



Glenn Hegar Texas Comptroller of Public Accounts

Report on the Activities of the Texas Comptroller of Public Accounts

INTERNAL AUDIT DIVISION | FISCAL 2023



Submitted to
Governor's Office, Budget and Policy Division
Texas Comptroller of Public Accounts
Legislative Budget Board
State Auditor's Office

Nov. 1, 2023

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I. Compliance with Texas Government Code Section 2102.015: Posting the Internal Audit Plan and Internal Audit Annual Report on the Website

The Texas Comptroller of Public Accounts (Comptroller's office) has developed a process to follow to ensure compliance with the provisions of Texas Government Code Section 2102.015. The approved Internal Audit Annual Audit Plan, as provided by Texas Government Code Section 2102.008, was posted on the Comptroller's office website (<https://comptroller.texas.gov/transparency/reports/cpa-operations/>). In addition, the Internal Audit Annual Report, as required by Texas Government Code Section 2102.009, will be posted on the Comptroller's office website.

In accordance with Texas Government Code Title 5 Open Government Ethics, Chapter 552 Public Information, Subchapter C Information Excepted from Required Disclosure, the Internal Audit Division will not release any confidential or sensitive information protected by this exception. Any information not protected by this or another applicable exception that is determined to be confidential in nature will be specifically designated as such in accordance with State Auditor's Office (SAO) guidelines. No information contained in the agency's Internal Audit Annual Audit Plan or Internal Audit Annual Report is excepted from public disclosure under Chapter 552.

Texas Government Code Section 2102.015 also requires state agencies to update the posting required under this section to include:

- A "detailed summary of the weaknesses, deficiencies, wrongdoings or other concerns, if any, raised by the audit plan or annual report."
- A "summary of the action taken by the agency to address the concerns, if any, that are raised by the audit plan or annual report."

To ensure compliance, reports on the implementation status of audit recommendations are posted on the Comptroller's office website (<https://comptroller.texas.gov/transparency/reports/cpa-operations/>), unless excepted from public disclosure.

II. Internal Audit Plan for Fiscal 2023

Fiscal 2023 Audits	Status
Audit of Agency Budget and Internal Accounting	Changed to a Process Review. Reporting phase.
Audit of Fiscal Management Software Development and Maintenance	Completed Report Title: An Internal Audit Report on the Audit of Fiscal Management Software Development and Maintenance Report No.: 96-1882 Report Date: April 2023
Audit of Hardware and System Software Administration	Completed Report Title: An Internal Audit Report on Hardware and System Software Administration Report No.: 96-1890 Report Date: September 2023
Audit of Internal Investments	Completed Report Title: An Internal Audit Report on the Audit of Internal Investments Report No.: 96-1869 Report Date: February 2023
Audit of Administrative Hearings Activities (Previously the Audit of Settlement Review Activities)	Completed Report Title: An Internal Audit Report on the Audit of Administrative Hearings Activities Report No.: 96-1889 Report Date: September 2023
Audit of Cash Flow	Changed to a Process Review. Completed.
Audit of Investment Accounting	Completed Report Title: An Internal Audit Report on the Audit of Investment Accounting Report No.: 96-1873 Report Date: August 2023
Audit of Data Remittance Entry	Completed Report Title: An Internal Audit Report on the Audit of Data and Remittance Entry Report No.: 96-1891 Report Date: September 2023
Audit of Cash and Securities Processes (Previously the Audit of Settlement and Custody Services)	In progress. Fieldwork phase.

Fiscal 2022 "In Progress" Audits	Status
Audit of Statewide Procurement Division (SPD) Systems Administration and Support	Completed Report Title: An Internal Audit Report on Audit of SPD Systems Administration and Support Report No.: 96-1871 Report Date: December 2022
Audit of Enforcement Collections Processes	Completed Report Title: An Internal Audit Report on the Audit of Enforcement Collections Processes Report No.: 96-1868 Report Date: October 2022
Audit of Taxpayer Audits and Refund Verifications	Completed Report Title: An Internal Audit Report on the Audit of Tax Audits and Refund Verifications Report No.: 96-1872 Report Date: January 2023

