

**TEXAS STATE SECURITIES BOARD**  
Austin, Texas

**ANNUAL INTERNAL AUDIT REPORT**

Fiscal Year 2013



TEXAS STATE SECURITIES BOARD  
Austin, Texas

Annual Internal Audit Report  
Fiscal Year 2013

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# Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

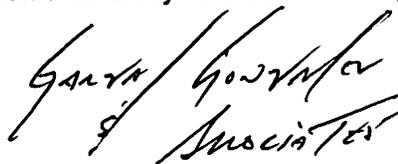
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Audit Committee and Board Members  
Texas State Securities Board  
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the internal control structure over the Processing of Securities Applications of the Texas State Securities Board (SSB) and its compliance with applicable state requirements and the SSB's established policies and procedures, for the year ended August 31, 2013.

The results of our tests disclosed that such controls were adequate and no material instances of noncompliance were noted; however, we noted certain matters that are opportunities for strengthening internal controls and complying with the SSB's established policies and procedures and state requirements. We also performed a follow-up of the prior year internal audit report and this report reflects the implementation status of those matters, and includes information required for the Annual Internal Audit Report.

We have discussed the comments, recommendations and implementation status with the various SSB personnel, and we 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.

A handwritten signature in cursive script that reads "Garza/Gonzalez & Associates". The signature is written in dark ink and is positioned above the date.

July 8, 2013

# TEXAS STATE SECURITIES BOARD

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## INTRODUCTION

The State Securities Board (SSB) is charged with the administration and enforcement of the Texas Securities Act (the Act). The mission of the SSB is to protect Texas investors. Consistent with that purpose, the SSB seeks to ensure a free and competitive securities market for Texas, increase investor confidence, and thereby encourage the formation of capital and the creation of new jobs in Texas. The SSB investigates suspected violations of the Act and ensures that administrative, civil, or criminal enforcement actions are taken in appropriate circumstances. The SSB also registers securities sold in Texas and the firms and individuals who sell securities or render investment advice in the state.

The SSB was created in 1957 pursuant to the Act passed by the 55th Texas Legislature. This legislation was the culmination of four earlier statutes dating back to 1913. The Act provides for the registration of securities offered or sold in Texas and of firms and individuals who sell securities or render investment advice in the state. In certain circumstances a particular security or transaction may be exempt from the registration requirements of the Act. Whether or not an exemption from the registration provisions is available, the Act prohibits fraud in the offer or sale of securities in Texas.

### **2013 Internal Audit Plan**

We have been engaged to perform internal audits of the following areas identified in the SSB's fiscal year 2013 Internal Audit Plan:

- Processing Securities Applications
- Follow-up of Prior Year Internal Audits
- Other tasks as may be assigned by the SSB's Audit Committee or Board during the year.

This report contains the results of our audit of the Processing of Securities Applications, reflects the follow-up performed in the current year, and meets the Annual Internal Audit Report requirements.

## 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 the audit area'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.

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### EXECUTIVE SUMMARY

#### **Background**

The Registration Division of the SSB is comprised of two strategies: (1) Securities Registration and (2) Dealer Registration. Each strategy is a separate auditable area. This report provides the results of the internal audit of the Securities Registration strategy.

Securities Registration is managed by the Registration Division's Director (Director), who reports to the Securities Commissioner and Deputy Commissioner. The Division is comprised of the Director, Assistant Director, a Staff Attorney, four Examiners, and three Administrative Technicians. In order for securities to be offered or sold in the state of Texas, they must be registered, notice filed, or exempt from registration pursuant to the requirements of the Act and the Rules and Regulations of the Texas State Securities Board (Board Rules). Securities Registration is responsible for processing these registrations and notice filings in accordance with the applicable laws and regulations, including but not limited to: Sections 5 and 7-10 of the Act; and Title 7, Part 7 Chapters 104, 113-114, and 139 of the Texas Administrative Code (TAC).

