

**Materials for the
October 8, 2020
Meeting of the
State Securities Board**

STATE SECURITIES BOARD
Telephone meeting
10:00 a.m., October 8, 2020

Governor Abbott has temporarily suspended certain provisions of the Texas Open Meetings Act that require government officials and members of the public to be physically present at a specified meeting location. Pursuant to that suspension, the public will not be able to attend the Board meeting in person but may attend telephonically at no cost. To listen to the meeting, members of the public may call toll-free 1-877-226-9790 and enter access code 2050688.

The October 8th meeting of the State Securities Board will be held remotely by telephone conference call, as authorized under Texas Government Code, Section 551.125. An electronic copy of the agenda will be available at <https://www.ssb.texas.gov/about-us/agency-reports/state-securities-board-meetings>, along with a copy of the meeting materials. A recording of the meeting will be available after October 15, 2020. To obtain a recording, please contact gc@ssb.texas.gov or call 512-305-8304.

Members of the public who would like to address the Board on an agenda item must register by calling 512-305-8304 or emailing proposal@ssb.texas.gov by 9:00 a.m. on the day of the meeting and providing their full name, phone number, and identify the agenda item on which they wish to speak. You will be placed on a list and advised when it is your time to speak. All public comments at the telephonic meeting will be limited to three minutes. Members of the public may also submit written public comments to the Board via email at proposal@ssb.texas.gov.

AGENDA

1. Minutes of May 19, 2020, Board Meeting; consider excused absences, if any.
2. Review of internal audit report for FY 2020.
3. Rulemaking - Proposals:
 - A. Matching services.
 1. Repeal of §109.15, Designated Matching Services.
 2. Repeal of Form 133.35, Application for Designation of Matching Services Under §109.15.
 - B. Updates for SEC changes to definitions of accredited investor and qualified institutional buyer.

1. Amending §107.2, concerning definitions, to align the definitions relating to accredited investor and qualified institutional buyer with recent changes to those definitions by the Securities and Exchange Commission, reference the current Form D, and expand the definition of EFD System to include additional filings as permitted by Board rule.
2. Amending §109.4, concerning securities registration exemption for sales to financial institutions and certain institutional investors, §109.5, concerning dealer registration exemption for sales to financial institutions and certain institutional investors, and §109.6, concerning investment adviser registration exemption for investment advice to financial institutions and certain institutional investors, to replace detailed definitions relating to accredited investors and qualified institutional buyers with cross-references to definitions in §107.2, concerning definitions.
4. Board preapproval of a grant from the Investor Protection Trust for investor education purposes.
5. Report on budget and performance.
6. Discussion on the upcoming Legislative Session.
7. Update on Agency operations.
8. Executive session to conduct the annual performance review of the Securities Commissioner.
9. Possible action on matters discussed in Executive Session.

Persons with disabilities who plan to attend this meeting and require auxiliary aids or services should contact Sonia Fergerson at (512) 305-8306 at least five business days prior to the meeting so that appropriate arrangements can be made.

TEXAS STATE SECURITIES BOARD
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2020



TEXAS STATE SECURITIES BOARD
Austin, Texas

Annual Internal Audit Report

Fiscal Year 2020

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

We performed tests of management's assertion about the effectiveness and efficiency of the Texas State Securities Board's (SSB) internal control structure over the Records Management Area (Area) and its established policies and procedures as applicable to the Area, for the purpose of determining SSB's compliance with applicable laws and regulations provided in the Texas Government Code Chapter 441, Subchapter L; and, the Texas Administrative Code Title 13, Chapter 6, for the 9 months ended May 31, 2020.

The results of our tests disclosed that SSB's internal control structure over the Area and its established policies and procedures, were generally adequate and no material instances of noncompliance were noted; however, we did identify certain matters that are 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", which is included in page 11 of this report.

We also performed a follow-up of the findings and recommendations that were presented in the prior year annual internal audit report. This report 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.

