

TEXAS DEPARTMENT OF BANKING
Austin, Texas

INTERNAL AUDIT ANNUAL REPORT

Fiscal Year 2024



TEXAS DEPARTMENT OF BANKING
Austin, Texas

Internal Audit Annual Report
Fiscal Year 2024

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Garza/Gonzalez & Associates, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and
Audit Committee Members
Texas Department of Banking
Austin, Texas

We performed procedures to assess the effectiveness and efficiency of the Texas Department of Banking's (DOB) internal control structure over the Trust Examination Area (Area) and its compliance with the applicable chapters of the Texas Finance Code, the Texas Administrative Code rules, and the Area's established policies and procedures for the 9 months ended May 31, 2024.

The results of our procedures disclosed that DOB's internal control structure over the Area 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 DOB's established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective, they were rated as Priority, High, Medium, or Low, as further described in the "Summary and Related Rating of Observations/Findings and Recommendations," section of this report.

We also conducted a follow-up on the findings and recommendations presented in the prior year's internal audit reports that were not fully implemented. This report reflects the results and implementation status of our follow-up procedures, and includes all information required for compliance with State of Texas Internal Audit Annual Report requirements. It has been prepared by Garza/Gonzalez & Associates, an independent Certified Public Accounting firm, following Generally Accepted Government Auditing Standards, International Standards for the Professional Practice of Internal Auditing, and the Institute of Internal Auditors' Code of Ethics contained in the Professional Practices Framework.

We have discussed the comments and recommendations from the audit of the Area, as well as the implementation status from the follow-up procedures performed, with various DOB personnel. We would be pleased to discuss these matters with you in further detail.



July 9, 2024

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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 state-chartered commercial banks and trust companies, foreign bank branches, agencies, and representative offices;
- License, regulate, and examine money services businesses (MSB);
- License, regulate, and examine prepaid funeral contract sellers (PFC) and perpetual care cemeteries (PCC); 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; instead, the Finance Commission is responsible for setting DOB's spending authority or limits. DOB's entire 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.

2024 Internal Audit Plan

Following are the internal audit functions performed, as identified in DOB's 2024 Internal Audit Plan, dated January 23, 2024 and approved by the Audit Committee and Finance Commission on February 16, 2024:

- Risk Assessment & Preparation of the 2024 Internal Audit Plan
- Payroll and Human Resources Audit
- Trust Examinations Audit
- Follow-up of Prior Year Internal Audits
- Preparation of the 2024 Internal Audit Annual Report
- Other Tasks

This report contains the results of the Trust Examinations Audit, reflects the results of the follow-up procedures performed this year on the findings from the prior year's internal audit reports, and meets the State of Texas Internal Audit Annual Report requirements. The Payroll and Human Resources Audit report, dated April 19, 2024, was presented to and approved by the Audit Committee and Finance Commission on June 21, 2024.

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I. Compliance with Texas Government Code 2102.015: 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 2025 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2024 internal audit annual report, as required by Texas Government Code, Section 2102.009.

The periodic and internal audit annual reports include any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor, as well as a summary of the actions 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, Technical Update April 2021, Sections 3.64-3.106.

III. External Quality Assurance Review

The internal audit department's most recent *Peer Review Report*, dated December 15, 2021, 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 2024

The approved Internal Audit Plan (Plan) included two audits to be performed during fiscal year 2024. The Plan also included a follow-up on prior year internal audit recommendations that were not fully implemented as of fiscal year 2023, other tasks as may have been assigned by the Finance Commission or Audit Committee, and preparation of the 2024 Internal Audit Annual Report.

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Risk Assessment

Utilizing information obtained through the completed questionnaires received and background information reviewed, 17 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
Payroll and Human Resources Trust Examinations	Management Information Systems [(MIS) Includes Disaster Recovery Plan] Revenue Accounting Process Corporate Activities Bank Examinations Procurement/Contract Management/HUB Financial Reporting	Money Service Businesses Travel IT Examinations Asset Management Imaging & Records Management Prepaid Funeral Guaranty Fund Perpetual Care Cemeteries Prepaid Funeral Contracts Consumer Assistance

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

Fiscal Year 2023:

- Risk Assessment & Preparation of the Internal Audit Plan
- Corporate Activities Audit
- Procurement/Contract Management/HUB Audit
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2022:

