

TEXAS STATE SECURITIES BOARD

Austin, Texas

INTERNAL AUDIT PLAN

For Fiscal Year 2018



Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

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

Enclosed is the Texas State Securities Board (SSB) proposed Internal Audit Plan (Plan) that was prepared for audits and other functions to be performed in fiscal year 2018. This Plan determines the scope of internal audit activities and is the source for assignment and prioritization of internal audit responsibilities for fiscal year 2018. 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.

A handwritten signature in black ink that reads "Garza/Gonzalez & Associates". The signature is written in a cursive, flowing style.

March 8, 2018

TEXAS STATE SECURITIES BOARD

Austin, Texas

Internal Audit Plan For Fiscal Year 2018

I. Methodology

SSB's fiscal year 2018 Internal Audit Plan (Plan) was prepared using a risk assessment process, where we reviewed various documents and questionnaires completed by SSB's Audit Committee Chair; and, staff, 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 (i.e. TAC 202, Information Security Standards; and, benefits proportionality). Utilizing information obtained through the completed questionnaires and background information reviewed, 14 audit areas were identified as the potential audit topics. A risk analysis was completed for each of the 14 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:

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|------------------------------------|---|
| 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 14 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Processing Dealer Applications Processing Securities Applications Enforcement Accounting and Financial Reporting Fixed Assets/Property Accounting Processing Cash Receipts/ Disbursements/ Travel	Conducting Inspections	Information Technology Registration and Filing Fees Payroll and Human Resources Purchasing/Contracting for Services Customer Service Performance Measures Records Management

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 2008 through 2017 for the above 14 potential audit topics.

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

Fiscal Year 2017:

- Enforcement

Fiscal Year 2016:

- Payroll & Human Resources

Fiscal Year 2015:

- Conducting Inspections

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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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III. Internal Audit Plan

In addition to performing the 2018 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 2018.

The area recommended for internal audit and other functions to be performed for fiscal year 2018 are as follows:

1. Completion of the Fiscal Year 2018 Risk Assessment and Preparation of this Internal Audit Plan
2. Processing Dealer Applications
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 (TAC) and Texas Securities Act (the Act).
 - b. Obtain and review established policies and procedures, collect various documents, and conduct interviews to obtain an understanding of the Division's processes and current practices in place for processing dealer applications.
 - c. Review Forms used to ensure inclusion of certain selected requirements of the TAC and the Act.
 - d. Review a list of registration and notice filing fees assessed by SSB to ensure compliance with the Act.
 - e. Obtain a listing of registration applications filed during the fiscal year and select a sample to test for attributes to ensure proper issuance of the certificate of registration.
 - f. Obtain a listing of firm and branch amendments processed during the fiscal year and select a sample to test for submission of various required forms and proper assessment and payment of fees, etc.
 - g. Obtain various listings of renewals processed during the year and select a sample to test for submission of appropriate renewal fee and other procedures as considered necessary.
 - h. Obtain a listing of late renewals processed during the year and ensure applicable correspondence was properly included in the late renewal files.
 - i. Other procedures that may be deemed necessary during audit fieldwork.

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3. Follow-Up of Prior Year Internal Audits and Prepare the 2018 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 2017 and prepare the 2018 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
History of Areas Audited
For Fiscal Year 2018**

	POTENTIAL AUDIT TOPIC	Fiscal Year									
		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1	Accounting and Financial Reporting					A					
2	Conducting Inspections		A	B					A		
3	Customer Service		A								
4	Enforcement	A		B*							A
5	Fixed Assets/Property Accounting				A				C*		
6	Information Technology	D*	D*			A	D1	D*	D*	D*	D*
7	Payroll & Human Resources			C					C*	E	
8	Performance Measures	A									
9	Processing Cash Receipts and Disbursements			B				A			
10	Processing Dealer Applications				A						
11	Processing Securities Applications			B			A				
12	Purchasing/Contracting for Services/Travel			C					C		
13	Records Management										
14	Registration & Filing Fees			A							

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** Audit performed by the Department of Information Resources
- D1** Security assessment conducted by Gartner
- E** Audit Performed by Monday Rufus & Co.