#### Data System

Securities Registration utilizes the Securities Registration System (SRS) to perform established protocols, policies, and procedures in an effective and efficient manner. All significant and relative information pertaining to securities offerings and notice filings are entered, updated, and maintained in SRS. Authorized personnel can easily navigate and access information needed. Throughout the processing of an initial or renewal application or notice filing, the corresponding file within SRS is updated accordingly. SRS monitors how long an application is in process, provides dates and notes regarding correspondence with the applicant/issuer, features up to date sales reports submissions, indicates the fees paid by the applicant/issuer, and contains relevant contact information. SRS also tracks user, date, and time information when certain fields are updated/changed in the SRS system.

#### Registered Securities vs. Notice Filed Securities

##### *Registered Securities:*

If an issuer files a securities offering with the U.S. Securities and Exchange Commission (SEC) without pursuing a state exemption, the issuer is required to register its offering with the state. Most applications for registration processed by the SSB are for companies pursuing registration of securities offerings under Section 7.C of the Act: Registration by Coordination. Registration by Coordination requires the applicant to register with the SEC and concurrently pursue registration with the SSB. In accordance, with Chapter 113 of the TAC, these registration applications undergo a merit review to determine whether the offering meets the 'fair, just, and equitable' standards of the Act and Board Rules. Companies that typically register securities with the SSB look to offer and sell to the general public in Texas.

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### *Notice Filed Securities*

Securities defined as federal “covered securities” by federal law are not required to register with the SSB. “Covered securities” are defined in Section 18(b)(1) of the federal Securities Act of 1933 to include, among others:

- Securities listed, or authorized for listing, on the New York Stock Exchange, American Stock Exchange or the National Market System of the Nasdaq Stock Market (collectively, National Exchanges), or on a national securities exchange (or tier or segment thereof) that has listing standards that the SEC determines by rule are "substantially similar" to those of the National Exchanges; and
- Securities issued by an investment company that is registered, or that has filed a registration statement, under the Investment Company Act of 1940.

Although federal covered securities are exempt from registration, there are notice filing requirements for investment companies to register sales of mutual funds and for certain securities offerings in Texas. Specifically:

- Regulation D Rule 506 Securities  
Securities offerings filed with the SEC under Regulation D Rule 506 are to be notice filed with the SSB and require the payment of a filing fee of 1/10<sup>th</sup> of 1% of the aggregate offering, not to exceed \$500. Typically, offerings based on an issuer’s reliance on the Regulation D Rule 506 exemption:
  - may be offered and sold to an unlimited number of accredited investors and up to 35 unaccredited investors;
  - are sold by the issuer itself or by registered dealers; and
  - are not publicly solicited or advertised.

Recent federal legislation and rule-making will allow issuers relying on the Regulation D Rule 506 exemption the ability to advertise and solicit publicly, the intent of which may be to generate economic activity and stimulate investment. The effective date of this change is September 23, 2013.

- Rules from Chapter 139 of the TAC  
Chapter 139 of the TAC includes exemptions from state securities registration for issuers. Certain provisions of Chapter 139 are self-executing, which means there are no notice filing requirements. Other provisions, however, require the issuer to submit a notice filing to the SSB identifying the exemption it is pursuing and provide documentation that authorizes the exemption. The following are examples of these filings:
  - §139.14 – Non Issuer Sales exemption
  - §139.16 – Sales to Individual Accredited Investors
  - §139.19 – Accredited Investor exemption

The majority of notice filings are comprised of mutual fund filings (including money market funds) and unit investment trust filings.

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### Registration of Securities Offerings Application Requirements

Entities that register securities in the state of Texas must submit the following pursuant to the requirements of the Act and the Board Rules:

- Uniform Application to Register Securities, Form U-1
- Uniform Consent to Service of Process, Form U-2
- Uniform Corporate Resolutions, Form U-2A
- Filing fee
- Certain exhibits, which may include:
  - Prospectus
  - Articles of Incorporation
  - Bylaws
  - Indenture
  - Registration Statement
  - Audited financial statements
  - Underwriting Agreement
  - Listing of Texas dealers
  - Amendments to the Registration Statement, if any.

Section 7 of the Act authorizes Securities Registration to require these items of the applicants. These items are reviewed by Securities Registration personnel to ensure the offering complies with applicable laws and regulations.

