

TEXAS STATE SECURITIES BOARD

Austin, Texas

INTERNAL AUDIT PLAN

For Fiscal Year 2021



TEXAS STATE SECURITIES BOARD
Austin, Texas

Internal Audit Plan
For Fiscal Year 2021

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Board Members and Audit Committee Members
Texas State Securities Board
Austin, Texas

Enclosed is the Texas State Securities Board's (SSB) proposed Internal Audit Plan (Plan) that was prepared for audits and other functions to be performed in fiscal year 2021. This Plan determines the scope of internal audit activities and is the source for assignment and prioritization of internal audit responsibilities for fiscal year 2021. Specific planning for audit procedures is a naturally ongoing process; thus, the Plan is reviewed annually and may be revised by the Board or Audit Committee, as necessary.

This Plan has been prepared by Garza/Gonzalez & Associates, an independent Certified Public Accounting firm, following Generally Accepted Auditing Standards, International Standards for the Professional Practice of Internal Auditing, and the Institute of Internal Auditors' Code of Ethics contained in the Professional Practices Framework.

A handwritten signature in black ink that reads "Garza/Gonzalez & Associates". The signature is written in a cursive, flowing style.

June 18, 2021

TEXAS STATE SECURITIES BOARD

Austin, Texas

Internal Audit Plan For Fiscal Year 2021

I. Methodology

SSB's fiscal year 2021 Internal Audit Plan (Plan) was prepared utilizing a risk assessment process, where we reviewed various documents; and, questionnaires completed by SSB's Audit Committee Chair, management, and other staff, as documented below.

The following documents were reviewed and/or considered in our risk assessment process:

- Organizational Charts
- Financial and Non-Financial Reports
- Policies and Procedures
- Applicable Laws and Regulations
- Audits and/or Monitoring Reports from Third Party Agencies
- Prior Internal Audit Reports

Questionnaires were developed for completion by SSB's Audit Committee Chair; Commissioner; Division Directors; and, other staff, to update our understanding of each department, and its role within the overall scheme of SSB. The questionnaires included topics; such as, issues and/or concerns, recent changes in key personnel, time elapsed since last audit or review, status of past audit findings, and regulatory compliance requirements (e.g., TAC 202, *Information Security Standards*; contract management; and, benefits proportionality). Utilizing the information obtained through the completed questionnaires and information reviewed, 11 audit areas were identified as the potential audit topics. A risk analysis was completed for each of the 11 potential audit topics and then compiled to develop SSB's overall risk assessment.

The following 8 risk factors were considered for each potential audit topic:

- | | |
|--|---|
| 1. Materiality | Measure of the auditable unit's <i>financial</i> materiality based on the dollar amount per year of assets, receipts, or disbursements for which the unit is responsible; or, <i>non-financial</i> materiality based on the degree of its responsibility related to the agency's primary mission. |
| 2. Time since Last Audit or Review | Measure of the number of years between the date of the previous audit or review and the date of the risk assessment. |
| 3. Results of Previous Audit or Review | Measure of the results of the previous audit or review. |
| 4. Adequacy of Staffing Levels | Measure of the adequacy of the auditable unit's staffing level as it relates to the achievement of its objectives. |

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- | | |
|---|--|
| 5. Policies and Procedures | Measure of the existence of policies and procedures documenting the auditable unit's activities. |
| 6. Compliance with Contracts, Laws, and Regulations | Measure of the magnitude of contracts, laws, and/or regulations for which the auditable unit is responsible for complying. |
| 7. Susceptibility of Theft, Waste, Abuse, or Fraud | Measure of the auditable unit's risk and controls in place as it relates to theft, waste, abuse, or fraud. |
| 8. Issues or Concerns | Measure of issues or concerns expressed in completed questionnaires. |

Risk Assessment

Following are the results of the risk assessment performed for the 11 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Enforcement ¹ Conducting Inspections ¹ Processing Cash Receipts/Disbursements/Mail Procurement/Contract Management/HUB/Travel Information Technology Human Resources and Payroll	None	Processing Dealer Applications ² Processing Securities Applications ² Accounting/Financial Reporting/Fixed Assets Complaints Process ¹ Records Management

¹ Includes Performance Measures.

