Internal Audit Annual Report for FY 2026

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 adhere to 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 2027 Internal Audit Plan was presented to the Board of the Texas Civil Commitment Office at the August 14, 2026 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 August 14, 2026.

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 Plan for Fiscal Year 2026

Audit Report on SVP Client Trust Fund Administration – FY2026-1 – August 5, 2026

The scope of this audit included the following key areas and processes:

- Account Establishment & Onboarding
- Deposits, Funding & Safeguarding
- Daily Account Management
- Disbursements
- Cost Recovery & Work Program Deductions
- Monthly Account Management
- Inquiries & Error Resolution
- Account Closure
- Abandoned / Unclaimed Property

These areas were evaluated using documentation and activities spanning the period from October 2025 to May 2026. A representative sample of items was selected to ensure coverage across all relevant activities.

Audit fieldwork was conducted between April 2026 through July 2026. The procedures performed were sufficient in scope and depth to support the conclusions presented in this report and were designed to provide reasonable assurance regarding the effectiveness of controls within the audited areas.

Account Establishment & SVP Client Onboarding Audits

Client Data Entry and Validation Audit

The objective of this audit was to assess controls over the entry of SVP client information into TCCC's data system and the validation of the clients' data within TCCO's case management system.

Internal Audit reviewed the client onboarding process, selected a sample of SVP client records, and requested evidence supporting the reconciliation of information entered into TCCC's data system.

Audit Conclusion & Recommendation:

Testing determined that TCCC does not maintain formal documentation or reconciliation logs to support reviews of the information between their data system and TCCO's case management system. While management indicated that only limited client data is transferred between systems, Internal Audit was unable to verify that reconciliation activities were consistently performed due to the lack of documented evidence.

Recommendation – TCCC management should implement and retain documentation evidencing reconciliations between their data system, and TCCO's case management system. Documentation

should include the records reviewed, reviewer, review date, and resolution of any discrepancies. Maintaining this information will strengthen oversight, provide an audit trail, and support the accuracy and completeness of client data. Management has committed to updating its policy to include a documented reconciliation process.

Client Information Interface Audit

The objective of this audit was to evaluate controls over the transfer of SVP client information from TCCC's data system to the commissary network and determine whether information was accurately and completely transmitted between systems.

Internal Audit reviewed the interface process used to electronically transfer client information from the data system to the commissary network. A sample of SVP client information entered into the data system during the audit period was selected and traced to active client accounts within the commissary network. Internal Audit also reviewed supporting documentation evidencing successful data transmissions between the systems.

Audit Conclusion & Recommendation:

Testing confirmed that all sampled client information was successfully transferred from the data system to active accounts within the commissary network. Supporting evidence demonstrated successful system transmissions, and no exceptions were identified. Based on the procedures performed, controls over the transfer of client information from the data system to the commissary network appear to be operating effectively.

Recommendation – No recommendations were noted. Management agreed with the conclusion that the process is operating effectively.

Deposits, Funding & Safeguarding Audit

The objective of this audit was to evaluate controls over the receipt, safeguarding, processing, and deposit of negotiable instruments received for SVP Client Trust Fund Accounts.

Internal Audit reviewed a sample of negotiable instruments received during the audit period to verify that receipts were logged and provided to clients, funds were deposited into client trust fund accounts within three business days of receipt, and supporting documentation agreed to the logbook, client receipts, and transactions within the commissary network.

Audit Conclusion & Recommendation:

Testing confirmed that funds were deposited into the appropriate client trust fund accounts within the required timeframe. However, several documentation discrepancies were identified between logbook, client receipts, and supporting records. Additionally, due to the remote nature of the audit, Internal Audit was unable to observe safeguarding procedures for endorsed instruments and therefore could not verify the operating effectiveness of those controls.

Recommendation – TCCC management should strengthen documentation controls by ensuring the logbook is complete, accurate, and reconciled to supporting documentation. Management should also perform periodic reviews of logbook entries and maintain evidence of those reviews. Future audits should include observation procedures, when feasible, to assess the effectiveness of physical safeguarding controls over endorsed instruments. Management agreed to update its policy to include a documented reconciliation process and periodic management review.

Daily Account Management Audits

Daily Deposit Reconciliation Audit

The objective of this audit was to evaluate controls over the reconciliation of daily deposits recorded in resident trust fund accounts to the commissary network's deposit manager prior to finalizing transaction batches.