We have discussed the comments and recommendations from the audit of the Area; and, 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.



July 24, 2020

TEXAS STATE SECURITIES BOARD

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INTRODUCTION

The Texas State Securities Board (SSB) is charged with the administration and enforcement of the Texas Securities Act (the Act). 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.

2020 Internal Audit Plan

Following is the internal audit and other functions performed, as identified in SSB's *2020 Internal Audit Plan for Fiscal Year 2020*, dated April 29, 2020 and approved by SSB's Board on May 19, 2020:

- Completion of the Fiscal Year 2020 Risk Assessment & Preparation of the Internal Audit Plan
- Records Management
- Follow-up of the Prior Year Internal Audit and Preparation of the 2020 Annual Report

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

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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.

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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 after review by SSB's Board, SSB will post the following information on its website:

- An approved fiscal year 2021 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2020 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 2020**

The approved Internal Audit Plan (Plan) included one audit to be performed during the 2020 fiscal year. The Plan also included a follow-up of the prior year internal audit recommendations, other tasks as may have been assigned by the Board, and, preparation of the Annual Internal Audit Report for fiscal year 2020.

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.

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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
Conducting Inspections ¹ Human Resources and Payroll Processing Cash Receipts/ Disbursements/ Mail Procurement/ Contract Management/ HUB/ Travel Accounting/ Financial Reporting/ Fixed Assets	Information Technology	Enforcement ¹ Processing Dealer Applications ¹² Processing Securities Applications ¹² Records Management Complaints Process

¹ Includes Performance Measures

² Includes Registration & Filing Fees

In the prior 3 years, internal audits were performed in the following areas:

Fiscal Year 2019:

- Accounting & Financial Reporting
- Follow-up of the Prior Year Internal Audits

Fiscal Year 2018:

- Processing Dealer Applications
- Follow-up of the Prior Year Internal Audits

Fiscal Year 2017:

- Enforcement Administration
- Follow-up of the Prior Year Internal Audits

The internal audit and other tasks performed for fiscal year 2020 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Records Management <i>Objective:</i> To determine whether SSB's policies and procedures and internal processes in place over the Records Management Area (Area) provide reasonable assurance of compliance with state requirements; and, whether established internal controls are operating effectively.	7/24/2020
1.	Annual Internal Audit Report – Follow-up of the Prior Year Internal Audit	7/24/2020
-	Other Tasks Assigned by the Board or Management	None

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V. Executive Summary

Records Management

Background

The Records Management Area (Area) is responsible for ensuring state records are retained in accordance with applicable laws and regulations, as outlined in Chapter 441, Subchapter L of the Texas Government Code and Title 13, Part 1, Chapter 6 of the Texas Administrative Code; SSB's established policies and procedures, and/or practices; and, its current records retention schedule (RRS) approved by the Texas State Library and Archives Commission (TSLAC).

Records Management Program

Under state law, each state agency head must establish and maintain a records management program, create and maintain adequate state records, and identify and protect confidential and vital state records.

The Securities Commissioner acts as SSB's Records Management Officer (RMO), whose legal responsibilities include:

- a) administering the agency's records management program;
- b) preparing and submitting an RRS to TSLAC for (re)certification; and,
- c) communicating to employees of the agency's policies and procedures relating to records management.

The Securities Act requires information obtained from or in connection with the inspections, investigations, and registration be considered confidential. In an effort to comply with the confidentiality of such records and to implement the records management program, each division director is responsible for (a) identifying state records for their department; (b) establishing specific departmental records management procedures, including safeguarding and disposing of records; and, (c) communicating with the RMO of any changes that may affect the records management program.

TAC §6.8 requires state agencies to establish policies and procedures to ensure state records are retained through the expiration of their respective retention period, as established in its RRS; TAC §6.93 requires state agency heads or designees to approve and institute written policies and procedures that communicate an enterprise-wide approach for the management practice of electronic state records; and, TAC §6.95 further requires vital electronic state records to be addressed in such policies and procedures. TAC §6.95 also requires that all third-party custodians of vital electronic records provide state agencies with a description of their business continuity and/or disaster recovery plans.

