

Internal Audit Annual Report for FY 2024



TEXAS CIVIL COMMITMENT OFFICE

MARSHA MCLANE
EXECUTIVE DIRECTOR

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I. Compliance with Texas Government Code, Section 2102.015

Texas Government Code, Section 2102.015 requires state agencies, as defined in the statute, to post certain information on Internet Web sites. The Texas Civil Commitment Office's Internal Audit will follow the following procedures to ensure compliance with posting requirements.

Texas Government Code, Section 2102.015(b) (1) requires posting of the agency's approved internal audit plan within 30-days of approval. In accordance with Texas Government Code, Section 2102.008, the annual audit plan developed by the internal auditor must be approved by the state agency's governing board.

The Fiscal Year 2025 Internal Audit Plan was presented to the Board of the Texas Civil Commitment Office at the October 25, 2024 meeting for Board approval and was approved by the Board on that date. The plan was submitted to web services for posting to the agency's website on October 31, 2024.

Texas Government Code, Section 2102.015(b) (2) requires posting of the agency's Internal Audit Annual Report. Texas Government Code, Section 2102.009 requires the internal auditor to prepare an annual report and submit the report before November 1 of each year to the governor, the Legislative Budget Board, the Sunset Advisory Commission, the state auditor, the state agency's governing board, and the administrator. The state auditor prescribes the form and content of the report, subject to the approval of the legislative audit committee.

This annual report was submitted to the agency's executive administration and will be submitted to the Board of the Texas Civil Commitment Office. The report will be posted to the agency's website.

Texas Government Code, Sections 2102.015(d) and (e) requires agencies to update the posting with:

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

Any weaknesses, deficiencies, wrongdoings, or others concerns, if noted, will be posted as required.

II. Internal Audit for Fiscal Year 2024

Fiscal Year 2024 Internal Audit – Financial Review.

CLIENT FUND ACCOUNT REVIEW

TCCO Internal Audit, in the 2024 Audit Plan, had scheduled to audit SVP client fund accounts for proper authorization of disbursements of disbursements and that clients are provided a statement of their account on a timely basis.

AUDIT SCOPE / RESULTS

The scope of the review was as follows:

Documents were reviewed from periods from January 2024 to April 2024.

The Base Balance Report (listing of all client balances) was reconciled and compared to individual client statement.

No exceptions were noted

The Base Balance Report (listing of all client balances) was reconciled and compared to client payroll reports which added individual client balances.

No exceptions were noted

Authorizations of expenditures from client statements were reviewed for authorization

No exceptions were noted

Debit balances were carried forward from month to month.

Although these balances were not addressed for many months, MTC accounting timely worked and resolved the balances after receiving information of the debit balances from Internal Audit. The balances were insignificant in value and hence, not considered a significant deficiency

SVP Client Policy was reviewed

The policy was reasonable and provided guidance

Client bank account balances are significant, the ending February balance was \$363,320, .however bank fees were still incurred and no interest income was earned.

Internal Audit recommends negotiating a no fee policy on the account due to the significant account balance and consider negotiating the opportunity to earn interest income that could benefit the clients.

Documentation of a reconciliation of the Base Balance Report (listing of all client balances) to the Client SVP Bank Statement was not was obtained when requested.

TCCO Internal Audit recommends that the reconciliation should be a standard procedure.

AUDIT CONCLUSION

Based on the audit testing, it was concluded that controls were in place and operating effectively without any significant deficiencies. TCCO Audit believed that the review effort was satisfied. TCCO Audit believes that the controls related to SVP client funds can be enhanced by adding a reconciliation between the SVP bank account and the summary total of client SVP balances. It is also recommended to add a positive confirmation (client acknowledgement) that the client received their statement and had the opportunity to question it if they believe there was a discrepancy or an unauthorized disbursement. Internal Audit recommends that consideration should be taken, due to the large bank balance, to negotiate no bank fees and to negotiate an opportunity to receive interest income to support the clients.

