

FINANCE COMMISSION OF TEXAS
AUDIT COMMITTEE MEETING

Friday, June 19, 2015
8:30 a.m.

Finance Commission Building
William F. Aldridge Hearing Room,
2601 N. Lamar Blvd.
Austin, Texas 78705

Public comment on any agenda item or issue under the jurisdiction of the Finance Commission agencies is allowed unless the comment is in reference to a rule proposal for which the public comment period has ended. However, upon majority vote of the Commission, public comment may be allowed related to final rule adoption.

- A. Review and Approval of Minutes of the April 17, 2015, Audit Committee Meeting
- B. Audit Committee Review of Agencies' Activities
- C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Revisions to the Investment Policy for:
 - 1. Department of Savings and Mortgage Lending
 - 2. Office of Consumer Credit Commissioner
 - 3. Texas Department of Banking
- D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Banking's 2015 Annual Internal Audit Report including the Audit of the Revenue Accounting Process as Prepared and Presented by Garza/Gonzalez and Associates
- E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action to Extend the Internal Auditor Contract for Garza/Gonzalez & Associates through Fiscal Year 2016
- F. Report on Activities Relating to the Texas Financial Education Endowment Fund

NOTE: The Audit Committee may go into executive session (close its meeting to the public) on any agenda item if appropriate and authorized by the Open Meetings Act, Texas Government Code, Chapter 551.

Meeting Accessibility: Under the Americans with Disabilities Act, the Finance Commission will accommodate special needs. Those requesting auxiliary aids or services should notify the Texas Department of Banking, 2601 North Lamar Boulevard, Austin, Texas 78705, (512) 936-6222, as far in advance of the meeting as possible.

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**MINUTES OF THE
AUDIT COMMITTEE MEETING
Friday, April 17, 2015
8:00 a.m.**

The Audit Committee of the Finance Commission of Texas convened at 8:02 a.m. on April 17, 2015, with the following members present: Acting Audit Committee Chairman, Lori McCool, and Larry Patton. Absent was Cindy Lyons.

Acting Audit Committee Chairman McCool announced that there was a quorum of the Audit Committee of the Finance Commission of Texas with two members present. (.10 on audio file).

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
A. Review and Approval of the Minutes of the February 20, 2015, Audit Committee Meeting	Larry Patton made a motion to approve the minutes. Lori McCool seconded and the motion passed.	.31 start of discussion .50 vote
B. Audit Committee Review of Agencies' Activities	No Action Required	1.29
C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' February 28 2015, Investment Officer Reports <i>Note: (At 6.14 – 6.53 of the audio file, Ms. Antov handed out a replacement for page 18 which had an incorrect date.)</i>	Larry Patton made a motion to approve the investment officer reports. Lori McCool seconded and the motion passed.	3.58 start of discussion 7.50 vote
D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2015 Second Quarter Financial Statements <i>Note: (At 11.27 – 13.31 of the audio file, there was a recording malfunction during the remarks of Antonia Antov, Director of Administration and Finance of the TDSML. Her discussion included an overview of the budget variances on page 26 of the packet. Special attention was given to the SWCAP variance and charges related to Capital Security. Ms. Antov also commented that the cash balance on page 27 of the packet would decrease over the remainder of the fiscal year.)</i>	Lori McCool made a motion to approve the second quarter financial statements. Larry Patton seconded and the motion passed.	8.11 start of discussion 14.04 vote

E. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Department of Banking 2015 Audit of the Perpetual Care Cemetery Area as Prepared and Presented by Garza/Gonzalez and Associates	Larry Patton made a motion to approve the Department of Banking 2015 Audit of the Perpetual Care Cemetery Area. Lori McCool seconded and the motion passed.	14.48 start of discussion 19.31 vote
F. Report on Activities Relating to the Texas Financial Education Endowment Fund	No Action Required	20.01

There being no further business of the Audit Committee of the Finance Commission of Texas, Acting Chair Lori McCool adjourned the meeting at 8:25 a.m. (22.18 on audio file).

Lori McCool, Acting Chair of the Audit Committee
Finance Commission of Texas

Charles G. Cooper, Executive Director
Finance Commission of Texas

Brenda J. Medina, Executive Assistant
Finance Commission of Texas

**Texas Department of Savings and Mortgage Lending
Outstanding Audit Issues Report as of May 31, 2015**

Auditor	Garza/Gonzales	Audit Report Date
Audit Area	Mortgage Examinations	N/A
Recommendation	Status Update	
N/A	<i>In progress.</i> Field work is completed. Report pending.	

Office of Consumer Credit Commissioner
Outstanding Audit Findings Report as of 6/1/2015

Auditor	U.S. Dept. of Justice FBI	Audit Report Date
Audit Area	Integrated Automated Fingerprint ID System Audit	Apr-13
Finding	Status Update	
Obtain Authorization to pull criminal history for Credit Access Business Licensee	Completed. The agency has statutory authority under section 14.151 Texas Finance Code to obtain criminal history, but the FBI did not recognize that section as authoritative and desired that Ch. 393 be added to the provisions found in Gov't Code section 411.095. Senate bill 1075 contained the desired amendment and passed this legislative session, with an effective date of Sept 1, 2015.	
Auditor	Garza / Gonzalez & Associates	Audit Report Date
Audit Area	Professional Licensing	Jun-14
Finding	Status Update	
Implement a quality control review process for RMLO and Pawnshop Employee applications received are sampled and reviewed on a periodic basis.	In progress. The agency has modified its procedure to include a second level of review to address the finding. The agency is continuing to study whether a quality control process would be a more efficient and appropriate procedure. While the agency believes that it has addressed the finding, consideration of the recommendation is ongoing with a determinataion anticipated by December 2015	

**Texas Department of Banking
Outstanding Audit Findings Report as of June 2015**

The agency has no outstanding audit issues.

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2016 Budget Preparation Timeline

June to July – Agencies prepare draft budgets

July 28, 2015 – Draft budgets posted to websites and sent to Texas Register

August 6, 2015 (4:00pm) – Agencies conduct public hearing on draft budgets

August 21, 2015 – Agencies present final budgets to Finance Commission

Note: comments on the budget proposals will be taken from July 28, 2015 through August 20, 2015.

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~~TEXAS~~ DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
INVESTMENT POLICY

Overview

This policy governs the investment of funds of the Mortgage ~~Broker~~ Recovery Fund (“the Fund”) administered by the Texas Department of Savings and Mortgage Lending (“the Department”) to the extent the Department has statutory investment authority. The Fund has been established as mandated by the 76th Legislature, and organized pursuant to the Texas Finance Code, Chapter 156, Subchapter F.

This policy does not convey investment authority where such does not exist through statute or the courts. This policy shall be approved by the Finance Commission as this policy applies to funds within its purview. The policy will be reviewed annually by the Finance Commission, with said review and any changes made to either the policy or investment strategies recorded in the minutes of the Finance Commission.

The Finance Commission reapproved this policy on ~~August 15, 2014~~ June 19, 2015, and, on that date, ~~which was revised the policy to better align our guidelines with the Public Funds Investment Act and address the eligibility requirements of the Investment Officer clarify the types of authorized investments.~~ While this agency is not subject to the requirements in the Public Funds Investment Act, efforts are made to closely follow the Act. Previous changes to this policy were approved on ~~February 17, 2012~~ August 15, 2014.

It is the policy of the Department to invest funds in compliance with the following priorities, in the order of importance:

- Preservation of principal;
- Maintenance of liquidity as appropriate to the identified need;
- Procurement of an appropriate yield,
- Diversification of the investment portfolio, and
- Marketability of the investment if the need arises to liquidate the investment before maturity.

All investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Appropriate diversification of investments will be sought.

To the extent that diversification of investment types and maturities assists in the achievement of the above-named priorities, investment strategies for the different funds held will consider the appropriate mix of investments.

Identification of Covered Funds

Funds covered by this policy include amounts deposited into the Mortgage ~~Broker~~ Recovery Fund as prescribed in Texas Finance Code, Chapter 156, Subchapter F.

Types of Authorized Investments

The fund or a portion of the fund may be placed in the Texas Treasury Safekeeping Trust Company (or its successor). Pursuant to Section 404.106 of the Government Code, funds held by the Texas Treasury Safekeeping Trust Company are to be invested in obligations in which the Texas Comptroller of Public Accounts is authorized to invest. Section 404.024 of the Government Code specifies those obligations in which the Comptroller is authorized to invest.

According to Texas Finance, Code, Section 156.501 (c), the amounts in the fund may be invested and reinvested in the same manner as funds of the Texas State Employees Retirement System (“ERS”), however an investment may not be made if it will impair the necessary liquidity required to satisfy judgment payments

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awarded to residential mortgage loan applicants from the Fund.

The Department's investment goals align with the ERS's investment policy for Cash and Cash equivalents, which states that the cash portfolio is managed to maintain liquidity and preserve principal with a maximum final maturity of 18 months and with a minimum credit quality rating of A. The eligible securities for cash and cash equivalents according to ERS's investment policy are as follows:

1. Asset Backed Securities
2. Certificates of Deposit
3. Commercial Paper
4. Time Deposits
5. Repurchase Agreements
6. Treasury and Government Agency Securities
7. Bank Notes
8. Institutional Money Market Funds
9. Supranationals/Sovereigns
10. Domestic corporate bonds and floating rate notes (FRNs)

To provide for more flexibility and obtain a higher rate of return, while still maintaining liquidity and preserve principal the Department increases the allowable maturity period to 60 months (120 months for Asset Backed Securities) and with a minimum credit rating of A. To further limit the investment risk, the Department restricts the eligible securities for investment of funds covered under this policy to:

1. Certificates of Deposit & Time Deposits – Deposit accounts in a depository institution that has its main office or a branch office in this state which are: 1) Insured by a federal deposit insurance agency, or its successor; or, 2) 100% secured by securities allowable under the ERS' investment policy for cash and cash equivalents; and 3) do not have a maturity exceeding 60 months. Bids for certificates of deposit may be solicited orally, in writing, electronically or in any combination of those methods.
2. Repurchase Agreements – Direct or reverse security repurchase agreements with the Texas Treasury Safekeeping Trust Company (or its successor) or another authorized entity under this policy, which are: 1) collateralized on a daily basis at a minimum of 102% of market value; 2) 100% secured by securities allowable under the ERS' investment policy for cash and cash equivalents; 3) are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state.
3. Asset Backed Securities - Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with a maximum allowable maturity of 120 months and expected average life of not more than 60 months.
4. Treasury and Government Agency Securities – Obligations of the United States or its agencies and instrumentalities, direct obligations of this state or its agencies and instrumentalities, and obligations of state or local government agencies and instrumentalities of any state rated as to investment quality by a nationally recognized investment rating firm not less than A with a maximum allowable maturity of 60 months.

Investments that were authorized at the time they were purchased may be retained under this policy until their maturity, even if later revisions of the policy render the investments in noncompliance.

~~TEXAS~~ DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
INVESTMENT POLICY

Unauthorized Investments

Unauthorized Investments under this policy are:

1. All investments in securities not specifically listed in this policy as eligible securities, or
2. All investments with maturity and credit rating that do not comply with the requirements of this policy, or
3. All investments obtained through an unauthorized entity under this policy, or
4. All investments which comply with the policy but through inherent characteristics or external influences and factors could prevent the Department to reach its investment goals under this policy.

Strategy for Covered Funds

The investment strategy for funds received into the Mortgage Broker Recovery Fund, is to place funds in either authorized investments set forth in this policy or in the Texas Treasury Safekeeping Trust Company, with amounts and maturities determined by anticipated liquidity needs.

Safekeeping of Investments

All funds, securities, etc., held under this policy, where possible, will be placed under the name of the Texas Department of Savings and Mortgage Lending and safekeeping receipts will be maintained on file.

