



Texas Department of Banking Internal Audit Services FY 2019 Annual Internal Audit Report

This report provides management with information about the condition of risks and internal controls at a specific point in time. Future changes in environmental factors and actions by personnel will impact these risks and internal controls in ways that this report cannot anticipate.

MJ

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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August 16, 2019

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

Dear Ladies and Gentlemen:

Attached is the Fiscal Year 2019 Annual Internal Audit Report for the Texas Department of Banking (DOB). This annual audit report is submitted in accordance with the Texas Internal Auditing Act requirement for state agency internal auditors to prepare and distribute an annual report (Government Code, Chapter 2102). McConnell & Jones LLP (MJ) was engaged on September 1, 2018 to provide internal audit services to the DOB in accordance with The Texas Internal Auditing Act. Pursuant to the Request for Proposals (RFP) issued May 7, 2018 MJ submits this Fiscal Year 2019 Annual Internal Audit Report on behalf of the DOB.

The Texas Internal Auditing Act requires agencies to file an annual report on their internal audit activities and the internal audit reports prepared for governing boards. The purpose of the Fiscal Year 2019 Annual Internal Audit Report is to provide information on the assurance services, consulting services, and other activities of the internal audit function. In addition, the Fiscal Year 2019 Annual Internal Audit Report assists oversight agencies in their planning and coordination efforts. According to Texas Government Code, Sections 2102.009 and 2102.0091, the Fiscal Year 2019 Annual Internal Audit Report is due November 1, 2019.

Please contact Odysseus Lanier at 713.968.1603 or Charles Cooper at 512.475.1325 if you should have any questions about this Annual Internal Audit Report.

Sincerely,

7600 Chevy Chase Drive
Suite 307
Austin, TX 78752
Phone: 512.430.5358

Odysseus Lanier, CPA
Partner

I. 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, McConnell & Jones LLP will ensure the required internal audit plan, internal audit annual report and any other required internal audit information is provided to the DOB for posting to their website.

II. FISCAL YEAR 2019 INTERNAL AUDIT PLAN STATUS

The fiscal year 2019 Annual Internal Audit Plan was prepared by McConnell & Jones LLP based on a comprehensive risk assessment and approved by the Finance Commission of Texas (FC). The approved FY 2019 Annual Internal Audit Plan was completed as approved. The chart below reflects the approved audit plan status as of August 31, 2019.

Fiscal Year 2019 Annual Internal Audit Plan Status

#	Description	Report Number	Report Date	Report Title	Audit Status
1	Information Technology Change Management	19-001	June 27, 2019	Information Technology Change Management Program	Completed
2	Fines and Penalties	19-002	July 15, 2019	Fines, Penalties and Restitution Processes	Completed
2	Follow-Up on Open Audit Findings	The agency had no prior year open audit findings.			
3	Update Annual Risk Assessment & Audit Plan	N/A	N/A	N/A	Completed
4	Annual Audit Report	N/A	N/A	N/A	Completed
5	Audit Communications, Project Management	N/A	N/A	N/A	On-going

Deviation from FY 2019 Annual Internal Audit Plan:

MJ completed the approved FY 2019 Annual Internal Audit Plan as approved with no deviations.

III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

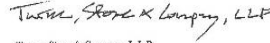
Internal audit provided no consulting and advisory services to the agency during FY 2019. MJ performed an efficiency audit of the FC agencies under a separate engagement letter. The FC agencies underwent a Sunset Advisory Commission review in FY 2019. The Sunset Advisory Commission Staff Report Recommendation 2.6 directed the Finance Commission to minimize duplication of agency functions and promote more cost-efficient administration of the finance agencies. MJ's efficiency audit provided an independent assessment for minimizing duplication of agency administrative functions.

IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

MJ has been a member of the American Institute of Certified Public Accountants (AICPA) since 1987 and is subject to the AICPA's peer review process every three years. Our commitment to quality is underscored by the fact that, in our four most recent peer reviews, we have consistently received an unqualified opinion in external peer review reports on the quality of our accounting and auditing practice by the AICPA. After a thorough review of our procedures and work practices, the reviewers concluded that MJ complies with the stringent quality control standards established by the AICPA. We provide a copy of our most recent peer review letter below.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP**, applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. **McConnell & Jones, LLP** has received a peer review rating of *pass*.



Turner, Stone & Company, L.L.P.

Your Vision Our Focus



Report on the Firm's System of Quality Control

January 31, 2018

To the Partners of
McConnell & Jones, LLP
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of **McConnell & Jones, LLP** (the Firm), applicable to engagements not subject to PCAOB permanent inspection, in effect for the year ended June 30, 2017. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The Firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under Government Auditing Standards, including a compliance audit under the Single Audit Act; audits of employee benefit plans and an audit of a non-carrying broker-dealer.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the Firm, if applicable, in determining the nature and extent of our procedures.

