

TEXAS STATE SECURITIES BOARD

Austin, Texas

INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2021



TEXAS STATE SECURITIES BOARD
Austin, Texas

Internal Audit Annual Report

Fiscal Year 2021

TABLE OF CONTENTS

Internal Auditor's Report.....	1
Introduction.....	2
Internal Audit Objectives.....	3
I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information	4
II. Consulting and Nonaudit Services Completed.....	4
III. External Quality Assurance Review	4
IV. Internal Audit Plan for Fiscal Year 2021	4-6
V. Executive Summary Enforcement Background.....	7-11
Audit Objective, Scope, and Methodology.....	12-14
VI. Observations/Findings and Recommendations Summary and Related Rating of Observations/Findings and Recommendations	15
Observations/Findings and Recommendations.....	16-17
VII. External Audit Services Procured in Fiscal Year 2021.....	18
VIII. Reporting Suspected Fraud and Abuse	18
IX. Proposed Internal Audit Plan for Fiscal Year 2022	18
X. Organizational Chart	19

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed procedures to determine the effectiveness and efficiency of the Texas State Securities Board's (SSB) internal control structure over the Enforcement Area (Area); and, the Area's established policies and procedures, for the purpose of determining SSB's compliance with laws and regulations provided in the Texas Securities Act and Texas Administrative Code, as applicable to the Area. These procedures were performed over the Area's activity for the 10 months ended June 30, 2021.

The results of our procedures disclosed that such controls were adequate and no instances of noncompliance were noted. The report that accompanies this letter provides a summary of the Area; summarizes the audit objective, scope, and methodology; and, the procedures performed to achieve the objective of our audit.

We also performed a follow-up of the findings and recommendations that were not fully implemented as of fiscal year ended August 31, 2020 and presented in the prior year internal audit annual report. This report reflects the results of our follow-up procedures performed and the implementation status of those matters; and, includes all information required for compliance with the State of Texas Internal Audit Annual Report requirements.

We have discussed the implementation status from the follow-up performed, with various SSB personnel; and, will be pleased to discuss them in further detail; to perform an additional study of these matters; or, to assist you in implementing the recommendations made.



August 18, 2021 – Enforcement
October 20, 2021 – Prior-Year Follow-Up

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

INTRODUCTION

The Texas State Securities Board (SSB) is charged with the administration and enforcement of the Texas Securities Act (TSA). SSB's mission is to protect Texas investors. Consistent with that purpose, SSB seeks to encourage capital formation, job formation, and free and competitive securities markets; and, to minimize regulatory burdens on issuers and persons subject to the Act, especially small businesses. SSB investigates suspected violations of the Act and ensures that administrative, civil, or criminal enforcement actions are taken in appropriate circumstances. SSB also registers securities sold in Texas and the firms and individuals who sell securities or render investment advice in the state.

SSB was created in 1957 pursuant to the Act passed by the 55th Texas Legislature. This legislation was the culmination of four earlier statutes dating back to 1913. The Act provides for the registration of securities offered or sold in Texas and of firms and individuals who sell securities or render investment advice in the state. In certain circumstances a particular security or transaction may be exempt from the registration requirements of the Act. Whether or not an exemption from the registration provisions is available, the Act prohibits fraud in the offer or sale of securities in Texas.

SSB is overseen by a Board composed of five members appointed by the Governor, with the advice and consent of the Senate, for six-year overlapping terms. The Board adopts and periodically updates rules to ensure that investors are adequately protected and that unreasonable burdens on legitimate capital-raising activities are avoided. The Board appoints a Securities Commissioner, who serves at its pleasure, and serves as SSB's chief administrative officer and supervises the day-to-day activities of the staff.

SSB is organized into the following Divisions: Enforcement, Registration, Inspections and Compliance, Office of General Counsel, and Staff Services.