### Renewal of Registered Securities Requirements

According to Section 10.B of the Act, an issuer must annually renew its application to register securities. The following information must be reported in the annual renewal application:

- The total number of shares sold in Texas,
- The total number of shares sold elsewhere,
- Total number of shares outstanding, and
- A detailed balance sheet, an operating statement, and such other information as the Commissioner may require.

The applicant must also submit any name changes, changes in fiscal year end, and an updated prospectus.

### Registration and Renewal Process

All initial and renewal registration applications are delivered to the Director from the SSB mail room. Upon receipt of an application, the Director will determine which examiner to assign the application based on the work load and relevant expertise of the Examiner.

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Once the Director determines which Examiner will be processing the application, the Director will provide the application to an Administrative Technician. The Administrative Technician will perform the following tasks:

- Using the Exhibit Checklist, ensure that all required items were submitted.
- Verify that the appropriate fee was received.
- Input the application or renewal information into SRS.
- Attach a Docket Sheet to the application.

If any required items are missing, the Administrative Technician will compose a deficiency letter requesting their submission. A deficiency letter must be sent to the applicant within seven days of receipt of the application as required by §104.4(a) of the TAC.

The date of receipt is stamped on the application by the SSB personnel in the Mail Room to document and track the responsiveness of the SSB. This date is also entered into the SRS and noted on the Docket Sheet by the Administrative Technician to assist in monitoring the number of days an application is in process and to ensure that the deficiency letter and other correspondence is sent out within the time frames specified in §104.4 of the TAC.

After this initial processing is completed, the application is provided to the assigned Examiner for further review. When applicable, the Examiner is provided with a copy of the deficiency letter and is then responsible for receiving and reviewing the applicant's response(s) and ensuring that the application is complete.

The Examiner reviews the application for compliance with applicable Texas laws and guidelines to determine if the offering represents 'fair, just and equitable' standards as defined in §113.3 of the TAC. The Examiner communicates variances from the statutes or guidelines to the applicant. Communication with the applicant must be noted in SRS. Upon completion of the review, the Examiner presents a recommendation to grant or deny the application. This recommendation, along with the Examiner's findings, is documented in a Summary of Analysis, which is then forwarded for review to the Director or Assistant Director and then the Deputy Commissioner. The Director (or Assistant Director) and the Deputy Commissioner will each note their recommendations to grant or deny the application based on the findings made by the Examiner.

Prior to approving the application, the Examiner performs an online search through SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system to confirm that securities being registered or renewed with the SSB have been made effective by the SEC. Once this confirmation is obtained, the Examiner will prepare and send out a letter to the applicant informing them the securities have been made effective in Texas. The Director or Assistant Director will document the initial approval or renewal of the securities within SRS.

If it is determined that the application should be denied, the Examiner will prepare and send a letter informing the applicant that the Division intends to pursue a Denial Order. The applicant has the option to withdraw its application within 30 days of the date of the letter. When an applicant elects not to withdraw the application, a Denial Order is issued by the Securities Commissioner and the applicant is notified immediately. Pursuant to Section 24.B of the Act, a person aggrieved by a refusal to register securities under Section 7 of the Act may request a hearing.

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For the period of September 1, 2012 to May 31, 2013, the Division processed 119 Registrations and Renewals.

### Notice Filing Process

#### *Electronic Submissions:*

Certain mutual fund applicants have elected to file applications electronically using the Blue Express system. This system recognizes and verifies key information from the Form NF. The SRS automatically processes applications and simultaneously tracks any updates to the authorization of a fund. When an electronic submission contains an anomaly with respect to identifiers or fees, an Administrative Technician is prompted to review the electronic notice filing to verify the completeness of the file and receipt of the appropriate fee. Once it is determined that the electronic submission is correct, the Administrative Technician enters the data into SRS and changes the status to 'effective.' The notice filing is then saved as an electronic file.

#### *Manual Submissions:*

Manual submissions are forwarded to an Administrative Technician from the Mail Room. As with the electronic submissions, the Administrative Technician verifies the completeness and accuracy of the file and the receipt of the appropriate fee. Once the Administrative Technician determines that everything has been submitted correctly, the Administrative Technician enters the information provided into SRS and changes the status to 'effective.' The Administrative Technician then stamps the application as 'Processed' and includes the date. A paper file is then created for documentation purposes.

