



## **Audit Report**

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### **Austin Energy Environmental Remediation Risk and Vulnerability Assessment**

**November 14, 2006**

**Office of the City Auditor  
Austin, Texas**

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Date: November 14, 2006

To: Mayor and Council Members

From: Stephen L. Morgan, City Auditor

Subject: Results of AE Environmental Remediation and Hazardous Waste project

Below are the results of our risk and vulnerability assessment on AE environmental remediation and hazardous waste. Based on the results of our work, we are recommending not pursuing further work in this area at this time. This audit was included in our CY 2006 and FY 2007 Service Plans.

The objectives for this audit were to assess risks and vulnerabilities associated with AE's Environmental Care & Protection (ECP) activities. Our intention was to develop an objective, scope and methodology to guide fieldwork in activities which we assessed as both high inherent risk and high vulnerability.

We found that, while there are high environmental risks inherent in the generation and delivery of electricity, for the activities reviewed Austin Energy has controls in place to provide reasonable assurance that these risks are being managed. As a result, we assessed vulnerability as either medium or low for the systems under review. It is for this reason that we are recommending not doing further work in this area at this time.

We appreciate the cooperation we received from AE management during our work on this project. We look forward to continuing our work with the utility to improve its operations.

Stephen L. Morgan, CIA, CGAP, CFE, CGFM  
City Auditor

## **BACKGROUND**

The General Manager and Executive Team of AE establish environmental policy with guidance from the Mayor and City Council. The Environmental Care and Protection group (ECP) manages environmental compliance affairs for AE business units and reports to the Deputy General Manager of Administrative Services. Prior to 2005 the group reported to the Senior Vice President of Power Production. Below are some of the services ECP provides:

- Assesses compliance of selected operations with applicable environmental and health regulations.
- Develops environmental management systems at AE facilities.
- Prepares and submits permits, permit renewals, reports, registrations or other required notifications to applicable regulatory agencies.
- Develops environmental procedures that detail AE processes for compliance.
- Provides environmental training that is required by law or provides awareness.

AE operates three natural gas-fired power plants: Sand Hill Energy Center (SHEC), Decker and Holly. It has a part ownership in the Fayette Power Project (FPP) coal-fired plant that is operated by the Lower Colorado River Authority (LCRA), and a part ownership in the South Texas Project nuclear facility (STP) that is operated by a third-party management company. Local, state and national agencies require AE to monitor and report on air emissions, water quality and waste disposal and storage related to these plants.

## **OBJECTIVE, SCOPE, & METHODOLOGY**

### **Objectives**

The objectives for this audit were to assess risks and vulnerabilities associated with AE's Environmental Care & Protection (ECP) activities. Specifically, we would review the AE ECP business unit to determine AE's risks related to:

1. Compliance with environmental monitoring and reporting requirements promulgated by local, state and national government entities.
2. Compliance with AE environmental monitoring and reporting policies.

Our intention was to develop an objective, scope and methodology to guide fieldwork in activities which we assessed as both high inherent risk and high vulnerability.

### **Scope**

The scope included a review of the activities of the ECP business unit. It also included a review of environmental programs for AE facilities, except that we did not review

environmental matters related to the South Texas Project. We analyzed records for fiscal years 2004 and 2005.

## **Methodology**

To achieve the objectives, we:

- Gathered information on best practices from other utilities and industry groups
- Interviewed AE personnel
- Observed air and water quality testing
- Reviewed policies and procedures
- Reviewed training documentation
- Reviewed planning and monitoring documentation
- Reviewed financial data to determine if fines or penalties had been paid
- Contacted environmental agencies to determine if AE was in compliance with reporting and filing requirements

This audit was conducted in accordance with generally accepted government auditing standards.

## **RESULTS**

**While there are environmental risks inherent in the generation and delivery of electricity, for the activities reviewed Austin Energy has controls in place to provide reasonable assurance that these risks are being managed.**

We assessed vulnerability as either medium or low for the systems under review because AE has policies and procedures in place that reduce the risk that the utility will harm the environment or violate rules or regulations. In addition, AE has achieved positive ratings for environmental activities as a result of its actions. Opportunities exist for further improvement in AE's environmental programs, but they are not considered major findings.

Therefore, we recommend not pursuing additional work in this area at this time.

**We assessed vulnerability as either medium or low for the systems under review.**

We did not discover any major deficiencies. Our results were mostly positive, including:

- AE Management is aware of environmental risks, and is working to mitigate them.
- AE has policies and procedures in place for environmental activities, with the exception that there are no written procedures for water sampling.
- Policies and procedures were being followed for air testing, and water testing was carried out on a consistent basis among the generating units.
- AE personnel are receiving the necessary training to allow them to recognize and deal with environmental issues.

- AE has a tracking system to keep current on environmental reporting and filing requirements.
- AE has controls in place to provide reasonable assurance that sampling data is reliable.

**AE has achieved positive ratings for environmental activities as a result of its actions:**

- AE was in compliance with its reporting and filing requirements for the items we tested.
- According to the Texas Commission on Environmental Quality (TCEQ), AE had only one minor violation (for not making a timely filing) in the last five years. The fine for the violation was less than two thousand dollars.
- AE has a favorable Compliance History Rating with the TCEQ, which would not be the case if AE had significant environmental problems in the past.
- An outside consultant completed an environmental audit in 2005, and made eight high priority recommendations. OCA verified that AE has addressed six of them. The other two recommendations were related to Decker Power Plant. TCEQ completed a subsequent audit of Decker and found no major non-conformance issues.
- Environmental audits were conducted by LCRA for Fayette Power Project in 2002 and 2006. The LCRA concluded that FPP has a good environmental management system that appears to be functioning effectively in managing environmental risks.

**Opportunities exist for further improvement in AE's environmental programs.**

These issues are not considered significant findings, but AE management should consider taking action to achieve best practices for its operations.

- AE has not conducted an environmental audit of SHEC similar to the 2005 audit that included Decker and Holly power plants. The combined cycle generating unit at SHEC has been in operation since October 2004.
- AE has not conducted a formal follow-up to confirm the implementation status of the approximately 85 recommendations from the 2005 environmental audit which were not listed as high priority. ECP is tracking the implementation status.
- AE does not have written procedures for its water testing program. OCA observed the testing and AE is consistent in its testing methods, and there are controls in place to provide reasonable assurance that sampling data is reliable.
- AE does not “split out” the samples it tests internally for chemicals and pollutants. EPA suggests (but does not require) that ten percent of a sample be sent to a second lab to verify the findings of the first lab. AE relies on internal validation by a senior chemist or by a chemist other than the one who conducted the tests.
- ECP has developed a Service Level Agreement with each of the generating units that details what services ECP will provide, and activities for which personnel at the units are responsible. The agreements are supposed to be renewed annually, but the agreements for Holly and Decker have not been renewed since 2003. Some portions of the agreements may be out of date.