

**Report on the Activities of the Texas Comptroller of Public
Accounts Internal Audit Division
Fiscal 2017**



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

November 1, 2017

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

The Texas Comptroller of Public Accounts (Comptroller's office) has developed a process to follow in order to ensure compliance with the provisions of Texas Government Code, Section 2102.015. Specifically, within 30 days of approval by the Comptroller, the approved Audit Plan will be posted on the Comptroller's office internet website (<https://www.comptroller.texas.gov/>) as provided by Texas Government Code, Section 2102.008. In addition, the approved Annual Internal Audit Report will be posted on the Comptroller's office internet website, as required by Texas Government Code, Section 2102.009.

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 exemption. Any information not protected by this or another applicable exemption that is determined to be confidential in nature will be specifically designated as such in accordance with State Auditor's Office (SAO) guidelines.

II. Internal Audit Plan for Fiscal 2017

Fiscal 2017 Audits	Status
Audit of Revenue Processing	Completed Report Title: An Internal Audit Report on the Audit of Revenue Processing Report No.: 2017-102 Report Date: June 2017
Audit of IT General Controls – Phase II	In Progress - Fieldwork Phase
Audit of Statewide Procurement (formerly named Audit of Statewide Contracting)	Completed Report Title: An Internal Audit Report on the Audit of Statewide Procurement Report No.: 2017-105 Report Date: August 2017
Audit of Warrant Processing	In Progress - Fieldwork Phase
Audit of Expenditure Assistance Claims and Fees Processing	Completed Report Title: An Internal Audit Report on the Audit of Expenditure Assistance Claims and Fees Processing Report No.: 2017-103 Report Date: May 2017
Audit of Revenue Accounting Voucher Processing	In Progress - Planning Phase
Audit of IT Contracting	Carry forward audit to Fiscal 2018 due to the timing of the audit versus the full implementation of changes in procedures.

Fiscal 2016 “In Progress” Audits	Status
Audit of Software Asset Management	Completed Report Title: An Internal Audit Report on the Audit of Software Asset Management Report No.: 2016-105 Report Date: April 2017
Audit of Economic Growth & Endangered Species Management	Completed Report Title: An Internal Audit Report on the Audit of Economic Growth & Endangered Species Management Report No.: 2016-106 Report Date: August 2017

III. Consulting Services and Nonaudit Services

Report No.	Report Date	Name of Report	High Level Objective(s)	Observations / Results and Recommendations
N/A	N/A	N/A	UP2 is an ongoing consulting engagement that will continue until the system is fully implemented.	This consulting engagement provides advisory services to the Unclaimed Property Division during system design, development and implementation.

IV. External Quality Assurance Review (Peer Review)

Texas Comptroller of Public Accounts Internal Audit Division
External Quality Assurance Review – May 2, 2017

Overall Opinion

Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas Comptroller of Public Accounts Internal Audit Division (the "Internal Audit Division") receives a rating of "Pass/Generally Conforms" and is in compliance with the Institute of Internal Auditors (IIA) *International Professional Practices Framework* and Code of Ethics, the United States Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102). This opinion, which is the highest of the three possible ratings, means that policies, procedures, and practices are in place to implement the standards and requirements necessary for ensuring the independence, objectivity, and proficiency of the internal audit function.

We found that the Internal Audit Division is independent, objective, and able to render impartial and unbiased judgments on the audit work performed. The staff members are qualified, proficient, and knowledgeable in the areas they audit. Individual audit projects are planned using risk assessment techniques; audit conclusions are supported in the working papers, and findings and recommendations are communicated clearly and concisely.

The Internal Audit Division is well managed internally. In addition, the Internal Audit Division has effective relationships with the Administration and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate that management considers the Internal Audit Division to be a useful part of the overall organization's operations and finds that the audit process and report recommendations add value and help improve the organization's operations.

Acknowledgements

We appreciate the courtesy and cooperation extended to us by the Internal Audit Director, Internal Audit staff, and Administration who participated in the interview process. We would also like to thank each person who completed surveys for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Division, its relationship with management, and compliance with auditing standards.

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Employees Retirement System of Texas
SAIAF Peer Review Team Leader

5/2/17
Date

Shelley Barabantin, CIA
Audit Manager
Texas Department of Family and
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SAIAF Peer Review Team Member

5/2/17
Date

John Waukechon, PhD
Audit Lead
Texas Department of State Health
Services
SAIAF Peer Review Team Member