#### *Rules Filing*

A notice filing required by rule ("rules filing") is a filing to inform the SSB of an entity's exemption status by rule or order. These exemptions are contained in Chapters 109 and 139 of the TAC. Rules filings are made manually. Upon receipt of a rules filing, an Administrative Technician will review the filing and ensure that the exemption being claimed meets the applicable guidelines in Chapters 109 or 139 of the TAC. Using the 'Rules Check Sheet,' the Administrative Technician documents the findings. The rules filing and the Rules Check Sheet are forwarded to the Director for review. After reviewing these documents, the Director will sign the Rules Check Sheet noting approval and return the documents to the Administrative Technician. The Administrative Technician then enters the information into SRS and changes the status to 'effective.' The filing is then stamped 'Processed,' dated, and filed in a paper file.

For the period of September 1, 2012, to May 31, 2013, the Division processed 24,855 Notice Filings.

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### Fees

Section 35 of the Act authorizes the SSB to collect fees for registrations, renewals, and notice filings. The following are the fees that the SSB collects:

Type of Filing	Amount	Code
Filing an original, amended, or renewal application to sell or dispose of securities	\$100	The Act, Section 35.A(1)
Examination of an original or amended application filed under Section 7.A, 7.B, or 7.C	1/10 of 1% of the aggregate amount of securities described and proposed to be sold to persons located within this state based upon the price at which such securities are to be offered to the public.	The Act, Section 35.B(2)
A notice filing for federal covered securities	Varies	The Act, Sections 35.A(1), 35.B(2), 35.B(7), and/or 35.B(6); Board Rule 114.4
Filing of an initial notice required by the Commissioner to claim a limited offering exemption.	1/10 of 1% of the aggregate amount of securities described as being offered for sale, but in no case more than \$500	The Act, Section 35.B(7); Board Rule 109.13

Securities Registration personnel do not handle the collection of fees and only verify if the appropriate fee was received from the issuer. On a quarterly basis, and in connection with preparing the Division's performance reports, the Director utilizes the "Money Systems" in order to report the aggregate amount of funds paid to Securities Registration. "Money Systems" is a computer system used mainly by the Staff Services Division to perform the daily receipt process.

For the period of September 1, 2012, to June 30, 2013, Securities Registration collected \$89,294,394 in these fees.

### Refunds

In instances where it is determined that there was an overpayment or the fees were paid in error and a refund is due to an applicant, an Administrative Technician:

- Obtains a written request from the applicant for a refund.
- Obtains a completed 'Taxpayer Application for Payee Identification Number.'
- Inputs certain information obtained into the 'Money System' computer program to create an Official Refund Request.
- Forwards the Official Refund Request to the Director or Assistant Director for approval.
- Files the approved refund request with the Staff Services Division to process the actual refund.

After these steps are completed, the Staff Services Division will process the refund payment.

For the period of September 1, 2012, to May 31, 2013, the Division approved \$14,111 in refunds to applicants due to overpayments or errors.

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### Maintenance of Files

Once a registration, renewal, or notice filing has been fully processed, all work-papers and supporting documentation are maintained in an accordion folder and shelved according to an assigned unique Issuer Identification Number.

Securities Registration retains all work-papers associated with securities filings for certain time periods in accordance with the SSB's Record Retention Schedule.

<b>Record Series Title</b>	<b>Retention Period at Agency</b>	<b>Retention Period in Storage</b>	<b>Total Retention Period</b>
Securities Registration – Securities Files	AC	5	AC + 5
Securities Registration – Exemption Filings 5.0	AC	5	AC + 5
Securities Registration – Reg. D Filings 109.13(k) and 114.4(b)(1)	1	4	5
Securities Registration – Exemption Filings 139.14, 139.16 & 139.19	5	-	5
Securities Registration – Covered Securities Filings 114.4(a)(1)	2	-	2

AC = After Closed, Terminated, Completed, Expired, or Settled

### **Audit Scope/Objective**

The scope of our audit was the Processing Securities Applications Function of the SSB. The objective of our audit was to gain an understanding of the processes and controls in place over the Processing Securities Applications Function to ensure that the SSB consistently applied its established policies and procedures in compliance with the applicable laws and regulations.

