



Glenn Hegar Texas Comptroller of Public Accounts

# Report on the Activities of the Texas Comptroller of Public Accounts

INTERNAL AUDIT DIVISION | FISCAL 2021



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

Oct. 29, 2021

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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 the Website**

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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 Internal Audit Annual Audit Plan, as provided by Texas Government Code Section 2102.008, was posted on the Comptroller's office internet 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 internet 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 internet website (<https://comptroller.texas.gov/transparency/reports/cpa-operations/>), unless excepted from public disclosure.

## II. Internal Audit Plan for Fiscal 2021

Fiscal 2021 Audits	Status
Audit of Managing Electronic File Transfers	Completed Report Title: An Internal Audit Report on the Audit of Managing Electronic File Transfers Report No.: 96-1841 Report Date: March 2021
Audit of Administration of the Statewide Historically Underutilized Business (HUB) Program	Completed Report Title: An Internal Audit Report on the Audit of Administration of the Statewide HUB Program Report No.: 96-1846 Report Date: June 2021
Audit of Bankruptcy Billings and Collections	Completed Report Title: An Internal Audit Report on the Audit of Bankruptcy Billings and Collections Report No.: 96-1851 Report Date: August 2021
Audit of Cash and Securities Management	Completed Report Title: An Internal Audit Report on the Audit of Cash and Securities Management Report No.: 96-1852 Report Date: August 2021
Audit of Crude Oil and Natural Gas (CONG), Tobacco, Amusement and Agriculture (AG)	In progress. Fieldwork phase.
Audit of Texas Bullion Depository	In progress. Reporting phase.
Audit of Business Operations Information Technology*	In progress. Reporting phase.

\*This fiscal year, the Internal Audit Division absorbed the Texas Treasury Safekeeping Trust Company (TTSTC) audit function. Audits of the TTSTC are incorporated into the Internal Audit Division's Fiscal 2022 Internal Audit Annual Audit Plan. The Fiscal 2021 Internal Audit Annual Report includes audits completed at the TTSTC.

INTERNAL AUDIT ANNUAL REPORT FOR FISCAL 2021

Fiscal 2020 "In Progress" Audits	Status
Audit of Agency Governance Processes	Completed Report Title: An Internal Audit Report on the Audit of Agency Governance Processes Report No.: 96-1847 Report Date: July 2021
Audit of Agency Procurement Process	Completed Report Title: An Internal Audit Report on the Audit of the Agency Procurement Process Report No.: 96-1844 Report Date: June 2021
Audit of Alternative Investments*	Completed Report Title: Alternative Investments Audit Report as of December 31, 2019 Report Date: Dec. 8, 2020
Audit of Accounting and Trust Operations*	Completed Report Title: Accounting and Trust Operations Audit Report as of April 30, 2020 Report Date: Jan. 28, 2021
Audit of Administrative Operations*	Completed Report Title: Administrative Operations Internal Audit Report as of July 31, 2020 Report Date: Jan. 29, 2021
Audit of BidTex*	Completed Report Title: BidTex Audit Report as of May 31, 2020 Report Date: Jan. 29, 2021
Audit of Custody Settlement*	Completed Report Title: Custody Settlement Internal Audit Report as of March 31, 2020 Report Date: Jan. 29, 2021

\*This fiscal year, the Internal Audit Division absorbed the TTSTC audit function. Audits of the TTSTC are incorporated into the Internal Audit Division's Fiscal 2022 Internal Audit Annual Audit Plan. The Fiscal 2021 Internal Audit Annual Report includes audits completed at the TTSTC.

### 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	Web Application Modernization and Optimization Project (WAMO)	This ongoing consulting engagement provides high-level monitoring of the WAMO Project and review of contract deliverables.
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 hotline complaints received from the SAO.
N/A	N/A	N/A	ServiceNow Governance, Risk and Control (GRC) Pilot Project	Participated in a workgroup for implementing an agency-wide governance, risk management and compliance tool. The objective of this project was to review the GRC module of ServiceNow to determine if it is a suitable application to use in the agency's enterprise risk management and risk assessment process.
N/A	N/A	N/A	High-dollar Refund Approval Memo Project (Big Money Memo Special Project)	Assessed the proposed changes to automate the processing of the "Big Money Memo." The overall objective of this consulting service was to evaluate the efficiency and effectiveness of the internal controls over the big money memo process and to determine whether the paper form of the memo could be eliminated without diminishing internal controls.
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	Review of Property Tax Data Analysis	Internal Audit performed a limited process review of the procedures supporting the Property Tax Assistance Division's (PTAD), Data Analysis' key process in accordance with Texas Government Code 403.302(h). Internal Audit recommended that PTAD enhance its review process to ensure that management identifies a secondary reviewer on audits.
N/A	N/A	N/A	Informal Review of Enforcement Division Taxpayer Receipt Process	Worked with the Enforcement Division to assess the impact of providing taxpayer receipts without their signature included.

