

TEXAS DEPARTMENT OF BANKING
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2018



TEXAS DEPARTMENT OF BANKING
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2018

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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 Texas Department of Banking's (DOB) internal control structure over the Trust Examinations Area (Area) and its established policies and procedures, as applicable to the Area, for the purpose of determining DOB's compliance with applicable sections of the Texas Finance Code and the Texas Administrative Code, for the 7 months ended March 31, 2018.

The results of our tests disclosed that DOB's internal control structure over the Area and its established policies and procedures, were generally adequate and no material instances of noncompliance were noted; however, we did identify certain matters, included in this report, that are opportunities for strengthening internal controls and ensuring compliance with established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective(s), these matters were rated as either Priority, High, Medium, or Low, which is further described in the "Summary and Related Rating of Observations/Findings and Recommendations", which is included in page 13 of this report.

We also performed a follow-up of findings and recommendations that were presented in the prior year annual internal audit report and this report reflects the results and implementation status of our follow-up procedures performed; and, includes all information required for the Annual Internal Audit Report.

We have discussed the findings and recommendations from the audit of the Area; and, the implementation status from the follow-up performed, with various DOB personnel; and, 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 made.



May 15, 2018 – Trust Examinations
May 23, 2018 – 2018 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 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 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.

2018 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in DOB's 2018 Internal Audit Plan, dated November 27, 2017 and approved by the Finance Commission's Audit Committee and Commissioners on December 15, 2017:

- Prepaid Funeral Guaranty Funds
- Trust Examinations
- Follow-up of Internal Audit Performed in Prior Years
- Other Tasks

This report contains the results of our audit of the Trust Examinations Area; reflects the results of the follow-up performed in the current year of the findings that were presented in the prior year annual internal audit report; and, meets the State of Texas Internal Audit Annual Report requirements. The report of the Prepaid Funeral Guaranty Funds, dated April 10, 2018, will be presented to the Finance Commission's Audit Committee and Commissioners at the June 15, 2018 meeting.

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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 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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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 2019 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2018 internal audit annual report, as required by Texas Government Code, Section 2102.009.

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. **Consulting and Nonaudit Services Completed**

The internal auditor did not perform any consulting services, as defined in the Institute of Internal 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.

III. **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.

IV. **Internal Audit Plan for Fiscal Year 2018**

The approved Internal Audit Plan (Plan) included two audits to be performed during the 2018 fiscal year. The Plan also included a follow-up of the findings that were presented in the prior year annual internal audit report, other tasks as assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2018.

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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 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:

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

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

Fiscal Year 2017:

- Fixed Asset Management
- Bank Examinations
- Follow-Up of the Prior Year Internal Audits

Fiscal Year 2016:

- IT Examinations
- Imaging & Records Management

Fiscal Year 2015:

- Revenue Accounting Process
- Perpetual Care Cemeteries
- Follow-Up of the Prior Year Internal Audits

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The internal audits and other tasks performed for fiscal year 2018 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	Prepaid Funeral Guaranty Funds <i>Objective:</i> To gain an understanding of DOB's internal control structure over administration of the Prepaid Funeral Guaranty Funds to determine its compliance with applicable laws and regulations and established policies and procedures.	4/10/2018
2.	Trust Examinations <i>Objective:</i> To determine whether DOB's policies, procedures, and processes in place, as applicable to the Trust Examinations Area (Area), are sufficient to ensure trust examinations are administered and performed in an effective and timely manner to enforce applicable laws and regulations.	5/15/2018
2.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	5/23/2018
-	Other Tasks Assigned by the Finance Commission	None

V. Executive Summary

Trust Examinations

Background

The Trust Examinations Area (Area) is under the Bank and Trust Supervision Division (Division) of the Texas Department of Banking (DOB). The Area is supervised by the Director of Examination Support Activities, who reports directly to the Division Director, and is comprised of a Chief Trust Examiner (CTE) and 8 trust examiners. The Area's primary function is to examine and supervise trust companies and trust departments.

Types of Trusts

Trust companies, regulated by the Texas Finance Code (TFC) Chapters 181-187, 199, 271, 274 and 275, also referred to as the Texas Trust Company Act, maintain a trust company charter and have the authority to loan money and/or accept deposits under specific requirements and conditions. An exempt trust company is exempt from certain provisions of the TFC and do not conduct business with the public. As of March 31, 2018, there were 16 exempt and 17 non-exempt trust companies supervised by DOB.