² Includes Performance Measures and Registration & Filing Fees.

This report includes the “Risk Assessment Summary” as Attachment A; and, the “History of Areas Audited” as Attachment B, which lists audits and/or reviews performed from fiscal year 2011 through 2021 for the above 11 potential audit topics.

In the prior 3 years, the internal auditor performed the following *internal audit functions*:

Fiscal Year 2020:

- Risk Assessment & Preparation of the Internal Audit Plan
- Records Management
- Follow-up of Prior Year Internal Audit Recommendations
- Preparation of the Internal Audit Annual Report

Fiscal Year 2019:

- Risk Assessment & Preparation of the Internal Audit Plan
- Accounting & Financial Reporting
- Follow-up of Prior Year Internal Audit Recommendations
- Preparation of the Internal Audit Annual Report

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Fiscal Year 2018:

- Risk Assessment & Preparation of the Internal Audit Plan
- Processing Dealer Applications
- Follow-up of Prior Year Internal Audit Recommendations
- Preparation of the Internal Audit Annual Report

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II. Audit Scope

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope will encompass the examination and evaluation of the adequacy and effectiveness of SSB's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Procedures, Laws, Regulations and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, and regulations and contracts that could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

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III. Internal Audit Plan

In addition to performing the 2021 risk assessment for preparation of this Internal Audit Plan (Plan), this Plan also includes one audit to be performed; a follow-up of the prior year audit recommendations; other tasks that may be assigned by the Board, Audit Committee, or management during the year; and, preparation of the Annual Internal Audit Report for fiscal year 2021.

The area recommended for internal audit and other functions to be performed for fiscal year 2021 are as follows:

1. Completion of the Fiscal Year 2021 Risk Assessment and Preparation of this Internal Audit Plan
2. Enforcement
The planned audit procedures include the following:
 - a. Review and obtain an understanding of the applicable sections of the Texas Securities Act and the Texas Administrative Code, as applicable to Enforcement (Area).
 - b. Obtain and review SSB's written policies and procedures, and conduct interviews to obtain an understanding of controls, processes, and current practices in place over the Area, and to evaluate whether such controls adequately ensure compliance with applicable requirements identified in procedure a. above.
 - c. Perform tests of Investigative Suspense files and investigation files that were opened and/or closed during the audit period to assess operating effectiveness of internal controls in place, including new policy and procedures implemented in response to the Sunset Advisory Commission's recommendations related to SSB's complaint process and penalty matrix.
 - d. Perform tests to determine whether performance measures relevant to the Area are accurately and adequately documented and reported.
 - e. Assess the impact that the COVID-19 pandemic had on the Area's operations and processes and how the Area addressed such circumstances.
 - f. Other procedures that may be deemed necessary during audit fieldwork.
3. Follow-Up of Prior Year Internal Audits and Preparation of the 2021 Annual Report
Perform follow-up procedures to determine the status of the prior year comments that were not fully implemented as of fiscal year 2020 and prepare the 2021 Internal Audit Annual Report. The audit procedures will result in a determination that the recommendation is (1) Fully Implemented; (2) Substantially Implemented; (3) Incomplete/Ongoing; or (4) Not Implemented.
4. Other Tasks
Other tasks as may be assigned by the Board, Audit Committee, or management during the fiscal year.

