

INTERNAL AUDIT

Fiscal Year 2023 Annual Audit Plan



TEXAS SECRETARY OF STATE  
Internal Audit  
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## **Overview of SOS Internal Audit Annual Audit Plan Fiscal Year 2023**

### **Introduction**

This document provides the Fiscal Year 2023 Annual Audit Plan as required by *The Texas Internal Auditing Act (Texas Government Code, Ch. §2102.008)*. This plan provides our vision of Internal Audit efforts for the fiscal year, allocating resources to the most critical areas within the Secretary of State's Office (SOS).

Projects were identified for the Audit Plan by using a risk assessment model that considered input from SOS management. Using that input, Internal Audit exercised auditor judgment in prioritizing projects for the coming year.

### **Internal Audit's Vision**

To be a valued, trusted and sought-after partner with management. To provide a product that contributes materially to the work of the SOS.

### **Internal Audit Objective**

To assist effectively the agency's responsibility to maintain:

- 1) Effective and efficient operations
- 2) Reliability of financial and operational reporting
- 3) Compliance with laws and regulations
- 4) The safeguarding of agency assets

### **Audit Charter and Definition**

The Audit Charter approved by the Secretary of State and Deputy Secretary of State in September 2021 provides authorization to Internal Audit personnel for full, free, and unrestricted access to any of the agency's systems, records (manual or electronic), functions, property, and personnel relevant to the performance of statutory responsibilities and duties assigned by the Secretary of State and Deputy Secretary. The charter also defines reporting relationships, the scope of audit work, audit reporting, and follow-up responsibilities.

The Definition of Internal Auditing states the fundamental purpose, nature, and scope of internal auditing.

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*<sup>1</sup>

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<sup>1</sup> Institute of Internal Auditors – *International Professional Practices Framework*, January 2017

### **Risk Assessment**

Internal Audit develops the Audit Plan by first conducting a comprehensive risk assessment of agency program and activities, which includes obtaining input from agency management. Part of the risk assessment process is preparing a risk assessment questionnaire that was sent to program managers and supervisors in order to solicit feedback regarding areas of risk or concern. Internal Audit had an 88% response rate to the risk assessment questionnaire.

Additionally, Internal Audit prepared a risk assessment matrix, which is sent to management for completion. The risk assessment matrix ranked program activities based on probability and impact. Internal Audit had an 88% response rate to the risk assessment matrix.

A risk assessment is performed each year to identify the agency's audit universe and to prioritize the relative risk of each auditable activity within the audit universe. Through this ranking process, the auditor can more objectively and effectively identify and present a risk-based plan to agency management and the Secretary of State and Deputy Secretary of State for review and approval.

The goal of the risk assessment process is to determine units exposed to high risk and to allocate limited audit resources appropriate to that level of risk. Steps to accomplish this purpose, which ultimately results in audit selection and inclusion in the annual audit plan, include the following:

1. Identifying and cataloging auditable activities (the "audit universe") of the agency.
2. Selecting the criteria (risk categories) used to identify the significance of and likelihood that conditions and/or events may occur that would adversely affect the organization.
3. Developing definitions and guidelines relating to probability and impact rankings.
4. Preparing a risk matrix which includes each universe item to be ranked.
5. Computing the combined ranking for each universe item and the cumulative ranking.
6. Selecting and prioritizing the audits to be conducted.
7. Examining available resources.

The following functional areas were asked to participate in the risk assessment process:

