

TEXAS STATE SECURITIES BOARD
Austin, Texas

INTERNAL AUDIT PLAN

For Fiscal Year 2019



Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Board Members and Audit Committee Members
Texas State Securities Board
Austin, Texas

Enclosed is the Texas State Securities Board's (SSB) proposed Internal Audit Plan (Plan) that was prepared for audits and other functions to be performed in fiscal year 2019. This Plan determines the scope of internal audit activities and is the source for assignment and prioritization of internal audit responsibilities for fiscal year 2019. Specific planning for audit procedures is a naturally ongoing process; thus, the Plan is reviewed annually and may be revised by the Board or Audit Committee, as necessary.

This Plan has been prepared by Garza/Gonzalez & Associates, an independent Certified Public Accounting firm, following Generally Accepted Auditing Standards and International Standards for the Professional Practice of Internal Auditing, as determined by the Institute of Internal Auditors.



April 1, 2019

TEXAS STATE SECURITIES BOARD

Austin, Texas

Internal Audit Plan For Fiscal Year 2019

I. Methodology

SSB's fiscal year 2019 Internal Audit Plan (Plan) was prepared using a risk assessment process, where we reviewed various documents and questionnaires, as documented below.

The following documents were reviewed and considered in our risk assessment process:

- Organizational Charts
- Budgets
- Financial and Non-Financial Reports
- Policies and Procedures
- Applicable Laws and Regulations
- Audits and/or Monitoring Reports from Third Party Agencies
- Prior Internal Audit Reports

Questionnaires were developed for completion by SSB's Audit Committee Chair; Commissioner; Division Directors; and, other staff, to update our understanding of each department, and its role within the overall scheme of SSB. The questionnaires included topics; such as, recent changes in key personnel, time elapsed since last audit, status of past audit findings, and regulatory compliance requirements (e.g. TAC 202, Information Security Standards; and, benefits proportionality). Utilizing information obtained through the completed questionnaires and background information reviewed, 12 audit areas were identified as the potential audit topics. A risk analysis was completed for each of the 12 individual potential audit topics and then compiled to develop SSB's overall risk assessment.

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

- | | |
|------------------------------------|---|
| 1. Materiality | Measure of the auditable unit's <i>financial</i> materiality based on the dollar amount per year of assets, receipts, or disbursements for which the unit is responsible; or, <i>non-financial</i> materiality based on the degree of its responsibility related to the agency's primary mission. |
| 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 auditable unit's staffing level as it relates to the achievement of its objectives. |

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|---|--|
| 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 ensuring compliance. |
| 7. Susceptibility of Theft or Fraud | Measure of the auditable unit's risk and controls in place as it relates to theft or fraud. |
| 8. Issues or Concerns | Measure of issues or concerns by management, the Board, or Audit Committee. |

Risk Assessment

Following are the results of the risk assessment performed for the 12 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Conducting Inspections ¹	Enforcement ¹ Processing Dealer Applications ² Processing Securities Applications ² Information Technology Accounting & Financial Reporting Processing Cash Receipts/ Disbursements/ Mail Purchasing/ Contracting/ HUB Compliance/ Travel	Fixed Assets/Property Accounting Payroll and Human Resources Customer Service Records Management

¹ Includes Performance Measures.

² Includes Performance Measures and Registration & Filing Fees.

This report includes the "Risk Assessment Summary" as Attachment A; and, the "History of Areas Audited" as Attachment B, which identifies audits and/or reviews performed from fiscal year 2009 through 2018 for the above 12 potential audit topics.

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

Fiscal Year 2018:

- Processing Dealer Applications
- Follow-up on Prior Year Internal Audits

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Fiscal Year 2017:

- Enforcement Administration
- Follow-up on Prior Year Internal Audits

Fiscal Year 2016:

- Payroll & Human Resources
- Follow-up on Prior Year Internal Audits

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 SSB's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes:

- **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, and regulations and contracts that 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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Internal Audit Plan

III. Internal Audit Plan

In addition to performing the 2019 risk assessment for preparation of this Internal Audit Plan (Plan), this Plan also includes one audit to be performed; a follow-up of the prior year audit recommendations; other tasks that may be assigned by the Board, Audit Committee, or management during the year; and, preparation of the Annual Internal Audit Report for fiscal year 2019.

