

**TEXAS DEPARTMENT OF BANKING**  
Austin, Texas

**ANNUAL INTERNAL AUDIT REPORT**

Fiscal Year 2016



TEXAS DEPARTMENT OF BANKING  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2016

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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 Information Technology (IT) Examinations, and Imaging & Records Management areas of the Texas Department of Banking (DOB); and, its compliance with State requirements, the Texas Finance Code, and DOB's established policies and procedures, as applicable to these areas, for the 5 months ended January 31, 2016 (IT Examinations) and the 7 months ended March 31, 2016 (Imaging & Records Management).

The results of our tests disclosed that such controls were adequate and no material instances of noncompliance were noted; however, we noted certain matters that 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. This report also includes all information to meet the State of Texas Internal Audit Annual Report requirements.

We have discussed the comments and recommendations from the above audits, with various DOB personnel, and we will be pleased to discuss them in further detail, or to perform an additional study of these matters.

*Garza/Gonzalez  
& Associates*

March 30, 2016 – IT Examinations

April 26, 2016 – Imaging & Records Management

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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 Health and Safety Code; 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, and representative offices;
- Charter, regulate, and examine 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 81<sup>st</sup> 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.

### 2016 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in DOB's approved 2016 Internal Audit Plan:

- IT Examinations
- Imaging & Records Management
- Follow-up of Prior Year Internal Audits \*
- Other Tasks

\* There were no findings from prior year internal audits that required a follow-up during fiscal year 2016.

This report contains the results of our audit of the IT Examinations and the Imaging & Records Management areas; and, meets the State of Texas Internal Audit Annual 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 included the following objectives:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Policies, Procedures, Laws, Regulations, and Contracts** – Review the systems established to ensure compliance with those policies, procedures, laws, regulations, and contracts which could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

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### EXECUTIVE SUMMARY

#### **Information Technology (IT) Examinations**

##### **Background**

The Information Technology (IT) Examinations area is administered by the Bank & Trust Supervision Division of the Texas Department of Banking (DOB) and is responsible for performing IT examinations for state chartered banks, trust companies, and certain technology service providers (TSPs). DOB's IT Examinations area is comprised of a Director of IT Security Examinations (DITSE), a Chief IT Security Examiner (CITSE), and 8 IT specialists located throughout the state. As of February 26, 2016, the IT Examinations area was responsible for the examination of 250 banks, 19 trust companies, and 3 TSPs.

##### **Examination Priorities**

IT examinations are generally performed in conjunction with Safety & Soundness (S&S) examinations, which are also administered by the Bank & Trust Supervision Division. Financial institutions regulated by DOB are required to receive a Full Scope IT examination (IT examination) at the frequency of every 6, 12, or 18 months, depending on the asset size, bank composite rating, and IT examination rating. An exception to this frequency schedule is when a continuous examination is performed, which is a series of targeted examinations performed throughout a 12 month period, for large banks with an asset size of \$20 billion or greater. Another exception is that TSPs are required to have an IT examination not less than every 36 months. The responsibility for performing IT examinations is shared amongst DOB, the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve Bank (FRB). Thus, the IT examination and subsequent issuance of the Report of Examination (ROE) may be performed jointly by these agencies, or independently by either of the agencies. Agencies generally alternate the performance of the IT examination, to the extent scheduling permits.

Compliance with the established examination priorities, or the percentage of examinations performed on time, is the IT Examinations area's primary performance measure. An IT examination is considered "on time" if the onsite examination starts on or before the grace date, which is the due date plus a 30-day grace period. Of the 88 IT examinations performed with a grace date from September 1, 2015 to January 31, 2016, 86, or 98%, were performed on time. In 2 instances the IT examinations were considered late since they started 1 day after the grace date at a bank, and 2 days after the grace date at a trust company.