Reporting

Not less than quarterly, the Investment Officer shall prepare a signed, written report of investment transactions for all funds covered by this policy for the preceding reporting period, to include:

- The investment position of the Fund on the date of the report;
- The book and market values of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested (for demand deposits and certificates of deposit, reports will reflect book value and market value as the same);
- The maturity date of each separately invested asset that has a maturity date;
- Any non-compliance of the investment portfolio with this policy;
- Income received and expenses incurred in conjunction with investments; and,
- Any other information as required by the Commission or deemed relevant to this policy.

The reports shall be submitted to the Finance Commission at regularly scheduled meetings.

Rates of Return and Market Pricing

The Department expects to receive market rates of return on all investments authorized under this policy, remembering the need to first, protect principal and second, maintain sufficient liquidity to meet the needs of the specific funds being invested. No rate of return is expected to be earned on any funds in a checking account, and therefore these will be kept to a minimum.

The Investment Officer will periodically review the market pricing and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives.

Diversification

Investments in FDIC-insured deposits (or in deposits not insured by the FDIC but otherwise secured by state or federal government obligations with margin) and in direct U.S. Treasury obligations are not subject to diversification other than maturity considerations.

Settlement

Settlement of all transactions, except investment pool funds and mutual funds, shall be on a delivery versus payment basis.

~~TEXAS~~ DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
INVESTMENT POLICY

Investment Officer

The Director of Administration and Finance will be the designated Investment Officer for the funds held and invested by the Department. The Investment Officer is authorized to:

- Obtain external investment expertise if deemed necessary to fulfill investment objectives;
- Delegate routine business transactions within authorized and established investments; and,
- Enter into agreements with other parties as necessary to fulfill this policy, make or authorize investments, or notify other parties concerning this policy and its requirements.

The Investment Officer may not have a personal business relationship with a business organization offering to engage in an investment transaction with the Department.

If the Investment Officer is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Department, the Officer shall file a statement disclosing that relationship. Any statement filed under this paragraph shall be filed with the Texas Ethics Commission and the Finance Commission.

Investment Training

The Investment Officer and other agency employees active in the investment function will attend training relating to their respective responsibilities under this policy, not less than once each state fiscal biennium. Training may include education in investment controls, security risks, strategy risks, and market risks. Any training conducted or approved by any state or federal agency, independent of the Department, related to investments, risk management, portfolio diversification, or similar substance, is hereby approved by the Finance Commission as meeting the terms of this requirement.

The Investment Officer shall provide a report to the Finance Commission regarding the status of investment training at the time of the annual review of the policy.

Entities Authorized to Engage in Investment Transactions

Investments may be obtained through licensed securities brokers, commercial banks, state savings banks, and trust companies authorized to do business in Texas. To the extent that deposits and accounts are insured or secured for the full amount of principal and interest, no specific authorization from the Finance Commission is required as long as the individual institution falls under the requirements of this policy. All brokerage activities will be transacted using qualified brokerage firms. Qualified brokerage firms must be regulated by the Securities Exchange Commission and be members of Financial Industry Regulatory Authority (FINRA).

Acknowledgment of the Policy by Persons Seeking to Sell Investments to the Department

A written copy of this policy must be presented to any person offering to engage in an investment transaction with the Department. Any person who is holding federally insured deposit accounts is exempt from this requirement. A qualified representative of the business organization offering to engage in an investment transaction with the Department shall execute a written acknowledgment (Appendix) that the business organization:

- Has received and reviewed the Investment Policy of the Department; and,
- Acknowledges that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department and the organization that are not authorized by the Department's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio or requires an interpretation of subjective investment standards.

| ~~TEXAS~~ DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
INVESTMENT POLICY

The Investment Officer may not acquire or otherwise obtain any authorized investment described in the investment policy, or renew depository or other agreements, from a person who has not delivered to the Department the instrument in substantially the form provided.

Acknowledgment

I, (broker/banker/trust company officer), a qualified representative of (name of brokerage facility/bank/trust company), hereby make the following statements:

I have received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,

I acknowledge that (name of brokerage facility/bank) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Texas Department of Savings and Mortgage Lending and (name of the brokerage facility/bank/trust company) that are not authorized by the referenced Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio or requires an interpretation of subjective investment standards.

Signature of Qualified Representative

Date

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING INVESTMENT POLICY

Overview

This policy governs the investment of funds of the Mortgage Recovery Fund (“the Fund”) administered by the Texas Department of Savings and Mortgage Lending (“the Department”) to the extent the Department has statutory investment authority. The Fund has been established as mandated by the 76th Legislature, and organized pursuant to the Texas Finance Code, Chapter 156, Subchapter F.

This policy does not convey investment authority where such does not exist through statute or the courts. This policy shall be approved by the Finance Commission as this policy applies to funds within its purview. The policy will be reviewed annually by the Finance Commission, with said review and any changes made to either the policy or investment strategies recorded in the minutes of the Finance Commission.

The Finance Commission reapproved this policy on June 19, 2015, and, on that date, revised the policy to clarify the types of authorized investments. While this agency is not subject to the requirements in the Public Funds Investment Act, efforts are made to closely follow the Act. Previous changes to this policy were approved on August 15, 2014.

It is the policy of the Department to invest funds in compliance with the following priorities, in the order of importance:

- Preservation of principal;
- Maintenance of liquidity as appropriate to the identified need;
- Procurement of an appropriate yield,
- Diversification of the investment portfolio, and
- Marketability of the investment if the need arises to liquidate the investment before maturity.

All investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Appropriate diversification of investments will be sought.

To the extent that diversification of investment types and maturities assists in the achievement of the above-named priorities, investment strategies for the different funds held will consider the appropriate mix of investments.

Identification of Covered Funds

Funds covered by this policy include amounts deposited into the Mortgage Recovery Fund as prescribed in Texas Finance Code, Chapter 156, Subchapter F.

Types of Authorized Investments

The fund or a portion of the fund may be placed in the Texas Treasury Safekeeping Trust Company (or its successor). Pursuant to Section 404.106 of the Government Code, funds held by the Texas Treasury Safekeeping Trust Company are to be invested in obligations in which the Texas Comptroller of Public Accounts is authorized to invest. Section 404.024 of the Government Code specifies those obligations in which the Comptroller is authorized to invest.

According to Texas Finance, Code, Section 156.501 (c), the amounts in the fund may be invested and reinvested in the same manner as funds of the Texas State Employees Retirement System (“ERS”), however an investment may not be made if it will impair the necessary liquidity required to satisfy judgment payments awarded to residential mortgage loan applicants from the Fund.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
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The Department's investment goals align with the ERS's investment policy for Cash and Cash equivalents, which states that the cash portfolio is managed to maintain liquidity and preserve principal with a maximum final maturity of 18 months and with a minimum credit quality rating of A. The eligible securities for cash and cash equivalents according to ERS's investment policy are as follows:

1. Asset Backed Securities
2. Certificates of Deposit
3. Commercial Paper
4. Time Deposits
5. Repurchase Agreements
6. Treasury and Government Agency Securities
7. Bank Notes
8. Institutional Money Market Funds
9. Supranationals/Sovereigns
10. Domestic corporate bonds and floating rate notes (FRNs)

To provide for more flexibility and obtain a higher rate of return, while still maintaining liquidity and preserve principal the Department increases the allowable maturity period to 60 months (120 months for Asset Backed Securities) and with a minimum credit rating of A. To further limit the investment risk, the Department restricts the eligible securities for investment of funds covered under this policy to:

1. Certificates of Deposit & Time Deposits – Deposit accounts in a depository institution that has its main office or a branch office in this state which are: 1) Insured by a federal deposit insurance agency, or its successor; or, 2) 100% secured by securities allowable under the ERS' investment policy for cash and cash equivalents; and 3) do not have a maturity exceeding 60 months. Bids for certificates of deposit may be solicited orally, in writing, electronically or in any combination of those methods.
2. Repurchase Agreements – Direct or reverse security repurchase agreements with the Texas Treasury Safekeeping Trust Company (or its successor) or another authorized entity under this policy, which are: 1) collateralized on a daily basis at a minimum of 102% of market value; 2) 100% secured by securities allowable under the ERS' investment policy for cash and cash equivalents; 3) are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state.
3. Asset Backed Securities - Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with a maximum allowable maturity of 120 months and expected average life of not more than 60 months.
4. Treasury and Government Agency Securities – Obligations of the United States or its agencies and instrumentalities, direct obligations of this state or its agencies and instrumentalities, and obligations of state or local government agencies and instrumentalities of any state rated as to investment quality by a nationally recognized investment rating firm not less than A with a maximum allowable maturity of 60 months.

Investments that were authorized at the time they were purchased may be retained under this policy until their maturity, even if later revisions of the policy render the investments in noncompliance.

Unauthorized Investments

Unauthorized Investments under this policy are:

1. All investments in securities not specifically listed in this policy as eligible securities, or

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
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2. All investments with maturity and credit rating that do not comply with the requirements of this policy, or
3. All investments obtained through an unauthorized entity under this policy, or
4. All investments which comply with the policy but through inherent characteristics or external influences and factors could prevent the Department to reach its investment goals under this policy.

Strategy for Covered Funds

The investment strategy for funds received into the Mortgage Broker Recovery Fund, is to place funds in either authorized investments set forth in this policy or in the Texas Treasury Safekeeping Trust Company, with amounts and maturities determined by anticipated liquidity needs.

Safekeeping of Investments

All funds, securities, etc., held under this policy, where possible, will be placed under the name of the Texas Department of Savings and Mortgage Lending and safekeeping receipts will be maintained on file.

Reporting

Not less than quarterly, the Investment Officer shall prepare a signed, written report of investment transactions for all funds covered by this policy for the preceding reporting period, to include:

- The investment position of the Fund on the date of the report;
- The book and market values of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested (for demand deposits and certificates of deposit, reports will reflect book value and market value as the same);
- The maturity date of each separately invested asset that has a maturity date;
- Any non-compliance of the investment portfolio with this policy;
- Income received and expenses incurred in conjunction with investments; and,
- Any other information as required by the Commission or deemed relevant to this policy.

The reports shall be submitted to the Finance Commission at regularly scheduled meetings.

Rates of Return and Market Pricing

The Department expects to receive market rates of return on all investments authorized under this policy, remembering the need to first, protect principal and second, maintain sufficient liquidity to meet the needs of the specific funds being invested. No rate of return is expected to be earned on any funds in a checking account, and therefore these will be kept to a minimum.

The Investment Officer will periodically review the market pricing and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives.

Diversification

Investments in FDIC-insured deposits (or in deposits not insured by the FDIC but otherwise secured by state or federal government obligations with margin) and in direct U.S. Treasury obligations are not subject to diversification other than maturity considerations.

Settlement

Settlement of all transactions, except investment pool funds and mutual funds, shall be on a delivery versus payment basis.

Investment Officer

The Director of Administration and Finance will be the designated Investment Officer for the funds held and invested by the Department. The Investment Officer is authorized to:

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
INVESTMENT POLICY

- Obtain external investment expertise if deemed necessary to fulfill investment objectives;
- Delegate routine business transactions within authorized and established investments; and,
- Enter into agreements with other parties as necessary to fulfill this policy, make or authorize investments, or notify other parties concerning this policy and its requirements.

The Investment Officer may not have a personal business relationship with a business organization offering to engage in an investment transaction with the Department.

If the Investment Officer is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Department, the Officer shall file a statement disclosing that relationship. Any statement filed under this paragraph shall be filed with the Texas Ethics Commission and the Finance Commission.

Investment Training

The Investment Officer and other agency employees active in the investment function will attend training relating to their respective responsibilities under this policy, not less than once each state fiscal biennium. Training may include education in investment controls, security risks, strategy risks, and market risks. Any training conducted or approved by any state or federal agency, independent of the Department, related to investments, risk management, portfolio diversification, or similar substance, is hereby approved by the Finance Commission as meeting the terms of this requirement.

The Investment Officer shall provide a report to the Finance Commission regarding the status of investment training at the time of the annual review of the policy.