Trust departments, regulated by TFC Chapter 31, also referred to as the Texas Banking Act, are maintained under a bank charter and have received specific authority to offer fiduciary services to the public. As of March 31, 2018, there were 38 trust departments supervised by DOB.

Systems

Examination Division Information System On the Network (EDISON) – The Division's internally developed application used to schedule and track examinations; maintain trust department and company information; and, to obtain performance measures data.

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Examination Tools Suite System (ETS) – Developed through a cooperative effort between DOB, the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank (FRB). The Area utilizes ETS to prepare the Report of Examinations (ROE).

Examination Process

In accordance with TFC §31.105 and §181.104, the Area conducts on-site examinations to assess the trust company's and department's overall financial condition, assign composite and component ratings, and determine compliance with applicable chapters of the TFC and TAC.

The frequency and type of examination is dependent on the fiduciary assets and assigned CAMEL or MOECA ratings from the prior examination. Examinations are generally conducted annually; however, for trust companies or departments meeting certain criteria, examinations are performed every 18 months. Examinations of trust departments may be conducted jointly with the FDIC or FRB. The types of examinations range from full scope, resulting in a formal *Report of Examination* (ROE), to a targeted specific risk, resulting in a *Letter of Findings*.

Examinations are scheduled by the Chief Trust Examiner (CTE) using EDISON; and, assigned to an examiner-in-charge (EIC), who is responsible for conducting the examination and preparing the ROE. Joint examinations are scheduled in conjunction with the FDIC or FRB.

The EIC will send the trust company or department a request packet, which includes a list of requested items to conduct the examination, at least 30 days prior to the examination start date; and, prepare the Scope Form, documenting the procedures to be performed during the examination, which is approved by the CTE.

The Division has developed tailored examination work programs that are used to document the examination and results of procedures performed, examination ratings, etc. The Division has adopted the modified federal *Uniform Interagency Trust Rating System* (UITRS) to assess the condition of the fiduciary operations by assigning a composite rating based on the evaluation of five essential component factors (MOECA), which address the capability of Management; adequacy of Operations, controls, and audits; the quality and level of Earnings; the quality and level of Compliance; and, management of fiduciary Assets. In addition to the modified UITRS, the *Trust Company Rating System* (CAMEL) is used to evaluate the strength of the trust company. The five primary aspects that are evaluated and rated are Capital adequacy, Asset quality, Management, Earnings, and Liquidity. The CAMEL and UITRS ratings are assessed using a scale of 1 to 5, with 1 being the highest and 5 being the lowest. Any noted findings are documented in the Summary of Findings page of the work program and are identified as either "Report Worthy" or "Discretionary Report Worthy".

Upon completion of the examination, the EIC prepares and signs the ROE using ETS, which is sent to the CTE and Director for review. The CTE is authorized to sign ROEs for trust departments with fiduciary assets less than \$2 billion and a UITRS rating of a "1" or "2"; and, for trust companies with fiduciary assets less than \$2 billion and with UITRS and CAMEL ratings of a "1" or "2". The CTE may only sign those ROEs where he/she did not perform the initial review. Those that were initially reviewed by the CTE or those with fiduciary assets of \$2 billion or more are signed by the Director. ROEs rated a "3" or above are required to be signed by the Deputy Commissioner.

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Report of Examination (ROE) Review

The Area follows a 42-day processing schedule. Based on this schedule, the EIC has 7 days, from the examination end date, to prepare the ROE and submit it to the CTE for review. Upon receipt of the ROE, the CTE has 17 days to review it and submit it to DOB's headquarters (Austin) for the Director's review, who then has 18 days to complete the review, for a total of 42 days.

An initial quality control and limited review is conducted on all examination workpapers and ROEs by a trust examiner, assigned by the CTE, before the ROE is reviewed by the CTE. The review consists of ensuring workpapers are complete; documents are properly embedded in work programs; scanned documents are properly scanned and legible; and, all findings reported in the Summary of Findings are included in the ROE; etc. Critique forms are completed for each examination detailing the findings of the review, which are sent to the Director for review.

As of March 31, 2018, the Division completed a total of 21 examinations for 9 trust departments and 12 trust companies.

