

TEXAS DEPARTMENT OF BANKING
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2015



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Annual Internal Audit Report
Fiscal Year 2015

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and
Finance/Audit Committee Members
Texas Department of Banking
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the internal control structure over the Perpetual Care Cemeteries (PCC) and the Revenue Accounting Process (RAP) areas of the Texas Department of Banking (DOB); and, its compliance with applicable statutes, rules, and DOB's established policies and procedures, as applicable to these areas, for the 3 months ended November 30, 2014 (PCC) and 7 months ended March 31, 2015 (RAP).

The results of our tests disclosed that such controls were adequate and no material instances of noncompliance were noted. We also performed a follow-up of the findings that were presented in the prior year annual internal audit report and this report reflects the implementation status of those matters; and, includes all information required for the Annual Internal Audit Report.

We have discussed the implementation status from the follow-up performed, with various DOB personnel, and we will be pleased to discuss them in further detail, or to perform an additional study of these matters.



March 4, 2015 – Perpetual Care Cemeteries

May 15, 2015 – Revenue Accounting Process and 2015 Follow-Up

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INTRODUCTION

The Texas Department of Banking (DOB) operates under the oversight of the Texas Finance Commission, and is an agency of the State of Texas that performs functions designed to maintain a financial regulatory system for Texas that promotes a consistent banking environment, provides the public with convenient, safe, competitive banking and other legislative financial services.

DOB operates pursuant to the authority of various provisions of the Texas Finance Code, the Texas Trust Company Act, the Texas Public Information Act, Texas Government Code, Chapter 552, and the Texas Administrative Code. DOB regulates state banks, foreign bank branches, agencies, and representative offices, trust companies, prepaid funeral benefit contract sellers, perpetual care cemeteries, money service businesses, private child support enforcement agencies, and check verification entities.

The major functions of DOB are to:

- Charter, regulate, and examine all state banks, foreign bank branches, agencies, representative offices, and trust companies;
- Charter, examine and regulate trust departments of commercial banks and trust companies;
- License, regulate, and examine sellers of prepaid funeral contracts;
- License, regulate, and examine perpetual care cemeteries;
- License, regulate, and examine money services businesses;
- Register and investigate complaints of private child support enforcement agencies; and
- Register check verification entities.

DOB was granted Self-Directed, Semi Independent (SDSI) status in the 81st Legislative Session. As an SDSI agency, DOB is not required to have their budget approved by the Legislature; however, the Finance Commission is responsible for setting their spending authority or limits. DOB's entire operating funds are generated from fees assessed to the businesses it supervises and are used to fund both direct and indirect costs. General revenue funds are not used to support DOB's operations.

2015 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in DOB's approved 2015 Internal Audit Plan:

- Perpetual Care Cemeteries
- Revenue Accounting Process
- Follow-up of Prior Internal Audits
- Other Tasks

The report on the Perpetual Care Cemeteries area was issued on March 4, 2015. This report contains the results of our audit of the Revenue Accounting area, reflects the follow-up performed in the current year; and, meets the Annual Internal Audit Report requirements.

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 DOB's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes 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.

EXECUTIVE SUMMARY

BACKGROUND

Revenue Accounting Process

The Administrative Services Division (the Division) is comprised of the the following areas: (1) Financial Reporting, (2) Payroll and Human Resources, (3) Purchasing, (4) Revenue Accounting Process, (5) Travel, (6) Fixed Asset Management, and (7) Risk Management. Each of these areas are considered separate areas for internal audit purposes. This report provides the results of the internal audit of the Revenue Accounting Process area, as included in DOB's approved 2015 Internal Audit Plan.

The Revenue Accounting Process area (the Area) is comprised of the Director of Administrative Services, who reports to a Deputy Commissioner; a Chief Accountant; two Accountants; a Purchaser; an Administrative Assistant; and, an Inventory and Store Specialist. The revenue accounting processes are primarily performed by the Director of Administrative Services, Chief Accountant, one Accountant, and the Inventory and Store Specialist.

Systems

Micro Information Products (MIP) – is utilized by DOB as its accounting system and general ledger, which is used to record and report accounting activity, prepare the Annual Financial Report (AFR), and generate other internal accounting reports.