Internal Audit reviewed the daily deposit reconciliation process and selected a sample of deposit dates for testing. Reconciliations between deposits recorded in the resident trust fund accounts and the deposit manager were reviewed, along with documentation supporting the resolution of any identified discrepancies.

Audit Conclusion & Recommendation:

Testing confirmed that deposits recorded in resident trust fund accounts agreed to the corresponding totals reflected in the deposit manager for all items tested. One timing exception was identified where funds deposited into an account were not finalized in the deposit manager until the following month; however, management identified and corrected the issue during the monthly bank reconciliation process. Based on the procedures performed, daily deposit reconciliation controls appear to be operating effectively.

Recommendation – No recommendations were noted. Although an isolated timing issue was identified, management's reconciliation procedures detected and resolved the discrepancy in a timely manner. Management agreed with the conclusion that the process is operating effectively.

Bank Deposits Audit

The objective of this audit was to evaluate controls over the preparation, review, and deposit of SVP Client Trust Fund money into the entity's bank account.

Internal Audit reviewed a sample of weekly bank deposits processed during the audit period and compared amounts recorded in the commissary network to deposit summaries, deposit slips, and corresponding bank statements. Testing also included reviewing deposits not reflected within the commissary network and evaluating supporting documentation provided by management.

Audit Conclusion & Recommendation:

Testing determined that bank deposits were generally accurate and properly deposited. Deposits recorded in the commissary system agreed to deposit documentation and bank activity, with only two minor discrepancies identified. Both differences were determined to be immaterial and did not

indicate a control deficiency. Based on the procedures performed, controls over bank deposits appear to be operating effectively.

Recommendation – No recommendations were noted. Management agreed with the conclusion that the process is operating effectively.

Returned Items and Exception Handling Audit

The objective of this audit was to evaluate controls over the identification, notification, and resolution of returned bank items and related fees.

Internal Audit reviewed the process for handling returned bank items and identified one returned check transaction during testing. Supporting documentation, including account transaction history and correspondence related to the returned item, was reviewed to determine whether the returned item was properly recorded, the deposit reversed, applicable fees charged, and the client appropriately notified.

Audit Conclusion & Recommendation:

Testing confirmed that the returned check was properly recorded in the commissary network, the original deposit was reversed, and the associated returned-item fee was charged to the client's account. However, while management indicated that clients are notified of returned items and repayment obligations and provided evidence of communication with the assigned case manager, Internal Audit was unable to verify that client notification was documented. Evidence of notification within TCCO's case management system was not reviewed.

Recommendation – TCCC management should update and formalize procedures for returned-item handling to clearly define notification responsibilities and documentation requirements. Documentation demonstrating client notification should be retained to provide an audit trail and support compliance with established procedures. Management agreed to update its policy to require documented client notification and retention of supporting records.

Disbursements Audits

SVP Client Withdrawal Requests and Check Disbursements Audit

The objective of this audit was to evaluate controls over SVP client withdrawal requests, approval and processing of disbursements, compliance with dual-signature authorization requirements, and safeguarding client checkbooks and blank check stock.

Internal Audit reviewed a sample of check disbursements processed during the audit period and traced each transaction to the corresponding withdrawal request form. Testing verified that withdrawals were properly approved, supported by appropriate documentation, matched to issued checks, and contained the required dual signatures. Group-order purchases were also recalculated to confirm the accuracy of disbursed amounts.

Audit Conclusion & Recommendation:

Testing determined that withdrawal requests were generally supported by adequate documentation, appropriately approved, and processed in accordance with established procedures. One exception was identified where a withdrawal request form could not be located; however, available information supported the validity of the transaction. Due to the remote nature of the audit, Internal Audit was unable to verify the operating effectiveness of physical controls over the safeguarding of blank check stock and client checkbooks.

Recommendation – TCCC management should ensure all withdrawal request documentation is retained in accordance with record retention requirements and available for future review. In addition, future audits should include observation procedures, when feasible, to assess the effectiveness of physical safeguarding controls over blank check stock and client checkbooks. Management agreed to strengthen withdrawal request documentation requirements and update its policy accordingly.

Commissary Sales and Refunds Audit

The objective of this audit was to evaluate controls over commissary sales transactions, including the accuracy of charges, proper recording within resident trust fund accounts, and client acknowledgment of purchases.

Internal Audit reviewed a sample of resident trust fund accounts and commissary transactions during the audit period. Transactions were traced to supporting sales slips to verify that amounts were accurately recorded, pricing was consistent with supporting documentation, and purchases were acknowledged by clients.

