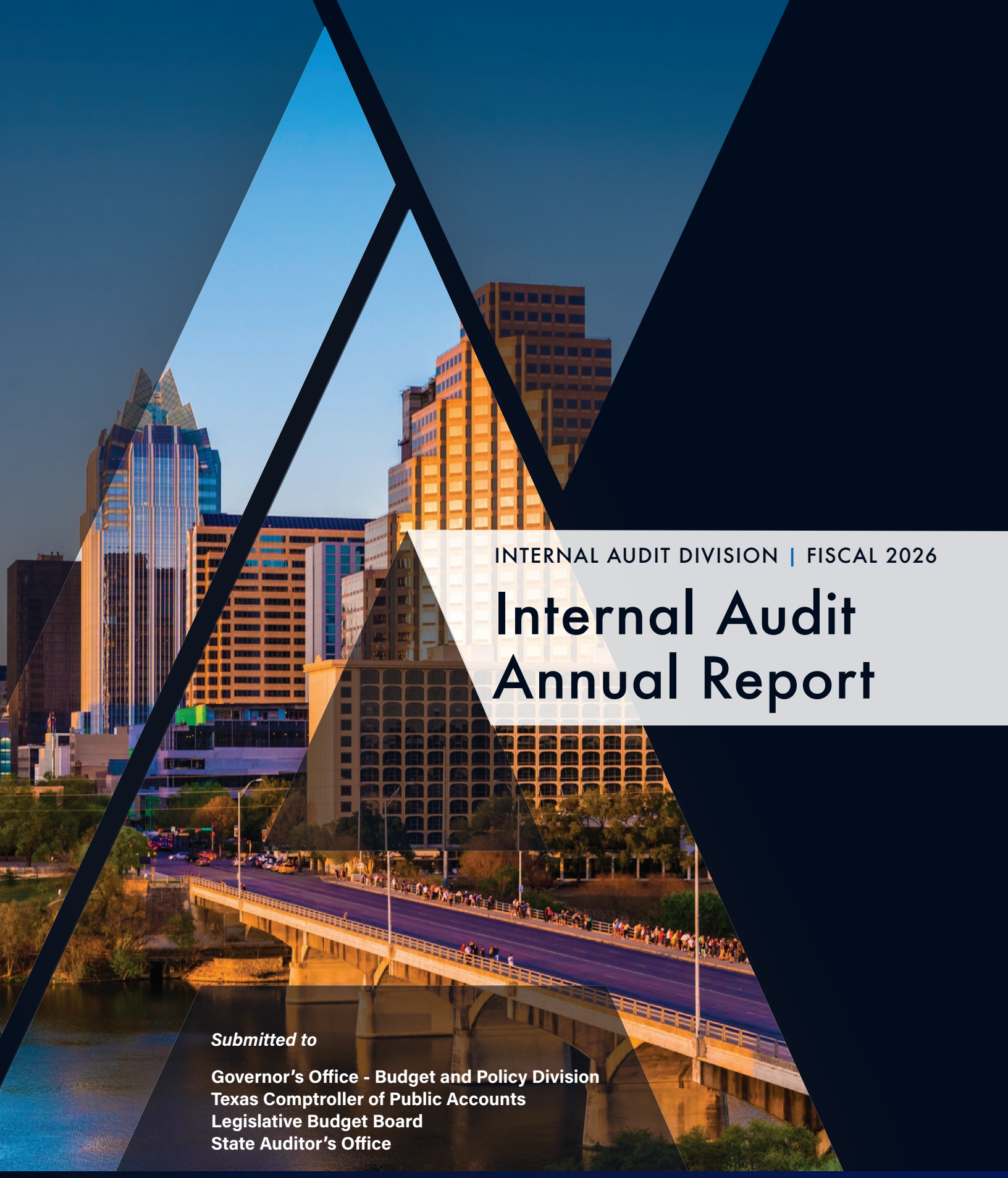


INTERNAL AUDIT DIVISION | FISCAL 2026

Internal Audit Annual Report

Submitted to

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

DON HUFFINES
TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

This page has been intentionally left blank.