ATTACHMENTS

TEXAS STATE SECURITIES BOARD
Risk Assessment Summary
For Fiscal Year 2021

RISK FACTOR WEIGHT							
10.00%	16.50%	16.00%	15.00%	12.50%	12.00%	8.00%	10.00%

RISK FACTORS							
1	2	3	4	5	6	7	8

Potential Audit Topic	Materiality	Time Since Last Audit or Review	Results of Previous Audit or Review	Adequacy of Staffing Levels	Policies and Procedures	Compliance with Contracts, Laws & Regulations	Susceptibility of Theft, Waste, Abuse, or Fraud	Issues or Concerns	Total								
High Risk > 156																	
1 Enforcement ¹	3	30.00	1	16.50	1	16.00	2	30.00	1	12.50	3	36.00	1	8.00	2	20.00	169.00
2 Conducting Inspections ¹	3	30.00	1	16.50	1	16.00	2	30.00	1	12.50	3	36.00	2	16.00	1	10.00	167.00
3 Processing Cash Receipts/ Disbursements/ Mail	2	20.00	2	33.00	1	16.00	1	15.00	2	25.00	2	24.00	2	16.00	1	10.00	159.00
4 Procurement/ Contract Management/ HUB/ Travel	2	20.00	2	33.00	1	16.00	1	15.00	2	25.00	2	24.00	2	16.00	1	10.00	159.00
5 Information Technology (includes Disaster Recovery Plan)	2	20.00	1	16.50	2	32.00	1	15.00	1	12.50	3	36.00	2	16.00	1	10.00	158.00
6 Human Resources and Payroll	3	30.00	2	33.00	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	156.50

Moderate Risk 146 - 156

Low Risk < 146																	
Potential Audit Topic	Materiality	Time Since Last Audit or Review	Results of Previous Audit or Review	Adequacy of Staffing Levels	Policies and Procedures	Compliance with Contracts, Laws & Regulations	Susceptibility of Theft, Waste, Abuse, or Fraud	Issues or Concerns	Total								
7 Processing Dealer Applications ²	3	30.00	1	16.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	144.00
8 Processing Securities Applications ²	3	30.00	1	16.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	144.00
9 Accounting/ Financial Reporting/ Fixed Assets	2	20.00	1	16.50	1	16.00	1	15.00	2	25.00	2	24.00	2	16.00	1	10.00	142.50
10 Complaints Process ¹	2	20.00	1	16.50	1	16.00	1	15.00	2	25.00	1	12.00	1	8.00	1	10.00	122.50
11 Records Management	1	10.00	1	16.50	2	32.00	1	15.00	1	12.50	1	12.00	1	8.00	1	10.00	116.00

¹ Includes Performance Measures.
² Includes Performance Measures and Registration & Filing Fees.

Risk Factor Rating:
 1 - Low Risk
 2 - Moderate Risk
 3 - High Risk

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History of Areas Audited
For Fiscal Year 2021

	POTENTIAL AUDIT TOPIC	Fiscal Year Audited/Reviewed										
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 ⁽¹⁾
1	Accounting & Financial Reporting (includes Fixed Assets & Travel)	A*	A			C*				A		
3	Complaints Process ¹								B			
2	Conducting Inspections ¹					A			B			
4	Enforcement ¹							A	B			
5	Human Resources & Payroll					C*	A1		E*			
6	Information Technology (includes Disaster Recovery Plan)	D*	A	D*/D	D*	D*	D*	D*	B*/D	D*	D	D*
7	Processing Cash Receipts/Disbursements/Mail				A							
8	Processing Dealer Applications ²	A							A/B			
9	Processing Securities Applications ²			A					B			
10	Procurement/Contract Management/HUB					C*						
11	Records Management										A	

¹ Includes Performance Measures.

⁽¹⁾ Partial fiscal year through May 2021

² Includes Performance Measures and Registration & Filing Fees.

Legend (audits/reviews with asterisk (*) are considered limited scope for the audit area)

- A Internal audit performed by Garza/Gonzalez & Associates, CPAs.
- A1 Internal audit performed by Monday Rufus & Co.
- B Sunset review performed by the Sunset Advisory Commission.
- C Post-Payment audit performed by the Comptroller of Public Accounts.
- D IT assessment performed by the Department of Information Resources (DIR) or a third-party vendor procured through DIR.
- E Policy review performed by the Texas Workforce Commission.