Audit Conclusion & Recommendation:

Testing confirmed that commissary transactions were accurately recorded, supported by appropriate documentation, and reflected correct pricing. Client acknowledgment was present for all transactions reviewed. However, three sales slips did not include the date of the client's signature. While this did not affect the validity of the transactions, it reduced the completeness of the supporting documentation. Overall, controls over commissary sales and refunds appear to be operating effectively.

Recommendation – TCCC management should remind staff to ensure all required fields on commissary sales slips, including the date of the client's signature, are completed. Complete documentation strengthens the audit trail and supports the accuracy and reliability of transaction records. Management agreed to provide refresher training to staff involved in the process.

Cost Recovery and Work Program Deductions Audit

The objective of this audit was to evaluate controls over the calculation, authorization, and remittance of cost recovery deductions from SVP client work program earnings.

Internal Audit reviewed Cost Recovery Summary reports, selected payroll periods for testing, recalculated deduction amounts and the required 25% cost recovery rate, verified remittances to TCCO, and traced deductions to signed Cost Recovery Payment Forms.

Audit Conclusion & Recommendation:

Testing confirmed that cost recovery deductions were accurately calculated, properly authorized, and remitted to TCCO as required. Minor documentation exceptions were identified, including a processing delay, an immaterial calculation variance, and a missing signature date. While these issues did not affect the accuracy of deductions or remittances, they indicate opportunities to improve documentation completeness and timeliness. Overall, the cost recovery process appears to be operating effectively.

Recommendation – TCCC management should strengthen review procedures to ensure Cost Recovery Payment Forms are complete, include all required approvals and dates, and are processed timely. Management should also continue reviewing deduction calculations prior to processing to identify and resolve discrepancies before finalization. Management agreed to provide refresher training for staff involved in the process.

Monthly Account Management Audit

The objective of this audit was to evaluate controls over the preparation, reconciliation, and review of monthly bank reconciliations.

Internal Audit reviewed monthly bank statements, reconciliation packages, and supporting documentation, and tested a sample of reconciliations to verify agreement between bank balances, reconciliation records, and the trial balance.

Audit Conclusion & Recommendation:

Testing confirmed that monthly bank reconciliations were prepared, supported by appropriate documentation, and that identified variances were investigated and resolved. However, although management stated that reconciliations are reviewed monthly, evidence of supervisory review was not consistently documented. As a result, Internal Audit could not verify the effectiveness of the reconciliation review control.

Recommendation – TCCC management should implement a formal review and sign-off process for monthly bank reconciliations, including documentation of the reviewer and review date. Maintaining evidence of supervisory review will strengthen accountability, enhance oversight, and provide support that reconciliations were independently reviewed and approved. Management agreed to update its policy to strengthen documentation requirements for reconciliation reviews.

Inquiries & Error Resolution Audit

The objective of this audit was to evaluate controls over the receipt, investigation, resolution, and escalation of SVP Client trust fund account inquiries.

Internal Audit reviewed the inquiry resolution process and requested a population of inquiries for testing. However, TCCC Accounting does not maintain a centralized tracking log or sufficient documentation of inquiry resolution activities.

Audit Conclusion & Recommendation:

As a result, Internal Audit was unable to determine the operating effectiveness of inquiry and error resolution controls. The lack of a formal tracking process and supporting documentation prevented verification that inquiries were consistently received, investigated, resolved timely, and communicated back to clients, increasing the risk of inadequate oversight.

Recommendation – TCCC management should implement a centralized inquiry tracking process and retain documentation supporting inquiry investigations, resolutions, and client communications. Strengthening documentation and monitoring practices will improve accountability, oversight, and auditability. Management agreed to enhance documentation requirements related to account inquiries.

Account Closure Audit

The objective of this audit was to evaluate controls over the closure of SVP Client trust fund accounts, including authorization of account closures, account inactivation within the commissary network, processing of final disbursements, and management review of closed accounts.

Internal Audit reviewed a sample of account closures during the audit period, including supporting documentation for closure events, account inactivation, final disbursements, and management oversight. Testing also included recalculating final disbursement amounts and reviewing supporting documentation for final checks issued.

