TEXAS STATE SECURITIES BOARD

Austin, Texas

INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2025

TEXAS STATE SECURITIES BOARD
Austin, Texas

Internal Audit Annual Report

Fiscal Year 2025

TABLE OF CONTENTS

Garza/Gonzalez & Associates, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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

We performed procedures to assess the effectiveness and efficiency of the Texas State Securities Board's (SSB) internal control structure of the Processing Securities Applications Area (Area) and its compliance with the applicable chapters of the Securities Act, relevant rules of the Texas Administrative Code, and the Area's policies and procedures, for the ten months ended June 30, 2025.

Our audit procedures determined that SSB's internal control structure over the Area was adequate, and no material instances of noncompliance were noted. However, we did identify certain matters, detailed in this report, that present opportunities to strengthen internal controls and enhance compliance with SSB's policies and procedures. Based on their degree of risk or effect in relation to the audit objective, these matters were rated as Priority, High, Medium, or Low, as described in the "Summary and Related Rating of Observations/Findings and Recommendations" section of this report.

We also conducted follow-up procedures on the findings and recommendations from the prior year internal audit report that were not fully implemented. This report reflects the results and implementation status of our follow-up procedures, and includes all information required for compliance with the State of Texas Internal Audit Annual Report requirements.

We have discussed the audit comments and recommendations for the Area, as well as the follow-up results, with various SSB personnel. We are available to provide additional information if needed.

This report was prepared by Garza/Gonzalez & Associates, LLC, 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.

Garza/Gonzalez
& Associates, LLC

August 13, 2025

40 NE Loop 410, Suite 305
San Antonio, TX 78216
210/227-1389
Fax 227-0716

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 this mission, SSB seeks to encourage capital and job formation, promote free and competitive securities markets, maximize coordination with federal and other state securities laws and regulations, and minimize regulatory burdens on issuers and other persons subject to the Act, particularly small businesses.

To achieve these objectives, SSB carries out the following activities:

- Enforcing securities law
- Registering securities offerings
- Registering dealers, agents, investment advisers, and investment adviser representatives
- Conducting inspections of registered dealers and investment advisors

The SSB Board is comprised of five members who serve staggered six-year terms and are appointed by the Governor, with the advice and consent of the Senate. The Board adopts and periodically updates rules to ensure that investors are adequately protected while avoiding unreasonable burdens on legitimate capital-raising activities. The Board also appoints a Securities Commissioner, who serves at its discretion as SSB's chief administrative officer and is responsible for supervising staff's day-to-day activities.

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

2025 Internal Audit Plan

Following are the internal audit functions performed, as identified in SSB's *2025 Internal Audit Plan*, dated May 6, 2025, and approved by the Board on May 15, 2025:

- Risk Assessment & Preparation of the 2025 Internal Audit Plan
- Processing Securities Applications Audit
- Follow-up of the Prior Year Internal Audit
- Preparation of the 2025 Internal Audit Annual Report
- Other Tasks

This report contains the results of the Processing Securities Applications Audit, reflects the results of the follow-up procedures performed this year on the findings from the prior year internal audit report, and complies with the State of Texas Internal Audit Annual Report requirements.

I. Compliance with Texas Government Code 2102.015: Required Posting of Internal Audit Information

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

- An approved fiscal year 2026 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2025 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The internal audit annual report includes any identified weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor, as well as a summary of the actions 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 January 20, 2025, 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 2025

The approved Internal Audit Plan (Plan) included one audit to be performed during fiscal year 2025. The Plan also included a follow-up on prior year internal audit recommendations that had not been fully implemented as of fiscal year 2024, other tasks as assigned by the Board, and preparation of the 2025 Internal Audit Annual Report.

