

INTERNAL AUDIT ANNUAL REPORT TO THE GOVERNOR, LEGISLATIVE BUDGET BOARD, TEXAS STATE AUDITOR'S OFFICE, TEXAS SECRETARY OF STATE AND DEPUTY SECRETARY OF STATE



TEXAS SECRETARY OF STATE
Internal Audit

Fiscal Year 2023

Project No. 2023-402

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Section I.
Compliance with Texas Government Code, Section 2102.015

The Secretary of State's (SOS) Internal Audit Function intends to fully comply with all applicable requirements of Texas Government Code, Section 2102.015. Internal Audit intends to comply with the requirements of Texas Government Code, Section 2102.015 by posting our annual internal audit plan and the annual internal audit report on the agency's internet website.

Additionally, Internal Audit has incorporated in the annual report a listing of audits showing high-level objectives, observations/findings, recommendations, and implementation status.

Section II.
LIST OF FISCAL YEAR 2023 PLANNED AUDITS

Report Number	Report Title	Report Date	Status
2023-300	Performance Measures Audit	September 2023	DRAFT
2023-301	Human Resources Audit	May 2023	Issued

Section III.

**List of Audits Showing High-Level Objectives, Observations/Findings,
Recommendations, and Implementation Status**

Report No.	Report Date	Name of Report	High-Level Audit Objective(s)	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing or Not Implemented) with brief description if not yet implemented
2023-301	May 2023	Human Resources Audit	To determine if the Human Resources function has adequate controls in place to ensure the processing of new hires and terminations are conducted in accordance with SOS policies and procedures and relevant statutes.	The SOS should consider developing and implementing some key performance measures to gauge the HR function, such measures may be useful to the HR function to manage and strengthen the overall human resources processes.	Incomplete/Ongoing
2023-301	DRAFT	Performance Measures Audit	The determine whether the Secretary of State's Office performance measure data as reported in ABEST is accurate and determine whether the controls in place for the collection, calculation, and reporting are adequate.	Pending Management Responses	

Section IV.
EXTERNAL QUALITY ASSURANCE REVIEW

A quality review of the Secretary of State's 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

Section V.
LIST OF CONSULTING ENGAGEMENTS AND
NON-AUDIT SERVICES COMPLETED

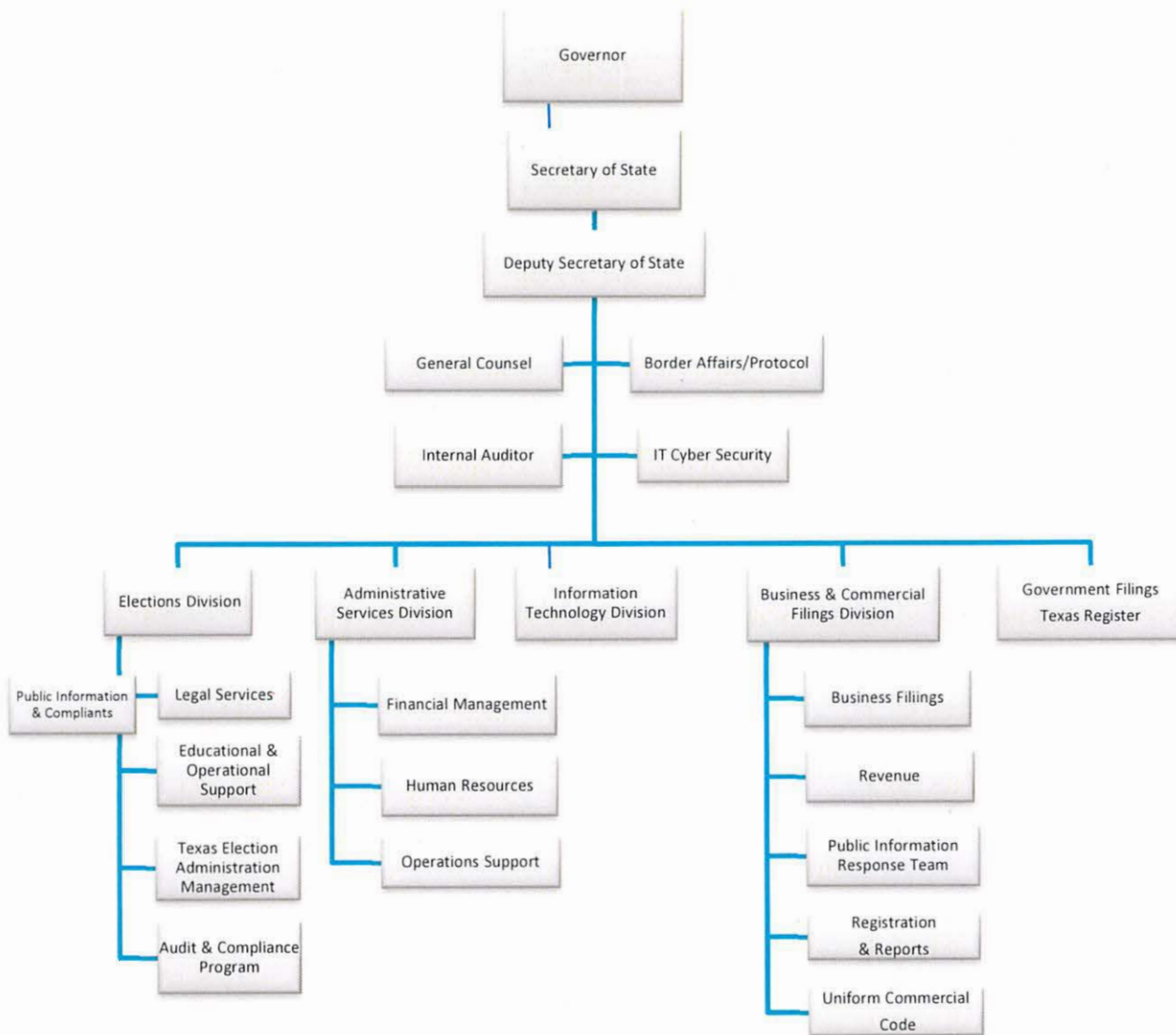
No consulting engagements or non-audit services as defined by the *International Standards for the Professional Practice of Internal Auditing (IPPF)*, or *Government Auditing Standards*, were completed in FY 2023.

Section VI.
ORGANIZATIONAL CHART

TEXAS SECRETARY OF STATE'S OFFICE
FUNCTIONAL ORGANIZATION CHART
Fiscal Year 2024

Office of the Secretary of State

September 1, 2023



Section VII.
Report on Other Internal Audit Activities

Report on Other Internal Audit Activities.

REPORT ON OTHER INTERNAL AUDIT ACTIVITIES	Description	Impact/Value Added
Continuing Professional Education	<p>Each professional member of IA is required by professional standards to earn a minimum of 80 hours of continuing professional education every two years with at least 24 of the 80 hours in subjects directly related to government auditing or the industry in which the agency operates.</p>	<p>Training adds value to the organization by enhancing the knowledge, skills and technical expertise of staff and improves overall compliance with <i>Government Audit Standards</i> and IIA standards on professional proficiency.</p>
Internal Audit Community	<p>The Internal Auditor is a member of the State Agency Internal Audit Forum (SAIAF).</p> <p>The Secretary of State's Internal Auditor is an active member in the Austin Chapter of the Institute of Internal Auditors (IIA) and routinely attends monthly meetings.</p> <p>Positions held during the past fiscal year included:</p> <ul style="list-style-type: none"> • District Representative for Mid-West 1 Chapters. 	<p>Networking with other internal auditors and participating in leadership roles in the professional community increases the knowledge and resources available to audit staff to enhance the quality of audit work performed.</p> <p>Participation also confirms that the Secretary of State's Internal Auditor pursues excellence in the quality of its work, as well as compliance with professional standards.</p>

Section VIII.
INTERNAL AUDIT PLAN FOR FY 2024

INTERNAL AUDIT

Fiscal Year 2024 Annual Audit Plan



TEXAS SECRETARY OF STATE

Internal Audit

James E. Rudder Bldg.

1019 Brazos St.

Austin, TX 78701

Overview of SOS Internal Audit Annual Audit Plan Fiscal Year 2024

Introduction

This document provides the Fiscal Year 2024 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:

- Effective and efficient operations
- Reliability of financial and operational reporting
- Compliance with laws and regulations
- 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. 1

¹ 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. 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.

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.