- Risk Assessment & Preparation of the Internal Audit Plan
- Bank Examinations Audit
- IT Examinations Audit
- Follow-Up of the Prior Year Internal Audits
- Preparation of the Internal Audit Annual Report

Fiscal Year 2021:

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

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The internal audits and other tasks performed for fiscal year 2024 were as follows:

Report No.	Audits/Report Titles	Report Date
1.	Payroll and Human Resources <i>Objective:</i> To assess the effectiveness and efficiency of the internal controls, policies, procedures, and processes in place for the Human Resources and Payroll area, and to ensure compliance with applicable state requirements.	4/19/2024
2.	Trust Examinations <i>Objective:</i> To assess whether DOB's established policies, procedures, processes, and internal controls in place over the Trust Examination area (Area) ensure effective and timely trust examinations. Additionally, our assessment was to verify that the trust examinations were performed in accordance with applicable laws and regulations, and to evaluate the effectiveness of internal controls.	7/9/2024
2.	Internal Audit Annual Report – Follow-up on findings and recommendations that were presented in the Prior Year Internal Audit Report.	7/9/2024
-	Other Tasks Assigned by the Finance Commission or the Audit Committee	None

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V. Executive Summary

Trust Examination Area

BACKGROUND

In accordance with the Texas Finance Code (TFC) §31.105 and §181.104, the Texas Department of Banking (DOB) is responsible for examining each state-chartered trust department and trust company annually, on another periodic schedule, or as necessary, as determined by the Banking Commissioner. The TFC also authorizes DOB to accept examinations conducted by, or to conduct joint examinations with, the Federal Deposit Insurance Corporation (FDIC) or the Federal Reserve Bank (FRB) of Dallas.

Trust departments, regulated by the *Texas Banking Act*, operate under a bank charter and are granted authority to offer fiduciary services to the public. Trust companies, regulated by the *Texas Trust Company Act*, operate under a trust company charter. Exempt trust companies are exempt from certain provisions of the TFC and do not conduct business with the public. Pursuant to TFC §182.103, DOB may periodically examine or investigate an exempt trust company to verify the annual certification required to be filed with DOB.

As of May 31, 2024, DOB supervised 34 trust departments, 17 non-exempt trust companies, and 22 exempt trust companies.

Organization

The Trust Examinations Area (Area) is part of the Bank and Trust Supervision Division which is under the supervision of the Bank and Trust Supervision Director (Division Director). The Division is comprised of the Austin headquarters and 4 regional offices (RO) (Dallas, Houston, Lubbock, and San Antonio); and, is supervised by the Examination Support Activities Director (Director) and the Chief Trust Examiner (CTE). The IT and Bank Examination Areas are also part of the Division but are separate auditable areas that were not included in the scope of this audit.

Trust Examinations

The scope and frequency of examinations are determined by DOB Supervisory Memorandum (SM) 1003 for trust departments and SM 1004 for trust companies. These examinations are generally based on the entity's asset size, composite rating, and capital category to ensure higher-risk entities receive more frequent and comprehensive examinations. The CTE is responsible for scheduling examinations, typically a year in advance, by the due date determined by the respective SM using DOB's proprietary database, the Examination Division Information System On the Network (EDISON). Examination records are also tracked in EDISON. Joint examinations are scheduled in conjunction with the FDIC or FRB. The Area tracks its compliance with examination frequency and reports the status at every Finance Commission meeting.

During the planning phase, the Examiner in Charge (EIC) assigned to the examination performs planning procedures using a standardized Scope Form. The EIC determines the scope of the examination based on a risk analysis of the entity and documents the proposed examination procedures and personnel assignments in the Scope Form. The Scope Form must be initialed by the CTE, denoting their approval, before the examination commences.

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DOB has developed tailored examination work programs used to document the examination procedures performed and to support the examination conclusions included in the Report of Examination (ROE). All examination procedures are documented in work papers in accordance with DOB's internal work paper organization policy. The assigned examiner must complete all required steps included in the respective examination procedure, and if a required step is not performed, an explanation must be documented in the work paper. DOB utilizes the modified *Uniform Interagency Trust Rating System (UITRS)* to assess the conditions of the fiduciary operations by assigning a composite rating based on the evaluation of five component factors (MOECA):

- Capability of Management
- Adequacy of Operations, controls, and audits
- Quality and level of Earnings
- Quality and level of Compliance
- Management of fiduciary Assets

In addition to the modified UITRS, the *Trust Company Rating System* is used to evaluate the strength of the trust company. The five primary aspects evaluated and rated are (CAMEL):

- Capital adequacy
- Asset quality
- Management
- Earnings
- Liquidity

UITRS and CAMEL ratings are assessed based on a scale of 1 to 5, with 1 representing the strongest position.