Examination Fees

TAC §17.22 authorizes DOB to assess examination fees at a rate of \$110 per examiner hour plus reimbursable expenses; such as, mileage, meals, etc. At the end of an examination, the EIC gathers all the hours and expenses from the examiners assigned to the respective examination and enters the information into EDISON. Once all the time sheets and travel vouchers have been submitted, the CTE reconciles the information entered into EDISON to the respective time sheets and travel vouchers; prints the invoice from EDISON; prepares an accompanying letter; and, signs and mails the invoice and letter to the trust company or department. The trust company or department has 30 days from the invoice receipt date, to submit payment to DOB.

As of March 31, 2018, examination fees in the total amount of \$807,589 were assessed; of which, \$697,048 was collected.

Trust Companies Investigations

The Corporate Activities Division (CAD) is responsible for processing applications for trust company charters and ensuring the required fees are paid. The Area is responsible for performing an investigation and issuing a report on investigation (ROI) prior to DOB issuing a charter. The purpose of the investigation and ROI is to determine whether there is good and sufficient proof that conditions enumerated in TFC §182.003 exist.

As of March 31, 2018, the Area performed an investigation and issued a ROI for 1 trust company that was issued a charter.

Exempt Trust Companies

In accordance with TFC §182.013, an exempt trust company is required to file an annual certification with DOB before June 30th of each year indicating they maintain the conditions and limitations of its exemption status and pay a filing fee of \$100, as required by TAC §21.2(b). Before June 30th, the Division's financial analyst will send the certification form to exempt trust companies for completion and to return to the Division. Upon receipt of the form and filing fee, the accounting department will process the fees and date stamp the form, which is then sent to the financial analyst, who prepares and sends the exempt trust companies an acknowledgement letter and a copy of the stamped form no later than 30 days after the certification is filed. The certification forms and fees are tracked by the financial analyst in EDISON.

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As of March 31, 2018, DOB collected \$900 in filing fees from the 16 exempt trust companies it supervises.

Training

Training for a Financial Examiner (FE) is guided by an Individual Training Plan (ITP), which is developed jointly between the FE and the CTE, and . updated in March of each year. Approved ITPs are submitted to the Training Coordinator, who is responsible for scheduling, monitoring and registering employees for training.

Trust examiners are classified from FE I to FE VII, according to their years of experience and completion of certain core curriculums. An FE I to FE III-B are considered entry level Assistant Examiners through Senior Assistant Examiners, and can progress to the level of FE IV only upon successfully passing an established testing process known as the Commissioning Process or Bank Examination Testing System (BETS). An FE may be promoted before completing the required courses with the Director's approval; however, the FE must complete the courses within 6 months of the promotion.

Workpaper Review

Annually, the Examiners' Council (EC), comprised of bank, trust, and IT examiners, conducts a review of randomly selected workpaper files to ensure complete and accurate workpapers support the ROE. Upon completion of the review, the EC issues a memorandum summarizing the workpapers reviewed, findings, and recommendations. Findings are categorized as critical, important, or technical. An overall rating of the workpaper review is also applied, which can be *Satisfactory* or *Needs Improvement*.

The 2017 workpaper review, conducted in August 2017, included a review of 2 trust examinations, which both resulted in no critical findings and scores sufficient for an overall rating of "*Satisfactory*". The 2018 workpaper review is scheduled to be conducted in August 2018.

Audit Objective, Scope, and Methodology

Objective

The objective of our audit was to determine whether DOB's policies, procedures, and processes in place, as applicable to the Trust Examinations Area (Area), are sufficient to ensure trust examinations are administered and performed in an effective and timely manner to enforce applicable laws and regulations.

Scope

The scope of this audit was to review and/or test selected functions and examinations performed by the Area during the 7 months ended March 31, 2018.

Methodology

The audit methodology included a review of laws and regulations; DOB's established policies and procedures, and other internal and external documentation; and, interviews with selected DOB personnel.

