

TEXAS DEPARTMENT OF BANKING
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2014



TEXAS DEPARTMENT OF BANKING
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2014

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and
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 Money Services Businesses (MSB) and the Management Information Systems (MIS) 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 6 months ended February 28, 2014 (MSB) and 9 months ended May 31, 2014 (MIS).

The results of our tests disclosed that such controls were adequate and no material instances of noncompliance were noted; however, we noted certain matters, which are included in this report, that are opportunities for strengthening internal controls, and ensuring compliance with State requirements and DOB's established policies and procedures. We also performed a follow-up of the finding that was presented in the prior year annual internal audit report and this report reflects the implementation status of that matter; and, includes all information required for the Annual Internal Audit Report.

We have discussed the comments and recommendations from the MSB and MIS audits; and, the implementation status from the follow-up performed, with various DOB personnel, and we 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.



April 30, 2014 – Money Services Businesses and 2014 Follow-Up

June 30, 2014 – Management Information Systems

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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. DOB performs functions designed to maintain a financial regulatory system for Texas that promotes a consistent banking environment, and provides the public with convenient, safe, competitive banking and other stable 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 DOB's 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.

2014 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in DOB's approved 2014 Internal Audit Plan:

- Money Services Businesses (MSB)
- Management Information Systems (MIS)
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of our audits of the MSB and MIS areas, reflects the follow-up performed in the current year; and, meets the Annual Internal Audit 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 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.

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EXECUTIVE SUMMARY

BACKGROUND

Money Services Businesses

Chapter 151 of the Texas Finance Code (TFC), known as the Money Services Act, generally requires a person or business that engages in the money services business (MSB) in Texas be licensed by the Texas Department of Banking (DOB).

DOB is responsible for protecting the interests of Texas consumers who use MSBs by ensuring the overall financial condition of the MSB is sound and the MSB is properly monitoring transactions to deter money laundering, terrorist funding, or financial crimes from occurring.

Organizational Structure

The Special Audits Division (Division), managed by the Division Director, who reports to a Deputy Commissioner, is comprised of a Review Examiner, 6 Financial Examiners, and 1 Administrative Assistant.

The Division is responsible for monitoring and providing sound regulatory supervision to MSB licensees to assure compliance with applicable laws and regulations, including the federal requirements of the Bank Secrecy Act. To perform these responsibilities, the Division performs periodic examinations; calculates annual assessment fees; and, processes annual renewal applications.

The Corporate Activities Division (CAD) is responsible for processing MSB applications and issuing licenses.

Licenses

There are two types of MSB licenses: Money Transmission and Currency Exchange. A person or business that engages in the money transmission business must have a money transmission license. Money transmission includes:

- 1) issuing or selling prepaid access cards and instruments such as checks, money orders and traveler's checks;
- 2) receiving money for transmission;
- 3) providing third-party bill paying services;
- 4) transporting currency; or
- 5) currency exchange.

A person or business that only engages in currency exchange business must have a currency exchange license.

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New Applications

Applications and instructions are made available to the applicant on DOB's website. In accordance with TFC §151.303 and §151.504; and, TAC §33.13, DOB requires the applicant to submit the following items when applying for a MSB license:

- Completed application form signed by the applicant or authorized officer and notarized;
- All required search firm reports;
- Money Transmission –
 - Application fee of \$10,000;
 - Surety bond, letter of credit or deposit instead of a bond in the amount of at least \$300,000; and
 - Audited financial statements that demonstrate a minimum net worth of \$100,000 if business is to be conducted at 4 or fewer locations and \$500,000 if at 5 or more locations.
- Currency Exchange –
 - Application fee of \$5,000;
 - Surety bond, letter of credit or deposit instead of a bond in the amount of at least \$2,500; and
 - Unaudited financial statements demonstrating solvency.

Processing Applications

The CAD's Administrative Assistant is responsible for performing the initial review of the new applications to ensure the required documents and fees have been received. If any of the items are not received, the Administrative Assistant will return the application to the applicant and it will not be processed. If all items are received, the application is given to the CAD Director who will then assign it to 1 of the 4 Corporate Analysts. The Analyst will log the information into the Corporate Activities Tracking System (CATS) and document the date received. The Analyst will then utilize the internally developed checklists to ensure all the required documents have been submitted and meet the requirements set forth by the TAC and TFC.