To ensure that all SSB employees comply with SSB's record management program, newly hired employees receive training on records management and public information as part of the new employee orientation.

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Records Retention Schedule (RRS)

SSB's current RRS was recertified by TSLAC in November 2018. In accordance with TAC §6.3(b), a state agency's RRS is generally required to be recertified by TSLAC every 5 years from the date of the last recertification. Therefore, the next recertification for SSB's RRS is November, 2023. The RMO is responsible for keeping the RRS current by submitting, to TSLAC, amendments to (a) add a record series; (b) propose an amended retention period; and/or, (c) update other information in the RRS.

Certain records in the RRS are identified with an "A" for designation as an archival record; while, others may be identified with an "R", which indicates that an agency must contact TSLAC's Archives and Information Services (ARIS) division for an archival review for historical value of such records. Records identified with an "A" must be transferred to TSLAC's ARIS division, where they are preserved until the ARIS division determines the record no longer merits further retention. Upon review of records identified with an "R", TSLAC's ARIS division will determine if the record should be archived; and, if non-archival, it will instruct the agency to destroy the record. SSB utilizes the Texas State RRS to identify records requiring archiving and a review.

Records Storage

SSB's state records are stored in the following locations:

- a) **Electronic records:** Various electronic records are retained in agency databases and a common drive where network folders have been established to manage access levels based on the users' job responsibilities. The IT personnel of the Staff Services division are responsible for the administration of the database and network servers, including user management, backup, and security. SSB is also in the process of migrating certain records from the servers to the agency's cloud storage.

Certain electronic records are maintained in servers and cloud storage, which are managed by a third-party entity. Examples are financial information, which is maintained in statewide information systems; such as, CAPPs and USAS; and, dealer/investment advisor uniform applications, maintained in the Central Registration Depository (CRD) system operated by the Financial Industry Regulatory Authority (FINRA) and used by SSB's Registration division. During fiscal year 2020, the Inspections and Compliance (I&C) division adopted the *NASAA Electronic Examinations Module (NEMO) 2.0*, a cloud-based examination tool administered by the North American Securities Administrators Association (NASAA) and utilized by various member jurisdictions. Accordingly, SSB's confidential inspection-related records are in NASAA's custody.

- b) **Physical records stored onsite:** Various records are retained in file cabinets and boxes located throughout SSB's office areas and in a locked storage room. Examples of records stored onsite include Board meeting documents, various financial reports, performance measures documentation, human resources records, legal files; and, various program-related files, which are periodically transferred to the State Records Center (SRC).

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- c) **State Records Center:** SSB periodically transfers certain physical records to the SRC where SRC staff is responsible for providing adequate security and climate control. Examples of records stored at the SRC are Inspections and Compliance Reports, Enforcement Investigation Files, and Dealers and Investment Advisors and Representatives Registration Files. Designated SSB employees, as authorized by the RMO, manage these records through *TexLinx*, the SRC's records management system. SSB also produced certain permanent records prior to 1986 on microfilms that are stored at the SRC. As of June 24, 2020, SSB maintained 2,767 boxes and 288 microfilm reels at the SRC. SSB also subscribes to TSLAC's Disaster Recovery Service, which provides offsite recovery vault storage of electronic media backups for its servers.