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We obtained and/or reviewed the following information:

- a. Sections of the Texas Finance Code and the Texas Administrative Code related to the Area.
- b. DOB's written policies and procedures, supervisory memorandums, administrative memorandums, and examiner's bulletins related to the Area.
- c. Organizational charts.
- d. A listing of Report of Examinations (ROEs) issued during the period from September 1, 2017 through March 31, 2018; and, the supporting examination work programs, reports, and examination fees for the selected items.
- e. A listing of examinations reviewed by the Examiners' Council (EC) during fiscal year 2017.
- f. EC workpaper review findings reports, memorandums, and screenshots of the EC review system for selected examination reviews.
- g. Trust workpaper and exam critique forms and screenshots of the EDISON system for Quality Control reviews for selected examinations.
- h. Listing of exempt trust companies as of March 31, 2018.
- i. Annual Certification of Exempt Status forms and acknowledgement letters for selected exempt trust companies.
- j. Detailed general ledger showing fees collected.
- k. EDISON reports used to track the status of submission of the forms and fees collected.
- l. Samples of work programs, scheduling reports, and planning documents.
- m. Performance measures report for the 2nd quarter and supporting EDISON reports.

We performed various procedures to achieve the objective of our audit; to include, the following:

1. Reviewed and obtained an understanding of the laws and regulations provided in the Texas Finance Code (TFC) and the Texas Administrative Code (TAC).
2. Obtained and reviewed the Division's written policies and procedures, supervisory memorandums, administrative memorandums, and examiner's bulletins; collected available documentation; and, conducted interviews to document formal/informal processes and controls performed by the Area.
3. Reviewed examination procedures included in the workpapers used in the examination process to ensure inclusion of significant compliance requirements of the TFC and TAC.

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4. Obtained a list of ROEs issued during the period from September 1, 2017 to March 31, 2018 and randomly selected 5 or 25 percent of the 21 ROEs issued to test for the following attributes:
 - a. Compliance with the examination frequency requirements.
 - b. Completion and approval of the scope form; and, applicable examination work programs/procedures.
 - c. Rating documented on work programs agreed to ROE.
 - d. Compliance with the ROE processing schedule.
 - e. Proper approval and signature on the ROE.
 - f. Examination fees were properly assessed and collected in accordance with the TAC and agreed to the respective timesheets and travel vouchers.
5. Ensured a quality control review was performed for 2 of the 5 examinations selected above by reviewing the respective Peer Review of Examination Work Papers Critique form.
6. From the 5 examinations selected for testing above, 4 examinations were tested further to ensure all findings included in the work programs were properly included in the ROE and vice versa.
7. Obtained a list of trust companies with charters that were approved during the period September 1, 2017 through March 31, 2018 and selected the 1 trust company to ensure:
 - a. An investigation was performed prior to the approval of the charter;
 - b. Investigation fee was paid by the applicant;
 - c. Investigation workpapers were properly completed by the trust examiner; and,
 - d. A report on investigation was properly prepared.
8. Obtained a list of exempt trust companies as of March 31, 2018 and selected 4 or 25 percent of 16 exempt trust companies to ensure:
 - a. The Annual Certification of Exempt Status form (form) was filed before June 30th.
 - b. Form was properly date stamped with the date the form was received.
 - c. Acknowledgment letter and a copy of stamped form was mailed to the exempt trust company within 30 days of receipt.
 - d. Certification fee was properly collected and recorded in the general ledger.
9. Obtained a listing of the Examiners' Council (EC) Trust Workpaper Reviews conducted during fiscal year 2017 and haphazardly selected one of the two workpaper reviews performed to ensure:
 - a. Findings on the EC workpaper review agreed to the Examiner Bulletin.
 - b. The EC Workpaper Review System agreed to the EC Workpaper Review Findings Report.
 - c. The total number of findings listed in the memo agreed to the EC Workpaper Review Findings Report.

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10. Obtained and agreed the performance measures report for the 2nd quarter to EDISON reports.
11. Obtained the training policy to gain an understanding of the training process and requirements for trust examiners. Selected 5 of the 8 examiners and tested for the following attributes:
 - a. Obtained the “personal training profile” report to ensure it reflected completion of the courses required for the examiner’s classification.
 - b. Obtained the ITP to ensure completeness and approval by the CTE.
 - c. Examiners completed the required Core Curriculum course needed for their position.
 - d. Selected a training course taken by 4 of the 5 examiners and reviewed supporting documentation.
 - e. Required training was received prior to employee’s promotion date.