MANAGEMENT TRAINING CORPORATION (MTC) INVOICE REVIEW

TCCO utilizes MTC to provide client services at a MTC facility. MTC is TCCO's most significant vendor in terms of cash expenditures. An audit of MTC invoices from September 2019 through August 2023 was performed by Internal Audit. The monthly MTC invoices are very detailed. The cumulative value of the invoices for this period was \$60,398,857. Due to the invoice detail and the significant dollar value of the invoices, Internal Audit worked with TCCO Management to ensure that any invoice discrepancies were identified and communicated to MTC to obtain a proper settlement for the services performed. The audit effort resulted in a request to MTC for a \$321,807 refund for overcharges. Detailed information, relating to the overcharges has been provided to MTC. The TCCO Budget Manager is actively working with MTC to provide the support needed so that an invoice credit will be processed for the overcharged amounts.

The invoice review process, always considered a high priority, has been further emphasized and enhanced. TCCO and MTC continue to work together to strengthen invoice related processes controls to reduce errors and promote efficiencies. TCCO management has prioritized the emphasis on training.

STATE AUDITORS OFFICE (SAO) REVIEW

The SAO performed a comprehensive forensic audit of TCCO. The audit reviewed activity between September 2023 and May 2024. Lisa R Collier, State Auditor, filed the report in July 2024. The report was distributed to the Governor’s Office and a variety of other state offices and commissions. The report, A Comprehensive Forensic Audit at the Texas Civil Commitment Office, was filed July 1, 2024 as report # 24-017.

The audit scope was broad, including the following: The scope of this audit included financial transactions related to services provided by contractors, office payroll expenditures, financial transactions related to services provided to TCCO clients, internal controls and TCCO’s financial monitoring.

Audit conclusion included:

- * The Office’s payments for management of the Center, treatment services, and on-site medical services were accurate and allowable.
- * TCCO accurately paid for allowable off-site medical services.
- * The Office had a robust process for assessing sanctions; however, it should update its formulas to consistently assess the correct sanction amount.
- * GPS monitoring and biennial examination service expenditures were properly approved and accurate
- * TCCO accurately paid the Office’s administrative and executive compensation.

SAO Recommendations

The SAO did make recommendations to enhance reviews and processes. TCCO management embraced the recommendations. Actions plans, with date deadline goals, were established to implement improved processes and procedures. TCCO’s implementation of process improvement is on schedule.

III. Consulting Services and Non-Audit Services Completed

No consulting services or non-audit services were performed in Fiscal Year 2024.

IV. External Quality Assurance Review

The TCCO Internal Audit function was established in Fiscal Year 2016, and an external quality assurance review was completed in Fiscal Year 2024 for the period from September 2022 to August 2023. The review was based on the standards and guidelines in the peer review manual published by the State Agency Internal Audit Forum (SAIAF). The review was managed by Christopher Cirrito (Texas Board of Criminal Justice) and supported by auditors from the Texas Department of Motor Vehicles. TCCO is grateful for Mr. Cirrito and the Texas Department of Motor Vehicles Audit Department for accepting the audit and taking the time for conduct the review. On January 17, 2024, the TCCO Internal Audit Department received a rating of “Pass/Generally Confirms” and was recognized as in compliance with IIA standards, the GOA

standards and the Texas Internal Auditing Act. This opinion is recognized as the highest of the three possible ratings.

V. Internal Audit Plan for Fiscal Year 2025

Budget – 200 Hours

The Texas Civil Commitment Office Internal Audit Plan for Fiscal Year 2025 proposes testing of physical security of electronic devices and data management practices.

Physical security of electronic devices and data management practices

Review that data management practices are established and operating effectively.

Review that electronic devices are physically secured and properly accounted for.

It is believed that TCCO Internal Audit can effectively complete the 2025 plan goals within the 200 hours allocated. If the scope of beneficial audit work increases beyond the 2025 plan and the increase would potentially exceed the 200 hour limit, a request would be presented to the Audit Committee for additional hours prior to working hours beyond the 200 hour authorization.

