

TEXAS DEPARTMENT OF BANKING
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2021



TEXAS DEPARTMENT OF BANKING
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2021

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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 Management Information Systems (MIS) Area, to include the Disaster Recovery Plan, and its established policies and procedures, as applicable to the MIS Area, for the 7 months ended March 31, 2021. We performed these tests for the limited purpose specified in the fiscal year 2021 Internal Audit Plan, which was to validate the implementation status of the audit findings and recommendations included in the Information Technology Change Management Program audit, dated June 27, 2019, and to review the Disaster Recovery Plan and the Continuity of Operations Planning (COOP) Plan, for inclusion of vital information as related to MIS.

The results of our tests disclosed that such controls were adequate and no instances of noncompliance were noted. The report that accompanies this letter provides a summary of the Area; summarizes the audit objective, scope, and methodology; and, the procedures performed to achieve the objective of our audit.

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

We have discussed 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.



April 30, 2021

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INTRODUCTION

The Texas Department of Banking (DOB) is a Texas state agency that performs functions designed to maintain a financial regulatory system for Texas to promote a consistent banking environment, and to provide the public with convenient, safe, and competitive banking and other financial services. DOB operates under the oversight of the Finance Commission of Texas pursuant to the authority of various provisions of the Texas Finance Code; the Texas Health and Safety Code; and, the Texas Administrative Code.

DOB's primary functions 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 prepaid funeral contract sellers (PFC) and perpetual care cemeteries (PCC);
- License, regulate, and examine money services businesses (MSB); 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 operating funds are generated from fees assessed to the businesses it regulates and are used to fund both, direct and indirect costs. General revenue funds are not used to support DOB's operations.

2021 Internal Audit Plan

Following are the internal audit functions performed, as identified in DOB's 2021 Internal Audit Plan, dated November 18, 2020 and approved by the Audit Committee and Finance Commission on December 11, 2020:

- Risk Assessment & Preparation of the 2021 Internal Audit Plan
- Management Information Systems [(MIS) Includes Disaster Recovery Plan]
- Consumer Assistance
- Follow-up of Prior Year Internal Audits
- Preparation of the 2021 Internal Audit Annual Report
- Other Tasks

This report contains the results of our audit of the MIS Area; reflects the results of the follow-up procedures performed in the current year of the findings that were presented in the prior year internal audit report; and, meets the State of Texas Internal Audit Annual Report requirements. The Consumer Assistance report, dated March 3, 2021, was presented to, and approved by, the Audit Committee and Finance Commission at the April 16, 2021 meetings.

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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 guidelines, within 30 days after approval by the Finance Commission, DOB will post the following information on its website:

- An approved fiscal year 2022 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2021 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The periodic and annual internal audit reports include 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, 2018 Revision*, Sections 3.64-3.106.

III. External Quality Assurance Review

The internal audit division's most recent *System Review Report*, dated November 16, 2018, 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 2021

The approved Internal Audit Plan (Plan) included two audits to be performed during the 2021 fiscal year. The Plan also included a follow-up of the prior year internal audit recommendations that were not fully implemented as of fiscal year ended August 31, 2020, other tasks as may have been assigned by the Finance Commission or the Audit Committee, and preparation of the Internal Audit Annual Report for fiscal year 2021.

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Risk Assessment

Utilizing information obtained through the completed questionnaires received and background information reviewed, 17 audit areas were identified as potential audit topics. A risk analysis utilizing 8 risk factors, was completed for each of the 17 potential audit topics 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
Procurement/Contract Management/HUB Management Information Systems [(MIS) Includes Disaster Recovery Plan] Fixed Asset Management Payroll & Human Resources	Travel Revenue Accounting Process Consumer Assistance Bank Examinations IT Examinations	Corporate Activities Financial Reporting Trust Examinations Money Service Businesses Prepaid Funeral Guaranty Fund Imaging & Records Management Perpetual Care Cemeteries Prepaid Funeral Contracts

In the prior 3 years, the following internal audits and other functions were performed:

Fiscal Year 2020:

- Risk Assessment & Preparation of the Internal Audit Plan
- Revenue Accounting Process Audit
- Imaging & Records Management Audit
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2019¹:

- Risk Assessment & Preparation of the Internal Audit Plan
- Information Technology Change Management Program
- Fines, Penalties, and Restitution Processes
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2018:

- Risk Assessment & Preparation of the Internal Audit Plan
- Prepaid Funeral Guaranty Fund
- Trust Examinations
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

¹ Performed by McConnell & Jones LLP.