Uniform Statewide Accounting System (USAS) – is the financial system of record for the State of Texas. USAS is designed to process, record and report the financial activities of each state agency. However, various agencies utilize software such as MIP to facilitate financial accounting and reporting on a more comprehensive basis. For purposes of processing state warrants, all disbursements are processed, paid and recorded in USAS. As a function of the revenue accounting process and cash management, the Area is responsible for ensuring sufficient funds are transferred to the State Treasury and recorded in USAS to fund disbursements.

MIP USAS Systems Link (MUSL) – is an internally developed system used to facilitate recording transactions in the two systems. MUSL is the source for entering financial data into the general ledger, which is then interfaced into MIP and USAS to avoid the duplication of data into the two systems.

Quarterly Reporting

DOB was granted Self-Directed, Semi Independent (SDSI) status in the 81st Legislative Session. As an SDSI agency, DOB's budget is not required to be approved by the Legislature; however, the Finance Commission is responsible for setting DOB's spending authority or limits. The Area is responsible for compiling financial data for all of DOB's Divisions, and preparing the Quarterly Budget Analysis report that is presented to the Finance Commission on a quarterly basis. The Director of Administrative

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Services is responsible for comparing financial data to the current budget and proposing budget amendments, as considered necessary. Budget amendments are proposed only after the Director of Administrative Services along with the respective Division and/or the Deputy Commissioner have researched significant variances and determined the need for an amendment. The final Quarterly Budget Analysis report is reviewed and approved by the Director of Administrative Services and the Deputy Commissioner for presentation to the Finance Commission.

Deposits

The Area is responsible for ensuring that all revenues received are deposited within three days of receipt, in accordance with the Texas Government Code (TGC) §404.094. DOB receives revenues as follows:

- Electronic deposits, via Automated Clearing House (ACH)
- Deposits to DOB's Lockbox at the Texas Comptroller's Office
- Checks received by DOB's mailroom

Automated Clearing House (ACH) Deposits

An account has been established with the Comptroller's Treasury section to receive ACH transfers on behalf of DOB. This method allows for a more efficient means of collecting annual assessments from financial institutions. On a quarterly basis, each financial institution is notified of the exact amount of its quarterly assessment and the date the funds will be electronically withdrawn from their account. The Chief Accountant compiles a listing of the amount, bank account number, routing number, license/institution name, and the draw request date. This listing is signed by the Chief Accountant and sent to the Comptroller's Treasury section for processing. The Comptroller draws the specified amounts and deposits the funds into DOB's Texas Treasury Safekeeping Trust Company (TTSTC) account.

DOB also receives application fees, electronically, for Money Services Businesses (MSB). The Nationwide Mortgage Licensing System (NMLS) allows regulators to process and approve or deny applications. On a daily basis the NMLS is used to process application and registration fees. Receipts from the NMLS are electronically deposited, the following business day, via ACH, into DOB's TTSTC account.

DOB's Lockbox at the Texas Comptroller's Office

The public has the option to mail payments to DOB's lockbox maintained by the Comptroller's office. The Comptroller's office collects the checks daily from the lockbox and deposits them into DOB's TTSTC account. A Pre-Encoded Deposit Ticket is prepared by the Comptroller's office and is placed in an interagency envelope for pick up by DOB's Inventory & Store Specialist, along with the envelopes the checks were mailed in, the check stubs, and any additional correspondence. The packets are picked up on Tuesdays and Fridays and delivered to the Accountant, who ensures that the documents agree, support, and reconcile to the amount deposited.

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Checks Received by DOB's Mailroom

Checks that are received in DOB's mailroom, by the Inventory & Store Specialist, are logged onto the Daily Check Log, then delivered to and signed for by the Accountant. The Accountant processes the checks by preparing a deposit voucher and deposit slip. The deposits are maintained in a locked cabinet in the accounting office until they are taken for deposit to the TTSTC, by carrier, on a daily basis.

For all deposits, the Accountant uses the payment data to prepare the journal entry into MUSL. Upon review and approval of the deposit, journal entry, and supporting documentation by the Chief Accountant, the Accountant will proceed to interface the journal entry into MIP.

As of March 31, 2015 DOB received, processed and accounted for deposits, as follows:

<u>Deposit Method</u>	<u>Amount</u>
ACH	\$ 17,201,468
Lockbox	567,752
Mail	<u>1,444,045</u>
Total	<u>\$ 19,213,265</u>

Reconciliation Processes

The bank reconciliation process requires the Area ensure that funds held at the TTSTC and funds held in the State Treasury (reported as a cash balance in USAS) agree to the cash balances, as reported in MIP. A monthly reconciliation process between USAS and MIP considers revenue accrual transactions from the prior year, the subsequent receipts during the year and reconciles funds carried forward from prior years to ensure that all activity has been captured and reported in the proper periods in USAS and in MIP. At each month end and for purposes of the AFR these transactions are analyzed and adjustments recorded, where necessary, for reporting on the full accrual basis of accounting.

