

FINANCE COMMISSION
Austin, Texas

INTERNAL AUDIT PLAN

For Fiscal Year 2015



FINANCE COMMISSION

Austin, Texas

Internal Audit Plan
For Fiscal Year 2015

TABLE OF CONTENTS

	<u>Page</u>
Internal Auditor’s Report	1
I. Methodology.....	2-3
II. Scope.....	4
III. Texas Department of Banking	
Internal Audit Plan	5
Risk Assessment	5-7
IV. Department of Savings and Mortgage Lending	
Internal Audit Plan	8
Risk Assessment	8-9
V. Office of Consumer Credit Commissioner	
Internal Audit Plan	10
Risk Assessment	10-11
Attachments	
Texas Department of Banking – Risk Assessment Summary	12
Department of Savings and Mortgage Lending – Risk Assessment Summary.....	13
Office of Consumer Credit Commissioner – Risk Assessment Summary	14

Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and
Audit Committee Members
Austin, Texas

Enclosed is the proposed fiscal year 2015 Internal Audit Plan (Plan) for the Finance Commission. This Plan determines the scope of internal audit activities and is the source for assignment and prioritization of internal audit responsibilities for fiscal year 2015 for the Texas Department of Banking (DOB), Department of Savings and Mortgage Lending (SML) and the Office of Consumer Credit Commissioner (OCCC). Specific planning for audit procedures is a naturally ongoing process; thus, the Plan is reviewed annually and may be revised as necessary by the Board or Audit Committee.

This Plan has been prepared following Generally Accepted Auditing Standards and International Standards for the Professional Practice of Internal Auditing, as determined by the Institute of Internal Auditors.

*Garza/Gonzalez
& Associates*

November 10, 2014

FINANCE COMMISSION

Austin, Texas

Internal Audit Plan
For Fiscal Year 2015

I. Methodology

The fiscal year 2015 Internal Audit Plan (Plan) for the Finance Commission was prepared using a risk assessment process, where we reviewed various documents and questionnaires completed by each of the 3 agencies, as documented below. These 3 agencies, which are considered financial regulatory agencies, were granted self-directed, semi-independent (SDSI) status in the 81st Legislature Session, effective September 1, 2009. With the SDSI status, these agencies are not required to have their budget approved by the Legislature; however, the Finance Commission is responsible for setting their spending authority or limits. Each agency's entire operating funds are generated from fees assessed to the businesses they supervise and are used to fund both direct and indirect costs. General revenue funds are not used to support their operations.

The following documents were reviewed to update our understanding of the 3 agencies:

- Operating Budgets
- Organizational Charts
- Policies and Procedures
- Applicable Laws and Rules
- Audit and/or Monitoring Reports from Third Party Agencies
- Prior Internal Audit Reports

Additionally, we developed questionnaires for completion by the Commissioners, Deputy Commissioners, and/or Division Directors to update our understanding of each Division, and its role within the overall scheme of the respective agency. The questionnaires included topics; such as, recent changes in key personnel, time elapsed since last audit, past audit findings, and regulatory compliance. Utilizing information obtained through the questionnaires and background information reviewed, audit areas for each of the 3 agencies were identified as potential audit topics. A risk analysis was completed for each individual audit topic and then compiled to develop an overall risk assessment for each of the 3 agencies.

FINANCE COMMISSION

Internal Audit Plan

The following 8 risk factors were considered for each potential audit topic:

1. Financial Materiality Measure of the auditable unit's materiality based on the dollar amount per year of assets, receipts, or disbursements for which it is responsible.
2. Time Since Last Audit or Review Measure of the number of years between the date of the previous audit or review and the date of the risk assessment.
3. Results of Last Audit or Review Measure of the results of the previous audit or review.
4. Adequacy of Staffing Levels Measure of the adequacy of the staffing level of the auditable unit as it relates to the achievement of its objectives.
5. Policies and Procedures Measure of the existence of policies and procedures documenting the auditable unit's activities.
6. Compliance with Contracts, Laws, and Regulations Measure of the existence of contracts, laws, and/or regulations for which the auditable unit is responsible for complying.
7. Susceptibility of Material Theft or Fraud Measure of the auditable unit's risk and controls in place as it relates to material theft or fraud.
8. Issues or Concerns Measure of issues or concerns by management, the Finance Commission, or Audit Committee.

FINANCE COMMISSION

Internal Audit Plan

II. Scope

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope will encompass the examination and evaluation of the adequacy and effectiveness of the respective agency's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes 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.

