low |
| | | Domain Severity | 40% | 40% | 40% | 40% | 40% | 40% | 40% | | |
| | | Domain Indicator | | | | | | | | | |

*reasonable/reasonably means fair, sensible and justified under the circumstances, i.e. the ordinary care a reasonable person would make in a similar situation

*To be refined in Q2-Q3
2026 through additional
discussions with key
stakeholders

*Is consistent with
guidance from
professional standards

*Provides stakeholders
an objective mechanism
to evaluate whether gaps
identified in audit reports
meet the criteria, as
promulgated by Global
Internal Audit Standards,
which would substantiate
classifying, documenting
and communicating them
as a Finding...
i.e gap poses Significant
Risk to the organization?



Audit Report Finding

Communications, Monitoring and Oversight Matrix

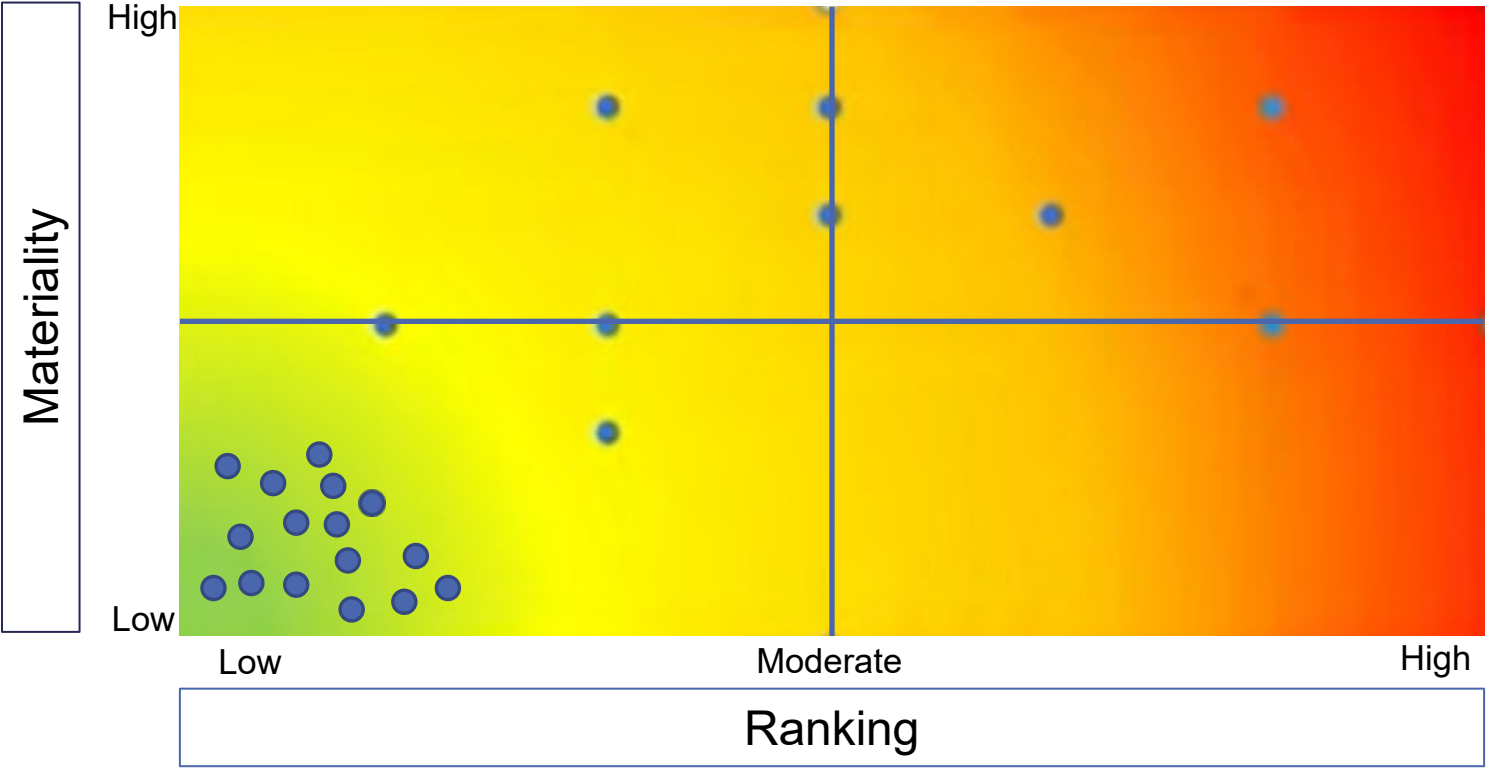
| Total Material Level Assessed | Audit Finding Ranking | Risk Level Description | Management Remediation Timeline-Guideline | Management Level to which staff is to inform of progress on audit reporting finding and status of correction action | Guideline - Frequency of which staff is to report out** |
|-------------------------------|-----------------------|--|---|---|---|
| 7+ to 10 | High | Consequential adverse impact on stakeholder and/or business. High likelihood of one or more event triggers occurring | URGENT Requires Management Action Plan to address finding and design and/or implement corrective action requires immediate attention. | CEO, COO | Weekly |
| 4+ to 7 | Moderate | Mild adverse impact on stakeholder or the business. Moderate likelihood of one or more event triggers occurring, issue to address should have timely resolution but not a crisis | IMPORTANT Requires Management Action Plan to address finding and complete and implement corrective action in 0-6 Months; however, sooner or later may also be feasible given competing business priorities | Business Unit Executive | No less frequently than monthly, no more frequently than weekly |
| 1 to 4 | Low | Minimal or no perceived adverse impact on stakeholder or business. Low likelihood of one or more event triggers occurring. Housekeeping type observation | REASONABLE Requires Management Action Plan to address finding and complete and implement corrective action in 0-9 Months; however, sooner or later may also be feasible given competing business priorities | Department Director | No less frequently than monthly |

**should be more frequent where necessary as determined by management



FUTURE STATE

Finding
Heatmap-Scatterplot



● = example represents the hypothetical classification assigned to a possible future outstanding audit report finding