TABLE OF CONTENTS

I. COMPLIANCE WITH POSTING REQUIREMENTS 1

II. INTERNAL AUDIT PLAN FOR FISCAL 2026 2

III. CONSULTING SERVICES AND OTHER ACTIVITIES 5

IV. EXTERNAL AUDIT SERVICES. 6

V. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW) 9

VI. INTERNAL AUDIT PLAN FOR FISCAL 2027 10

VII. REPORTING SUSPECTED FRAUD AND ABUSE 15

This page has been intentionally left blank.

I. COMPLIANCE WITH POSTING REQUIREMENTS

The Texas Comptroller of Public Accounts has developed a process to meet the provisions of Texas Government Code Section 2102.015. The fiscal 2027 *Internal Audit Plan* was developed to address Texas Government Code Section 2102.008 and approved on Aug. 25, 2026. The plan was posted on the Comptroller's website (**https://comptroller.texas.gov/transparency/reports/cpa-operations/**), within 30 days of approval, as provided by Texas Government Code Section 2102.015 and SAO guidelines. In addition, this *Internal Audit Annual Report* was prepared and will be submitted as required by Texas Government Code Section 2102.009. The annual report will be posted on the Comptroller's 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. No information contained in the agency's *Internal 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 separately on the Comptroller's website (**https://comptroller.texas.gov/transparency/reports/cpa-operations/**), unless excepted from public disclosure.

II. INTERNAL AUDIT PLAN FOR FISCAL 2026

Fiscal 2026 Audits	Status
Audit of Centralized Accounting and Payroll/ Personnel System (CAPPS) Managed Services	Completed Report Title: *An Internal Audit Report on the Audit of CAPPS Managed Services* Report No.: 96-2035 Report Date: August 2026
Audit of Independent Audit Reviews	Audit canceled due to division reorganization and staffing changes.
Audit of Enforcement Division System Development and Maintenance	Completed Report Title: *An Internal Audit Report on Enforcement Division Software Development and Maintenance* Report No.: 96-2036 Report Date: April 2026
Audit of State Energy Conservation Office (SECO)	In progress - reporting phase
Audit of Sales Tax Exceptions/Corrections	Completed Report Title: *An Internal Audit Report on the Audit of Sales Tax Exceptions/Corrections* Report No.: 96-1996 Report Date: June 2026
Audit of Agency Cybersecurity	Completed Report Title: *An Internal Audit Report on the Audit of Agency Cybersecurity* Report No.: 96-2037 Report Date: May 2026
Audit of Agency Accounting and Financial Reporting	In progress - planning phase
Audit of Trust Company Investments	Completed Report Title: *An Internal Audit Report on the Audit of Texas Treasury Safekeeping Trust Company Investments* Report No.: 96-2043 Report Date: August 2026

Fiscal 2026 Process Reviews	Status
Process Review of the Administration of the Texas Education Freedom Accounts Program	Process review not completed. Program was under development during fiscal 2026. This project is included in the audit plan for fiscal 2027 as the Process Review of the Administration of the Texas Education Freedom Accounts Program.
Process Review of Agency Appropriation Accounts	Completed Memo issued Aug. 31, 2026
Process Review of Opioid Abatement Fund Council (OAFC)	Completed Memo issued Sept. 30, 2026

Fiscal 2025 Audits in Progress	Status
Audit of Statewide Contract Development	Completed Report Title: *An Internal Audit Report on the Audit of Statewide Contract Development* Report No.: 96-2018 Report Date: October 2025
Audit of CAPPS Data Changes and Help Desk Support	Completed Report Title: *An Internal Audit Report on the Audit of CAPPS Data Changes and Help Desk Support* Report No.: 96-2040 Report Date: January 2026
Audit of Agency Governance Processes	Completed Report Title: *An Internal Audit Report on Agency Governance Processes* Report No.: 96-2041 Report Date: March 2026
Audit of Judiciary Disbursements and Agency Payroll and Leave Accounting	Completed Report Title: *An Internal Audit Report on Judiciary Disbursements and Agency Payroll and Leave Accounting* Report No.: 96-2023 Report Date: December 2025

Fiscal 2025 Audits in Progress	Status
Audit of Trust Company Accounting and Reporting	Completed Report Title: *An Internal Audit Report on the Audit of Trust Company Accounting and Reporting* Report No.: 96-2042 Report Date: April 2026

Fiscal 2025 Process Reviews in Progress	Status
Process Review of Criminal Investigations Division - Bullion Depository	Completed Memo issued Sept. 18, 2026
Process Review of Petty Cash	Completed Memo issued June 1, 2026

III. CONSULTING SERVICES AND OTHER ACTIVITIES

Report Number	Report Date	Report Name	High-Level Objective(s)	Observations, Results and/or 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	Internal Audit conducted investigations 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, which guides and directs efforts to align Information Technology (IT) investments with the needs of the divisions. In fiscal 2026, Internal Audit served as the co-facilitator. Management retained decision-making responsibility.
N/A	N/A	N/A	External Auditor Liaison	Performed liaison activities with external auditors (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 Internal Audit to serve in an advisory capacity on the council that oversees and sanctions the protection of agency information resources.
N/A	N/A	N/A	Agency Anti-Fraud Committee	This ongoing consulting engagement provides for Internal Audit to serve in an advisory capacity on the committee that educates, addresses, investigates, and provides leadership on matters of fraud, theft, waste, and abuse throughout the agency.
N/A	N/A	N/A	Enterprise Risk Management (ERM)	Consulted with the agency ERM Coordinator.

IV. EXTERNAL AUDIT SERVICES

Name of External Auditor	Services Provided	Date of Service (Report Date)
RSM US LLP	Audit of the Texas Prepaid Higher Education Tuition Board's Fiscal 2025 Financial Statements	Aug. 31, 2026
Audit Services U.S. LLC	Audit Services for Unclaimed Property	Fiscal 2026 to present
Discovery Audit Services	Audit Services for Unclaimed Property	Fiscal 2026 to present
EECS, LLC	Audit Services for Unclaimed Property	Fiscal 2026 to present
Innovative Advocate Group	Audit Services for Unclaimed Property	Fiscal 2026 to present
Kelmar Associates, LLC	Audit Services for Unclaimed Property	Fiscal 2026 to present
Kroll Government Solutions	Audit Services for Unclaimed Property	Fiscal 2026 to present
Specialty Audit Services	Audit Services for Unclaimed Property	Fiscal 2026 to present
Treasury Services Group	Audit Services for Unclaimed Property	Fiscal 2026 to present
RSM US LLP	Audit of Fiscal 2025 Financial Statements of Treasury Safekeeping Trust Company (TTSTC)	Dec. 15, 2025
RSM US LLP	Attestation of Compliance with TTSTC Incentive Compensation Plan	Dec. 15, 2025
RSM US LLP	Audit of Fiscal 2025 Financial Statements of State Water Implementation Fund for Texas (SWIFT)	Dec. 12, 2025
RSM US LLP	Attestation of Compliance with Investment Policy of SWIFT	Dec. 12, 2025
RSM US LLP	Audit of Fiscal 2025 Financial Statements of Texas Local Government Investment Pool (TexPool)	Dec. 13, 2025
RSM US LLP	Attestation of TexPool's Compliance with Investment Policy and the Public Funds Investment Act	Dec. 13, 2025
RSM US LLP	Audit of Fiscal 2025 Financial Statements of Texas Local Government Investment Pool Prime (TexPool Prime)	Dec. 13, 2025
RSM US LLP	Attestation of TexPool Prime's Compliance with Investment Policy and the Public Funds Investment Act	Dec. 13, 2025
RSM US LLP	Audit of 2025 Financial Statements of Tobacco Settlement Permanent Trust Fund	March 20, 2026
RSM US LLP	Attestation of Compliance with Investment Policy of Tobacco Settlement Permanent Trust Fund	March 20, 2026

Name of External Auditor	Services Provided	Date of Service (Report Date)
RSM US LLP	Attestation of Compliance with Distribution Policy of Tobacco Settlement Permanent Trust Fund	March 20, 2026
Abdessamad Ait Ali/State Sales Tax Consulting, LLC	Sales and Use Tax Examination Services	Fiscal 2026 Sept. 1, 2025, through Aug. 31, 2026
Andres J. Gonzalez		
Brenda Lynn Tschirhart		
Daniel E. Williams		
David Garcia/New Path Accountability LLC		
Delores A. Nornberg		
Dibrell P. Dobbs		
Dwondlyn Chatman		
Emily Ferguson, CPA/M & F Partnership LLC		
Fabian Avina		
Flor H. Holmes		
Garrick Montgomery/M & F Partnership LLC		
John Babu, CPA/JJB CPA Group PLLC		
Jonathan Miller/South Texas Tax Examiners LLC		
Jose (Joe) Granados, CPA/ JPG-EJG, LLC		
Joseph Amyson/JD Advisory Group LLC		
Julie R. Ortiz, CPA		
L. C. Gordon, Jr., CPA/Taygor Associates LLC		
Lisa Loughney		
Lisa Marie De La Luz		

Name of External Auditor	Services Provided	Date of Service (Report Date)
Marcus Mack/Examination Services, LLC	Sales and Use Tax Examination Services	Fiscal 2026 Sept. 1, 2025, through Aug. 31, 2026
Marina Roy Buenaventura, CPA		
Natan Yadete, CPA/New Path Accountability LLC		
Paul Hernandez		
Ricardo Salazar, CPA		
Robert Hant Fabyan, CPA/ RFabyan Consulting LLC		
Ronald Robinson		
Trevor Garrett/Garrett State Tax Service Inc.		
Trey Jackson		
Trynise Lynn'ea Lee McKnight		
Vernice Seriale Jr.		
Wayne A. Powe		
Wayne Wharton/State and Local Tax Group LLC		
Yunping Hu		

V. 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

VI. INTERNAL AUDIT PLAN FOR FISCAL 2027

FISCAL 2027 AUDITS

Project Title	Division	Section	Project Hours
Audit of Agency Business Processes	All Divisions	All Sections	4,800
Audit of Third-Party Governance, Risk Management, and Control Processes	Agency Administration and Divisions who Participate in the Procurement Process	All Sections	2,070
Audit of IT Asset Optimization	IT and Contracted Resources	All Sections	2,100
Audit of Agency Contracts and Contractor Utilization	All Divisions	All Sections	3,020
Audit of Statewide Procurement and Contracting	Statewide Procurement Division (SPD)	All Sections	2,370
		Total Fiscal 2027 Audit Hours	**14,360**

FISCAL 2027 PROCESS REVIEWS

Project Title	Division	Section	Project Hours
Process Review of Agencywide Continuity and Crisis Management Support	Agency Administration	Support Services	430
Process Review of the Administration of the Texas Education Freedom Accounts Program	Education Savings Accounts		350
		Total Fiscal 2027 Process Review Hours	**780**

FISCAL 2026 AUDITS IN PROGRESS

Project Title	Division	Section	Project Hours
Audit of Agency Accounting and Financial Reporting	Agency Administration	Budget and Internal Accounting	1,570
Audit of CAPPS Managed Services	Fiscal Management	CAPPS Technology Operations	70
Audit of State Energy Conservation Office	Economic Development and Community Investment	SECO	55
		Total Fiscal 2026 Audits in Progress Hours	**1,695**

FISCAL 2026 PROCESS REVIEWS IN PROGRESS

Project Title	Division	Section	Project Hours
Process Review of Opioid Abatement Fund Council	Economic Development and Community Investment	OAFC	85
		Total Fiscal 2026 Process Reviews in Progress Hours	**85**

SPECIAL PROJECTS/MANAGEMENT REQUESTS

Project Title	Project Hours
Follow-ups	300
Client Assist (Internal/External)	10
Fiscal 2026 Internal Audit Annual Report	20
Enterprise Risk Management	80
Fiscal 2028 Risk Assessment	1,000
Fiscal 2027 Audit Plan Monitoring	240
TeamMate Maintenance	80
Internal Audit SharePoint Maintenance	15
TeamMate Template Revision	75
Quality Assurance Reporting	40
IT Steering Committee	40
Internal Audit Handbook Review	28
IT Audit Template	60
Special Investigations	80
External Peer Reviews	0
Internal Audit Peer Review	112
Legislative Bill Analysis	250
Internal Audit Month	40
Special Projects/Management Requests Carry Forward	
Fiscal 2027 Risk Assessment	30
Other Requests/Unallocated Hours	1,048
Total Special Projects/Management Requests	3,548

SUMMARY OF HOURS

Category Totals	Hours
Total Fiscal 2027 Audit Hours	14,360
Total Fiscal 2027 Process Review Hours	780
Total Fiscal 2026 Audits in Progress Hours	1,695
Total Fiscal 2026 Process Reviews in Progress Hours	85
Total Special Projects/Management Requests	3,548
Direct Audit Hours	**20,468**
Indirect Hours	**8,764**
Total Hours	**29,232**

The Internal Audit Division developed the Internal Audit Plan for fiscal 2027 in accordance with the Texas Internal Auditing 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 423 processes reported through the 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, interviews with division directors, executive management risks related to strategic direction and executive governance, business criticality ratings from each division's business impact analysis, and additional risk factors.

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, 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 Area	Risk Weight
Control Environment	12.50%
Risk Evaluation	12.50%
Organizational Changes	5.00%
Reliance on Third Parties	5.00%
Dollar Value of Transactions	7.50%
Confidential Information	10.00%
Legislative Interest	2.50%
Information Systems	5.00%
Artificial Intelligence	7.50%
Fraud Risks	10.00%
Business Process Criticality	15.00%
Management Concern	7.50%

The risk assessment was conducted to develop the Internal Audit Plan for fiscal 2027; however, after the assessment, executive management identified priority areas requiring immediate audit attention. As a result, Internal Audit adjusted the plan, incorporating those priorities. In accordance with Texas Government Code Chapter 2102 and SAO annual report guidelines, this deviation is disclosed here.

The risk assessment identified 30 high-risk, 364 medium-risk, and 29 low-risk processes. To provide coverage for all high risks and meet executive management identified priority areas, the Internal Audit Division will perform the Audit of Agency Business Processes and the Audit of IT Asset Optimization. No high-risk processes were excluded from the fiscal 2027 audit plan.

As required by the Institute of Internal Auditors, the division will perform the Audit of Third-Party Governance, Risk Management, and Control Processes.

To address risks related to contract management, the division will perform the following:

- Audit of Agency Contracts and Contractor Utilization
- Audit of Statewide Procurement and Contracting

Additionally, the division will perform the following:

- Process Review of Agencywide Continuity and Crisis Management Support
- Process Review of the Administration of the Texas Education Freedom Accounts Program

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 comply with the fraud reporting requirement of:

a. Section 7.09, page IX-41, the General Appropriations Act (89th Legislature)

The homepage of the Comptroller's website (**https://comptroller.texas.gov/**) contains a Report Fraud Corruption and Abuse button (**https://comptroller.texas.gov/web-forms/tax-fraud/**) that links to the fraud whistleblower portal. This reporting tool allows the Comptroller Law Enforcement Operations Division to evaluate allegations of fraud, waste, abuse, and public corruption for potential criminal investigations.

The homepage also provides a direct link to the SAO's Reporting Fraud page (**https://sao.fraud.texas.gov**) and the SAO Fraud Hotline, TX-AUDIT (892-8348) for reporting suspected fraud, waste, and abuse.

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 must report any suspected incident of fraud, theft, waste, or abuse to the agency. Employees may make reports to their supervisor, ethics officer, or anti-fraud coordinator, online at (**https://cpa.cpa.state.tx.us/at-work/fraud/reporting.php**), through the internal Employee Hotline at 833-227-0772, by email (**employee.hotline@cpa.texas.gov**), and/or by fax at 512-936-0696.

The Comptroller's office takes allegations of fraud, waste, theft, and abuse seriously and will investigate any allegation made in good faith.

When an allegation of suspected fraud, waste, theft, and abuse is reported to the agency, the ethics officer or anti-fraud coordinator may collect additional information from the employee or other person making the report and will make a determination whether the allegations should be investigated by Law Enforcement Operations, Internal Audit, Human Resources, the ethics officer, or some combination of these, or another appropriate person or entity.

The ethics officer provides legal advice to the agency regarding the investigation and findings. The anti-fraud coordinator will report any allegation or finding of fraud to the SAO as required.

DON HUFFINES

TEXAS COMPTROLLER OF PUBLIC ACCOUNTS

Internal Audit Annual Report

Internal Audit Division | Fiscal 2026

Publication #96-1814

Oct. 30, 2026