##### **IT Examination Process**

**Planning:** An IT examination begins with the planning phase, which is performed by the Examiner-in-Charge (EIC), who completes the planning and control procedures outlined in DOB's work program. The procedures include obtaining various IT-related information from the regulated entity's management; reviewing the Technology Profile Script (TPS) or the IT Profile (ITP) form to assess the entity's complexity risk level; and, determining the examination scope based on the evaluation of information obtained. Using the risk-based listing of core work programs as the baseline, the EIC may expand or narrow the scope by adding or waiving one or more work programs, as he/she considers appropriate; however, the CITSE must approve the scope of each IT examination prior to its commencement. Effective January 2016, DOB requires all banks it regulates to measure their inherent cyber risks and cybersecurity maturity (preparedness), which is submitted to DOB upon request. Banks may perform this function by completing the Cybersecurity Assessment Tool (CAT), which was developed by the Federal Financial Institutions Examination Council (FFIEC); or, by any other method that provides the same type of results.

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**Examination:** The IT Examinations area has, for a number of years, utilized work programs titled IT Risk Management Program (IT-RMP) to perform and document IT examinations. IT-RMP work programs were based on a framework developed by the FDIC and customized by DOB. In January 2016, the IT Examinations area implemented the use of new work programs titled Information Technology Risk Examination (InTREx), which were developed by the FDIC, the FRB, and state agencies, as a joint agency project. InTREx work program are currently undergoing a peer review process that involves feedback from the regulatory agencies, and expected to be finalized in June 2016. Upon completion of each work program (both versions), in the Summary of Findings (SOF), the IT Examiner summarizes findings as “Report Worthy” or “Not Report Worthy”. All “Report Worthy” findings are included in the Report of Examination (ROE), while “Not Report Worthy” findings are informally communicated to the financial institution.

**Report of Examination (ROE):** At the conclusion of each examination, findings, if applicable, and examination ratings are communicated to the financial institution in the ROE. IT examination results can be reported either in a stand-alone ROE or embedded within the S&S ROE. Financial institutions are required to provide a response to those findings identified as Matters Requiring Attention (MRA) in the ROE, within 45 days of the report date.

At the conclusion of an IT examination, DOB and federal agencies assign each financial institution an examination rating using the Uniform Rating System for Information Technology (URSIT). A component rating is assigned to each of the 4 components considered critical to an IT examination, which are (1) Audit; (2) Management; (3) Development and Acquisition; and, (4) Support and Delivery (AMDS). A composite rating is then derived from the overall IT examination results. The composite and component ratings are based on a scale of 1 to 5, with a rating of 1 representing the highest (best) rating and 5 being the lowest. DOB considers a bank with a composite rating of 3, 4, or 5 to be a “problem institution” that requires close monitoring. Until December 2015, only the composite rating of an IT examination was reported in the ROE. Starting January 2016, both, the component and composite ratings are included in the ROE.

**Work Paper Review:** The EIC and/or the Supervisory-Examiner-in-Charge (SEIC) are responsible for ensuring that all examination procedures and work papers have been properly completed and are available electronically. Each IT examination also receives a limited level of review by a “first reviewer”, who is one of the commissioned IT examiners; and, then the CITSE. DOB has procedures in place to ensure the work of the CITSE is also reviewed by other parties. In addition, on a sample basis, the CITSE and the Examiners Council (EC) conduct comprehensive reviews of IT examinations during the year for quality control purposes. The EC is an internal, independent team of examiners comprised of an S&S examiner from each regional office, a trust examiner, and an IT examiner, each serving a 2 year term. The results of the comprehensive reviews are used to identify areas for improvement in performing and documenting IT examinations.

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**Report Processing Schedule:** DOB has established an examination processing schedule to ensure ROEs are processed in a timely manner. The examination processing schedule followed is dependent on whether the examination qualifies for the Delegation of Signature Authority that allows the Regional Office (RO) instead of the Headquarters (HQ) office to process, sign, and submit ROEs, which is generally applicable to safer and smaller financial institutions. Thus, the report processing timeline follows either Schedule A (examination does not qualify for Delegation of Signature Authority) or Schedule B (examination qualifies for Delegation of Signature Authority).

The processing time requirements for stand-alone IT examination ROEs are shown below (in calendar days):

Task	Schedule A (HQ)	Schedule B (RO)
EIC Preparation	5	5
RO Review	+ 17	+ 18
<b>Total RO Processing Time</b>	<b>22</b>	<b>23</b>
Headquarters Review	18	--
<b>Total Processing Time</b>	<b>40</b>	<b>23</b>

When the IT examination results are embedded in the S&S ROE, the EIC preparation time is increased by 2 days in both, Schedule A and B, increasing the total processing time by 2 days.

