

**Report on the Activities of the Texas Comptroller of Public
Accounts Internal Audit Division
Fiscal 2018**



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, 2018

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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 was posted on the Comptroller's office internet website (<https://comptroller.texas.gov/transparency/reports/cpa-operations/>) 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. No information contained in the agency's internal audit plan or annual report is exempted 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, the quarterly reports on the implementation status of audit recommendations will be posted on the Comptroller's office internet website (<https://comptroller.texas.gov/transparency/reports/cpa-operations/>).

II. Internal Audit Plan for Fiscal 2018

Fiscal 2018 Audits	Status
Audit of IT Contracting	Completed Report Title: An Internal Audit Report on the Audit of IT Contracting Report No.: 2018-102 Report Date: July 2018
Audit of Enforcement Collections	Completed Report Title: An Internal Audit Report on the Audit of Enforcement Collections Report No.: 2018-103 Report Date: August 2018
Audit of Property Tax Appraisals	Completed Report Title: An Internal Audit Report on the Audit of Property Tax Appraisals Report No.: 2018-104 Report Date: August 2018
Audit of Treasury Remote Depositing	Completed Report Title: An Internal Audit Report on the Audit of Treasury Remote Depositing Report No.: 2018-108 Report Date: October 2018
Audit of Audit Processing and Texas Enterprise Zone	In Progress – Fieldwork Phase
Audit of SECO	In Progress – Reporting Phase
Audit of IT Software Development	In Progress – Planning Phase

Fiscal 2017 “In Progress” Audits	Status
Audit of IT General Controls – Phase II	Completed Report Title: An Internal Audit Report on the Audit of IT General Controls – Phase II Report No.: 2017-104 Report Date: August 2018

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Fiscal 2017 “In Progress” Audits	Status
Audit of Revenue Accounting Voucher Processing	Completed Report Title: An Internal Audit Report on the Audit of Revenue Accounting Voucher Processing Report No.: 2017-107 Report Date: May 2018
Audit of Warrant Processing	Completed Report Title: An Internal Audit Report on the Audit of Warrant Processing Report No.: 2017-108 Report Date: February 2018

III. Consulting Services and Nonaudit Services Completed

Report No.	Report Date	Name of Report	High Level Objective(s)	Observations / Results and Recommendations
N/A	N/A	N/A	Unclaimed Property System Review for Unclaimed Property Solution (UpSol)	This consulting engagement provided advisory services to the Unclaimed Property Division during system design, development and implementation.
N/A	N/A	N/A	Texas Bullion Depository Review	This ongoing engagement provides consulting services in review of the internal controls, policies, procedures and operations at the Texas Bullion Depository.
N/A	N/A	N/A	Review of the Statewide Mail Program	This consulting engagement was a review of the internal controls and the agency reserve account of the Statewide Mail Program.
N/A	N/A	N/A	Special Investigations	Investigations were conducted and appropriate actions were taken to respond to hotline complaints received from the SAO.

IV. External Quality Assurance Review (Peer Review)

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, Administration and management who participated in the interview processes. 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.

<hr/>	5/2/2017	<hr/>	5/2/2017
Tony Chavez, CIA, CGAP, CRMA	Date	Shelley Barbontin, CIA	Date
Director of Internal Audit		Audit Manager	
<i>Employees Retirement System of Texas</i>		<i>Texas Department of Family and</i>	
SAIAF Peer Review Team Leader		<i>Protective Services</i>	
		SAIAF Peer Review Team Member	
<hr/>	5/2/2017		
John Waukechon, PhD	Date		
Audit Lead			
<i>Texas Department of State Health Services</i>			
SAIAF Peer Review Team Member			

V. Internal Audit Plan for Fiscal 2019

Fiscal 2019 Audits

Project Title	Division	Area	Project Hours
Audit of Statewide Mail Operations	Statewide Procurement	Statewide Fleet, Travel & Mail Operations – Mail Messengers	1,030
Audit of Vendor Performance Program	Statewide Procurement	Procurement Policy & Outreach - Outreach	1,280
Audit of Contract Examiner Program	Audit	Audit - Field Offices Area Contract Examiner Program	1,030
Audit of Tax Allocation Processes	Revenue Accounting	Advanced Processes, Allocation & Location Verification – Tax Allocation	1,030
Audit of TXSmartBuy Administration	Statewide Procurement	Contract Development & Data Management – Data Management	930
Audit of Mainframe Legacy Finance and HR Applications Maintenance	Information Technology	Application Services - Tax & Operations – Customer Relationship Management – Statewide Financial Systems	1,080
Audit of Unclaimed Property	Unclaimed Property	Operations Support & Contract Employees – Operations Support Operations Support & Contract Employees - Safebox	1,330
Audit of TDEM Support	Statewide Procurement	Procurement Policy & Outreach - Outreach	930
		Total Fiscal 2019 Audit Hours:	8,940

The Audit of Vendor Performance Program and the Audit of TDEM Support address contract management.