5/2/2017
Date

V. Internal Audit Plan for Fiscal 2018

Fiscal 2018 Audits

Project Title	Division	Area	Project Hours
Audit of Audit of IT Contracting*	Information Technology	Planning & Architecture – IT Asset and Contract Management Team Technology Administration	1,250
	General Counsel Comptroller Procurement	Contracts Purchasing	
Audit of Audit Processing and Texas Enterprise Zone	Audit	Training, Technical Support & Audit Processing	1,280
Audit of Enforcement Collections	Enforcement	Field Operations Headquarters Support - Austin Call Center	1,130
Audit of Property Tax Appraisals	Property Tax Assistance	Field Appraiser Operations Area	730
Audit of Treasury Remote Depositing	Treasury Operations	Banking & Electronic Processing - Deposit Processing	550
Audit of SECO	State Energy Conservation Office	State Energy Program	730
Audit of IT Software Development	Information Technology	Application Services - Tax & Operations - Administrative Apps	650
		Total Fiscal 2018 Audit Hours:	6,320

*Contract Management

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Fiscal 2017 “In Progress” Audits

Project Title	Division	Area	Project Hours
Audit of Economic Growth & Endangered Species Management	Economic Growth & Endangered Species Management	Economic Growth & Endangered Species Management	50
Audit of IT General Controls - Phase II	Information Technology Information Security	All Areas	470
Audit of Warrant Processing	Fiscal Management	Statewide Fiscal Services - Payment Services	400
Audit of Revenue Accounting Voucher Processing	Revenue Administration	Revenue Accounting - Miscellaneous Taxes, Fund Reconciliations, Bankruptcy & Liens - Fund & Payment Reconciliations	1,330
Audit of Statewide Procurement	Statewide Procurement Division Statewide Support Services Division	Statewide Contract Management - Term Contracts Statewide Contract Development - One-Time Buys Statewide Contract Development - Contract Development Statewide Systems Support - Technical Support - SmartBuy Support State Mail & Program Development - TPASS Mail Operations	70
		Total Fiscal 2017 In Progress Audit Hours	2,320

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Fiscal 2017 Special Projects/Management Requests

Project Title	Project Hours
Follow Ups	360
Client Assist (Internal/External)	80
FY 2017 Annual Internal Audit Report	0
FY 2019 Risk Assessment	1390
FY 2018 Audit Plan Monitoring	150
TTSTC W/P Review - Client Assist	200
TeamMate Maintenance	240
Internal Audit Website/SharePoint Maintenance	40
TeamMate Template Revision	144
Quality Assurance Reporting	10
External Audit Coordination	0
IT Steering Committee	10
Internal Audit Handbook Review	90
Special Investigations	0
External Peer Reviews	180
Unclaimed Property System Review	130
Texas Bullion Depository Review	550
ServiceNow GRC Pilot Project	120
ITS Review	340
Fiscal Legacy Systems Project	0
TexNet Re-write Project	60
FY 2018 Risk Assessment	15
Other Requests / Unallocated hours / Fiscal 2018 FTE Vacancy Hours	4,795
Total Special Projects/Management Requests:	8,904

Summary of Hours

Summary	Total Hours
Total Fiscal 2018 Audit Hours:	6,320
Total Fiscal 2017 Audits In Progress Hours:	2,320
Total Special Projects/Management Requests:	8,904
Direct Audit Hours:	17,544
Indirect Hours:	7,512
Total Hours	25,056

The Division’s assessment is based upon 686 key processes. The Division analyzed and assessed the risks to those key processes by using the self-assessment module of the Division’s TeamMate audit software, supplemental risk questionnaires, and interviews with Division directors. We considered risks related to contract management and information technology (Title 1, Texas Administrative Code, Chapter 202) in our risk assessment process by obtaining probability, impact and monitoring risk level ratings for applicable agency key processes through the TeamRisk Self-Assessments. We 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	20.00%
Risk and Monitoring	25.00%
\$ Value of Transactions	15.00%
Reliance on 3rd Parties	5.00%
Management Concern	10.00%
Legislative Interest	10.00%
Confidential Information	15.00%

The risk assessment identified 44 high, 610 medium and 32 low risk key processes. To provide coverage of all high risks, per the State Auditor’s Office (SAO) requirement, we propose the following:

- Nine key processes will be covered in proposed audits.
- 11 key processes will be covered as part of fiscal 2018 Internal Control Risk Assessment (ICRA) workshops conducted by Information Security (InfoSec).
- 20 key processes were covered in previously conducted audits and will be covered during audit follow-up or have had coverage by SAO.
- Two key processes will be covered in a special project or other audit coverage.
- Two key processes will be noted as audit back-ups.

Additionally, three audits will cover 10 medium risks and one low risk. The following is a breakdown of the coverage:

- Three medium risks will be covered during an IT Contracting audit.
- Four medium risks will be covered during an IT Software Development audit.
- Three medium risks and one low risk will be covered by a requested audit of the State Energy Conservation Office.

The Division coordinates with InfoSec to conduct facilitated ICRA workshops with high risk areas of the Agency. The workshops provide the identified teams the opportunity to more fully document the risks and controls for their key processes.

