



John Keel, CPA
State Auditor

An Audit Report on
**Performance Measures at the
Department of Banking**

November 30, 2005

Members of the Legislative Audit Committee:

The Department of Banking (Department) reported reliable results for all six fiscal year 2005 performance measures audited. The results the Department reported for three of these measures were certified with qualification because the Department's controls over the supervisory review of calculations and reporting, as well as the clarification of measure definitions, could be improved to ensure continued reliability. A reported result is reliable if it is certified or certified with qualification. See Table 1 in the attachment to this letter for certification results and measure descriptions.

Background

Entities report results for their key performance measures to the Legislative Budget Board's budget and evaluation system, which is called the Automated Budget and Evaluation System of Texas, or ABEST.

See Table 1 in the attachment to this letter for a description of the levels of certification.

The State Auditor's Office assessed the accuracy of reported performance measures based on criteria identified in the *Guide to Performance Measure Management: 2000 Edition* (SAO Report No. 00-318, December 1999).

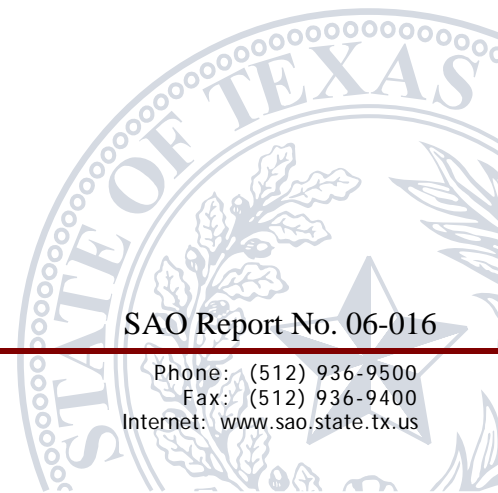
The Department agrees with our recommendations, and its responses are included in the attachment to this letter.

We appreciate the Department's cooperation during this audit. If you have any questions, please contact Verma Elliott, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

cc: Chair and Members of the Texas Finance Commission
Mr. Randall S. James, Commissioner, Department of Banking





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Attachment

Performance Measure Certification Results

Six of the Department of Banking's (Department) eight key performance measures in fiscal year 2005 were selected for audit. As Table 1 shows, the reported results for all six measures were determined to be reliable (certified or certified with qualification).

Table 1

Department of Banking (Agency No. 451)			
Related Objective or Strategy and Measure Classification	Description of Measure	Results Reported in ABEST	Certification Results
A Outcome	Percentage of Currency Exchange Licensees Examined by Special Audit When Due	57.58%	Certified
A Outcome	Percent of Bank and Trust, Sale of Check, Currency Exchange, and Private Child Support Enforcement Agency Registration and Renewal Applications Completed within the Statutory Time Period	89.79%	Certified with Qualification
A.1.1 Output	Number of Bank and Foreign Bank Examinations Performed	129	Certified
A.1.1 Output	Number of Trust Company, Trust Department, and Electronic Data Processing Examinations or Certifications and Other Specialized Reviews Performed	147	Certified
A.2.1 Output	Number of Special Audit Licensees Examined	644	Certified with Qualification
A.3.1 Output	Number of Bank and Trust Applications, Notices, Filings and Currency Exchange, Sale of Check New Licensee and Private Child Support Enforcement Agency (PCSEA) Registration and Renewal Applications Completed	473	Certified with Qualification
<p>A measure is Certified if reported performance is within +/-5 percent of actual performance and if controls appear adequate to ensure accuracy for collecting and reporting performance data.</p> <p>A measure is Certified With Qualification if reported performance is within +/-5 percent of actual performance but controls over data collection and reporting are not adequate to ensure continued accuracy. A measure is also certified with qualification if agency calculation of performance deviated from the measure definition but caused a less than 5 percent difference between the number reported to ABEST and the correct performance measure result.</p> <p>A measure is Inaccurate when reported performance is not within +/-5 percent of actual performance or there are more than two errors in the sample tested.</p> <p>Factors Prevent Certification when actual performance cannot be determined because of insufficient documentation and inadequate controls or when there is deviation from the measure definition and the auditor cannot determine the correct result.</p>			

Key Measures

Percentage of Currency Exchange Licensees Examined by Special Audit When Due

Number of Bank and Foreign Bank Examinations Performed

Number of Trust Company, Trust Department, and Electronic Data Processing Examinations or Certifications and Other Specialized Reviews Performed

These measures were certified. The performance results reported in the Automated Budget and Evaluation System of Texas (ABEST) were accurate within +/- 5 percent. Controls to ensure accuracy in collecting, calculating, and reporting performance for these three measures appear to be adequate.

Key Measure

Number of Special Audit Licensees Examined

This measure was certified with qualification because the Department's calculation varied from the measure definition. Specifically, the Department included renewal reviews for prepaid funeral license holders in the calculation of the performance result. This deviation from the measure did not cause the reported results to vary by more than 5 percent from the results re-created by auditors. The Department believed it was statutorily required to examine these license holders even though they had no outstanding contracts. However, Texas Finance Code, Section 154.053, excludes license holders with no outstanding contracts from being subject to an annual examination.