Records Disposition

Records listed in the certified RRS and exceeding the retention period, as reflected in the RRS, are eligible for disposition. The RMO annually reminds divisions to identify and destroy such records in their custody. A Records Disposition Log (RDL) is utilized for the disposition process to ensure proper and systematic disposition and documentation. An RDL is completed by an SSB staff member from each division, who, by entering required information into the RDL, ensures the records are listed in SSB's RRS and have exceeded the respective retention period. The RDL must be approved by the RMO, who before approving, reviews it for accuracy by comparing the entered information to the RRS, and ensures appropriate measures are taken for any record subject to archive or archival review. The RMO is also responsible for ensuring the records, as entered in the RDL, are not subject to a hold under Government Code Sec. 441.187(b), that prohibits destruction of records under certain circumstances; such as, litigation and open records requests. RDLs are not required for the final disposition of records at the SRC; however, the RMO must approve the disposition and retain SRC's confirmation letter and Disposition Certificate for 10 years, in accordance with the retention period reflected in the RRS.

During the audit period, 13 RDLs containing various record series were approved by the RMO for disposition of electronic records and physical records stored onsite. Additionally, 319 boxes of records were destroyed at the SRC on SSB's behalf.

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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 Records Management 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 for the 9-month period from September 1, 2019 through May 31, 2020 (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, virtual observation of a sample of physical and electronic records.

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

- A. Texas Government Code Chapter 441, Subchapter L. *Preservation and Management of State Records and Other Historical Resources*.
- B. Title 13 of the Texas Administrative Code Chapter 6, Subchapter A. *Records Retention Scheduling* and Subchapter C. *Standards and Procedures for Management of Electronic Records*, as compiled by the Texas State Library and Archives Commission (TSLAC) as Bulletin 3 and Bulletin 1, respectively.
- C. Texas State Records Retention Schedule, revised 4th edition; and, 5th edition effective May 10, 2020.
- D. SSB Records Retention Schedule, certification #9.
- E. SSB records management policies and procedures, to include:
 - (1) Records Retention Officer Procedures, Rev. March 2018.
 - (2) State Securities Board Continuity Plan, Annex C. Essential Records Management, June, 2018.
 - (3) Record Retention Overview (New Employee Orientation), 16-090116.
 - (4) Pages from General Counsel File Procedures, March 2002.
- F. Sample Records Disposition Log, System Access Request Form, and Employee Termination Checklist.
- G. NEMO 2.0 User Agreement dated May 29, 2020 and SaaS Solution Development, License and Hosting Agreement dated January 25, 2019.

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- H. Records Disposition Logs and correspondence with SRC for records destroyed during the audit period.
- I. Listing of boxes and microfilms stored at the SRC as of June 2020, as generated from TSLAC's TexLinx system.
- J. User listings for TexLinx and NEMO.

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

1. Reviewed and obtained an understanding of state laws and regulations, and other requirements established by TSLAC, as applicable to the Area.
2. Obtained and reviewed SSB's written policies and procedures; and conducted interviews, to obtain an understanding of controls, processes and current practices in place over the Area, and to evaluate whether such controls adequately ensure compliance with applicable requirements identified in procedure 1 above.
3. Reviewed SSB's organizational structure (RMO, designated staff, and IT) to assess whether the design is adequate in implementing the records management program.
4. Reviewed SSB's RRS and From SLR 104, *Designation of State Agency Records Management Officer (RMO)*, to verify proper and timely submission.
5. Reviewed the list of internal users for TexLinx and NEMO 2.0 to determine whether access was warranted based on job title.
6. Selected a sample of 25 records from SSB's RRS, and tested for the following attributes:
 - a. Record is available and readable/audible.
 - b. Record is retained at the security level appropriate for the record type.
 - c. If applicable, record had been transferred to TSLAC's ARIS division for archiving, or ARIS had been contacted for archival review.
7. Selected a sample of 25 records destroyed during the audit period, and tested for the following attributes:
 - a. Compliance with TAC §6.8(b) relating to final disposition of state records, to include, archival records, destruction method, and final disposition documentation.
 - b. RDL is complete and accurate.
 - c. Proper internal approval was obtained.
 - d. The record exceeded the retention period, as listed in the RRS.
8. Reviewed NEMO 2.0 user agreement and related contract to assess SSB's compliance with TAC §6.94 (a)(9), relating to third-party custodians of vital electronic records.

