

FINANCE COMMISSION OF TEXAS
AUDIT COMMITTEE MEETING

Friday, June 16, 2017

8:00 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 21, 2017, 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 Department of Savings and Mortgage Lending's Annual Internal Audit Report as Prepared and Presented by Garza/Gonzalez and Associates
- D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Texas Department of Banking's Audit Report on Fixed Asset Management as Prepared and Presented by Garza/Gonzalez and Associates
- E. Report on Activities Relating to the Texas Financial Education Endowment Fund
- F. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Revised Texas Financial Education Endowment (TFEE) Fund Grant Administration & Advisory Policy Manual and 2018-2019 Funding Priorities
- G. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Appointment of a New Grant Advisory Committee Member
- H. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action to Reapprove the Internal Auditor Contract for Garza/Gonzalez & Associates for Fiscal Year 2018

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 21, 2017**

The Audit Committee of the Finance Commission of Texas convened at 8:30 a.m. on April 21, 2017, with the following members present:

Audit Committee Members in Attendance:

Molly Curl, Chairman
Hector Cerna
Lori McCool

Additional Members in Attendance:

Stacy G. London
Jay Shands
Bob Borochoff
Phillip Holt
Will Lucas
Matt Moore
Paul Plunket
Vince E. Puente

Audit Committee Chairman Curl announced that there was a quorum of the Audit Committee of the Finance Commission of Texas with three members present.

AGENDA ITEM	ACTION	LOCATION ON AUDIO FILE
A. Review and Approval of the Minutes of the February 17, 2017, Audit Committee Meeting	Hector Cerna made a motion to approve the minutes of the February 17, 2017 Audit Committee Meeting. Lori McCool seconded and the motion passed.	00:10 start of discussion 00:25 vote
B. Audit Committee Review of Agencies' Activities	No Action Required.	00:49 start of discussion
C. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' February 28, 2017 Investment Officer Reports <ol style="list-style-type: none">1. Office of Consumer Credit Commissioner2. Texas Department of Banking3. Department of Savings and Mortgage Lending	Lori McCool made a motion to recommend the the Finance Commission approve the Agencies' February 28, 2017 Investment Officer Reports. Hector Cerna seconded and the motion passed.	06:08 start of discussion 15:19 vote

<p>D. Discussion of and Possible Vote to Recommend that the Finance Commission Take Action on the Agencies' 2017 Second Quarter Financial Statements</p> <ol style="list-style-type: none"> 1. Office of Consumer Credit Commissioner 2. Texas Department of Banking 3. Department of Savings and Mortgage Lending 	<p>Lori McCool made a motion to recommend that the Finance Commission approve the Agencies' 2017 Second Quarter Financial Statements. Hector Cerna seconded and the motion passed.</p>	<p>15:42 start of discussion 33:35 vote</p>
<p>E. Report on Activities Relating to the Texas Financial Education Endowment Fund</p>	<p>No Action Required.</p>	<p>33:55 start of discussion</p>

There being no further business of the Audit Committee of the Finance Commission of Texas, Molly Curl adjourned the meeting at 9:07 a.m. (35:55) *on the audio file*)

Molly Curl, Audit Committee Chair
Finance Commission of Texas

Stephanie Newberg, Deputy Commissioner
Texas Department of Banking

Anne Benites, Executive Assistant
Finance Commission of Texas

Department of Savings and Mortgage Lending Outstanding Audit Issues Report as of May 31, 2017

Auditor	Garza/Gonzalez	Audit Report Date
Audit Area	Management Information Systems	7/25/2016
Recommendation	Status Update	
Conduct MIS Risk Assessment	Pending. The risk assessment is scheduled for the summer of 2017.	
Establish audit trails	In progress. The Department is working with its contracted managed service provider to establish and implement this recommendation.	

Auditor	Garza/Gonzalez	Audit Report Date
Audit Area	Thrift Examinations	5/5/2017
Recommendation	Status Update	
Completion review of checklists	Completed. The audit coordinator will review each checklist and ensure completion prior to submitting the audit memo.	
Identify exceptions' significance in the internal audit memo	Completed. The memo reviewer will ensure that significance is identified as required by policy.	
Update workpapers numbering scheme	Scheduled. The update will be completed by August 31, 2017.	

Auditor	State Auditor's Office	Audit Report Date
Audit Area	SDSI	5/16/2017
Recommendation	Status Update	
Develop, document, and implement a secondary review process of annual financial report (AFR)	<i>In progress.</i> Process developed and documented. Anticipated date of completion is September 30, 2017.	
Update the accounting procedures related to reconciliations	<i>Completed.</i> Procedures updated and new processes implemented.	
Develop a schedule of penalties for use in assessing penalties	<i>Completed.</i> A schedule has been developed and implemented.	

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Auditor	State Auditor's Office	Audit Report Date
Audit Area	SDSI (continued)	5/16/2017
Document policies and procedures for the budgeting process.	<i>In progress.</i> Anticipated date of completion is July 31, 2017.	
Document formal, written policies and procedures for the fee-setting process.	<i>In progress.</i> Anticipated date of completion is August 31, 2017.	
Update the enforcement policies and procedures	<i>Completed.</i> Procedures updated to reflect the Department's current enforcement processes including the use of formal advisory letters.	
Develop, document, and implement a process to ensure proper record retention of all mortgage licensee compliance examination workpapers.	<i>Completed.</i> Procedures and processes updated to require and verify retention of all workpapers.	

Auditor	State Office Of Risk Management	Audit Report Date
Audit Area	Risk Management	N/A
Recommendation	Status Update	
N/A	<i>Pending.</i> Risk Management Program Review was conducted by SORM on June 2, 2017; awaiting report.	



An Audit Report on

**The Department of
Savings and Mortgage Lending:
A Self-directed, Semi-independent Agency**

May 2017
Report No. 17-034

State Auditor's Office reports are available on the Internet at <http://www.sao.texas.gov/>.



The Department of Savings and Mortgage Lending: A Self-directed, Semi-independent Agency

Overall Conclusion

The Department of Savings and Mortgage Lending (Department) had controls to accurately report financial and performance data and appropriately set fees and penalties.

The Department also had an adequate budgeting process to help ensure that it collected sufficient revenue to cover operating expenditures. The Department's fiscal year 2016 ending fund balance was \$11,447,639, which represented an increase of \$5,603,780 (96 percent) from its fiscal year 2012 ending fund balance. That increase was partially due to the Department increasing its cash reserve for the purchase of a new building.

In addition, the Department had a process for setting fees that was based on its budgetary needs. The Department also complied with requirements for the calculation of licensing and regulatory fees for the mortgage industry and the thrift industry, respectively, in fiscal years 2015 and 2016.

However, the Department did not have a schedule of penalties to help ensure transparency and to aid in imposing consistent **penalty amounts**. **The Department's support for the enforcement actions tested** did not always include an explanation regarding how the Department determined the amount of the penalty recommended in its investigative report or the amount of the penalty it actually imposed. The Department also did not always document its reasons for issuing a formal advisory letter instead of a formal enforcement order.

Additionally, the Department did not have current, written policies and procedures to document its processes for budgeting, fee-setting, and imposing penalties.

The Department reported accurate results for the two performance measures tested: (1) Number of (State Chartered Savings Bank, or Thrift) Examinations Performed and (2) Number of (Mortgage) Licensees Examined.

Background Information

The Department of Savings and Mortgage Lending (Department) operates under the oversight of the Finance Commission of Texas and is charged with supervising and regulating the state's savings institutions, residential mortgage loan originators, mortgage companies, and mortgage bankers.

The 81st Legislature granted the Department self-directed and semi-independent (SDSI) status effective September 1, 2009.

As of December 2016, the Department reported that it regulated:

- State-chartered savings banks with combined assets of more than \$18.5 billion.
- More than 24,500 residential mortgage loan originators.
- More than 1,750 mortgage related entities.

Sources: The Department and Texas Finance Code, Chapter 16.

Auditors also identified weaknesses related to data reliability, user access, and information technology policies and procedures that the Department should address.

Auditors communicated other, less significant issues to Department management separately in writing.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters and Related Issue Ratings		
Chapter	Title	Issue Rating ^a
1	The Department Had Effective Controls to Help Ensure the Accuracy and Completeness of Its Financial Data; However, It Should Strengthen Its Processes for Financial Reporting and Financial Reconciliations	Low
2	The Department Had a Budgeting Process and Complied With Requirements for Setting Fees and Imposing Penalties; However, It Should Formalize Several Key Processes in Written Policies and Procedures to Ensure Consistency and Transparency	Medium
3	The Department Reported Accurate Results for the Two Performance Measures Tested	Low
4	The Department Should Improve Certain Controls to Help Ensure the Reliability of Its Enforcement, Complaint, and Examination Data; It Also Should Strengthen Its Information Technology Policies and Procedures	Medium
<p>^a A chapter is rated Priority if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter is rated High if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A chapter is rated Medium if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A chapter is rated Low if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.</p>		

Summary of Management's Response

At the end of each chapter in this report, auditors made recommendations to address the issues identified during this audit. The Department agreed with the recommendations in this report.

Audit Objectives and Scope

The objectives of this audit were to:

- Determine whether the Department has processes and related controls to help ensure the accuracy and completeness of financial and performance data.
- **Evaluate the Department's processes for setting fees and penalties.**

The scope of this audit covered financial and performance information, applicable processes, and other supporting documentation for fiscal year 2015 (September 1, 2014, through August 31, 2015) and fiscal year 2016 (September 1, 2015, through August 31, 2016).

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Detailed Results

Chapter 1

The Department Had Effective Controls to Help Ensure the Accuracy and Completeness of Its Financial Data; However, It Should Strengthen Its Processes for Financial Reporting and Financial Reconciliations

Chapter 1
Rating:
Low ¹

The Department of Savings and Mortgage Lending (Department) had effective controls that helped to ensure that the financial data tested was accurate. However, the Department should improve controls over its financial reporting process to ensure that its annual financial reports are mathematically accurate, include totals for all applicable data, and are appropriately supported by the Uniform Statewide Accounting System (USAS). In addition, the Department should strengthen its process for performing reconciliations of cash, revenue, and expenditures.

Fiscal Year 2016 Annual Financial Report

The fiscal year 2016 beginning balances were accurate and tied to fiscal year 2015 ending balances. In addition, the notes to the fiscal year 2016 annual financial report were complete, complied with reporting requirements, and were substantially accurate and supported.

However, the Department did not have a process to review and approve its annual financial report prior to issuance. As a result, auditors identified certain overstatements and understatements in the Department's fiscal year 2016 annual financial report. Specifically, the Department:

- Overstated Net Assets, Restated as of September 1, 2015 (beginning of year) by \$113,684 for the Governmental Fund.² That occurred because the Department did not calculate a total for that line item.
- Overstated by \$572 the Cash in State Treasury (asset) and Funds Held for Others (liability) line items for the Child Support Fund (the Department's agency fund), when compared to the amount in USAS.

¹ Chapter 1 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

² Although that amount was overstated, the Department accurately reported Total Net Assets in its fiscal year 2016 annual financial report.

- Understated by \$3,511 the total for the Payables from Accounts (liability) line item. That occurred because the total calculated for the Payables from Accounts (liability) line item did not include the balance for the Agency Funds.
- Understated by \$2,234 the Total Assets for the Governmental Fund. That occurred because the Department did not calculate totals for Capital Assets and Non-Current Assets.

The overstatements and understatements discussed above did not result in a change to the fiscal year 2016 fund balances or net asset amounts. However, implementing a formal review process would help the Department identify and correct such overstatements and understatements before it issues its annual financial report.

Auditors also tested the accuracy of selected Department revenue and expenditures transactions from fiscal years 2015 and 2016 and determined the following:

- Licenses, Fees, and Permits. The Department accurately collected, recorded, and sufficiently supported all fee and penalty revenue transactions tested, and related controls were operating effectively.
- Travel. The Department accurately recorded and sufficiently supported all travel expenditures tested, and related controls were operating effectively.
- Other Expenditures. The Department accurately recorded and sufficiently supported all other expenditures tested, and related controls were operating effectively. Other expenditures included miscellaneous expenditures for items such as temporary employee services, freight and delivery services, and cleaning services.