Entities Authorized to Engage in Investment Transactions

Investments may be obtained through licensed securities brokers, commercial banks, state savings banks, and trust companies authorized to do business in Texas. To the extent that deposits and accounts are insured or secured for the full amount of principal and interest, no specific authorization from the Finance Commission is required as long as the individual institution falls under the requirements of this policy. All brokerage activities will be transacted using qualified brokerage firms. Qualified brokerage firms must be regulated by the Securities Exchange Commission and be members of Financial Industry Regulatory Authority (FINRA).

Acknowledgment of the Policy by Persons Seeking to Sell Investments to the Department

A written copy of this policy must be presented to any person offering to engage in an investment transaction with the Department. Any person who is holding federally insured deposit accounts is exempt from this requirement. A qualified representative of the business organization offering to engage in an investment transaction with the Department shall execute a written acknowledgment (Appendix) that the business organization:

- Has received and reviewed the Investment Policy of the Department; and,
- Acknowledges that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department and the organization that are not authorized by the Department's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio or requires an interpretation of subjective investment standards.

The Investment Officer may not acquire or otherwise obtain any authorized investment described in the investment policy, or renew depository or other agreements, from a person who has not delivered to the Department the instrument in substantially the form provided.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
INVESTMENT POLICY

Appendix

Acknowledgment

I, (broker/banker/trust company officer), a qualified representative of (name of brokerage facility/bank/trust company), hereby make the following statements:

I have received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,

I acknowledge that (name of brokerage facility/bank) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Texas Department of Savings and Mortgage Lending and (name of the brokerage facility/bank/trust company) that are not authorized by the referenced Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio or requires an interpretation of subjective investment standards.

Signature of Qualified Representative

Date

OFFICE OF CONSUMER CREDIT COMMISSIONER
INVESTMENT POLICY STATEMENT

1. Overview

This policy governs the investment of funds maintained by the Office of Consumer Credit Commissioner ("Agency"). This policy does not convey investment authority where such does not exist through statute. This policy shall be approved by the Finance Commission of Texas (Finance Commission) as this policy applies to funds within its purview. The policy will be reviewed annually by the Finance Commission, with said review and any changes made to either the policy or investment strategies recorded in the minutes of the Finance Commission.

The Finance Commission met on ~~June 19, 2015~~ ~~August 15, 2014~~ to approve changes to this policy. On ~~August 15, 2014~~ ~~August 16, 2013~~, the Finance Commission re-approved this policy which was revised to clarify the types of authorized investments. ~~as a result of House Bill 2226 enacted by the 82nd Legislature.~~

It is the policy of the Agency to invest funds in compliance with the following priorities, in the order of importance:

- Preservation of principal;
- Maintenance of liquidity as appropriate to the identified need; ~~and,~~
- Procurement of an appropriate yield;
- Diversification of investment portfolio; ~~and,~~
- Marketability of the investment if the need arises to liquidate the investment before maturity.

All investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

To the extent that diversification of investment types and maturities assists in the achievement of the above-named priorities, investment strategies for the different funds held will consider the appropriate mix of investments.

2. Identification of Covered Funds

Funds covered by this policy are funds authorized to be collected by the Texas Finance Code.

OCCC Operating Fund (TTSTC #2973)	
Enabling Legislation	§16.003, TEX. FIN. CODE

OCCC Residential Mortgage Loan Originator Recovery Fund (TTSTC #3008)	
Enabling Legislation	Sections 341.601 et seq. through 341.610 , TEX. FIN. CODE
Distribution Policy	The fund shall be used to reimburse residential mortgage loan applicants for actual damages incurred because of acts committed by a state-licensed residential mortgage loan originator who was licensed under the applicable chapter when the act was committed. Recovery is limited by the provisions of §341.606 §341.206 to an

	aggregate of \$25,000 per claim.
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Texas Financial Education Endowment Fund (TTSTC #3071)	
Enabling Legislation	§393.628, TEX. FIN. CODE
Distribution Policy	Annual distributions, payable quarterly or annually, are calculated as 4.5% times the twenty-quarter, moving-average value of the Fund as of June 30 for distributions to be made the following fiscal year.

3. Types of Authorized Investments

Each fund (or a portion of one or more funds) may be placed in the Texas Treasury Safekeeping Trust Company (TTSTC) or its successor. Pursuant to Section 404.106 of the Government Code, funds held by the TTSTC are to be invested in obligations in which the Texas Comptroller of Public Accounts is authorized to invest. Section 404.024 of the Government Code specifies those obligations in which the Comptroller is authorized to invest.

The Texas Financial Education Endowment Fund is to be invested with the ~~TTSTC Texas Treasury Safekeeping Trust Company (TTSTC)~~. The Investment Policy Statement for Texas Financial Education Endowment Funds of the ~~TTSTC Texas Treasury Safekeeping Trust Company~~ is adopted by reference for the oversight of the Texas Financial Education Endowment Fund. These policies include:

- An investment return objective of 8%
- A securities lending objective to enhance current income to the extent consistent with the preservation of capital and maintenance of liquidity
- Portfolio rebalancing
- Portfolio hedging and overlays
- Asset allocation targets and performance benchmarks
- Risk management guidelines
- Investment manager expectations
- Fixed income, equity, real estate and all asset strategies

The investment policies of the Texas Treasury Safekeeping Trust Company control over any conflict between this policy and the TTSTC investment policy for the Texas Financial Education Endowment Fund.

Insofar as a fund or portion of a fund is deposited in a financial institution, the Agency may utilize the ~~Other funds anticipated to be held for less than one year may be placed in the Texas Treasury Safekeeping Trust Company (or its successor), or in money market funds. However, other~~ investment securities listed below ~~may be utilized by the Agency.~~ "Maximum allowable maturity," when used in this policy, means the remaining time until the final principal payment on the investment, measured from the date of purchase by the Agency.

- Obligations of the United States or its agencies and instrumentalities with a maximum allowable maturity of ten years;
- Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of ten years;

- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with a maximum allowable maturity of ten years;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States with a maximum allowable maturity of 10 years;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of ten years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy;
- Deposit accounts, including time accounts and certificates of deposit, in a depository institution that has its main office or a branch office in this state which:
 - Are fully insured by the FDIC, or its successor; or,
 - Are 100% secured by securities allowable under this section for direct investment by the Agency, and
 - Do not have a maturity exceeding 36 months.
- Bids for certificates of deposit may be solicited:
 - Orally;
 - In writing;
 - Electronically; or
 - In any combination of those methods.
- Repurchase agreements, collateralized on a daily basis at a minimum of 102% of market value, including both direct security repurchase agreements and reverse security repurchase agreements, that:
 - Do not have a defined termination date exceeding ninety days;
 - Are secured by a combination of cash and securities allowable under this section for direct investment by the Agency;
 - Require securities being purchased or cash held by the Agency to be pledged to the Agency, held in the Agency's name and deposited at the time the investment is made with the Agency or with a third party selected and approved by the Agency;
 - Are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state; and
 - Requires that money received under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments required must mature not later than the expiration date stated in the reverse repurchase agreement.
- Mutual funds, if they are no-load money market mutual funds that:
 - Are registered with and regulated by the Securities and Exchange Commission;
 - Provide the Agency with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940
 - Have a dollar-weighted average stated maturity of 90 days or less; and,

- Include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.
- Mutual funds, if they are no-load mutual funds that:
 - Are registered with the Securities and Exchange Commission;
 - Have an average weighted maturity of less than two years;
 - Are invested exclusively in obligations authorized in this policy; and,
 - Are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

4. Unauthorized Investments

The following are not authorized investments under this policy:

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and
- No portion of bond proceeds, reserves and funds held for debt service shall be invested in mutual funds.

5. Safekeeping of Investments

All funds, securities, etc., held under this policy, where possible, will be placed under the name of the Office of Consumer Credit Commissioner and safekeeping receipts will be maintained on file.

6. Reporting

Not less than quarterly, the Investment Officer shall prepare and submit to the Finance Commission and Finance Commission Chairman a signed, written report of investment transactions for all funds covered by this policy for the preceding reporting period, to include:

- The investment position of the Agency on the date of the report;
- The book and market values of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested (for demand deposits and certificates of deposit, reports will reflect book value and market value as the same);
- The maturity date of each separately invested asset that has a maturity date;
- The fund for which each individual investment was acquired;
- Any non-compliance of the investment portfolio with this policy;
- Income received and expenses incurred in conjunction with investments; and,
- Any other information as required by the Finance Commission.

7. Rates of Return and Market Pricing

The Agency expects to receive market rates of return on all investments authorized under this policy, remembering the need to first, protect principal and second, maintain sufficient liquidity to meet the needs of the specific funds being invested. Higher rates of return will be targeted on the more aggressive and longer term investment products. No rate of return is expected to be earned on any funds in a checking account, and therefore these will be kept to a minimum.

The Investment Officer will periodically review the market pricing and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives.

8. Diversification

Investments in FDIC-insured deposits (or in deposits not insured by the FDIC but otherwise secured by state or federal government obligations with margin) and in direct U.S. Treasury obligations are not subject to diversification other than maturity considerations. For investments other than those just listed, diversification shall be as follows:

- Specific mutual funds, if they are no-load mutual funds, are eligible for investment up to a limit of no more than 15 % of a covered fund's average balance;
- No one covered fund shall invest in mutual funds in the aggregate more than 80% of its monthly average balance; and,
- No covered funds shall be invested in any one mutual fund in an amount that exceeds 10% of the total assets of the mutual fund.

9. Settlement

Settlement of all transactions, except investment pool funds and mutual funds, shall be on a delivery versus payment basis.

10. Investment Officer

The Accounting Manager will be the designated Investment Officer for the funds held and invested by the Agency. The Investment Officer is authorized to:

- Obtain external investment expertise if deemed necessary to fulfill investment objectives;
- Delegate routine business transactions within authorized and established investments; and,
- Enter into agreements with other parties as necessary to fulfill this policy, make or authorize investments, or notify other parties concerning this policy and its requirements.

Pursuant to Gov't Code §2256.005(i), if the Investment Officer has a personal business relationship with a business organization offering to engage in an investment transaction with the Agency, the Officer shall file a statement disclosing that personal business interest. For the purposes of this policy, an investment officer has a personal business relationship with a business organization if:

- The investment officer owns 10% or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- Funds received by the investment officer from the business organization exceed 10% of the investment officer's gross income for the previous year; or
- The investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

If the Investment Officer is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Agency, the Officer shall file a statement disclosing that relationship. Any statement filed under this paragraph shall be filed with the Texas Ethics Commission and the Finance Commission.

11. Investment Training

Pursuant to Gov't Code §2256.007, the Investment Officer and other agency employees active in the investment function will attend training relating to their respective responsibilities under this policy, not less than once each state fiscal biennium. Training may include education in investment controls, security risks, strategy risks, and market risks.

Any training conducted or approved by any state or federal agency, independent of the Agency, related to investments, risk management, portfolio diversification, or similar substance, is hereby approved by the Finance Commission as meeting the terms of this requirement.

The Investment Officer shall provide a report to the Finance Commission regarding the status of investment training at the time of the biannual review of the policy.

12. Entities Authorized to Engage in Investment Transactions

Investments may be obtained through licensed securities brokers, commercial banks, state savings banks, and trust companies authorized to do business in Texas. To the extent that deposits and accounts are insured or secured for the full amount of principal and interest, no specific authorization from the Finance Commission is required as long as the individual institution falls under the requirements of this policy. All brokerage activities will be transacted using qualified brokerage firms. Qualified brokerage firms must be regulated by the Securities Exchange Commission and be members of Financial Industry Regulatory Authority (FINRA).