III. Consulting Services and Non-audit Services Completed

Report Number	Report Date	Report Name	High-Level Objective(s)	Observations/Results and Recommendations
N/A	N/A	N/A	Information Protection Policies and Standards (IPPS)	Consulted with Information Security on enforcement of the IPPS. Attended IPPS Review Committee meetings.
N/A	N/A	N/A	Special Investigations	Investigations were conducted and appropriate actions were taken to respond to complaints received.
N/A	N/A	N/A	Information Technology Steering Committee (ITSC)	This ongoing consulting engagement provides for Internal Audit to serve in an advisory capacity to the ITSC that guides and directs efforts to align Information Technology (IT) investments with the needs of the divisions.
N/A	N/A	N/A	External Auditor Liaison	Performed liaison activities with external auditors (i.e., SAO and Clifton Larson Allen, LLP) conducting audits at the Comptroller's office.
N/A	N/A	N/A	Security Governance Council	This ongoing consulting engagement provides for the Internal Audit Division to serve in an advisory capacity on the council that oversees and sanctions the protection of agency information and information resources.
N/A	N/A	N/A	Agency Anti-Fraud Committee	This ongoing consulting engagement provides for the Internal Audit Division to serve in an advisory capacity on the committee that exists to educate employees about; address instances of; investigate allegations of; and provide leadership on matters of fraud, theft, waste and abuse throughout the agency.
N/A	N/A	N/A	Review of Cash Flow	The objective of this consulting engagement was to perform a limited review of the procedures supporting the Fiscal Management Division's Cash Flow business process in accordance with the statutes applicable to the business process.
N/A	N/A	N/A	Review of Receiving and Validating Unclaimed Property Claims	The Internal Audit Division reviewed risk and controls associated with the Unclaimed Property Division management replacing the current manual process for requesting warrants to be withheld for pickup with a system-generated reporting process.
N/A	N/A	N/A	Review of Printing and Distributing Forms, Returns, Letters and Reports	The Internal Audit Division performed a limited review of the printing and distribution procedures supporting the IT Client Support Section.

IV. External Quality Assurance Review (Peer Review)

August 31, 2023

Cheryl Scott
Director of Internal Audit
Texas Comptroller of Public Accounts

Dear Ms. Scott,

We have completed the peer review of the Texas Comptroller's of Public Accounts (Comptroller's Office) Internal Audit Department for the period 7/2022-6/2023. In conducting our review, we followed the standards and guidelines contained in the Peer Review Manual published by the State Agency Internal Audit Forum (SAIAF).

The Institute of Internal Auditors (IIA) International Standards for the Professional Practices of Internal Auditing and Code of Ethics, U.S. Government Accountability Office (GAO) Government Auditing Standards, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102) require that internal audit functions obtain external quality assurance reviews (peer reviews) to assess compliance with standards and the Act and to appraise the quality of their operations.

We reviewed the internal quality control system and conducted tests to determine if the internal quality control system operated to provide reasonable assurance of conformance with the IIA Standards, the GAO Standards, and the Texas Internal Auditing Act. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case but does imply adherence in most situations. Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Comptroller's Office Internal Audit Department receives a rating of **Pass/Generally Conforms**.

"Pass/Generally Conforms" means that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity with applicable professional standards (International Standards for the Professional Practices of Internal Auditing and Code of Ethics, U.S. Government Accountability Office Government Auditing Standards, and the Texas Internal Auditing Act) in all material respects. There may be opportunities for improvement, but these should not present situations where the activity has not implemented the professional standards and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation or successful practice, etc. This is the highest of three possible ratings that can be achieved.

We have provided suggested improvements in a separate communication to further strengthen the internal quality control system. The Comptroller's Office Internal Audit Department has reviewed the results of the work performed by the peer review team and accepted them to be an accurate representation of operations. To the extent lawful, the Comptroller's Office Internal Audit Department agrees to hold SAIAF and its officers and representatives harmless of any liability arising from the actions of the peer review team or issues resulting from the peer review.

Signature on File

Marios Parpounas, CIA, CFE, CISA, CGFM
Director of Internal Audit
Office of the Governor