Financial Reconciliations

The Department's accounting policy and procedures requires monthly cash reconciliations and semi-annual revenue and expenditure reconciliations (see text box for additional details). Auditors tested a sample of 21 reconciliations (13 cash reconciliations, 4 revenue reconciliations, and 4 expenditure reconciliations) from fiscal years 2015 and 2016 and determined that the Department had performed those reconciliations, as required. However, auditors identified certain issues in the Department's documentation for the 21 reconciliations tested. Specifically:

- For 4 (19 percent) of the 21 reconciliations tested, the Department did not note or explain unreconciled differences in the reconciliation documentation. Auditors determined that:
 - The unreconciled differences associated with two of those four reconciliations were the result of the Department using incorrect or incomplete data for its reconciliations; therefore, they were not actual discrepancies.
 - The unreconciled differences associated with two of those four reconciliations were actual discrepancies that the Department should have explained in its documentation. Auditors verified that the Department identified and corrected in its accounting systems each of the unreconciled differences in a timely manner prior to auditors' review.
- The Department's accounting policy and procedures did not require the reconciliations to be signed or dated; therefore, none of the 21 reconciliations tested was signed or dated. Requiring that reconciliations be signed and dated is an important control in the financial reconciliation process. Having a preparer and reviewer document that reconciliations were performed and reviewed in a timely manner enhances accountability.

While the Department corrected each of the actual discrepancies that auditors identified, not documenting the detection and resolution of unreconciled differences in the reconciliation documentation reduces the effectiveness of the reconciliation process.

Financial Reconciliations

The Department's accounting policy and procedures require (1) semi-annual reconciliations of revenue, (2) semi-annual reconciliations of expenditures, (3) monthly reconciliations of cash in Sage Micro Information Products (MIP) and cash in the Uniform Statewide Accounting System (USAS), and (4) monthly reconciliations of cash in Sage MIP and the cash held at the Texas Treasury Safekeeping Trust Company (Trust Company).

Each monthly reconciliation of cash in Sage MIP and USAS may include the comparison of two to four separate Department funds. Each monthly reconciliation of cash in Sage MIP and the cash held in the Trust Company includes the comparison of three separate Department funds.

Source: The Department.

Recommendations

The Department should:

- Develop, document, and implement a formal process to ensure that two separate individuals prepare and review its annual financial report prior to releasing that report.
- Update its accounting policies and procedures to (1) require financial reconciliations to be complete and to include explanations and/or resolutions of all unreconciled differences, (2) require an individual other than the preparer to review the reconciliations, and (3) require the preparer and reviewer to sign and date the reconciliations.

Management's Response

Recommendation:

Develop, document, and implement a formal process to ensure that two separate individuals prepare and review its annual financial report prior to releasing that report.

Response:

The Department agrees with the recommendation. The Director of Administration and Finance has developed and documented a formal secondary review process of the Annual Financial Report. The new process will be implemented with the preparation of the next Annual Financial Report in September 2017.

Recommendation:

Update its accounting policies and procedures to (1) require financial reconciliations to be complete and to include explanations and/or resolutions of all unreconciled differences, (2) require an individual other than the preparer to review the reconciliations, and (3) require the preparer and reviewer to sign and date the reconciliations.

Response:

The Department agrees with the recommendation. The Director of Administration and Finance updated the policies and procedures described above to include the recommendations. New processes are in place, effective April 2017.

The Department Had a Budgeting Process and Complied With Requirements for Setting Fees and Imposing Penalties; However, It Should Formalize Several Key Processes in Written Policies and Procedures to Ensure Consistency and Transparency

Chapter 2
Rating:
Medium ³

The Department had a process for setting fees that was based on its budgetary needs. The Department also complied with requirements for the calculation of licensing and regulatory fees for the mortgage industry and the thrift industry, respectively, in fiscal years 2015 and 2016. In addition, the Department followed a process guided by factors in the Texas Finance Code for imposing penalties on mortgage companies, mortgage bankers, mortgage loan servicers, and residential mortgage loan originators when they did not comply with requirements.

However, the Department did not have a schedule of penalties to help ensure transparency and to aid in imposing consistent penalty amounts. The Department's support for the enforcement actions tested did not always include an explanation regarding how the Department determined the amount of the penalty recommended in its investigative report or the amount of the penalty it actually imposed. The Department also did not always document its reasons for issuing a formal advisory letter instead of a formal enforcement order.

Additionally, the Department did not have current, written policies and procedures to document its processes for budgeting, fee-setting, and imposing penalties.

Budgeting

The Department had a process for settings fees that was based on its budgetary needs. Specifically, for fiscal years 2015 and 2016, the Department:

- Considered several factors to help it formulate its proposed budgets, including historical budget-to-actual comparisons, year-to-date actuals, and other available industry data.
- Used the proposed budgets and projected fees to determine whether it needed to adjust its fee structure. The Department determined that no

³ Chapter 2 is rated Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

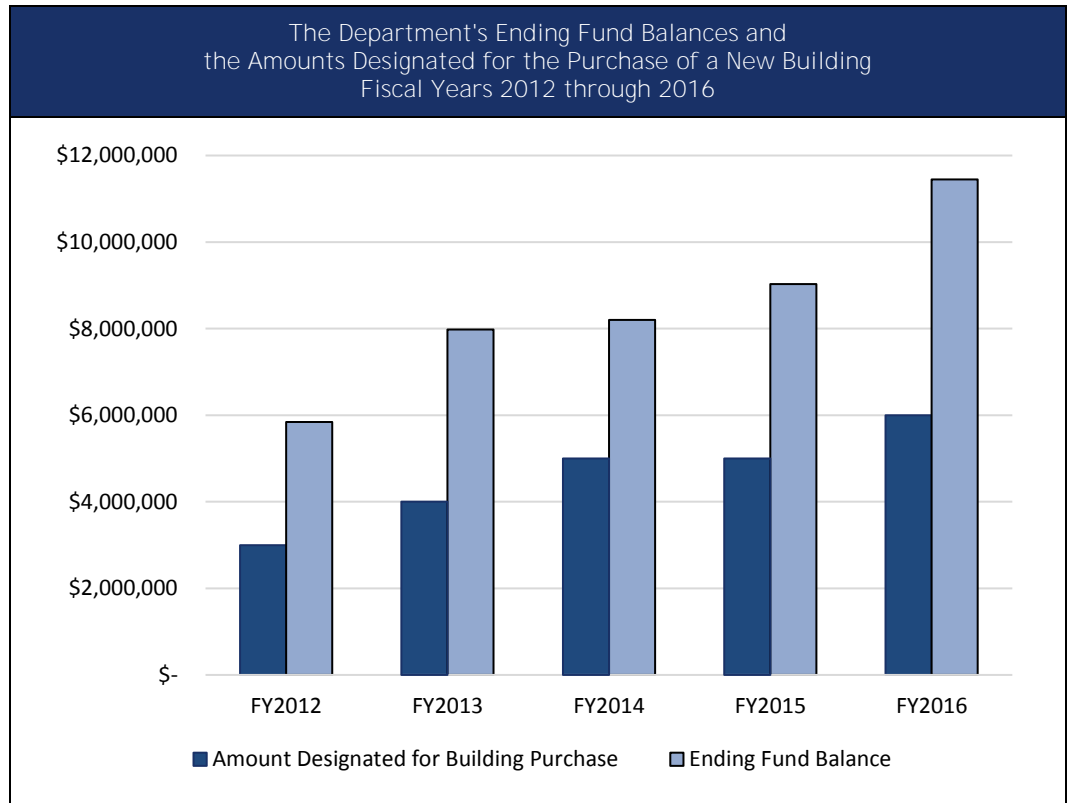
adjustments to the fee structure were necessary during fiscal years 2015 and 2016.

- Ensured that the Finance Commission of Texas formally approved the budgets for fiscal years 2015 and 2016.
- Waived the fourth quarter assessment fees for all state-chartered savings banks in fiscal years 2015 and 2016 to ensure that its revenue aligned with its actual operational costs.

The Department’s fiscal year 2016 ending fund balance was \$11,447,639, which represented an increase of \$5,603,780 (96 percent) from its fiscal year 2012 ending fund balance. That increase was partially due to the Department increasing its cash reserve for the purchase of a new building.

Figure 1 shows the Department’s ending fund balances for fiscal years 2012 through 2016.

Figure 1



Source: The Department.

Setting Fees

The Department complied with Texas Administrative Code requirements for the calculation of licensing fees and regulatory fees for the mortgage industry and the thrift industry, respectively, in fiscal years 2015 and 2016. Auditors tested 14 licensing fee transactions and 6 regulatory fee transactions and determined that the Department accurately calculated and appropriately assessed and collected licensing and regulatory fees.

Imposing Penalties

Schedule of Penalties. The Department did not have a schedule of penalties to help ensure transparency and to aid in imposing consistent penalty amounts. In addition, the Department's documentation for the formal enforcement orders and formal advisory letters tested did not always include an explanation regarding how the Department determined the amount of the penalty recommended in its investigative report or the amount of the penalty the Department actually imposed. For example, for 4 (16 percent) of the 25 enforcement actions tested, the Department did not document its justification for assessing a penalty amount that was less than the amount recommended in the associated investigation report. Developing a schedule of penalties would increase consistency and transparency in the Department's process for assessing penalties.

Auditors reviewed 25 enforcement actions issued to mortgage companies, mortgage bankers, mortgage loan servicers, and residential mortgage loan originators in fiscal years 2015 and 2016, including 11 formal enforcement orders and 14 formal advisory letters.

Formal Enforcement Orders. For the 11 formal enforcement orders tested, the Department accurately calculated and appropriately imposed penalties, guided by its consideration of the factors specified in the Texas Finance Code. Those 11 formal enforcement orders totaled \$60,600. Each of those enforcement orders also identified the final penalty amount and was signed and dated by the Department's commissioner.

Formal Advisory Letters. The Department used formal advisory letters as an alternative to formal enforcement orders. Specifically, in some cases, the Department issued a formal advisory letter that imposed fees (which are punitive in nature⁴) to reprimand a company for certain violations, rather than issuing a formal enforcement order. However, unlike a formal enforcement order, a formal advisory letter is not defined in the Texas Finance Code and is not approved and signed by the Department's

⁴ The fees the Department imposed when issuing a formal advisory letter were intended to be punitive in nature; therefore, auditors categorized those fees as penalties for the purposes of this report.

commissioner. In addition, the Department does not post the details of a formal advisory letter on its Web site or record information from formal advisory letters in the Nationwide Multistate Licensing System and Registry.⁵

For the 14 formal advisory letters tested, the Department accurately calculated the fees that it imposed. The fees the Department imposed through those 14 formal advisory letters totaled \$1,229,650.

However, for 6 (43 percent) of the 14 formal advisory letters tested, the Department (1) did not document its reasons for issuing a formal advisory letter instead of a formal enforcement order or (2) did not document its reasons for issuing a formal advisory letter for the purpose of providing the respondent an opportunity to have a prior formal enforcement order rescinded.

Policies and Procedures for Budgeting, Fee-setting, and Imposing Penalties

The Department did not have formal, written policies and procedures to document its budgeting and fee-setting processes.

The Department also had not updated its existing enforcement policies and procedures since April 2014. Those policies and procedures did not reflect the enforcement processes in place during fiscal years 2015 and 2016, and they did not address the Department's use of formal advisory letters. Not having up-to-date and complete policies and procedures increases the risk that the Department could issue formal advisory letters in an inconsistent manner.

Recommendations

The Department should:

- Develop a schedule of penalties for use in assessing penalties.
- Document formal, written policies and procedures for its budgeting process.
- Document formal, written policies and procedures for its fee-setting process.

