

**Office of the Secretary of State
Internal Audit Annual Report
for FY 2016**

October 10, 2016

As Prepared by
Jansen and Gregorczyk,
Certified Public Accountants

Office of the Secretary of State - FY 2016 Internal Audit Annual Report

**Jansen & Gregorczyk
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P. O. Box 601
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October 10, 2016

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
State Auditor

Dear Ladies and Gentlemen:

Attached is a report on the FY 2016 internal audit activity at the Office of Secretary of State (SOS) as required by the Texas Internal Auditing Act.

Please contact Vincent Houston, Administrative Services Division Director, at 463-5593 if you desire further information about the contents of this report. Mr. Houston is the Chief Audit Executive for the SOS.

Sincerely,

SIGNED COPY ON FILE

Russell Gregorczyk, Partner
Jansen & Gregorczyk, CPAs

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I. Compliance with House Bill 16: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Web site

The Contract Internal Auditor will provide the required Internal Audit Plan, Internal Audit Annual Report and any other required internal audit information to the Director of Financial Management who will ensure that the information is posted on the agency web site under the Publications Section.

II. Audit Plan for Fiscal Year 2016

The Audit Plan for Fiscal Year 2016 was approved by the Deputy Secretary of State on October 2, 2015. All projects in the internal audit plan were completed as scheduled, except for the audit of the Corporations Section which was postponed. The following audits and projects were completed:

1. Internal Audit of Accounting and Payroll Systems and Controls- June 8, 2016
2. Internal Audit the Purchasing Section- June 8, 2016
3. Internal Audit of the Commercial Liens, Reports, Registrations & Data Management Section of the Business and Public Filings Division- September 7, 2016
4. FY 2016 Follow-up Review of the Status of Implementing Prior Years' Internal Audit Recommendations- September 7, 2016

**Office of the Secretary of State
FY 2016 Internal Audit Plan**

October 2, 2015

As Approved by the Deputy Secretary of State

As Prepared by
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Certified Public Accountants

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P. O. Box 601
Kyle, Tx. 78640

October 2, 2015

The Honorable Carlos H. Cascos,
Secretary of State

The following document presents the fiscal year 2016 Internal Audit Plan for your review and approval. In accordance with the Texas Internal Auditing Act, the Secretary of State approves the annual audit plan. Chapter 2102 of the Government Code requires that the internal audit plan include areas identified through risk assessment. This document presents the risk assessment results and the audit plan proposed based on the results of the risk assessment.

This document also includes the internal auditing guidelines and internal audit charter under which the SOS internal audit program will operate.

If you have any questions, changes or revisions to the proposed plan, please contact me.

Signed Copy on File

Jansen & Gregorczyk
Certified Public Accountants

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**SECTION 1:
OFFICE OF SECRETARY OF STATE
INTERNAL AUDITING GUIDELINES**

Certain operating guidelines are necessary for an effective internal auditing program. The purpose of this Section is to document the guidelines that will govern all internal audits of the operations of the Office of the Secretary of State (SOS). These guidelines, as well as the FY 2016 Internal Audit Plan, are approved each year by the Secretary of State.

I. INTERNAL AUDIT CHARTER

The *Standards for the Professional Practice of Internal Auditing* state that the Internal Audit Charter should make clear the purposes of the internal auditing department, specify the unrestricted scope of its work, and declare that auditors are to have no authority or responsibility for the activities they audit.

The Internal Audit Charter is an extremely important document that sets out the statement of purpose, authority, and responsibility for the internal auditing department. It is an agreement between the Secretary of State and the Internal Auditor which establishes the guidelines for an effective internal auditing program. Although the Internal Audit Charter can include all relevant policies and procedures, a concise document is preferable. A concise document increases the likelihood that all parties will understand the purpose, authority, and responsibility of the internal auditing department. Exhibit 1 presents the SOS Internal Audit Charter.

II. INTERNAL AUDITING STANDARDS

A. The Internal Auditor shall conduct his/her activities in a manner that is consistent with the most current *Standards for the Professional Practice of Internal Auditing*, *Certified Internal Auditor Code of Professional Ethics*, *Statement of Responsibilities of Internal Auditing*, and *Government Auditing Standards*.

B. Sufficient and relevant evidence shall be obtained to afford a reasonable basis for the auditor's findings and recommendations. A written record of the auditor's work shall be retained in the form of working papers.

C. Standards of conduct for the Internal Auditor require that the Internal Auditor shall:

1. be free from personal or external impairments to independence in order that opinions, conclusions, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.
2. be prudent in the use of information acquired in the course of his/her duties.
3. conduct all activities in accordance with the laws regarding confidentiality.