As required by TAC §33.13(e), within 15 days, the Analyst will prepare a letter accepting the application or requesting additional information. The date the application is considered complete and accepted for filing is then entered into CATS by the Analyst. Per TAC §33.13(h), a written notification to the applicant must be made within 45 days of the application being accepted for filing indicating whether it was approved or denied.

A background investigation will then be conducted by the Analyst and the Program Specialist (PS). The background investigation consists of reviewing information; such as, credit history, fingerprint results conducted by DPS and FBI, name searches, etc.

After reviewing the application and arriving at a recommendation, the Analyst sends an internal email summary of the application, typically with a 7 day response deadline, to other Corporate Analysts, the Director of Special Audits, the Administrative Assistant, and the PS for their input and any comments.

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The Analyst will then draft a recommendation memo to the Deputy Commissioner. The draft memo, checklists, and application file is given to the PS, for a quality assurance review. The PS will sign the checklist denoting approval. The final draft of the memo is emailed to the CAD Director by the Analyst and then to the Deputy Commissioner by the CAD Director requesting her approval. All documents are submitted to the Deputy Commissioner for her review. The Deputy Commissioner denotes her approval in an email to the CAD Director and the Analyst. The Analyst will update CATS to reflect the approval and date. The CATS automatically generates a license with a unique license number and letter to send to the applicant informing them of the approval.

Temporary Licenses

Temporary licenses, which are valid for only 90 days, can be issued to people or businesses that engage in money transmissions but do not have licenses. The applicant must submit the following to receive a temporary license:

1. Certify in writing that they qualify for a license and will submit an application no later than 60 days after the temporary license is issued; and, will only engage in activities being conducted at existing locations until a permanent license is issued;
2. Submit recent financial statements that reflects the minimum required net worth;
3. Provide security that meets the required amount, not less than \$300,000; and,
4. Pay the application fee of \$2,500 for a temporary license.

Temporary license applications are basically processed in the same manner as applications for permanent licenses.

As of February 28, 2014, DOB received a total of 13 applications (2 temporary license applications); approved 10 applications (1 temporary license application); had 5 applications pending; and, 1 withdrawn.

Examinations

Periodic examinations of licensees are performed to ensure compliance with the TFC and TAC. Examinations are conducted on a 6, 12, or 18 month basis, depending on the volume of business conducted by the licensee and prior examination rating.

A notification letter and pre-examination packet, which lists the requested documents to perform the examination, are sent to the licensee 30 days prior to the scheduled examination. The on-site examination is performed by reviewing the list of items requested in the pre-examination packet and completion of the tailored examination work program to determine compliance with applicable rules and regulations. As part of the examination process, the Examiner reviews the license holder's permissible investment reports or quarterly reports for accuracy and completeness, and ensures the license holder meets the security and net worth requirements defined by the TFC.

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At the conclusion of the examination, the Examiner assigns the exam a rating, using a scale of “1” to “5”, based on the licensee’s level of compliance, as follows:

<u>Rating</u>	<u>Basis</u>
1	Sound in every respect and in substantial compliance.
2	Fundamentally sound and in substantial compliance.
3	Exhibits a combination of weakness and violations of laws and regulations may be evident and recurring.
4	Exhibits serious weakness and/or violations of laws and regulations may be recurring and cause overall condition to be unsafe and unsound.
5	Exhibits critical weaknesses and a combination of other weaknesses and/or violations of laws and regulations may be recurring and cause overall condition to be extremely unsafe and unsound.

The Examiner will proceed to write a Report of Examination (ROE) which states the findings noted, if any, during the examination. The Examiner has 8 days to complete the report upon examination completion. The Examiner sends the ROE and examination work papers to the Administrative Assistant, who records the date received in the ‘Examination Processing Log’. The Administrative Assistant is required to submit the ROE to the Review Examiner within 7 days of receipt. All examination reports are reviewed by either the Review Examiner or Director; and, those assigned a rating of 3 to 5 go through a second review, which is performed by the Deputy Commissioner. The review is documented on the ‘Examination Processing Log’. ROEs with a rating of 1 to 3 are signed by the Director; and, by the Deputy Commissioner if a rating of 4 or 5.