FINANCE COMMISSION

Internal Audit Plan

III. Texas Department of Banking

Internal Audit Plan

The Internal Audit Plan (Plan) includes 2 audits to be performed during the 2015 fiscal year. The Plan also includes a follow-up of the prior year audit recommendations, other tasks that may be assigned by the Finance Commission during the year, and preparation of the Annual Internal Audit Report for fiscal year 2015.

Risk Assessment

Utilizing information obtained through the questionnaires and background information reviewed, 17 audit areas were identified as potential audit topics. A risk analysis utilizing the 8 risk factors, mentioned in section I of this report, 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
Revenue Accounting Process	Perpetual Care Cemeteries Trust Examinations IT Examinations Purchasing Payroll & Human Resources Money Services Businesses Prepaid Funeral Guaranty Funds Bank Examinations Management Information Systems	Imaging & Records Management Financial Reporting Travel Prepaid Funeral Contracts Fixed Asset Management Risk Management Corporate Activities

The 2015 Risk Assessment Summary is included on page 12 of this report.

FINANCE COMMISSION

Internal Audit Plan

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

Fiscal Year 2014:

- Money Services Businesses
- Management Information System

Fiscal Year 2013:

- Corporate Activities
- Prepaid Funeral Contracts

Fiscal Year 2012:

- Bank Examinations
- Prepaid Funeral Guaranty Funds

The areas recommended for internal audits and other functions to be performed for fiscal year 2015 are as follows:

1. Revenue Accounting Process

The planned audit procedures include the following:

- a. Review and obtain an understanding of the applicable laws and regulations provided in the Texas Administrative Code, Texas Finance Code, Texas Government Code, and the Texas Health and Safety Code.
- b. Obtain and review written policies and procedures, collect available documentation, and conduct interviews to document formal/informal processes and controls.
- c. Select and test a sample of transactions to ensure the fee is supported, assessed in accordance with applicable state laws and regulations; and, properly calculated, collected and recorded.
- d. Perform analytical procedures to ensure reported revenues are consistent to actual operations.
- e. Other procedures deemed necessary during audit fieldwork.

FINANCE COMMISSION

Internal Audit Plan

2. Perpetual Care Cemeteries

The planned audit procedures include the following:

- a. Review and obtain an understanding of applicable laws and regulations provided in the Texas Health and Safety Code and the Texas Administrative Code.
- b. Obtain and review the PCC area's written policies and procedures, collect available documentation, and conduct interviews to document formal/informal processes and controls.
- c. Ensure the inclusion of significant laws and regulations within the examination procedures used to examine records of the PCC licensees.
- d. Select a sample of examinations and review the applicable workpapers to determine if controls in place are functioning as intended.
- e. Test a sample of applications and renewals to ensure proper issuance of a PCC license.
- f. Test a sample of filing, renewal, and examination fees to ensure accuracy in the amount billed and collected in accordance with the Texas Administrative Code.
- g. Other procedures deemed necessary during audit fieldwork.

3. Follow-up of Internal Audits

Perform follow-up procedures to determine the status of prior year comments that were not fully implemented as of the fiscal year ended August 31, 2014. The audit procedures will result in a determination that the recommendation is (1) Fully Implemented; (2) Substantially Implemented; (3) Incomplete/Ongoing; or, (4) Not Implemented.

4. Other Tasks

Other tasks as may be assigned by the Finance Commission during the fiscal year.

FINANCE COMMISSION

Internal Audit Plan

IV. Department of Savings and Mortgage Lending

Internal Audit Plan

The Internal Audit Plan (Plan) includes 1 audit to be performed during the 2015 fiscal year. The Plan also includes a follow-up of the prior year audit recommendations, other tasks that may be assigned by the Finance Commission during the year, and preparation of the Annual Internal Audit Report for fiscal year 2015.

Risk Assessment

Utilizing information obtained through the questionnaires and background information reviewed, 14 audit areas were identified as potential audit topics. A risk analysis utilizing the 8 risk factors, mentioned in section I of this report, 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 14 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Legal and Enforcement	Fixed Assets	Management Information Systems
Payroll and Human Resources	Mortgage Examinations	Records Management
	Thrift Examinations	Consumer Protection
	Revenue Accounting Process	Mortgage Licensing
	Purchasing and Travel	Risk Management
	Thrift Supervision and Compliance	Financial Reporting

The 2015 Risk Assessment Summary is included on page 13 of this report.