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The internal audits and other tasks performed for fiscal year 2021 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Consumer Assistance <i>Objective:</i> To determine whether DOB’s policies and procedures and internal controls in place over the Consumer Assistance Area (Area) provide reasonable assurance of compliance with state requirements and Finance Commission mandates; and, whether such internal controls are operating effectively.	3/3/2021
2.	Management Information Systems [(MIS) Includes Disaster Recovery Plan] <i>Objective:</i> To review established policies and procedures and the internal control structure over the MIS Area, for the limited purpose of validating the implementation status of the audit findings and recommendations included in the Information Technology Change Management Program audit, dated June 27, 2019, and to review the Disaster Recovery Plan and the Continuity of Operations Planning (COOP) Plan, for inclusion of vital information as related to MIS.	4/30/2021
2.	Annual Internal Audit Report – Follow-Up of findings and recommendations that were presented in the Prior Year Internal Audit Report	4/30/2021
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

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V. Executive Summary

Management Information Systems [(MIS) Includes Disaster Recovery Plan]

Background

The Management Information Systems Area (Area) is subject to various federal and state statutes and regulations, with the most significant being the Texas Government Code Chapter 2054 and the Texas Administrative Code (TAC) Chapter 202.

DOB has chartered the Information Technology Steering Committee (ITSC) consisting of its executive management and staff representation, as a decision-making body responsible for setting Information Technology (IT) strategy and priority, and for approving IT-related policies proposed by the IT division. The IT division is supervised by a director who reports to the Deputy Commissioner and is DOB's designated Information Resources Manager. An IT Security Officer is DOB's designated Information Security Officer (ISO), and concurrently reports to the IT Director and has a direct line of communication to the Deputy Commissioner, as required by TAC §202.21.

IT Change Management Audit

DOB's predecessor internal auditor issued internal audit report #19-001, *Information Technology Change Management Program* dated June 27, 2019, which included 5 recommendations. Our follow-up procedures performed in fiscal year 2020 of these recommendations validated implementation for 2 of the 5 recommendations. The 3 recommendations that remained either "substantially implemented" or "incomplete/ongoing" related to (1) change management framework; (2) risk assessment process; and, (3) approval authority based on risk rating. Subsequent to our fiscal year 2020 follow-up, DOB management reported full implementation of these 3 recommendations to the Audit Committee at the October 16, 2020 and December 11, 2020 meetings.

During fiscal year 2021, the IT division updated the Change Management Standard Operating Procedure (SOP), which now serves as DOB's consolidated MIS change management framework.

To address the risk assessment process and approval authority recommendations, the SOP defines risk ratings of High, Medium, or Low that are assigned to each change request; identifies factors considered by IT staff, using their professional judgement, in determining the assigned risk rating; and, specifies approval authority and required stakeholder communication based on the respective risk rating.

The requirements in the SOP are incorporated in Track-It, which is the online change management system used by DOB. All change requests must be logged in Track-It as a change ticket; and, the assigned IT staff must assign it a change category and a risk rating. There are various change categories; such as, a data change for bank & trust, or a server configuration change. The change category and risk rating fields in Track-It are required to be completed to be compliant with the Change Management SOP. The change category and risk rating assigned to the change ticket will prompt the system to activate the associated approval authority, which then assigns and notifies the approvers required for the respective change ticket. The approval status is tracked and prominently displayed in the change ticket. The IT division periodically reviews the approvers list to ensure it is timely updated.

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Disaster Recovery Planning

Texas Department of Information Resources (DIR) has established the Texas Cybersecurity Framework (TCSF) for state agencies and institutions of higher education (state organizations) as a guide in implementing their Information Security Program. DIR also provides state organizations a set of minimum requirements for implementing security controls in the Security Control Standards Catalog (Catalog). Security controls in the Catalog align with controls established by the National Institute of Standards and Technology (NIST) in the Special Publication (SP) 800-53, *Security and Privacy Controls for Information Systems and Organizations*.

DOB's Disaster Recovery (DR) Plan is developed by the IT division, and reviewed and approved by the ITSC. The DR Plan is prepared in accordance with the DR Plan Policy, which establishes policies for ongoing maintenance, updates, and testing of the DR Plan. DOB's Continuity of Operations Plan (COOP) is developed by DOB's Chief Financial Officer who is DOB's designated COOP Coordinator, using the guidance provided by the State Office of Risk Management (SORM) and Federal Emergency Management Agency (FEMA). The DR Plan and the COOP (collectively, the Plans), address key NIST controls related to disaster recovery and contingency planning.

DOB has identified and documented essential functions and essential records in the COOP. DOB's DR Plan identifies critical systems, applications, and equipment; analyzes their interdependencies; and, provides restoration priority order to achieve minimum disruption to systems and applications that support essential functions. For each of the critical systems, applications, and equipment identified, the recovery metrics are specified for: Recovery Time Objectives (RTO), Recovery Point Objectives (RPO), and Maximum Tolerable Downtime (MTD). DOB's overall RTO is 24 hours from the activation of the Plans.