The EIC is responsible for reviewing work papers to ensure all required procedures were completed, adequately documented, and properly organized. The EIC initials each applicable procedure on the Scope Form to indicate their review. Completed work papers are retained in DOB's document management system by importing them into Document Manager. A quality review is performed by an examiner to ensure all work papers are imported, properly indexed, and accessible in Document Manager. The EIC will complete a Turn-in-Checklist Trust Report of Examination checklist to ensure all required tasks are completed and turned in at the conclusion of the examination.

Upon completion of an examination, the EIC prepares and signs the ROE, which is then submitted to the CTE and/or Director for review. ROEs for trust departments and trust companies with fiduciary assets less than \$2 billion and UITRS and CAMEL (trust companies only) ratings of 2 or less can be signed by the CTE, if the CTE did not prepare the ROE. ROEs that do not meet these criteria require additional review and approval by the Director and/or Deputy Commissioner. The ROE must be presented to the entity's governing board and each board member must acknowledge receipt by signing the ROE. DOB has established a processing schedule to ensure ROEs are completed and submitted to entities in a timely manner. From September 1, 2023 to May 31, 2024, DOB issued 26 ROEs: 6 for trust departments and 20 for trust companies, including 4 from joint examinations with federal supervisory agencies.

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Work Paper Reviews

In addition to reviews throughout examinations and the ROE processing schedule, DOB conducts sample-based comprehensive work paper reviews to ensure high-quality work papers that comply with its established guidelines. The Work Paper Examination Support Tool (WEST) application is utilized to document and communicate review results uniformly with management, regional offices, and examiners.

DOB has established the following types of comprehensive work paper reviews:

- **Comprehensive Review:** Conducted annually by the CTE or their designee to review 20% of examinations conducted. A detailed findings report is provided to the EIC for response, and both the report and responses are imaged to Document Manager. During the audit period, 8 examinations were reviewed.
- **Examiners' Council (EC) Review:** Conducted by EC members, each serving a 2-year term. The EC includes an examiner from each regional office, a trust examiner, and an IT examiner. To ensure independence, the EC member performing the review must be separate from the examination and RO under review. DOB policy requires an annual review of at least 2 trust examinations. During the audit period, the EC reviewed 2 trust examinations.

Trust Companies Investigations

The Corporate Activities Division (CAD) is responsible for processing applications for trust company charters, conversions from exempt to non-exempt status, and conversions of trust institutions to state trust companies; and, ensuring all required fees are paid. The Area conducts investigations using a tailored investigation work program and issues an internal Report on Investigation (ROI) before DOB issues a charter. The purpose of the investigation and ROI is to determine whether conditions outlined in TFC §182.003 or §182.502 are met.

As of May 31, 2024, the Area completed an investigation and issued an ROI for one trust company.

Exempt Trust Companies

In accordance with TFC §182.013, exempt trust companies must file an annual certification form (form) with DOB by April 30th. This form confirms they maintain the conditions and limitations of their exempt status and includes a required filing fee of \$100, as required by TAC §21.2(b). On the first business day of each calendar year, the Division's financial analyst sends an email reminder to exempt trust companies, prompting them to submit their form and fee by the designated deadline. A follow-up reminder is emailed on March 15th to those who have not yet submitted their forms.

The annual certification forms are accessible through the Trust Company Call Report Portal. Upon receiving these forms, the financial analyst reviews them to confirm appropriate signatures were obtained and that the box indicating "*does not transact business with the general public*" is marked. The financial analyst then date-stamps the forms. The Administrative Services Division handles the processing of fees and notifies the financial analyst upon receipt of the fees. The financial analyst tracks the dates of form submissions and fee receipts using EDISON.

Examiner Training

DOB has established a Commissioning Process known as the Bank Examination Testing System (BETS) to develop an examiner's competency. This process is divided into 4 phases, with progression to the next phase contingent upon passing the preceding one. Entry-level financial examiners (Assistant Financial Examiners, or AFEs) are expected to attain certification as a commissioned examiners within 7 years of employment.

