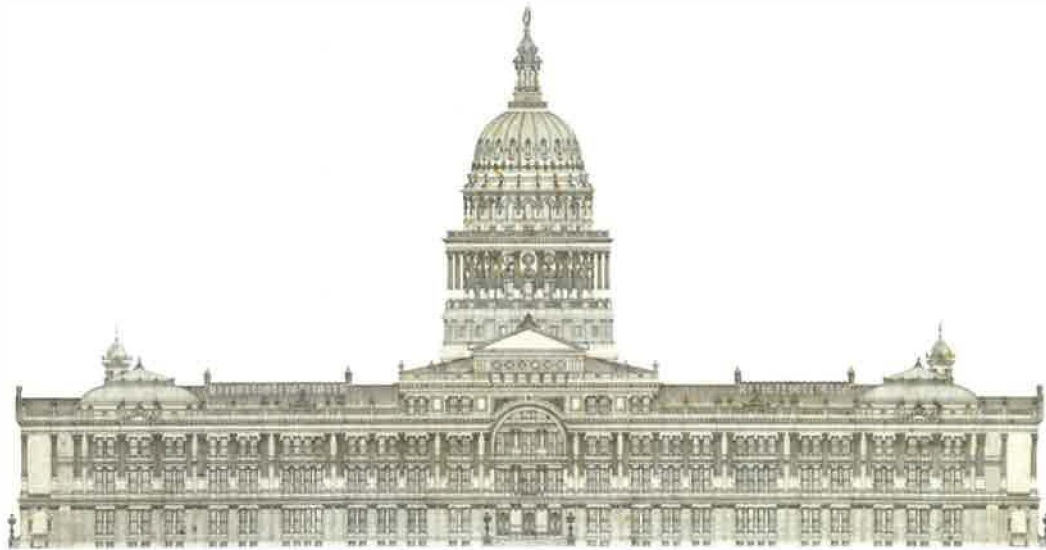


State Preservation Board



Annual Report of Internal Audit Activities Fiscal Year 2021

The Honorable Greg Abbott
The Honorable Dan Patrick
The Honorable Dade Phelan
The Honorable Charles Schwertner
The Honorable Will Metcalf
Alethea Swann Bugg, Citizen Board Member
Rod Welsh, Executive Director

September 24, 2021



STATE PRESERVATION BOARD

The Honorable Greg Abbott, Governor, Chairman
The Honorable Dan Patrick, Lieutenant Governor, Co-Vice Chairman
The Honorable Dade Phelan, Speaker of the House, Co-Vice Chairman
The Honorable Charles Schwertner, Texas Senate
The Honorable Will Metcalf, Texas House of Representatives
Alethea Swann Bugg, Citizen Board Member
Rod Welsh, Executive Director

September 24, 2021

Sarah Hicks, Governor's Office - Budget and Policy Division
Christopher Mattsson, Legislative Budget Board
Internal Audit Coordinator, State Auditor's Office

Ladies and Gentlemen:

I am pleased to submit the Annual Report of Internal Audit Activities for the State Preservation Board for Fiscal Year 2021 in compliance with the requirements of the Texas Internal Auditing Act, Texas Government Code, Chapter 2102, and in accordance with the requirements established by the State Auditor.

I appreciate the opportunity to provide you with this information. If you have any questions or need further information, please contact me at (512) 475-4975.

Sincerely,

Dale Hernandez, CIA, CGAP
Internal Auditor

cc: The Honorable Greg Abbott, Governor, Chairman
The Honorable Dan Patrick, Lieutenant Governor, Co-Vice Chairman
The Honorable Dade Phelan, Speaker of the House, Co-Vice Chairman
The Honorable Charles Schwertner, Texas Senate
The Honorable Will Metcalf, Texas House of Representatives
Alethea Swann Bugg, Citizen Board Member
Rod Welsh, Executive Director

Purpose

The purpose of this annual report is to provide information on the benefits and effectiveness of the internal audit function at the State Preservation Board (SPB), and to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the annual report assists oversight agencies in their work planning and coordinating efforts.

The Texas Internal Auditing Act, Texas Government Code, Chapter 2102, Sec. 2102.009 requires that an annual report on internal audit activity be filed by November 1 of each year. The format used for this report was prescribed by the Texas State Auditor's Office.