13. Acknowledgment of the Policy by Persons Seeking to Sell Investments to the Agency

A written copy of this policy must be presented to any person offering to engage in an investment transaction with the Agency. A qualified representative of the business organization offering to engage in an investment transaction with the Agency shall execute a written acknowledgment (Appendix #1) that the business organization:

- Has received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,
- Acknowledges that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Agency and the organization that are not authorized by the Agency's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Agency's entire portfolio or requires an interpretation of subjective investment standards.

The Investment Officer may not acquire or otherwise obtain any authorized investment described in the investment policy, or renew depository or other agreements, from a person who has not delivered to the Agency the instrument in substantially the form provided.

Appendix #1

Acknowledgment

I, (broker/banker/trust company officer), a qualified representative of (name of brokerage facility/bank/trust company), hereby make the following statements:

I have received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,

I acknowledge that (name of brokerage facility/bank) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Office of Consumer Credit Commissioner and (name of the brokerage facility/bank/trust company) that are not authorized by the referenced Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Office of Consumer Credit Commissioner's entire portfolio or requires an interpretation of subjective investment standards.

Signature of Qualified Representative

Date

OFFICE OF CONSUMER CREDIT COMMISSIONER
INVESTMENT POLICY STATEMENT

1. Overview

This policy governs the investment of funds maintained by the Office of Consumer Credit Commissioner ("Agency"). This policy does not convey investment authority where such does not exist through statute. This policy shall be approved by the Finance Commission of Texas (Finance Commission) as this policy applies to funds within its purview. The policy will be reviewed annually by the Finance Commission, with said review and any changes made to either the policy or investment strategies recorded in the minutes of the Finance Commission.

The Finance Commission met on June 19, 2015 to approve changes to this policy. On August 15, 2014, the Finance Commission re-approved this policy which was revised to clarify the types of authorized investments.

It is the policy of the Agency to invest funds in compliance with the following priorities, in the order of importance:

- Preservation of principal;
- Maintenance of liquidity as appropriate to the identified need;
- Procurement of an appropriate yield;
- Diversification of investment portfolio; and,
- Marketability of the investment if the need arises to liquidate the investment before maturity.

All investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

To the extent that diversification of investment types and maturities assists in the achievement of the above-named priorities, investment strategies for the different funds held will consider the appropriate mix of investments.

2. Identification of Covered Funds

Funds covered by this policy are funds authorized to be collected by the Texas Finance Code.

OCCC Operating Fund (TTSTC #2973)	
Enabling Legislation	§16.003, TEX. FIN. CODE

OCCC Residential Mortgage Loan Originator Recovery Fund (TTSTC #3008)	
Enabling Legislation	Sections 341.601 through 341.610, TEX. FIN. CODE
Distribution Policy	The fund shall be used to reimburse residential mortgage loan applicants for actual damages incurred because of acts committed by a state-licensed residential mortgage loan originator who was licensed under the applicable chapter when the act was committed. Recovery is limited by the provisions of §341.606 to an aggregate of \$25,000 per claim.

Texas Financial Education Endowment Fund (TTSTC #3071)	
Enabling Legislation	§393.628, TEX. FIN. CODE
Distribution Policy	Annual distributions, payable quarterly or annually, are calculated as 4.5% times the twenty-quarter, moving-average value of the Fund as of June 30 for distributions to be made the following fiscal year.

3. Types of Authorized Investments

Each fund (or a portion of one or more funds) may be placed in the Texas Treasury Safekeeping Trust Company (TTSTC) or its successor. Pursuant to Section 404.106 of the Government Code, funds held by the TTSTC are to be invested in obligations in which the Texas Comptroller of Public Accounts is authorized to invest. Section 404.024 of the Government Code specifies those obligations in which the Comptroller is authorized to invest.

The Texas Financial Education Endowment Fund is to be invested with the TTSTC . The Investment Policy Statement for Texas Financial Education Endowment Fund of the TTSTC is adopted by reference for the oversight of the Texas Financial Education Endowment Fund. These policies include:

- An investment return objective of 8%
- A securities lending objective to enhance current income to the extent consistent with the preservation of capital and maintenance of liquidity
- Portfolio rebalancing
- Portfolio hedging and overlays
- Asset allocation targets and performance benchmarks
- Risk management guidelines
- Investment manager expectations
- Fixed income, equity, real estate and all asset strategies

The investment policies of the Texas Treasury Safekeeping Trust Company control over any conflict between this policy and the TTSTC investment policy for the Texas Financial Education Endowment Fund.

Insofar as a fund or portion of a fund is deposited in a financial institution, the Agency may utilize the investment securities listed below. "Maximum allowable maturity," when used in this policy, means the remaining time until the final principal payment on the investment, measured from the date of purchase by the Agency.

- Obligations of the United States or its agencies and instrumentalities with a maximum allowable maturity of ten years;
- Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of ten years;
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with a maximum allowable maturity of ten years;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the

Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States with a maximum allowable maturity of 10 years;

- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of ten years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy;
- Deposit accounts, including time accounts and certificates of deposit, in a depository institution that has its main office or a branch office in this state which:
 - Are fully insured by the FDIC, or its successor; or,
 - Are 100% secured by securities allowable under this section for direct investment by the Agency, and
 - Do not have a maturity exceeding 36 months.
- Bids for certificates of deposit may be solicited:
 - Orally;
 - In writing;
 - Electronically; or
 - In any combination of those methods.
- Repurchase agreements, collateralized on a daily basis at a minimum of 102% of market value, including both direct security repurchase agreements and reverse security repurchase agreements, that:
 - Do not have a defined termination date exceeding ninety days;
 - Are secured by a combination of cash and securities allowable under this section for direct investment by the Agency;
 - Require securities being purchased or cash held by the Agency to be pledged to the Agency, held in the Agency's name and deposited at the time the investment is made with the Agency or with a third party selected and approved by the Agency;
 - Are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state; and
 - Requires that money received under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments required must mature not later than the expiration date stated in the reverse repurchase agreement.
- Mutual funds, if they are no-load money market mutual funds that:
 - Are registered with and regulated by the Securities and Exchange Commission;
 - Provide the Agency with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940
 - Have a dollar-weighted average stated maturity of 90 days or less; and,
 - Include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.
- Mutual funds, if they are no-load mutual funds that:
 - Are registered with the Securities and Exchange Commission;
 - Have an average weighted maturity of less than two years;
 - Are invested exclusively in obligations authorized in this policy; and,

- Are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

4. Unauthorized Investments

The following are not authorized investments under this policy:

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and
- No portion of bond proceeds, reserves and funds held for debt service shall be invested in mutual funds.

5. Safekeeping of Investments

All funds, securities, etc., held under this policy, where possible, will be placed under the name of the Office of Consumer Credit Commissioner and safekeeping receipts will be maintained on file.

6. Reporting

Not less than quarterly, the Investment Officer shall prepare and submit to the Finance Commission and Finance Commission Chairman a signed, written report of investment transactions for all funds covered by this policy for the preceding reporting period, to include:

- The investment position of the Agency on the date of the report;
- The book and market values of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested (for demand deposits and certificates of deposit, reports will reflect book value and market value as the same);
- The maturity date of each separately invested asset that has a maturity date;
- The fund for which each individual investment was acquired;
- Any non-compliance of the investment portfolio with this policy;
- Income received and expenses incurred in conjunction with investments; and,
- Any other information as required by the Finance Commission.

7. Rates of Return and Market Pricing

The Agency expects to receive market rates of return on all investments authorized under this policy, remembering the need to first, protect principal and second, maintain sufficient liquidity to meet the needs of the specific funds being invested. Higher rates of return will be targeted on the more aggressive and longer term investment products. No rate of return is expected to be earned on any funds in a checking account, and therefore these will be kept to a minimum.

The Investment Officer will periodically review the market pricing and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives.

8. Diversification

Investments in FDIC-insured deposits (or in deposits not insured by the FDIC but otherwise secured by state or federal government obligations with margin) and in direct U.S. Treasury obligations are not subject to diversification other than maturity considerations. For investments other than those just listed, diversification shall be as follows:

- Specific mutual funds, if they are no-load mutual funds, are eligible for investment up to a limit of no more than 15 % of a covered fund's average balance;
- No one covered fund shall invest in mutual funds in the aggregate more than 80% of its monthly average balance; and,
- No covered funds shall be invested in any one mutual fund in an amount that exceeds 10% of the total assets of the mutual fund.

9. Settlement

Settlement of all transactions, except investment pool funds and mutual funds, shall be on a delivery versus payment basis.

10. Investment Officer

The Accounting Manager will be the designated Investment Officer for the funds held and invested by the Agency. The Investment Officer is authorized to:

- Obtain external investment expertise if deemed necessary to fulfill investment objectives;
- Delegate routine business transactions within authorized and established investments; and,
- Enter into agreements with other parties as necessary to fulfill this policy, make or authorize investments, or notify other parties concerning this policy and its requirements.

Pursuant to Gov't Code §2256.005(i), if the Investment Officer has a personal business relationship with a business organization offering to engage in an investment transaction with the Agency, the Officer shall file a statement disclosing that personal business interest. For the purposes of this policy, an investment officer has a personal business relationship with a business organization if:

- The investment officer owns 10% or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;
- Funds received by the investment officer from the business organization exceed 10% of the investment officer's gross income for the previous year; or
- The investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

If the Investment Officer is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Agency, the Officer shall file a statement disclosing that relationship. Any statement filed under this paragraph shall be filed with the Texas Ethics Commission and the Finance Commission.

11. Investment Training

Pursuant to Gov't Code §2256.007, the Investment Officer and other agency employees active in the investment function will attend training relating to their respective responsibilities under this policy, not less than once each state fiscal biennium Training may include education in investment controls, security risks, strategy risks, and market risks.

Any training conducted or approved by any state or federal agency, independent of the Agency, related to investments, risk management, portfolio diversification, or similar substance, is hereby approved by the Finance Commission as meeting the terms of this requirement.

The Investment Officer shall provide a report to the Finance Commission regarding the status of investment training at the time of the biannual review of the policy.

12. Entities Authorized to Engage in Investment Transactions

Investments may be obtained through licensed securities brokers, commercial banks, state savings banks, and trust companies authorized to do business in Texas. To the extent that deposits and accounts are insured or secured for the full amount of principal and interest, no specific authorization from the Finance Commission is required as long as the individual institution falls under the requirements of this policy. All brokerage activities will be transacted using qualified brokerage firms. Qualified brokerage firms must be regulated by the Securities Exchange Commission and be members of Financial Industry Regulatory Authority (FINRA).

13. Acknowledgment of the Policy by Persons Seeking to Sell Investments to the Agency

A written copy of this policy must be presented to any person offering to engage in an investment transaction with the Agency. A qualified representative of the business organization offering to engage in an investment transaction with the Agency shall execute a written acknowledgment (Appendix #1) that the business organization:

- Has received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,
- Acknowledges that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Agency and the organization that are not authorized by the Agency's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Agency's entire portfolio or requires an interpretation of subjective investment standards.

The Investment Officer may not acquire or otherwise obtain any authorized investment described in the investment policy, or renew depository or other agreements, from a person who has not delivered to the Agency the instrument in substantially the form provided.

Appendix #1

Acknowledgment

I, (broker/banker/trust company officer), a qualified representative of (name of brokerage facility/bank/trust company), hereby make the following statements:

I have received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,

I acknowledge that (name of brokerage facility/bank) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Office of Consumer Credit Commissioner and (name of the brokerage facility/bank/trust company) that are not authorized by the referenced Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Office of Consumer Credit Commissioner's entire portfolio or requires an interpretation of subjective investment standards.