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Commissioned FEs seeking further advancement must complete certain training courses required by DOB's training policy. Upon hiring, a training plan is developed jointly by the AFE and the CTE or Director, which is updated annually. Any exceptions to the training policy require written approval from the Banking Commissioner and are documented and retained by Human Resources.

Performance Measures

Performance measures data is generated quarterly from EDISON by the financial analyst. The financial analyst inputs the data into a spreadsheet for review and approval by the Division Director and Deputy Commissioner. Subsequently, the approved information is sent to the Administrative Services Division for inclusion in the Finance Commission report.

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to assess whether DOB's established policies, procedures, processes, and internal controls in place over the Trust Examination area (Area) ensure effective and timely trust examinations. Additionally, our assessment was to verify that the trust examinations were performed in accordance with applicable laws and regulations, and to evaluate the effectiveness of internal controls.

Scope

The scope of this audit was to review and/or test the selected functions and examinations performed within the Area for the 9-month period from September 1, 2023 to May 31, 2024 (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. Additionally, interviews were conducted with selected DOB personnel.

We obtained and/or reviewed the following information:

- A. Sections of the Texas Finance Code and Texas Administrative Code applicable to the Area
- B. DOB's written policies and procedures, supervisory memorandums, administrative memorandums, and examiner bulletins related to the Area.
- C. Bank & Trust Supervision Division organizational chart.
- D. A listing of ROEs issued during the audit period, and the supporting examination work papers and reports for the 6 examinations selected for testing.
- E. A list of examinations reviewed by the Examiners' Council and a list of comprehensive reviews conducted during the audit period.
- F. A list of exempt trust companies as of May 31, 2024, and selected annual certification forms for testing.
- G. Sample scheduling reports, planning documents, and work programs.
- H. Performance measures related to the Area as reported to the Finance Commission on April 19, 2024, and the related performance measures reports from EDISON.
- I. EDISON reports used to track the status of report submissions, and processing schedules.
- J. Training records for selected examiners.

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

1. Reviewed and obtained an understanding of the laws and regulations in the Texas Finance Code, and Texas Administrative Code, as applicable to the Area.
2. Reviewed the Area's written policies and procedures, supervisory memorandums, administrative memorandums, and examiner's bulletins; collected available documentation; and, conducted interviews to understand the controls, processes, and current practices in place.
3. Obtained a list of ROEs issued during the audit period and randomly selected 6 of the 20 trust company examinations, and haphazardly selected 1 trust department examination to test for the following attributes:
 - a. Compliance with the examination scope and frequency requirements outlined in the respective SM.
 - b. ROE was approved and signed at the proper level under DOB's delegation of signatory authority.
 - c. Scope Form was completed, approved by the CTE, and initialed by the EIC for each procedure. If a procedure was not performed, an explanation was documented.
 - d. All required procedures and steps within the procedure, as documented in the Scope Form, were performed.
 - e. Completion of the Turn-in Checklist Trust Report of Examination.
 - f. The ROE was processed timely in accordance with DOB's processing schedule.
 - g. All findings noted in the Summary of Findings were included in the ROE.
 - h. Ratings documented in the work programs agreed with the ROE.
4. Selected the 5 exempt trust companies from procedure 3 and obtained the annual certification form (form) submitted during the audit period to test for the following attributes:
 - a. The form was date stamped on or before April 30th.
 - b. The form was signed by the authorized officer and 3 directors.
 - c. Received dates were properly entered in EDISON.
5. Selected the ROI completed during the audit period to test for the following attributes:
 - a. Investigation was performed prior to the approval of the charter or conversion.
 - b. Investigation fee was paid by the applicant prior to the investigation.
 - c. Respective workpapers were properly completed.
 - d. Report on Investigation was properly prepared and approved by the Division Director.
6. Obtained and agreed the performance measures presented to the Finance Commission on April 19, 2024, with the supporting reports from EDISON.