V. Internal Audit Plan for Fiscal 2024

Fiscal 2024 Audits

Project Title	Division	Section	Project Hours
Audit of Hardware and System Software Administration – Workstation, Mobile and Cloud	Information Technology (IT)	Infrastructure and IT Client Support	750
Audit of Business Application Maintenance and Support – Tools	IT	Application Services, Infrastructure, Planning and Analytics and Security Data Operations	1,700
Audit of Outsource Collections of Delinquent Taxes	Enforcement	Headquarters Support	1,150
Audit of Species Research Funding and Management	Government Affairs and Programs	Natural Resources	1,700
Audit of Assist Personnel in Processing and Reporting Payroll, Personnel and Financial Data	Fiscal Management	Human Resources/Payroll Operations Area	1,150
Audit of Electronic Filing Systems	Account Maintenance	Franchise and Electronic Reporting	2,200
Audit of IT Procurement and Supplier Management	IT	Planning and Analytics	1,150
Audit of Customer Service, Public Outreach and Training	Tax Policy	All Sections	1,650
Audit of Data Loss Prevention	Information Security	Data Loss Prevention/Security and Awareness	700
Audit of System Maintenance, Administration and User Testing	Texas Treasury Safekeeping Trust Company (TTSTC)	Finance	375
Audit of TTSTC Contracts Administration	TTSTC	Legal and Administrative Counsel	850
		Total Fiscal 2024 Audit Hours	13,375

The Audit of IT Procurement and Supplier Management will evaluate internal controls over IT procurements and contracting. The Audit of TTSTC Contracts Administration will evaluate the internal controls over the TTSTC contracts administration. Additionally, to address contract management, the Internal Audit Division reviews associated contracts during each audit conducted to ensure compliance with contract processes and controls and for monitoring agency contracts.

Fiscal 2024 Process Reviews

Project Title	Division	Section	Project Hours
Process Review of TTSTC Finance	TTSTC	Finance	290
Process Review of Legal Counsel	Fiscal and Agency Affairs Legal Services	Legal Counsel	300
Process Review of Editorial	Communications and Information Services	Editorial	290
Process Review of Procurement Policy and Outreach	Statewide Procurement	Procurement Policy and Outreach	240
Process Review of Education and Communications	Property Tax Assistance	Education and Communications	290
Process Review of Fiscal Operations	Fiscal Management	Fiscal Operations	290
Process Review of Analyze, Evaluate and Administer Statewide Broadband Efforts	Government Affairs and Programs	Broadband Development Office	350
		Total Fiscal 2024 Process Review Hours	2,050

Fiscal 2023 Audits in Progress

Project Title	Division	Section	Project Hours
Audit of Hardware and System Software Administration	IT	Infrastructure and IT Client Support	35
Audit of Administrative Hearings Activities	Hearings and Tax Litigation	Administrative Hearings	40
Audit of Investment Accounting	TTSTC	Finance	25
Audit of Data Remittance Entry	Revenue Processing	Data/Remit Entry and Tax Records	40
Audit of Cash and Securities	TTSTC	Finance	300
		Total Fiscal 2023 Audits-in-Progress Hours	440

Special Projects/Management Requests

Project Title	Project Hours
Follow-Ups	350
Client Assist (Internal/External)	10
Fiscal 2023 Internal Audit Annual Report	20
Fiscal 2025 Risk Assessment	615
Fiscal 2024 Audit Plan Monitoring	120
Call Center Project	250
TeamMate Maintenance	60
Internal Audit SharePoint Maintenance	20
TeamMate Template Revision	100
Quality Assurance Reporting	20
IT Steering Committee	10
Internal Audit Handbook Review	32
IT Audit Template	240
Special Investigations	0
External Peer Reviews	0
Internal Audit Awareness	135
TTSTC Board/Committee Meetings	40
Special Projects/Management Requests Carry Forward:	
Fiscal 2024 Risk Assessment	20
Fiscal 2023 Process Reviews	650
Other Requests/Unallocated Hours	449
Total Special Projects/Management Requests	3,141

Summary of Hours

Summary	Total Hours
Total Fiscal 2024 Audit and Process Review Hours	15,425
Total Fiscal 2023 Audits in Progress Hours	440
Total Special Projects/Management Requests	3,141
Direct Audit Hours	19,006
Indirect Hours	8,138
Total Hours	27,144

The Internal Audit Division (Division) developed the Internal Audit Plan for fiscal 2024 in accordance with the Texas Internal Auditing Act (Act). The Act requires that the Division conduct an annual risk assessment and develop the Annual Internal Audit Plan based on the results of the annual risk assessment. The risk assessment is based on 401 processes reported through the Enterprise Risk Management Program. The Division analyzed and assessed the risks to those processes by using the self-assessment module of the Division's TeamMate audit software, supplemental risk questionnaires and interviews with executive management and division directors, and it used the results to conduct the annual risk assessment for fiscal 2024. The Division considered risks related to contract management [Texas Government Code Section 2102.005(b)] and information technology [Title 1 Texas Administrative Code Chapter 202 (Information Security Standards)] in its risk-assessment process by obtaining probability and impact and monitoring risk-level ratings for applicable agency processes through the TeamRisk self-assessments. The Division reviewed these risk-level ratings further and adjusted, as needed, based on auditor judgment in the TeamRisk auditor assessment worksheet.