⁵ The Nationwide Multistate Licensing System and Registry is a secure online mortgage licensing database that provides a centralized system where companies and individuals may transition, apply for, sponsor, amend, renew, or surrender licenses in jurisdictions where they conduct business.

- Update its enforcement policies and procedures to document and formalize its current enforcement processes, including its use of formal advisory letters.

Management's Response

Recommendation:

Develop a schedule of penalties for use in assessing penalties.

Response:

The Department agrees with the recommendation. The Director of Mortgage Examinations, General Counsel, and Commissioner are in the process of developing a schedule for use in assessing penalties. The anticipated date of completion is August 31, 2017.

Recommendation:

Document formal, written policies and procedures for its budgeting process.

Response:

The Department agrees with the recommendation. The Director of Administration and Finance has begun documenting and formalizing the existing budget process. The recommendation will be completed during the upcoming budget cycle in July 2017.

Recommendation:

Document formal, written policies and procedures for its fee-setting process.

Response:

The Department agrees with the recommendation. The Director of Mortgage Licensing & Information Resources, Director of Administration and Finance and Commissioner will document written policies and procedures and formalize the existing fee setting processes. The anticipated date of completion is August 31, 2017.

Recommendation:

Update its enforcement policies and procedures to document and formalize its current enforcement processes, including its use of formal advisory letters.

Response:

The Department agrees with the recommendation. The enforcement policies and procedures have been revised to reflect current enforcement processes and to address the use of formal advisory letters. The General Counsel and Commissioner have reviewed and approved the updated policies and procedures in April 2017.

The Department Reported Accurate Results for the Two Performance Measures Tested

Chapter 3
Rating:
Low ⁶

In its reports to the Finance Commission of Texas for fiscal years 2015 and 2016, the Department reported accurate results for the two performance measures tested. The two performance measures tested were:

- Number of (State Chartered Savings Bank, or Thrift) Examinations Performed.
- Number of (Mortgage) Licensees Examined.

Number of (State Chartered Savings Bank, or Thrift) Examinations Performed

The Department had an adequate process to collect and accurately calculate and report the Number of (State Chartered Savings Bank, or Thrift) Examinations Performed. For fiscal year 2015, based on auditors' recalculation of the Department's source documentation, the Department accurately reported that the Number of (State Chartered Savings Bank, or Thrift) Examinations Performed was 25, which was less than its fiscal year 2015 target of 38. For fiscal year 2016, the Department accurately reported that the Number of (State Chartered Savings Bank, or Thrift) Examinations Performed was 16, which was less than its fiscal year 2016 target of 22.

Number of (Mortgage) Licensees Examined

The Department had an adequate process to collect and accurately calculate and report the Number of (Mortgage) Licensees Examined. For fiscal year 2015, based on auditors' recalculation using data in the Department's Semarca system, the Department accurately reported that the Number of (Mortgage) Licensees Examined was 8,239, which exceeded its fiscal year 2015 target of 3,600. For fiscal year 2016, based on auditors' recalculation using data in the Department's Semarca system, the Department accurately reported that the Number of (Mortgage) Licensees Examined was 5,511, which exceeded its fiscal year 2016 target of 3,600.

⁶ Chapter 3 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Sponsorship

An individual applying for a residential mortgage loan originator license must have an application approved and be properly sponsored by a licensed mortgage banker or mortgage company before conducting regulated activities. In providing its sponsorship, the mortgage bank or mortgage company asserts that the individual's financial-related activities are and will continue to be appropriately supervised by the company.

Compliance Examinations

The Department conducts compliance examinations of mortgage companies, mortgage bankers, and their sponsored residential mortgage loan originators (mortgage licensees) to ensure compliance with the requirements and guidelines of consumer protection laws and regulations.

Source: The Department.

In addition, auditors tested source documentation for a sample of 25 compliance examinations the Department performed during fiscal years 2015 and 2016 to determine whether the information in Semarca was accurate and supported (see Chapter 4 for other more information on the Semarca system). The source documentation included company rosters that listed all residential mortgage loan originators sponsored by the mortgage companies and mortgage bankers (see text box for more information). The Department did not retain the finalized company rosters for 3 (12 percent) of those 25 compliance examinations; therefore, auditors could not verify the accuracy of the number of licensees that was recorded in the Semarca system for those 3 examinations. The Department's records retention

schedule requires the Department to retain all workpapers associated with a mortgage licensee compliance examination for five years after the date it issues the associated examination report.

Recommendation

The Department should develop, document, and implement a process to ensure that it retains all workpapers associated with mortgage licensee compliance examinations, as required by its records retention schedule.

Management's Response

Recommendation:

The Department should develop, document, and implement a process to ensure that it retains all workpapers associated with mortgage licensee compliance examinations, as required by its records retention schedule.

Response:

The Department agrees with the recommendation. The examination policies and procedures have been updated to require that all workpapers are retained; specifically, the final company roster report. Additionally, verification that a final company roster report is contained in the workpapers has been added to the post examination procedures. The Director of Mortgage Examinations approved the updated policies and procedures in April 2017.

The Department Should Improve Certain Controls to Help Ensure the Reliability of Its Enforcement, Complaint, and Examination Data; It Also Should Strengthen Its Information Technology Policies and Procedures

Chapter 4
Rating:
Medium ⁷

The Department should improve certain controls to ensure the reliability of enforcement, complaint, and examination data related to the supervision and regulation of the mortgage industry. In addition, the Department should strengthen its information technology policies and procedures to ensure that they address certain critical processes.

Semarca

The Department uses the Semarca application as its system of record for activities related to the supervision and regulation of the mortgage industry, including licensee examinations, consumer complaints, and enforcement actions. The Semarca application did not have adequate application controls to ensure that only valid data was entered into that application. As a result, auditors identified numerous issues in the validity, accuracy, and completeness of the data reviewed. For example, auditors identified:

- Complaint files/cases with a closed date that preceded the order issued date.
- Complaint files/cases with an open date that preceded the received date.
- Complaint files/cases with a resolved date that preceded the open date.
- Complaint files/cases with a closed date but a status of “open.”
- Examination files/cases with a completed date that preceded the scheduled date.
- Enforcement files/cases without a respondent name.
- Enforcement files/cases without a received date.

⁷ Chapter 4 is rated Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

In addition, 3 (10 percent) of the 30 Semarca user accounts had inappropriate access based on the users' current job responsibilities. Specifically:

- One administrative assistant had the ability to delete information related to mortgage examinations.
- Two accountants had the ability to edit information related to enforcement activities.

Unnecessary or inappropriate access increases the risk of unintended or unauthorized changes to the data.

Because of the issues discussed above, auditors concluded that the data in the Semarca application was not reliable. Having unreliable data could impair the Department's decision making.

Information Technology Policies and Procedures

The Department had documented information technology policies and procedures that generally defined employees' responsibilities for securing the Department's information technology resources and data from unauthorized or accidental modification or disclosure. For example, those policies and procedures addressed the responsibility to safeguard laptop computers and defined the minimum requirements for establishing a password.

However, the Department's information technology policies and procedures did not address certain critical processes, including:

- Adding, modifying, or removing user access to applications, servers, and databases.
- Reviewing user access on a periodic basis.
- Backing up and restoring applications and data.
- Safeguarding critical information technology infrastructure in the server room from unauthorized access or damage.
- Requesting, testing, approving, and implementing changes to applications.

The Department outsourced certain information technology functions in March 2016. However, the Department is still responsible for the security of its data. As a result, it is critical for the Department to (1) document detailed, comprehensive information technology policies and procedures for

all critical information technology operations and security processes and (2) ensure that its third-party vendor adheres to those policies and procedures.

Recommendations

The Department should:

- Define, document, and implement processes and controls to help ensure the validity and integrity of its examination, complaint, and enforcement data.
- Perform and document a periodic review of all access to its Semarca application to verify that access is appropriate based on users' job responsibilities.
- Document detailed, comprehensive policies and procedures for all critical information technology operations and security processes, and ensure that its third-party vendor adheres to those policies and procedures.

Management's Response

Recommendation:

Define, document, and implement processes and controls to help ensure the validity and integrity of its examination, complaint, and enforcement data.

Response:

The Department agrees with the recommendation. The Director of Mortgage Examinations and the General Counsel will develop and implement processes and controls to verify data entry is valid. The anticipated date of completion is August 31, 2017.

Recommendation:

Perform and document a periodic review of all access to its Semarca application to verify that access is appropriate based on users' job responsibilities.

Response:

The Department agrees with the recommendation. Under the direction of the Director of Licensing & Information Resources, a review of all users' access levels in the Semarca application was conducted and all appropriate changes made in April 2017. The review process was documented and will be conducted on an annual basis going forward.

Recommendation:

Document detailed, comprehensive policies and procedures for all critical information technology operations and security processes, and ensure that its third-party vendor adheres to those policies and procedures.

Response:

The Department agrees with the recommendation. Under the direction of the Director of Licensing & Information Resources, existing policies and procedures, regarding all critical information technology operations and security processes in place, will be updated to be more detailed and comprehensive. The Department will confirm and document that the third party vendor adheres to these policies and procedures. The anticipated date of completion is August 31, 2017.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Department of Savings and Mortgage Lending (Department) has processes and related controls to help ensure the accuracy and completeness of financial and performance data.
- Evaluate the Department's processes for setting fees and penalties.

Scope

The scope of this audit covered financial and performance information, applicable processes, and other supporting documentation for fiscal year 2015 (September 1, 2014, through August 31, 2015) and fiscal year 2016 (September 1, 2015, through August 31, 2016).

Methodology

The audit methodology included collecting information and documentation, performing selected tests and other procedures on the information obtained, analyzing and evaluating the results of tests, and conducting interviews with Department management and staff. In addition, the methodology included performing a limited review of the general and application controls over the information technology systems that the Department used to manage and report financial data and performance measure data.

Data Reliability and Completeness

Auditors used revenue and expenditure information from the Uniform Statewide Accounting System (USAS) and Sage Micro Information Products (MIP). To determine the reliability of financial information in USAS and Sage MIP, auditors reviewed the validity and completeness of the information by (1) reviewing user access, (2) performing a high-level review of data fields and their contents for appropriateness, and (3) comparing that information to other sources. In addition, auditors reviewed the Department's reconciliation process for the financial information in Sage MIP and USAS. Auditors determined that the data in both systems was sufficiently reliable for the purposes of this audit.

Auditors used enforcement, consumer complaints, and licensee examination data from the Department's Semarca system to review the Department's process for imposing penalties and to verify the accuracy of a performance measure. To determine the reliability of that data, auditors (1) reviewed the parameters used to extract the data from that system, (2) tested access to that system, (3) reviewed record completeness, (4) reviewed data fields and their contents for accuracy and validity, and (5) tested certain application controls.

The Semarca system did not have adequate application controls to prevent invalid or inaccurate data from being entered into key fields. As discussed in Chapter 4, auditors identified numerous issues in the validity, accuracy, and completeness of the data reviewed.

In addition, auditors identified users with inappropriate access based on their current job responsibilities. Because of the issues discussed above, auditors determined that the data in the Semarca system was not reliable. Having unreliable data is significant because it could lead to the Department's reporting inaccurate performance measures and impair the Department's decision making. While auditors determined the data was not reliable, that data was the most complete population available; therefore, auditors used that data for the purposes of this audit.

Sampling Methodology

To assess the Department's financial processes related to calculating, collecting, and recording revenue, auditors used professional judgement to select a risk-based sample of transactions related to licensing and regulatory fees and penalties imposed through disciplinary actions. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

To assess the Department's financial processes related to expenditures, auditors used professional judgement to select a risk-based sample of transactions related to travel and other expenditures. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

To assess the Department's cash reconciliation processes, auditors selected a nonstatistical sample through random selection designed to be representative of the population of monthly cash reconciliations of Sage MIP with USAS and Sage MIP with the Texas Treasury Safekeeping Trust Company. Auditors also used professional judgement to select one additional monthly cash reconciliation based on an identified risk. The test results as reported did not identify which items were randomly selected or

selected using professional judgment; therefore, it would not be appropriate to project the test results to the population.