Risk Assessment

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

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

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

[1] Includes Performance Measures
[2] Includes Performance Measures and Registration & Filing Fees

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

Fiscal Year 2024:
- Risk Assessment & Preparation of the Internal Audit Plan
- Payroll and Human Resources Audit
- Follow-up of Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2023:
- Risk Assessment & Preparation of the Internal Audit Plan
- Information Technology – Change Management & Account Management Audit
- Follow-up of Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2022:
- Risk Assessment & Preparation of the Internal Audit Plan
- Processing Cash Receipts, Disbursements, and Mail Audit
- Follow-up of Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

The internal audit and other tasks performed for fiscal year 2025 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Processing Securities Applications	8/13/2025
	Objective: To determine whether SSB's policies, procedures, and internal controls over the Processing Securities Applications Area are adequately designed and operating effectively to ensure compliance with applicable laws and regulations.	
1.	Internal Audit Annual Report – Follow-up on the findings and recommendations that were presented in the Prior Year Internal Audit Report	8/13/2025
	Includes all reported audit results for Fiscal Year 2025.	
-	Other Tasks Assigned by the Board or Audit Committee	None

V. Executive Summary

Processing Securities Applications Area (Area)

Background

Securities offered or sold in Texas must be registered, notice filed, or exempt from registration under the Texas Securities Act and the related Board Rules. The Registration Division (Division) is responsible for processing these filings accurately and timely in accordance with applicable laws and rules to help ensure that securities offered in Texas are fair and compliant. The Division is also responsible for the Processing Dealer Applications area, which is a separate internal audit topic not included in this report.

Organizational Structure

The Division is managed by the Director of Registration, who reports to the Securities Commissioner and Deputy Securities Commissioner.

Key Roles

- **Assistant Director**: Reviews complex securities filings and assists the Director with managing the Division, including assigning filings to financial examiners (FEs), approving review summary memos, and training new FEs.
- **2 Financial Examiners (FEs)**: Review complex filings and prepare recommendation memo for approval or denial.
- **3 Securities Administrative Assistants**: Process securities filings, primarily notice filings.

While the Director, Assistant Director, and FEs handle both securities and dealer registration, Securities Administrative Assistants specialize in securities filings.

Software Applications

The Area uses multiple systems to manage filings:

- **Electronic Filing Depository (EFD) System**: An electronic filing and payment platform administered by the North American Securities Administrators Association (NASAA). EFD is mandatory for Regulation D-Rule 506 (Form D) filings and associated fee payments, and optional for unit investment trust (UIT) Form NF filings. These filings are processed within EFD and remain there as official records. EFD also supports electronic filing and payment through the Universal Filing Type (UFT) for most other filings. Administrative Assistants download UFT documents from EFD to initiate processing.
- **Securities System**: An in-house database that tracks filings not filed in EFD, including those submitted through the UFT. Each filing entered into the Securities System is automatically assigned a unique Filing ID.
- **Blue Express**: An electronic filing and payment platform used primarily by mutual fund companies. Filings are exported to the Securities System for automatic or manual processing. Renewal and amendment processing is mostly automated; filings that cannot be auto-processed are manually processed by Administrative Assistants.

Electronic payments made via EFD or Blue Express are deposited directly with the Texas Comptroller. Since SSB also accepts filings via email or mail, check payments are received in SSB's mail room and processed by the Staff Services Division.

Types of Securities Filings

The Area processes three primary categories of securities filings:

- **Notice Filings of Federal Covered Securities**: Certain securities are classified as *federal covered* under federal law and are therefore not subject to state registration with SSB.
    - Publicly traded securities listed on a national stock exchange (e.g., New York Stock Exchange, NASDAQ) require no state filings or fees.
    - Other types of federal covered securities, such as federally registered mutual fund shares, Regulation D, Rule 506 offerings, and UIT securities, require notice filing and payment of state fees before being offered in Texas.
- **Exemption Filings ("Rules")**: Certain securities are exempt from registration under the Securities Act Chapter 4005 and TAC Chapters 109, 111, and 139 (e.g., private limited offerings). While these offerings are exempt from registration, filers must meet all requirements for the claimed exemption.
- **Fully Registered Offerings ("Regulars")**: Securities offered in Texas that do not qualify as federal covered or exempt must undergo full registration review for compliance with TAC Chapter 113. Initial filings are reviewed according to TAC §104.4, with specific timelines for each review stage. The Area uses the *New Securities Offering Review Checklist* to document compliance with TAC §104.4.