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Fiscal 2018 Audits in Progress

Project Title	Division	Area	Project Hours
Audit of Audit Processing and Texas Enterprise Zone	Audit	Training, Technical Support & Audit Processing	700
Audit of Enforcement Collections	Enforcement	Field Operations Headquarters Support – Austin Call Center	80
Audit of Property Tax Appraisals	Property Tax Assistance	Field Appraiser Operations Area	140
Audit of Treasury Remote Depositing	Treasury Operations	Banking & Electronic Processing – Deposit Processing	240
Audit of SECO	State Energy Conservation Office	Statewide Energy Program	350
Audit of IT Software Development	Information Technology	Application Services – Tax & Operations – Administrative Apps	830
		Total Fiscal 2018 Audits In Progress Hours	2,340

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Special Projects/Management Requests

Project Title	Project Hours
Follow Ups	250
Client Assist (Internal/External)	110
FY 2018 Annual Internal Audit Report	40
FY 2020 Risk Assessment	1,180
FY 2020 IT Risk Assessment	220
FY 2019 Audit Plan Monitoring	80
TTSTC W/P Review - Client Assist	180
TeamMate Maintenance	200
Internal Audit SharePoint Maintenance	20
TeamMate Template Revision	520
Quality Assurance Reporting	0
External Audit Coordination	0
IT Steering Committee	10
Internal Audit Handbook Review	88
IT Audit Planning Template	180
Special Investigations	0
External Peer Reviews	96
Texas Bullion Depository Review	450
ServiceNow GRC Pilot Project	120
Follow-up to SAO's Audit of CAPPS	250
Educational Opportunities & Investments Special Project	200
FY 2019 Risk Assessment	30
Other Requests / Unallocated Hours / FY 2019 FTE Vacancy Hours	1,968
Total Special Projects/Management Requests:	6,192

Summary of Hours

Summary	Total Hours
Total Fiscal 2019 Audit Hours:	8,940
Total Fiscal 2018 Audits In Progress Hours:	2,340
Total Special Projects/Management Requests Hours:	6,192
Direct Audit Hours:	17,472
Indirect Hours:	7,488
Total Hours	24,960

The Division’s assessment is based upon 725 key processes reported through the Enterprise Risk Management program. 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	15.00%
Risk and Monitoring	25.00%
\$ Value of Transactions	15.00%
Reliance on 3rd Parties	10.00%
Management Concern	10.00%
Legislative Interest	10.00%
Confidential Information	15.00%

The risk assessment identified 48 high, 642 medium and 35 low risk key processes. To provide coverage of all high risks, per the SAO’s requirement, we propose the following:

- 10 key processes will be covered in proposed audits.
- One key process will be covered in a fiscal 2018 audit still in progress.
- 11 key processes will be covered as part of fiscal 2019 Internal Control Risk Assessment (ICRA) workshops.
- 17 key processes were covered in previously conducted audits and will be covered during audit follow-up.
- Nine key processes will be covered in a special project or other audit coverage.

The Division’s Enterprise Risk Management staff conducts facilitated ICRA workshops with high-risk areas of the Agency. The workshops provide the identified teams the opportunity to more fully document and assess the risks and controls for their key processes.

VI. External Audit Services Procured in Fiscal 2018

Name of External Auditor	Services Provided	Date of Service (Report Date)
RSM US LLP	Financial Audit of the FY 2017 Annual Financial Report for the Texas Prepaid Higher Education Tuition Board Program	Fiscal Year Ended 8-31-2017 (Completed)
RSM US LLP	Financial Audit of the FY 2018 Annual Financial Report for the Texas Prepaid Higher Education Tuition Board Program	Fiscal Year Ended 8-31-2018 (In progress)
Versus Analytics, LLC	Unclaimed Property Audit Services	9-1-2016 through 8-31-2018
Discovery Audit Services, LLC (DAS)	Unclaimed Property Audit Services	9-1-2016 through 8-31-2018
TL2Q LLC	Unclaimed Property Audit Services	9-1-2016 through 8-31-2018
Audit Services U.S., LLC	Unclaimed Property Audit Services	9-1-2016 through 8-31-2018
Innovative Advocate Group, Inc.	Unclaimed Property Audit Services	9-1-2016 through 8-31-2018
Treasury Services Group, LLC	Unclaimed Property Audit Services	9-1-2016 through 8-31-2018
Conservation Science Partners	Review of Research Project Product	3-22-2018
Conservation Science Partners	Review of Research Project Product	5-14-2018
KPMG	Readiness Assessment for a Statement on Standards for Attestation Engagement (SSAE) Audit of Centralized Accounting and Payroll/Personnel System (CAPPS)	5-31-2018

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Name of External Auditor	Services Provided	Date of Service (Report Date)
Abdessamad Ait Ali 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. Nornberg Dibrell P. Dobbs Dixie Smith, CPA Dora Irma Ortiz Fabian Avina Frank Castro Homer Max Wiesen, CPA Jean Chan Julie R. Ortiz, CPA Khristina Mitchell 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 Sean J. Lomonaco Stephanie (Clark) Jackson Sylvia Villanueva Flaherty 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	FY18 – 9-1-17 through 8-31-18

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).

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, 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 email, mail or fax 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 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 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, 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 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.