Auditors also used professional judgement to select risk-based samples of Department enforcement actions, consumer complaints, and two performance measures. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- The Department's policies and procedures.
- The Department's fiscal year 2016 annual financial report.
- All fiscal year 2016 year-end adjusting accounting entries.
- Purchase orders, invoices, and supporting documentation for Department purchases.
- Travel vouchers, invoices, and supporting documentation for Department travel reimbursements.
- Expenditure data from USAS and revenue data from Sage MIP.
- Department reconciliations for cash, revenue, and expenditures.
- Texas Finance Commission meeting packets, budget information, and supporting documentation for the Department's budget process.
- The Department's formal enforcement orders, formal advisory letters, and other supporting documentation for penalties imposed on mortgage companies, mortgage bankers, mortgage loan servicers, and individual residential mortgage loan originators.
- Data and supporting documents for selected performance measures.
- The Department's strategic plan for fiscal years 2015 through 2019.

Procedures and tests conducted included the following:

- Interviewed Department staff to identify the Department's financial and operational processes, including financial and administrative controls.
- Tested internal controls and selected significant accounts, including testing of detailed supporting documentation, to determine the accuracy of selected financial data in the Department's annual financial report for fiscal year 2016.

- Evaluated the Department’s annual fee-setting process.
- Tested selected licensing and regulatory fee transactions and selected administrative penalty transactions to determine whether the Department accurately calculated and appropriately assessed and collected those fees and penalties.
- Tested selected performance measure data that the Department reported to the Texas Finance Commission.
- Reviewed supporting documentation related to the general controls and application controls over the Department’s network, the Semarca system, and Sage MIP.

Criteria used included the following:

- Texas Finance Code, Chapters 11, 13, 16, 31, 61, 91, 156, 157, 158, and 180.
- Texas Government Code, Chapter 660.
- Title 7, Texas Administrative Code, Chapters 76, 79, 80, and 81.
- Title 1, Texas Administrative Code, Chapter 202.
- The Office of the Comptroller of Public Accounts’ travel policies and procedures.
- Governmental Accounting Standards Board (GASB) Statements No. 16, 31, 34, and 56.
- The Office of the Comptroller of Public Accounts’ financial reporting requirements.
- The Department’s policies and procedures.
- The Department’s strategic plan for fiscal years 2015 through 2019.

Project Information

Audit fieldwork was conducted from November 2016 through March 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Justin H. Griffin, CISA (Project Manager)
- Jamie Kelly, MBA (Assistant Project Manager)
- Charlotte Carpenter, MBA
- Kelley Ngaide, CIA, CFE
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Michael Simon, MBA, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable John Zerwas, House Appropriations Committee
The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Members of the Finance Commission of Texas

Ms. Stacy G. London, Chair
Mr. Hilliard Shands III, Vice Chair
Mr. Robert Borochoff
Mr. Hector J. Cerna
Ms. Margaret Curl
Mr. Phillip A. Holt
Mr. William M. Lucas
Ms. Lori B. McCool
Mr. Matthew Moore
Mr. Vince E. Puente Sr.
Mr. Paul Plunket

Department of Savings and Mortgage Lending

Ms. Caroline C. Jones, Commissioner



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Office of Consumer Credit Commissioner
Outstanding Audit Findings Report as of 5/31/2017

Auditor	Texas Department of Public Safety		Audit Report Date
Audit Area	Storage and security of criminal history record information		Mar-16
Finding	Status Update		
Unsubscribe from CHRI who no longer have active or inactive license			
In progress. In February the agency unsubscribed from approximately 7,000 individual's CHRI. The agency continues to bulk unsubscribe and works to keep subscriptions accurate and up-to-date. Goal is completion by the end of FY 2017.			
Auditor	State Auditors Office		Audit Report Date
Audit Area			Jan-17
Finding	Status Update		
OCCC should strengthen controls over financial reporting processes and achieve segregation of duties for users of internal accounting system.			
Completed: Revision to the financial reporting process including enhancing the agency's written policies and procedures has been completed. The formal evaluation of and realignment of duties and responsibilities of all accounting staff to ensure proper segregation of duties has also been completed.			
Auditor	State Auditors Office		Audit Report Date
Audit Area			Jan-17
Finding	Status Update		
OCCC should improve controls over Information Technology, including written policies and procedures, change management and user			
Completed: The agency has completed formalization of its change management process, enhancing its written policies and procedures and otherwise strengthening controls as identified in the audit.			

Texas Department of Banking
Outstanding Audit Findings/Recommendations Report as of June 2017

Auditor	State Auditor’s Office	Audit Report Date
Audit Area	SDSI Audit of the Department of Banking	November 2016
Recommendation	Status Update	
User rights access were not always appropriate	On-going – The individual discrepancies noted in the audit have been corrected. In addition, the annual review process performed each August will be improved by having the Information Security Officer meet with each Division Director to assist in the review of the access levels of the staff and respond to any questions about user access rights. The next review will be performed in August 2017.	

Finance Commission Agencies 2018 Budget Timeline

June – July

- Agencies work through budget process

August 2

- Draft budgets posted on websites and send to Finance Commission members

August 14 – 1:00 p.m.

- Public hearing on budgets

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Austin, Texas

ANNUAL INTERNAL AUDIT REPORT

Fiscal Year 2017



DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
Austin, Texas

Annual Internal Audit Report
Fiscal Year 2017

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and Audit Committee Members
Department of Savings and Mortgage Lending
Austin, Texas

We performed tests of management's assertion about the effectiveness and efficiency of the Department of Savings and Mortgage Lending's (SML) internal control structure over the Thrift Examinations area (area) and its established policies and procedures, as applicable to the area, for the purpose of determining SML's compliance with applicable laws and regulations provided in the Texas Finance Code, Texas Administrative Code, and the Federal Deposit Insurance (FDI) Act, for the 6 months ended February 28, 2017.

The results of our tests disclosed that SML's internal control structure over the area and its established policies and procedures, were generally adequate and no material instances of noncompliance were noted; however, this report includes certain findings and an observation, that are opportunities for strengthening internal controls and ensuring compliance with established policies and procedures. Based on the degree of risk or effect of these matters in relation to the audit objective(s), these matters were rated as either Priority, High, Medium, or Low, which is further described in the "Summary and Related Rating of Observations/Findings and Recommendations", which is included in page 11 of this report.

We also performed a follow-up of the findings and recommendations that were presented in the prior year annual internal audit report and this report reflects the results and implementation status of our follow-up procedures performed; and, includes all information required for the Annual Internal Audit Report.

We have discussed the findings and observation and recommendations from the audit of the area; and, the implementation status from the follow-up performed, with various SML personnel; and, will be pleased to discuss them in further detail; to perform an additional study of these matters; or, to assist you in implementing the recommendations made.



May 5, 2017

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Annual Internal Audit Report

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INTRODUCTION

The Department of Savings and Mortgage Lending (SML) has 2 key areas of regulatory responsibility, the chartering, regulation and supervision of the state's thrift industry; and, the licensing/registration and regulation of the state's mortgage industry. These 2 areas of responsibility cover the vast majority of residential mortgage lending in Texas.

The 58th and 73rd Legislatures, respectively, enacted the Texas Savings and Loan Act and the Texas Savings Bank Act for the chartering, regulation, examination and supervision of state chartered savings banks and savings and loan associations and enforcement of these statutes.

The 76th Legislature enacted the Mortgage Broker License Act for licensing and regulation of first lien residential mortgage brokers and loan officers doing business in Texas. The statute, as amended by the 80th Legislature, applies to all residential mortgages regardless of lien position. The statute prescribes requirements for licensing and inspecting licensees, and processing consumer complaints.

The 78th Legislature enacted the Mortgage Banker Registration Act for registering mortgage bankers conducting business in Texas and providing their borrowers with notice of the process for filing consumer complaints.

The 81st Legislature enacted the Texas SAFE Act (Chapter 180) and other significant modifications to Chapters 156 and 157 of the Texas Finance Code. Compliance with the federal mandates addressed by this legislation expanded the field of individuals subject to residential mortgage licensing.

The 82nd Legislature enacted Senate Bill 17 creating Chapter 158 of the Texas Finance Code calling for the registration of non-depository third party residential mortgage loan servicers. The statute authorizes SML to require registrants to carry a bond or equivalent, and to notify borrowers whose loans they service of the borrower's ability to file a complaint with SML. Additionally, the statute authorized SML to investigate any such complaints. SML is not authorized to initiate examinations of servicing registrants but may participate in multistate examinations.

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

2017 Internal Audit Plan

Following are the internal audits and other functions performed, as identified in SML's 2017 Internal Audit Plan, dated January 25, 2017 and approved by the Finance Commission's Audit Committee and Commissioners on February 17, 2017:

- Thrift Examinations
- Follow-up of Prior Year Internal Audits
- Other Tasks

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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This report contains the results of our audit of the Thrift Examinations area; reflects the results of the follow-up performed in the current year of the findings that were presented in the prior year annual internal audit report; and, meets the State of Texas Internal Audit Annual 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 SML's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope included 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.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Annual Internal Audit Report

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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, SML will post the following information on its website:

- An approved fiscal year 2018 audit plan, as provided by Texas Government Code, Section 2102.008.
- A fiscal year 2017 internal audit annual report, as required by Texas Government Code, Section 2102.009.

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 SML to address such concerns.

II. **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.

III. **External Quality Assurance Review**

The internal audit department's most recent *System Review Report*, dated October 7, 2015, indicates that its system of quality control has been suitably designed and conforms to applicable professional standards in all material respects.

IV. **Internal Audit Plan for Fiscal Year 2017**

The approved Internal Audit Plan (Plan) included one audit to be performed during the 2017 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 2017.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Annual Internal Audit Report

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Risk Assessment

Utilizing information obtained through the inquiries and background information reviewed, 14 audit areas were identified as potential audit topics. A risk analysis utilizing 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 14 potential audit topics identified:

HIGH RISK	MODERATE RISK	LOW RISK
Legal and Enforcement	Management Information Systems	Fixed Assets
Thrift Supervision and Compliance	Purchasing and Travel	Financial Reporting
Thrift Examinations	Revenue Accounting Process	Mortgage Examinations
	Payroll and Human Resources	Records Management
	Mortgage Licensing and Registration	Consumer Protection
		Risk Management

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

Fiscal Year 2016:

- Management Information Systems

Fiscal Year 2015:

- Mortgage Examinations

Fiscal Year 2014:

- Consumer Protection

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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The internal audit and other tasks performed for fiscal year 2017 were as follows:

<u>Report No.</u>	<u>Audits/Report Titles</u>	<u>Report Date</u>
1.	Thrift Examinations <i>Objective:</i> To determine whether SML's policies, procedures and processes in place, as applicable to the Thrift Examinations area (area), are sufficient to ensure compliance with applicable laws and regulations.	5/5/2017
1.	Annual Internal Audit Report – Follow-Up of Prior Year Internal Audits	5/5/2017
-	Other Tasks Assigned by the Finance Commission	None

V. Executive Summary

Thrift Examinations

Background

The Thrift Examinations area of the Department of Savings & Mortgage Lending (SML) is responsible for effectively evaluating the safety and soundness of state-chartered savings banks; and, savings and loan associations and their holding companies, which includes the assessment of risk management systems, financial condition, and compliance with applicable laws and regulations. As of December 31, 2016, SML had oversight of 28 state savings banks totaling \$18.7 billion in total assets; and, 23 holding companies.

The Thrift Examinations area (area) is managed by the Deputy Commissioner, who is also the Director of Thrift; and, the Chief Thrift Examiner. The area is currently comprised of 11 Field Examiners and 4 Supervisory Analysts.

Full and limited scope examinations of state-chartered savings banks; and, savings and loan associations, and their holding companies, are performed by the area jointly with the Federal Deposit Insurance Corporation (FDIC) and/or the Federal Reserve Bank (FRB). In joint examinations, SML, FDIC, and FRB alternate as the lead agency and routinely take joint enforcement and supervisory action to address identified problems/issues. In addition to these examinations, the area performs independent conversion examinations, and holding company examinations, which are typically performed jointly with the FRB.