Audit Conclusion & Recommendation:

Testing confirmed that account closures were generally supported by appropriate documentation and that accounts were properly inactivated within the commissary network. However, two exceptions were identified. Internal Audit was unable to verify one final disbursement because the check had not cleared the bank and copies of draft checks are not retained. In addition, final disbursement checks were not formally approved by the Finance Manager as required by documented procedures. While these exceptions did not indicate improper account closures, they limited management's ability to demonstrate review and authorization of final disbursements.

Recommendation – TCCC management should strengthen account closure procedures by retaining documentation supporting final disbursements and implementing a documented review and approval process for final disbursement checks. Management agreed to update its policy and documentation requirements related to account closures and disbursements.

Abandoned / Unclaimed Property Audit

The objective of this audit was to evaluate controls over the identification, tracking, and remittance of abandoned SVP Client trust fund balances to the State of Texas, including compliance with applicable unclaimed property requirements.

Internal Audit reviewed the log of unclaimed resident funds, tested a sample of abandoned and unclaimed balances, and evaluated supporting documentation for due diligence efforts, eligibility determinations, and remittances to the State of Texas.

Audit Conclusion & Recommendation:

Testing confirmed that TCCC maintained and remitted $8,182.42 of unclaimed resident funds to the State of Texas on May 1, 2026. However, multiple resident balances associated with death dates from May 2019 through December 2023 appeared to have exceeded the typical dormancy period before remittance. As a result, controls were not operating effectively to ensure unclaimed funds were consistently identified, monitored, and processed in a timely manner.

Recommendation – TCCC management should implement a formal process for monitoring unclaimed funds, including periodic reviews of dormant accounts, aging reports, documented due diligence efforts, and management oversight of balances approaching dormancy thresholds. Management agreed to update its policy to strengthen tracking, documentation, and monitoring requirements for unclaimed property.

III. Consulting Services and Other Activities

No consulting or other activities were performed in Fiscal Year 2026.

IV. External Audit Services

No external audit services were procured in Fiscal Year 2026.

V. External Quality Assurance Review (Peer Review)

No quality assurance reviews were performed in Fiscal Year 2026.

VI. Internal Audit Plan for Fiscal Year 2027

Total Budget – 300 Hours

The Texas Civil Commitment Office Internal Audit Plan for Fiscal Year 2027 includes testing the Client Contact Requirements and Client Grievance Procedures. The objective and scope of the audit work will include:

1. **Client Contact Requirements (Budget – 125 Hours)**

   Audit Objective

Determine whether TCCO Case Managers are complying with established client contact requirements and whether contact activities are adequately documented to support supervision, treatment coordination, and public safety objectives.

Audit Scope

- Review requirements governing client contacts.
- Test whether required contacts are completed and documented timely and accurately.
- Verify CSS documentation supports reported supervision activities.
- Evaluate supervisory reviews, monitoring controls, and follow-up on missed contacts.
- Assess whether documentation supports effective supervision and public safety decision-making.

2. Client Grievance Procedures (Budget – 100 Hours)

Audit Objective

Determine whether client grievances are processed, investigated, documented, and resolved in accordance with applicable policies, contractual requirements, and established timeframes.

Audit Scope

- Review grievance policies, procedures, and contractual requirements.
- Test whether grievances are documented, investigated, and resolved within established timeframes.
- Evaluate the adequacy of supporting documentation and management oversight.
- Assess processes for identifying trends, implementing corrective actions, and monitoring resolution of recurring issues.
- Review coordination between TCCO and contracted providers in the grievance process.

3. Follow Up and Required Projects (Budget – 75 Hours)

- Fiscal Year 2026 Annual Report to State Leadership
- Fiscal Year 2027 Peer Assessment
- Fiscal Year 2027 Annual Risk Assessment
- General Administration

Risk Assessment

Internal Audit worked closely with TCCO management to ensure the FY 2026 Annual Risk Assessment accurately reflects any changes in the organization's risk environment that may not have been captured in the FY 2025 Risk Assessment.

A worksheet was completed for each activity identified and judgments were made regarding the inherent risk and the impact of the threat occurring. The control processes management implemented for each of the activities were listed. Judgments were made regarding both the effectiveness of the control processes to reduce risk and the residual risk. These residual risks provided the basis for audit objectives for audits included on the proposed audit plan.

VII. Reporting Suspected Fraud and Abuse

Fraud Reporting: Article IX, Section 7.09 (a), the General Appropriations Act (89th Legislature)

This section of the Appropriations Act states:

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

(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

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

To implement (1) 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.

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 of unlawful activities.