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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	Records Management Policies and Procedures	Medium
Observation No.	Observation	
1	NEMO 2.0 Account Management	--

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 RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
1	7/24/2020	Records Management	<p>1. Records Management Policies and Procedures</p> <p>Various rules in the Texas Administrative Code; such as the ones referenced below, require state agencies to establish and document policies and procedures (P&P) related to records management:</p> <ul style="list-style-type: none"> (a) TAC §6.93 requires state agency heads or designees to approve and institute written P&P that communicate an enterprise-wide approach for the management practice of electronic state records. (b) TAC §6.94(a)(3) requires state agencies to develop and maintain up-to-date documentation for its electronic records systems. <p>SSB has established the <i>Records Retention Officer Procedures</i> (Procedures) and uses its RRS and applicable TAC rules as P&P. Our testing of the Area indicated that, while SSB's Procedures address its records retention schedule and records disposition, they do not provide comprehensive P&P to guide agency-wide implementation of the records management program; such as, written policies and procedures related to electronic records required under TAC §6.93 and §6.94(a)(3); and, clearly defined roles and responsibilities of the various division directors and managers, IT personnel, and all other SSB employees.</p> <p>The Procedures, revised in March 2018, also include obsolete references to the <i>Records Retention Officer</i> (instead of the Records Management Officer) and a recertification interval of 3 years, which was extended to 5 years effective September 2, 2014.</p> <p>Recommendation We recommend that SSB 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>Management's Response The Staff agrees with the recommendation and has begun steps to develop records management P&P.</p>	Compliance with TAC §6.93 and §6.94

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Fiscal Impact/ Other Impact
1	7/24/2020	Records Management	<p style="text-align: center;">OBSERVATION</p> <p>1. NEMO 2.0 Account Management</p> <p>In February, 2020, SSB's Inspections and Compliance (I&C) division transitioned their examination platform to the NASAA Electronic Examinations Module (NEMO) 2.0, a cloud-based examination tool developed and hosted by a vendor contracted by the North American Securities Administrators Association (NASAA). As a result, SSB's confidential examination records now reside in a third-party cloud storage.</p> <p>SSB's Staff Services division generally centrally manages user accounts, including access to third-party applications. However, NEMO 2.0 user accounts are currently managed solely by the user division, whose Director or an Assistant Director may directly request the vendor to add, modify, and/or remove user accounts to reflect staff changes, without formally documenting approval and completion of account changes.</p> <p>Recommendation We recommend that SSB strengthen its internal controls over NEMO 2.0 user accounts by:</p> <ul style="list-style-type: none"> (a) Requiring the I&C 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, (b) Having the Staff Services division manage the access rights to NEMO 2.0, consistent with account management for other third-party applications. <p>Management's Response The Staff agrees with the observation and has begun steps to strengthen NEMO 2.0 controls by implementing both recommendations.</p>	To prevent unauthorized access to state records.

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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
1	7/24/2020	2020 Follow-Up	<p>Follow-Up of the Prior Year Internal Audit</p> <p>Following is the status of the recommendations made during fiscal year 2019 that had not been fully implemented.</p> <p><u>Accounting & Financial Reporting (Report date 7/26/2019)</u></p> <p>1. Staff Services Division Procedures Manual</p> <p>SSB should review and revise the Manual, as considered necessary, to provide employees with established procedures that can be consistently applied. This will also be beneficial in the event personnel with institutional knowledge depart employment from SSB.</p> <p style="text-align: center;">OBSERVATIONS</p> <p>1. Revenue Reconciliation & Checklist Review & Approval Process</p> <p>SSB, dependent on their plan for the vacant position, should determine the proper course of action required to address this issue.</p> <p>2. Refunds</p> <p>SSB should include the refund amounts in the monthly revenue report to provide the Audit Committee with a more accurate accounting of revenue collections.</p>	<p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p>

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VII. External Audit Services Procured in Fiscal Year

SSB procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2020. 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.