Review of Process Improvement

TCCO management is committed to enhance the management of the client fund process by working with the Management Training Company to incorporate a reconciliation between the client fund bank account and the total of the client balances. TCCO management will also work to add a positive confirmation (client acknowledgement) that the client received their statement and had the opportunity to question it if they believe there was a discrepancy or an unauthorized disbursement.

- **Follow Up and Required Projects**
- Fiscal Year 2025 Self-Assessment
- Fiscal Year 2025 Annual Report to State Leadership
- Fiscal Year 2025 Annual Risk Assessment
- General Administration

Identified High Risks Not Included in FY 2025 Internal Audit Plan

Risk Assessment

The Risk Assessment involved prioritizing high-risk auditable activities, with input from agency leadership to ensure that financial transactions are processed in agreement with policies and are properly authorized. In addition, reviewing asset existence and asset tracking is considered a key audit initiative.

In addition to auditing the existing controls, a review will be performed to determine if there are any control gaps that could reduce the adequacy of the control environment.

The risk assessment methodology included the following

- Senior TCCO management annually makes an assessment on how audits would best benefit the TCCO.
- Management believes that a revolving annual selection of areas to audit is important to ensure that all areas are audited from a multi-year audit perspective.
- As management believes the financial controls to be tested described above are key to the control framework, the financial controls were selected to be tested in FY 2025.
- The strength of the control in place.
- The potential impact of a control breakdown.
- The frequency and magnitude of the audit area.

VI. External Audit Services Procured in Fiscal Year 2024

No external audit services were procured in Fiscal Year 2024.

VII. Reporting Suspected Fraud and Abuse

Fraud Reporting: Article IX, Section 7.09 (a), the General Appropriations Act (87th Legislature)

This section of the Appropriations Act states:

Sec. 7.09. Fraud Reporting. A state agency or institution of higher education appropriated funds by this Act, shall use appropriated funds to assist with the detection and reporting of fraud involving state funds as follows:

- (1) Providing information on the home page of the entity's website on how to report suspected fraud, waste, and abuse involving state resources directly to the State Auditor's Office. This shall include, at a minimum, the State Auditor's Office fraud hotline information and a link to the State Auditor's Office website for fraud reporting; and

*To implement (a) of Section 7.09, the Texas Civil Commitment Office has included a link on the Texas Civil Commitment Office website to the State Auditor's Fraud Reporting hotline.

- (2) Including in the agency or institution's policies information on how to report suspected fraud involving state funds to the State Auditor's Office.

* To implement (2) of Section 7.09, the Texas Civil Commitment Office has included in Policy 1.10, Texas Civil Commitment Office Ethics Policy, section II.B, which provides instructions for employees to report any conduct he or she believes to be in violation of the ethics policy to the Executive Director or Executive Director's designee, and to report suspected fraud, waste,

or abuse involving state funds to the State Auditor's Office via phone to the State Auditor's Office Fraud Hotline 1-800-TX-AUDIT or online at <https://sao.fraud.texas.gov/ReportFraud/>.

Texas Government Code, Section 321.022

This section of the Texas Government Code states:

COORDINATION OF INVESTIGATIONS.

(a) If the administrative head of a department or entity that is subject to audit by the state auditor has reasonable cause to believe that money received from the state by the department or entity or by a client or contractor of the department or entity may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the department or entity, the administrative head shall report the reason and basis for the belief to the state auditor. The state auditor may investigate the report or may monitor any investigation conducted by the department or entity.

(b) The state auditor, in consultation with state agencies and institutions, shall prescribe the form, content, and timing of a report required by this section.

(c) All records of a communication by or to the state auditor relating to a report to the state auditor under Subsection (a) are audit working papers of the state auditor.

* To implement this statute, Policy 1.10, Texas Civil Commitment Office Ethics Policy, section II.C requires the Executive Director to report the reason and basis for any suspected misuse of state monies to the state auditor. As of the date of this report, the TCCO has not received any reports of loss, fraud, misuse, or other fraudulent or unlawful activities.