4. not use any information obtained in an audit for any personal gain nor in a manner which would be detrimental to the welfare of the agency, the Secretary of State, or SOS employees.

III. INTERNAL AUDITING POLICIES

A. The Internal Auditor shall be responsible for performance audits of the SOS. Performance audit is defined as an independent appraisal activity performed by the Internal Auditor which includes determining whether the entity being reviewed is acquiring, protecting, and using its resources economically and efficiently, identifying the causes of inefficiency or uneconomical practice, and determining whether the entity has complied with laws, rules, and regulations.

B. The Secretary of State shall select the Internal Auditor.

1. The Internal Auditor shall report directly to the Secretary of State or her designee.
2. The Secretary of State or her designee shall be responsible for the administrative supervision of the internal audit program.
3. The Secretary of State or her designee shall ensure the independence of the internal audit function.

C. The Internal Auditor shall submit to the Secretary of State for approval, the annual audit plan, which shall be based on risk analysis and which shall identify individual audits to be performed during the year. Special audit projects not included in the approved annual audit plan may be authorized by the Secretary of State.

D. On a basis determined by the Secretary of State, the Internal Auditor shall meet with the Secretary of State or her designee to discuss the status of implementing the Internal Audit Plan, including exceptions to the timely accomplishment of the plan; the status of management's resolution of audit findings and other significant issues involving the internal audit function.

E. The Internal Auditor's activities in reviewing, appraising and reporting established policies, plans and procedures shall not in any way relieve SOS personnel of responsibilities assigned to them.

F. The implementation of, or action taken on, the Internal Auditor's recommendations shall be the duty of SOS management. The Internal Auditor will perform follow-up audits to determine what corrective action was taken and whether it is achieving the desired results.

G. The agency's internal audit program will undergo a peer review at least every three years to comply with the requirements established in the Texas Internal Auditing Act.

IV. INTERNAL AUDITING PROCEDURES

A. The Internal Auditor prior to beginning an audit will inform the appropriate SOS management of the audit and its objectives by conducting an entrance conference.

B. The Internal Auditor will conduct an exit conference with the appropriate SOS management, at which time exceptions noted during the course of the audit will be discussed.

C. The Internal Auditor will independently make a determination on the results of the audit and issue a draft report to the affected SOS management staff for management's response. An exit conference will be held within 14 days of the draft report. A revised report will be prepared if necessary based on the exit conference discussion. A management response will be made within 30 calendar days of the issuance of the revised draft report.

D. The Internal Auditor will add the management response to the body of the report and issue a final draft report to the Secretary of State and affected SOS management within 14 calendar days of receiving the management response. Upon approval by the Secretary of State, the Internal Auditor will issue a final report and provide copies to all required agencies and affected SOS management staff.

E. If, during the course of an audit, the Internal Auditor detects situations or transactions that could be indicative of fraud or other illegal acts, or receives information from external sources alleging such actions, the Internal Auditor will:

- 1.** Provide all pertinent information to the Secretary of State.
- 2.** Formally request approval from the Secretary of State to expand audit procedures or perform an investigation.
- 3.** Upon approval, the Internal Auditor will extend audit procedures or perform an investigation to obtain sufficient evidence to determine whether in fact such acts have occurred and, if so, the cause of the problem and the possible effect on the SOS's operations and programs.
- 4.** Provide the Secretary of State a formal report on the results. Upon receipt of evidence of illegality, the Secretary of State will forward findings to the appropriate legal entity.

SECTION 2:
OFFICE OF THE SECRETARY OF STATE
FY 2016 RISK ASSESSMENT

This section presents the results of the SOS Risk Assessment, and establishes the foundation for the Internal Audit Plan presented in the next section.

Purpose

One of the key findings in the State Auditor's Office report, *Statewide Review of Internal Auditing*, was that the scope of internal auditing is often limited in state agencies. The report states, "Because significant financial and operating risks to the agency may be overlooked if the scope of the internal auditors work is limited, we recommend that internal auditors:

- Document, in writing, a risk assessment which considers all the major systems and controls of the agency as part of the audit universe. The audit universe refers to all auditable subjects, activities, units, issues and functions within the organization.

- Identify the risk factors that affect the audit universe and weights that may be applied to the risk factors.

- Establish a method for combining and assigning risk factors and weights to develop a prioritized annual audit work plan.

- Develop an audit plan and work schedule based on the results of the risk assessment.

- Obtain written approval for the plan from the highest level within the organization.

- Implement the plan. Significant deviations from the audit plan should be supported by reasonable, documented explanations."