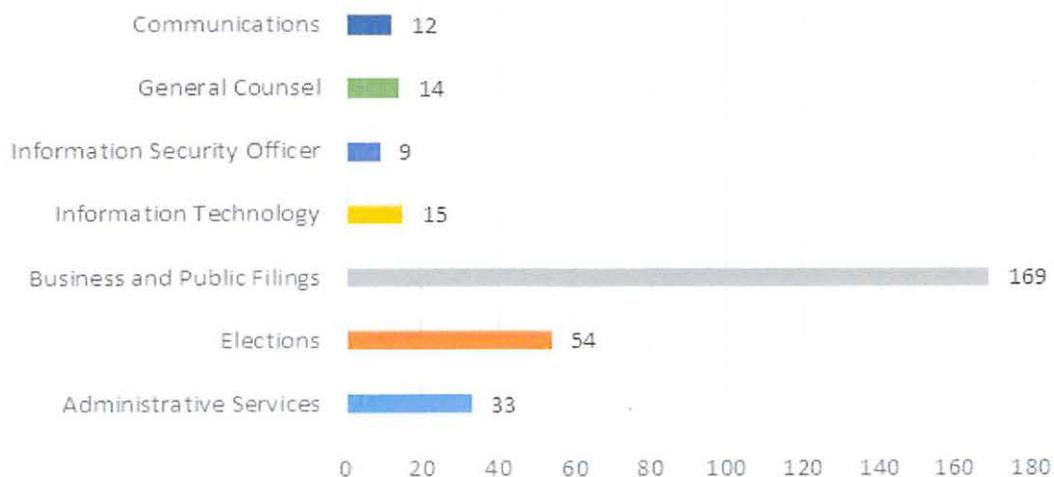
- Business and Public Filings Division
- Communications Division
- Elections Division
- Administrative Services Division
- General Counsel
- Information Security Officer
- Information Technology Division

Internal Audit prepared a worksheet for each functional area that contained a listing of activities conducted in each area. Each functional area was asked to complete the worksheet by reviewing the activities previously identified by Internal Audit and providing any updates, deletions or corrections. Internal Audit received an 88% response rate from the 7 functional areas.

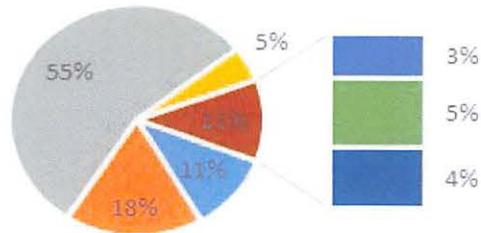
Individual activities were ranked based on probability and impact and assigned a ranking from high to low.

Internal Audit identified 306 activities conducted by the Secretary of State's Office. Internal Audit requested each division rank the individual activities based on probability and impact.

Number of Activities By Division



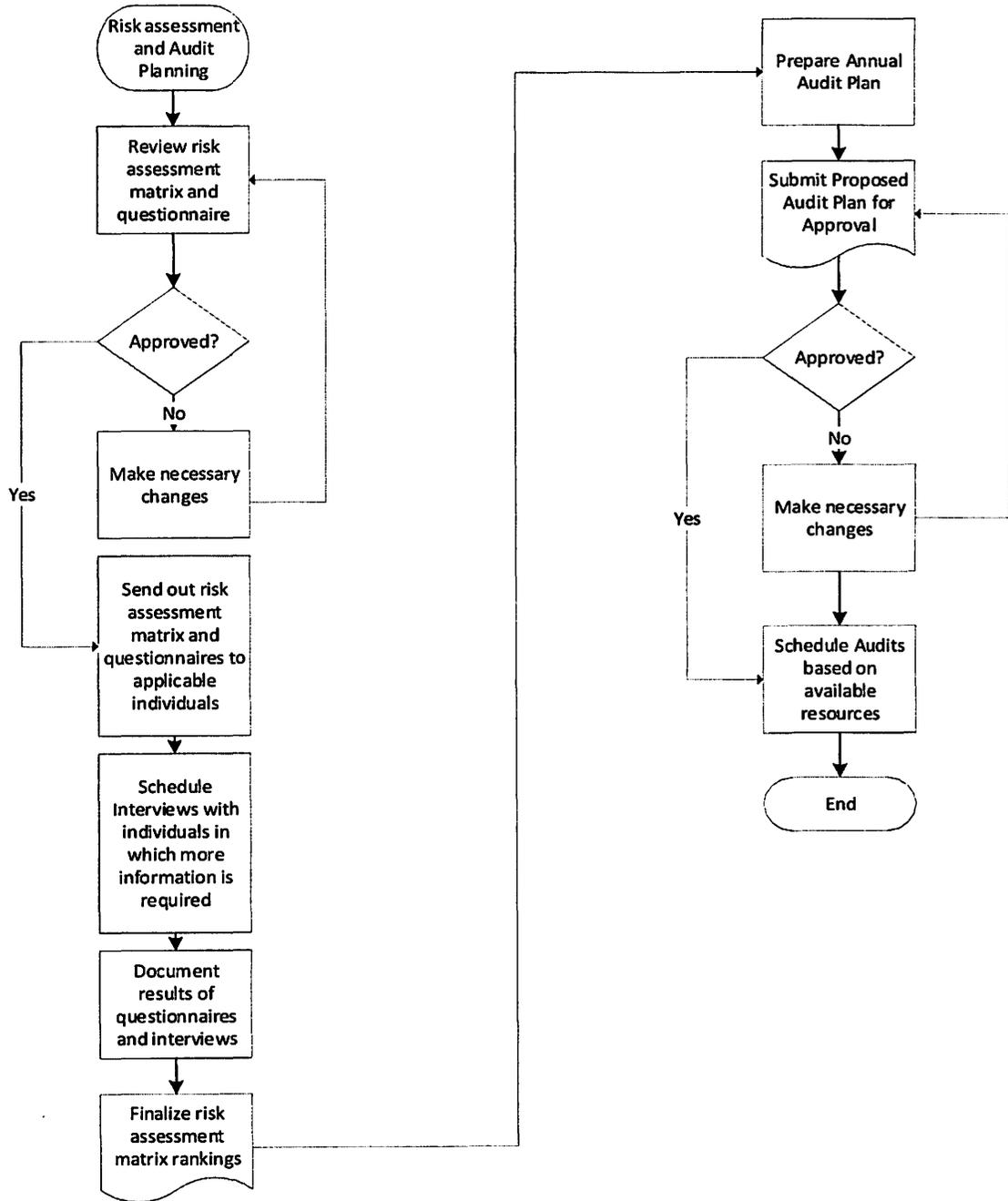
### Percentage of Activities By Division