The area recommended for internal audit and other functions to be performed for fiscal year 2019 are as follows:

1. Completion of the Fiscal Year 2019 Risk Assessment and Preparation of this Internal Audit Plan
2. Accounting & Financial Reporting
The planned audit procedures include the following:
 - a. Obtain an understanding of the Texas Comptroller's Fiscal Management requirements applicable to the Accounting & Financial Reporting area (the Area).
 - b. Review the Area's accounting and financial reporting procedures and processes, collect available documentation, and conduct interviews to document and assess formal/informal processes and controls, as implemented by the Area.
 - c. Select a sample of revenues, expenditures, and manual journal entries recorded in the general ledger to test for accuracy, and to determine whether internal controls are operating effectively.
 - d. Review the Area's reconciliation activities and approval processes to ensure compliance with established policies and procedures.
 - e. Select a sample of financial reports prepared by the Area, including selected reports provided to the Board and the fiscal year 2018 Annual Financial Report, and trace significant balances to supporting documentation.
 - f. Review the security access for users of financial information, for propriety.
 - g. Other procedures that may be deemed necessary during audit fieldwork.
3. Follow-Up of Prior Year Internal Audits and Prepare the 2019 Annual Report
Perform follow-up procedures to determine the status of prior year comments and recommendations that were not fully implemented as of fiscal year 2018 and prepare the 2019 Annual Report. 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 Board, Audit Committee, or management during the fiscal year.

**TEXAS STATE SECURITIES BOARD
Risk Assessment Summary
For Fiscal Year 2019**

																		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																		
																				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 Theft or Fraud	Existence of Issues or Concerns									Total								
Potential Audit Topic	Materiality	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20																						
High Risk > 168																																											
1	Conducting Inspections ¹	3	30.00	1	16.50	2	32.00	2	30.00	1	12.50	3	36.00	2	16.00	1	10.00	183.00																									
Moderate Risk 153 - 168																																											
2	Enforcement ¹	3	30.00	1	16.50	2	32.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	160.00																									
3	Processing Dealer Applications ²	3	30.00	1	16.50	2	32.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	160.00																									
4	Processing Securities Applications ²	3	30.00	1	16.50	2	32.00	1	15.00	1	12.50	3	36.00	1	8.00	1	10.00	160.00																									
5	Information Technology	2	20.00	1	16.50	2	32.00	1	15.00	1	12.50	3	36.00	2	16.00	1	10.00	158.00																									
6	Accounting & Financial Reporting	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																									
7	Processing Cash Receipts/ Disbursements/ Mail	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																									
8	Purchasing/ Contracting/ HUB Compliance/ Travel	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																									
Low Risk < 153																																											
9	Fixed Assets/Property Accounting	3	30.00	2	33.00	1	16.00	1	15.00	1	12.50	1	12.00	2	16.00	1	10.00	144.50																									
10	Payroll and Human Resources	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																									
11	Customer Service	1	10.00	3	49.50	1	16.00	1	15.00	1	12.50	1	12.00	1	8.00	1	10.00	133.00																									
12	Records Management	1	10.00	3	49.50	1	16.00	1	15.00	1	12.50	1	12.00	1	8.00	1	10.00	133.00																									

¹ Includes Performance Measures

² Includes Performance Measures and Registration & Filing Fees

Risk Factor Rating:

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

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History of Areas Audited
For Fiscal Year 2019

	POTENTIAL AUDIT TOPIC	Fiscal Year									
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1	Accounting & Financial Reporting				A						
2	Conducting Inspections ¹	A	B					A			F
3	Customer Service	A									
4	Enforcement ¹		B*							A	F
5	Fixed Assets/Property Accounting			A				C*			
6	Information Technology	D*		D*	A	D*/D1	D*	D*	D*	D*	D2/F*
7	Payroll & Human Resources		C*					C*	E		G*
8	Processing Cash Receipts/ Disbursements/ Mail		B				A				
9	Processing Dealer Applications ²		A*	A							A/F
10	Processing Securities Applications ²		A*/B			A					F
11	Purchasing/Contracting for Services/Travel		C*					C*			
12	Records Management										

¹ Includes Performance Measures

² Includes Performance Measures and Registration & Filing Fees

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

- A** Internal audit performed by Garza/Gonzalez & Associates, CPAs
- B** Audit performed by the State Auditor's Office
- C** Post-payment audit performed by the Comptroller of Public Accounts
- D** Controlled Penetration Test performed by the Department of Information Resources
- D1** Information Security Assessment performed by Gartner
- D2** Information Security Assessment performed by NTT Data
- E** Internal audit performed by Monday Rufus & Co.
- F** Sunset Review performed by the Sunset Commission
- G** Personnel Policies and Procedures System Review performed by the Texas Workforce Commission