The purpose of conducting a Risk Assessment for the SOS was to incorporate all these recommended elements in an objective assessment of the agency. This should ensure that the scope of internal audit work at the SOS is not limited and that the Internal Audit Plan for FY 2016 is based on documented, written findings.

Concept of Risk

The concept of risk is fundamental in internal auditing. Given the importance of the concept of risk, it is necessary to define what risk is, describe types of risk and describe how risk was measured in performing the Office of the Secretary of State Risk Assessment.

Risk is a measurement of the likelihood that an organization's goals and objectives will not be achieved. Since controls are anything that improve the likelihood that goals and objectives will be achieved, controls and risks are inversely related by definition. Better control means less risk. The Risk Assessment was designed to detect and evaluate the controls in place to reduce different types of risk exposure.

The SOS Risk Assessment was designed to measure different types of "risk exposure" and to assess the controls in place to compensate for different levels of risk. The types of risk exposure which are relevant to the SOS are:

- *Financial Exposure:* Financial exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.

- *Regulatory Exposure:* Regulatory exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.

- *Information Exposure:* An information exposure exists whenever there is information of a sensitive or confidential nature which could be altered, destroyed, or misused.

- *Efficiency Exposure:* An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.

- *Human Resource Exposure:* A human resource exposure exists whenever an area is managing human resources in a way which is contrary to agency policy.

- *Environmental Exposure:* An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:

- Recent changes in key personnel
- Changing economic conditions

- Time elapsed since last audit
- Pressures on management to meet objectives
- Past audit findings and quality of internal control

- *Political Exposure:* A political exposure exists whenever an event in an audit area could cause the agency to be subjected to adverse political consequences.

- *Public Service Exposure:* A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.

The SOS Risk Assessment Survey was designed to measure various types of risk ranging from the risk of loss of assets to the risk of adverse publicity due to erroneous information. The survey instrument allows meaningful comparisons among very different activities and types of risk by assigning all potential auditable topics a numeric score.

Methodology

The risk variables utilized for the Office of the Secretary of State Risk Assessment combined measures of the various controls and exposure types described in the previous section. Exhibit 2 presents the risk survey instrument utilized. Sixteen risk variables or risk factors were selected to provide a cross-section of overall risk. These sixteen factors were weighted according to their perceived importance, i.e. the higher the weighting, the higher the risk. The risk variables and their weightings are presented in Exhibit 3.

The first step in conducting the Risk Assessment involved defining the potential audit universe. To be in compliance with the Texas Internal Auditing Act, all potential auditable subjects, activities, units, issues and functions were determined. The universe of potential audit topics was developed through interviews with the Office of the Secretary of State staff and by reviewing material such as the agency's enabling legislation, strategic plan, agency publications and related materials.

The second step in the process was to utilize the survey instrument to assess the risk for each potential audit topic. After completing the risk survey for all potential auditable topics, each survey response was reviewed for consistency based on the knowledge of the auditor. This phase was a means of assuring "quality control," since the completion of the survey instruments was based on information provided by various Office of the Secretary of State staff members.

The third phase of the Risk Assessment involved scoring and ranking the answers to the survey questions. By weighting the values of the different risk indicators, the survey was individualized for the Office of the Secretary of State.

The final step in conducting the Risk Assessment was to rank and categorize every potential auditable topic. Based on the average score and the standard deviation of the potential audit universe, the potential auditable topics were categorized as follows:

| | |
|--------------|--------------|
| High Risk | - Over 226 |
| Average Risk | - 197 to 226 |
| Low Risk | - Below 198 |

Results

Exhibit 4 presents the results of the Risk Assessment for each potential audit topic. Eight topics were ranked as high risk as follows:

- Elections and Information Services Divisions– TEAM System
- Business and Public Filings Division– Corporations Section
- Information Services Division
- Agency-wide Revenue Processing
- Elections Division– Voter Registration System Section
- Business and Public Filings Division– Government Filings Section
- Administrative Services Division- Fiscal Management
- Business and Public Filings Division– Uniform Commercial Code Section

Six other topics were ranked as average risk and five topics were ranked as low risk.

SECTION 3:
OFFICE OF THE SECRETARY OF STATE
FY 2016 INTERNAL AUDIT PLAN

The Texas Internal Auditing Act requires certain audits to be performed on a periodic basis. Required audits include audits of the department's accounting systems and controls, administrative systems and controls, electronic data processing systems and controls, and other major systems and controls. In addition, five general types of audits are required by the *Standards for the Professional Practice of Internal Auditing* as follows:

- **Reliability and Integrity of Information** - Internal Auditors should 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, Plans, Procedures, Laws, and Regulations** - Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports, and should determine whether the organization is in compliance with them.