Risk Factors and Weights

Risk Factor	Risk Weight
Control Environment	15.00%
Risk and Monitoring	20.00%
Dollar Value of Transactions	15.00%
Reliance on Third Parties	10.00%
Organizational Changes	5.00%
Legislative Interest	5.00%
Confidential Information	10.00%
Management Concern	10.00%
Information Systems	10.00%

The risk assessment identified 32 high-risk, 357 medium-risk and 12 low-risk processes. To provide coverage for all high risks:

- Seven processes will be covered in seven audits.
- One process will be covered in an external financial audit.
- Five processes will be covered in five process reviews.
- Fifteen processes were covered in previously conducted audits.
- Four processes were covered in previously conducted process reviews.

Additionally, the following audits will be performed for six medium-risk processes:

- One audit will be performed for the TTSTC that will cover two medium-risk processes.
- The Audit of Hardware and Software Administration will be continued that covers one medium-risk process.
- Three audits will cover three medium risks.

Further, two process reviews will be performed on two low-risk processes to aid the divisions in identifying relevant risks and controls.

VI. External Audit Services Procured in Fiscal 2023

Name of External Auditor	Services Provided	Date of Service (Report Date)
RSM US LLP	Financial Audit of the Texas Prepaid Higher Education Tuition Board	Audit of Fiscal 2022 Dated Dec. 19, 2022
Audit Services, U.S. LLC	Audit Services for Unclaimed Property	Fiscal 2023 to current
Discovery Audit Services	Audit Services for Unclaimed Property	Fiscal 2023 to current
EECS, LLC	Audit Services for Unclaimed Property	Fiscal 2023 to current
Innovative Advocate Group	Audit Services for Unclaimed Property	Fiscal 2023 to current
Kelmar Associates, LLC	Audit Services for Unclaimed Property	Fiscal 2023 to current
Kroll Government Solutions	Audit Services for Unclaimed Property	Fiscal 2023 to current
Treasury Services Group	Audit Services for Unclaimed Property	Fiscal 2023 to current
RSM US LLP	Audit of FY22 Financial Statements of Texas Treasury Safekeeping Trust Company (TTSTC)	Dec. 20, 2022
RSM US LLP	Attestation of Compliance with TTSTC Incentive Compensation Plan	Dec. 16, 2022
RSM US LLP	Audit of FY22 Financial Statements of State Water Implementation Fund for Texas (SWIFT)	Dec. 16, 2022
RSM US LLP	Attestation of Compliance with Investment Policy of SWIFT	Dec. 16, 2022
RSM US LLP	Audit of FY22 Financial Statements of Texas Local Government Investment Pool (TexPool)	Nov. 22, 2022
RSM US LLP	Audit of FY22 Financial Statements of Texas Local Government Investment Pool Prime (TexPool Prime)	Nov. 22, 2022
RSM US LLP	Audit of 2022 Financial Statements of Tobacco Settlement Permanent Trust Fund	March 15, 2023
RSM US LLP	Attestation of Compliance with Investment Policy of Tobacco Settlement Permanent Trust Fund	March 15, 2023
RSM US LLP	Attestation of Compliance with Distribution Policy of Tobacco Settlement Permanent Trust Fund	March 15, 2023
KPMG LLP	System and Organization Controls (SOC 1) Report on Texas Comptroller of Public Accounts' Description of its Centralized Accounting and Payroll/Personnel System and the Suitability of the Design and Operating Effectiveness of Controls	Oct. 13, 2023

Name of External Auditor	Services Provided	Date of Service (Report Date)
Abdessamad Ait Ali/State Sales Tax Consulting, LLC	Sales and Use Tax Examination Services	Fiscal 2023 Sept. 1, 2022, through Aug. 31, 2023
Andres J. Gonzalez		
Brenda Lynn Tschirhart		
Cindy Reed, CPA/State Tax Consulting, LLC		
Dale Ruzicka/State Tax Consulting, LLC		
Dan A. Northern		
David Garcia/New Path Accountability LLC		
Delores A. Nornberg		
Dibrell P. Dobbs		
Dixie Smith, CPA/State Tax Consulting, LLC		
Dwondlyn Chatman		
Fabian Avina		
Flor H. Holmes		
Frank Castro/Texas Tax Consulting Group LC		
Jose (Joe) Granados/JPG-EJG, LLC		
Julie R. Ortiz, CPA		
Khristina Mitchell/Khrista Marque, LLC		
L. C. Gordon, Jr./Taygor Associates, LLC		
Lisa Loughney		
Marina Roy Buenaventura, CPA		
Michiell Stites/Stites Pybus LLC		
Natan Yadete, CPA/New Path Accountability LLC		
Paul Hernandez		
Ramiro J. Garza		
Ricardo Salazar, CPA		
Robert Hant Fabyan, CPA/RFabyan Consulting LLC		
Ronald Robinson		
Sean J. Lomonaco		
Stephanie (Clark) Jackson		
Sylvia Villanueva Flaherty		
Trevor Garrett/Garrett State Tax Service Inc.		