The procedures performed to achieve the scope of our audit were as follows:

- 1) Reviewed and obtained an understanding of laws and regulations provided in the TAC and the Act applicable to the Securities Division.

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- 2) Obtained and reviewed the Division's written policies and procedures, collected available documentation, and conducted interviews to document the Division's formal/informal processes and controls.
- 3) Obtained a list of processed applications to register or renew securities during the period from September 1, 2012 to May 31, 2013 and selected five applications to test the following procedures:
  - i) Obtained and reviewed the applications, docket sheet, and required documentation to ensure all the documentation was submitted by the applicant.
  - ii) Ensured the accuracy of the fee collected.
  - iii) Ensured that all correspondence letters were sent within the time frames set forth in §104.4 of the TAC.
  - iv) Ensured that the application was reviewed by the Examiner, Director/Assistant Director, Deputy Commissioner, and if necessary the Commissioner.
  - v) Ensured the information in the Securities Registration System (SRS) is reflected in the work papers and supporting documentation.
- 4) Obtained a listing of notice filings processed during the period from September 1, 2012 to May 31, 2013. We randomly selected 40 notice filings to test the following procedures:
  - i) Ensured the accuracy of the fee collected.
  - ii) Ensured the information in the Securities Registration System (SRS) is reflected in the work papers and supporting documentation.
  - iii) Ensured the status of the securities was updated to 'Effective'.
  - iv) Ensured that the appropriate approvals were sought and obtained.
- 5) Obtained a listing of refunds processed during the period from September 1, 2012 to May 31, 2013. We selected three refunds to determine if each refund was processed in accordance with the Division's written policies and procedures.
- 6) Obtained and reviewed Quarterly Performance Reports for the 4<sup>th</sup> Quarter of 2012 and 3<sup>rd</sup> Quarter of 2013. Using supporting documentation, we tested the accuracy of the numbers reported regarding:
  - i) The Division's adherence to §104 of the TAC.
  - ii) The actual number of Registrations, Renewals, and Notice Filings being processed.

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### I. Internal Audit Plan for Fiscal Year 2013

#### Methodology

The fiscal year 2013 Internal Audit Plan (Plan) for the SSB was prepared using a risk assessment process, where we reviewed various documents and conducted interviews with various employees, as documented below. The following documents were reviewed to update our understanding of the SSB:

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

Interviews with the Deputy Commissioner, Division Directors, and other staff were conducted to update our understanding of each division and its role within the overall scheme of the SSB. Topics discussed in the interviews included business process activities, controls, systems, past performance, and interaction with other agencies. Utilizing information obtained through the inquiries and background information reviewed, 15 audit areas were identified as potential audit topics. A risk analysis was completed for each individual potential audit topic and then compiled to develop an overall risk assessment for the SSB.

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.   |

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- 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 Board, or Audit Committee.

Risk Assessment

Following are the results of the risk assessment performed for the 15 potential audit topics identified:

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

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

Fiscal Year 2012:

- Accounting and Financial Reporting
- Information Technology

Fiscal Year 2011:

- Processing Dealer Applications
- Fixed Assets/Property Accounting

Fiscal Year 2010:

- Registration and Filing Fees
- Review the SAO Audit Report No. 10-042 and management's responses and/or assist management in drafting responses

**II. External Quality Assurance Review**

The internal audit department's *System Review Report*, dated October 26, 2012, indicates that its system of quality control has been suitably designed and conforms with applicable professional standards in all material respects.

**III. List of Audits Completed by High Level Audit Objectives**

Report No.	Report Date	Name of Report	High Level Audit Objectives
1	7/8/13	Securities Application Process	<ul style="list-style-type: none"> <li>• To determine whether adequate processes and controls are in place over the Processing Securities Applications Function and that the SSB consistently applies established policies, procedures in compliance with the applicable rules and regulations.</li> </ul>

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**IV. Observations/Findings and Recommendations**

Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	7/8/2013	Processing Securities Applications	<p>1. Approval of Refunds for Security Applications and Filings</p> <p>The written procedures for processing refunds (Requesting a Refund for Money 'Filed in Error' or for Money Received that is an 'Overpayment') state that the Director of the Registration Division is required to approve a refund. We selected and tested three (3) refunds issued for the period of September 1, 2012 through May 31, 2013. Each of the three (3) refunds tested were approved by the Assistant Director of the Registration Division.</p> <p><b>Recommendation</b> We recommend that the Division modify its procedures to authorize the Assistant Director to approve refunds to properly reflect the actual process otherwise only the Director should approve a requested refund.</p> <p><b>Management Response</b> Staff of the State Securities Board (the "Staff") has modified the Registration Division's procedures to authorize both the Director and the Assistant Director to approve refunds.</p> <p>2. Documentation of the Security Registration</p> <p>According to the "Analyst Manual" for securities registration, the application examiner should send a letter to the applicant confirming that the offering has been made effective. In one of the five registrations we tested, we were not able to find documentation that such a letter was sent to the issuer.</p> <p><b>Recommendation</b> We recommend that the Division issue the confirmation letter indicating that the registration of the security is effective and maintain a copy of the confirmation letter with the application folder to document compliance with Chapter 104.4 of the TAC.</p> <p><b>Management Response</b> The Registration Division will ensure that a confirmation letter is issued to indicate that the registration of a securities offering is effective. The Registration Division will also ensure that a copy of this confirmation letter is maintained in the offering's application file in order to document compliance with the SSB's rules.</p>		<p>Improved Adherence to Policy and Procedures</p> <p>Improved Adherence to Policy and Procedures</p>

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Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	7/8/2013	Processing Securities Applications	<p>3. Training for Registration Division</p> <p>The Division is managed by a Director and Assistant Director and staffed with a Staff Attorney; four (4) examiners and three (3) Administrative Technicians one of who serves as the lead. Only the staff attorney has to comply with mandatory training required to retain licensure. In addition, on an almost annual basis, the most recently hired examiner attends training sponsored by North American Securities Administrative Association (NASAA) and the Division participates in annual training that is provided to the SSB staff. However, there are no other documented training requirements or requirements to document training attended by the Division Staff.</p> <p><b>Recommendation</b> To gain a better understanding of the many types of securities and how they are managed, we recommend that the Division establish training requirements and establish a process to document training obtained related to the securities industry. The training program will ensure that the staff becomes more knowledgeable of the securities industry and its trends and processes and will improve the Division's ability to detect non-compliance with applicable laws and regulations and identify indications of fraud.</p> <p><b>Management Response</b> The SSB provides and supports numerous training opportunities for the Staff. However, the SSB is now in the process of establishing formal training requirements related specifically to each of the various job descriptions. These training requirements, as well as any training programs attended by the Staff, will be documented. These measures will apply to all of the SSB's Divisions, including the Registration Division.</p>		Improve efficiency and effectiveness