- **Safeguarding of Assets** - Internal auditors should review the means of safeguarding assets and, as appropriate verify the existence of such assets.

- **Economical and Efficient Use of Resources** - Internal auditors should appraise the economy and efficiency with which assets are employed.

- **Accomplishment of Established Objectives and Goals for Operations and Programs** - Internal auditors should 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.

The FY 2016 Internal Audit Plan for the Office of the Secretary of State is based on the risk assessment presented in the previous section. Audit risk scores and the audit history for each potential audit topic (Exhibit 5) were used in developing the proposed audit topics for FY 2016. Three topics ranked in the high risk category and one topic in the average risk category are proposed for audit in FY 2016. Although five other topics were ranked in the high risk category, an audit of the Information Services Division was completed in April 2015; an audit of Agency-wide Revenue Processing was completed in December 2014; and, audits of Voter Registration and Government Filings were completed in August 2013. Since audits of these four topics have all been performed within the last two years, none of these audit topics were included in the FY 2016 internal audit plan. An audit of the TEAM System has not been performed since

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FY 2011, but the system is being redesigned and the new system will not be deployed until FY 2016 so it is not proposed for audit during FY 2016.

Audits of Corporations and the Uniform Commercial Code (UCC) Sections of the Business and Public Filings Division and the Fiscal Management Section of the Administrative Services Division (High Risk) are proposed for audit in FY 2016 because none of these topics has not been audited since FY 2011. An audit of the Purchasing Section of the Administrative Services Division (Average Risk) is included in the FY 2016 audit plan because this topic has also not been audited since FY 2011 and this is considered a component of the administrative systems and controls and audits of administrative systems and controls are required to be audited periodically under the provisions of the Texas Internal Auditing Act. For FY 2016 the following audits will be performed:

- Business and Public Filings Division- Corporations (High Risk)
- Business and Public Filings Division- Uniform Commercial Code (High Risk)
- Administrative Services Division- Fiscal Management (High Risk)
- Administrative Services Division- Purchasing (Average Risk)

For each of the four audits, proposed audit objectives will be developed and coordinated with SOS management to define the scope of each audit before audit work begins. In addition to these proposed audits and audit work, a follow-up review will be conducted of recommendations made in audit reports issued in prior years.

The proposed time lines and time estimates for the FY 2016 audit work is 588 hours as follows:

- Complete the FY 2015 Internal Audit Annual Report- 4 hours (September 2015)
- Uniform Commercial Code Audit- 140 hours (October to November 2015)
- Complete an external quality assurance review of the internal audit program – 4 hours (January 2016)
- Fiscal Management Audit - 140 hours (January 2016 to February 2016)
- Purchasing Audit-120 hours (March 2016 to April 2016)
- Corporations Section Audit-160 hours (May 2016 to June 2016)
- Perform Follow-up Review of Prior Years' Audit Recommendations- 24 hours (July 2016)

Our fees during FY 2016 will be \$125/hour for the Partner and Audit Manager and \$85/hour for a Senior Auditor. Our total fees for these deliverables in FY 2016 are estimated to be \$53,360, plus the internal audit peer review costs of \$2,250 for a total cost of \$55,610. This estimate is based on 516 hours of staff time @ \$85 per hour and 76 hours of time for Russell Gregorczyk, CPA at \$125 per hour. Any additional work requested by SOS will be billed at the same rates shown. Invoices will be submitted monthly.

**EXHIBIT 1
OFFICE OF THE SECRETARY OF STATE
FY 2016 INTERNAL AUDITING CHARTER**

This charter identifies the purpose, authority, and responsibility of the SOS Internal Auditing program.

PURPOSE

Internal Auditing is an independent appraisal activity established to conduct reviews of operations and procedures and to report findings and recommendations to the Secretary of State.

AUTHORITY

The Internal Auditor reports to the Deputy Secretary of State. This reporting relationship ensures independence, promotes comprehensive audit coverage and assures adequate consideration of audit recommendations.

The Internal Auditor, in the performance of audits and with stringent accountabilities of safekeeping and confidentiality, will be granted unlimited access to all SOS activities, records, property, and staff members.

The Internal Auditor will have no responsibilities assigned other than those related to developing and implementing the internal audit program for SOS.