Licensees whose examinations are assigned a rating of 1 or 2, with no violations are generally not required to respond, unless there are other matters in the ROE that require a response. Licensees whose examinations are assigned a rating of 3 to 5 are generally required to respond to the ROE. The transmittal letter provides the requirements and due date for responses. A limited scope examination is performed within six months for licensees who’s ROE’s reflect an assigned rating of 4 and 5.

Texas participates in the Money Transmitter Regulators Association (MTRA), a non-profit organization that regulates money transmission businesses in the United States. The Division performs joint examinations with other States participating in the MTRA as either the lead or participating State. During a joint examination, the lead State is the primary point of contact and is responsible for coordinating the examination, compiling, and signing the ROE.

As of February 28, 2014, the Division has performed 11 currency exchange examinations; 15 money transmission examinations; and, 8 joint money transmission examinations.

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TFC §151.601(b)(4) states that the Commissioner may accept the examination report of another state agency, an agency of another state, the federal government; or, a report prepared by an independent accounting firm; which upon being accepted, is considered the official report of the Commissioner. DOB believes that having the ability to accept another state's ROE provides for enhanced utilization of examination resources, reduced expenses, and reduced regulatory burden to the MSB license holder. The Examiner will perform abbreviated examination procedures to ensure the ROE is accurate. As of February 28, 2014, DOB accepted 4 ROEs issued by other state agencies.

Annual Assessment Fee

The Division calculates an annual assessment fee, which ranges from \$1,950 to \$15,000, depending on the licensee's annual transactions reported in the most recent renewal application, in accordance with TAC §33.27. The Division withdraws the fee from the licensee's bank account and sends them an ACH notice 15 days prior to the date the fee is to be withdrawn.

The Division assessed and collected an estimated 70% of the fee in November, 2013, and the remaining balance will be assessed and collected towards the end of the fiscal year, as considered necessary by the Director of Special Audits. The Director of Special Audits will review the Division's expenses and compare them to the revenues collected to determine if the remaining balance will be collected. As of February 28, 2014, DOB collected \$508,002 in assessment fees.

License Renewal

Effective September 1, 2013, MSB licenses no longer expire. The license holder is required to meet the qualifications or satisfy the requirements that apply to a new applicant or the Commissioner may suspend or revoke the license. Annually, the license holder is required to:

1. Pay an annual license fee, which is currently \$1,500 for money transmission licenses and \$500 for currency exchange licenses;
2. Submit an annual report that contains:
 - a. Money transmission licenses – Audited unconsolidated financial statements;
 - b. Currency exchange licenses – Audited or unaudited financial statements; and,
 - c. Documentation and certification demonstrating the required security, net worth, and permissible investments.

Licenses were last renewed in 2013 for fiscal year 2014. The process and procedures for processing renewal application were as documented below.

To renew a license, the license holder would have to continue to possess qualifications and satisfy requirements applicable to a new applicant, which included, among other requirements:

- Money transmission – \$300,000 security; minimum net worth of \$100,000 if operating 4 or fewer locations or \$500,000 if operating 5 or more locations; and, a permissible investment ratio of 100% if net worth is under \$5 million or 50% if net worth is over \$5 million.
- Currency exchange – \$2,500 security and demonstrate solvency.

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The licensee was required to submit a completed renewal application online and fee by July 1st. The Division would send the licensee a renewal letter which would provide the licensee a unique password to renew online.

The renewal fee for money transmission and currency exchange licensees is \$1,500 and \$500, respectively. The Division withdraws the fee from the licensee's bank account and sends them an ACH notice 15 days prior to July 1st, which indicates the date and amount to be withdrawn.

Upon receipt of the renewal application and required information described above, the administrative assistant would complete a renewal checklist to ensure all required information were received and entered the applicable information into the MSB database. The checklist, application, and other required information would be sent to an examiner for review. The examiner would review the application and analyze the information submitted. The examiner would denote their approval on the checklist and forward it to either the Director or Review Examiner for review and final approval. Once approved, it would be returned to the administrative assistant to update the MSB database and the renewed license would be generated and sent to the licensee.