Types of Revenues

Rules and statues of the Texas Administrative Code (TAC), Texas Finance Code (TFC), and TGC authorize DOB to assess and collect various fees. The following table reflects the different types of revenues received by DOB and provides the percent of revenue received, by type, to total revenue received; and, the percent of budgeted revenue, by type, to the total revenue budget for fiscal year 2014.

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Revenue	Actual FY 2014	Percent to Total	Budget FY 2014	Percent to Total
<i>Bank & Trust Regulation</i>				
Assessment Fees	\$ 19,607,818	77.28%	\$ 19,376,174	79.15%
Bank Examination Fees	192,745	0.76%	225,000	0.92%
Application Processing	577,200	2.27%	197,200	0.81%
Foreign Bank Activity	936,217	3.69%	1,008,416	4.12%
Trust Examination Fees	1,279,155	5.04%	894,765	3.65%
Other Trust Fees	1,700	0.01%	5,800	0.02%
Other Revenues	35,000	0.14%	-	0.00%
Total Bank & Trust Regulation	22,629,835	89.19%	21,707,355	88.67%
<i>Non-Bank Regulation</i>				
Prepaid Funeral Contracts	1,007,923	3.97%	1,026,405	4.19%
Perpetual Care Cemeteries	633,160	2.50%	691,437	2.82%
Money Services Business	1,090,371	4.30%	1,044,359	4.27%
Total Non Bank Regulation	2,731,454	10.77%	2,762,201	11.28%
<i>Miscellaneous Revenues</i>				
Sale of Publications	2,114	0.01%	-	0.00%
Fees for Copies	5,344	0.02%	3,600	0.02%
Other Revenue	390	0.00%	-	0.00%
Interest on Local Deposits	2,937	0.01%	8,000	0.03%
Total Miscellaneous Revenues	10,785	0.04%	11,600	0.05%
Total Revenue	\$ 25,372,074	100.00%	\$ 24,481,156	100.00%

Bank & Trust Regulation Revenues (fees assessed by the Bank & Trust Division)

Bank and Foreign Bank Fees

In accordance with 7 TAC §15.2, DOB is authorized to assess Banks; to include, Foreign Banks, filing and investigation fees for specified applications and notice filings with DOB. The fees are generally due at the time of filing the application, notice or protest. DOB is also authorized by 7 TAC §3.36 – §3.38 to assess banks, foreign bank branches and foreign bank agencies an annual assessment fee. The Bank and Trust Division assesses the annual fee, which is based on the assessable assets of the bank, in quarterly installments per fiscal year.

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Trust Company Fees

In accordance with 7 TAC §21.2, DOB's is authorized to assess Trust Companies a filing and investigation fee for specified applications and notice filings with DOB. The fees are generally due at the time of filing the application, notice, or protest. In addition, 7 TAC §17.22 authorizes DOB to assess investigation fees in connection with an application; and, a regular or special examination fee. The fee is calculated at a uniform rate of \$110 per examiner hour. In addition to this rate, fees include any travel expenses incurred; such as, mileage, public transportation, food, and lodging.

Non-bank Regulation Revenues (fees assessed by the Special Audits Division)

Money Services Businesses (MSB)

In accordance with 7 TAC §33.27, DOB is authorized to assess applicants a non-refundable \$10,000 application fee to obtain a new MSB Money Transmission (MT) license or a non-refundable \$5,000 application fee to obtain a new MSB Currency Exchange (CEX) license. Should DOB deem it necessary to conduct an investigation in the application process or if the licensee is due for a required examination, the applicant or licensee must pay a non-refundable investigation/examination fee at a rate of \$75 per hour for each examiner. This rule also authorizes DOB to collect an annual assessment fee, which ranges from \$2,750 to \$21,250 for CEX license holders; and, \$3,950 to \$21,250 for MT license holders. The annual assessment fee is based on the licensee's total number of annual transactions reported in the most recent renewal application filed with DOB.

Prepaid Funeral Contracts (PFC)

In accordance with 7 TAC §25.23, DOB is authorized to assess fees for PFC permit applications and renewals. An applicant for a new PFC permit must pay a \$500 fee. To maintain a PFC permit, the permit holder must pay an annual renewal fee, which ranges from \$100 to \$3,000, based on the permit holder's outstanding PFCs reported in the most recent annual report filed with DOB. In accordance with 7 TAC §25.24, DOB is also authorized to collect an annual examination fee, which may be billed in quarterly or fewer installments each year. The examination fee ranges from \$150 to \$15,000 and is based on the number of outstanding PFC's held by the permit holder, as reflected in the most recent annual report filed with DOB. If an additional examination is required, DOB is authorized to collect additional examination fees at a rate of \$75 per hour for each examiner required to conduct the additional examination and all associated travel expenses.

Perpetual Care Cemeteries (PCC)

In accordance with 7 TAC §26.1, DOB is authorized to assess fees for certificate of authority applications to operate a PCC. A new applicant must pay a \$500 application fee; and, to maintain a certificate of authority to operate a PCC, the entity must pay an annual renewal fee, which ranges from \$50 to \$1,000. The annual renewal fee is based on the entity's fund balance reflected on the Statement of Funds in the most recent annual renewal report filed with DOB. DOB is also authorized to collect an annual examination fee, which may be billed in quarterly or fewer installments each year, and ranges from \$200 to \$7,600, based on the entity's fund balance as reflected on the Statement of Funds in the most recent annual renewal report filed with DOB. If an additional examination is required, DOB is authorized to collect additional examination fees at a rate of \$75 per hour for each examiner required to conduct the additional examination and all associated travel expenses.

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Private Child Support Enforcement Agencies

In accordance with 7 TAC §31.11, DOB is authorized to assess a non-refundable filing fee of \$500, per location, for entities seeking to register as a Private Child Support Enforcement Agency. For an agency to maintain its registration with DOB, it is required per 7 TAC §31.32, to pay an annual renewal fee of \$500.

Check Verification Entities

In accordance with 7 TAC §31.11, DOB is authorized to assess and collect a \$100 fee for the initial registration of a check verification entity and a \$100 annual renewal fee.

Audit Scope/Objective

The scope of our audit was the Revenue Accounting Process area (the Area). The objective of our audit was to gain an understanding of the Area to determine whether the applicable statutes, rules, policies, and procedures are consistently applied to all types of revenues received by DOB.

The procedures performed to achieve the objective of our audit were as follows:

1. Reviewed and obtained an understanding of the applicable rules, laws and regulations of the Texas Administrative Code, Texas Finance Code, and Texas Government Code.
2. Obtained and reviewed the Area's written policies and procedures, collected available documentation, and conducted interviews to document formal/informal processes and controls.
3. Obtained a listing of revenues reported during the period from September 1, 2014 to March 31, 2015 and randomly selected 15 deposit batches to test the following attributes:
 - a. Traced and agreed the revenue amount reported on the general ledger (MIP system) to the applicable deposit voucher, slip, receipt, copies of checks received, and other available supporting documentation.
 - b. Ensured the deposit voucher was signed by the Chief Accountant, which denotes review and approval.
 - c. For mailed deposits, ensured TTSTC stamped and dated the receipt to confirm their receipt and processing of the deposit batch.
 - d. For lockbox deposits, ensured the sum of remittance advices agreed to the applicable deposit batch total.
4. From each selected deposit batch, we selected a revenue transaction to test the following attributes:
 - a. Ensured the received check payment was processed and deposited within three days.
 - b. Ensured the fee assessed and collected was in accordance to applicable rules, laws and regulations.
 - c. Ensured the fee was properly calculated, collected, and recorded.
 - d. Ensured the fee was properly supported.

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5. Performed analytical procedures of the following comparisons to determine that reported revenues were reasonable and consistent with actual operations.
 - a. 2014 actual revenues to 2014 budgeted revenues.
 - b. 2014 actual revenues to 2013 actual revenues.
6. Obtained an understanding of the monthly revenue and bank reconciliation process and selected two monthly revenue and bank reconciliations performed in fiscal year 2015 to ensure their accuracy and completeness.
7. Selected one of the two completed Quarterly Budget Analysis reports and agreed reported revenues to the Area's general ledger.

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, within 30 days after approval by the Finance Commission, DOB will post the following information on its website:

- An approved fiscal year 2016 audit plan, as provided by Texas Government Code, Section 2012.008.
- A fiscal year 2015 internal audit annual report, as required by Texas Government Code, Section 2012.009.

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 DOB to address such concerns.

II. Internal Audit Plan for Fiscal Year 2015

The Internal Audit Plan (Plan) included 2 audits to be performed during the 2015 fiscal year. The Plan also included a follow-up of the prior year audit recommendations, other tasks as may be assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2015.

Risk Assessment

Utilizing information obtained through the inquiries and background information reviewed, 17 audit areas were identified as potential audit topics. A risk analysis utilizing our 8 risk factors was completed for each individual audit topic and then compiled to develop an overall risk assessment.

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Following are the results of the risk assessment performed for the 17 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Revenue Accounting Process	Perpetual Care Cemeteries Trust Examinations IT Examinations Purchasing Payroll & Human Resources Money Service Businesses Prepaid Funeral Guaranty Funds Bank Examinations Management Information Systems	Imaging & Records Management Financial Reporting Travel Prepaid Funeral Contracts Fixed Asset Management Risk Management Corporate Activities

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

Fiscal Year 2014:

- Money Services Businesses
- Management Information Systems

Fiscal Year 2013:

- Corporate Activities
- Prepaid Funeral Contracts

Fiscal Year 2012:

- Bank Examinations
- Prepaid Funeral Guaranty Funds

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The areas recommended for internal audits and other tasks to be performed for fiscal year 2015 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	Perpetual Care Cemeteries	3/4/2015
2.	Revenue Accounting Process	5/15/2015
2.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	5/15/2015
-	Other Tasks Assigned by the Finance Commission	None

III. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Audit Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards, December 2011 Revision*, Sections 3.33-3.58

IV. External Quality Assurance Review

The internal audit department's most recent *System Review Report*, dated October 26, 2012, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

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V. Observations/Findings and Recommendations

Report No.	Report Date	Name of Report	Findings/Recommendations	Status (Implemented, Partially Implemented, Action Delayed, No Action Taken)	Fiscal Impact/Other Impact
2	5/15/2015	2015 Follow-Up	<p>Follow Up of Prior Year Audits</p> <p>Following is the status of the recommendations made during fiscal year 2014 that had not been fully implemented.</p> <p><u>Management Information Systems</u></p> <p>Server Settings</p> <p>Implement and establish as a formal policy the practice of conducting a review of server settings; to include, those affecting user desktops and laptops, no less than semi-annually. Such a review can be performed by using third party software; such as, Microsoft's Security Compliance Manager, which scans operating system settings, and compares those settings to Microsoft recommended/best practices.</p> <p>Entity Login</p> <p>Implement a lockout feature when a login password to the DOB's web portal is entered incorrectly multiple times. The portal allows regulated entities and their agents to report and exchange data with DOB. The lockout feature would enhance online security and the safeguarding of sensitive data.</p> <p>Personal Mobile Devices</p> <p>Review the risks associated with mobile device emails and consider purchasing third party encrypted email services (e.g. Zix Corp) or implement other mitigating controls to enhance the safeguarding of DOB's emails and sensitive data.</p> <p>User Access Annual Review</p> <p>Develop a written policy/procedure to require a system access and user review be performed on an annual basis to ensure that only authorized and current employees have access to DOB's systems.</p>	<p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p>	<p>Ensure DOB server settings follow best practices.</p> <p>To follow best practices by having a lockout period for incorrect passwords.</p> <p>Ensure DOB confidential data is secure. Annual costs may apply.</p> <p>Secure the DOB system to ensure that only authorized Individuals have system access.</p>

VI. Proposed Internal Audit Plan for Fiscal Year 2016

The risk assessment performed during the 2015 fiscal year was used to identify the following *proposed* areas that are recommended for internal audits and other tasks to be performed for fiscal year 2016. The Internal Audit Plan for Fiscal Year 2016 will be developed and presented to the Finance Commission at a meeting to be determined at a later date.

- Trust Examinations
- IT Examinations
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

VII. External Audit Services Procured in Fiscal Year 2015

DOB procured the internal audit services documented in the Internal Audit Plan for fiscal year 2015.

VIII. Reporting Suspected Fraud and Abuse

DOB has provided information on their 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. DOB has also developed a Fraud Policy that provides information on how to report suspected fraud.

IX. Organizational Chart