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

Fiscal Year 2014:

- Consumer Protection

Fiscal Year 2013:

- Thrift Supervision and Compliance

Fiscal Year 2012:

- Mortgage Licensing

FINANCE COMMISSION

Internal Audit Plan

The area recommended for internal audit and other functions to be performed for fiscal year 2015 are as follows:

1. Mortgage Examinations

The planned audit procedures include the following:

- a. Obtain an understanding of the processes and controls in place in performing mortgage examinations.
- b. Select a sample of examinations performed during the year to determine if the internal controls over the examination process are functioning as intended, applicable laws and regulations are consistently applied, and that the process is adequately managed and monitored.
- c. Test compliance with applicable performance measures.
- d. Other procedures deemed necessary during audit fieldwork.

2. Follow-up of Internal Audits

Perform follow-up procedures to determine the status of prior year comments that were not fully implemented as of the fiscal year ended August 31, 2014. The audit procedures will result in a determination that the recommendation is (1) Fully Implemented; (2) Substantially Implemented; (3) Incomplete/Ongoing; or, (4) Not Implemented.

3. Other Tasks

Other tasks as may be assigned by the Finance Commission during the fiscal year.

FINANCE COMMISSION

Internal Audit Plan

V. Office of Consumer Credit Commissioner

Internal Audit Plan

The Internal Audit Plan (Plan) includes 1 audit to be performed during the 2015 fiscal year. The Plan also includes a follow-up of the prior year audit recommendations, other tasks as may be assigned by the Finance Commission, and preparation of the Annual Internal Audit Report for fiscal year 2015.

Risk Assessment

Utilizing information obtained through the questionnaires and background information reviewed, 17 audit areas were identified as the potential audit topics. A risk analysis utilizing the 8 risk factors, mentioned in section I of this report, 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
Texas Financial Education Endowment Fund	Fiscal Division	Human Resources
Property Tax Lender Examinations	Regulated Examinations	Records Management
Motor Vehicle Sales Finance Examinations	Pawn Examinations	Business Licensing
Billing and Collection of Fees	Registration	Professional Licensing (Pawnshop Employees & MLO)
	Fixed Assets	Credit Access Business Examinations
		Complaint Investigations
		Management Information Systems
		Risk Management

The 2015 Risk Assessment Summary is included on page 14 of this report.

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

Fiscal Year 2014:

- Professional Licensing

Fiscal Year 2013:

- Credit Access Business Examinations

Fiscal Year 2012:

- Complaint Investigations

FINANCE COMMISSION

Internal Audit Plan

The area recommended for internal audit and other functions to be performed for fiscal year 2015 are as follows:

1. Texas Financial Education Endowment (TFEE) Fund

The planned audit procedures include the following:

- a. Review and obtain an understanding of the laws and regulations provided in the Texas Finance Code (TFC) and Texas Administrative Code (TAC), as applicable to the TFEE Fund.
- b. Obtain and review the written policies and procedures, collect available documentation, and conduct interviews to document formal/informal processes and controls in place for the administration of the TFEE Fund.
- c. Obtain bank statements from financial institutions to support the establishment and existence of the TFEE account and to confirm account balances.
- d. Obtain evidence that monthly reconciliations of the TFEE account are being prepared.
- e. Obtain a listing of applications received and grants awarded from the TFEE Fund and select a sample to test for compliance with policies, procedures and current practices in place.
- f. Select a sample of quarterly and annual reports submitted by each grantee to ensure reports are submitted timely and include required information.
- g. Obtain a listing of annual assessment fees collected from the Credit Access Businesses licensees to ensure the proper amount was transferred to the TFEE Fund.
- h. Other procedures deemed necessary during audit fieldwork.

2. Follow-up of Internal Audits

Perform follow-up procedures to determine the status of prior year comments that were not fully implemented as of the fiscal year ended August 31, 2014. The audit procedures will result in a determination that the recommendation is (1) Fully Implemented; (2) Substantially Implemented; (3) Incomplete/Ongoing; or, (4) Not Implemented.

3. Other Tasks

Other tasks as may be assigned by the Finance Commission during the fiscal year.