2021 Internal Audit Plan

Following is the internal audit and other functions performed, as identified in SSB's *Internal Audit Plan for Fiscal Year 2021*, dated June 18, 2021 and approved by the Board on June 24, 2021:

- Risk Assessment and Preparation of the 2021 Internal Audit Plan
- Enforcement
- Follow-up of the Prior Year Internal Audit
- Preparation of the 2021 Internal Audit Annual Report
- Other Tasks

This report contains the results of our audit of the Enforcement Area; reflects the results of the follow-up procedures performed in the current year of the findings that were presented in the prior year internal audit annual report; and, meets the State of Texas Internal Audit Annual Report requirements.

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

INTERNAL AUDIT OBJECTIVES

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed 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 included the following objectives:

- **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, regulations, and contracts which 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.

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information

To comply with the provisions of Texas Government Code, 2102.015 and the State Auditor's Office guidelines, within 30 days of review by SSB's Board, SSB will post the following information on its website:

- An approved fiscal year 2022 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2021 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The internal audit annual report includes any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor as well as the summary of the action taken by SSB to address such concerns.

II. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards*, 2018 Revision, Sections 3.64-3.106.

III. External Quality Assurance Review

The internal audit department's most recent *System Review Report*, dated November 16, 2018, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

IV. Internal Audit Plan for Fiscal Year 2021

The approved Internal Audit Plan (Plan) included one audit to be performed during fiscal year 2021. The Plan also included a follow-up of the prior year internal audit recommendations that were not fully implemented as of fiscal year ended August 31, 2020, other tasks as may have been assigned by the Board, and, preparation of the Internal Audit Annual Report for fiscal year 2021.

RISK ASSESSMENT

Utilizing information obtained through the completed questionnaires received and background information reviewed, 11 audit areas were identified as potential audit topics. A risk analysis, utilizing 8 risk factors, was completed for each of the 11 potential audit topics and then compiled to develop an overall risk assessment.

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

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

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

¹ Includes Performance Measures

² Includes Performance Measures and Registration & Filing Fees

In the prior 3 years, the following internal audits and other functions were performed:

Fiscal Year 2020:

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

Fiscal Year 2018:

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

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

The internal audit and other tasks performed for fiscal year 2021 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Enforcement <i>Objective:</i> To determine whether SSB's policies and procedures and internal processes in place over the Enforcement Area (Area) provide reasonable assurance of compliance with state requirements; and, whether established internal controls are operating effectively.	8/18/2021
2.	Internal Audit Annual Report – Follow-up of findings and recommendations that were presented in the Prior Year Internal Audit Report <i>Includes all reported audit results for Fiscal Year 2021.</i>	10/20/2021
-	Other Tasks Assigned by the Board or Management	None

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

V. Executive Summary

Enforcement

Background

The Enforcement Division (the Division) of the Texas State Securities Board (SSB) is tasked with conducting investigations to detect and prevent violations of the Texas Securities Act (TSA), including illegal sales of unregistered nonexempt securities, sales of securities by unregistered dealers, and/or fraud committed in connection with the sale of securities; and, pursuing appropriate administrative, civil, or criminal actions against firms or individuals that violate provisions of the Act.

The following are recent significant changes to laws and regulations that are applicable to the Division:

Effective September 1, 2017

- **Suspected financial exploitation** – The 85th Legislature established TSA Section 45, *Protection of Vulnerable Adults from Financial Exploitation* and requires security dealers and investment advisors (IA) to report suspected financial exploitation of vulnerable adults to SSB. Accordingly, SSB has adopted the Texas Administrative Code (TAC) §115.21 and §116.21 to prescribe the form and content of the required reporting for securities dealers and for IAs, respectively.