For the 6 months ended February 28, 2017, the area performed 11 full-scope examinations and no other types of examinations were performed.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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Examination Process

Scheduling

Examinations are scheduled and assigned to teams by the Chief Thrift Examiner. An excel working schedule is maintained that documents the financial institution scheduled for examination; the Examiner-In-Charge (EIC), Operations Manager (OM), and assisting Field Examiners, that are assigned, by week and number of hours, to the respective examination; and, the examination lead agency (i.e. SML, FDIC, or FRB).

The EIC is responsible for the examination process and for reviewing the workpapers and resulting report for accuracy and completeness; and, the OM assists the EIC with the examination process and workpaper compilation.

Pre-Examination

Prior to the start of on-site field work, the EIC and OM perform 1 to 2 weeks of pre-examination activities, which include planning meetings with the financial institution to discuss such things as scope of the examination, documentation requests, etc. During this time, the EIC is responsible for preparing a Pre-Exam Planning Memo, or completing the Examination Documentation (ED) Module – Risk Scoping Activities, which is 1 of the 10 ED Modules required to be completed during a full scope examination.

Examination

During a full scope examination, the examination team completes the following remaining 9 ED Modules:

1. Capital
2. Loan Review
3. Securities
4. Other Assets and Liabilities
5. Management/Audit/IRC
6. Earnings
7. Liquidity
8. Sensitivity to Market Risk
9. Related Organizations

A limited scope examination has a more flexible format, depending on its objective, and; therefore, all 10 ED Modules are not required to be completed.

The ED Modules were developed jointly by the FDIC and FRB and are completed on-site by the Field Examiners during an examination. Upon completion of all necessary ED modules and other necessary documentation, the EIC or OM compiles the workpapers in their system (ETS Tools Suite) and indexes them according to the format provided in Exam Bulletin #13-03.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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Post Examination

During the post examination phase, the EIC drafts the Report on Examination (ROE) and completes the Workpaper Wrap Up Review Form, which serves as a final checklist to denote completion of the workpapers and inclusion of all ED Modules/Summaries, etc. The ROE draft is sent to the Chief Supervisory Analyst for review; and, who prepares and signs the Transmittal Letter that is sent to the financial institution's Board of Directors. The Transmittal Letter contains various examination information; such as, names of the Lead Field Examiner(s); examination commencement date; findings, if any; and, the due date for responses to be provided by the financial institution for significant findings. SML's Commissioner performs a final review of the ROE and signs it, before it is released. The ROE also includes signatures from the State EIC, FDIC EIC Examiner, and the FDIC's Assistant Regional Director, for joint examinations. A follow up of all findings is performed as part of the subsequent examination.

Quarterly "Internal Audits"

The area performs quarterly "internal audits" of all examinations completed during the previous quarter, as part of a quality control review. Only Field Examiners with Operations Manager training are able to perform these "internal audits", which are all but 3 of the area's current Field Examiners. A Field Examiner may not perform a workpaper "internal audit" for an examination in which they were designated as the EIC or OM. An Audit Checklist is completed by the Field Examiner as part of the "internal audit", to denote that all workpapers are completed, filed in the financial institution's folder, properly cross referenced, signed off, etc. Proper completion of the Workpaper Tracking Matrix by the EIC is also validated during the "internal audit", by the Field Examiner performing a side-by-side completion of procedures in the Matrix. Upon completion of the quarterly "internal audits", the designated Field Examiner compiles the results/findings in a Quarterly Internal Audit Memorandum to the Deputy Commissioner and Chief Thrift Examiner. Only findings considered significant by the Deputy Commissioner and/or Chief Thrift Examiner will be followed up on in the subsequent quarterly "internal audit".

As of February 28, 2017, there were 2 quarterly "internal audits" performed.

Examiner Training

All Field Examiners are required to complete the on the job training program when hired, to familiarize themselves with the SML's policies, procedures, and practices. The on the job training program includes lesson plans of 94 specific tasks to lead the Field Examiner towards becoming an EIC. In addition to the on the job training program, Field Examiners are also required to complete a formal training program by attending the FDIC's or the Conference of State Banks Supervisors' (CSBS) Commissioned Examiner School. Until completion of the on the job training program and the Commissioned Examiner School, the Field Examiner is considered an Examiner In Training. Upon completion of the on the job training program, the Commissioned Examiner School, and assistance on 2 full scope examinations under the supervision of a Commissioned-equivalent Examiner, the Examiner In Training will be designated as a Commissioned-equivalent Examiner. Field Examiners that are hired by SML and provide evidence of their commissioned status by other regulatory agencies, are not required to complete the Commissioned Examiner School. All Field Examiners are requested by SML to complete at least 2 weeks of training on an annual basis.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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Fiscal Year 2017

AUDIT OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our audit was to determine whether SML's policies, procedures and processes in place, as applicable to the Thrift Examinations area (area), are sufficient in ensuring compliance with applicable laws and regulations provided in the Texas Finance Code, Texas Administrative Code, and the Federal Deposit Insurance (FDI) Act.

Scope

The scope of our audit was to review and/or test selected functions and processes performed by the area, to determine compliance with applicable laws and regulations and established policies and procedures, for the 6 months ended February 28, 2017.

Methodology

The audit methodology included a review of laws and regulations, established policies and procedures, and other internal and external documentation; and, an interview and correspondence with the Chief Thrift Examiner and other SML personnel.

We obtained and/or reviewed the following documentation:

- a. Thrift Examination area's organizational chart.
- b. SML's Supervisory Manual (11/15/2016) and Exam Bulletins (2/1/2013).
- c. Copies of ED Modules.
- d. List of examiners and training hours.
- e. Working Schedule.
- f. FY2017 Examinations Tracking Log.
- g. 1st and 2nd Quarterly Internal Audit Memos.
- h. For "Internal Audits" of 7 Examinations:
 - 1) Audit Checklist; and,
 - 2) Workpaper Tracking Matrix.
- i. For 10 Examinations:
 - 1) Transmittal Letter;
 - 2) Workpaper Wrap-Up Review Form; and,
 - 3) FY2015 and FY2016 Examinations Tracking Log.
- j. For 10 Field Examiners:
 - 1) Commission-Equivalent Examiner documentation; and,
 - 2) Conflict of Interest Disclosure.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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We performed various procedures within our audit scope, to achieve the objective of our audit, to include the following:

- a. Updated our understanding of applicable state laws and regulations, SML's examinations and training policies and procedures, and practices in place related to the area.
- b. Reviewed sample ED Modules to ensure the inclusion of significant requirements to ensure the safety and soundness of a financial institution and compliance with applicable laws and regulations.
- c. Selected 10 of the 11 full scope examinations completed during the 6 months ended February 28, 2017, to test for the following attributes:
 - 1) Performed in a timely manner;
 - 2) Transmittal Letter and Examination Tracking Log reflect same examination date;
 - 3) Completion of the Workpaper Wrap-Up Review Form by the EIC; and,
 - 4) Workpaper Wrap-Up Review Form and Working Schedule reflect the same EIC and OM.
- d. Selected 10 of the 11 Field Examiners to test for the following attributes:
 - 1) Compliance for designation as a Commissioned-equivalent Examiner;
 - 2) Completion of recommended training hours; and,
 - 3) Completion of Conflict of Interest Disclosure.
- e. Selected 7 of the 16 "internal audits" performed during the 6 months ended February 28, 2017 and tested for the following attributes:
 - 1) Completion of Audit Checklist;
 - a. Workpaper Tracking Matrix, as completed by EIC, agreed to the results from the completion performed during the "internal audit".
 - 2) Workpaper Tracking Matrix agreed to the numbering system in Bulletin #13-03;
 - 3) Findings documented in the audit checklist were included in the Quarterly Internal Audit Memorandum; and,
 - 4) Findings identified in one Quarterly Internal Audit Memorandum were followed up on in the subsequent Quarterly Internal Audit Memorandum.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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VI. Observations/Findings and Recommendations**SUMMARY and RELATED RATING of OBSERVATIONS/FINDINGS and RECOMMENDATIONS**

As SML's internal auditors, we used our professional judgment in rating the audit observations identified in this report. The rating system used was developed by the Texas State Auditor's Office and is based on the degree of risk or effect of the findings in relation to the audit objective(s). The table below presents a summary of the observations in this report and the related rating.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
1	Checklists for "Internal Audits" of Examination Workpapers	Medium
2	Follow-up of "Audit" Exceptions	Medium
Observation No.	Title	Rating
1	Examination Workpaper Numbering System	Low
	<p style="text-align: center;"><u>Description of Rating</u></p> <p>A finding/observation is rated <i>Priority</i> if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A finding/observation is rated <i>High</i> if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A finding/observation is rated <i>Medium</i> if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A finding/observation is rated <i>Low</i> if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.</p>	

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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Fiscal Year 2017

OBSERVATIONS/FINDINGS and RECOMMENDATIONS

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	5/5/2017	Thrift Examinations	<p>1. Checklists for "Internal Audits" of Examination Workpapers</p> <p>Checklists are used by Field Examiners to perform "internal audits" of examination workpapers for completeness, as part of an internal quality control review. In one of the 7 checklists we reviewed, not all procedures in the checklist were completed; and, an explanation to justify non-completion was not included, as was done in other checklists we reviewed.</p> <p>Recommendation We recommend that checklists be completed in their entirety or comments be included in the checklist to justify the omission, to provide for a comprehensive quality control review.</p> <p>Management's Response The Department agrees with the recommendation. A completion review of the checklists is part of the examination procedures. Going forward the audit coordinator will review each checklist and ensure completion prior to submitting the audit memo.</p> <p>2. Follow-up of "Audit" Exceptions</p> <p>Exam Bulletin #13-05 indicates that a follow-up be performed of "internal audit" exceptions that are denoted in the quarterly internal audit memorandum, that is prepared upon completion of "internal audits"; and, that the follow-up be denoted in the subsequent quarterly internal audit memorandum. Our discussion with the Chief Thrift Examiner indicated that it is SML's practice to follow-up only on significant "internal audit" exceptions; however, exceptions are not identified as being significant vs insignificant in the internal audit memorandum. As a result, in the quarterly internal audit memorandums we reviewed, indication of follow-up was not reflected since, according to the Chief Thrift Examiner, none were considered significant.</p>		<p>To ensure the quality control review is comprehensive.</p> <p>To ensure Field Examiners are made aware of findings requiring follow-up.</p>

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	5/5/2017	Thrift Examinations	<p>Recommendation We recommend that the “internal audit” exceptions be identified as significant/insignificant in the internal audit memorandum or that the subsequent audit memorandum indicate that the previous audit exceptions were considered insignificant for follow up.</p> <p>Management’s Response The Department agrees with the recommendation. The reviewer of the audit memorandum (the Chief Thrift Examiner or the Deputy Commissioner) will ensure that the audit memorandum identifies exceptions as significant/insignificant and documents whether follow-up is required.</p> <p>OBSERVATION</p> <p>1. Examination Workpaper Numbering System</p> <p>Exam Bulletin #13-03 provides guidance for the numbering system to be used for examination workpapers; however, the numbering system currently used differs from that guidance.</p> <p>Recommendation We recommend that SML revise Exam Bulletin #13-03 to reflect the current practice to ensure examiners are provided with proper guidance and workpapers are numbered in a uniform manner.</p> <p>Management’s Response A new exam report writing and workpaper software was implemented in October of 2016, resulting in changes to the numbering system used for workpapers. The exam bulletin will be updated by August 31, 2017, to reflect the new numbering system.</p>		To ensure guidance reflects actual practice.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Current Status (Fully Implemented, Substantially Implemented, Incomplete/Ongoing, or Not Implemented) with brief description if not yet implemented	Fiscal Impact/Other Impact
1	5/5/2017	2017 Follow-Up	<p>Follow-Up of Prior Year Audits</p> <p>Following is the status of the recommendations made during fiscal year 2016 that had not been implemented.</p> <ol style="list-style-type: none"> 1. <u>Disaster Recovery Plan</u> SML should develop or update the previous disaster recovery plan to comply with DIR's Security Control Standards Catalog CP-2(d). 2. <u>Risk Assessments</u> SML should continue with their plan to contract a third party vendor to conduct the risk assessments to be compliant with TAC §202.25. 2017 Follow-Up: SML's plan to contract with a third party vendor to conduct the risk assessments was delayed due to an audit performed by the State Auditor's Office. The risk assessments have been scheduled to be performed in July 2017. 3. <u>Audit Trails</u> SML should request that the third party vendor, who is currently managing SML's IT functions, ensure audit trails are established and able to be reviewed by the Director, as needed. 2017 Follow-Up: SML has contacted their third party vendor and is still in the process of implementing this function in its IT system. 	<p>Fully Implemented</p> <p>Incomplete/Ongoing</p> <p>Incomplete/Ongoing</p>	

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

Annual Internal Audit Report

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VII. External Audit Services Procured in Fiscal Year 2017

SML procured the internal audit services documented in the approved Internal Audit Plan for fiscal year 2017. No other external audit services were performed.