Mission-critical records and applications residing on DOB servers are backed up in an automated process, and a copy of backup data is sent to DOB's alternate site located in a separate geographical area. The Plans, which are maintained in multiple physical and virtual locations, provide procedures for activation, communication, recovery, and reconstitution; and, include internal and external contact information.

The IT division conducts DR training for its staff at least annually, and when the DR Plan is updated. The IT division also conducts quarterly Incident Response/Contingency tabletop tests with its staff using various scenarios. Test results are documented and used to assess and improve the DR Plan and preparedness.

The IT division reviews and updates the DR Plan at least annually and when there are significant system changes, with the most recent update in March 2021. Additionally, the State Office of Risk Management reviews the COOP after each biennial review and update, with the most recent evaluation report issued in January 2021.

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Audit Objective, Scope, and Methodology

Objective

The objective of our audit was to review established policies and procedures and the internal control structure over the MIS Area, for the limited purpose of validating the implementation status of the audit findings and recommendations included in the Information Technology Change Management Program audit, dated June 27, 2019, and to review the Disaster Recovery Plan and the Continuity of Operations Planning (COOP) Plan, for inclusion of vital information as related to MIS.

Scope

The scope of the audit was for the 7-month period from September 1, 2020 to March 31, 2021 (audit period).

Methodology

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

We obtained and/or reviewed the following internal and external documentation:

- A. Internal audit report #19-001, *Information Technology Change Management Program*, dated June 27, 2019, McConnell & Jones LLP.
- B. DOB Audit Activities Reports as of September 30, 2020 and as of November 30, 2020, as presented to the Audit Committee on October 16, 2020 and December 11, 2020, respectively.
- C. DOB Change Management Standard Operating Procedure (SOP), Version 1.1, and, Data Application Owner Review SOP, Version 1.0.
- D. Listing of change tickets opened during the audit period.
- E. Texas Cybersecurity Framework Security Control Objectives and Definitions; NIST SP 800-53 Rev. 5; and, DIR Security Control Standards Catalog Version 1.3, as applicable to the Area.
- F. DOB Continuity of Operations Plan, January 2021 and Information Technology Disaster Recovery Plan, March 2021.
- G. DOB Personnel Policy and Procedures Manual Section 14-33, *Disaster Recovery Planning*.
- H. SORM COOP Plan Evaluation Report, January 26, 2021.
- I. Documentation for a sample of DR exercise and tests conducted during the audit period.

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

- 1. Reviewed and obtained an understanding of state laws and regulations, and other requirements established by the DIR, as applicable to the Area.
- 2. Validated, through review of SOPs and Track-It demonstration by DOB staff, the implementation of IT Change Management Program audit recommendations, as reported by DOB management to the Audit Committee in the Audit Activity reports on October 16, 2020 and December 11, 2020.

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3. Reviewed DOB's applicable internal policies and procedures to determine whether the organizational structure and established policies and procedures provide adequate oversight and accountability over disaster recovery planning.
4. Reviewed the COOP, the DR Plan, and related internal policies and procedures, to verify inclusion of applicable controls in NIST SP 800-53 rev. 5, specifically, CP-1, CP-2, CP-3, CP-4, CP-6, CP-7, CP-8, CP-9, and CP-10; and, compliance with state implementation requirements for the same controls in the Security Control Standards Catalog v. 1.3.
5. Reviewed a sample of Test, Training & Exercise (TT&E) activities documentation to verify TT&E activities take place on a regular basis and to determine whether there is a system in place to ensure test results are documented and utilized to improve the DR Plan.

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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
-	None	-
<p><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	Fiscal Impact/ Other Impact
2	4/30/2021	Management Information Systems [(MIS) Includes Disaster Recovery Plan]	None.	

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VII. External Audit Services Procured in Fiscal Year 2021

DOB procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2021. 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 2022

The risk assessment performed during the 2021 fiscal year was used to identify the following *proposed* areas that are recommended for internal audit and other tasks to be performed for fiscal year 2022. The Internal Audit Plan for Fiscal Year 2022 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.