Effective September 1, 2019 (Adoption of the Sunset Advisory Commission recommendations)

- **Complaint processing system** – TSA Section 2-6 was expanded to require SSB to adequately track complaints from receipt to disposition. SSB adopted TAC Chapter 102, *Complaint Process*. SSB's complaint process, including the procedures for complaint investigation and resolution, may be accessed through a link that is available on SSB's website.
- **Consideration of available resources for providing assistance** – TSA Section 3 was significantly expanded to give SSB clear statutory authority to provide prosecutorial support and direct SSB to evaluate its capacity for determining whether to assist local prosecutors. SSB adopted TAC Rule 127.4, *Prosecutorial Assistance to County or District Attorneys*, to establish criteria to consider when making the determination.
- **Refund** – TSA Section 32-1, *Refund*, authorizes SSB to order a regulated entity to refund a client an amount not to exceed the amount paid by the client to the entity for a service or transaction regulated by SSB.

Enforcement Division

The Division is headed by a division director (Director), who supervises 5 assistant directors located in Austin and each of the 4 branch offices in Corpus Christi, Dallas, Houston, and Lubbock. The assistant directors are responsible for managing day-to-day operations performed by attorneys, financial examiners (FEs), and/or administrative assistants in their respective offices. The Austin office is also staffed with a legal secretary and 3 administrative assistants (hereinafter collectively referred to as "Austin Admin"). The legal secretary is supervised by the assistant director, and manages the 3 administrative assistants.

The Division's policies and procedures are documented in the Policy and Procedure Manual (PM), which was last revised in January 2020. All subsequent procedure changes are communicated to the staff by the Director in an email or during a staff meeting, and the communication is retained as a written memorandum in a designated folder within the common drive, accessible to all Division staff.

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

The Division utilizes the Enforcement Database to track its activities. The Austin Admin have access rights that allow them to add and edit records in the Enforcement Database; while, all other Division employees are limited to read-only access rights. Attorneys and financial examiners from all locations must submit standardized forms and email requests to the Austin Admin to update the Enforcement Database. The Division has a process in place to manually account for the changes made by the Austin Admin.

The Division utilizes the Planner task management application in Microsoft Teams to manage workflows. Using visual cues, the Planner is used by the Division staff to easily monitor the progress and status of assigned tasks, to ensure timely completion.

Enforcement Operations

The Division staff identifies suspected violations of the Act through various sources, including market surveillance; tips and complaints from the public; and, referrals from federal, state, and local agencies. The Division classifies files (cases) into the following types:

- **Investigative Suspense (I/S) File:** A routine investigation where a decision is being made on whether the file should be elevated to an investigation or resolved without an enforcement action. Most cases other than Section 45 cases (described below) are initially classified in this category.
- **Section 45 Investigative Suspense (I/S) File:** A file opened in response to the receipt of a report of suspected financial exploitation filed pursuant to TSA Section 45. The Director and his/her designee are responsible for reviewing these reports and opening Section 45 I/S files when appropriate.
- **Investigation and Section 45 Investigation:** Cases that are (a) likely to result in formal administrative, civil, or criminal enforcement actions; or, (b) the designation is necessary to secure evidence through means; such as, subpoenas and search warrants.

To open a file or convert an I/S file to an Investigation, the authorized Division staff must prepare a Form ENF01, *Docketing Sheet*, and attach supporting documentation, to be retained electronically. The Docketing Sheet and supporting documentation must be submitted to the Austin Admin for data entry into the Enforcement Database. The chart below summarizes the authority to open and convert these files.

Action	Authority		
	Director	Director Designee	Assistant Director, Attorneys & FEs
Open I/S File	Yes		Yes
Open Investigation	Yes		Yes*
Convert I/S File to Investigation	Yes		Yes*
Open Section 45 I/S File	Yes	Yes	No
Open Section 45 Investigation	Yes	Yes	No
Convert Section 45 I/S File to Section 45 Investigation	Yes		Yes*

* With preapproval by the Director.

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

Attorneys and FEs review active cases assigned to them with their supervising Assistant Director twice a year, and determine whether continued active status and resource commitment is warranted or if files should be closed. If it is determined that the active status is no longer warranted, and the determination is approved by the Director, a request is sent to the Austin Admin to update the file to *Inactive* status.

The Area maintains all current Enforcement files in electronic format in the cloud-based agency storage. The Division was already in the process of transitioning to electronic documents and remote work in recent years and was well-positioned to meet the disruptions caused by the COVID-19 pandemic.

During the period from September 1, 2020 to June 30, 2021, the number and types of files opened and closed were as follows:

File Type	Opened	Closed ¹
I/S Files	290	159
Section 45 I/S Files	16	6
Investigations	72	28
Section 45 Investigations	1	-
Total	379	193

The following table was prepared using SSB's records to reflect the Division's workload trend by file type along with the Division's FTE, for the last 3 fiscal years. Fiscal year 2019 was used as the baseline to compute the percentage change for fiscal years 2020 and 2021.

	2019	2020		2021		
File Type Opened	Number	Number	% change	Thru 6/30	Annualized (estimate)	% change
I/S Files*	363	386	6%	306	367.2	1%
Investigations*	55	76	38%	73	87.6	59%
FTE	28	31		29		

* I/S Files and Investigations include Section 45 I/S Files and Section 45 Investigations, respectively.

Complaint Processing

Complaints are submitted to SSB from various sources, including alleged victims or someone who knows that person; and, federal, state, and local authorities. In accordance with TAC §102.3, a complaint must be in writing. SSB has developed a Complaint Form and encourages the complainant to use it to ensure inclusion of all requirements for the communication to be considered a complaint. Jurisdictional complaints are generally reviewed by the Division if they relate to entities not registered with SSB; and, by the Inspections and Compliance Division if they relate to entities registered with SSB. All incoming complaints received by the Division staff are forwarded to the Austin Admin to manually log and track them in an Excel spreadsheet, in accordance with TSA Sec. 2-6 and TAC §102.6.

The complainant is notified of the Division's receipt of the complaint if the complainant's contact information was provided; however, the Division typically does not provide periodic status updates to the complainant since under TAC §102.1, the Division's investigation is confidential and protected from public disclosure.

¹ The Division closed 85 I/S files, 4 Section 45 I/S files, and 33 Investigation files on July 19, 2021 as part of its semiannual review.

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

Enforcement Actions

In addition to informally bringing the entity into compliance with the TSA, various sections of the TSA authorize SSB to pursue administrative, civil, and criminal enforcement actions. All enforcement actions must be approved by the Director, and include the following:

- **Administrative Actions** – Administrative enforcement actions include entering a cease-and-desist order; entering an emergency cease and desist order; assessing an administrative fine, and ordering an entity or a person to pay refunds. When an administrative enforcement action is challenged (for emergency cease and desist order) or contested (for all others) by the respondent, a hearing is held at the State Office of Administrative Hearings (SOAH) in accordance with the Administrative Procedure Act.
- **Civil Referrals** – Civil enforcement actions are referred to the Attorney General to file a civil lawsuit against a person or an entity for a civil injunction, restitution, or other equity relief, for fraudulent conduct.
- **Criminal Referrals** – Criminal enforcement actions are referred to county and district prosecutors for obtaining a criminal conviction under TSA Sec. 29, *Penal Provisions*, which generally involve fraud. To incorporate the significant change to the TSA Sec. 3 and adoption of TAC §127.4 noted above, the Area has implemented the use of Form ENF 08, *Criminal Referral and Assistance*, whenever a case is referred to local prosecutors. The Director's approval and consideration of the criteria included in the referenced TAC rule are documented in the form, which is required for a formal criminal referral to be made.

Attorneys and FEs are responsible for completing the *Action Report* for each enforcement action as well as certain other investigative action. The Action Report, along with relevant documents attached to it, are sent to Austin Admin for logging into the Enforcement Database. The Division updates the contents of the Action Report as necessary to help analyze suspected security violation trends; including, those relating to recent crypto currencies and COVID-19 schemes.

Performance Measures

The following performance measures are listed in the SSB Strategic Plan 21-25 and relevant to the Division in fiscal year 2021:

Outcome Measures

- Number of Law Enforcement Actions Taken
- Dollar Amount Involved in Law Enforcement Actions
- Percentage of Law Enforcement Actions Successful

Output Measures

- Number of Investigations Opened (Key)
- Number of Criminal and Civil Referrals

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

Austin Admin are responsible for manually preparing these performance measures in a spreadsheet using the Enforcement Database and Action Reports, and summarizing the spreadsheet into a summary report. The Director reviews the summary report, the spreadsheet, and Action Reports for accuracy before approving the summary report. The key measure must also be approved by the Deputy Commissioner and the Director of Staff Services before they are reported to the Legislative Budget Board (LBB) via LBB's ABEST system.

For the first 3 quarters of fiscal year 2021 from September 1, 2020 to May 31, 2021, the Division logged the following reportable activities:

Activity	# of Cases	Count/Offense
Criminal Referrals	9	12
Civil Referrals	-	-
Agreed Cease and Desist Orders	1	2
Emergency Cease and Desist Orders	21	86
Indictments	18	669
Convictions	2	8
Section 28 Examinations	1	1
Other	3	20

In addition to the performance measures, and in accordance with TSA Sec. 2.J, SSB submits an annual report that contains information relating to criminal charges filed and prosecutions to the Governor, the Lieutenant Governor, and the Speaker of the House, on or before January 1st of each year as an addendum to its Annual Financial Report.

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

Audit Objective, Scope, and Methodology

Objective

The objective of our audit was to determine whether SSB's policies and procedures and internal processes in place over the Enforcement Area (Area) provide reasonable assurance of compliance with state requirements; and, whether established internal controls are operating effectively.

Scope

The scope of the audit was activity performed by the Area for the 10-month period from September 1, 2020 through June 30, 2021 (audit period).

Methodology

The audit methodology included a review of applicable laws and regulations, SSB's established policies and procedures, and other internal and external documentation; interviewing and corresponding with selected SSB employees; and, a virtual walk-through of the Enforcement workflow using Microsoft Teams.

We obtained and/or reviewed the following internal and external documentation:

- A. Sections of the Texas Securities Act (TSA) and the Texas Administrative Code (TAC) applicable to the Division.
- B. Enforcement Division Policy and Procedure Manual, January 1, 2020, and appendices, and memorandums.
- C. The Division's standard forms, form letters, and templates.
- D. The Division's organizational chart.
- E. Current Enforcement Database user listing.
- F. A listing of investigative suspense (I/S) Files, Section 45 I/S Files, Investigations, and Section 45 Investigations opened and closed during the period from September 1, 2020 to June 30, 2021; and, the supporting documentation for selected items.
- G. A listing of administrative enforcement actions and civil & criminal referrals made during the period from September 1, 2020 to May 31, 2021; and, supporting documentation for selected items.
- H. Selected performance measure reports and supporting documentation.

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

We performed various procedures to achieve the objective of our audit; to include, the following:

1. Reviewed and obtained an understanding of the applicable sections of the TSA and the TAC that are significant to the Division.
2. Obtained and reviewed SSB's written policies and procedures; and conducted an interview and a walk-through to obtain an understanding of controls, processes and current practices in place over the Division; and, to evaluate whether such controls adequately ensure compliance with applicable requirements identified in procedure 1 above.
3. Assessed the Division's operational adjustments to manage the COVID-19 pandemic and performed a workload trend analysis for fiscal years 2019 through 2021.
4. Obtained a listing of I/S Files, Section 45 I/S Files, Investigations, and Section 45 Investigations opened and closed during the period from September 1, 2020 to June 30, 2021, and selected a total 8 opened (including 3 Section 45s) and 7 closed (including 2 Section 45s) to test for the following attributes:

Opened and Closed

- a. The Division maintained a record of the complaint required by TSA 2-6.A and TAC §102.6.
- b. Indexing information on the Docketing Sheet was accurately entered into the Enforcement Database.

Opened only

- c. The complaint was in writing and included all elements listed in TAC §102.3.
- d. The complainant was notified of SSB's receipt of the complaint and was given the name and contact information for a staff member assigned to the complaint.
- e. Procedures in PM Part 20, *Opening Investigative Files*, including the use of a Docketing Sheet and the Director's prior approval, were followed.

Closed only

- f. Relevant information for closing the case was documented in the "Notes" section in the Enforcement Database.

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

5. Obtained a listing of referrals and administrative enforcement actions made during the period from September 1, 2020 to May 31, 2021, and selected 3 criminal referrals and a total of 7 various administrative enforcement actions, to test for the following attributes as applicable:
 - a. A Criminal Referral and Assistance form was completed by the attorney or the financial examiner, and approved by the Director prior to the formal referral.
 - b. The Director checked all 5 boxes on Part IV of the Criminal Referral and Assistance form, denoting the consideration made in compliance with the TSA Sec. 3.C and 3.D, and the TAC §127.4.
 - c. Administrative enforcement actions were approved by the Director.
 - d. For emergency cease and desist orders, procedures in PM Part 36, *Administrative Enforcement Actions Entered on an Ex Parte Basis*, including preparation of a memorandum of proof and processing the order, were followed.
 - e. An Action Report was completed.
 - f. Proper documentation, as provided by PM 263.x, was attached to the Action Report.
6. Traced performance measures reported in the summary report and LBB key measure reporting to supporting documentation for:
 - a. FY 2021 Q3 Key Measure Quarterly Performance Report.
 - b. FY 2021 Q3 Non-Key Measure Quarterly Performance Report.
 - c. FY 2020 Non-Key Measure Quarterly Performance Report (for Outcome measures only).
7. Obtained and reviewed a listing of current Enforcement Database users with their respective access levels to ensure only the authorized users have full access and all others have read-only access.

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

VI. Observations/Findings and Recommendations**SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS**

As SSB's internal auditors, we used our professional judgment in rating the audit findings identified in this report. The rating system used was developed by the Texas State Auditor's Office and is based on the degree of risk or effect of the findings in relation to the audit objective(s). The table below presents a summary of the observations/findings in this report and the related rating, as applicable.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
—	None	—
<u>Description of Rating</u> A finding is rated <i>Priority</i> if the issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity. A finding is rated <i>High</i> if the issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity. A finding is rated <i>Medium</i> if the issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level. A finding is rated <i>Low</i> if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.		

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

OBSERVATIONS/FINDINGS and RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
1	8/18/2021	Enforcement	None.	—

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with explanation if not yet fully implemented
2	10/20/2021	2021 Follow-Up	<p><u>Follow-Up of the Prior Year Internal Audit</u></p> <p>Following is the status of the recommendations made in fiscal year 2020 that had not been fully implemented.</p> <p><u>Records Management (Report date 7/24/2020)</u></p> <p>1. Records Management Policies and Procedures</p> <p>SSB should develop comprehensive records management P&P, and upon formal implementation, provide training to all SSB employees to ensure their roles and responsibilities in the agency's records management program are effectively communicated.</p> <p><i>Explanation for FY21 Status</i></p> <p>Agencywide records management policies and procedures enhancement and update are still ongoing, with a target completion by August 2022.</p> <p><u>Observation</u></p> <p>1. NEMO 2.0 Account Management</p> <p>SSB should strengthen its internal controls over NEMO 2.0 user accounts by:</p> <p>(a) Requiring the Inspections and Compliance Division to establish policies and procedures to ensure approval and completion of access changes are formally and consistently documented; and, beginning in fiscal year 2021, periodically review accounts for proper access rights; OR,</p> <p>(b) Having the Staff Services division manage the access rights to NEMO 2.0, consistent with account management for other third-party applications.</p>	<p>Incomplete/Ongoing</p> <p>Fully Implemented</p>

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

VII. External Audit Services Procured in Fiscal Year

SSB procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2021. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

SSB has provided information on their website home page on how to report suspected fraud, waste, and abuse to the State Auditor's Office (SAO) by posting a link to the SAO's fraud hotline. SSB has also developed a Fraud Prevention Policy that provides information on how to report suspected fraud, waste, and abuse to the SAO.

IX. Proposed Internal Audit Plan for Fiscal Year 2022

The risk assessment performed during fiscal year 2021 was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2022. The Internal Audit Plan for Fiscal Year 2022 will be developed and presented to the Audit Committee and/or Board, for acceptance and approval, at a meeting to be determined at a later date.

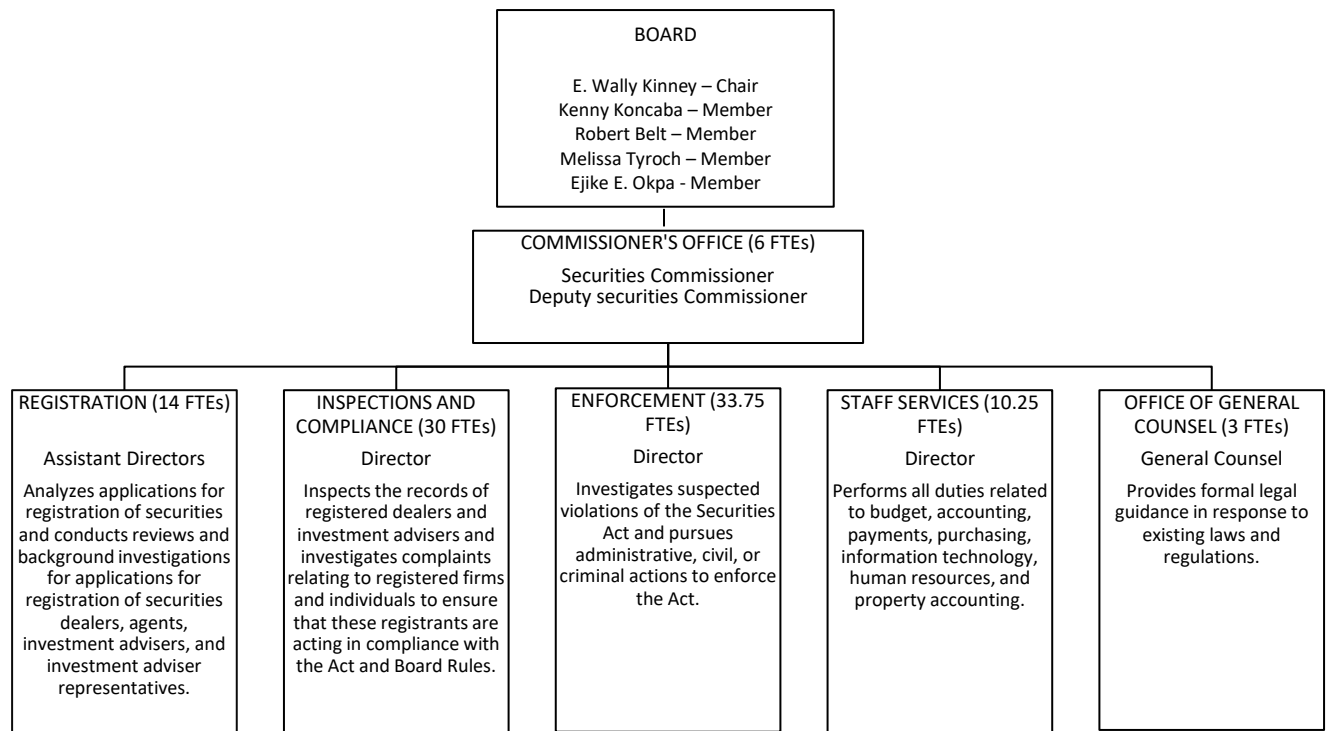
- Processing Cash Receipts/Disbursements/Mail
- Follow-up of Prior Year Internal Audit Recommendations
- Other Tasks Assigned by the Board

TEXAS STATE SECURITIES BOARD

Internal Audit Annual Report

Fiscal Year 2021

X. Organizational Chart



Source: SSB