Signature of Qualified Representative

Date



TEXAS DEPARTMENT OF BANKING

★ Dedicated to Excellence in Texas Banking ★

ADMINISTRATIVE MEMORANDUM – 2027

Date: June 19, 2015~~August 15, 2014~~^(10th revision)

TO: Finance Commission Members

FROM: Charles G. Cooper, Banking Commissioner

SUBJECT: Investment Policy for Funds Under the Oversight of the Finance Commission of Texas

Overview

This policy governs the investment of funds maintained by the Texas Department of Banking ("Department"), as well as the investment of funds under its control to the extent the Department has either statutory or court-approved investment authority. While this agency is not subject to the requirements in the Public Funds Investment Act, efforts are made to closely follow the Act. This policy does not convey investment authority where such does not exist through statute or the courts. This policy shall be approved by the Finance Commission as this policy applies to funds within its purview. The policy will be reviewed annually by the Finance Commission, with said review and any changes made to either the policy or investment strategies recorded in the minutes of the Finance Commission.

The Finance Commission met on June 19, 2015 ~~August 15, 2014~~ to re-approve this policy which was revised to ~~address the eligibility requirements of the Investment Officer~~ clarify the types of authorized investments. Previous changes to this policy were approved on August ~~1615, 2013~~2014.

It is the policy of the Department to invest funds in compliance with the following priorities, in the order of importance:

- Preservation of principal;
- Maintenance of liquidity as appropriate to the identified need;
- Procurement of an appropriate yield;
- Diversification of the investment portfolio, and,
- Marketability of the investment if the need arises to liquidate the investment before maturity.

All investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

To the extent that diversification of investment types and maturities assists in the achievement of the above-named priorities, investment strategies for the different funds held will consider the appropriate mix of investments.

Identification of Covered Funds

Funds covered by this policy include funds acquired through seizure of a trust-funded prepaid funeral contract seller, or liquidation of a trust company or uninsured bank.

Types of Authorized Investments

~~The fund or a portion of the fund s anticipated to be held for less than one year~~ may be placed in the Texas Treasury Safekeeping Trust Company (or its successor), ~~or in money market funds.~~ Pursuant to Section 404.106 of the Government Code, funds held by the Texas Treasury Safekeeping Trust Company are to be invested in obligations in which the Texas Comptroller of Public Accounts is authorized to invest. Section 404.024 of the Government Code specifies those obligations in which the Comptroller is authorized to invest.

~~Insofar as the fund or a portion of the fund is deposited in a financial institution as authorized by Texas Finance Code Section 154.353, the Department may utilize the~~ However, other investment securities listed below ~~may be utilized by the Department.~~ "Maximum allowable maturity," when used in this policy, means the remaining time until the final principal payment on the investment, measured from the date of purchase by the Department.

- Obligations of the United States or its agencies and instrumentalities with a maximum allowable maturity of ten years;
- Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of ten years;
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with a maximum allowable maturity of ten years;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities with a maximum allowable maturity of ten years;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States with a maximum allowable maturity of ten years;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of ten years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held

from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy;

- Deposit accounts, including time accounts and certificates of deposit, in a depository institution that has its main office or a branch office in this state which:
 - Are fully insured by the FDIC, or its successor; or,
 - Are 100% secured by securities allowable under this section for direct investment by the Department, and
 - Do not have a maturity exceeding 36 months.

- Bids for certificates of deposit may be solicited:
 - Orally;
 - In writing;
 - Electronically; or
 - In any combination of those methods.

- Repurchase agreements, collateralized on a daily basis at a minimum of 102% of market value, including both direct security repurchase agreements and reverse security repurchase agreements, that:
 - Do not have a defined termination date exceeding ninety days;
 - Are secured by a combination of cash and securities allowable under this section for direct investment by the Department;
 - Require securities being purchased or cash held by the Department to be pledged to the Department, held in the Department's name and deposited at the time the investment is made with the Department or with a third party selected and approved by the Department;
 - Are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state; and
 - Requires that money received under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments required must mature not later than the expiration date stated in the reverse repurchase agreement.

- Mutual funds, if they are no-load money market mutual funds that:
 - Are registered with and regulated by the Securities and Exchange Commission;
 - Provide the Department with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
 - Have a dollar-weighted average stated maturity of 90 days or less; and,

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- Include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.
- Mutual funds, if they are no-load mutual funds that:
 - Are registered with the Securities and Exchange Commission;
 - Have an average weighted maturity of less than two years;
 - Are invested exclusively in obligations authorized in this policy; and,
 - Are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

Investments that were authorized at the time they were purchased or received through liquidation or seizure may be retained under this policy even if later revisions of the policy render the investments in noncompliance.

Investments obtained or purchased by court-appointed liquidators acting on behalf of the Banking Commissioner will be reported to the Finance Commission; however, such investments are not subject to the provisions of this policy.

Any noncomplying investments received through liquidation or seizure will be reported by the Investment Officer to the Finance Commission at the next Finance Commission meeting when a quarterly report is presented. At the time they are initially reported, the Finance Commission may either approve a plan for divestiture, or accept an investment as noncomplying under the policy, with a specific rationale for retaining it. If noncomplying investments are retained, the Investment Officer shall present a plan to the Finance Commission to protect the investments from loss to the extent possible. All noncomplying investments will be identified as exceptions in quarterly reports to the Commission.

Unauthorized Investments

The following are not authorized investments under this policy:

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and,
- No portion of bond proceeds, reserves and funds held for debt service shall be invested in mutual funds.

Strategies for Covered Funds

The investment strategy for funds acquired through seizure of a trust-funded prepaid funeral contract seller, or trust company or uninsured bank in liquidation is to maintain investments seized in the seized entity's existing investment vehicle until potential legal challenges to the Department's seizure are resolved. Thereafter, if funds are in unauthorized investments, the Investment Officer will reinvest funds into authorized investments as it becomes prudent to do so. If funds are anticipated to be held for less than one year, funds may be placed in the Texas Treasury Safekeeping Trust Company, subject to an agreement with that company. Otherwise, funds will be invested in authorized investments as set forth elsewhere in this policy. Investments will be of a diverse nature, with maturities and cash flows structured to accommodate the anticipated distributions from the seizure or liquidation. Court-appointed liquidators will be used when possible to manage funds under liquidation.

Safekeeping of Investments

All funds, securities, etc., held under this policy, where possible, will be placed under the name of the Texas Department of Banking and safekeeping receipts will be maintained on file.

Reporting

Not less than quarterly, the Investment Officer shall prepare a signed, written report of investment transactions for all funds covered by this policy for the preceding reporting period, to include:

- The investment position of the Department on the date of the report;
- The book and market values of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested (for demand deposits and certificates of deposit, reports will reflect book value and market value as the same);
- The maturity date of each separately invested asset that has a maturity date;
- The fund for which each individual investment was acquired;
- Any non-compliance of the investment portfolio with this policy;
- Income received and expenses incurred in conjunction with investments; and,
- Any other information as required by the Finance Commission.

The reports shall be submitted to the Finance Commission at regularly scheduled meetings.

Rates of Return and Market Pricing

The Department expects to receive market rates of return on all investments authorized under this policy, remembering the need to first, protect principal and second, maintain sufficient liquidity to meet the needs of the specific funds being invested. Higher rates of return will be targeted on the more aggressive and longer term investment products. No rate of return is expected to be earned on any funds in a checking account, and therefore these will be kept to a minimum.

The Investment Officer will periodically review the market pricing and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives.

Diversification

Investments in FDIC-insured deposits (or in deposits not insured by the FDIC but otherwise secured by state or federal government obligations with margin) and in direct U.S. Treasury obligations are not subject to diversification other than maturity considerations. For investments other than those just listed, diversification shall be as follows:

- Specific mutual funds, if they are no-load mutual funds, are eligible for investment up to a limit of no more than 15 % of a covered fund's average balance;
- No one covered fund shall invest in mutual funds in the aggregate more than 80% of its monthly average balance; and,
- No covered funds shall be invested in any one mutual fund in an amount that exceeds 10% of the total assets of the mutual fund.

Settlement

Settlement of all transactions, except investment pool funds and mutual funds, shall be on a delivery versus payment basis.

Investment Officer

One of the agency's Deputy Commissioners will be the designated Investment Officer for the funds held and invested by the Department. The Investment Officer is authorized to:

- Obtain external investment expertise if deemed necessary to fulfill investment objectives;
- Delegate routine business transactions within authorized and established investments; and,
- Enter into agreements with other parties as necessary to fulfill this policy, make or authorize investments, or notify other parties concerning this policy and its requirements.

The Investment Officer may not have a personal business relationship with a business organization offering to engage in an investment transaction with the Department.

If the Investment Officer is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the Department, the Officer shall file a statement disclosing that relationship. Any statement filed under this paragraph shall be filed with the Texas Ethics Commission and the Finance Commission.

Investment Training

The Investment Officer and other agency employees active in the investment function will attend training relating to their respective responsibilities under this policy, not less than once each state fiscal biennium. Training may include education in investment controls, security risks, strategy risks, and market risks.

Any training conducted or approved by any state or federal agency, independent of the Department of Banking, related to investments, risk management, portfolio diversification, or similar substance, is hereby approved by the Finance Commission as meeting the terms of this requirement.

The Investment Officer shall provide a report to the Finance Commission regarding the status of investment training at the time of the annual review of the policy.

Entities Authorized to Engage in Investment Transactions

Investments may be obtained through licensed securities brokers, commercial banks, state savings banks, and trust companies authorized to do business in Texas. To the extent that deposits and accounts are insured or secured for the full amount of principal and interest, no specific authorization from the Finance Commission is required as long as the individual institution falls under the requirements of this policy. All brokerage activities will be transacted using qualified brokerage firms. Qualified brokerage firms must be regulated by the Securities Exchange Commission and be members of Financial Industry Regulatory Authority (FINRA).

Acknowledgment of the Policy by Persons Seeking to Sell Investments to the Department

A written copy of this policy must be presented to any person offering to engage in an investment transaction with the Department. Any person who is holding federally insured deposit accounts that come under the Department's control, through a seizure or liquidation are exempt from this requirement. A qualified representative of the business organization offering to engage in an investment transaction with the Department shall execute a written acknowledgment, as provided in the Appendix, that the business organization:

- Has received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,
- Acknowledges that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department and the organization that are not authorized by the Department's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio or requires an interpretation of subjective investment standards.

The Investment Officer may not acquire or otherwise obtain any authorized investment described in the investment policy, or renew depository or other agreements, from a person who has not delivered to the Department the instrument in substantially the form provided.

Appendix

Acknowledgment

I, (broker/banker/trust company officer), a qualified representative of (name of brokerage facility/bank/trust company), hereby make the following statements:

I have received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,

I acknowledge that (name of brokerage facility/bank) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department of Banking and (name of the brokerage facility/bank/trust company) that are not authorized by the referenced Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio or requires an interpretation of subjective investment standards.

Signature of Qualified Representative

Date



TEXAS DEPARTMENT OF BANKING

★ Dedicated to Excellence in Texas Banking ★

ADMINISTRATIVE MEMORANDUM – 2027

Date **June 19, 2015**

TO: Finance Commission Members

FROM: Charles G. Cooper, Banking Commissioner

SUBJECT: Investment Policy for Funds Under the Oversight of the Finance Commission of Texas

Overview

This policy governs the investment of funds maintained by the Texas Department of Banking ("Department"), as well as the investment of funds under its control to the extent the Department has either statutory or court-approved investment authority. While this agency is not subject to the requirements in the Public Funds Investment Act, efforts are made to closely follow the Act. This policy does not convey investment authority where such does not exist through statute or the courts. This policy shall be approved by the Finance Commission as this policy applies to funds within its purview. The policy will be reviewed annually by the Finance Commission, with said review and any changes made to either the policy or investment strategies recorded in the minutes of the Finance Commission.

The Finance Commission met on June 19, 2015 to re-approve this policy which was revised to clarify the types of authorized investments. Previous changes to this policy were approved on August 15, 2014.

It is the policy of the Department to invest funds in compliance with the following priorities, in the order of importance:

- Preservation of principal;
- Maintenance of liquidity as appropriate to the identified need;
- Procurement of an appropriate yield;
- Diversification of the investment portfolio, and,
- Marketability of the investment if the need arises to liquidate the investment before maturity.