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7. Obtained the training policy to gain an understanding of the training process and requirements for trust examiners. Selected 2 commissioned examiners and tested for the following attributes:
 - a. Obtained the “personal training profile” report to ensure it reflected the completion of the courses required for the examiner’s classification.
 - b. Obtained the ITP to ensure completeness and approval by the CTE.
 - c. Verified that examiners completed the required Core Curriculum course needed for their position.
 - d. Selected a training course taken by the selected examiners and reviewed supporting documentation.
 - e. Ensured that required training was received prior to the employee’s promotion date.
8. Obtained a listing of the Examiners’ Council (EC) Trust Workpaper Reviews conducted during the audit period and haphazardly selected 1 of the 2 workpaper reviews performed to ensure:
 - a. The EC Review was conducted by an EC member who was not associated with the examination being reviewed.
 - b. EIC’s response to Critical and Important findings, if applicable, were obtained and retained with workpapers.
 - c. Ratings of each finding were in accordance with the internal guidelines described in the applicable examiner bulletin.
 - d. The number of findings reported during the review agrees with the number reported in the memo to the Division Director.
9. Obtained a listing of Peer Review comprehensive reviews conducted during the audit period and haphazardly selected 2 of the 8 reviews performed to ensure.
 - a. Ratings of each finding were in accordance with the internal guidelines described in the applicable examiner bulletin.
 - b. Trust Workpaper Critique form was properly completed and reviewed.

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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 was developed by the Texas State Auditor’s Office and is based on the degree of risk or effect on the findings in relation to the audit objective(s). The table below presents a summary of the observations/findings and recommendations included in this report and the related rating.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
1	Completeness of Work Papers	Low
Observation No.		
1	Policies & Procedures	--
2	Quality Control Procedures	--
<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(s) 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(s) 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(s) 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
2	7/9/2024	Trust Examinations	<p>1. Completeness of Work Papers</p> <p>The Examiners’ Council recommendations documented in <i>Examiner Bulletin 2024-05 TR – Work Paper Recommendation and Guidelines</i> state that examiners should answer questions completely and provide appropriate responses, such as specifically stating if something is adequate or inadequate.</p> <p>Our review of the examination work papers for 6 trust companies and one trust department examination disclosed one instance where the Summary of Findings section of the <i>E01 – Active Exempt Trust Company Examination Procedures</i>, which requires the examiner to describe all strengths and weaknesses evident from their evaluation, was not completed.</p> <p>Recommendation We recommend that DOB ensure examiners follow the Examiners’ Council recommendations to ensure complete and accurate work papers are prepared to support the Report of Examination.</p> <p>Management’s Response Management recognizes the oversight. A discussion was held with the trust examination team at their July 24, 2024, staff meeting to discuss the importance of completing and accurately documenting work papers to support the Report of Examination.</p> <p>Every effort will be made to comply with internal policies on documentation.</p> <p style="text-align: center;">Observations</p> <p>1. Policies & Procedures</p> <p>The Area complies with various policies, procedures, Examiner Bulletins, Supervisory Memorandums, and Administrative Memorandum. Although the procedures and processes in the following documents may reflect the Area’s current practices, they have not been updated in several years:</p> <ul style="list-style-type: none"> • Trust Fee Collection Procedure (4/2018) • Examiner Bulletin XB-2018-05 (3/2018) • Examiner Bulletin XB-2011-04 (5/2011) • Examiner Bulletin XB-2020-04 (9/2020) • Supervisory Memorandum – 1001 (5/2010) • Supervisory Memorandum – 1002 (12/1998) • Administrative Memorandum – 2009 (1/2020) • Administrative Memorandum – 2040 (6/2020) • Administrative Memorandum – 2043 (9/2019) <p>Recommendation We recommend that these documents be reviewed periodically to assess whether procedures and/or processes should be updated for improvement.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations
2	7/9/2024	Trust Examinations	<p>Management’s Response Our agency has a process to periodically review all policies and procedures, which includes memorandums and examiner bulletins. Generally, all policies and procedures are reviewed on a five-year cycle. Policies are continuously monitored and reviewed for accuracy.</p> <p>Many of the policies / procedures related to examinations are coordinated with state and federal counterparts that reflect agreed upon processes. As such, these policies are updated when a change in the process occurs or is necessary and agreed upon.</p> <p>2. Quality Control Procedures</p> <p>Administrative Memorandum – 2015 Work Paper Organization, Retention and Review requires that a Quality Control Procedure be performed once the examination documents are imported into Document Manager. The review consists of opening each procedure and verifying that each embedded document reflects its labeled contents.</p> <p>Our testing of 1 trust department examination disclosed an instance where an incomplete document, instead of the completed document, was embedded into the examination work papers. Subsequently, we were provided with the completed form.</p> <p>Recommendation We recommend that DOB ensure the quality control procedures are followed to ensure completion of all embedded documents.</p> <p>Management’s Response The document in question was the official officer’s questionnaire. An incorrect version was erroneously uploaded into the Table of Content (TOC). However, the trust team has a backup process where all files pertaining to an examination can be recovered. A correct version was subsequently located and uploaded to the TOC. Per Administrative Memorandum 2015, each RO and specialty area maintains examination procedures on the LAN for two examination periods where the Department is the lead allowing for documents to be retrieved from a secondary source aside from Document Manager.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with explanation if not yet fully implemented
2	7/9/2024	2024 Follow-Up	<p align="center"><u>Follow-Up of Prior Year Internal Audits</u></p> <p>Following is the status of the recommendations made in prior years that had not been fully implemented.</p> <p><u>Procurement/Contract Management/HUB (Report date 6/7/2023)</u></p> <p>1. LBB Reporting DOB should strengthen its controls to ensure it remains compliant with LBB state reporting requirements.</p> <p><i>Explanation for FY24 Status</i> One of the four POs over \$50,000 selected for testing was under reported to the LBB due to amendments that occurred during the year.</p> <p>2. HUB Supplemental Data Reporting DOB should update its HUB Supplemental Data collection methodology to ensure accurate data will be submitted to the Comptroller.</p> <p><u>Corporate Activities (Report date 2/27/2023)</u></p> <p>1. Monitoring Overall-Processing Time DOB should establish clear guidance and communicate management’s expectations to CAs, as related to the CATS documentation; and, improve management’s monitoring of long-outstanding filings.</p> <p>2. Filing Processing Deviations DOB should continue their period review and revision to AM 2031 and Manuals to ensure they are up to date and reflect current practice.</p> <p>Observations</p> <p>3. Finance Commission Reporting DOB should periodically validate the accuracy of system-generated summary report to ensure reliability of the data reported to the Finance Commission.</p> <p>4. CATS Reports DOB should re-evaluate accuracy of all frequently used CATS Reports and consider updating the CATS reporting menu to include a deletion log as a CATS Maintenance Report.</p>	<p align="center">Substantially Implemented</p> <p align="center">Fully Implemented</p> <p align="center">Fully Implemented</p> <p align="center">Fully Implemented</p> <p align="center">Fully Implemented</p> <p align="center">Fully Implemented</p>