Report Distribution:

- The Governor's Office
- The State Auditor's Office
- The Legislative Budget Board
- SPB Board Members
- SPB Executive Director

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I. Compliance with Texas Government Code, Section 2102.015: Posting the Internal Audit Plan, Internal Audit Annual Report, and Other Audit Information on Internet Website

In order to comply with the provisions of Texas Government Code, Section 2102.015, the SPB Internal Auditor will, within 30 days of approval, post the following information on the Agency's Internet website:

- An approved FY 2022 Audit Plan, as provided by Texas Government Code, Section 2102.008. The Executive Director approved the FY 2022 Audit Plan and the Board will discuss the Audit Plan at the next Board meeting. The date for this meeting has not been determined. The finalized FY 2022 Audit Plan will be posted on the Agency's Internet website within 30 days of Board approval.
- A FY 2021 Internal Audit Annual Report, as required by Texas Government Code, Section 2102.009.
- The SPB Internal Auditor retains the right to refrain from posting information contained in the internal audit plan or the annual report that is exempt from public disclosure under Chapter 552 of the Texas Government Code.
- A "detailed summary of the weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit" 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" are included in Section II, Internal Audit Plan for FY 2021.

II. Internal Audit Plan for Fiscal Year 2021

This section of the report contains the FY 2021 Internal Audit Plan.

The FY 2021 Audit Plan included closeout of FY 2020 projects and contract monitoring. During FY 2021, Internal Audit completed all projects on the Audit Plan.

Review projects consisted of cash counts at the gift shops, physical counts of concession items at the TSHM IMAX concession area and observation of the end of the year physical count at various SPB Retail locations. In addition, Internal Audit reviewed Retail price adjustments and returns, and TSHM concessions returns.

The Internal Auditor also attended meetings of the State Agency Internal Audit Forum (SAIAF). Hours were included on the 2021 Audit Plan for these activities.

**STATE PRESERVATION BOARD
FISCAL YEAR 2021 INTERNAL AUDIT PLAN**
For the Period September 2020 – August 2021

	<u>Initial Allocated Hours</u>
<u>Internal Audit Assurance and Consulting/Advisory Activities</u>	
1. Closeout of Fiscal Year 2020 Projects.....	300
2. Contract Monitoring Process	400
3. Review Project: Retail Functions Including Price Adjustments and Returns	180
4. Review Project: TSHM Concessions.....	80
5. Reserved for Special Requests.....	306
<i>SUBTOTAL</i>	<i>1,266</i>
<u>Auditing Standards and Statutorily Required Internal Audit Activities</u>	
6. Continuing Professional Education.....	40
7. Internal Audit Annual Report	80
8. Peer Review Coordination/SAIAF Activities	80
9. Annual Risk Assessment Process for 2022.....	160
<i>SUBTOTAL</i>	<i>360</i>
<u>Administrative Internal Audit Activities</u>	
10. Administration of the Internal Audit Function	120
<i>SUBTOTAL</i>	<i>120</i>
 Fiscal Year 2021 TOTAL BUDGETED HOURS	 1,746

**AUDIT STAFF/
RESOURCES
AVAILABLE**

For FY 2021, there were 1,746 available hours calculated for audits, follow up reviews, external audit coordination, and special projects, including consulting and advisory services. Additional consideration was given for indirect hours such as holidays, vacation, sick leave, and general administration.

**RISK ASSESSMENT
PROCESS FOR
FY 2021**

The FY 2021 Internal Audit Plan was developed from the results of a risk assessment performed on the auditable units of the SPB. Auditable units are key activities and processes performed by the agency and were determined by reviewing the agency's Strategic Plan, financial information, organization charts, applicable governing statutes and rules, and by interviewing key personnel.

Internal Audit developed and evaluated the results of the risk assessment matrix, calculated internal audit resource hours available for FY 2021, and developed the FY 2021 Internal Audit Plan, which included input from the Executive Director. Internal Audit also determined that on-going review and special projects would provide efficient use of resources for risk coverage in conjunction with traditional audits.

**DEVIATIONS FROM
THE FISCAL YEAR
2021 AUDIT PLAN**

There were no deviations from the FY 2021 Audit Plan. The Contract Monitoring project included a Follow-Up of Capitol Complex Parking Meters and a contract review due to significant changes in parking meters since the original audit. This project was substantially completed during FY 2021 but the report review and release occurred in early FY 2022.

**COMPLIANCE WITH
CONTRACT
PROCESS AND
CONTROLS FOR
MONITORING
AGENCY
CONTRACTS**

During FY 2021, the Internal Auditor included a review of the IPS Group contract.