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VI. Observations/Findings and Recommendations

SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS

As DOB’s internal auditors, we used our professional judgment in rating the audit findings identified in this report. The rating system used was developed by the Texas State Auditor’s Office and is based on the degree of risk or effect of the findings in relation to the audit objective(s). The table below presents a summary of the findings in this report and the related rating.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
1	Investigation Workpapers	Medium
2	Investigation Fees	Medium
Observation No.	Title	
1	Examination Fee Payments	--
	<p style="text-align: center;"><u>Description of Rating</u></p> <p>A finding is rated <i>Priority</i> if the issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A finding is rated <i>High</i> if the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A finding is rated <i>Medium</i> if the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A finding is rated <i>Low</i> if the audit identified strengths that support the audited entity’s ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.</p>	

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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	5/15/2018	Trust Examinations	<p>1. Investigation Workpapers</p> <p>Due to a trust examiner's computer "crashing", the workpapers for a trust company investigation were lost and could not be recovered, since the workpapers were not backed up to an external device/source.</p> <p>Recommendation We recommend that DOB continue with its plan to implement a cloud-based backup system for its workpapers, to ensure automatic back up, in near real time, and ease of data recovery. Workpapers and other critical data should be backed up to an external device/source until the cloud-based backup system has been implemented.</p> <p>Management's Response The Department agrees to implement laptop back-up procedures to help prevent the loss of charter investigation data. The Department will begin using Microsoft's OneDrive to automatically backup all documents in the users' My Documents and Desktop folders to Microsoft's government cloud. We anticipate having these changes implemented by September 30, 2018. Until the automatic OneDrive backup procedures are implemented, examiners will back up charter investigation data to the Department's main drive.</p> <p>2. Investigation Fees</p> <p>TFC §182.004(b) states that DOB shall thoroughly investigate charter applications at the expense of the organizers. Applicants for a trust company charter shall pay an investigation fee of \$10,000 once the application is filed with DOB, in accordance with TAC §21.2. Per TAC §21.2, failure to pay the investigation fee timely constitutes grounds for denial of application.</p> <p>Our testing of an investigation conducted on November 6, 2017, indicated that the \$10,000 investigation fee was not collected; however, the charter was approved and became effective on March 5, 2018.</p> <p>Recommendation We recommend the Area perform a reconciliation of the number of investigations performed and the investigation fees collected to ensure fees are properly collected prior to the approval of the charter.</p> <p>Management's Response The Department agrees with this recommendation and has changed Corporate Division processing procedures to ensure that investigation fees are tracked and collected. The fee mentioned in the audit report was collected on May 22, 2018.</p>		<p>To ensure all workpapers can be recovered in case of computer failure or disaster.</p> <p>To ensure investigation fees are collected prior to approval of the charter.</p>

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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	5/15/2018	Trust Examinations	<p style="text-align: center;"><u>Observation</u></p> <p>1. Examination Fee Payments</p> <p>TAC §17.22 indicates that examination fees are due to DOB no later than the 30th day after the bill is submitted; however, the due date is not documented on the invoice or letter which accompanies the invoice.</p> <p>Recommendation We recommend that the examination fee due date be documented on the invoice or letter to ensure the trust company/department is aware of the due date.</p> <p>Management's Response The Department agrees to amend the trust company invoice document to reflect the due date of the payment. Procedures will be changed to provide the CTE with a monthly report of all outstanding but unpaid invoices. Both of these changes were implemented in June 2018</p>		To ensure trust companies and departments are aware of payment due dates.

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VII. External Audit Services Procured in Fiscal Year 2018

DOB procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2018. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

DOB has provided information on their website 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 Prevention Policy that provides information on how to report suspected fraud, waste, and abuse to the SAO.

IX. Proposed Internal Audit Plan for Fiscal Year 2019

The risk assessment performed during the 2018 fiscal year was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2019. The Internal Audit Plan for Fiscal Year 2019 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