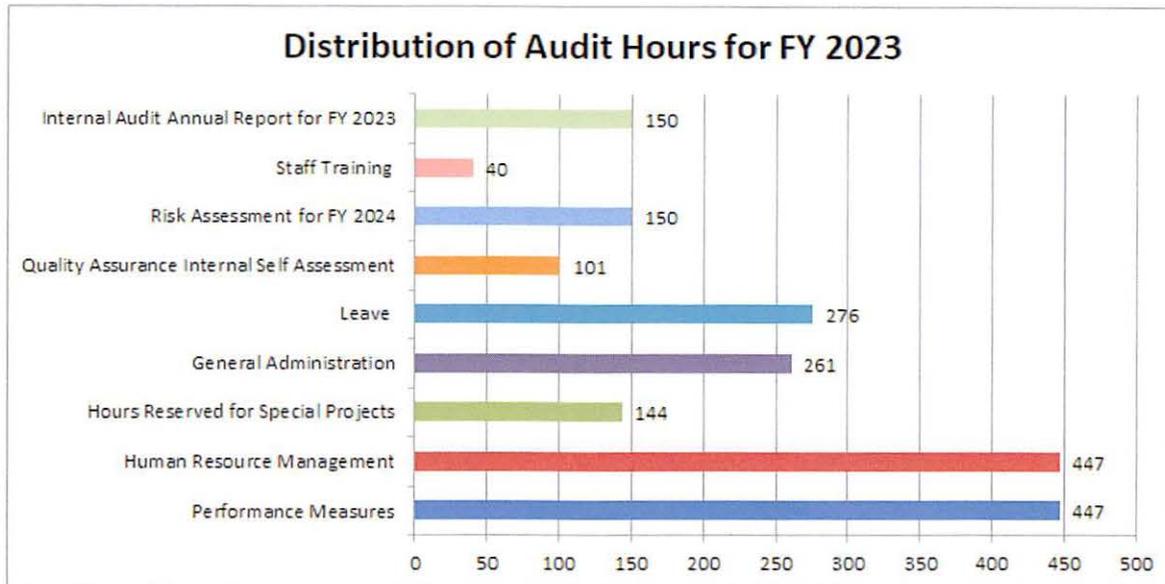
- Administrative Services
- Business and Public Filings
- Information Security Officer
- Communications
- Elections
- Information Technology
- General Counsel

The following diagram depicts a high-level view of the risk assessment and audit planning process.

Texas Secretary of State  
Internal Audit  
Risk Assessment and Audit Planning Process



The Chart below shows Internal Audit's budgeted time allocations for the coming fiscal year.



### **Acceptable Level of Risk**

Although the audit plan contemplates a range of audit effort, it does not provide coverage for all SOS components or systems. Internal Audit attempted to maximize Internal Audit resources to provide reasonable coverage of the business activities requiring the most attention.

However, because Internal Audit cannot audit every area, it is important for the Secretary of State, Deputy Secretary of State and management to understand the limitations of the audit coverage. Internal Audit believes that this plan allocates Internal Audit resources to the most important priorities and risks of the agency at this point in time.

Internal Audit is committed to being a valuable resource in improving the agency's operations and proposes a plan that targets key processes, yet builds flexibility to allow for the Secretary of State, Deputy Secretary of State and management requests that require immediate attention.

In recognition that operating environments and risks are subject to change, Internal Audit may adjust its Internal Audit Plan to address significant changes that occur throughout the year. In response to unanticipated changes in the operating environment, some projects included in the plan may not be performed and others may be added. Proposed modifications to the Internal Audit Plan will be communicated to the Secretary of State and Deputy Secretary of State for approval.

### **Fiscal Year 2023 Internal Audit Plan Allocation**

The Audit Plan depicts hours allocated to audit engagements in various programs and Divisions of the Secretary of State's Office and is shown in Schedule 1. Detailed objectives will be formalized for each engagement during the planning process.

The Audit Plan includes the following sections:

#### **Projects Carried Forward**

No projects were carried forward from FY 2022.

#### **Financial and Performance Assurance Activities**

Internal Audit provides assurance services for the agency, which are defined as objective examinations of evidence for providing an independent assessment on risk management, control, and governance processes for the organization. Examples may include financial, compliance, economy and efficiency, effectiveness, investigations, and information technology engagements.

#### **Special Initiatives**

In addition to assurance and consulting engagements, Internal Audit allocates resources toward special initiatives. These initiatives include any liaison activities

that may occur during the year and special requests to be responsive to the immediate needs of the Secretary of State, Deputy Secretary of State and management.

### **Consulting and Advisory Activities**

By definition, internal auditing includes the provision of consulting services. Consulting services are advisory and related client service activities, the nature and scope of which are agreed upon with the client. These activities are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

Examples include counsel, advice, facilitation, and training. Progressive Internal Audit departments provide additional management assistance or consulting services to their organizations. Upon request, Internal Audit will provide both formal and informal advice and suggestions on management issues, concerns, and draft policies and procedures.

Additionally, Internal Audit will provide representation on SOS committees and working groups as needed and requested by the Secretary of State, Deputy Secretary of State and management. By providing consulting or advisory activities, Internal Audit adds value to the SOS beyond assurance services and assists in strengthening agency internal controls.

### **Administrative Activities**

Internal Audit included hours for various administrative activities, some of which are mandated either by the professional standards or required by statute. Leave time for Internal Audit is also included to show a full picture of hours to be used by Internal Audit during the year.

### **Professional Standards**

Internal Audit adheres to *Government Auditing Standards*, as promulgated by the U.S. Government Accountability Office and the *International Standards for the Professional Practice of Internal Auditing*, as promulgated by the Institute of Internal Auditors, which includes the *Code of Ethics*. In addition, Internal Audit conforms to requirements found in the *Texas Internal Auditing Act* (Texas Government Code Chapter 2102 and complies with all policies and procedures of the SOS.

### **Closing**

Audit plans act as a guide for audit departments. Internal Audit's plan includes proposed projects and other initiatives to perform during the year. Internal Audit budgeted time for special requests in order to be responsive to the immediate needs of the Secretary of State, Deputy Secretary of State and management as they may arise throughout the fiscal year.

As discussed above under "Acceptable Level of Risk", the Internal Audit plan does not, nor is it intended to, address or provide complete coverage for all SOS components or system risks. Internal Audit believes that this plan allocates the resources of Internal Audit to the most important priorities and risks of the agency at this point in time.

Internal Audit wishes to thank SOS management and staff for their assistance in providing information, which led to the development of this proposed plan. In addition, Internal Audit looks forward to helping the agency meet its objectives this fiscal year. For further information on the FY 2023 Internal Audit Plan, please contact Darrell Carter, at (512) 475-2726 or by email at [wcarter@sos.texas.gov](mailto:wcarter@sos.texas.gov).

**Schedule 1 - Fiscal Year 2023 Internal Audit Plan**

<b>PROJECT NUMBER</b>	<b>PROJECT DESCRIPTION (Note E)</b>	<b>Program (Note A)</b>	<b>BUDGETED FY 2023 HOURS</b>
<b>Projects Started and Carried Forward from Fiscal Year 2022</b>			
<b>Subtotal Carry Forward Projects</b>			<b>0</b>
<b>Financial / Performance Assurance Activities</b>			
2023-300	Performance Measures	AW	447
2023-301	Human Resource Management	ASM	447
<b>Subtotal Financial / Performance Audits</b>			<b>894</b>
<b>Special Initiatives</b>			
Various	<b>Hours Reserved for Special Assigned Audits, Investigations or Advisory Projects</b>	N/A	<b>144</b>
<b>Consulting / Advisory Activities</b>			
<b>Subtotal Advisory / Liaison Projects</b>			<b>0</b>
<b>Subtotal - Audits, Investigations and Advisory Projects</b>			<b>1,038</b>
<b>Administrative &amp; Required Internal Audit Activities</b>			
2023-400	General Administration (Note B)	N/A	261
	Leave (Note C)	N/A	276
Pending	Quality Assurance Internal Self-Assessment (Note G)	N/A	101

Texas Secretary of State's Office  
 Internal Audit Annual Audit Plan Fiscal Year 2023

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Pending	Risk Assessment for FY 2024	N/A	150
2023-401	Staff Training (Note F)	N/A	40
2022-402	Internal Audit Annual Report for FY 2023 to the Governor, LBB, SAO	N/A	150
<b>Subtotal - Administrative &amp; Other Internal Audit Projects</b>			<b>978</b>
<b>Total Available Hours (Note D)</b>			<b>2,016</b>

**Notes:**

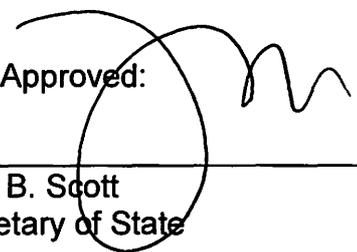
- A Acronyms: SOS-Secretary of State; IR-Information Technology; AW-Agency Wide; ASD-Administrative Services; AG-Agency Counsel; HR-Human Resources; ED-Elections Division; BPD-Business and Public Filings; BA-Boarder Affairs; LG-Legal; GR-Govt Relations; CM-Communications
- B Administration / Special Projects of the Internal Audit Function (Ave 15%)
- C Based on maximum annual accrual (vacation & sick) for 12 months
- D Available Hours: (261 working days X 8 hrs./day) - (9 holidays X 8 hrs. / day) = 2,016 total Audit hour
- E Detailed objectives will be formalized for each engagement during the planning process.
- F Internal Auditors are required by professional standards to obtain forty hours of Continuing Professional Education (CPE) each year.
- G Required by professional standards.

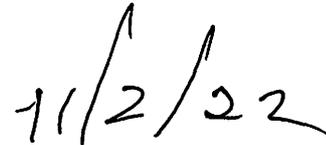
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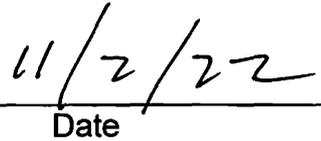
October 2022

Plan Approved:

  
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John B. Scott  
Secretary of State

  
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Date

  
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Jose A. "Joe" Esparza  
Deputy Secretary of State

  
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Date

  
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Darrell Carter, CPA, CIA, CRMA  
Internal Auditor, Secretary of State

  
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Date