Name of External Auditor	Services Provided	Date of Service (Report Date)
Vernice Seriale, Jr.	Sales and Use Tax Examination Services	Fiscal 2023 Sept. 1, 2022, through Aug. 31, 2023
Wayne A. Powe		
Wayne Wharton/State and Local Tax Group LLC		
Yunping Hu		

VII. Reporting Suspected Fraud and Abuse

The Comptroller's office has taken several measures to address the potential misuse or misappropriation of state resources. The Comptroller's office has also taken action to implement the requirements to report suspected fraud, waste and abuse involving state resources directly to the SAO.

Actions taken to implement the requirements of:

- a. Fraud Reporting Section 7.09, page IX-38, the General Appropriation Act (87th Legislature)

The Comptroller's office website contains a Report Fraud link when the Contact link at the bottom of the page is selected (<https://comptroller.texas.gov/>). This webpage explains how to report fraud involving state resources to the SAO. The SAO's phone number for reporting fraud, 800-TX-AUDIT (892-8348), and a link to the SAO's Fraud website (<https://sao.fraud.texas.gov/>), are included in the information provided on the Reporting Fraud page.

The Comptroller's office intranet website contains a Report Fraud link at the bottom of the page that directs users to the SAO's Investigations and Audit Support page. This webpage provides information and instructions on reporting fraud, waste or abuse to the SAO. This page also has the SAO's hotline number for reporting fraud, 800-TX-AUDIT (892-8348), and instructions on submitting reports of fraud, waste or abuse online, by mail or by facsimile.

The Employee Handbook of the Comptroller's office, Chapter 15: Compliance and Risk Assessment – Policy Prohibiting Fraud, Waste, Theft and Abuse, includes information on how to report suspected fraud involving state funds to the SAO by calling 800-TX-AUDIT (892-8348) or by making a report online (<https://sao.fraud.texas.gov/>). The same Employee Handbook includes a requirement that all employees complete fraud awareness training each fiscal year.

The Comptroller's office Internal Audit Division website also contains links and contact information that include the SAO's phone number for reporting fraud, 800-TX-AUDIT (892-8348); the link to the SAO's Fraud website (<https://sao.fraud.texas.gov/>); the link to the SAO Fraud Reporting Form (<https://sao.fraud.texas.gov/ReportFraud/>); the link to the GAO's FraudNET (<https://www.gao.gov/about/what-gao-does/fraud>); and the GAO's toll-free number, 800-424-5454, and fax number, 202-512-2841.

- b. Texas Government Code Section 321.022: Coordination of Investigations

The Comptroller's office has established the "Policy Prohibiting Fraud, Waste, Theft and Abuse" and is committed to preventing fraud, waste, theft and abuse by its employees and any consultant, vendor, contractor, outside agency or person in dealings with the agency or the state of Texas.

Each employee is required to report any suspected fraud, theft, waste or abuse to the agency. An employee may make a report to his or her supervisor, directly to the Ethics Officer or through the internal Employee Hotline by calling (toll free) 833-227-0772, emailing employee.hotline@cpa.texas.gov and/or faxing 512-936-0696.

Employees can report suspected fraud, waste and abuse involving state funds to the SAO by calling 800-TX-AUDIT (892-8348) or by making a report online at <https://sao.fraud.texas.gov/>.

The Ethics Officer receives allegations of suspected fraud, waste, theft and abuse. The Ethics Officer may collect additional information from the employee or other person making the report and will make a preliminary determination as to whether the allegations should be investigated by the Criminal Investigations Division, Internal Audit, Human Resources, the Ethics Officer, some combination of these or another appropriate person or entity.

The Anti-Fraud Coordinator will report any finding of fraud to the SAO as required.

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Internal Audit Division | Fiscal 2023**

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