VIII. Reporting Suspected Fraud and Abuse

SML has provided information on their website 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. SML has also developed a Fraud Prevention Policy that provides information on how to report suspected fraud, waste, and abuse to the SAO.

IX. Proposed Internal Audit Plan for Fiscal Year 2018

The risk assessment performed during the 2017 fiscal year was used to identify the following *proposed* area that is recommended for internal audit and other tasks to be performed for fiscal year 2018. The Internal Audit Plan for Fiscal Year 2018 will be developed and presented to the Audit Committee and Finance Commission, for acceptance and approval, at a meeting to be determined at a later date.

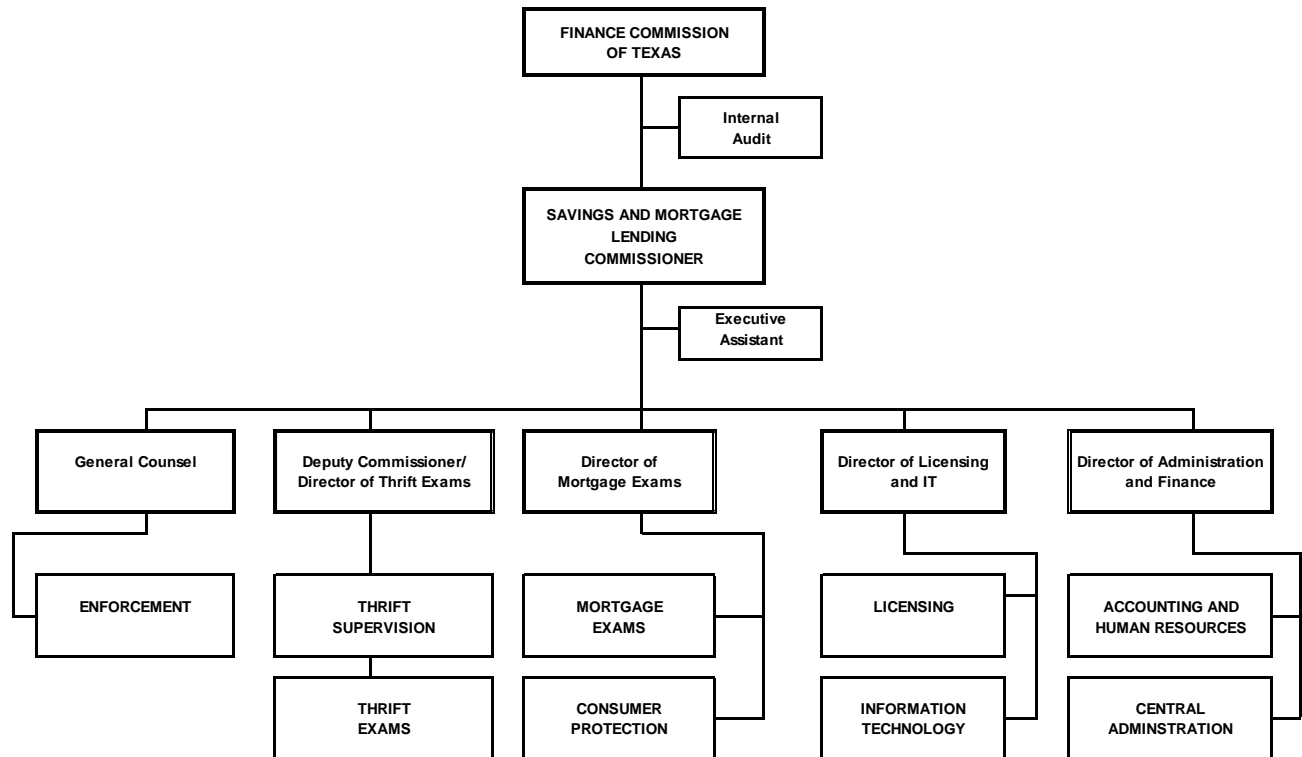
- Financial Reporting
- Follow-up of Prior Year Internal Audits
- Other Tasks Assigned by the Finance Commission

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING

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X. Organizational Chart



TEXAS DEPARTMENT OF BANKING
Austin, Texas

INTERNAL AUDIT REPORT

on

Fixed Asset Management

Fiscal Year 2017



TEXAS DEPARTMENT OF BANKING
Austin, Texas

Internal Audit Report
on
Fixed Asset Management

Fiscal Year 2017

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Garza/Gonzalez & Associates

CERTIFIED PUBLIC ACCOUNTANTS

Finance Commission Members and
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 Fixed Asset Management area of the Texas Department of Banking (DOB) and its compliance with the Texas Government Code, the State Property Accounting (SPA) system reporting requirements, and DOB's established policies and procedures, as applicable to the Fixed Asset Management area, for the 6 months ended February 28, 2017.

The results of our tests disclosed a certain matter, included in this report, that is an opportunity for strengthening internal controls and ensuring compliance with state requirements and DOB's established policies and procedures. Based on the degree of risk or effect of this matter in relation to the audit objective(s), this matter was rated as either Priority, High, Medium, or Low, which is further described in the "Summary of Related Rating of Observations/Findings and Recommendations", which is included in page 8 of this report.

We have discussed the comment and recommendation from the Fixed Asset Management area audit with various DOB personnel; and, will be pleased to discuss them in further detail; to perform an additional study of this matter; or, to assist you in implementing the recommendation.

*Garza/Gonzalez
& Associates*

April 4, 2017

TEXAS DEPARTMENT OF BANKING

Fixed Asset Management Internal Audit Report

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 Health and Safety Code; 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 services 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, and representative offices;
- Charter, regulate, and examine 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.

2017 Internal Audit Plan

Following are the internal audits and other functions to be performed, as identified in DOB's 2017 Internal Audit Plan, dated January 25, 2017 and approved by the Audit Committee and Finance Commission on February 17, 2017:

- Fixed Asset Management
- Bank Examinations
- Follow-up of Prior Year Internal Audits
- Other Tasks

This report contains the results of our audit of the Fixed Asset Management area. The reports for the remaining internal audit area and other functions to be performed will be issued upon completion.

INTERNAL AUDIT SCOPE and OBJECTIVES

In accordance with the **International Standards for the Professional Practice of Internal Auditing**, the audit scope encompassed the examination and evaluation of the adequacy and effectiveness of the audit area's system of internal control and the quality of performance in carrying out assigned responsibilities. The audit scope includes the following objectives:

- **Reliability and Integrity of Financial and Operational Information** – Review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.
- **Compliance with Laws, Regulations, Policies, Procedures, and Contracts** – Review the systems established to ensure compliance with those laws, regulations, policies, procedures, and contracts that could have a significant impact on operations and reports, and determine whether the organization is in compliance.
- **Safeguarding of Assets** – Review the means of safeguarding assets and, as appropriate, verify the existence of such assets.
- **Effectiveness and Efficiency of Operations and Programs** – Appraise the effectiveness and efficiency with which resources are employed.
- **Achievement of the Organization's Strategic Objectives** – Review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

TEXAS DEPARTMENT OF BANKING

Fixed Asset Management Internal Audit Report

EXECUTIVE SUMMARY

Fixed Asset Management

Background

The Fixed Asset Management area is the responsibility of the Commissioner; and, in accordance with the Texas Government Code, an employee has been designated as the Property Manager. The Property Manager is the custodian of all property and responsible for maintaining the required records and updating the State Property Accounting (SPA) system.

DOB uses the SPA system as its internal property accounting system, where the Property Manager and two other employees have been provided full access capabilities and one employee with limited access. The SPA system is a component of the Uniform Statewide Accounting System (USAS), maintained by the Texas Comptroller of Public Accounts (Comptroller), that provides state agencies with the means of accounting and maintaining State capitalized and controlled assets. Capitalized assets are those with an initial cost of more than \$5,000 and an estimated useful life greater than one year. Controlled assets are those with an initial cost of less than \$5,000; however, due to their high-risk nature, are required to be reported in the SPA system. Inventoried, or locally controlled assets, are assets that are not required to be reported in the SPA system; however, DOB has determined a need for them to be tracked and accounted for in the SPA system.

Since the majority of DOB's capital and controlled asset purchases are IT-related items, the IT Director generally initiates the purchase by submitting a Material Service Request (MSR) form, which is an internal requisition form, or by sending an email to the Property Manager for purchase. DOB's standard purchasing process is then followed, which includes obtaining the approval of one of the two Deputy Commissioners, if the amount of the purchase is \$500 or more, or the respective Department Director, if less than \$500. Assets are received and inspected by the IT Director, who then informs the Property Manager of receipt. The Property Manager then assigns the asset a unique property number; provides the IT Director a property tag to be affixed to the asset; and, adds the asset to the SPA system. As of February 28, 2017, DOB purchased 8 controlled assets, totaling \$7,758.63; and, 18 inventoried assets, totaling \$11,172.35.

The IT Director along with another IT employee are responsible for identifying assets that are no longer functional and informing the Property Manager. The Property Manager then codes those assets as surplus in the SPA system, which prompts them to be advertised on the Comptroller surplus property website for 10 days, where they are available to state agencies, political subdivisions, and assistance-type organizations. When an asset is sold or transferred and a confirmation signed by the transferee confirming receipt has been received, DOB removes the asset from the SPA system. In most instances, DOB's Property Manager removes the property tags from assets that are deleted from the SPA system.

In accordance with the Texas Government Code, DOB is required to conduct an annual inventory of the capitalized and controlled assets and submit the "Certification of Physical Inventory Conducted by Agency" form to the Comptroller. The most recent inventory conducted by DOB was dated August 31, 2016 for fiscal year 2016, which included capitalized, controlled, and inventoried assets with a reported cost of \$4,262,987. The annual inventory for fiscal year 2017 is required to be performed by August 31, 2017.

TEXAS DEPARTMENT OF BANKING
Fixed Asset Management
Internal Audit Report

As of February 28, 2017, DOB's assets reported in the SPA system were as follows:

ASSET TYPE & CLASS	COST
Capitalized Assets:	
<i>Non-Depreciable Assets:</i>	
Land and Land Improvements	\$ 235,000.00
Sub-Total Non-Depreciable Assets	<u>\$ 235,000.00</u>
<i>Depreciable Assets:</i>	
Buildings and Building Improvements	\$ 3,154,089.20
Furniture and Equipment	270,540.88
Software	7,579.99
Sub-Total Depreciable Assets	<u>\$ 3,432,210.07</u>
Total Capitalized Assets	<u><u>\$ 3,667,210.07</u></u>
Controlled Assets:	
Furniture and Equipment	<u>\$ 469,318.24</u>
Inventoried Assets:	
Furniture and Equipment	<u><u>\$ 179,394.91</u></u>

DOB owns real property in Austin, Texas, consisting of approximately 2.15 acres of land and the Finance Commission building, which houses (1) DOB, (2) Department of Savings and Mortgage Lending (SML), and (3) Office of Consumer Credit Commissioner (OCCC).

