



Chief Auditor's Office
Secretary of State

Rolando B. Pablos,

Chief Auditor's Office Annual Report

FY 2018

Chief Auditor's Office Mission Statement

The mission of the Chief Auditor's Office is to provide assurance and advisory services that help the Secretary and management meet agency goals and objectives. We provide independent and objective information, analyses, and recommendations to assist management in effecting constructive change, managing business risk and/or improving compliance and accountability of the regulated community and business partners.

Rolando Pablos, Secretary of State
Vincent Houston, Interim Deputy Secretary of State

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Chief Auditor's Office
James Walker, CPA, CISA, Chief Audit Executive

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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 Internet Web site

House Bill 16 (HB 16) 83rd Legislature, Regular Session, was signed into effect immediately by Governor Rick Perry on June 14, 2013. HB 16 amended Chapter 2102, Texas Government Code, by adding Section 2102.015. Texas Government Code, Section 2102.015, requires state agencies and higher education institutions, as defined in the statute, to post certain information on their Internet websites.

Within 30 days of approval, an entity should post the following information on its Internet website:

- A. The agency's approved internal audit plan as provided by Texas Government Code, Section 2102.008; and,
- B. The agency's annual report required by Texas Government Code, Section 2102.009.

The above reports are considered to be approved if they are approved by an entity's governing board or by the chief executive if the entity does not have a governing board.

Texas Government Code, Section 2102.015, also requires entities to update the posting to include the following information on the website:

- A. "detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns, if any, raised by the audit plan or annual report."
- B. "summary of the action taken by the agency to address the concerns, if any, that are raised by the audit plan or annual report."

The SOS has complied with Texas Government Code, Section 2102.015, by posting the approved FY 2018 Audit Plan on the agency's public website. We will also post the mandated internal audit annual report as required.

Updates, as required by the statute, will also be done that include summaries of the pertinent information contained in the two documents.

II. Internal Audit Plan for Fiscal Year 2018 – 2019¹

Approved Audit Projects:

Outstanding Audit Recommendations

TAC 202 Compliance

Revenue Processing

PCC Contract Compliance

Elections Administration and Funds Management

¹ The Office of the Secretary of State (SOS) had engaged a contracted Internal Auditor through the end of FY 16. When the contract expired, the SOS decided not to renew the contract and hire a full time Internal Auditor. Due to the state-wide hiring freeze imposed by the governor, the new internal auditor was not hired until April 1, 2018. For efficiency purposes, the Audit Director developed an audit plan for the remainder of FY 18 and FY19 combined.

Key Performance Measures

Continuity of Operations Plan (COOP)

Approved CAO Office-wide Projects:

Fiscal Year 2020 Audit Plan

Audit Follow-ups

Special Requests from the Secretary or Deputy Secretary

Completed Audit Services Projects

Project Number & Name	Report Issued Date
#18-001 Outstanding Audit Recommendations	June 2018
#18-002 TAC 202 Administrative Requirements Compliance	August 2018

Deviations from the Chief Auditor's Office Audit Plan FY 2018 -2019

Approved Audit Projects:

In accordance with the current Audit Charter, the Chief Auditor's Office (CAO) requested and received permission for a change to the approved Fiscal Year (FY) 2018 Annual Audit Plan (Plan). Language in the current Audit Charter requires that "the Chief Auditor will submit any interim changes to the audit plan to the Secretary for review and approval." The approved FY 2018 Plan included an Audit of TAC 202 Compliance, including TAC 202.20 through 202.26. We requested scope change to separate the examination of compliance with TAC 202.26 into its own project.

III. Completed Consulting Engagements and Nonaudit Services Projects

No consulting or Nonaudit engagements were completed.

IV. External Quality Assurance Review (Peer Review)

The CAO's most recent peer review is dated February 2016. The scope of the review included an examination of existing internal auditing policies, procedures, and audit workpaper files, as well as interviews with the Deputy Secretary of State, and the Administrative Services Director. The overall opinion is as follows:

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.

No recommendations were made. The opinion was signed and dated by the reviewer.

V. Chief Auditor’s Office Audit Plan for Fiscal Year 2019

The following audit is in progress at the end of FY 2018 and is expected to be carried over to FY 2019.

Project Name	Current Status	Hours
#18-003 ATC 202.26 Compliance	Reporting	120

Below are the remaining proposed audit projects for FY 19.

Audit Project Areas	Hours
Revenue Processing	360
PCC Contract Compliance ²	280
Elections Administration & Funds Management	320
Key Performance Measures	80
Continuity of Operations (COOP)	240
FY 2020 Annual Audit Plan	80
CAO Internal Audit Annual Report	80
Audit Follow-ups	80
Special Requests from the Secretary	300

Risk Assessment

Our FY 2018 - 2019 audit plan is based on an agency-wide risk assessment. Risk assessment, as defined by the Institute of Internal Auditors, is a “systematic process for assessing and integrating professional judgments about probable adverse conditions and/or events.” These risk assessments identify a variety of risks including agency operations, contract management and information technology risks. No additional risks were identified and ranked as “high” that have not been included in the FY 2018 - 2019 audit plan.

In conducting our risk assessment, the Chief Auditor’s Office received input from The Secretary, Interim Deputy Secretary, Executive Management, and numerous Division Directors and Section Managers. Selected agency employees were given the opportunity to provide input into our risk assessment through formal facilitated sessions led by CAO staff.

² PCC Contract Compliance audit includes examination of procurement and contract management requirements.

For Audit purposes, the Chief Auditor's Office identified the universe of auditable activities primarily as those activities conducted to address the strategies funded by the General Appropriations Act and fees collected by the SOS. We then risk ranked these identified activities within each category using specific elements of risk related to that category, including fraud risk as appropriate. From this ranking, specific project topics were identified for each of the high risk areas. Lastly, we prioritized each potential project to determine which projects should be included in the proposed audit plan.

We also identified auditable activities to include all fees collected and all contracts entered into by the agency. Each of the fees and contracts included in the assessment was ranked using specific elements of risk related to that category, again including fraud risk as appropriate. The high risk fees and contracts identified were selected as areas for audit projects. These projects were then prioritized to determine which fees and contracts should be included in the proposed audit plan.

We will update our risk assessment as additional information is obtained and expenditures occur throughout the coming fiscal year. Our continuous evaluation of agency risks will ensure the most efficient use of audit resources.

The Information Technology (IT) requirements of the agency were included in the risk assessment. Both the organizational units and systems were considered when determining the risk ranking of the agency operations. Appropriate IT audit coverage will be integrated into the planned audits.

The risk assessment process included review of the project areas by the Chief Auditor to assure adequate coverage of risk and to avoid inappropriate duplication of coverage.

Alternative projects are additional areas that we believe could benefit from the use of audit resources, but did not rise to the top of the list of potential audit areas. We seek approval to use them as alternative projects in circumstances where additional or substitute projects are required.

We will consult with the Secretary and executive management to adjust the plan as needed based on priorities, management requests, workloads, changes in operations, and availability of audit resources.

VI. External Audit Services Procured in Fiscal Year 2017

During Fiscal Year 2018, the Chief Auditor's Office did not have any ongoing external audit services, nor were any services procured for the time period.

VII. Reporting Suspected Fraud and Abuse and Abuse

SOS Policy 2.12 Reporting Losses Due to Fraudulent or Unlawful Conduct requires employees that have reasonable cause to believe that fraudulent or unlawful conduct has occurred to report such events to management. Further, it is incumbent upon management to promptly refer matter to Executive Management and to ensure identities of the employees reporting under this provision will be kept confidential to the extent possible and that no retaliation occurs.

In compliance with Texas Government Code, Section 321.022, the SOS has a link on its public website that allows individuals to report suspected violations directly to the State Auditor's Office.

Report Distribution

Internal Distribution

Rolando B. Pablos, Secretary of State

Linda Payne, Executive Assistant to Secretary Pablos

Vincent Houston, Interim Deputy Secretary of State, Director Administrative Services

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