All investments shall be made with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.

To the extent that diversification of investment types and maturities assists in the achievement of the above-named priorities, investment strategies for the different funds held will consider the appropriate mix of investments.

Identification of Covered Funds

Funds covered by this policy include funds acquired through seizure of a trust-funded prepaid funeral contract seller, or liquidation of a trust company or uninsured bank.

Types of Authorized Investments

The fund or a portion of the fund may be placed in the Texas Treasury Safekeeping Trust Company (or its successor). Pursuant to Section 404.106 of the Government Code, funds held by the Texas Treasury Safekeeping Trust Company are to be invested in obligations in which the Texas Comptroller of Public Accounts is authorized to invest. Section 404.024 of the Government Code specifies those obligations in which the Comptroller is authorized to invest.

Insofar as the fund or a portion of the fund is deposited in a financial institution as authorized by Texas Finance Code Section 154.353, the Department may utilize the investment securities listed below. "Maximum allowable maturity," when used in this policy, means the remaining time until the final principal payment on the investment, measured from the date of purchase by the Department.

- Obligations of the United States or its agencies and instrumentalities with a maximum allowable maturity of ten years;
- Direct obligations of this state or its agencies and instrumentalities with a maximum allowable maturity of ten years;
- Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with a maximum allowable maturity of ten years;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities with a maximum allowable maturity of ten years;
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States with a maximum allowable maturity of ten years;
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent with a maximum allowable maturity of ten years. If the rating of the issuing entity is downgraded below investment quality during the time an investment is held from that entity, all prudent measures must be taken to liquidate the investment within a reasonable period of time, consistent with the guidelines in this policy;

- Deposit accounts, including time accounts and certificates of deposit, in a depository institution that has its main office or a branch office in this state which:
 - Are fully insured by the FDIC, or its successor; or,
 - Are 100% secured by securities allowable under this section for direct investment by the Department, and
 - Do not have a maturity exceeding 36 months.

Bids for certificates of deposit may be solicited:

- Orally;
 - In writing;
 - Electronically; or
 - In any combination of those methods.
-
- Repurchase agreements, collateralized on a daily basis at a minimum of 102% of market value, including both direct security repurchase agreements and reverse security repurchase agreements, that:
 - Do not have a defined termination date exceeding ninety days;
 - Are secured by a combination of cash and securities allowable under this section for direct investment by the Department;
 - Require securities being purchased or cash held by the Department to be pledged to the Department, held in the Department's name and deposited at the time the investment is made with the Department or with a third party selected and approved by the Department;
 - Are placed through a primary government securities dealer, as defined by the Federal Reserve, or an insured financial institution domiciled in this state; and
 - Requires that money received under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments required must mature not later than the expiration date stated in the reverse repurchase agreement.

 - Mutual funds, if they are no-load money market mutual funds that:
 - Are registered with and regulated by the Securities and Exchange Commission;
 - Provide the Department with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940;
 - Have a dollar-weighted average stated maturity of 90 days or less; and,
 - Include in their investment objectives the maintenance of a stable net asset value of \$1 for each share.

- Mutual funds, if they are no-load mutual funds that:
 - Are registered with the Securities and Exchange Commission;
 - Have an average weighted maturity of less than two years;
 - Are invested exclusively in obligations authorized in this policy; and,
 - Are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent.

Investments that were authorized at the time they were purchased or received through liquidation or seizure may be retained under this policy even if later revisions of the policy render the investments in noncompliance.

Investments obtained or purchased by court-appointed liquidators acting on behalf of the Banking Commissioner will be reported to the Finance Commission; however, such investments are not subject to the provisions of this policy.

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Unauthorized Investments

The following are not authorized investments under this policy:

- Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and,
- No portion of bond proceeds, reserves and funds held for debt service shall be invested in mutual funds.

Strategies for Covered Funds

The investment strategy for funds acquired through seizure of a trust-funded prepaid funeral contract seller, or trust company or uninsured bank in liquidation is to maintain investments seized

in the seized entity's existing investment vehicle until potential legal challenges to the Department's seizure are resolved. Thereafter, if funds are in unauthorized investments, the Investment Officer will reinvest funds into authorized investments as it becomes prudent to do so. If funds are anticipated to be held for less than one year, funds may be placed in the Texas Treasury Safekeeping Trust Company, subject to an agreement with that company. Otherwise, funds will be invested in authorized investments as set forth elsewhere in this policy. Investments will be of a diverse nature, with maturities and cash flows structured to accommodate the anticipated distributions from the seizure or liquidation. Court-appointed liquidators will be used when possible to manage funds under liquidation.

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- The maturity date of each separately invested asset that has a maturity date;
- The fund for which each individual investment was acquired;
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The reports shall be submitted to the Finance Commission at regularly scheduled meetings.

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The Department expects to receive market rates of return on all investments authorized under this policy, remembering the need to first, protect principal and second, maintain sufficient liquidity to meet the needs of the specific funds being invested. Higher rates of return will be targeted on the more aggressive and longer term investment products. No rate of return is expected to be earned on any funds in a checking account, and therefore these will be kept to a minimum.

The Investment Officer will periodically review the market pricing and rates of return on all investments to ensure that values and yields are consistent with risk and meet investment objectives.

Diversification

Investments in FDIC-insured deposits (or in deposits not insured by the FDIC but otherwise secured by state or federal government obligations with margin) and in direct U.S. Treasury obligations are not subject to diversification other than maturity considerations. For investments other than those just listed, diversification shall be as follows:

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- No covered funds shall be invested in any one mutual fund in an amount that exceeds 10% of the total assets of the mutual fund.

Settlement

Settlement of all transactions, except investment pool funds and mutual funds, shall be on a delivery versus payment basis.

Investment Officer

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- Acknowledges that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department and the organization that are not authorized by the Department's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio or requires an interpretation of subjective investment standards.

The Investment Officer may not acquire or otherwise obtain any authorized investment described in the investment policy, or renew depository or other agreements, from a person who has not delivered to the Department the instrument in substantially the form provided.

Appendix

Acknowledgment

I, (broker/banker/trust company officer), a qualified representative of (name of brokerage facility/bank/trust company), hereby make the following statements:

I have received and reviewed the Investment Policy for Funds under the Oversight of the Finance Commission of Texas; and,

I acknowledge that (name of brokerage facility/bank) has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Department of Banking and (name of the brokerage facility/bank/trust company) that are not authorized by the referenced Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Department's entire portfolio or requires an interpretation of subjective investment standards.

Signature of Qualified Representative

Date

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TEXAS DEPARTMENT OF BANKING
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2015



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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and
Finance/Audit Committee Members
Texas Department of Banking
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the internal control structure over the Perpetual Care Cemeteries (PCC) and the Revenue Accounting Process (RAP) areas of the Texas Department of Banking (DOB); and, its compliance with applicable statutes, rules, and DOB's established policies and procedures, as applicable to these areas, for the 3 months ended November 30, 2014 (PCC) and 7 months ended March 31, 2015 (RAP).

The results of our tests disclosed that such controls were adequate and no material instances of noncompliance were noted. We also performed a follow-up of the findings that were presented in the prior year annual internal audit report and this report reflects the implementation status of those matters; and, includes all information required for the Annual Internal Audit Report.

We have discussed the implementation status from the follow-up performed, with various DOB personnel, and we will be pleased to discuss them in further detail, or to perform an additional study of these matters.



March 4, 2015 – Perpetual Care Cemeteries

May 15, 2015 – Revenue Accounting Process and 2015 Follow-Up

INTRODUCTION

The Texas Department of Banking (DOB) operates under the oversight of the Texas Finance Commission, and is an agency of the State of Texas that performs functions designed to maintain a financial regulatory system for Texas that promotes a consistent banking environment, provides the public with convenient, safe, competitive banking and other legislative financial services.

DOB operates pursuant to the authority of various provisions of the Texas Finance Code, the Texas Trust Company Act, the Texas Public Information Act, Texas Government Code, Chapter 552, and the Texas Administrative Code. DOB regulates state banks, foreign bank branches, agencies, and representative offices, trust companies, prepaid funeral benefit contract sellers, perpetual care cemeteries, money service businesses, private child support enforcement agencies, and check verification entities.

The major functions of DOB are to:

- Charter, regulate, and examine all state banks, foreign bank branches, agencies, representative offices, and trust companies;
- Charter, examine and regulate trust departments of commercial banks and trust companies;
- License, regulate, and examine sellers of prepaid funeral contracts;
- License, regulate, and examine perpetual care cemeteries;
- License, regulate, and examine money services businesses;
- Register and investigate complaints of private child support enforcement agencies; and
- Register check verification entities.

DOB was granted Self-Directed, Semi Independent (SDSI) status in the 81st Legislative Session. As an SDSI agency, DOB is not required to have their budget approved by the Legislature; however, the Finance Commission is responsible for setting their spending authority or limits. DOB's entire operating funds are generated from fees assessed to the businesses it supervises and are used to fund both direct and indirect costs. General revenue funds are not used to support DOB's operations.

2015 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in DOB's approved 2015 Internal Audit Plan:

- Perpetual Care Cemeteries
- Revenue Accounting Process
- Follow-up of Prior Internal Audits
- Other Tasks

The report on the Perpetual Care Cemeteries area was issued on March 4, 2015. This report contains the results of our audit of the Revenue Accounting area, 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 DOB'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.

EXECUTIVE SUMMARY

BACKGROUND

Revenue Accounting Process

The Administrative Services Division (the Division) is comprised of the the following areas: (1) Financial Reporting, (2) Payroll and Human Resources, (3) Purchasing, (4) Revenue Accounting Process, (5) Travel, (6) Fixed Asset Management, and (7) Risk Management. Each of these areas are considered separate areas for internal audit purposes. This report provides the results of the internal audit of the Revenue Accounting Process area, as included in DOB's approved 2015 Internal Audit Plan.

The Revenue Accounting Process area (the Area) is comprised of the Director of Administrative Services, who reports to a Deputy Commissioner; a Chief Accountant; two Accountants; a Purchaser; an Administrative Assistant; and, an Inventory and Store Specialist. The revenue accounting processes are primarily performed by the Director of Administrative Services, Chief Accountant, one Accountant, and the Inventory and Store Specialist.

Systems

Micro Information Products (MIP) – is utilized by DOB as its accounting system and general ledger, which is used to record and report accounting activity, prepare the Annual Financial Report (AFR), and generate other internal accounting reports.

Uniform Statewide Accounting System (USAS) – is the financial system of record for the State of Texas. USAS is designed to process, record and report the financial activities of each state agency. However, various agencies utilize software such as MIP to facilitate financial accounting and reporting on a more comprehensive basis. For purposes of processing state warrants, all disbursements are processed, paid and recorded in USAS. As a function of the revenue accounting process and cash management, the Area is responsible for ensuring sufficient funds are transferred to the State Treasury and recorded in USAS to fund disbursements.

MIP USAS Systems Link (MUSL) – is an internally developed system used to facilitate recording transactions in the two systems. MUSL is the source for entering financial data into the general ledger, which is then interfaced into MIP and USAS to avoid the duplication of data into the two systems.

Quarterly Reporting

DOB was granted Self-Directed, Semi Independent (SDSI) status in the 81st Legislative Session. As an SDSI agency, DOB's budget is not required to be approved by the Legislature; however, the Finance Commission is responsible for setting DOB's spending authority or limits. The Area is responsible for compiling financial data for all of DOB's Divisions, and preparing the Quarterly Budget Analysis report that is presented to the Finance Commission on a quarterly basis. The Director of Administrative

Services is responsible for comparing financial data to the current budget and proposing budget amendments, as considered necessary. Budget amendments are proposed only after the Director of Administrative Services along with the respective Division and/or the Deputy Commissioner have researched significant variances and determined the need for an amendment. The final Quarterly Budget Analysis report is reviewed and approved by the Director of Administrative Services and the Deputy Commissioner for presentation to the Finance Commission.