### **Audit Objective, Scope, and Methodology**

#### **Objective**

The objective of this audit was to determine whether DOB has developed and implemented policies and procedures and internal controls for effective and timely performance of IT examinations as required by the state and federal guidelines.

#### **Scope**

The scope of this audit was Full Scope IT examinations (IT examinations) performed independently by DOB during the time period from September 1, 2015 through January 31, 2016.

#### **Methodology**

The audit methodology included a review of policy and procedures, and other internal and external documentation; an interview of the CITSE; a review of a sample of work papers and the respective ROE; a review of compliance reporting; and, the evaluation of data reliability of DOB's database.

We obtained and/or reviewed the following information:

- DOB policies and procedures (i.e. Administrative Memorandum, Supervisory Memorandum, Examiner Bulletin).
- Guidance compiled by DOB from FDIC, FRB, FFIEC and other entities that is listed as "Reference Material" and accessible at DOB's website.
- Data from DOB's Examination Database Information System on the Network (EDISON)

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- d. DOB's internal reporting on compliance with examination priorities, dated January 5, 2016.
- e. Sample selection of IT examination work papers and respective ROE.
- f. Personal training profile report for IT examiners as of March 3, 2016.

We performed various procedures, to include the following:

- a. Obtained an understanding of the controls in place over the IT Examinations area through review of DOB's established policies and procedures; applicable laws and regulations; and, an interview with the CITSE.
- b. Of the 43 IT examinations performed by DOB during the period from September 1, 2015 through January 31, 2016, we randomly selected 5 and reviewed the corresponding work papers to assess the internal controls in place over the IT examination process.
- c. Reviewed the ROEs of these 5 IT examinations to determine whether they (a) are reflective of the examination results documented in the work papers; (b) report accurate information; and, (c) are prepared in accordance with established policies and procedures.
- d. Reviewed DOB's Personal Training Profile Report as of March 1, 2016 to determine whether commissioned IT examiners meet DOB's training requirements.
- e. Obtained DOB's "Past Due Report" for the period from September 1, 2015 through January 31, 2016 to determine whether—
  - a) IT examinations are performed in a timely manner;
  - b) the data agrees to DOB's examination priorities compliance reporting; and,
  - c) the report was complete by comparison to a listing of regulated banks and trust companies.

### Strengths

- DOB has developed and implemented controls to ensure IT examinations are performed in a timely manner. During the period reviewed, 98% of the IT examinations performed by DOB were on time.
- Work performed was well documented in work papers. Amongst the work papers we reviewed, all Report Worthy findings identified in the Summary of Findings (SOF) were included in the ROE, and all Findings included in the ROE were listed as Report Worthy in the SOF.

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### **Imaging and Records Management**

#### **Background**

DOB's Imaging and Records Management area (the Area) is governed by the Texas Government Code Chapter 441 Subchapter L, which defines records management as "the application of management techniques to the creation, use, maintenance, retention, preservation, and destruction of state records for the purposes of improving the efficiency of recordkeeping, ensuring access to public information under Chapter 552, and reducing costs." Corresponding Administrative rules are outlined in Title 13, Chapter 6 of the Texas Administrative Code – State Records.

The Area is managed by the Strategic Support division, and the Director of Strategic Support is DOB's designated Records Management Officer (RMO). The RMO, with the assistance from the Financial Analyst, is responsible for facilitating the review, update, and implementation of the Records Retention Schedule (RRS), and administering DOB's agency-wide records management program to ensure reliability and availability, and timely destruction of state records.

#### **Records Retention Schedule (RRS)**

The RRS is a document that identifies and describes a state agency's records and the length of time that each type of record must be retained. Texas state agencies are required to prepare a RRS, using Form SLR 105, and submit it to the Texas State Library and Archives Commission (TSLAC) on a predetermined schedule. Form SLR 105 is designed to ensure compliance with state statutory requirements applicable to the RRS and contains standard information data fields to be completed for each record; such as, the record series item number and title, retention period, and the archival value, if applicable. TSLAC and the State Auditor's Office, if applicable, approve the RRS. A state agency is authorized to dispose of agency records in accordance with an approved RRS, without further consultation with TSLAC.