Furthermore, the Department used the number of examinations started in fiscal year 2005 (rather than the number completed) to report the results for this measure. In addition, the measure definition and methodology state that the measure includes "regular, abbreviated, and special" examinations of special audit licensees; however, these terms are not defined.

Recommendation

The Department should consult with the Legislative Budget Board to revise the measure definition for the Number of Special Audit Licensees Examined and ensure that only data consistent with the measure definition and methodology are reported.

Management's Response

We agree with this recommendation and the Deputy Commissioner will be responsible for working with the Legislative Budget Board (LBB) to update and clarify the definition of this measure. We will initiate meetings with the

LBB in December 2005 and will strive to have the expanded measure definition in place by June 2006.

Key Measures

Percentage of Bank and Trust, Sale of Check, Currency Exchange, and Private Child Support Enforcement Agency Registration and Renewal Applications Completed within the Statutory Time Period

Number of Bank and Trust Applications, Notices, Filings and Currency Exchange, Sale of Check New Licensee and Private Child Support Enforcement Agency (PCSEA) Registration and Renewal Applications Completed

The Department's reported results for both of these measures were accurate, but a lack of supervisory review does not provide assurance of continued accuracy. The Department's written procedures require an adequate review process; however, this process is not followed. Currently, these performance measures are both calculated and reviewed by the same individual.

Additionally, controls over the calculation of the Percentage of Bank and Trust, Sale of Check, Currency Exchange, and Private Child Support Enforcement Agency Registration and Renewal Applications Completed within the Statutory Time Period could be improved to ensure future accuracy. When the Department calculates the results for this measure, it assumes that applications that were delayed due to the fault of the applicant (such as when the applicant does not submit a publisher's affidavit) are processed within the statutory time limitations. This is because the Department would otherwise have to manually calculate the number of days for each of these delayed applications. Although testing revealed no errors, the Department's Corporate Activities Tracking System (CATS) does not capture in an easy-to-use format the time it spends processing these delayed applications.

Recommendations

The Department should:

- Implement and document a review process to ensure that accurate data is calculated and reported.
- Expand the functionality of the CATS database to account for applicant delays when calculating the length of processing time.

Management's Response

We agree with these recommendations. The Deputy Commissioner will be responsible for seeing that the recommendations are implemented. Training of personnel has commenced, thus there will be complete and independent

separation of the calculation and review function no later than February 2006. Because there is reprogramming necessary to incorporate the necessary changes to the CATS database, it is anticipated that revisions to the reports and enhancements to the system will not be complete until August 2006.

Information Technology

Testing indicated that general and application controls over the Department's network and databases appear adequate to ensure that the data supporting the Department's reported performance measures is accurate and reliable. However, information technology staff have access to edit the live production data in the CATS database. In addition, as discussed above, CATS does not fully capture the time spent processing applications for corporate activities.

The Department has four automated applications that are critical to the performance measures certified in this audit:

- EDISON maintains specific examination information related to banks and trust companies.
- CATS has information related to corporate entities and applications.
- DIGGER maintains pre-need funeral homes and perpetual care cemeteries data.
- The Money Service Business (MSB) system maintains data related to the sale of checks and currency exchange licensee examinations.

Recommendation

The Department should implement controls to ensure that information technology staff that have edit access to the CATS database do not alter the data without the knowledge, review, and approval of program staff.

Management's Response

We agree with the recommendation and the Director of Information Resources will be responsible for working with the Division Directors to immediately establish a policy so programmers do not alter data without prior written approval of the Director responsible for the data. Programmers will maintain read/write permissions to production data. The policy will be in place by December 2005.

Objectives, Scope, and Methodology

Objectives

The audit objectives were to determine whether the Department (1) is accurately reporting its performance measures to ABEST and (2) has adequate control systems in place over the collection and reporting of its performance measures.

Scope

The audit scope consisted of testing selected performance measure results reported by the Department for fiscal year 2005 to determine whether they were accurate. Auditors also reviewed controls over the submission of data used in reporting performance measures and, when possible, traced performance information to the original source.

Methodology

The audit methodology consisted of selecting measures to audit, auditing results for accuracy and adherence to the measure definitions, evaluating controls over the performance measure certification process and related information systems, and testing samples of source documentation.

Project Information

Auditors conducted fieldwork from October 2005 to November 2005. This audit was conducted in compliance with generally accepted government auditing standards.

The following staff of the State Auditor's Office performed the audit:

- Jennifer Wiederhold (Project Manager)
- Nick Ballard
- Audrey A. O'Neill
- Bill Vanecek
- Serra Tamur, MPAff, CISA, CIA (Information Systems Audit Team)
- J. Scott Killingsworth, CIA (Quality Control Reviewer)
- Verma Elliott, MBA (Audit Manager)