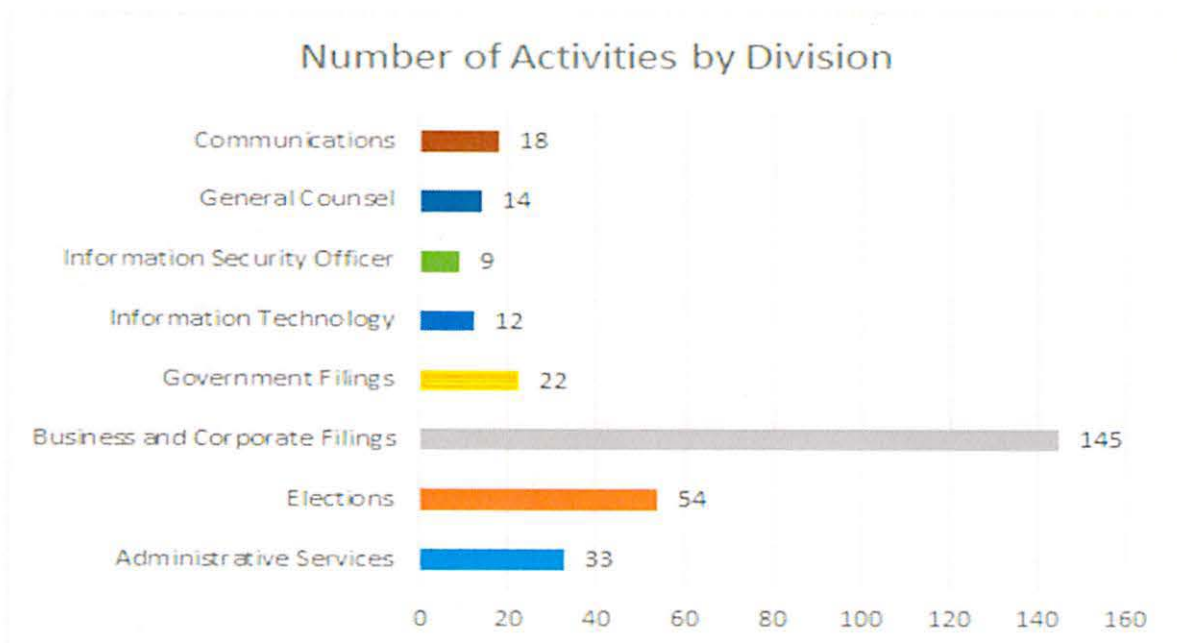
The following functional areas were asked to participate in the risk assessment process:

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

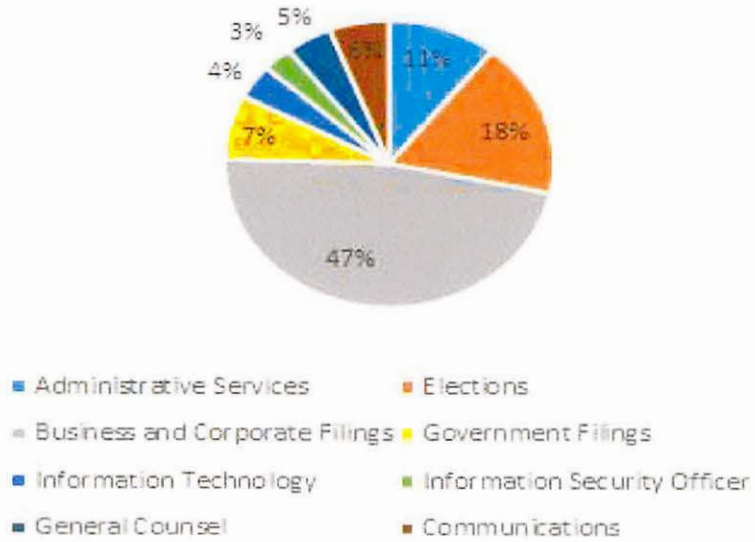
Internal Audit prepared a worksheet for each functional area that contained a listing of activities conducted in each area. Each functional area was asked to complete the worksheet by reviewing the activities previously identified by Internal Audit and providing any updates, deletions or corrections.

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

Internal Audit identified 307 activities conducted by the Secretary of State's Office. Internal Audit requested each division rank the individual activities based on probability and impact.