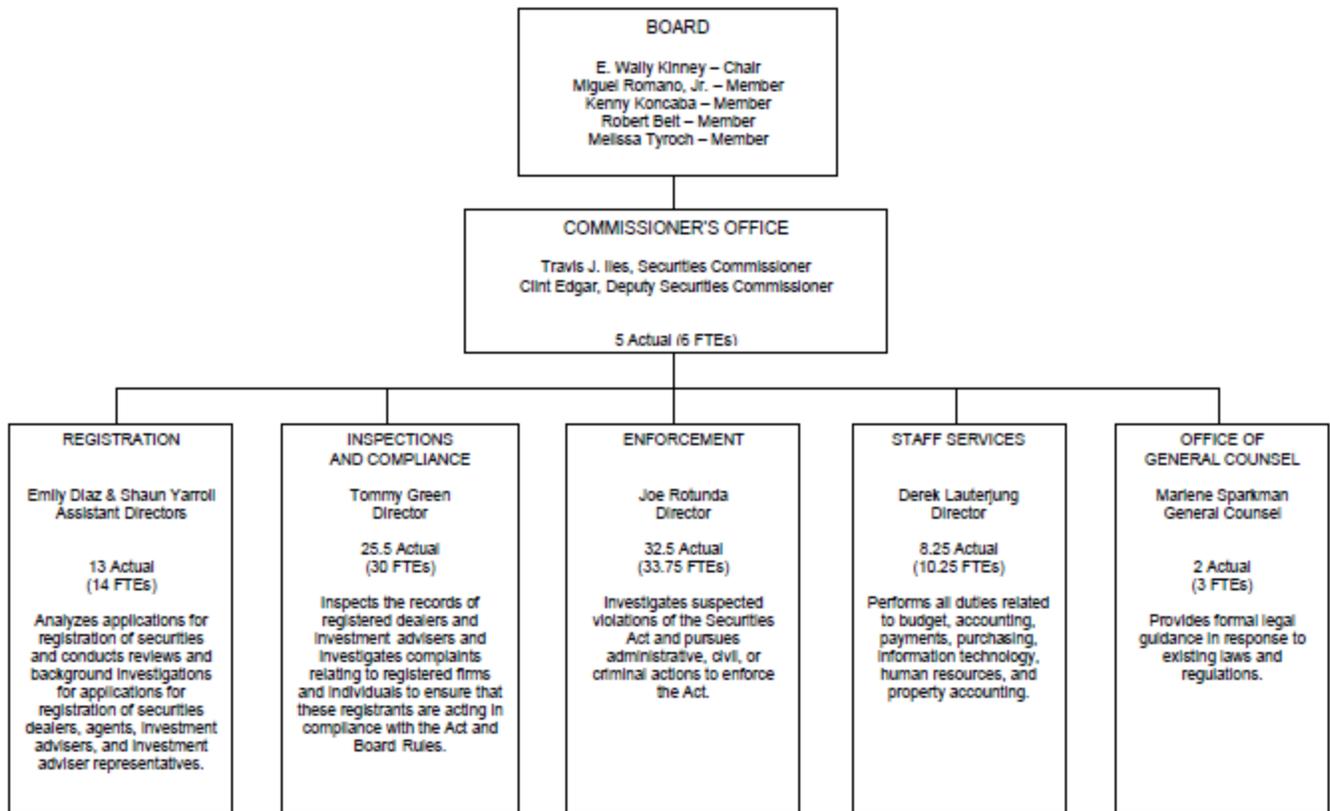
IX. Proposed Internal Audit Plan for Fiscal Year 2021

The risk assessment performed during the 2020 fiscal year was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2021. The Internal Audit Plan for Fiscal Year 2021 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.

- Procurement/ Contract Management/ HUB/ Travel
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Board

TEXAS STATE SECURITIES BOARD
 Annual Internal Audit Report
 Fiscal Year 2020

X. Organizational Chart



Source: SSB