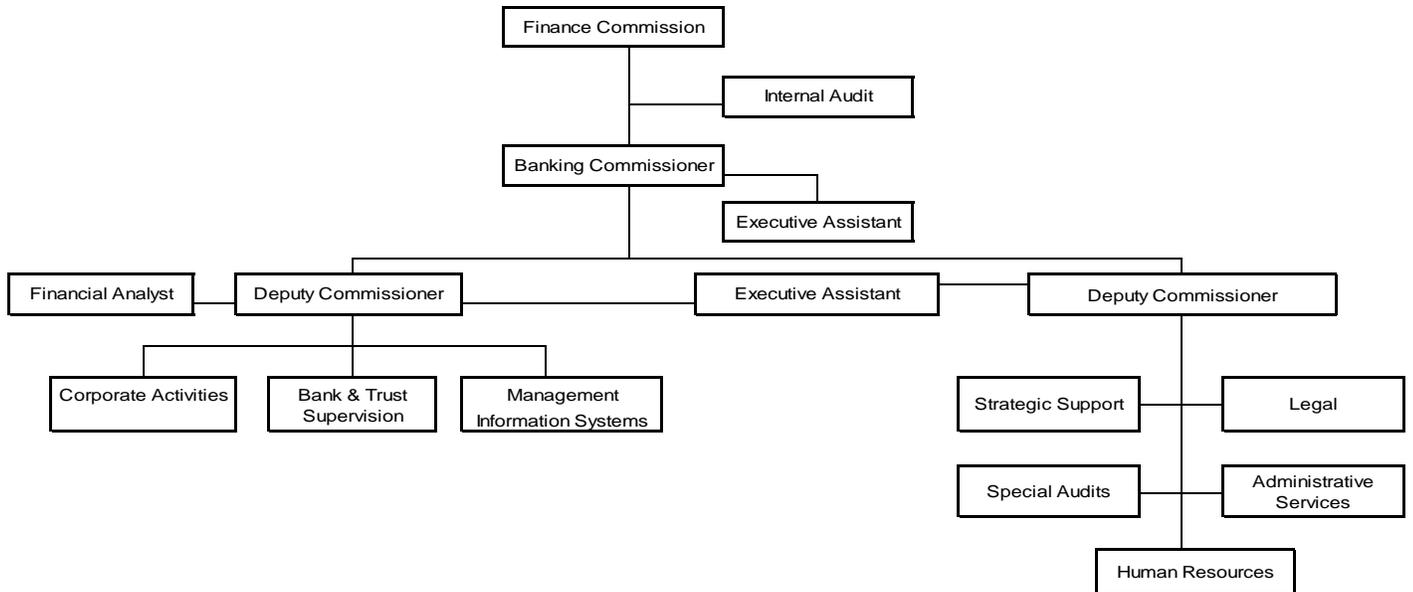
- Payroll and Human Resources
- Purchasing
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

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X. Organizational Chart



ATTACHMENT

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History of Areas Audited
For Fiscal Year 2018

POTENTIAL AUDIT TOPIC	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1 Bank Examinations		B	B*		A/B1*	B1*				A/B*
2 Corporate Activities	A					A			H*	
3 Financial Reporting (Effective FY 2011)				A						B
4 Fixed Asset Management		A	C*				C*			A
5 Imaging and Records Management	A								A	
6 IT Examinations			A						A	
7 Management Information Systems	D*	D*	A/D*	D*	D*	D*/E	A/D*	D*	D*/H*	B/D*
8 Money Service Businesses			A				A			B*
9 Payroll and Human Resources			C	A*	G	H*	C		H*	
10 Perpetual Care Cemeteries		A						A		B*
11 Prepaid Funeral Contracts	A					A				B*
12 Prepaid Funeral Guaranty Funds (Effective FY 2012)					A					
13 Purchasing			C	A*			C			B*
14 Revenue Accounting Process (Effective FY 2011)				A				A		B
15 Risk Management	F	F	F				F	F		F
16 Travel			C	A*			C			B*
17 Trust Examinations				A						

Note: Performance Measures was audited as a separate auditable area in fiscal year 2009. Effective fiscal year 2015, Performance Measures was removed as a separate auditable area and is now included in the scope of the applicable audit area(s).

Legend (audits/reviews with asterisk are considered limited scope for the audit area)

- A Audit performed by Garza/Gonzalez & Associates
- B Audit performed by the State Auditor's Office
- B1 Off-site review of outstanding audit findings performed by the State Auditor's Office
- C Post-payment audit performed by the Comptroller of Public Accounts
- D Controlled penetration test performed by the Department of Information Resources
- E Information security assessment review performed by Gartner
- F Risk Management Program Review (RMPR) or On-Site Consultation performed by the State Office of Risk Management
- G Review of personnel policies & procedures system performed by the Texas Workforce Commission Civil Rights Division
- H Criminal history record audit performed by the Department of Public Safety