



Texas Finance Commission FY 2019 Annual Internal Audit Plan

As Prepared by
McConnell & Jones LLP



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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December 14, 2018

The Honorable Greg Abbott, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Internal Audit Coordinator, State Auditor's Office

Dear Ladies and Gentlemen:

Attached is the FY 2019 Annual Internal Audit Plan for the Texas Finance Commission (TFC) approved by TFC's Commissioners on December 14, 2018. The Annual Internal Audit Plan will enable the TFC to comply with the Texas Internal Auditing Act, Texas Government Code Chapter 2102 as amended by House Bill 2485 during the 78th Legislature and House Bill 16 during the 83rd Legislature. McConnell & Jones LLP (MJ) will execute this Annual Internal Audit Plan in accordance with The Texas Internal Auditing Act, The Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, the IIA's Code of Ethics, and Generally Accepted Government Auditing Standards (GAGAS).

Please contact Darlene Brown at 713.968.1617 or Commissioner Charles Cooper at 512.475.61325 if you should have any questions about this audit plan.

Sincerely,

Odysseus Lanier, CPA
Partner

1.0 COMPLIANCE WITH TEXAS GOVERNMENT CODE, SECTION 2102.015: POSTING THE AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

Texas Government Code, Section 2102.015, requires state agencies and institutions of higher education to post agency internal audit plans and internal audit annual reports to the agency's internet website within 30 days of approval. Texas Government Code, Section 2102.015, also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of Texas Government Code, Section 2102.015, MJ will provide the required internal audit plan, internal audit annual report and any other required internal audit information to the Texas Finance Commission's (TFC) Executive Director who will ensure the information is posted to the TFC's website. The Texas Finance Commission supervises the Department of Banking, the Department of Savings & Lending and the Office of Consumer Credit Commissioner. For the purposes of this Annual Internal Audit Plan, any reference to TFC refers to the three agencies and the TFC.

2.0 PURPOSE

The purpose of this report is to communicate the annual risk-based audit plan as approved by the Texas Finance Commission Commissioners on December 14, 2018, the methodology used to develop the annual audit plan, the timing and resource requirements necessary to complete the audit plan, and the communication of audit results and any significant interim changes to the annual audit plan.

The annual audit plan was developed based on a prioritization of the audit universe, reviewing the prior years' risk assessment, interviews with the TFC Commissioners, input from each agency's leadership team and guidance provided by the State Auditor's Office (SAO). Using our risk assessment framework, we identified the organizational sources for potential engagements and auditable activities; examined organizational risk factors; evaluated the proposed engagements; and prioritized the audits based on the risk rating.

3.0 RISK ASSESSMENT

Risk is defined as the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood. An organization's risk exposure is determined through the identification of risks and evaluating the impact on operations and likelihood of occurrence.

Risk assessments identify an organization's exposure to business disruptions and barriers to achieving the organization's strategic goals. They serve as a tool to focus limited resources to perform evaluations of controls that are in place to limit the exposure.

In accordance with Texas Internal Auditing Act and The Institute of Internal Auditors (IIA) Standard 2010.A1, this internal audit plan is based on a documented risk assessment and input of each agency's leadership team and TFC Commissioners. Our assessment evaluated risk exposures

relating to each agency's governance, operations, and information systems regarding the reliability and integrity of financial and operational information; effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations, policies and procedures, and contracts.

The types of risk exposure relevant to each agency under the TFC umbrella are:

- *Financial Exposure*: Financial exposure exists whenever an audit area is susceptible to errors or defalcations that affect the general ledger and financial statements or the integrity and safekeeping of agency assets, regardless of the financial statement impact.
- *Compliance Exposure*: Compliance exposure exists whenever an event in an audit area could cause the agency to fail to comply with regulations mandated by state or federal authorities, irrespective of whether financial exposure exists.
- *Information Exposure*: An information exposure exists whenever there is information of a sensitive or confidential nature, which could be altered, destroyed, or misused.
- *Efficiency Exposure*: An efficiency exposure exists whenever agency resources are not being utilized in an effective or efficient manner.
- *Human Resource Exposure*: A human resource exposure exists whenever an area is managing human resources in a way, which is contrary to agency policy.
- *Environmental Exposure*: An environmental exposure exists whenever internal or external factors pose a threat to the stability and efficiency of an audit area. Examples of factors that affect environmental exposure are:
 - Recent changes in key personnel
 - Changing economic conditions
 - Time elapsed since last audit
 - Pressures on management to meet objectives
 - Past audit findings and quality of internal control
- *Public Service Exposure*: A public service exposure exists whenever an event in an audit area could jeopardize existing public services or new public services.
- *Reputational Exposure*: A reputational exposures exists whenever an event in the audit area could jeopardize the reputation of the agency and stakeholder trust.

MJ discussed the risk exposures with each agency's leadership team. We then prepared the Annual Internal Audit Plan based upon current risks facing their operations.

5.0 FY 2019 ANNUAL INTERNAL AUDIT PLAN

MJ will conduct a total of five scheduled audits, update the risk assessment, conduct prior audit finding follow-up activities, prepare the fiscal year 2020 Annual Internal Audit Plan and prepare the fiscal year 2019 Internal Audit Annual Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **488 hours**. The planned audits, timing and estimated hours for each agency are summarized in the charts below.

Fiscal Year 2019 Consolidated Annual Internal Audit Plan Activities

Audit Activity #	Description	DOB Estimated Hours	DSML Estimated Hours	OCCC Estimated Hours	Total Hours
1	Information Technology – Change Management	132	67	65	264
2	Fines and Penalties Tracking	72	0	0	72
3	Investment Administration Controls of the Texas Financial Education Endowment (TFEE) Fund	0	0	42	42
4	Follow-Up on Prior Audit Findings	22	6	8	36
5	Update Risk Assessment & FY 2020 Annual Audit Plan	18	10	8	36
6	Annual Audit Report	6	6	2	14
7	Audit Communications, Committee Meetings, Project Management	18	4	2	24
Total		268	93	127	488

Department of Banking Fiscal Year 2019 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Information Technology – Change Management	High	January – March 2019	132
2	Fines and Penalties Tracking	High	April 2019	72
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	22
4	Update Risk Assessment & FY 2020 Annual Audit Plan	Compliance	July - August 2019	18
5	Annual Audit Report	Compliance	August 2019	6
6	Audit Communications, Committee Meetings, Project Management	N/A	All Year	18
Total				268

Department of Savings & Lending Fiscal Year 2019 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Information Technology - Change Management	High	June 2019	67
2	Follow-Up on Prior Audit Findings	Compliance	On-Going	6
3	Update Risk Assessment & FY 2020 Annual Audit Plan	Compliance	July - August 2019	10
4	Annual Audit Report	Compliance	August 2019	6
5	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	4
Total				93

Office of Consumer Credit Commissioner Fiscal Year 2019 Annual Internal Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Information Technology - Change Management	High	January - March 2019	65
2	Investment Administration Controls of the Texas Financial Education Endowment (TFEE) Fund	High	January 2019	42
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	8
4	Update Risk Assessment & FY 2020 Annual Audit Plan	Compliance	July - August 2019	8
5	Annual Audit Report	Compliance	August 2019	2
6	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	2
Total				127

6.0 SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to each agency's Commissioner, the Texas Finance Commission's Audit Committee and the Texas Finance Commission Commissioners for review and approval. Notification of significant changes to the internal audit plan approved by the Texas Finance Commission Commissioners will be submitted to the State Auditor's Office.

This annual audit plan was presented to the Commissioners and approved on December 14, 2018.