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VII. External Audit Services Procured in Fiscal Year 2024

DOB procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2024. 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 2025

The risk assessment performed during fiscal year 2024 was used to identify the following *proposed* areas that are recommended for internal audit and other tasks to be performed for fiscal year 2025. The Internal Audit Plan for Fiscal Year 2025 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.

- Management Information Systems (includes Disaster Recovery Plan)
- Financial Reporting Audit
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission or the Audit Committee

ATTACHMENT

TEXAS DEPARTMENT OF BANKING
History of Areas Audited
For Fiscal Year 2024

POTENTIAL AUDIT TOPIC		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
1	Bank Examinations				A/B*	E				A		
2	Consumer Assistance					E			A			
3	Corporate Activities					E					A	
4	Financial Reporting				B	E*						
5	Fixed Asset Management	C*			A	C*			C*			
6	Imaging and Records Management			A				A				
7	IT Examinations			A		E				A		
8	Management Information Systems [(MIS) Includes Disaster Recovery Plan] ¹	A			B	E*	A1*/D		A*/D		D	
9	Money Service Businesses	A			B*	E	A1*	A*				
10	Payroll and Human Resources	C*				C*/F*	F*		C*			A
11	Perpetual Care Cemeteries		A		B*	E	A1*	A*				
12	Prepaid Funeral Contracts				B*	E	A1*	A*				
13	Prepaid Funeral Guaranty Fund					A/E	A1*	A*				
14	Procurement/Contract Management/HUB	C*			B*	C*			C*		A	
15	Revenue Accounting Process		A		B	E	A1*	A				
16	Travel	C*			B*	C*/E*			C*			
17	Trust Examinations					A/E						A

¹ Quarterly vulnerability scans are performed by the DIR or a third-party procured through the DIR, which are considered standardized reviews and therefore not reflected in this schedule by

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.