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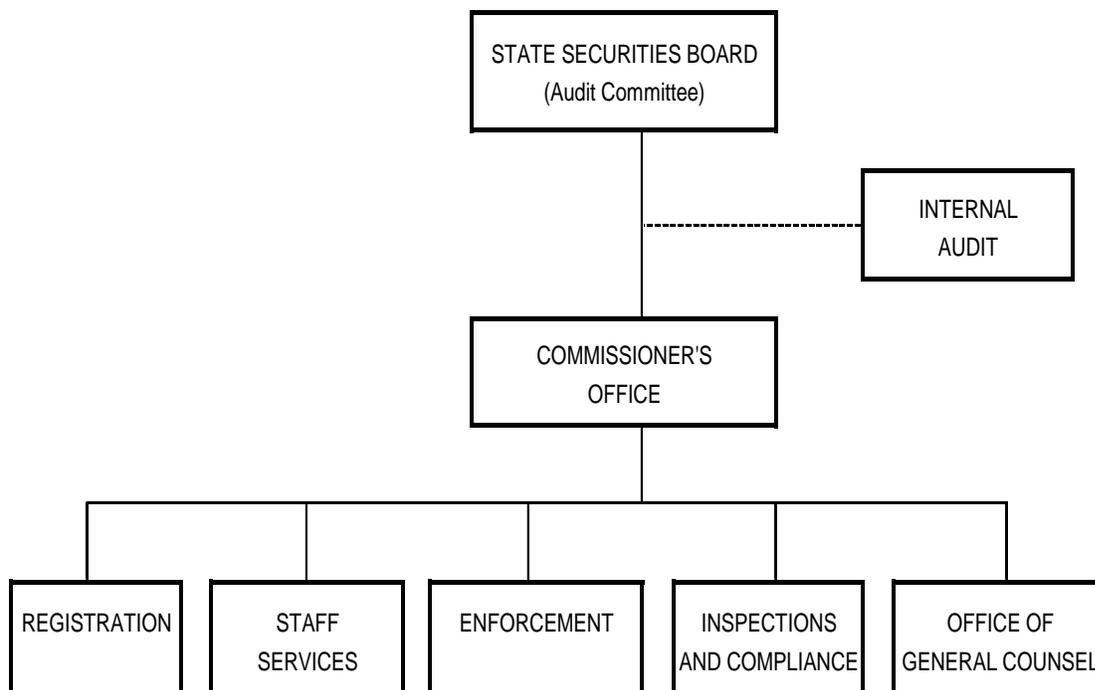
Report No.	Report Date	Name of Report	Observations/ Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/ Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	7/8/2013	Processing Securities Applications	<p>4. Notice Filings with Required Sales Reports</p> <p>The SSB receives required Notice Filings from Investment Companies (Mutual Funds, Closed-end Funds and Unit Investment Trusts (UIT). The SSB processes the Notice Filings based on the proposed estimated sales of the shares in the State of Texas of the mutual funds; closed-end funds and UITs. Upon annual renew or upon notification that the offerings are to be terminated the "Notice Filers" are required to report the actual amount of sales that occurred during the registration period in the State of Texas. The Notice Filers report in either a manual submission or through electronic submission a comparison to the estimated and authorized sales versus the amount of actual sales. Sales above the estimated and authorized amount are subject to an additional filing fee of three times the normal filing fee of 1/10 of 1% or 3/10 of 1% of the offering.</p> <p>The SSB accepts the actual sales as submitted by the Notice Filers to be considered accurate based on the "certification" of the filer however there is no process to verify or otherwise determine that the actual amount of sales reported is accurate.</p> <p><b>Recommendation</b> We recommend that the SSB consider establishing a process to perform a verification of the sales amounts through the use of a risk assessment process to determine which notice filings should be verified and/or otherwise perform a random sampling of the sales as reported by the Notice Filers to ensure that the reported sales are equal to or less than the proposed estimated sales.</p> <p><b>Management Response</b> The SSB is currently developing a computer program that will generate a report highlighting material variances in sales data reported by Notice Filers. When completed, the program will compare reported sales figures to historical annual sales averages to identify the material variances. The Staff will use these reports as part of a process to verify the accuracy of reported sales data.</p>		Ensure complete and accurate reporting by Notice Filers



**V. List of Consulting Engagements and Non-audit Services Completed**

The internal auditor was not involved in any consulting engagements, as defined in *The International Standards for the Professional Practice of Internal Auditing* or in any non-audit services, as defined in the *Government Auditing Standards, December 2011 Revision*, Sections 3.33-3.58.

**VI. Organizational Chart**



**VII. Report on Other Internal Audit Activities**

The internal auditor was not involved in any internal audit projects beyond those outlined in the 2013 audit plan, or in any other special projects during the year.

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### **VIII. Proposed Internal Audit Plan for Fiscal Year 2013**

The risk assessment performed during the 2013 fiscal year was used to identify the following *proposed* areas that are recommended for internal audits for fiscal year 2014. The Internal Audit Plan for Fiscal Year 2014 will be developed and presented to the Audit Committee and/or Board at a meeting to be determined at a later date.

- Processing Cash Receipts and Disbursements
- Follow-up of Internal Audits
- Other tasks as may be assigned by the SSB's Audit Committee or Board during the year.

### **IX. External Audit Services Procured in Fiscal Year 2013**

The SSB procured the internal audit services in fiscal year 2013.

### **X. Reporting Suspected Fraud and Abuse**

The SSB has provided information on their 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. The SSB has also developed a Fraud Prevention Policy that provides information on how to report suspected fraud.