SPECIAL PROJECTS

Review and Update of Internal Audit Policies and Procedures

Review and Update of Internal Audit Quality Assurance and Improvement Program

**MANAGEMENT
REQUESTS**

Management and staff requested assistance or advice from the Internal Auditor on various agency issues such as internal controls and procedures. The Internal Auditor provided agency employees with guidance and resources.

**CONTINUING
EDUCATION AND
PROFESSIONAL
DEVELOPMENT**

The Internal Auditor attended training throughout the year to comply with the requirements set forth in the *Government Auditing Standards*, 2018 Revision, Sections 4.16 - 4.24, as applicable.

State Agency Internal Audit Forum (SAIAF): Internal Audit attended SAIAF meetings. This provided an opportunity to share ideas, experiences, and approaches with other internal auditors and promote the effective and efficient use of state agency internal audit resources.

The Internal Auditor attended meetings of the Austin Area Chapter of the Association of Certified Fraud Examiners. This provided an opportunity to remain current on topics in the fraud, government accounting, and audit professions and network with other professionals.

List of Audits Completed & Summary of Issues and Actions Taken

Report No.	Report Date	Report Title	Findings	Recommendations	Status of Recommendations <ul style="list-style-type: none"> • Fully Implemented • Substantially Implemented • Incomplete/Ongoing • Not Implemented
21-201	N/A	Cash Counts	Reviewed safe counts and deposit information throughout the year and was part of any discrepancy discussions. This was a review project with no findings. No report was issued.	No issues noted.	N/A
21-202	N/A	Inventory and Ornament Counts	Completed. Reviewed the end of year physical count at all four retail locations. This was a review project. No report was issued.	No issues noted.	N/A
21-203	N/A	Various Management Requests	Completed. Management brought several issues to the Internal Auditor during FY 2021, and these issues were resolved or further research was performed. A report was not issued.	Not Applicable	N/A
21-204	N/A	Review of the Retail Function Including Voids and Returns	Completed. The Internal Auditor provided information to the Director of Retail quarterly and at the end of the fiscal year. This was a review project with no findings. No report was issued.	No issues noted.	N/A
21-205	N/A	Review of TSHM Concessions	Completed. Reviewed multiple concessions inventory cycle counts and reviewed the end of year physical count. This was a review project with no findings. No report was issued.	No issues noted.	N/A
21-405	Pending Approval by the Board. Approved by Executive Director.	Fiscal Year 2022 Internal Audit Plan	Completed. Annual Risk Assessment and Internal Audit Plan development for FY 2022. The Executive Director approved the FY 2022 Audit Plan and the Board will discuss the FY 2022 Audit Plan at an upcoming Board meeting. The date for this meeting has not been determined.	Not Applicable	N/A

FY 2021 SPB Internal Audit Annual Report

Report No.	Report Date	Report Title	Findings	Recommendations	Status of Recommendations <ul style="list-style-type: none"> • Fully Implemented • Substantially Implemented • Incomplete/Ongoing • Not Implemented
21-103	9/23/21	Capitol Complex Parking	Substantially Completed. The report was issued at the beginning of FY 2022. All of the recommendations from the prior audit have been implemented. In addition, based on the results of our review and testing, controls provide reasonable assurance that assets are safeguarded and the contract monitoring process ensures compliance with contract terms and conditions.	<ol style="list-style-type: none"> 1. Management should add the option of accepting credit cards for meter reservation payments. 2. Management should define the roles and responsibilities for each person involved in the meter reservation process. 	<ol style="list-style-type: none"> 1. Fully Implemented. 2. Fully Implemented

List of Audits in Progress or Incomplete

Project No.	Project Title	High-level Audit Objective(s)	Project Status	Project Budget (Hours)
21-103	Capitol Complex Parking	To ensure internal controls are operating as intended and assets are safeguarded. In addition, to determine whether the contract monitoring process over the IPS Group, Inc. contract ensures compliance with contract terms and conditions, and the SPB received the goods and services intended. Also, to determine if the recommendations from the previous parking meter audit (Project No. 15-102) have been implemented.	The project was substantially completed during FY 2021. Report review and release occurred at the beginning of FY 2022.	400

III. Consulting Services and Non-audit Services Completed

During FY 2021, Internal Audit did not participate in any consulting engagements, as defined in *The International Standards for the Professional Practice of Internal Auditing* or provide any non-audit services as defined in the *Government Auditing Standards*, 2018 Revision, Sections 3.64 - 3.106, as applicable.

IV. External Quality Assurance Review (Peer Review)

REVIEW RESULTS

The SPB Internal Audit function's External Quality Assurance Review was begun during Fiscal Year 2021 and completed in September 2021. The Texas State Preservation Board Internal Audit Department received a rating of **Pass/Generally Conforms**.

According to the International Standards for the Professional Practice of Internal Auditing (Standards) promulgated by the Institute of Internal Auditors (IIA), an external assessment should be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization (Standards 1312).

According to generally accepted government auditing standards (GAGAS) promulgated by the U.S. Government Accountability Office (GAO), audit organizations should have an external quality control review completed within three years from the date the first audit begins in accordance with these standards (*Government Auditing Standards*, 2011 Revision, Sections 3.96 - 3.97, or *Government Auditing Standards*, 2018 Revision, Sections 5.60 and 5.84, as applicable.) After the issuance of the review, a subsequent external quality control review should occur once every three years.

The next review is due September 2024.

9/7/2021

Dale Hernandez
Director of Internal Audit
Texas State Preservation Board

Dear Ms. Hernandez:


We have completed the peer review of the Texas State Preservation Board Internal Audit Department for the period 5/1/2018-5/31/2021. In conducting our review, we followed the standards and guidelines contained in the Peer Review Manual published by the State Agency Internal Audit Forum (SAIAF).

The Institute of Internal Auditors (IIA) *International Standards for the Professional Practices of Internal Auditing and Code of Ethics*, U.S. Government Accountability Office (GAO) *Government Auditing Standards*, and the Texas Internal Auditing Act (Texas Government Code, Chapter 2102) require that internal audit functions obtain external quality assurance reviews (peer reviews) to assess compliance with standards and with the Act and to appraise the quality of their operations.

We reviewed the internal quality control system and conducted tests to determine if the internal quality control system operated to provide reasonable assurance of conformance with the IIA *Standards*, the GAO *Standards*, and the Texas Internal Auditing Act. Due to variances in individual performance and judgment, conformance does not imply adherence to standards in every case but does imply adherence in most situations. Based on the information received and evaluated during this external quality assurance review, it is our opinion that the Texas State Preservation Board Internal Audit Department receives a rating of **Pass/Generally Conforms**.

"Pass/Generally Conforms" means that the audit organization's system of quality control has been suitably designed and complied with to provide the audit organization with reasonable assurance of performing and reporting in conformity in all material respects with applicable professional standards (International Standards for the Professional Practices of Internal Auditing and Code of Ethics, U.S. Government Accountability Office Government Auditing Standards, and the Texas Internal Auditing Act). There may be opportunities for improvement, but these should not present situations where the audit organization has not implemented the professional standards and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation or most successful practice, etc. "Pass/Generally Conforms" is the highest of three possible ratings that can be achieved.

We have provided comments in a separate communication to management. The Texas State Preservation Board Internal Audit Department has reviewed the results of the work performed by the peer review team and accepted them to be an accurate representation of operations. To the extent it is lawful, the Texas State Preservation Board Internal Audit Department agrees to hold SAIAF and its officers and representatives harmless of any liability arising from the actions of the peer review team or issues resulting from the peer review.



Sonya Etheridge, CPA
Director of Internal Audit
Texas Facilities Commission

V. Internal Audit Plan for Fiscal Year 2022

INTRODUCTION

The purpose of the Internal Audit Plan is to identify audits and other activities that will be conducted during FY 2022. The Internal Audit Plan is developed using risk assessment techniques and methodology. The audit plan satisfies responsibilities established by Government Code, Chapter 2102, and applicable auditing standards.

The Audit Plan is flexible to consider risks and changes in conditions on an ongoing and as needed basis.

The Executive Director approved the FY 2022 Audit Plan and the Board will discuss the Audit Plan at the next Board meeting. The date for this meeting has not been determined.

MISSION

The Internal Audit division is committed to supporting management and the Board in achieving their goals and objectives through competent and efficient auditing and consulting/advisory services. Internal Audit will accomplish this mission by providing independent analysis, appraisals, and recommendations to strengthen agency operations and controls.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

In addition to providing auditing services, Internal Audit coordinates with external auditors and provides consulting and advisory services as appropriate.

Internal Audit conducts its activities in compliance with the SPB Internal Audit Charter, the Texas Internal Auditing Act, and applicable Internal Audit Standards as outlined in the Internal Audit Charter.

INTERNAL AUDIT CHARTER

The Internal Audit Charter provides authorization to the Internal Auditor for full, free, unrestricted access to all SPB activities, records, property, and personnel relevant to the subject under review. The Internal Auditor exercises due diligence in the safeguarding and use of these resources.

**AUDIT STAFF/
RESOURCES
AVAILABLE**

SPB staffs the Internal Audit function with one full-time equivalent. The Internal Auditor is the Chief Audit Executive and reports directly to the Board and administratively to the Executive Director.

For FY 2022, there were 1,738 available hours calculated for audits, follow up reviews, external audit coordination, and special projects, including consulting and advisory services. Additional consideration was given for indirect hours such as holidays, vacation, sick leave, and general administration.

**PROJECTS
RELATED TO
EXPENDITURE
TRANSFERS,
CAPITAL
BUDGET
CONTROLS, OR
OTHER
LIMITATIONS**

The SPB FY 2022 Audit Plan does not include any projects related to expenditure transfers, capital budget controls, or any other limitation or restriction in the General Appropriations Act. These types of projects will be considered during the risk assessment process and when developing future audit plans.

**PROJECTS
RELATED TO
CONTRACT
MANAGEMENT
AND OTHER
REQUIREMENTS
OF SENATE BILL
20 (84TH
LEGISLATURE)**

The SPB FY 2022 Audit Plan includes a review of the contract monitoring process. Additional contract management projects will be considered during the risk assessment process and when developing future audit plans.

**ADDITIONAL
"HIGH" RISKS
NOT INCLUDED
IN THE FY 2022
INTERNAL
AUDIT PLAN**

Several key processes ranked as high-risk during the risk assessment due to their impact to the agency's mission, and the high level of cash transactions and inventory and the corresponding opportunities for fraud. These ten areas scored over 275 out of a possible 400 during the risk assessment process. An explanation of audit coverage or exclusion of these areas is discussed below.

Operate Gift Shops: Coverage of this high-risk area is incorporated into the FY 2022 Audit Plan as cash, inventory and ornament counts and review of various Retail functions. A major project is not planned during FY 2022, but regular oversight functions will be performed throughout the year.

Operate the Texas State History Museum: A follow-up of Cash Handling at the TSHM was completed in FY 2020. The Internal Auditor performed

three audits at the Museum during FY 2012. In addition, the State Auditor performed an audit at the Museum during FY 2012. A follow-up of Internal Audit's Museum Concessions audit was performed in FY 2013. A follow-up of the TSHM Parking Garage was performed during FY 2014. An audit of TSHM Cash Handling was performed during FY 2015. A follow-up of Special Events and Facility Rental was performed during FY 2017. In addition, oversight and review will be performed through periodic cycle counts of concession inventory and review of concession transactions in the Point of Sale system.

Manage Point of Sale System: Coverage of this high-risk area is incorporated into the FY 2022 Audit Plan as part of the review of various Retail functions. In addition, the Internal Auditor participated in the evaluation of internal controls over the new Point of Sale system during the project planning and implementation phases.

Cash Handling: A follow-up of Cash Handling at the TSHM was completed in FY 2020.

Procurement Management: This process will be re-evaluated during the risk assessment and preparation of the FY 2023 Audit Plan.

Maintain Capitol Complex parking meters: A Capitol Complex Parking audit was completed in FY 2021. The project included a follow-up of the previous parking meters audit as well as a review of the contract with IPS Group, Inc.

Manage mail and internet order fulfillment: Coverage of this high-risk area is incorporated into the FY 2022 Audit Plan as part of the review of various Retail functions.

Manage Story of Texas Café: A review of the Story of Texas Café was performed during FY 2019. Another review will be considered during the risk assessment and preparation of the FY 2023 Audit Plan and after the new contractor is established.

Operate Capitol Visitors Parking Garage: A Capitol Complex Parking audit was completed in FY 2021. A review of the Visitors Parking Garage will be considered during the risk assessment and preparation of the FY 2023 Audit Plan.

Approve all changes involving construction, restoration and repairs in the Capitol, Capitol Extension, and General Land Office building and grounds: These areas will be considered during future risk assessments and Audit Plan development.

The Texas Internal Auditing Act requires state agencies to conduct a program of internal auditing that includes an annual audit plan prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year. Additionally, the program should include periodic audits of the agency's major systems and controls, including:

- (1) accounting systems and controls;
- (2) administrative systems and controls; and
- (3) electronic data processing systems and controls.

Per the Texas Internal Auditing Act, an audit can be a financial audit, a compliance audit, an economy and efficiency audit, an effectiveness audit, or an investigation.

The FY 2022 Internal Audit Plan was developed from the results of a risk assessment performed on the auditable units of the SPB. Auditable units are key activities and processes performed by the agency and were determined by reviewing the agency's Strategic Plan, financial information, organization charts, applicable governing statutes and rules, previous internal audit risk assessments and plans, and by interviewing key personnel.

Internal Audit performed the risk assessment using five risk factors: (1) Impact to the Agency's Mission; (2) Control Environment; (3) Opportunity for Fraud; (4) External and Internal Interest; and (5) Impact on Net Revenue. Risks associated with contract management and any applicable information technology risks related to Title 1, Texas Administrative Code, Chapter 202, Information Security Standards were considered when evaluating the risk factors Control Environment and Opportunity for Fraud.

Internal Audit applied the five risk factors to each auditable unit. These risk factors were weighted and Internal Audit evaluated the results of the risk assessment matrix, calculated Internal Audit resource hours available for FY 2022, and developed the FY 2022 Internal Audit Plan, which included input from Division Directors and the Executive Director.

Internal Audit also determined that some risk coverage would be provided through on-going monitoring, follow-up reviews, and special projects, allowing for efficient use of resources.

Hours budgeted for projects are best estimates. Many unforeseeable factors can increase or decrease total hours allotted to a project.

Due to limited resource hours, Internal Audit cannot address, review, or monitor every risk. It is important that the Executive Director and the Board understand the limitations of the audit coverage and the attendant risk for areas not audited.

**STATE PRESERVATION BOARD
FISCAL YEAR 2022 INTERNAL AUDIT PLAN**
For the Period September 2021 – August 2022

	<u>Initial Allocated Hours</u>
<u>Internal Audit Assurance and Consulting/Advisory Activities</u>	
1. Closeout of Fiscal Year 2021 Projects.....	40
2. Contract Monitoring Process	600
3. Review Project: Retail Functions Including Price Adjustments and Returns	180
4. Review Project: TSHM Concessions.....	80
5. Reserved for Special Requests.....	358
<i>SUBTOTAL</i>	<i>1,258</i>
<u>Auditing Standards and Statutorily Required Internal Audit Activities</u>	
6. Continuing Professional Education.....	40
7. Internal Audit Annual Report	80
8. Peer Review Coordination/SAIAF Activities	80
9. Annual Risk Assessment Process for 2023	160
<i>SUBTOTAL</i>	<i>360</i>
<u>Administrative Internal Audit Activities</u>	
10. Administration of the Internal Audit Function	120
<i>SUBTOTAL</i>	<i>120</i>
 Fiscal Year 2022 TOTAL BUDGETED HOURS	 1,738

VI. External Audit Services Procured in Fiscal Year 2021

During Fiscal Year 2021, the following External Audit Services were procured or were ongoing.

Texas State Auditor's Office: An Audit Report on Performance Measures at the Texas State Preservation Board (Report will be finalized in early FY 2022).

VII. Reporting Suspected Fraud and Abuse

The SPB has developed several mechanisms for reporting fraud to the State Auditor's Office. These mechanisms satisfy the requirements of Section 7.09, page IX-37, the General Appropriations Act (86th Legislature), and the Texas Government Code, Section 321.022.

Fraud reporting per Section 7.09, page IX-37, the General Appropriations Act (86th Legislature).

The SPB has a link for reporting fraud, waste, and abuse to the State Auditor's Office on the Agency's website at <http://www.tspb.texas.gov>. In addition, the SPB Human Resources Policy Manual includes information regarding internal controls, fraud investigations, employee responsibilities, complaint procedures, and reporting fraud involving state funds to the State Auditor's Office. The SPB provides fraud and ethics training to all new employees and provides refresher training every two years. This training was completed during FY 2021.

Compliance with Texas Government Code, Section 321.022

The SPB has established a fraud policy that includes a fraud reporting requirement and specific management and employee roles and responsibilities.

During FY 2021, the SPB did not have any suspected fraud, waste or abuse to report to the SAO, as required by Texas Government Code, Section 321.022.