Any increase in the offering amount or a name change requires an amendment filing. Mutual funds, UITs, and Regulars expire after one year and must be renewed annually. In contrast, Reg D and Exemption filings do not expire. Filing forms and fee schedules for each filing type are published on SSB's website.

From September 1, 2024 to June 30, 2025, the Area received the following filings and generated $135,504,318 in fees:

Filing Type	Number of Filings
Form D (Reg D)	8,690
UIT Form NF via EFD	1,924
Mutual Fund & Money Market	38,641
Regulars	148
Rules	40
Others	1,218
Total	**50,661**

Filings Processing

Processing requirements vary by filing type and submission type (initial, amendment, or renewal). Certain mutual fund amendments and renewals are automated. Written procedures are in place for both Administrative Assistants and FEs, tailored by filing type.

- Administrative Assistants process notice filings of federal covered securities, Rules, and amendments to Regulars.
- FEs review Regulars (initial and renewal) and determine money market status. Filings are assigned by the Director or Assistant Director based on type and workload. The assigned FE prepares a *Summary of Analysis* memo recommending approval or denial. The memo must be signed by both (a) the Director or Assistant Director, and (b) Securities Commissioner or Deputy Securities Commissioner.

Pending filings are monitored weekly through system-generated reports, reviewed by the Director and Assistant Director.

Performance Measures

The Area collects, tracks, and reports the following performance measures:

- **[Key] Output**: Number of Securities Filings and Submissions Processed
- **[Key] Explanatory**: Revenues Deposited to the State Treasury from Securities Applications
- **[Non-key] Outcome**: Average Time (Days) for Deficiency Letters Issuance on Securities Application

These measures are compiled from system-generated reports, with minimal manual input.

Audit Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether SSB's policies, procedures, and internal controls over the Processing Securities Applications Area are adequately designed and operating effectively to ensure compliance with applicable laws and regulations.

Scope

The audit scope included selected activities and functions relating to processing securities applications during the ten-month period from September 1, 2024 through June 30, 2025 (audit period).

Methodology

The audit included reviewing applicable laws, rules, and regulations, as well as the Area's policies, procedures, and supporting documentation. In addition, remote interviews and walkthroughs were conducted with SSB staff to obtain an understanding of the Area's current operations and control activities.

We performed procedures to achieve the audit objective, including the following:

1. Reviewed applicable chapters of the Securities Act and relevant TAC rules.
2. Reviewed written procedures and supplemental documents such as checklists and templates, and conducted remote interviews and walkthroughs to assess controls, processes, and current practices.
3. Selected a sample of 48 filings from the audit period (4 Form Ds, 3 EFD UITs, 20 Securities System notice filings, 10 Regulars, and 11 Rules) and tested them for the following attributes:
    a. Compliance with processing timelines outlined in TAC §104.4 for initial Regular filings.
    b. Accuracy of information entered into the Securities System for the following: received date, filing type, authorized amount, consent date, sales report end date, effective date, and expiration date.
    c. Accuracy of fees collected.
    d. Documentation of required correspondence with the filer (acknowledgements, "Effective" letter, follow-ups).
    e. Completion of the *New securities Offering Review Checklist* by the assigned FE.
    f. Proper approval by the Director or Assistant Director, and Securities Commissioner or Deputy Securities Commissioner.
4. Reviewed user account management practices for the Securities System, EFD, and Blue Express. Obtained user account lists for Securities System and EFD Texas users, and verified elevated access was appropriate.
5. Evaluated the Area's performance measures data collection and compilation; verified reported results for the following:
    a. Q3 FY 2025 - Number of Securities Filings and Submissions Processed.
    b. FY 2024 - Revenues Deposited to the State Treasury from Securities Applications (reconciled to statewide accounting records).
    c. Q3 FY 2025 - Average Time (Days) for Deficiency Letters Issuance on Securities Applications.