As required by the Comptroller, DOB is responsible for ensuring that its fiscal year-end capitalized asset balance(s) reflected in SPA are accurate and materially correct. DOB certifies the SPA balances and the annual financial report (AFR) Capital Assets Note using the Capital Asset Note Submission System (CANSS) Web application.

Audit Objective, Scope, and Methodology

Objective

The objective of our audit was to gain an understanding of the information gathering process used by the Fixed Asset Management Area to compile data needed to accurately report information in the SPA system, and to determine compliance with applicable sections of the Texas Government Code and DOB's policies, procedures, and current practices in place.

Scope

The scope of this audit covered the 6-month period from September 1, 2016 through February 28, 2017; and, fiscal year 2016 for certain reporting requirements.

TEXAS DEPARTMENT OF BANKING

Fixed Asset Management Internal Audit Report

Methodology

The audit methodology included a review of applicable laws and regulations; DOB's established policies and procedures, and other internal and external documentation; and, correspondence and an interview with selected DOB personnel.

We obtained and/or reviewed the following information:

- a. Chapter 403, Subchapter L of the Texas Government Code.
- b. State Property Accounting (SPA) system reporting requirements.
- c. DOB's policies and procedures related to the Fixed Asset Management area.
- d. A listing of current SPA users with their respective access.
- e. Notice of Agency Head and Designation of Property Manager.
- f. Certification of Request for Agency Reporting Status Form.
- g. Fiscal Year 2016 Annual Financial Report (AFR) Capital Assets Note.
- h. SPA listing of capitalized assets as of August 31, 2016.
- i. Fiscal Year 2016 Certification of Physical Inventory and supplemental inventory records.
- j. Capital Asset Disclosure Certification confirmation page from CANSS.
- k. SPA listing of capitalized, controlled, and inventoried assets as of February 28, 2017.
- l. DOB's internal asset listing as of February 28, 2017.
- m. Additions and deletions for the period from September 1, 2016 through February 28, 2017 and supporting documents.
- n. General Land Office Land/Facility Listing documenting the land acquisition cost.

We performed various procedures to achieve the objective of this audit; to include, the following:

- a. Obtained an understanding of Chapter 403, Subchapter L of the Texas Government Code, and DOB's policies, procedures, and practices in place related to Fixed Asset Management.
- b. Obtained an understanding of the SPA system reporting requirements.
- c. Determined whether DOB properly designated an employee as the Property Manager.

TEXAS DEPARTMENT OF BANKING

Fixed Asset Management

Internal Audit Report

- d. Determined whether DOB properly submitted a "Certificate of Request of Agency Reporting Status" form to the Comptroller.
- e. Assessed the adequacy of access rights assigned to users of the SPA system.
- f. Selected a sample of current year additions and reviewed supporting documentation to ensure the asset met the capitalized and/or controlled asset threshold/criteria; and, was properly reported in the SPA system.
- g. Selected all current year deletions and reviewed supporting documentation to ensure the assets were identified as surplus/salvage items by the IT department, properly disposed of or acquired by an approved agency/organization, and removed from the SPA system.
- h. Obtained the physical inventory performed in August 2016 and "Certification of Physical Inventory Conducted by Agency" form for fiscal year 2016 to ensure it was performed and properly reported to the Comptroller, as required.
- i. Obtained the "Capital Asset Disclosure Certification" confirmation page from CANSS to ensure DOB's SPA fiscal balances and FY2016 AFR Capital Asset Note were accurately reported to the Comptroller, as required.
- j. Obtained a list of all assets reported in the SPA system as of February 28, 2017, and performed a reconciliation to the annual inventory conducted in August 2016 and to the capital assets note disclosed in the August 31, 2016 Annual Financial Report.
- k. Obtained the "General Land Office Land/Facility Listing" and agreed the land acquisition cost to the amount recorded in the SPA system.

TEXAS DEPARTMENT OF BANKING

Fixed Asset Management

Internal Audit Report

Summary and Related Rating of Observations/Findings and Recommendations

As DOB's internal auditors, we used our professional judgment in rating the audit findings identified in this report. The rating system used was developed by the Texas State Auditor's Office and is based on the degree of risk or effect of the findings in relation to the audit objective(s). The table below presents a summary of the findings in this report and the related rating.

Summary of Observations/Findings & Recommendations and Related Ratings		
Finding No.	Title	Rating
1	Current Year Deletions	Medium
	<p style="text-align: center;"><u>Description of Rating</u></p> <p>A finding is rated <i>Priority</i> if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.</p> <p>A finding is rated <i>High</i> if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.</p> <p>A finding is rated <i>Medium</i> if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.</p> <p>A finding is rated <i>Low</i> if the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.</p>	

TEXAS DEPARTMENT OF BANKING
Fixed Asset Management
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Observations/Findings and Recommendations

Report No.	Report Date	Name of Report	Observations/Findings and Recommendations	Status (Implemented, Partially Implemented, Action Delayed, No Action Taken, Do Not Plan to Take Corrective Action or Other)	Fiscal Impact/Other Impact
1	4/4/2017	Fixed Asset Management	<p>1. <u>Current Year Deletions</u></p> <p>Our testing of current year deletions for the period from September 1, 2016 through February 28, 2017, disclosed three instances where the SPA system reflected an asset as being disposed of on September 1, 2016 (fiscal year 2017), but was actually disposed of in November 2015 (fiscal year 2016). Therefore, the capital asset balance and the FY2016 Annual Financial Report (AFR) Capital Assets Note were overstated by \$19,950.80.</p> <p>Recommendation We recommend that DOB improve procedures to ensure assets are properly and promptly removed from the SPA asset listing upon disposal/transfer, which will provide reliable and accurate system-generated reports.</p> <p>Management's Response To ensure the SPA system reflects a complete and accurate inventory of all DOB's assets, the Department has taken the following measures:</p> <ol style="list-style-type: none"> 1. Revised Administrative Memorandum-2017, <i>Accounting for State Property</i>, to include secondary review and approval of all asset transactions by the Director of Administrative Services. 2. Created a fixed asset inventory reconciliation procedure to include a reconciliation between property transfer forms and surplus requests, internal inventory records, and the SPA system. 3. Created a disposal of agency fixed asset procedure to include the Director of Administrative Services review of the validity of asset disposals. 		To ensure the SPA system reflects a complete and accurate inventory of all DOB's assets and the capital asset balance, as reported in the AFR, is accurate.

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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 – June 2017

Juan V. Garcia, Program Director

In preparation for the 3rd TFEE Grant Cycle (2018-19), staff and the Grant Advisory Committee (GAC) met by phone conference on May 18 to review recommended revisions to the current Grant Administration & Advisory Policy Manual, Application Forms and the Grant Agreement. These documents were revised based on feedback from recipients and lessons learned during the current grant cycle. With the exception of term limits, minor recommendations were proposed for consideration before the upcoming cycle. The goal is to have these documents posted during the summer, which would allow organizations ample time to prepare their application for consideration.

In addition, the Finance Commission may consider the funding priorities for the upcoming grant cycle. The categories in bold have been selected for the last two grant cycles, but all other may be considered:

1. Producing and disseminating approved financial education materials at licensed locations.
2. Identifying and supporting educational programs specific to the subprime demographic, including general information to be made available through state agency partners, financial service providers, trade organizations, and community events.
3. Public awareness campaigns to improve credit profiles and credit scores of Texas consumers.
4. Savings campaigns to promote employee incentives.
5. Identify outreach opportunities to the unbanked and encourage lending institutions to allow low-to-moderate-income citizens to open accounts and waive the required minimum balance and fees.
6. **Adult, school, and youth-based financial literacy and capability**
7. **Teacher training programs that increase educational awareness for adults and youth.**
8. **Financial coaching and consumer counseling**
9. Encourage lending institutions to offer classes on financial education.
10. **Identify opportunities for individuals to participate in one-on-one financial counseling and coaching programs.**

The recommendation is that the Finance Commission prioritize the items in bold for the upcoming 2018-2019 grant cycle.



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

The next reimbursement requests will be submitted in July. Once all material is reviewed and verified, a summary of the grantee's progress will be provided.

In conjunction with the Texas Department of Banking, staff participated in a free financial education webinar on May 23, 2017. The goal of the event was to provide information about TFEE and the grant program. More than 100 participants registered for the webinar.



TEXAS FINANCIAL EDUCATION ENDOWMENT 2018 – 2019 GRANT CYCLE TIMELINE

2017

MAY	JUNE	AUGUST
Grant Advisory Committee (GAC) Meeting #1- May 18th <ul style="list-style-type: none"> 2016 – 2017 Application Process Debrief and 2018-19 Forms Review Grant Coordinator (GC) <ul style="list-style-type: none"> Prepares & facilitates GAC meeting #1 	GAC <p>Submits any 2018-19 Forms Review comments by June 1, 2017</p> GC <ul style="list-style-type: none"> Prepare draft of 2018 – 2019 Grant Cycle documents for FC approval Provide update to Finance Commission (FC) Meeting on June 16, 2017 Launch new website & distribute Final Grant Documents and Procedures to GAC 	GC <ul style="list-style-type: none"> Provide funding recommendation to FC August 18th meeting Submit required postings to the Office of the Governor Post applications (8/25) Prepare webinar for applicants (week of 9/4)
SEPTEMBER (Applicant submission deadline 9/25)	OCTOBER	NOVEMBER
GAC <ul style="list-style-type: none"> Eligibility & Conflict of Interest (COI) review & submission (9/26 – 9/27) GC <ul style="list-style-type: none"> Present webinar for applicants (week of 9/4) Forward applicants after COI docs reviewed by 9/29 Prepare for final GAC meeting 	GAC <ul style="list-style-type: none"> Individual application review and scoring (10/02 - 10/13) Send scores to GC by Monday, October 16 Meeting #2 (Thursday, October 19 in Austin, TX) to discuss recommended recipients and awards GC <ul style="list-style-type: none"> Presents recommendations during FC October 20th meeting Distributes award letters and letters of regret after FC approval 	GC <ul style="list-style-type: none"> Finalize contracts Make award announcements & press release
DECEMBER		
GC Host grant recipient webinar		

January 2018 – Grant Cycle Begins



Grant Administration & Advisory Policy Manual

(Proposed: ~~August 21, 2015~~ February 21, June 16, 2017)

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I. Purpose

The purpose of this document is to establish a guide for the administration of the Texas Financial Education Endowment ("TFEE") grant program. This ~~policy manual~~ lays out the parameters for executing the administrative and management components of the TFEE.

A. Background

TFEE was developed under the authority of Chapter 393 of the Texas Finance Code during the 82nd Legislature. Section 393.628 of the Texas Finance Code provides that TFEE will be administered by the Finance Commission of Texas (FC) to support statewide financial capability and consumer credit building activities and programs.

On February 17, 2017, the Finance Commission approved a proposal for the Texas Department of Savings and Mortgage Lending (SML) to contribute one-time funds to the Texas Financial Education Endowment Fund.

B. Roles and Responsibilities

1. Finance Commission (FC)

- ~~a) The FC determines~~ Determines the total fund amount before the start of the selection process.
- ~~a)b) Allocates endowment funds to the TFEE Grant Program each award cycle.~~
- ~~b)c) Reviews and approves rRecommendations. The FC reviews recommendations~~ from the Audit Committee regarding program improvements.
- ~~c)d) Develops Identify pProgram Objectivesobjectives. The FC and~~ identifies methods to support statewide financial education and consumer credit building activities.
- ~~d)e) Award~~ Determines the final selection of grant award recipients and award amounts funds. The FC will award grant funds to organizations based on recommendations from the Audit Committee. The FC will approve fund allocations and amendments. The FC may request presentations from the organizations selected for final review.