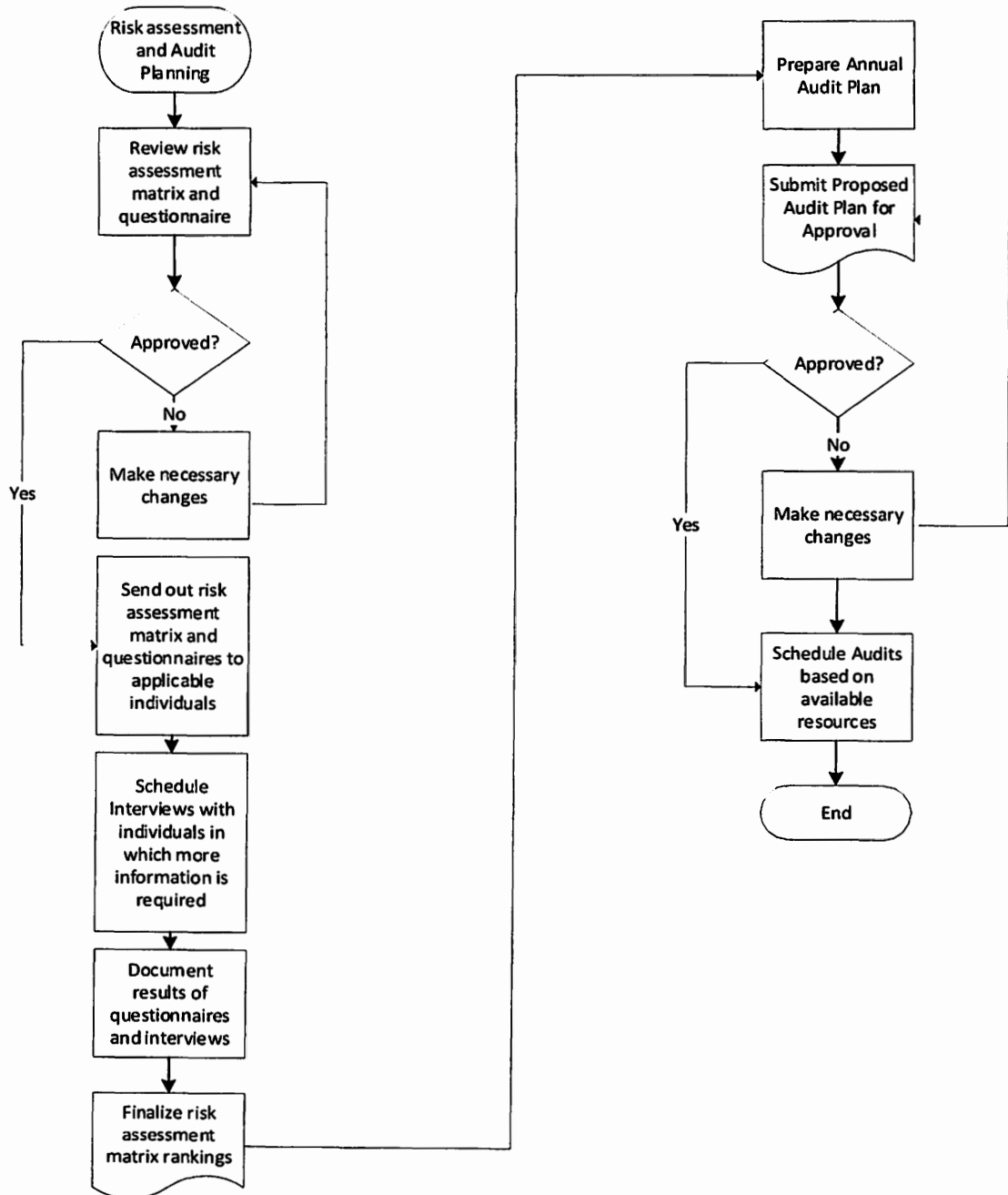


Percent of Activities by Division

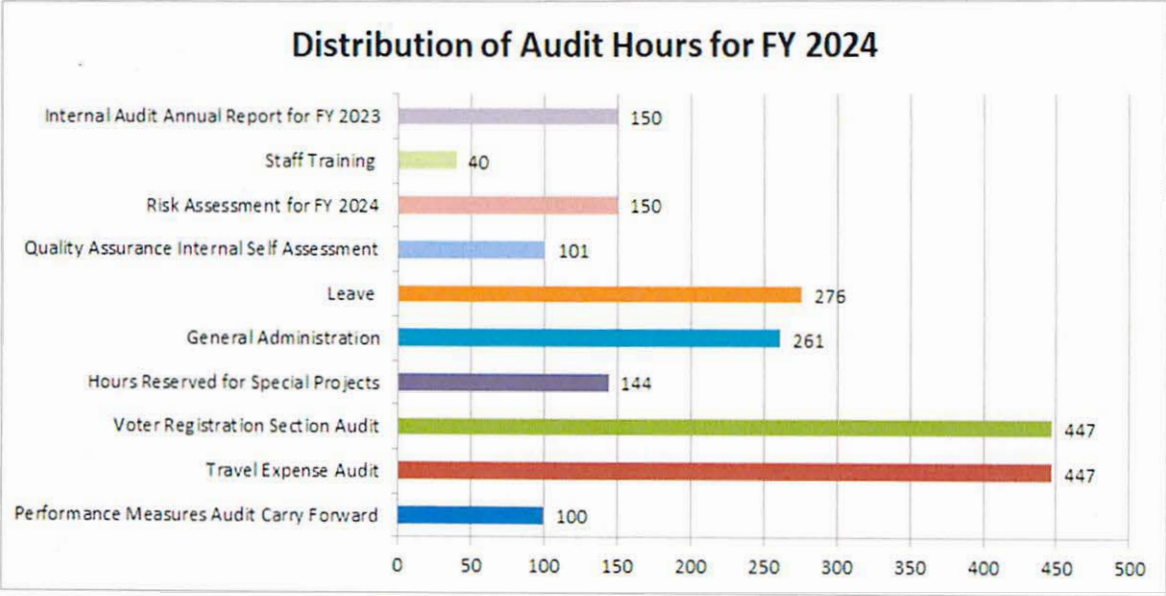


The following diagram depicts a high-level view of the risk assessment and audit planning process.

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 2024 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

There is one carried forward project from FY 2023.

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 2024 Internal Audit Plan, please contact Darrell Carter, at (512) 475-2726 or by email at wcarter@sos.texas.gov.

Schedule 1 - Fiscal Year 2024 Internal Audit Plan

PROJECT NUMBER	PROJECT DESCRIPTION (Note E)	Program (Note A)	BUDGETED FY 2024 HOURS
Projects Started and Carried Forward from Fiscal Year 2023		AW	
2023-300	Performance Measures Audit		100
Subtotal Carry Forward Projects			100
Financial / Performance Assurance Activities			
2024-300	Travel Expense Audit	AW	447
2024-301	Voter Registration Section Audit	ED	447
Subtotal Financial / Performance Audits			894
Special Initiatives			
Various	Hours Reserved for Special Assigned Audits, Investigations or Advisory Projects	N/A	144
Consulting / Advisory Activities			
Subtotal Advisory / Liaison Projects			0
Subtotal - Audits, Investigations and Advisory Projects			1,138

Administrative & Required Internal Audit Activities

2024-400	General Administration (Note B)	N/A	261
	Leave (Note C)	N/A	276
Pending	Quality Assurance Internal Self-Assessment (Note G)	N/A	101
Pending	Risk Assessment for FY 2024	N/A	150
2024-401	Staff Training (Note F)	N/A	40
2023-402	Internal Audit Annual Report for FY 2023 to the Governor, LBB, SAO	N/A	150
Subtotal - Administrative & Other Internal Audit Projects			978