VI. Observations/Findings and Recommendations

SUMMARY AND RELATED RATING OF
OBSERVATIONS/FINDINGS AND RECOMMENDATIONS

As SSB's internal auditors, we exercised 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 impact of the findings in relation to the audit objective(s). The table below presents a summary of the observations/findings in this report and their corresponding ratings.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	**Title**	**Rating**
1.	Inconsistent Adherence to Rules Filings Procedures	Low
Observation No.	**Title**	**Rating**
1.	Procedures Update	–

Description of Rating

A finding is rated *Priority* if the issues identified present risks or effects that, if not addressed, could critically affect 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 *High* if the issues identified present risks or effects that, if not addressed, could substantially affect 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 *Medium* if the issues identified present risks or effects that, if not addressed, could moderately affect 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 *Low* if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or 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.

OBSERVATIONS/FINDINGS AND RECOMMENDATONS

Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations
1	8/13/25	Processing Securities Applications	**1. Inconsistent Adherence to Rules Filings Procedures** We tested a non-statistical sample of 48 securities filings, which included 11 Rules filings processed by the Area during the audit period, to assess staff compliance with written procedures for processing Rules filings under TAC rules. Because all Rules filings are manually processed by staff without automated system controls, our review identified the following deviations from the written procedures for Rule 139.19 exemption filings: • **Form completion** - Staff must ensure all items in the required filing form (the Model Accredited Investor Exemption Uniform Notice of Transaction) are completed. In one instance, a filing was accepted when the filer did not complete one item in the form. • **From U-2 submission** - Staff must ensure a completed Form U-2, Consent to Service of Process, is submitted. In one instance, a filing was accepted without the required Form U-2. • **Received Date entry** - Staff must enter the date a filing is received in the *Received Date* field in the Securities System. In one instance, the date recorded in the system was three days later than the date the filer initially emailed the submission, and no explanation for the discrepancy was documented. **Recommendation** We recommend that the Division consider conducting periodic quality checks, on a sample basis, for manually processed Rules filings that do not require management approval. **Management's Response** The staff of the Securities Board agrees with the recommendation and will implement a process of periodic quality checks for Rules filings that do not otherwise require management approval.

Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations
1	8/13/25	Processing Securities Applications	OBSERVATION **1. Procedures Update** The Area's written procedures provide detailed instructions for processing securities filings by FEs and Administrative Assistants. However, portions of these procedures are outdated and no longer aligned with current practices. For example, the documented steps for data entry selective review are no longer performed, and the Regulars renewal approval requirement and filer follow-up procedures for Rules filings do not reflect current practices. Additionally, several sections of the procedures are lengthy and complex, combining requirements, best practices, and tips into a single workflow. This format increase the risk of inconsistent application and reduces efficiency. **Recommendation** We recommend that the Division continue its effort to update and streamline the written procedures to align with current practices and present instruction in a clear, concise format. **Management's Response** The staff of the Securities Board supports the observation. The staff notes that prior to 2018 this audit area did not have formalized policies and procedures. The written procedures will continue to be updated on an ongoing basis with a focus on heightening efficiencies.

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
1	8/13/25	2025 Follow-Up	**Follow-Up of the Prior Year Internal Audit** Following is the status of the recommendations made in fiscal year 2024 that had not been fully implemented. **Payroll & Human Resources (Report date 7/26/2024)** **1. Staff Services Division (SSD) Procedures Manual** SSB should review and update the SSD Procedures Manual, as needed, to ensure that procedures are current and accurately reflect SSB's practices. **2. Payroll Change Authorization Form (PCAF) (Observation)** SSB should ensure PCAFs are properly filed in the employee's personnel file to maintain proper retention and documentation of pay approvals.	**Fully Implemented** **Fully Implemented**

VII. External Audit Services Procured in Fiscal Year 2025

SSB procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2025. 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 2026

The risk assessment performed during fiscal year 2025 was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2026. The 2026 Internal Audit Plan will be developed and presented to the Audit Committee and the Board, for acceptance and approval, at a meeting to be determined at a later date.

- Processing Dealer Applications
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Audit Committee or the Board