Deposits

The Area is responsible for ensuring that all revenues received are deposited within three days of receipt, in accordance with the Texas Government Code (TGC) §404.094. DOB receives revenues as follows:

- Electronic deposits, via Automated Clearing House (ACH)
- Deposits to DOB's Lockbox at the Texas Comptroller's Office
- Checks received by DOB's mailroom

Automated Clearing House (ACH) Deposits

An account has been established with the Comptroller's Treasury section to receive ACH transfers on behalf of DOB. This method allows for a more efficient means of collecting annual assessments from financial institutions. On a quarterly basis, each financial institution is notified of the exact amount of its quarterly assessment and the date the funds will be electronically withdrawn from their account. The Chief Accountant compiles a listing of the amount, bank account number, routing number, license/institution name, and the draw request date. This listing is signed by the Chief Accountant and sent to the Comptroller's Treasury section for processing. The Comptroller draws the specified amounts and deposits the funds into DOB's Texas Treasury Safekeeping Trust Company (TTSTC) account.

DOB also receives application fees, electronically, for Money Services Businesses (MSB). The Nationwide Mortgage Licensing System (NMLS) allows regulators to process and approve or deny applications. On a daily basis the NMLS is used to process application and registration fees. Receipts from the NMLS are electronically deposited, the following business day, via ACH, into DOB's TTSTC account.

DOB's Lockbox at the Texas Comptroller's Office

The public has the option to mail payments to DOB's lockbox maintained by the Comptroller's office. The Comptroller's office collects the checks daily from the lockbox and deposits them into DOB's TTSTC account. A Pre-Encoded Deposit Ticket is prepared by the Comptroller's office and is placed in an interagency envelope for pick up by DOB's Inventory & Store Specialist, along with the envelopes the checks were mailed in, the check stubs, and any additional correspondence. The packets are picked up on Tuesdays and Fridays and delivered to the Accountant, who ensures that the documents agree, support, and reconcile to the amount deposited.

Checks Received by DOB's Mailroom

Checks that are received in DOB's mailroom, by the Inventory & Store Specialist, are logged onto the Daily Check Log, then delivered to and signed for by the Accountant. The Accountant processes the checks by preparing a deposit voucher and deposit slip. The deposits are maintained in a locked cabinet in the accounting office until they are taken for deposit to the TTSTC, by carrier, on a daily basis.

For all deposits, the Accountant uses the payment data to prepare the journal entry into MUSL. Upon review and approval of the deposit, journal entry, and supporting documentation by the Chief Accountant, the Accountant will proceed to interface the journal entry into MIP.

As of March 31, 2015 DOB received, processed and accounted for deposits, as follows:

<u>Deposit Method</u>	<u>Amount</u>
ACH	\$ 17,201,468
Lockbox	567,752
Mail	<u>1,444,045</u>
Total	<u>\$ 19,213,265</u>

Reconciliation Processes

The bank reconciliation process requires the Area ensure that funds held at the TTSTC and funds held in the State Treasury (reported as a cash balance in USAS) agree to the cash balances, as reported in MIP. A monthly reconciliation process between USAS and MIP considers revenue accrual transactions from the prior year, the subsequent receipts during the year and reconciles funds carried forward from prior years to ensure that all activity has been captured and reported in the proper periods in USAS and in MIP. At each month end and for purposes of the AFR these transactions are analyzed and adjustments recorded, where necessary, for reporting on the full accrual basis of accounting.

Types of Revenues

Rules and statues of the Texas Administrative Code (TAC), Texas Finance Code (TFC), and TGC authorize DOB to assess and collect various fees. The following table reflects the different types of revenues received by DOB and provides the percent of revenue received, by type, to total revenue received; and, the percent of budgeted revenue, by type, to the total revenue budget for fiscal year 2014.

Continued

Revenue	Actual FY 2014	Percent to Total	Budget FY 2014	Percent to Total
<i>Bank & Trust Regulation</i>				
Assessment Fees	\$ 19,607,818	77.28%	\$ 19,376,174	79.15%
Bank Examination Fees	192,745	0.76%	225,000	0.92%
Application Processing	577,200	2.27%	197,200	0.81%
Foreign Bank Activity	936,217	3.69%	1,008,416	4.12%
Trust Examination Fees	1,279,155	5.04%	894,765	3.65%
Other Trust Fees	1,700	0.01%	5,800	0.02%
Other Revenues	35,000	0.14%	-	0.00%
Total Bank & Trust Regulation	22,629,835	89.19%	21,707,355	88.67%
<i>Non-Bank Regulation</i>				
Prepaid Funeral Contracts	1,007,923	3.97%	1,026,405	4.19%
Perpetual Care Cemeteries	633,160	2.50%	691,437	2.82%
Money Services Business	1,090,371	4.30%	1,044,359	4.27%
Total Non Bank Regulation	2,731,454	10.77%	2,762,201	11.28%
<i>Miscellaneous Revenues</i>				
Sale of Publications	2,114	0.01%	-	0.00%
Fees for Copies	5,344	0.02%	3,600	0.02%
Other Revenue	390	0.00%	-	0.00%
Interest on Local Deposits	2,937	0.01%	8,000	0.03%
Total Miscellaneous Revenues	10,785	0.04%	11,600	0.05%
Total Revenue	\$ 25,372,074	100.00%	\$ 24,481,156	100.00%

Bank & Trust Regulation Revenues (fees assessed by the Bank & Trust Division)

Bank and Foreign Bank Fees

In accordance with 7 TAC §15.2, DOB is authorized to assess Banks; to include, Foreign Banks, filing and investigation fees for specified applications and notice filings with DOB. The fees are generally due at the time of filing the application, notice or protest. DOB is also authorized by 7 TAC §3.36 – §3.38 to assess banks, foreign bank branches and foreign bank agencies an annual assessment fee. The Bank and Trust Division assesses the annual fee, which is based on the assessable assets of the bank, in quarterly installments per fiscal year.

Trust Company Fees

In accordance with 7 TAC §21.2, DOB's is authorized to assess Trust Companies a filing and investigation fee for specified applications and notice filings with DOB. The fees are generally due at the time of filing the application, notice, or protest. In addition, 7 TAC §17.22 authorizes DOB to assess investigation fees in connection with an application; and, a regular or special examination fee. The fee is calculated at a uniform rate of \$110 per examiner hour. In addition to this rate, fees include any travel expenses incurred; such as, mileage, public transportation, food, and lodging.

Non-bank Regulation Revenues (fees assessed by the Special Audits Division)

Money Services Businesses (MSB)

In accordance with 7 TAC §33.27, DOB is authorized to assess applicants a non-refundable \$10,000 application fee to obtain a new MSB Money Transmission (MT) license or a non-refundable \$5,000 application fee to obtain a new MSB Currency Exchange (CEX) license. Should DOB deem it necessary to conduct an investigation in the application process or if the licensee is due for a required examination, the applicant or licensee must pay a non-refundable investigation/examination fee at a rate of \$75 per hour for each examiner. This rule also authorizes DOB to collect an annual assessment fee, which ranges from \$2,750 to \$21,250 for CEX license holders; and, \$3,950 to \$21,250 for MT license holders. The annual assessment fee is based on the licensee's total number of annual transactions reported in the most recent renewal application filed with DOB.

Prepaid Funeral Contracts (PFC)

In accordance with 7 TAC §25.23, DOB is authorized to assess fees for PFC permit applications and renewals. An applicant for a new PFC permit must pay a \$500 fee. To maintain a PFC permit, the permit holder must pay an annual renewal fee, which ranges from \$100 to \$3,000, based on the permit holder's outstanding PFCs reported in the most recent annual report filed with DOB. In accordance with 7 TAC §25.24, DOB is also authorized to collect an annual examination fee, which may be billed in quarterly or fewer installments each year. The examination fee ranges from \$150 to \$15,000 and is based on the number of outstanding PFC's held by the permit holder, as reflected in the most recent annual report filed with DOB. If an additional examination is required, DOB is authorized to collect additional examination fees at a rate of \$75 per hour for each examiner required to conduct the additional examination and all associated travel expenses.

Perpetual Care Cemeteries (PCC)

In accordance with 7 TAC §26.1, DOB is authorized to assess fees for certificate of authority applications to operate a PCC. A new applicant must pay a \$500 application fee; and, to maintain a certificate of authority to operate a PCC, the entity must pay an annual renewal fee, which ranges from \$50 to \$1,000. The annual renewal fee is based on the entity's fund balance reflected on the Statement of Funds in the most recent annual renewal report filed with DOB. DOB is also authorized to collect an annual examination fee, which may be billed in quarterly or fewer installments each year, and ranges from \$200 to \$7,600, based on the entity's fund balance as reflected on the Statement of Funds in the most recent annual renewal report filed with DOB. If an additional examination is required, DOB is authorized to collect additional examination fees at a rate of \$75 per hour for each examiner required to conduct the additional examination and all associated travel expenses.

Private Child Support Enforcement Agencies

In accordance with 7 TAC §31.11, DOB is authorized to assess a non-refundable filing fee of \$500, per location, for entities seeking to register as a Private Child Support Enforcement Agency. For an agency to maintain its registration with DOB, it is required per 7 TAC §31.32, to pay an annual renewal fee of \$500.

Check Verification Entities

In accordance with 7 TAC §31.11, DOB is authorized to assess and collect a \$100 fee for the initial registration of a check verification entity and a \$100 annual renewal fee.

Audit Scope/Objective

The scope of our audit was the Revenue Accounting Process area (the Area). The objective of our audit was to gain an understanding of the Area to determine whether the applicable statutes, rules, policies, and procedures are consistently applied to all types of revenues received by DOB.

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

1. Reviewed and obtained an understanding of the applicable rules, laws and regulations of the Texas Administrative Code, Texas Finance Code, and Texas Government Code.
2. Obtained and reviewed the Area's written policies and procedures, collected available documentation, and conducted interviews to document formal/informal processes and controls.
3. Obtained a listing of revenues reported during the period from September 1, 2014 to March 31, 2015 and randomly selected 15 deposit batches to test the following attributes:
 - a. Traced and agreed the revenue amount reported on the general ledger (MIP system) to the applicable deposit voucher, slip, receipt, copies of checks received, and other available supporting documentation.
 - b. Ensured the deposit voucher was signed by the Chief Accountant, which denotes review and approval.
 - c. For mailed deposits, ensured TTSTC stamped and dated the receipt to confirm their receipt and processing of the deposit batch.
 - d. For lockbox deposits, ensured the sum of remittance advices agreed to the applicable deposit batch total.
4. From each selected deposit batch, we selected a revenue transaction to test the following attributes:
 - a. Ensured the received check payment was processed and deposited within three days.
 - b. Ensured the fee assessed and collected was in accordance to applicable rules, laws and regulations.
 - c. Ensured the fee was properly calculated, collected, and recorded.
 - d. Ensured the fee was properly supported.

5. Performed analytical procedures of the following comparisons to determine that reported revenues were reasonable and consistent with actual operations.
 - a. 2014 actual revenues to 2014 budgeted revenues.
 - b. 2014 actual revenues to 2013 actual revenues.
6. Obtained an understanding of the monthly revenue and bank reconciliation process and selected two monthly revenue and bank reconciliations performed in fiscal year 2015 to ensure their accuracy and completeness.
7. Selected one of the two completed Quarterly Budget Analysis reports and agreed reported revenues to the Area's general ledger.

I. Compliance with Texas Government Code 2102: Required Posting of Internal Audit Information

To comply with the provisions of Texas Government Code, 2102.015 and the State Auditor's Office, within 30 days after approval by the Finance Commission, DOB will post the following information on its website:

- An approved fiscal year 2016 audit plan, as provided by Texas Government Code, Section 2012.008.
- A fiscal year 2015 internal audit annual report, as required by Texas Government Code, Section 2012.009.