2. Audit Committee (AC)

- ~~a) The Audit Committee makes pProposes program amendments and grant proposal recommendations to the Finance Commission with input from the Grant Advisory Committee~~ and oversees the development of the grant program.

- b) ~~The Audit Committee makes p~~Provides grant funding~~grant-funding program and funding recommendations to the FC, based on recommendations from the Grant Advisory Committee.~~

3. Grant Advisory Committee (GAC)

- a) The GAC serves in an advisory role to the Grant Coordinator (GC). The GAC: ~~makes-recommends program recommendations-improvements to the GC-and Audit Committee; evaluates grant proposals; and advises on the development of the grant program.~~
- b) Prospective GAC members are recommended to the Audit Committee and approved by the Finance Commission.
- c) The Grant Advisory Committee shall be comprised of six (6) members. A TFEE grant cycle consists of two years. Upon implementation of this section, the two (2) Finance Commission members shall serve at the pleasure of the FC Chair, two (2) non-Finance Commission members shall be elected to a two-cycle term, and two (2) non-Finance Commission members shall be elected to a three-cycle term. GAC Members shall take office immediately following the appointment. GAC Members may be reappointed with approval from the Finance Commission to serve more than three (3) consecutive three-cycle terms. GAC Members shall serve staggered terms to balance continuity with new perspective.
- d) The GAC shall -consists of no more than six seven members each with varied experience in financial education or grant administration. The list below is not all-inclusive and the FC reserves the right to include other appropriate backgrounds with the exception of the Credit Access Business representative.
- (1) Financial Education Consultant – informs the group of existing programs and advocates for the needs of the financial education community.
- (2) Educational Consultant – understands best practices for impacting education for both youth and adults. Assesses the program proposals for effective measures of knowledge gained. Has knowledge of financial education curriculum standards (Texas Essential Knowledge & Skills “TEKS”) and helps ensure that funding school-based financial education programs cover requirements consistent with Texas Education Agency “TEA” standards.
- ~~(3) Accountant (FC member): – Assess proposed program budgets and financial documents to determine financial structure.~~
- ~~(4)(3) Auditor (FC member)~~Finance Commission Representative(s) –
Ensure TFEE objectives and goals align with Finance Commission intentions. Evaluate proposed program and business structure.
- (4) Department of Savings & Mortgage Lending (SML) Representative – Recommended by the SML to advocate for programs focused on

asset building, affordable housing and preparation for home ownership.

- (5) Grant Administrator - Objectively assesses, evaluates, and makes recommendations regarding the grant administration process.
- (6) Consumer Advocate – Advocates for consumers based on community engagement and needs assessment.
- (7) Credit Access Business (CAB) industry representative – Serves as a stakeholder for the CAB industry and assists in funding decisions.
- e) The GAC meets during the grant-funding cycle for the following purposes:
 - (1) Provide consultation and technical assistance to the GC Grant Coordinator (GC)
 - (2) Assist with major project management decisions associated with awarded grants, including:
 - (a) ~~Selecting-Evaluating grant recipients-applications and providing-providing es-~~ recommendations to the Audit Committee
 - (b) ~~Monitoring s~~ grantee project's unspent funds and associated funding
 - (c) Offering input, interviewing, and recommending new GAC members to ~~AC~~Audit Committee
 - (3) The GAC makes recommendations to the Audit Committee for consideration of specific award allocations, termination of grant agreements for noncompliance, and amendments to program policies and procedures.

4. Office of Consumer Credit Commissioner (OCCC)

- a) OCCC is responsible for:
 - (1) Collecting assessment fees, the endowment fund, and maintaining reconciliation of funds;
 - (2) Maintaining financial records of revenue and expenditures;
 - (3) Serving as investment officer and maintaining compliance with the investment policy in accordance with state of Texas regulations;
 - (4) Disbursing and tracking funds; and
 - (5) Grant coordination oversight.

5. Grant Coordinator (GC)

The GC works under the direction and oversight of the OCCC Commissioner or the Commissioner's designee. The GC makes presentations to the GAC and the Finance Commission regarding grant activity and serves as the liaison between grantees and the GAC.

- a) The GC is responsible for monitoring the following regarding program development:
 - (1) Program objectives and goals;
 - (2) Grant administration and oversight practices; and
 - (3) Recommendations for program needs to the GAC and FC.
- b) The GC is responsible for ensuring and developing procedures to provide evidence of timely submission for required documents, including, but not limited to, applications and grant reports.
- c) The GC maintains the electronic records of all documentation submitted by grantees regardless of the delivery method. Hard copy submissions of applications, reports, and other documentation will receive a date stamp prior to being scanned and saved electronically.
- d) The GC will recommend ~~policies~~ policy and procedure amendments in order to ensure successful and effective implementation of the grant program. The GC will advise and assist in the maintenance of the following:
 - (1) Track, evaluate and monitor progress at each phase of the grant cycle;
 - (2) Revise official grant documentation, policies and procedures;
 - (3) Coordinate systems for tracking grant applications, awards, and major project management decisions associated with awarded grants;
 - (4) Adhere to processes for dispute resolution with grantees;
 - (5) Implement awarded grant funds according to terms and conditions of program policy;
 - (6) Maintain established operations and system to ensure objectives and goals are being met; and
 - (7) Monitor GAC process and procedures.
- e) As the liaison for the GAC, the GC will monitor the need for and composition of members to the GAC. Should a vacancy need to be filled during a grant cycle, the GC will work to identify suitable candidates. The GC will make the recommendation to the GAC to recommend a new member to the Finance Commission.
- e)f) Publicizing and promoting TFEF grant application opportunities.

C. Conflict of Interest

- 1. A GAC member may not derive any personal profit or gain, directly or indirectly, by participating with the Texas Financial Education Endowment. ~~(TFEE)~~.
- 2. Each GAC member must sign a Conflict of Interest form prior to participating in the grantee selection process.

3. Each GAC member must disclose to the GC any personal or professional interests that may pose a potential conflict and shall refrain from participation in any discussion related to the conflict of interest or funding decisions.
4. Each GAC member must refrain from obtaining applicant information for personal or private solicitation purposes at any time during the term of their affiliation with TFEE.

D. TFEE Funds Oversight

1. TFEE funds are used to support the goals and strategies for the TFEE set by the Finance Commission. The priorities of the endowment for the early funding cycles focus on school and youth based financial literacy, financial capability programs, as well as financial coaching and consumer counseling initiatives. Prohibited and permissible uses of grant funds are defined in the grant agreement.
2. The OCCC Commissioner, Audit Committee, or Finance Commission may request an internal or external audit to examine compliance and when deemed necessary.
3. Reimbursement requests will be executed pursuant to the grant agreement and are based upon satisfactory compliance and performance outcomes.

II. Process Overview

A. Intention

The TFEE fund may have one competitive grant cycle ~~Grant funding cycles commence every two years. Announcements for grant proposals will be made prior to the start of every even number of years in the fall of every odd number year.~~

B. Stage 1 – Administration

Grant Coordinator is responsible for the following:

1. ~~The GC~~ Refines, revises and makes policy recommendations based on observed program needs.
2. ~~Further~~ Develops allocations and administrative processes.
3. ~~Further~~ Revises grantee applications, grant agreements, grant reports, and evaluation and tracking tools.
4. Create timeline for grant cycle.
5. Identify and invite qualified professionals to serve on GAC (should existing member(s) need to be replaced).
6. Publicize opportunities with a goal to increase the number of applicants each grant cycle.

C. Stage 2 – Policy Development and Implementation

1. The GAC advises on, oversees and approves program development.
2. The GAC makes recommendations to the Audit Committee to approve program development. The Audit Committee makes recommendations for the Finance Commission to approve program modifications.
3. Upon Finance Commission approval, the GC ensures all administrative and grantee documentation are in place for grant announcement, such as applications, webinars, grant reports, grant agreements, and policies and procedures.
4. The GC updates TFEE web page with program information and materials.

D. Stage 3 – Grantee Selection

1. The GC receives and prepares applications for first phase of screening: confirms ~~tax status~~eligibility, ensures applications are complete and have been timely submitted, logs applicant information, and submits to the GAC ~~makes recommendations for GAC review~~evaluation.
2. The GAC will score applications and provide recommendations to Audit Committee upon review of the TFEE budget, grant structure, number of awards and amounts to be funded, method of funding, and reporting requirements.
3. The ~~Audit Committee~~ makes recommendations to the Finance Commission based on the information presented by the GAC.
4. ~~The Finance Commission~~ reviews the recommendations from the Audit Committee to select grantees and selects award recipients. ~~Winning grant recipients are announced in December.~~
5. ~~Once After selections have been made, each grantee applicant is~~ will be sent an award letter. Those not selected for funding will receive a or letter of regret letter, both signed by the OCCC Commissioner. Additionally, grant recipients will be provided (2) Grant Agreements for review and signature. Grant agreements must be fully executed by the OCCC Commissioner, or designee, and the grantee, before grant activities can commence.
~~Grant agreements must be signed by both the OCCC Commissioner (FC appointed TFEE representative) and the grantee, then submitted to the GC before funded activities can commence. Grant Agreements further define the intended grant results, payment schedules, allowable costs and reporting requirements.~~

E. Stage 4 – Manage Grant and Measure Progress

1. In collaboration with the GAC, the GC will develop a strategy for ongoing grant management and ensure timely report submission.
2. Funding is dependent on program impact and compliance.
3. The Grantee is responsible for tracking and reporting program progress, as well as assessing and communicating program success, challenges, and impact.

4. The GC provides technical assistance to grantees and offers opportunities for regular consultation.
5. The Grantees submit a final report summarizing the impact, results, and consumer follow-up surveys (six months after the program completion).
6. Program evaluation addresses issues of non-compliance, identifies risks, and recommends specific deliverables.
7. The GC manages conflict honestly and directly with grantee. The GAC assists with recommendations to rectify issues of non-compliance.
8. ~~Conduct evaluation to determine the length of GAC member terms and structure of the committee.~~

III. Funding Priorities and Goals

A. Scope

This section identifies four categories that support statewide financial education and consumer credit building activities. With recommendations from the GAC, the Finance Commission will select which categories TFEF's efforts will be focused on prior to the start of a new grant award cycle.

B. Goals

1. Produce and disseminate approved financial education materials at licensed locations.
Identify and support educational programs specific to the subprime demographic, including general information to be made available through state agency partners, financial service providers, trade organizations, and community events.
2. Public awareness campaigns to improve credit profiles and credit scores of Texas consumers.
 - a) Savings campaigns to promote employee incentives.
 - b) Identify outreach opportunities to the unbanked and encourage lending institutions to allow low- to moderate-income citizens to open accounts and waive the required minimum balance and fees.
3. Adult, school, and youth-based financial literacy and capability
Teacher training programs that increase educational awareness for adults and youth.
4. Financial coaching and consumer counseling
 - a) Encourage lending institutions to offer classes on financial education.
 - b) Identify opportunities for individuals to participate in one-on-one financial counseling and coaching programs.

IV. Pre-Award Requirements

A. Organizational Eligibility

Non-profit organizations, governmental organizations, schools, and for-profit entities are eligible to apply for grant funding. Eligibility is ~~NOT~~not open to financial service providers and entities regulated by the Finance Commission.

B. Program Criteria & Grant Application

1. The TFEE Guidelines and Instructions for application submission will be posted on the TFEE website.
2. Applicants may submit applications via mail, fax, or email. Documents submitted by email receive an automatic date stamp upon receipt; this “digital” date stamp provides sufficient and accurate evidence of timely submission.
3. Applicant’s program must:
 - a) Align with TFEE goals or strategies
 - b) Demonstrate effective evaluative tools and metrics
 - c) Predict or provide evidence of program impact
 - d) Provide longitudinal evidence of performance and outcomes
 - (1) Demonstrate adequate return-on-investment
 - (2) Document strategic goals
 - (3) Demonstrate capacity to collect and report the following data: number of people served, training hours, pre-and-post survey data, demographic information, and sign-in sheets to justify amount of funds requested
 - e) