

TEXAS STATE SECURITIES BOARD
Austin, Texas

INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2023



TEXAS STATE SECURITIES BOARD
Austin, Texas

Internal Audit Annual Report

Fiscal Year 2023

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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 Information Technology – Change Management & Account Management Areas (Areas); and, its compliance with applicable chapters of the Texas Administrative Code, and the Areas' established policies and procedures, for the 10 months ended June 30, 2023.

The results of our procedures disclosed that SSB's internal control structure over the Areas was generally adequate and no material instances of noncompliance were noted; however, we did identify certain matters, included in this report, that are opportunities for strengthening internal controls and ensuring compliance with state requirements and SSB's established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective(s), these matters were rated as either Priority, High, Medium, or Low, which is further described in the "Summary and Related Rating of Observations/Findings and Recommendations" section of this report.

We also performed a follow-up of the observation and recommendation that was not fully implemented in the prior year internal audit annual report. This report, which reflects the results and implementation status of our follow-up procedures performed; and, includes all information required for compliance with the State of Texas Internal Audit Annual Report requirements, has been prepared by Garza/Gonzalez & Associates, an independent Certified Public Accounting firm, following Generally Accepted Government Auditing Standards, International Standards for the Professional Practice of Internal Auditing, and the Institute of Internal Auditors' Code of Ethics contained in the Professional Practices Framework.

We have discussed the comment(s) and recommendation(s) from the audit of the Areas; and, the implementation status from the follow-up procedures performed, with various SSB personnel; and, will be pleased to discuss them with you in further detail.



August 1, 2023

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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; maximize coordination with federal and other states' laws and administration, particularly with respect to procedure, reports, forms, and exemptions; and, minimize regulatory burdens on issuers and other persons subject to the Act, especially small businesses. To achieve these objectives, SSB conducts the following activities:

- Law enforcement
- Registration of securities
- Registration of dealers, agents, investment advisers, and investment adviser representatives
- Inspections of registered dealers and investment advisors

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 staggered 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.

2023 Internal Audit Plan

Following is the internal audit and other functions performed, as identified in SSB's *Internal Audit Plan for Fiscal Year 2023*, dated May 8, 2023 and approved by the Board on May 16, 2023:

- Fiscal Year 2023 Risk Assessment & Preparation of the 2023 Internal Audit Plan
- Information Technology (IT) – Change Management & Account Management Areas Audit
- Follow-up of the Prior Year Internal Audit
- Preparation of the 2023 Internal Audit Annual Report
- Other Tasks

This report contains the results of the IT – Change Management & Account Management Audit; reflects the results of the follow-up procedures performed in the current year of the observation that was presented in the prior year internal audit report; and, meets the State of Texas Internal Audit Annual Report requirements.

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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 2024 audit plan, as provided by Texas Government Code, Section 2102.008.**
- **A fiscal year 2023 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, Technical Update April 2021, Sections 3.64-3.106.

III. External Quality Assurance Review

The internal audit department's most recent *Peer Review Report*, dated December 15, 2021, 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 2023

The approved Internal Audit Plan (Plan) included one audit to be performed during fiscal year 2023. The Plan also included a follow-up of the prior year internal audit recommendation that was not fully implemented as of fiscal year ended August 31, 2022, other tasks as may have been assigned by the Board; and, preparation of the 2023 Internal Audit Annual Report.

RISK ASSESSMENT

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

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

HIGH RISK	MODERATE RISK	LOW RISK
Human Resources and Payroll Information Technology	Conducting Inspections ¹ Accounting/Financial Reporting/Fixed Assets/Travel Procurement/Contract Management/ HUB Processing Dealer Applications ² Processing Securities Applications ² Enforcement ¹	Processing Cash Receipts/Disbursements/Mail Complaints Process ¹ Records Management

¹ Includes Performance Measures

² Includes Performance Measures and Registration & Filing Fees

In the prior 3 years, the internal auditor performed the following *internal audit functions*:

Fiscal Year 2022:

- Risk Assessment & Preparation of the Internal Audit Plan
- Processing Cash Receipts, Disbursements, and Mail Audit
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2021:

- Risk Assessment & Preparation of the Internal Audit Plan
- Enforcement Audit
- Follow-up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2020:

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

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The internal audit and other tasks performed for fiscal year 2023 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Information Technology (IT) – Change Management & Account Management <i>Objective:</i> To assess the effectiveness and efficiency of the internal controls, policies, procedures, and processes in place for (a) managing changes to selected IT systems; and, (b) managing user access for selected IT systems; including, onboarding and offboarding of employees.	8/1/2023
2.	Internal Audit Annual Report – Follow-up of the observation and recommendation that was presented in the Prior Year Internal Audit Annual Report <i>Includes all reported audit results for Fiscal Year 2023.</i>	8/1/2023
-	Other Tasks Assigned by the Board, Audit Committee, or Management	None

V. Executive Summary

Information Technology (IT) – Change Management & Account Management

BACKGROUND

Texas Government Code (TGC) Chapter 2054, Information Resources (the Information Resources Management Act) and the Texas Administrative Code (TAC) Chapter 202, Information Security Standards, determine state agencies' responsibilities relating to information resources and information security. The Security Control Standards Catalog (Catalog) was prepared by the Texas Department of Information Resources (DIR) to identify the minimum baseline controls for Texas state agencies, in accordance with TAC §202.26.

Organization

The Information Technology (IT) – Change Management & Account Management Areas (Areas) are supervised by the Director of Staff Services, who reports to the Securities Commissioner. The Areas consist of a Network Manager and 2 Programmers, one of whom is also a database administrator (DBA). The Director of Staff Services holds the designation of the agency's Information Resources Manager and the Information Security Officer.

Systems

SSB employees access sensitive information stored in the agency's shared drives and third-party storage through both in-house and third-party systems to perform their daily tasks. Significant systems they use include:

- (a) Statewide fiscal management systems such as the Centralized Accounting and Payroll/Personnel System (CAPPS) and the Uniform Statewide Accounting System (USAS), which are administered by the Texas Comptroller of Public Accounts (CPA).
- (b) The Central Registration Depository (CRD) and the Investment Adviser Registration Depository (IARD) systems, which are nationwide securities industry databases managed by the Financial Industry Regulatory Authority (FINRA).

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- (c) The NASAA Electronic Examinations Module (NEMO) 2.0, a cloud-based examination tool administered by the North American Securities Administrators Association (NASAA).
- (d) In-house systems such as the Dealer/Securities Registration Systems, the Inspections Case Management System, and the Enforcement Database.

The head of the primary users' division typically acts as the owner of the information accessed through these systems. As the information owner, they are responsible for approving changes related to user access and in-house systems configuration. Additionally, the information owner serves as the account administrator for third-party systems used by SSB.

SSB Information Security Program

SSB has established an agency-wide information security program, which is documented in the SSB Information Resources Policies and Cybersecurity Program (Program). To support the implementation of this Program, the following documents were developed:

- a. SSB Employee Manual
- b. SSB Cybersecurity Framework
- c. SSB Cybersecurity Controls Catalog
- d. SSB Cybersecurity Procedures
- e. Cybersecurity assessment tools

Change Management

The Area has established the following steps for managing changes to in-house systems and their contents:

1. A change is requested by sending an email to the Programmer/DBA.
2. The Programmer/DBA obtains approval for the requested change from the information owner. If it involves a major in-house systems change, additional approval from the Director of Staff Services is required.
3. The Programmer/DBA conducts an informal risk assessment, analyzes the potential impact, and determines the appropriate change strategy.
4. The Programmer/DBA tests the change in a controlled environment before migrating it to production.
5. After implementation, the Programmer/DBA notifies the information owner and the requester for validation and acceptance.
6. Change requests are tracked in the Application Change Log and the Data Edits Log. The Logs contain pertinent information provided by the Programmer/DBA, along with the change request and related correspondence emails.

During the period from September 1, 2022 to June 30, 2023, 4 application changes and 14 data edits made to in-house systems were completed by the Area.

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User Account Management

SSB follows a role-based approach to grant user access at each application level. In this approach, the information owner works with IT staff to define specific roles for accessing the systems. For each role, they determine the least access level necessary to perform activities required of that role. Consequently, a user's access to a particular application is determined by the role assigned to them by the information owner. The information owner also holds the responsibility of periodically reviewing access lists based on documented risk management decisions as required by TAC §202.22.

User Account Setup/Termination Process

During fiscal year 2023, SSB initiated the implementation of a new account change management process, transitioning from manual, paper-based methods to semi-automated processes by utilizing an online workflow platform. The account changes are now processed as follows:

1. The IT department provided access to the internal Systems Access SharePoint site for SSB management (Director, Assistant Director, etc.). Through this site, they now submit New or Termination Requests using an online form.
2. Upon form submission, the following processes are triggered:
 - 2.1 An automated email is sent to the administrators responsible for the relevant systems, notifying them of the access change requests.
 - 2.2 For new employees:
 - Administrators review the access request based on the employee's position, division, and work location.
 - If granted, the requested access is added.
 - If denied, IT staff is informed.
 - 2.3 For employee separations:
 - Administrators delete or deactivate the employee's account effective from the separation date.

Administrators log all changes made to the new or separating employee's System Access Document in the Systems Access SharePoint site. Each employee's System Access Document contains all granted systems and access levels along with their respective effective dates.

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AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to assess the effectiveness and efficiency of the internal controls, policies, procedures, and processes in place for (a) managing changes to selected IT systems; and, (b) managing user access for selected IT systems; including, onboarding and offboarding of employees.

Scope

The scope of the audit was the activities performed by the Areas during the 10-month period from September 1, 2022 through June 30, 2023 (audit period). The scope excludes the change activities performed by an IT managed security services vendor that was procured through the DIR.

Methodology

The audit methodology included a review of applicable laws and regulations, SSB's established policies and procedures, and other relevant internal and external documentation; and, interviewing and corresponding with selected SSB employees.

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

- A. Texas Administrative Code (TAC) Chapter 202 and the DIR Security Control Standards Catalog (DIR Catalog) Versions 2.0 (January 20, 2022) and 2.1 (May 18, 2023), as applicable to the Area.
- B. Organizational chart of the Area and description of each staff's roles related to the Areas.
- C. SSB's cybersecurity policies and procedures applicable to the Areas.
- D. Sample forms and notification emails utilized by the Areas.
- E. State Auditor's Audit Report No. 22-037, *The Inspection Processes at the State Securities Board*, Chapter 3, relating to information technology controls.
- F. Listing of internal and third-party systems accessed by SSB employees.
- G. The Application Change Log and the Data Edits Log for the audit period.
- H. Listing of current and former employees who had access to SSB's information resources during the audit period.

We performed various procedures to achieve the objective of our audit, which included the following:

1. Reviewed and gained an understanding of the relevant TAC rules and controls in the DIR Catalog as they apply to the Areas.
2. Reviewed policies, procedures, and other documents; and, conducted remote interviews and a walk-through, to obtain an understanding of controls, processes and current practices established by the Areas. Then, evaluated whether these controls, processes, and current practices adequately ensure compliance with the applicable requirements identified in procedure 1 above.

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3. Selected a sample of 5 change requests to SSB's in-house systems, consisting of 2 application changes and 3 data edits, to test the following attributes, where applicable:
 - a. The change requests were made in writing.
 - b. Prior to change implementation —
 - The change requests were approved by the information owner.
 - Potential security and privacy impacts were assessed, as required by the DIR Catalog.
 - Changes were tested and validated before implementation, following the recommendations in the SAO Report.
 - c. Change information was accurately recorded in the applicable Log.
4. Selected a sample of 8 systems to determine whether the applicable information owners periodically review users and their access levels.
5. Selected a sample of 4 new employees, 4 separated employees, and 5 existing employees for the audit period to test the following attributes, where applicable:
 - a. Access change requests were initiated in writing using the appropriate form (either PDF or Workflow).
 - b. The request to grant access was made by an Assistant Director or above.
 - c. The granted access aligns with the employee's business needs.
 - d. Access to critical systems was deactivated on the termination date.
 - e. Current Data Use Agreement signed by the employee and Telework Authorization are in the employee file.
 - f. New employees signed the Data Use Agreement on the date of hire.

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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
1.	SSB Procedures	Medium
2.	SSB Controls Catalog	Medium
3.	Records of Changes	Medium
4.	Systems Change Log	Low
5.	Periodic User Review	Low
Observation No.	Title	Rating
1.	Systems Access Workflow	–
<p><u>Description of Rating</u></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>		

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OBSERVATIONS/FINDINGS AND RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Fiscal Impact/ Other Impact
1	8/1/23	IT – Change Management & Account Management	<p>1. SSB Procedures</p> <p><i>Explanatory Note:</i> This comment is unrelated to the cybersecurity framework assessment and vulnerability tests facilitated by the Department of Information Resources.</p> <p>Multiple controls (XX-1 Policy and Procedures) in the DIR Catalog mandate the development, documentation, and dissemination of policies and procedures. However, SSB is currently in the process of developing and documenting certain cybersecurity procedures, including the entire Configuration Management Procedures section.</p> <p>Recommendation We recommend that SSB continue its effort in developing and documenting cybersecurity procedures for all sections within the SSB Cybersecurity document.</p> <p>Management’s Response The staff agrees with this recommendation and will continue its work to complete the sections of the procedures document that were unfinished at the time of audit review. The procedures document currently has headers that will serve as an outline for the sections, still requiring written procedures to memorialize the agency’s current practices.</p> <p>2. SSB Controls Catalog (SSB Catalog)</p> <p><i>Explanatory Note:</i> This comment is unrelated to the cybersecurity framework assessment and vulnerability tests facilitated by the Department of Information Resources.</p> <p>State agencies must adhere to the minimum requirements listed in the DIR Catalog, as mandated by TAC §202.26. The SSB Catalog is based on the outdated DIR Catalog version 1.x, resulting in the omission of new controls and privacy requirements present in the current DIR Catalog.</p> <p>Recommendation We recommend that SSB updates its Catalog to incorporate all minimum requirements from the current DIR catalog.</p> <p>Management’s Response The Agency ISO will adhere to this Recommendation and update its Catalog as soon as possible.</p>	<p>To comply with Controls XX-1 in the DIR Catalog.</p> <p>To comply with the DIR Catalog</p>

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Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Fiscal Impact/ Other Impact
1	8/1/23	IT – Change Management & Account Management	<p>3. Records of Changes</p> <p>State agencies are required by the DIR Catalog CM-6 to monitor and control changes to the configuration settings in accordance with their policies and procedures. As part of SSB’s Configuration Change Controls, IT staff must document configuration changes to provide an audit trail of all changes made. However, the IT staff currently does not document such information. Consequently, we were unable to verify the operating effectiveness of certain change management controls, including:</p> <ul style="list-style-type: none"> • Potential security and privacy impact analysis. • Test procedures and results. • Evidence of segregation of duties. • Post-change owner acceptance. <p>Recommendation We recommend that the IT staff sufficiently document the change activities to ensure proper oversight, accountability, and knowledge transfer.</p> <p>Management’s Response Agency staff will create a process to document configuration changes and create the desired audit trail. The addition of new IT staff members should make adding these steps to the process achievable.</p> <p>4. Systems Change Log</p> <p>State agencies are required by the DIR Catalog AU-2 to maintain appropriate audit trails to provide accountability for updates made to mission-critical information, hardware, and software. However, SSB does not generate audit logs for changes to the in-house systems due to the significant resource requirements.</p> <p>Recommendation We recommend that the Information Security Officer (ISO) documents the justification for the risk acceptance and obtains formal approval from the Commissioner for the control exception allowed under TAC §202.21.</p> <p>Management’s Response The Agency ISO will adhere to this Recommendation by creating a risk acceptance document for Commissioner review. The risk acceptance document will include a justification based upon the fact that generating auditing logs of this type would likely require the purchase, installation, configuration, and maintenance of a third-party logging software as well as additional storage space for the logs. The agency will also explore the viability of acquiring third-party logging software or alternative method of addressing this issue.</p>	<p>To comply with SSB Configuration Change Controls.</p> <p>To comply with the DIR Catalog AU-2.</p>

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Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Fiscal Impact/ Other Impact
1	8/1/23	IT – Change Management & Account Management	<p>5. Periodic User Review</p> <p>State agencies are required by the DIR Catalog AC-2 to review accounts for compliance with account management requirements at a frequency determined by the agency. Furthermore, the information owner is required by TAC §202.22 to periodically review access lists. However, the Inspections and Compliance Division (I&C), which utilizes NEMO 2.0, does not conduct a formal periodic review of NEMO 2.0 accounts.</p> <p>Recommendation</p> <p>We recommend that the I&C collaborates with the ISO to develop and implement periodic NEMO 2.0 user review procedures.</p> <p>Management’s Response</p> <p>The Agency ISO will adhere to this Recommendation by reminding I&C staff to conduct their annual user review for NEMO 2.0.</p>	To comply with the DIR Catalog AC-2 and TAC §202.22.

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Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Fiscal Impact/ Other Impact
1	8/1/23	IT – Change Management & Account Management	<p style="text-align: center;">OBSERVATION</p> <p>1. Systems Access Workflow</p> <p>The IT Department does not monitor to ensure timely completion of all account changes requested of administrators through the Systems Access Workflow.</p> <p>Recommendation</p> <p>We recommend that the IT Department designates certain IT staff members with the responsibility for monitoring the timely completion of workflow tasks.</p> <p>Additionally, as part of its effort to optimize the workflow, SSB should consider the following:</p> <ul style="list-style-type: none"> • Incorporating the monitoring process into the existing workflow. • Modifying the System Access Request Form and/or workflow for high-turnover positions to reduce the number of repetitive “N/A” selections required to complete the Form. <p>Management’s Response</p> <p>Agency IT staff will create a system to remind system administrators of workflow tasks they have not completed. For context, the semi-automated workflow system was just recently created in the Spring of 2023. The system and process are still being developed and refined. This recommendation will be incorporated to the process.</p>	Efficient and timely completion of user account changes.

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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	8/1/23	2023 Follow-Up	<p align="center"><u>Follow-Up of the Prior Year Internal Audit</u></p> <p>Following is the status of the recommendations made in fiscal year 2022 that had not been fully implemented.</p> <p><u>Processing Cash Receipts, Disbursements, and Mail (Report date 7/25/2022)</u></p> <p>1. Staff Services Division Procedures Manual (Observation)</p> <p>SSB should develop procedures for these areas to ensure procedures are documented and performed consistently, as expected, by all Division staff.</p>	Fully Implemented

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VII. External Audit Services Procured in Fiscal Year 2023

SSB procured the internal audit services documented in the approved 2023 Internal Audit. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

SSB has provided information on their website homepage 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 2024

The risk assessment performed during fiscal year 2023 was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2024. The 2024 Internal Audit Plan 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.

- Human Resources and Payroll
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Board