At DOB, the RRS is prepared by first comparing the existing schedule to the common records listed in the Texas State Records Retention Schedule, to ensure completeness, and then by circulating it to the administrators and division directors for their review and proposed revisions, as applicable to their respective divisions. Upon completion of this internal review process, the RMO will perform a final review and approve the RRS, which is submitted to TSLAC for their approval. DOB's current RRS was approved by TSLAC effective July 7, 2014, and is valid through the last business day of July 2019.

#### **Records Imaging**

DOB's state records, in document form (Word, Excel, PDF, etc.), are stored in Document Manager, an enterprise document management system, which is accessed by employees through the following applications:

- TX DOB (primary application)
- Accounting
- Accounting Reporting
- Human Resources
- Exam Work Papers
- Finance Commission
- Executive
- TAPS (tracker for commissioned examiners and candidates)

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Electronic records are backed up nightly, and duplicate copies of the backup are also stored at DOB's alternate site, in accordance with its disaster recovery plan.

A record in Document Manager consists of two parts: the index and the imaged record. The index is utilized to search and locate records and includes information; such as, the document date, document type, and retention period. Imaging and indexing of records is performed within each division, where employees add records to Document Manager using applications applicable to their respective division. As such, each division is responsible for establishing imaging and indexing procedures and performing a quality control (QC) check. DOB requires a QC check for 100% of imaged records to verify the accuracy of the index and quality of the imaged record. The results of the QC check from each division are reported to the Financial Analyst on a monthly basis to ensure unusual variances are identified and addressed in a timely manner.

### **Records Deletion**

DOB has determined that the administrative burden of complying with the open records requirements pursuant to Government Code Chapter 552, is greatly reduced by promptly destroying records in accordance with their respective retention period. In August 2008, DOB implemented the semiannual records deletion procedures, where each division director is responsible for identifying records for destruction; and, authorizing the Financial Analyst to delete such records from Document Manager. The most recent agency-wide records deletion was conducted in October 2015.

### **Audit Objective, Scope, and Methodology**

#### **Objective**

The objective of this audit was to determine whether DOB has developed and implemented policies, procedures, and internal controls to ensure compliance with the State requirements and the Finance Code, as applicable to the Imaging & Records Management area (the Area).

#### **Scope**

The scope of our audit covered the time period from September 1, 2015 through March 31, 2016, and included review of the processes and the effectiveness of controls in place in (a) preparing and complying with the RRS; (b) records deletion; and, (c) records imaging.

#### **Methodology**

The audit methodology included a review of policy and procedures, the RRS, and other internal and external documentation; an interview of DOB employees, to include the RMO and Financial Analyst; a review of a sample of records stored in Document Manager; and, an observation of the imaging and QC processes.

We obtained and/or reviewed the following information:

- a. DOB policies and procedures related to records management, including the RRS approved on July 7, 2014.
- b. Form SLR 104, a formal designation of DOB's Records Management Officer dated December 5, 2007.

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- c. A listing of records deleted from Document Manager and the corresponding authorizations during the period from September 1, 2015 through March 31, 2016.
- d. A listing of records imaged/scanned to Document Manager during the period from September 1, 2015 through March 31, 2016.
- e. Document Manager's user access control table.
- f. Sample QC reports for the months of January, February, and March, 2016.
- g. Various internal and external correspondences.

We performed various procedures, to include the following:

- a. Reviewed and obtained an understanding of the applicable rules, laws and regulations of the Texas Administrative Code, the Texas Finance Code, and the Texas Government Code.
- b. Reviewed the current RRS to ensure compliance with the Texas Government Code Section 441.185 and the Texas Administrative Code, Title 13, Sections 6.3 and 6.5.
- c. Randomly selected 25 records from a listing of records deleted from Document Manager during the period from September 1, 2015 through March 31, 2016 to determine whether they were destroyed in accordance with the RRS and DOB's internal procedures.
- d. Randomly selected 20 records, and haphazardly selected 10 records, from a listing of records imaged/scanned to Document Manager during the period from September 1, 2015 through March 31, 2016 to observe the image quality and verify accuracy of the index.
- e. Obtained and reviewed the Document Manager's user access control table to assess the reasonableness of the access levels granted to each employee in relation to their job responsibilities.
- f. Observed the imaging and the QC processes performed by the Bank & Trust Supervision division employees to ensure controls are working effectively.