Report Number	Report Date	Report Name	High-Level Objective(s)	Observations/Results and Recommendations
N/A	N/A	N/A	Unclaimed Property ITSC Project Proposal	Worked with Unclaimed Property to develop an ITSC project proposal that will automate the return warrant process by harnessing the power of our Enterprise Content Management System.
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.

## IV. External Quality Assurance Review (Peer Review)

### Overall Opinion

It is our opinion that the Texas Comptroller of Public Accounts Internal Audit Division receives a rating of “**Pass/Generally Conforms**” and is in compliance with the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing* 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 Division.

The Internal Audit Division is independent, objective and able to render impartial and unbiased judgments. 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 by working papers and findings and recommendations are communicated clearly and concisely. The Internal Audit Division is well managed, has effective relationships with the Comptroller and the Deputy Comptroller and is well respected and supported by management. Surveys and interviews conducted during the quality assurance review indicate the Internal Audit Division is integrated into the agency and is a useful part of its operations. In addition, audit processes and report recommendations add value and improve the agency.

The Internal Audit Division has reviewed the peer review team’s results and has accepted them to be an accurate representation of the Internal Audit Division’s operations.

### Acknowledgments

We appreciate the courtesy and cooperation extended to us by the Internal Audit Division director, Internal Audit Division staff, Deputy Comptroller, Comptroller and division and executive management who participated in interviews. We would also like to thank each person who completed a survey for the quality assurance review. The feedback from the surveys and the interviews provided valuable information regarding the operations of the Internal Audit Division and its relationship with management.

<u>Signature on File</u> John Rivers, MBA, CIA, CISA, CGAP, CRMA  Audit Coordinator <i>Department of Family and Protective Services</i> SIAIF Peer Review Team Leader	<u>7/9/2020</u> Date
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<u>Signature on File</u> Steven Clark  Internal Auditor <i>Department of Public Safety</i> SIAIF Peer Review Team Member	<u>7/9/2020</u> Date	<u>Signature on File</u> Katie Fitch, CPA  Senior Internal Auditor <i>Department of Public Safety</i> SIAIF Peer Review Team Member	<u>7/9/2020</u> Date
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## V. Internal Audit Plan for Fiscal 2022

### Fiscal 2022 Audits

Project Title	Division	Area	Project Hours
Audit of Agency Batch Processing	Information Technology	Infrastructure - Distributed Services - Batch Processing	900
Audit of Unclaimed Property Claims Processing	Information Technology	Contract Claims	1,250
Audit of Texas SmartBuy Administration and Support	Statewide Procurement	Data Management, Analytics and Technology	1,080
Audit of Enforcement Collections Processes	Enforcement	Field Operations Headquarters Support - Collection Training Technical Support Headquarters Support - Systems Administration	1,950
Audit of Incoming Mail, Edit and Image Processing	Revenue Processing	Incoming Mail, Edit and Image Processing - Image Processing Incoming Mail, Edit and Image Processing - Incoming Mail	1,600
Audit of Taxpayer Audits and Refund Verifications	Audit	Field Offices	1,550
Audit of External Investments*	TTSTC External Investments	External Investments	760
Audit of TTSTC Billings Process*	TTSTC Finance	Financial Accounting and Reporting	410
		<b>Total Fiscal 2022 Audit Hours</b>	<b>9,580</b>

\*This fiscal year, the Internal Audit Division absorbed the TTSTC audit function. Audits of the TTSTC are incorporated into the Internal Audit Division's Fiscal 2022 Internal Audit Annual Audit Plan. The Fiscal 2021 Internal Audit Annual Report includes audits completed at the TTSTC.