ATTACHMENTS

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Risk Assessment Summary
For Fiscal Year 2015

		RISK FACTOR WEIGHT																
		10.00%	16.50%	16.00%	15.00%	12.50%	12.00%	8.00%	10.00%									
		RISK FACTORS																
		1	2	3	4	5	6	7	8									
										Compliance with Contracts, Laws & Regulations		Susceptibility of Material Theft or Fraud		Existence of Issues or Concerns				
POTENTIAL AUDIT TOPIC		Financial Materiality	Time Since Last Audit or Review	Results of Last Audit or Review	Adequacy of Staffing Levels	Policies and Procedures											Total	
High Risk: > 146																		
1	Legal and Enforcement	1	10.00	2	33.00	1	16.00	2	30.00	1	12.50	3	36.00	1	8.00	1	10.00	155.50
2	Payroll and Human Resources	3	30.00	1	16.50	1	16.00	2	30.00	1	12.50	2	24.00	2	16.00	1	10.00	155.00
Moderate Risk: 136 - 146																		
3	Fixed Assets	2	20.00	1	16.50	1	16.00	2	30.00	1	12.50	2	24.00	2	16.00	1	10.00	145.00
4	Mortgage Examinations	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	140.50
5	Thrift Examinations	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	140.50
6	Revenue Accounting Process	3	30.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	140.00
7	Purchasing and Travel	3	30.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	140.00
8	Thrift Supervision and Compliance	1	10.00	1	16.50	1	16.00	2	30.00	1	12.50	3	36.00	1	8.00	1	10.00	139.00
Low Risk: < 136																		
9	Management Information Systems	1	10.00	1	16.50	1	16.00	2	30.00	1	12.50	2	24.00	2	16.00	1	10.00	135.00
10	Records Management	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	128.50
11	Consumer Protection	1	10.00	1	16.50	2	32.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	128.00
12	Mortgage Licensing	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	124.00
13	Risk Management	1	10.00	1	16.50	1	16.00	2	30.00	1	12.50	1	12.00	1	8.00	1	10.00	115.00
14	Financial Reporting	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	112.00

Risk Factor Rating:

- 1 - Low Risk
- 2 - Moderate Risk
- 3 - High Risk

OFFICE OF CONSUMER CREDIT COMMISSIONER
Risk Assessment Summary
For Fiscal Year 2015

		RISK FACTOR WEIGHT							
		10.00%	16.50%	16.00%	15.00%	12.50%	12.00%	8.00%	10.00%
		RISK FACTORS							
		1	2	3	4	5	6	7	8
POTENTIAL AUDIT TOPIC	Financial Materiality	Time Since Last Audit or Review	Results of Last Audit or Review	Adequacy of Staffing Levels	Policies and Procedures	Compliance with Contracts, Laws & Regulations	Susceptibility of Material Theft or Fraud	Existence of Issues or Concerns	Total

High Risk: > 156

1	Texas Financial Education Endowment Fund	3	30.00	3	49.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	173.00
2	Property Tax Lender Examinations	1	10.00	3	49.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	157.00
3	Motor Vehicle Sales Finance Examinations	1	10.00	3	49.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	157.00
4	Billing and Collection of Fees	3	30.00	2	33.00	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	156.50

Moderate Risk: 138 - 156

5	Fiscal Division (includes Purchasing & Travel & Payroll Division)	3	30.00	1	16.50	2	32.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	156.00
6	Regulated Examinations (includes Training)	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	140.50
7	Pawn Examinations	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	140.50
8	Registration	1	10.00	1	16.50	2	32.00	1	15.00	2	25.00	2	24.00	1	8.00	1	10.00	140.50
9	Fixed Assets	3	30.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	140.00

Low Risk: < 138

10	Human Resources	1	10.00	1	16.50	1	16.00	2	30.00	1	12.50	2	24.00	2	16.00	1	10.00	135.00
11	Records Management	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	128.50
12	Business Licensing	1	10.00	2	33.00	1	16.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	128.50
13	Professional Licensing (Pawnshop Employees & MLO)	1	10.00	1	16.50	2	32.00	1	15.00	1	12.50	2	24.00	1	8.00	1	10.00	128.00
14	Credit Access Business Examinations	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	124.00
15	Complaint Investigations	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	124.00
16	Management Information Systems	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	2	24.00	2	16.00	1	10.00	120.00
17	Risk Management	1	10.00	1	16.50	1	16.00	1	15.00	1	12.50	1	12.00	1	8.00	1	10.00	100.00

Risk Factor Rating:

- 1 - Low Risk
- 2 - Moderate Risk
- 3 - High Risk