### **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 2017 audit plan, as provided by Texas Government Code, Section 2012.008.
- A fiscal year 2016 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.

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**II. Internal Audit Plan for Fiscal Year 2016**

The Internal Audit Plan (Plan) included 2 audits to be performed during the 2016 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 2016.

**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.

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

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

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

Fiscal Year 2015:

- Revenue Accounting Process
- Perpetual Care Cemeteries

Fiscal Year 2014:

- Money Services Businesses
- Management Information Systems

Fiscal Year 2013:

- Corporate Activities
- Prepaid Funeral Contracts

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The areas recommended for internal audits and other tasks to be performed for fiscal year 2016 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	IT Examinations	3/30/2016
2.	Imaging & Records Management	4/26/2016
2.	Annual Internal Audit Report	4/26/2016
-	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 7, 2015, 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, Do Not Plan to Take Corrective Action or Other)	Fiscal Impact/Other Impact
1	March 30, 2016	IT Examinations	<p>1. Guidance for Scope Waiver</p> <p>Examiner Bulletin XB-2015-03 IT requires the Examiner-in-Charge (EIC) to complete the Scope Form and include a detailed reason for the waiver of an examination procedure. Upon completion, and prior to commencement of the examination, the Scope Form must be approved by the Chief IT Security Examiner (CITSE).</p> <p>Of the 5 IT examination work papers reviewed, 4 sets of (superseded) work papers included a Scope Form that was completed by the EIC and approved by the CITSE, and included a waiver to waive the procedure "#IT-15: Remote Deposit Capture". In 3 instances, the reason documented for the waiver was "N/A" since the institutions did not offer the service; however, in one instance, the reason documented was "no issues in the last exam report."</p> <p>Our discussions with the CITSE indicated that DOB does not have written guidance regarding required documentation for waiver of a procedure; but, in general, determination and approval to waive a procedure is based solely on the judgment of the EIC and CITSE, respectively; and, is primarily used when the procedure is not applicable to the institution.</p> <p>In this specific instance, the CITSE provided a reasonable explanation for approving the scope waiver; however, such justification was not documented in the Scope Form.</p> <p><b>Recommendation</b> We recommend that DOB provide specific guidance in its policies and procedures to ensure reasons for waiving of examination procedures are appropriate and adequately documented in the Scope Form.</p> <p><b>Management's Response</b> We agree with this recommendation and updated the IT Examination Scope Form to include valid reasons for waiving examination procedures. The current IT examination procedures, including the scope form, are being replaced with implementation of the Information Technology Risk Examination (InTREx) program. Written guidance for waiving examination procedures has been added to the InTREx scope in use during the pilot program, and the changes will be carried forward to the final version. The InTREx program is expected to be adopted by the DOB by the end of fiscal year 2016.</p>		Improve consistency in the documentation required for waiver of a procedure.

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Report No.	Report Date	Name of Report	Findings/Recommendations	Status (Implemented, Partially Implemented, Action Delayed, No Action Taken, Do Not Plan to Take Corrective Action or Other)	Fiscal Impact/Other Impact
1	March 30, 2016	IT Examinations	<p>2. Accuracy of TPS/ITP</p> <p>Examiner Bulletin XB-2015-03 IT requires the Technology Profile Script (TPS) worksheet or IT Profile (ITP) worksheet to be completed and/or updated for every examination. The TPS (prior to January 2016) and the ITP (effective January 2016) worksheets are used to assess the complexity of a financial institution's IT operations. In these worksheets, the EIC enters Yes/No in the various fields based on responses received from the respective financial institution. Based on these Yes/No values, a total TPS/ITP score is calculated, which is used to assign a financial institution one of three Complexity Risk Levels. DOB generally assigns an IT Examiner to financial institutions with a moderate to high complexity risk level; while, a non-IT Examiner may be assigned to those with a low complexity risk level. DOB also provides the TPS/ITP score to the FDIC.</p> <p>Our review of 5 IT examination work papers resulted in the following:</p> <ul style="list-style-type: none"> <li>a. One set of work papers included an incomplete TPS worksheet. Due to a certain input field left blank, the Total Institution Profile Score was calculated as 45, which was 5 points less than what it should have been if the TPS worksheet was properly completed. As a result, the financial institution was assigned as "Type I &amp; II", the lowest risk level represented by scores of 0-49, versus "Type III", represented by scores of 50-79.</li> <li>b. One Scope Form reflected the TPS Type for the financial institution as "I"; however, the TPS Type according to the TPS worksheet was "III".</li> </ul> <p>In both of the above examinations, procedures were performed by an IT Examiner; therefore, misclassification did not cause the inappropriate assignment of an examiner.</p> <p><b>Recommendation</b> We recommend that DOB establish a procedure to ensure the accuracy of the TPS/ITP worksheet and that financial institutions are appropriately classified in the Scope Form.</p> <p><b>Management's Response</b> One of the issues occurred because a Y/N box was inadvertently left blank on the TPS by the assistant examiner completing the script. The other error resulted from the assistant examiner completing the scope form not understanding that the TPS Type was not the same as the Exam Type. These were isolated incidents, and the Information Technology Profile (ITP), which replaced the</p>		Improve accuracy of work papers