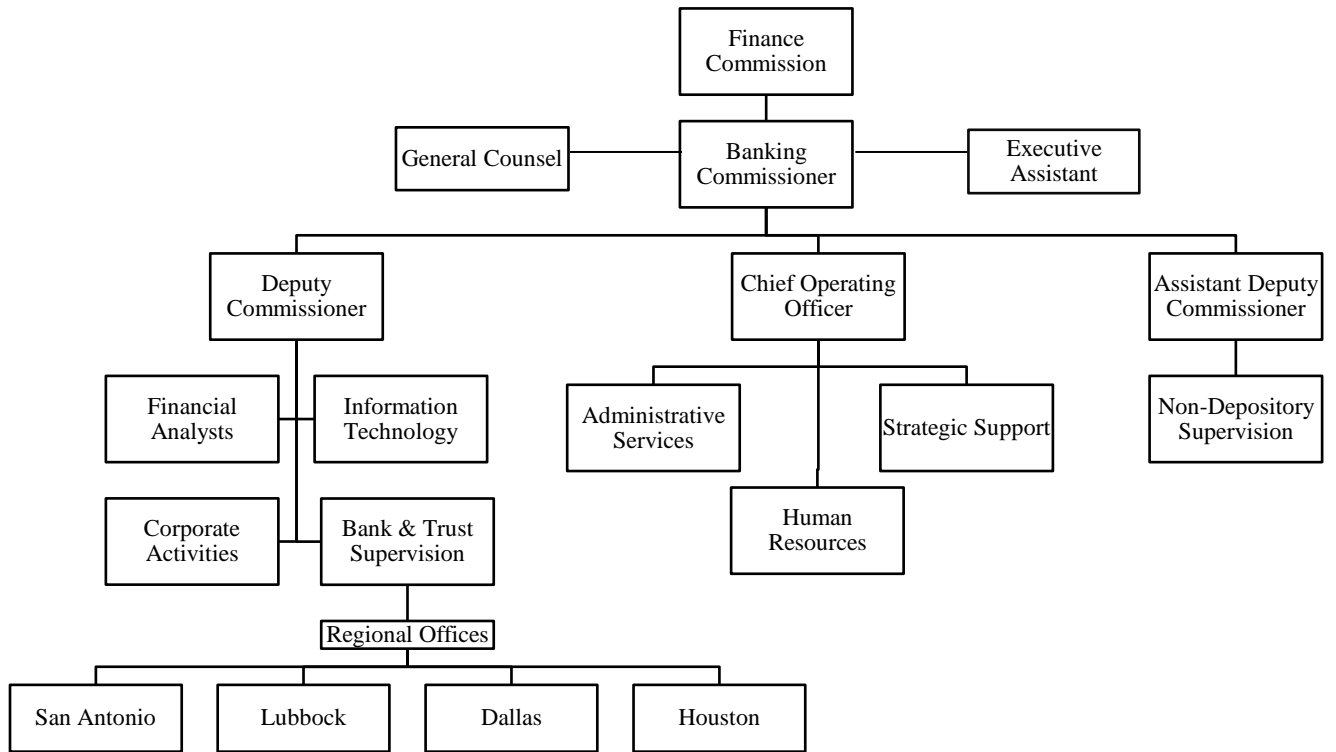
- Corporate Activities
- Payroll and Human Resources
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission or the Audit Committee

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X. Organizational Chart



ATTACHMENT

TEXAS DEPARTMENT OF BANKING
History of Areas Audited
For Fiscal Year 2021

POTENTIAL AUDIT TOPIC		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1	Bank Examinations		A/B*	B*				A/B*	E			
2	Consumer Assistance								E			A
3	Corporate Activities			A			G*		E			
4	Financial Reporting	A						B	E*/C*			
5	Fixed Asset Management				C*			A	C*			C*
6	Imaging and Records Management						A				A	
7	IT Examinations						A		E			
8	Management Information Systems [(MIS) Includes Disaster Recovery Plan]	D*	D*	D*/W	A, D*	D*	D*/G*	D*/B	E*	A1*/D	D*	A*/D
9	Money Service Businesses				A			B*	E	A1*	A*	
10	Payroll and Human Resources	A*	V	G*	C*		G*		C*/F*	F*	G*	C*
11	Perpetual Care Cemeteries					A		B*	E	A1*	A*	
12	Prepaid Funeral Contracts			A				B*	E	A1*	A*	
13	Prepaid Funeral Guaranty Fund		A						A/E	A1*	A*	
14	Procurement/Contract Management/HUB	A			C*			B*	C*			C*
15	Revenue Accounting Process	A				A		B	E	A1*	A	
16	Travel	A*			C*			B*	C*/E*			C*
17	Trust Examinations	A							A/E			

Note: Performance Measures is included in the scope of the applicable audit area(s).

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

- A** Internal audit performed by Garza/Gonzalez & Associates, CPAs.
- A1** Internal audit performed by McConnell & Jones LLP.
- B** Audit performed by the State Auditor's Office (SAO).
- C** Post-Payment audit performed by the Comptroller of Public Accounts.
- D** IT assessment performed by the Department of Information Resources (DIR) or a third-party vendor procured through the DIR.
- E** Sunset Review performed by the Sunset Advisory Commission.
- F** Review performed by the Texas Workforce Commission.
- G** Review performed by the Department of Public Safety.