RESPONSIBILITIES

The Internal Auditor is responsible for assessing the various functions and control systems in the SOS and for advising the Secretary of State concerning their condition. The fulfillment of this accountability is not confined to but includes:

- Appraising the effectiveness and application of accounting systems and controls, administrative systems and controls, information resources systems and controls, and other major systems and controls, so as to ensure that all the major systems and controls are reviewed on a periodic basis.
- Evaluating the sufficiency of and adherence to SOS plans, policies, and procedures and compliance with all governmental laws and regulations.
- Performing special reviews requested by the Secretary of State or Deputy Secretary of State.
- Conducting appraisals of the economy and efficiency with which resources are employed.
- Coordinating audit planning and scheduling activities with the State Auditor's Office.

EXHIBIT 2
OFFICE OF THE SECRETARY OF STATE
FY 2016 RISK ASSESSMENT INSTRUMENT

1. Annual Dollars Involved

The dollar amount per year of assets, receipts, or disbursements involved in the program or for which the auditable unit is responsible. The auditable unit has responsibility if it identifies, measures, classifies, reports, or monitors the assets, receipts, or disbursements. Dollar amounts can be included in determining the evaluation for more than one auditable unit.

| <u>Evaluation</u> | <u>Points</u> |
|---|---------------|
| Less than \$100 thousand per year or not applicable | 1 |
| At least \$100 thousand per year but less than \$1 million per year | 2 |
| At least \$1 million per year but less than \$5 million per year | 3 |
| More than \$5 million per year | 4 |

2. Transaction Volume

The number of transactions for which the auditable unit is responsible. The auditable unit has responsibility if it identifies, measures, classifies, reports, or reconciles the transaction. A transaction can be included in determining the evaluation for more than one auditable unit. Also, some auditable units are responsible for only summary transactions while others are responsible for the detailed transactions that make up the summary transactions.

| <u>Evaluation</u> | <u>Points</u> |
|--|---------------|
| Less than 1,000 per year or not applicable | 1 |
| Greater than 1,000 per year but less than 5,000 per year | 2 |
| Greater than 5,000 per year | 3 |

3. Safeguarding Assets

Personnel in the auditable unit safeguard assets if they control access to assets. Access to assets includes both direct physical access and indirect access through the preparation and processing of documents that authorize the use or disposition of assets.

| <u>Evaluation</u> | <u>Points</u> |
|---------------------------------------|---------------|
| No access to assets or not applicable | 1 |
| Limited access to assets | 2 |
| Some access to assets | 3 |
| Substantial access to assets | 4 |

4. Impact of Adverse Publicity

This factor includes those circumstances that increase the adverse impact of errors. An auditable unit's visibility results from several sources, including: 1.) the Secretary of State or management's interest in the auditable unit's activities; 2.) involvement of outside groups, such as an advocacy group or the Legislature; or 3.) direct interaction with the public or clients.

| <u>Evaluation</u> | <u>Points</u> |
|-------------------------------------|---------------|
| Little visibility or not applicable | 1 |
| Some visibility | 2 |
| High visibility | 3 |

5. Time Since Last Audit or Review

The number of years between the date of the previous audit or review and the date of the risk assessment.

| <u>Evaluation</u> | <u>Points</u> |
|---|---------------|
| One year or less | 1 |
| More than one year, but less than three years | 2 |
| No prior audit or more than three years | 3 |

6. Results of Last Audit or Review

Auditor's evaluation of the results of the previous audit or review.

| <u>Evaluation</u> | <u>Points</u> |
|-------------------------------------|---------------|
| Positive findings or not applicable | 1 |
| Some findings or no prior audit | 2 |
| Negative findings | 3 |

7. Operational Changes

Auditor's evaluation of the impact on the auditable unit from changes in its operations, including changes in staff, size, funding, budget, responsibilities, or processing data. Changes include those made within the last year or anticipated to be made in the next year.

| <u>Evaluation</u> | <u>Points</u> |
|-------------------------------|---------------|
| Few changes or not applicable | 1 |
| Some changes | 2 |
| Extensive changes | 3 |

8. Personnel Turnover

In the last 12 months, the number of personnel leaving the auditable unit.

| <u>Evaluation</u> | <u>Points</u> |
|--|---------------|
| Low turnover (10% or less) or not applicable | 1 |
| Average turnover (10% to 20%) | 2 |
| High turnover (more than 20%) | 3 |

9. Policies and Procedures

The existence of policies and procedures documenting the auditable unit's activities.

| <u>Evaluation</u> | <u>Points</u> |
|--------------------------------------|---------------|
| Written procedures or not applicable | 1 |
| Some written procedures | 2 |
| No written procedures | 3 |

10. Training

Auditor's evaluation of the auditable unit's staff training, including cross training.