The 2013 – 2014 license renewals were processed during fiscal year 2013. At that time, the Division processed 128 MSB renewals and collected \$154,000 in renewal fees.

Audit Scope/Objective

The scope of our audit was the Money Services Businesses (MSB) area. The objective of our audit was to gain an understanding of the MSB area and determine if licenses were issued and examinations performed in accordance with applicable sections of the TFC and TAC; and, DOB's established policies and procedures.

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

1. Reviewed and obtained an understanding of the laws and regulations provided in Chapter 151 of the Texas Finance Code, Chapter 33 of the Texas Administrative Code, and Bank Secrecy Act requirements.
2. Obtained and reviewed the MSB area's written policies and procedures, collected available documentation, and conducted interviews to document formal/informal processes and controls.
3. Determined if significant compliance requirements of Chapter 151 of the Texas Finance Code, Chapter 33 of the Texas Administrative Code, and Bank Secrecy Act requirements were included in the examination procedures used to examine records of the MSB licensees.
4. Obtained the list of the examinations conducted between September 1, 2013 – February 28, 2014 and selected a random sample of 5 money transmission and 4 currency exchange examinations to test for the following attributes:
 - a. Examination procedures properly performed;
 - b. Completeness of workpapers and examination work program;
 - c. Workpapers supported violations cited and rating assigned in the ROE;

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- d. ROE was properly completed and reviewed in accordance with the established time frame;
 - e. ROE and transmittal letter properly signed; and
 - f. Exam responses received in accordance with the established deadline in the ROE and the Division review and acceptance of the response.
5. Obtained the list of the annual assessment fees assessed and collected and tested a sample of 9 MSBs to ensure the fee was properly calculated, collected, and recorded. In addition, performed a reconciliation of the assessment fees recorded in the MSB database to the general ledger.
6. Obtained the list of 2013 – 2014 license renewals and selected a sample of 6 renewals to test for the following attributes:
- a. Complete and signed renewal application and applicable exhibits.
 - b. Payment of renewal fee.
 - c. Complete and approved renewal checklist.
 - d. Copy of license and correspondence letter.
 - e. Support documentation agrees to the information entered into the MSB database.
 - f. Money transmission applicants:
 - Permissible investment report,
 - Audited financial statements,
 - Texas transaction volume information,
 - Security of \$300,000, and
 - Net worth of \$100,000 if operating 4 or fewer locations or \$500,000 if operating 5 or more.
 - g. Currency exchange applicants:
 - March 31 quarterly report,
 - Financial statements,
 - Location listing,
 - Texas volume information,
 - Security of \$2,500, and
 - Demonstration of solvency.
7. Obtained a list of new applications received and processed between September 1, 2013 – February 28, 2014 and randomly selected 3 currency exchange and 6 money transmission applications to test for the following attributes:
- a. Completed application signed by applicant or authorized officer, and notarized,
 - b. Application fee submitted,
 - c. Search firm reports submitted, if required,
 - d. All required documentation was submitted,
 - e. Acceptance or request for additional information letter was sent to applicant within 15 days,
 - f. Application was approved or denied within 45 days of acceptance,
 - g. Checklist was properly completed, and
 - h. Recommendation memo was properly sent to and approved by the Deputy Commissioner.

EXECUTIVE SUMMARY

BACKGROUND

Management Information Systems (MIS)

The MIS Division (Division) is comprised of a Director, who reports directly to a Deputy Commissioner, 3 Programmers, an IT Security Officer, and a System Support Specialist. The Division provides support for DOB's objectives through the development, implementation, and management of its information technology resources.

Backup Procedures

DOB's systems are backed up nightly and file images are backed up weekly, to tapes, which are then stored in a fire resistant safe until they are transferred each Tuesday and Thursday to the Texas State Library. Offsite tapes are encrypted and contain backups for email servers, file and print servers, database servers, and imaging servers. Certain databases are copied nightly to the server at the San Antonio regional office location.

Physical Security Controls

Critical hardware such as servers, routers, switches, firewalls and related software applications are housed in a locked room, within the Division, that is protected by a numbered key code entry. All servers are connected to UPS battery backup devices, which could run approximately 1 hour in the event of a power loss. A fire extinguisher is present in the room; however, no other fire suppression system exists due to cost limitations.

Passwords

Several layers of passwords are present to limit access to DOB's various systems only to authorized individuals. Boot passwords are required to logon to all desktops and laptops; a network logon, which is controlled through Windows Server Active Directory, is required to gain access to any servers/local area network; and, a logon and password are required to gain access to each program. DOB generally follows the best practices for password criteria, as recommended by the United States Government Configuration Baseline (USGCB). As such, password requirements take into account complexity, length, history, and expiration.

DOB also has a server group policy that requires each desktop/laptop to utilize password protected screensavers that activate after 15 minutes of inactivity.

Disaster Recovery Plan (Plan)

The Plan is prepared, updated, and executed by the Division, which includes the testing of server software recovery on an annual basis. The Plan provides detailed instructions on the hardware of various servers as well as instruction on the recovery of the server software and data. The following servers are included in the Plan: file and print server, active directory server, email server, database server, web servers, and regional office servers.

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The Emergency Contingency Plan, which functions as DOB's Business Continuity Plan, defines the procedures and processes to be taken for an emergency situation; and, describes the damage assessment team and their duties, and office relocation sites.

Software Development

For a program to be developed, a programming request form, signed by the requestor and their director, must be submitted by email to the Division Director. The program request form provides detailed instruction of the tasks/functions the program is expected to perform. Once developed, programmers test the program to ensure it is functioning as intended, per the program request form requirements.

If changes to an internally developed program are needed, the employee that is requesting the change will email the director assigned to the program to obtain his/her approval. Upon approval, the director will email the respective programmer to inform him of the requested change. All changes are tested by the programmer on a separate test server/environment before being placed into production.

User Access/Termination

Once the Human Resources (HR) department flags an employee for termination, the Director will be notified, by the HR department, of the termination. A termination checklist is then prepared by the HR department and signed off upon notification of termination, last day of work, and the last day of payroll. The Division is responsible for removing the terminated employee's access to email, network, application extender, and Oracle applications. The checklist is reviewed by the Director and is then filed in the employee's personnel folder within the HR department.

It is the Division's practice to review, on an annual basis, user access to each of DOB's significant systems. Each department, having first-hand knowledge of its employee's responsibilities, conducts a review of user access and reports their findings to the Division. The last review occurred 18 months ago.

Data Encryption

All desktops, laptops, and removable media devices (e.g. flash drives, portable hard drives, etc.) are encrypted using Bitlocker/Bitlocker-to-go through 256 bit Advanced Encryption Standard (AES) encryption, to prevent the recovery of sensitive data in the event such hardware is lost, stolen; or, otherwise accessed by unauthorized individuals.

Email

DOB utilizes vendor hardware/software to transmit confidential/sensitive information through email. Pre-programmed criteria are used to help identify confidential data (e.g. social security numbers, certain email domains), or the user can elect to encrypt emails.

DOB employees may also receive email on their mobile devices subject to certain policies and procedures. Access to email is controlled by the Division, who also has the capability of remotely erasing data from such devices in the event they are lost/stolen. It is the responsibility of the employee to protect and limit access to their personal mobile device; and, by DOB policy, a password is required to be set to unlock the device.

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Audit Scope/Objective

The scope of our audit was the Management Information Systems (MIS) area. The objective of our audit was to gain an understanding of the MIS area to determine whether DOB consistently applied their policies and procedures and whether information resources were adequately safeguarded.

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

1. Reviewed the controls and processes in place to ensure sensitive or confidential information is protected from unauthorized access, modification, or destruction.
2. Reviewed the controls and processes in place to manage access to information resources to ensure authorized use, such as –
 - a. Conditions in place to protect information resources assigned from DOB to another state agency, a contractor, or other third party;
 - b. Modification or removal of a user's access authorization;
 - c. Password settings (complexity, history, change interval);
 - d. Encryption requirements in place for information storage devices, data transmission, portable devices, etc.;
 - e. Best practices system settings; and,
 - f. Removal of data from disposed/obsolete computers.
3. Reconciled current network users to current DOB employees to ensure only legitimate active accounts existed.
4. Tested a sample of terminated employees to ensure user access was timely removed.
5. Reviewed processes in place that provides individual accountability for changes made to information resources systems.
6. Conducted physical observations of MIS hardware to ensure proper safeguards are in place.
7. Reviewed the controls, processes, recovery techniques, and technologies in place in the event of a loss of business functionality resulting from various events or incidents.
8. Reviewed backup processes in place to ensure adequate safeguards over DOB data.
9. Obtained a DOB issued laptop and performed a limited comparison of the configuration to the USGCB recommended settings; and, other various tests to ensure DOB resources were adequately secured against various threats.
10. Obtained Windows registries for DOB laptops and desktop computers and made various comparisons to USGCB recommended settings.
11. Reviewed procedures in place for the transmission of confidential information through website portals and email.

I. Compliance with Government Code 2102: Internal Audit

To comply with the provisions of 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 2015 audit plan, as provided by Texas Government Code, Section 2012.008.
- A fiscal year 2014 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 2014

The Internal Audit Plan (Plan) included 2 audits to be performed during the 2014 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 2014.

Risk Assessment

Utilizing information obtained through the inquiries and background information reviewed, 18 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.

Following are the results of the risk assessment performed for the 18 potential audit topics identified:

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

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

Fiscal Year 2013:

- Corporate Activities
- Prepaid Funeral Contracts

Fiscal Year 2012:

- Bank Examinations
- Prepaid Funeral Guaranty Funds

Fiscal Year 2011:

- Revenue Accounting Process
- Trust Examinations
- Financial Reporting

The areas recommended for internal audits and other tasks to be performed for fiscal year 2014 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	Money Services Businesses	4/30/2014
1.	Management Information Systems	6/30/2014
-	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	4/30/2014
-	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	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	4/30/14	Money Services Businesses	<p>1. Applications</p> <p>Our testing of 6 applications received and processed from September 1, 2013 – February 28, 2014, indicated that in 3 instances all information required to consider the application complete and to accept it for filing was not received within 61 days from receipt of the initial application, as required by §151.204 and TAC §33.13. Our testing indicated these 3 applications were considered complete 122 – 339 days after the application was received.</p> <p>Our discussions with staff indicated that it is the Division's practice to communicate with the applicant through email or by phone to assist the applicant in submitting all the required information, which may take longer than the 61 days.</p> <p>Recommendation We recommend the Division consider revising the TAC to reflect its practice or maintain documentation to support reasons for such delays.</p> <p>Management's Response In a rule proposal for the Finance Commission to consider at the June 2014 meeting, the department proposes deleting the current language in §33.13(f)(2) and all of current §33.13(f)(3), which contain deadlines for an applicant to request more time to submit information in conjunction with an application and for the commissioner to act on such requests. The department proposes amending §33.13(f)(2) to state simply that the commissioner has the discretion to grant an applicant additional time and that the commissioner will communicate his or her decision to the applicant before the expiration of the filing period.</p>	Fully Implemented	To ensure compliance with the TAC and TFC.
			<p>2. Limited Examination Policies and Procedures</p> <p>Written policies and procedures for limited MSB examinations have not been documented. The Examiners complete full scope examination work programs and follow the full scope examination procedures; however, are limited to the violations and findings noted in the previous ROE.</p> <p>Recommendation We recommend the Division consider developing written policies and procedures for limited examinations to ensure they are performed in a uniform manner by all examiners.</p> <p>Management's Response Concur with recommendation and created a new written procedure. New procedure provided to Garza/Gonzalez & Associates.</p>	Fully Implemented	To ensure policies and procedures exist for all types of examinations.

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1	6/30/14	Management Information Systems	<p>1. Server Settings</p> <p>The IT Division Policy and Procedures Manual (IT Manual) indicates that the United States Government Configuration Baseline (USGCB) is used by DOB to harden Microsoft Windows and lock down the network. A limited review performed of the Windows Server Active Directory indicated that settings meet or exceed the USGCB settings, with some exceptions that have already been reported to the MIS Division.</p> <p>Recommendation</p> <p>We recommend that DOB conduct a review of server settings; to include, those affecting user desktops and laptops, no less than semi-annually. This review can be performed by using third party software; such as, Microsoft's Security Compliance Manager, which scans operating system settings, and compare those settings to Microsoft recommended/best practices. DOB should also consider including this review in its IT Manual.</p> <p>Management's Response</p> <p>Management agrees with the recommendation and will conduct a review of the settings on a semi-annual basis with the initial review being conducted by 08/31/2014. The IT procedure manual will also be updated by the end of the calendar year to include this policy.</p> <p>2. Entity Login</p> <p>DOB provides a web portal on its website, which allows regulated entities and their agents to report and exchange data quickly. All systems require a username and password; however, controls do not appear to be in place against a brute force attack.</p> <p>Recommendation</p> <p>We recommend DOB consider implementing a lockout period for incorrectly guessed passwords to help prevent such attacks and to safeguard sensitive data.</p> <p>Management's Response</p> <p>Management agrees with the recommendation and has contacted Trademark Media, the company that wrote the application, and have requested a program update to include a lockout feature when an invalid password is entered three times.</p>		<p>Ensure DOB server settings follow best practices.</p> <p>To follow best practices by having a lockout period for incorrect passwords.</p>

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1	6/30/14	Management Information Systems	<p>3. Personal Mobile Devices</p> <p>DOB employees may connect a mobile device to DOB's email system in order to send and receive DOB related email outside the office, subject to certain requirements and limitations (e.g. password protected phone) and upon the MIS Division's approval. The MIS Division has a fail-safe procedure in place to wipe the mobile device's memory if a mobile device is reported lost/stolen. However, this fail-safe procedure is dependent upon the employee reporting the incident timely and the mobile device maintaining an active wireless/internet connection.</p> <p>Recommendation</p> <p>We recommend DOB review the risks associated with mobile device email and consider purchasing third party encrypted email services (e.g. Zix Corp).</p> <p>Management's Response</p> <p>The Department has looked at mobile device management (MDM) solutions and has determined that these systems are cost prohibited at this time. The Department will assume the risks at this time and re-assess these programs at a later date. To mitigate the risk the Department's MDM Policies/Procedures will be updated to establish a maximum 15 day sync policy and all current users must re-sign the agreement.</p> <p>4. User Access Annual Review</p> <p>It is the MIS Division's practice to perform an annual review of user access for each of DOB's significant systems. However, the last review of user access was performed 18 months ago.</p> <p>Recommendation</p> <p>We recommend DOB consider formalizing their practice by developing a written policy/procedure to require that a user access review be performed on an annual basis to ensure only authorized and current employees have access to DOB's systems.</p> <p>Management's Response</p> <p>Management agrees with the recommendation and a review of the significant systems will be conducted by the end of August 2014 and then annually thereafter. The IT procedure manual will be updated by the end of the calendar year to include this policy.</p>		<p>Ensure DOB confidential data is secure. Annual costs may apply.</p> <p>To ensure only authorized/ current employees have access to DOB's systems.</p>

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	4/30/14	2014 Follow-Up	<p>Follow Up of Prior Year Audits</p> <p>Following is the status of the recommendations made during fiscal year 2013 that had not been fully implemented.</p> <p><u>Corporate Activities</u></p> <p>Filing Documentation</p> <p>Adopt a practice of listing the location of documents that are required for a subject file which have been received but are not located in the subject file to provide the location of the document. In addition, prepare a listing of the documents received that includes the date received in order to provide a reference to the documents provided.</p>	Fully Implemented	Improve document management and compliance with the Texas Finance Code

VI. Proposed Internal Audit Plan for Fiscal Year 2015

The risk assessment performed during the 2014 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 2015. The Internal Audit Plan for Fiscal Year 2015 will be developed and presented to the Finance Commission at a meeting to be determined at a later date.

- Revenue Accounting Process
- Imaging and Records Management
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission.

VII. External Audit Services Procured in Fiscal Year 2014

DOB procured the internal audit services documented in the Internal Audit Plan for fiscal year 2014.

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