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Report No.	Report Date	Name of Report	Findings/Recommendations	Status (Implemented, Partially Implemented, Action Delayed, No Action Taken, Do Not Plan to Take Corrective Action or Other)	Fiscal Impact/Other Impact
1	March 30, 2016	IT Examinations	Technology Profile Script (TPS), will be reviewed by the CITSE prior to approving future scope forms to ensure accuracy and completeness. Additionally, the InTREx program will eliminate the risk of incorrect classifications on future scope forms. The InTREx scope form no longer includes the TPS Type, as "typing" the banks is not part of the InTREx program.		

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Implemented, Partially Implemented, Action Delayed, No Action Taken, Do Not Plan to Take Corrective Action or Other)	Fiscal Impact/Other Impact
2	April 26, 2016	Imaging & Records Management	<p>1. Records with Archival Values</p> <p>DOB's current Records Retention Schedule (RRS) includes several types of records identified with an archival code "A", meaning the record must be transferred to the Texas State Library and Archives Commission (TSLAC) for retention. Although DOB has a process in place to ensure compliance with this requirement, and such records are generally transferred, there were 3 types of records identified that have not been transferred to TSLAC, as required.</p> <p><b>Recommendation</b> We recommend that DOB transfer the 3 types of records to TSLAC for retention, to comply with this requirement.</p> <p><b>Management's Response</b> Management agrees with the recommendation. The three items were sent to TSLAC as reflected in the RRS on May 31, 2016.</p> <p>2. Accurate Retention Period Indexing</p> <p>Each record in Document Manager consists of two parts, the index and the imaged record. Accuracy of the index is critical for searching records in Document Manager; and, the indexed retention period is relied upon by Divisions to ensure records are destroyed in accordance with the retention period during the semiannual records deletion process.</p> <p>Our testing of 30 records imaged and indexed in Document Manager during the period from September 1, 2015 to March 31, 2016 identified one instance where the retention period of a consumer complaint was indexed as 10 years compared to the 2 years in the RRS.</p> <p><b>Recommendation</b> We recommend DOB implement controls to improve accuracy of the indexed retention period in the Document Manager; such as, utilizing an Image Control Sheet, as used by certain Divisions.</p> <p><b>Management's Response</b> The Department agrees with the recommendation and will have each division utilize an imaging control sheet to improve indexing. Special Audits implemented the imaging sheet on May 19, 2016.</p>		<p>Ensure compliance with the Records Retention Schedule</p> <p>Improve accuracy of the indexed retention period in Document Manager</p>



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## VI. External Audit Services Procured in Fiscal Year 2016

DOB procured the internal audit services documented in the Internal Audit Plan for fiscal year 2016.

## VII. 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.

## VIII. Proposed Internal Audit Plan for Fiscal Year 2017

The risk assessment performed during the 2016 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 2017. The Internal Audit Plan for Fiscal Year 2017 will be developed and presented to the Finance/Audit Committee at a meeting to be determined at a later date.

- Trust Examinations
- Prepaid Funeral Guaranty Trust/Insurance Funds
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

## IX. Organizational Chart