The internal audit annual report includes any weaknesses, deficiencies, wrongdoings, or other concerns raised by internal audits and other functions performed by the internal auditor as well as the summary of the action taken by DOB to address such concerns.

II. Internal Audit Plan for Fiscal Year 2015

The Internal Audit Plan (Plan) included 2 audits to be performed during the 2015 fiscal year. The Plan also included 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 inquiries and background information reviewed, 17 audit areas were identified as potential audit topics. A risk analysis utilizing our 8 risk factors 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 Service 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

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

Fiscal Year 2014:

- Money Services Businesses
- Management Information Systems

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 tasks to be performed for fiscal year 2015 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	Perpetual Care Cemeteries	3/4/2015
2.	Revenue Accounting Process	5/15/2015
2.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	5/15/2015
-	Other Tasks Assigned by the Finance Commission	None

III. Consulting and Nonaudit Services Completed

The internal auditor did not perform any consulting services, as defined in the Institute of Internal Audit Auditors' *International Standards for the Professional Practice of Internal Auditing* or any non-audit services, as defined in the *Government Auditing Standards, December 2011 Revision*, Sections 3.33-3.58

IV. External Quality Assurance Review

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

V. Observations/Findings and Recommendations

Report No.	Report Date	Name of Report	Findings/Recommendations	Status (Implemented, Partially Implemented, Action Delayed, No Action Taken)	Fiscal Impact/Other Impact
2	5/15/2015	2015 Follow-Up	<p>Follow Up of Prior Year Audits</p> <p>Following is the status of the recommendations made during fiscal year 2014 that had not been fully implemented.</p> <p><u>Management Information Systems</u></p> <p>Server Settings</p> <p>Implement and establish as a formal policy the practice of conducting a review of server settings; to include, those affecting user desktops and laptops, no less than semi-annually. Such a review can be performed by using third party software; such as, Microsoft's Security Compliance Manager, which scans operating system settings, and compares those settings to Microsoft recommended/best practices.</p> <p>Entity Login</p> <p>Implement a lockout feature when a login password to the DOB's web portal is entered incorrectly multiple times. The portal allows regulated entities and their agents to report and exchange data with DOB. The lockout feature would enhance online security and the safeguarding of sensitive data.</p> <p>Personal Mobile Devices</p> <p>Review the risks associated with mobile device emails and consider purchasing third party encrypted email services (e.g. Zix Corp) or implement other mitigating controls to enhance the safeguarding of DOB's emails and sensitive data.</p> <p>User Access Annual Review</p> <p>Develop a written policy/procedure to require a system access and user review be performed on an annual basis to ensure that only authorized and current employees have access to DOB's systems.</p>	<p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p> <p>Fully Implemented</p>	<p>Ensure DOB server settings follow best practices.</p> <p>To follow best practices by having a lockout period for incorrect passwords.</p> <p>Ensure DOB confidential data is secure. Annual costs may apply.</p> <p>Secure the DOB system to ensure that only authorized Individuals have system access.</p>

VI. Proposed Internal Audit Plan for Fiscal Year 2016

The risk assessment performed during the 2015 fiscal year was used to identify the following *proposed* areas that are recommended for internal audits and other tasks to be performed for fiscal year 2016. The Internal Audit Plan for Fiscal Year 2016 will be developed and presented to the Finance Commission at a meeting to be determined at a later date.

- Trust Examinations
- IT Examinations
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

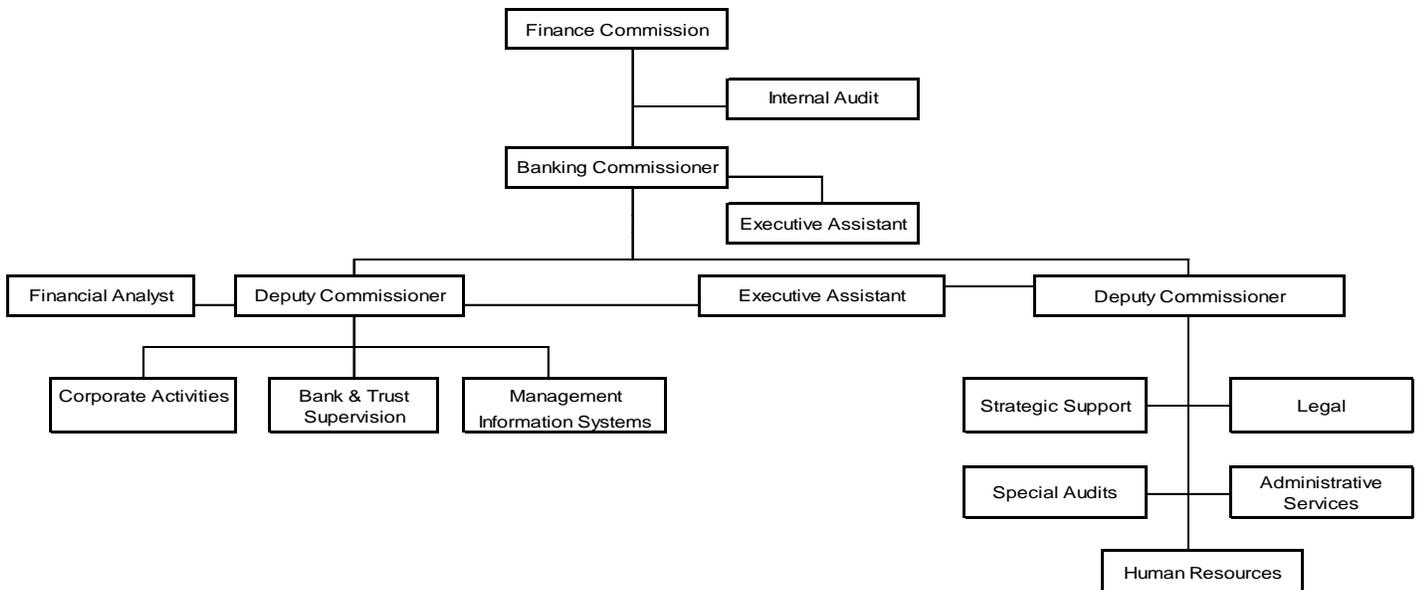
VII. External Audit Services Procured in Fiscal Year 2015

DOB procured the internal audit services documented in the Internal Audit Plan for fiscal year 2015.

VIII. Reporting Suspected Fraud and Abuse

DOB 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. DOB has also developed a Fraud Policy that provides information on how to report suspected fraud.

IX. Organizational Chart





April 29, 2015

Ms. Stephanie Newberg, Deputy Commissioner
Department of Banking
State Finance Commission Building
2601 N. Lamar Blvd.
Austin, TX 78705

Re: Audit Delegation Request 449-2015-001

Dear Ms. Newberg:

In accordance with Texas Government Code, Section 321.020, the State Auditor's Office delegates to the Finance Commission of Texas, the Department of Banking, the Department of Savings and Mortgage Lending, and the Office of Consumer Credit Commissioner (Agencies) the authority to employ a private auditor to provide internal audit services as described in your online request submitted April 20, 2015.

This delegation of authority is subject to the following:

1. The services provided should be performed in accordance with the Texas Internal Auditing Act (Texas Government Code, Chapter 2102).
2. This delegation of authority is for state fiscal year 2016.
3. The Agencies will notify the State Auditor's Office if an amendment to the contract significantly alters any contract terms, including, but not limited to, the scope of work to be performed and the term of the contract.
4. The Agencies will comply with applicable law in the procurement of audit services, the expenditure of funds under the contract, and all other aspects of forming and administering the contract with the private auditor.
5. The Agencies will ensure that the State Auditor's Office promptly receives a copy of any report resulting from a peer review of the private auditor that is received by the private auditor after entering into the contract with the Agencies.
6. Any contracts entered into under this delegation of authority should include the following language: The Contractor understands that acceptance of state funds under this contract acts as acceptance of the authority of the State Auditor's Office to conduct an audit or investigation in connection with those funds. The Contractor further agrees to cooperate fully with the State Auditor's Office in the conduct of the audit or investigation, including providing all records requested. The Contractor will ensure that this clause concerning the State Auditor's Office's authority to audit state funds and the requirement to cooperate fully with the State Auditor's Office is included in any subcontracts it awards. Additionally, the State Auditor's Office shall at any time have access to and the rights to examine, audit, excerpt, and transcribe any pertinent books, documents, audit documentation, and records of the Contractor relating to this contract.

Robert E. Johnson Building
1501 N. Congress Avenue
Austin, Texas 78701

P.O. Box 12067
Austin, Texas 78711-2067

Phone:
(512) 936-9500

Fax:
(512) 936-9400

Internet:
www.sao.state.tx.us

Ms. Stephanie Newberg, Deputy Commissioner
Department of Banking
April 29, 2015
Page 2

7. If the terms of the agreement with the private auditor are set forth only in an engagement letter, the engagement letter will include the language quoted in #6 above.
8. A signed copy of the contract or contract amendment should be provided to the State Auditor's Office within two weeks of execution. You may send it electronically to auditdelegation@sao.state.tx.us or send a hard copy to the attention of Audit Delegation. Additionally, a copy of final audit reports should be provided to the State Auditor's Office upon completion. Texas Government Code, Section 2102.0091, requires that internal audit reports be filed with the State Auditor's Office, the Sunset Advisory Commission, the budget division of the Governor's Office, and the Legislative Budget Board not later than the 30th day after the date the report is submitted to the state agency's governing board or the administrator of the state agency if the state agency does not have a governing board. Internal audit reports may be sent to the State Auditor's Office electronically to iacoordinator@sao.state.tx.us or a hard copy may be sent to the attention of Internal Audit Coordinator. Please include the audit delegation request number 449-2015-001 with all submissions and related correspondence.

If you have any questions, please contact Cesar Saldivar, Audit Manager or me at (512) 936-9500.

Sincerely,



Anita D'Souza
Chief of Staff and General Counsel

cc Mr. Charles G. Cooper, Banking Commissioner
Ms. Leslie L. Pettijohn, CPA, Commissioner, Office of Consumer Credit Commissioner
Ms. Antonia Antov, Director of Administration and Finance, Department of Savings and Mortgage Lending

STATEMENT OF FINANCE COMMISSION MEMBER

I, _____, am a member of the Finance Commission of Texas.

I am aware of a proposed contract to be entered into between the Texas Department of Banking, Department of Savings and Mortgage Lending, and Office of Consumer Credit Commissioner (Agencies) and Garza/Gonzalez & Associates (Contractor). I swear or affirm that I have no ownership or control, directly or indirectly, of an ownership interest in Contractor, including the right to share in profits, proceeds, or capital gains, or any other ownership interest that could reasonably be foreseen to result in a financial benefit to me.

I understand that I have a continuing obligation to report any ownership interest in or control of Contractor. Should I acquire any such ownership interest or control subsequent to the execution of this Affidavit, I swear or affirm that I will disclose such ownership interest or control to Agencies within 30 days of acquiring such ownership interest or control. I further swear or affirm that as long as I hold any such ownership interest or control, I will not participate in any decision concerning Contractor.

Signature

Printed Name

Date

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2601 North Lamar Boulevard
Austin, Texas 78705
Phone: 512.936.7639
Facsimile: 512.936.7610
www.tfee.texas.gov

Texas Financial Education Endowment Report

On June 1, staff prepared and sent out the third installation of grant report and reimbursement request forms. These reports will be due on July 1. Upon completion the June reporting period, there will be one more reporting period remaining for the two-year grantees.

Staff is updating/revising policies & procedures for the 2016-17 grant cycle. These documents will be reviewed and developed with input from the Grant Advisory Committee "GAC". In addition, the TFEE program is currently being audited by Garza & Gonzalez. Every effort will be made to have the auditors' recommendations incorporated into the final draft of policies & procedures for approval at the August Audit Committee meeting.

The industry representative on the GAC, is no longer employed within the industry and therefore a replacement GAC member will be recommended by staff at the Finance Commission meeting in August.

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