**Fiscal 2021 Audits in Progress**

<b>Project Title</b>	<b>Division</b>	<b>Area</b>	<b>Project Hours</b>
Audit of CONG, Tobacco, Amusement and AG	Account Maintenance	CONG, Tobacco, Amusement and AG: - Tobacco, Amusement and AG/Timber - CONG Exemptions and Credits - CONG Refunds and Collections - Tobacco, Amusement and AG/Timber	985
Audit of Texas Bullion Depository	Texas Bullion Depository	Texas Bullion Depository	730
Audit of Business Operations Information Technology*	TTSTC	Trust Company Business Operations Information Technology	400
Audit of Cash and Securities Management	Treasury Operations	Cash and Securities Management - Cash Management Program Cash and Securities Management - Funds Transfer	60
Audit of Bankruptcy Billings and Collections	Revenue Accounting	Miscellaneous Taxes, Fund Reconciliations, Bankruptcy and Liens - Bankruptcy and Liens	20
		<b>Total Fiscal 2021 Audits-in-Progress Hours</b>	<b>2,195</b>

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The fiscal 2022 Audit of Texas SmartBuy Administration and Support, Audit of External Investments and Audit of the TTSTC Billings Process address contract management. Contract management is also addressed in the Audit of Texas Bullion Depository, an in-progress audit for fiscal 2021.

**Special Projects/Management Requests**

<b>Project Title</b>	<b>Project Hours</b>
Follow Ups	320
Client Assist (Internal/External)	10
Fiscal 2021 Internal Audit Annual Report	10
Fiscal 2023 Risk Assessment	590
Fiscal 2022 Audit Plan Monitoring	120
TeamMate Maintenance	80
Internal Audit SharePoint Maintenance	40
TeamMate Template Revision	50
Quality Assurance Reporting	20
IT Steering Committee	10
Internal Audit Handbook Review	50
IT Audit Template	100
Special Investigations	0
External Peer Reviews	0
ServiceNow GRC Project	0
Process Reviews	990
Internal Audit Awareness	50
TTSTC Board/Committee Meetings	60
<b>Special Projects/Management Requests Carry Forward</b>	
Fiscal 2022 Risk Assessment	50
Other Requests/Unallocated Hours	295
<b>Total Special Projects/Management Requests</b>	<b>2,845</b>

### Summary of Hours

Summary	Total Hours
Total Fiscal 2022 Audits	9,580
Total Fiscal 2021 Audits in Progress	2,195
Total Special Projects/Management Requests	2,845
<b>Direct Audit Hours</b>	<b>14,620</b>
<b>Indirect Hours</b>	<b>6,260</b>
<b>Total Hours</b>	<b>20,880</b>

The Internal Audit Division (Division) developed the Internal Audit Plan for fiscal 2022 in accordance with the Texas Internal Auditing Act (Act). The Act requires that the Division conduct an annual risk assessment and develop the Internal Audit Plan based on the results of the annual risk assessment. The risk assessment is based upon 710 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 executive management and division directors and used the results to conduct our annual risk assessment for fiscal 2022. We 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 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	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 59 high-risk, 634 medium-risk and 17 low-risk key processes. To provide coverage for all high risks, we propose the following:

- Fourteen key processes will be covered in six audits.
- Five key processes will be covered in five process reviews.
- Seven key processes will be covered as part of fiscal 2022 Internal Control Risk Assessment (ICRA) workshops.
- Six key process will be covered in two fiscal 2021 carryover audits.
- Twenty-seven key processes were covered in previously conducted audits.

In fiscal 2022, the Division hired an internal auditor for the TTSTC. This auditor is dedicated to performing audits of the TTSTC. Two TTSTC audits are planned for this fiscal year. Additionally, ICRA workshops are planned for all TTSTC teams to gather key processes and identify risk and controls. This information will be used to integrate identified TTSTC key processes into the agency's annual risk assessment process

## VI. External Audit Services Procured in Fiscal 2021

Name of External Auditor	Services Provided	Date of Service (Report Date)
RSM US LLP	Financial audit of the programs of the Texas Prepaid Higher Education Tuition Board	Report dated Dec. 17, 2020 for fiscal 2020
Audit Services, U.S. LLC	Audit Services for Unclaimed Property	Fiscal 2021 to current
Discovery Audit Services	Audit Services for Unclaimed Property	Fiscal 2021 to current
EECS, LLC	Audit Services for Unclaimed Property	Fiscal 2021 to current
Innovative Advocate Group	Audit Services for Unclaimed Property	Fiscal 2021 to current
Kelmar Associates, LLC	Audit Services for Unclaimed Property	Fiscal 2021 to current
Kroll Government Solutions	Audit Services for Unclaimed Property	Fiscal 2021 to current
Treasury Services Group	Audit Services for Unclaimed Property	Fiscal 2021 to current
RSM US LLP	Audit of FY20 Financial Statements of Texas Treasury Safekeeping Trust Company (TTSTC)	Dec. 15, 2020
RSM US LLP	Attestation of Compliance with TTSTC Incentive Compensation Plan	Dec. 15, 2020
RSM US LLP	Audit of FY20 Financial Statements of State Water Implementation Fund for Texas (SWIFT)	Dec. 7, 2020
RSM US LLP	Attestation of Compliance with Investment Policy of SWIFT	Dec. 7, 2020
RSM US LLP	Audit of FY20 Financial Statements of Texas Local Government Investment Pool (TexPool)	Nov. 5, 2020
RSM US LLP	Audit of FY20 Financial Statements of Texas Local Government Investment Pool Prime (TexPool Prime)	Nov. 5, 2020
RSM US LLP	Audit of 2020 Financial Statements of Tobacco Settlement Permanent Trust Fund	March 15, 2021
RSM US LLP	Attestation of Compliance with Investment Policy of Tobacco Settlement Permanent Trust Fund	March 15, 2021
RSM US LLP	Attestation of Compliance with Distribution Policy of Tobacco Settlement Permanent Trust Fund	March 15, 2021
KPMG LLP	System and Organization Controls (SOC 1) Report on the Texas Comptroller of Public Accounts' Description of its Centralized Accounting Payroll/ Personnel System and the Suitability of the Design and Operating Effectiveness of Controls	Oct. 15, 2021

Name of External Auditor	Services Provided	Date of Service (Report Date)
Abdessamad Ait Ali/State Sales Tax Consulting, LLC Alejandro C. Gonzales, Jr. Anna Tarver/Hive City Financial Consulting, LLC Antonio V. Concepcion Brenda Lynn Tschirhart Cindy Alvarez Cindy H. Coats, CPA Cindy Reed, CPA/State Tax Consulting, LLC Dale Ruzicka/State Tax Consulting, LLC Dan A. Northern Delores A. Nornberg Dibrell P. Dobbs Dixie Smith, CPA/State Tax Consulting, LLC Fabian Avina Flor H. Holmes Frank Castro/Texas Tax Consulting Group LC Homer Max Wiesen, CPA Jody Sue Loudermilk Jose (Joe) Granados/JPG-EJG, LLC Judy Hannah Julie R. Ortiz, CPA Karina Guadalupe Goulet/KGVG Advisors, LLC dba Texas Tax Specialist Khristina Mitchell/Khrista Marque, LLC L. C. Gordon, Jr./Taygor Associates, LLC Lisa Loughney Marina Roy Buenaventura, CPA Michelle Duplechain Michiell Stites Paul Hernandez Ramiro J. Garza Raymond Franco/State and Local Tax Group LLC Robert Hant Fabyan, CPA/RFabyan Consulting LLC Sean J. Lomonaco Stephanie (Clark) Jackson Sylvia Villanueva Flaherty Trevor Garrett/Garrett State Tax Service Inc. Vernice Seriale, Jr. Wayne A. Powe Wayne Wharton/State and Local Tax Group LLC Yunping Hu	Sales and Use Tax examination services	Fiscal 2021 Sept. 1, 2020 through Aug. 31, 2021

## 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-37 the General Appropriations Act (86th Legislature) and Section 7.09, page IX-38 the General Appropriation Act (87th 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 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 State Auditor's Fraud website link at the bottom of the page, which 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. The SAO's hotline number for reporting fraud, 800-TX-AUDIT (892-8348); 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 facsimile are found on this webpage.

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 and complete an acknowledgment form 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 (<http://www.gao.gov/about/what-gao-does/fraudnet>) and the GAO's toll-free number, 800-424-5454, and fax number, 202-512-2841, as well as the email address ([fraudnet@gao.gov](mailto: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 internal Employee Hotline by calling (toll free) 833-227-0772, emailing [employee.hotline@cpa.texas.gov](mailto: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 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 2021**

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