VI. External Audit Services Procured in Fiscal 2017

Name of External Auditor	Services Provided	Date of Service (Report Date)
Padgett Stratemann & Co.	Financial Audit of the FY2016 Annual Financial Report for the Texas Prepaid Higher Education Tuition Program	Fiscal Year Ended 08/31/2016 (completed)
RSM US LLP	Financial Audit of the FY2017 Annual Financial Report for the Texas Prepaid Higher Education Tuition Program is underway	Fiscal Year Ended 08/31/2017 (in progress)
Audit Services, U.S. LLC	Unclaimed Property Contract Audit Firm	09/01/2016 - Current
Discovery Audit Services	Unclaimed Property Contract Audit Firm	09/01/2016 - Current
TL2Q LLC	Unclaimed Property Contract Audit Firm	09/01/2016 - Current
Treasury Services Group	Unclaimed Property Contract Audit Firm	09/01/2016 - Current
Verus Financial LLC	Unclaimed Property Contract Audit Firm	09/01/2016 - Current
Innovative Advocate Group	Unclaimed Property Contract Audit Firm	09/01/2016 - Current
<p>Miriam Levenstein Team Lead NTT Security</p> <p>Jackie Wilson Auditor NTT Security</p> <p>Corvey Smith Project Manager NTT DATA Services</p>	<p>Independent information security assessment funded by DIR to validate 40 information security maturity levels per the Texas CyberSecurity Framework (TX CSF).</p> <p>Deliverables:</p> <ul style="list-style-type: none"> • 166 page assessment report • Executive summary exit-brief <p>The summary report provided assessment observations for each of the TX CSF 40 security objectives including recommendations and a strategic roadmap for improvement.</p>	10/16/2017 (Executive Exit Brief)
Texas Department of Information Resources	Controlled Penetration Testing	09/16/2016
State Auditor's Office / KPMG	Audit to meet the requirements of the Single Audit Act of 1996 and OBM Circular A-133. (SAO contracted w/KPMG to perform portions of the federal program compliance component.)	Varied; Throughout fiscal 2017

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Name of External Auditor	Services Provided	Date of Service (Report Date)
Antonio V. Concepcion Art Koenings, Jr., CPA Brenda Maldonado Cherise D. Collins Cindy Alvarez Cindy H Coats CPA Cindy Reed, CPA Dale Ruzicka Dan A. Northern Dana W. Foote Delores A Normberg Dibrell P. Dobbs Dixie Smith, CPA Dora Irma Ortiz Fabian Avina Frank Castro Homer Max Wiesen, CPA Jean Chan L. C. Gordon, Jr Lee Hopes Marina Roy Buenaventura, CPA Mario A. Mandujano Michiell Stites Paul D. Underwood Paul Hernandez Ramiro J Garza Raymond Franco Ronnie E. Marsh, CPA Sam W Armstrong, CPA Stacie G. Sims, CPA Stephanie (Clark) Jackson Terra Hillman Treva M Sullivan Trevor Garrett Vernice Seriale, Jr. Wayne A Powe Wayne Wharton Willie J Sullivan, Jr.	Sales and Use Tax Examination Services	9/1/16 through 8/31/17

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:

- Fraud Reporting, Sec. 7.09, page IX-38, the General Appropriations Act (85th Legislature, Conference Committee Report).

The Comptroller's office internet website contains a Report Fraud link when the Contact link at the bottom of the page is selected. (<https://comptroller.texas.gov/>). This web page explains how to report fraud involving state resources to the SAO. The SAO's phone number for reporting fraud, 800-TX-AUDIT 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 State Auditor's Fraud Website link at the bottom of the page, which directs to the SAO's Investigations & Audit Support page. This web page provides information and instructions on reporting fraud, waste or abuse to the SAO. The SAO's Hotline number for reporting fraud, 1-800-TX-AUDIT, a link to the SAO's form for reporting fraud, waste or abuse and instructions on submitting reports of fraud, waste or abuse by mail are found on this web page.

The Comptroller's office Employee Handbook, Chapter 15: Compliance and Risk Assessment; Section: 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 or by making a report on-line (<https://sao.fraud.texas.gov/>). The Comptroller's office Employee Handbook includes a requirement that all employees take the Anti-Fraud Training each fiscal year.

The Comptroller's office Internal Audit Division website also contains fraud links and contact information to include the SAO's phone number for reporting fraud 1-800-TX-AUDIT, a link to the SAO's Fraud website (<https://sao.fraud.texas.gov/>), a link to the SAO Fraud Reporting Form (<https://sao.fraud.texas.gov/ReportFraud/>), the link to the Government Accountability Office (GAO), FraudNET (<http://www.gao.gov/fraudnet/fraudnet.htm>) and the GAO's Toll Free 1-800-424- 5454 and Fax: 202-512-3086 as well as the email address (fraudnet@gao.gov).

- 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 Network, an outside reporting hotline, at (866) 420-8369.

Employees can report suspected fraud involving state funds to the SAO by calling (800) TX-AUDIT (892-8348) or by making a report online at <http://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 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.