Total Available Hours (Note D)

2,116

Notes:

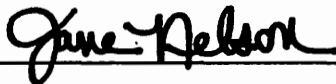
- A Acronyms: SOS-Secretary of State; IR-Information Technology; AW-Agency Wide; ASD-Administrative Services; AG-Agency Counsel; HR-Human Resources; ED-Elections Division; BPD-Business and Public Filings; BA-Boarder Affairs; LG-Legal; GR-Govt Relations; CM-Communications
- B Administration / Special 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 hours
- 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.

TEXAS SECRETARY OF STATE

Internal Audit Annual Audit Plan Fiscal Year 2024

October 2023

Plan Approved:



Jane Nelson
Secretary of State

10-31-23


Date



Jose A. "Joe" Esparza
Deputy Secretary of State

10-31-23

Date



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

10-31-2023

Date

Section IX.
EXTERNAL AUDIT SERVICES

There were no external audit services procured or in progress in fiscal year 2023.

Section X.
REPORTING SUSPECTED FRAUD AND ABUSE

The following represent SOS actions taken to meet suspected fraud and abuse reporting requirements.

Requirement	Actions Taken
Reporting Requirements: Fraud Reporting, Section 7.09 page IX-38, General Appropriations Act (87 th Legislature)	The agency provides a link to the SAO fraud hotline on the home page of the agency's internet and intranet websites. In addition, the agency has internal procedures for staff to report fraud, waste or abuse.
Texas Government Code, Section §321.022	The Internal Auditor sends reports of any suspected fraud, waste, or abuse to the SAO Special Investigative Unit. Any incident considered as remarkable will be immediately reported to the SAO.