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VI. INTERNAL AUDIT PLAN FISCAL YEAR 2020

MJ developed the Fiscal Year 2020 Annual Internal Audit Plan based on results of a risk assessment. The risk assessment included reviewing the agency’s strategic plan, internal budgets and financial statements, and policies and procedures; analyzing the agency’s financial reports; and conducting discussions with management. Our assessment evaluated risk exposures relating to DOB’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, and contracts. **Figure 1** provides a heat map of the agency’s function risks.

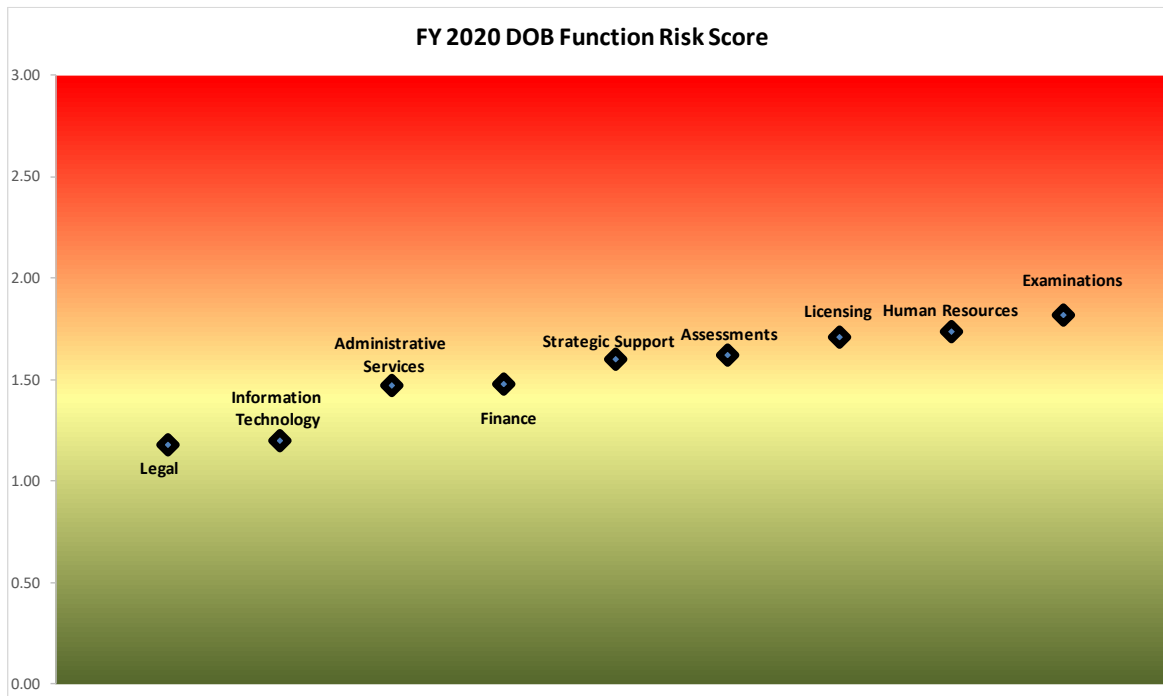


Figure 1 Agency Function and Business Process Risk Heat Map

MJ will conduct two audits, update the risk assessment, conduct prior audit finding follow-up activities, prepare the Fiscal Year 2021 Annual Internal Audit Plan and prepare the Fiscal Year 2020 Annual Internal Audit Report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **391 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

Fiscal Year 2020 Annual Audit Plan Activities

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
1	Examinations – Information Technology Procedures	High	November 2019 – December 2019	132
2	Human Resources – Validation of Hours	High	February 2020 – March 2020	127

Audit Activity #	Description	Risk Rating	Estimated Timing	Estimated Hours
3	Follow-Up on Prior Audit Findings	Compliance	On-Going	83
4	Update Risk Assessment & FY 2021 Annual Audit Plan	Compliance	July 2020	25
5	Annual Audit Report	Compliance	July 2020	18
6	Audit Communications, Committee Meetings, Project Management	N/A	On-Going	6
Total				391

VII. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2019

Services for internal audit were procured in fiscal year 2018 to be performed in fiscal year 2019. Except for what is included in this report, no other external audit services were procured or performed.

VIII. SUMMARY OF PRIOR YEAR OPEN AUDIT FINDINGS

The Department of Banking did not have any prior year open audit findings. The audit opportunities included in FY 2019 internal audits are currently being implemented and will be provided in next year's Annual Internal Audit Report.

IX. REPORTING SUSPECTED FRAUD AND ABUSE

The Texas Department of Banking has implemented measures to comply with Article IX, Section 7.10, the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022. These measures include, but are not limited to, the following:

The Texas Department of Banking includes a link to the State Auditor's Office (SAO) website for fraud reporting at the footer of the DOB's website. In addition, information on reporting suspected fraud to the SAO is included in the agency's policies and procedures.

X. 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 the Institute of Internal Auditors (IIA) Performance Standard 2020, MJ will communicate any significant changes of the audit plan to the FC for review and approval. Notification of significant changes to the Annual Internal Audit Plan approved by the commissioners will be submitted to the SAO.

This annual internal audit report was presented to the FC and approved on August 16, 2019.