| <u>Evaluation</u> | <u>Points</u> |
|--|---------------|
| Substantial training or not applicable | 1 |
| Some training | 2 |
| Little training | 3 |

11. Work Complexity

Auditor's evaluation of the work needed to complete assignments or transactions, including amount of time, number of steps, and familiarity with agency laws, policies, and rules.

| <u>Evaluation</u> | <u>Points</u> |
|---------------------------------------|---------------|
| Low work complexity or not applicable | 1 |
| Medium work complexity | 2 |
| High work complexity | 3 |

12. Work Load Fluctuations

Auditor's evaluation of the fluctuations in the auditable unit's workload.

| <u>Evaluation</u> | <u>Points</u> |
|---|---------------|
| Steady workload or not applicable | 1 |
| Some fluctuations in workload | 2 |
| Substantial fluctuation in workload (yearly pattern) | 3 |

13. Sensitivity of Data

Auditor's evaluation of the type of data collected, processed, and prepared by the auditable unit.

| <u>Evaluation</u> | <u>Points</u> |
|---|---------------|
| Little sensitive or confidential data or not applicable | 1 |
| Some sensitive or confidential data | 2 |
| Most data sensitive or confidential | 3 |

14. Impact of Inaccurate Data

Auditor's evaluation of the impact of incorrect data processed by the auditable unit or supplied to organizations outside of the Office of the Secretary of State.

| <u>Evaluation</u> | <u>Points</u> |
|---|---------------|
| Little data provided outside the agency or not applicable | 1 |
| Some data provided outside the agency | 2 |
| Most data provided outside the agency | 3 |

15. Management Review

Auditor's evaluation of the review given by the Division Director of the auditable unit's activities.

| <u>Evaluation</u> | <u>Points</u> |
|---|---------------|
| Frequent or detailed review or not applicable | 1 |
| Some direct review | 2 |
| Little direct review | 3 |

16. Potential for Fraud, Waste or Abuse

Auditor's evaluation of the potential for fraud, waste, or abuse as compared to other agency programs and functions.

| <u>Evaluation</u> | <u>Points</u> |
|---------------------------------|---------------|
| Low potential or not applicable | 1 |
| Average potential | 2 |
| Higher than average potential | 3 |

**EXHIBIT 3
OFFICE OF THE SECRETARY OF STATE
FY 2016 RISK ASSESSMENT RISK FACTOR WEIGHTINGS**

| RISK FACTOR: | Maximum Weigh | * | Maximum Points | = | Score |
|------------------------------------|--------------------------|----------|---------------------------|----------|---------------|
| 1. Annual Dollars Involved | 7.50 | * | 4 | = | 30.00 |
| 2. Transaction Volume | 5.00 | * | 3 | = | 15.00 |
| 3. Safeguarding Assets | 7.50 | * | 4 | = | 30.00 |
| 4. Impact of Adverse Publicity | 7.50 | * | 3 | = | 22.50 |
| 5. Time Since Last Audit or Review | 7.25 | * | 3 | = | 21.75 |
| 6. Results of Last Audit or Review | 6.50 | * | 3 | = | 19.50 |
| 7. Operational Changes | 6.25 | * | 3 | = | 18.75 |
| 8. Personnel Turnover | 5.00 | * | 3 | = | 15.00 |
| 9. Policies and Procedures | 5.00 | * | 3 | = | 15.00 |
| 10. Training | 5.00 | * | 3 | = | 15.00 |
| 11. Work Complexity | 7.00 | * | 3 | = | 21.00 |
| 12. Work Load Fluctuations | 5.50 | * | 3 | = | 16.50 |
| 13. Sensitivity of Data | 7.50 | * | 3 | = | 22.50 |
| 14. Impact of Inaccurate Data | 7.50 | * | 3 | = | 22.50 |
| 15. Management Review | 5.00 | * | 3 | = | 15.00 |
| 16. Potential for Fraud/Abuse | <u>7.00</u> | * | <u>3</u> | = | <u>21.00</u> |
| Maximum Score | | | | | 300.00 |

**EXHIBIT 4
OFFICE OF THE SECRETARY OF STATE
FY 2016 RISK ANALYSIS SCORES & RISK RANKINGS**

| AUDITABLE UNIT/FUNCTION | WEIGHTED RISK ASSESSMENT SCORES | | | | | | | | | | | | | | | | RISK SCORE | |
|----------------------------------|--|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|------------|-----|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | | |
| HIGH RISK - OVER 226 | | | | | | | | | | | | | | | | | | |
| 1 | Elections Div.-TEAM System | 23 | 15 | 30 | 23 | 22 | 20 | 13 | 15 | 10 | 10 | 21 | 17 | 15 | 23 | 5 | 7 | 266 |
| 2 | Bus. & Public Filings Div.- Corporations | 30 | 15 | 30 | 15 | 22 | 13 | 13 | 15 | 10 | 10 | 21 | 11 | 8 | 23 | 5 | 7 | 246 |
| 3 | Information Services Division | 30 | 5 | 30 | 23 | 7 | 20 | 13 | 5 | 15 | 5 | 21 | 11 | 23 | 8 | 10 | 21 | 245 |
| 4 | Agency-wide- Revenue Processing | 30 | 15 | 30 | 15 | 15 | 13 | 13 | 10 | 10 | 10 | 14 | 11 | 8 | 15 | 10 | 21 | 239 |
| 5 | Elections Div.- Voter Registration | 23 | 15 | 23 | 23 | 15 | 7 | 13 | 10 | 10 | 10 | 21 | 17 | 15 | 23 | 5 | 7 | 233 |
| 6 | Bus. & Public Filings Div.- Government Filings | 30 | 15 | 30 | 15 | 15 | 20 | 13 | 5 | 5 | 10 | 14 | 11 | 8 | 23 | 5 | 14 | 231 |
| 7 | Admn. Services Div.- Fiscal Management | 30 | 15 | 30 | 15 | 22 | 7 | 13 | 5 | 5 | 10 | 14 | 11 | 15 | 15 | 10 | 14 | 230 |
| 8 | Bus. & Public Filings Div. - Uniform Com. Code | 30 | 15 | 30 | 15 | 22 | 7 | 13 | 5 | 10 | 10 | 7 | 11 | 8 | 23 | 10 | 14 | 228 |
| AVERAGE RISK - 197 to 226 | | | | | | | | | | | | | | | | | | |
| 9 | Elections Div.- Election Funds Management | 23 | 10 | 23 | 15 | 22 | 13 | 13 | 10 | 10 | 10 | 14 | 17 | 8 | 15 | 10 | 7 | 217 |
| 10 | Elections Div.- Election Administration | 15 | 5 | 8 | 23 | 7 | 20 | 19 | 10 | 10 | 10 | 21 | 17 | 15 | 23 | 5 | 7 | 213 |
| 11 | Elections Div.- Legal | 15 | 5 | 8 | 23 | 7 | 20 | 13 | 10 | 10 | 15 | 21 | 17 | 15 | 23 | 5 | 7 | 211 |
| 12 | Admn. Services Div.- Purchasing | 23 | 10 | 23 | 8 | 22 | 7 | 6 | 10 | 5 | 5 | 14 | 11 | 15 | 15 | 10 | 21 | 203 |
| 13 | Agency-wide Budgeting | 30 | 5 | 15 | 15 | 22 | 13 | 6 | 5 | 5 | 10 | 7 | 17 | 8 | 23 | 5 | 14 | 199 |
| 14 | Admn. Services Div.- Human Resources | 30 | 5 | 15 | 15 | 7 | 7 | 6 | 15 | 5 | 5 | 14 | 11 | 23 | 15 | 10 | 14 | 197 |
| LOW RISK -BELOW 197 | | | | | | | | | | | | | | | | | | |
| 15 | Admn. Services Div.- Other Support Services | 23 | 15 | 23 | 8 | 22 | 7 | 6 | 10 | 10 | 10 | 7 | 6 | 8 | 8 | 15 | 14 | 189 |
| 16 | Agency-wide-Records Retention & Storage | 8 | 15 | 15 | 8 | 15 | 20 | 13 | 10 | 5 | 5 | 7 | 6 | 15 | 15 | 10 | 14 | 178 |
| 17 | Texas Border and Mexican Affairs Division | 15 | 5 | 8 | 15 | 22 | 13 | 13 | 5 | 10 | 5 | 7 | 6 | 8 | 23 | 5 | 7 | 164 |
| 18 | Agency-wide- Training & Staff Development | 8 | 5 | 8 | 8 | 22 | 20 | 6 | 5 | 15 | 15 | 7 | 6 | 8 | 8 | 15 | 7 | 160 |
| 19 | Agency-wide- Performance Measure Reporting | 8 | 5 | 8 | 15 | 15 | 13 | 19 | 5 | 5 | 10 | 7 | 6 | 8 | 23 | 5 | 7 | 156 |

AVERAGE SCORE: 211

STANDARD DEVIATION: 30

**EXHIBIT 5
OFFICE OF THE SECRETARY OF STATE
PROPOSED FY 2016 AUDITS AND INTERNAL AUDIT HISTORY**

| | POTENTIAL AUDIT TOPIC | RISK SCORE | FY 16 PLAN | INTERNAL AUDIT HISTORY | | | | | | | |
|----|--|------------|------------|------------------------|-------|-------|-------|-------|-------|-------|-------|
| | | | | FY 15 | FY 14 | FY 13 | FY 12 | FY 11 | FY 10 | FY 09 | FY 08 |
| 1 | Elections & Information Services- TEAM Sys. | 266 | | | | | | X | | | |
| 2 | Bus. & Public Filings Div.- Corporations | 246 | X | | | | | X | | | |
| 3 | Information Services Division | 245 | | X | | | | X | | | |
| 4 | Agency-wide- Revenue Processing | 239 | | | X | | | | | X | |
| 5 | Elections Div.- Voter Registration | 233 | | | | X | | | | X | |
| 6 | Bus. & Public Filings Div.- Government Filings | 231 | | | | X | | | X | | X |
| 7 | Admn. Services Div.- Fiscal Management | 230 | X | | | | | X | | | |
| 8 | Bus. & Public Filings Div. - UCC | 228 | X | | | | | X | | | |
| 9 | Elections Div.- Election Funds Management | 217 | | | | | X | | | | X |
| 10 | Elections Div.- Elections Administration | 213 | | X | | | | | | X | |
| 11 | Elections Div.- Legal | 211 | | X | | | | | X | | |
| 12 | Admn. Services Div.- Purchasing | 203 | X | | | | | X | | | |
| 13 | Agency-wide- Budgeting | 199 | | | | | X | | | | |
| 14 | Admn. Services Div.- Human Resources | 197 | | X | | | | | X | | |
| 15 | Admn. Services Div.- Other Support Services | 189 | | | | | X | | | | X |
| 16 | Agency-wide Records Retention & Storage | 178 | | | | X | | | | | |
| 17 | Texas Border and Mexican Affairs Division | 164 | | | | | | | | | |
| 18 | Agency-wide- Training & Staff Development | 160 | | | | | | | | | X |
| 19 | Agency-wide- Performance Measure Reporting | 156 | | | X | | | | | | X |

III. Consulting Engagements and Non-Audit Services Completed

The internal auditor did not provide any consulting or non-audit services during FY 2016.

IV. External Quality Assurance Review

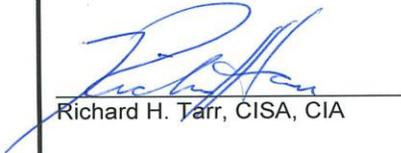
A quality review of the SOS internal audit program was completed in January 2016. The Opinion of the quality review is shown below.

Office of the Secretary of State
Quality Assurance Review
January 2016

Opinion

Based on the work outlined below, it is the opinion of the reviewer that the internal audit activity at the Office of the Secretary of State is in accordance with the Texas Internal Auditing Act and the audit work being performed by Jansen & Gregorczyk, Certified Public Accountants (the Contractor) **fully complies** with all applicable professional auditing standards.

This opinion, representing the best possible evaluation, means that the Office of the Secretary of State, and the Contractor, have in place all of the relevant structures and policies that are required as well as the processes necessary to insure they are effectively applied.


Richard H. Tarr, CISA, CIA


Date

V. Audit Plan for Fiscal Year 2017

The Audit Plan for Fiscal Year 2017 has not been completed. A proposal for contracted internal audit services will be issued and a firm will be selected to perform the internal audit functions for the agency. Once a firm has been selected a risk assessment will be performed and an internal audit plan for FY 2017 will be prepared. It is anticipated that this will be accomplished by November 30, 2016.

VI. External Audit Services

The Office of the Secretary of State contracted with the CPA firm of Jansen & Gregorczyk to provide contract internal audit services for the agency in FY 2016. No other external audit services were procured in FY 2016.

VII. Reporting Suspected Fraud and Abuse

The Office of the Secretary of State has posted the required information on reporting suspected fraud, waste or abuse involving state resources directly to the State Auditor's Office on the home page of the agency's website and has included information in the agency's policies on how to report suspected fraud to the State Auditor's Office.

No instances of suspected fraud, waste or abuse were reported by SOS to the State Auditor's Office during FY 2016.

If the Secretary of State has reasonable cause to believe that money received from the state by the agency or by a client or contractor of the agency may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the agency or if this is brought to the attention of the Secretary of State, the Secretary of State will report the reason and basis for the belief to the state auditor. This is spelled out in Section I of the Internal Audit Guidelines as shown on page 6 of the FY 2016 Internal Audit Plan.
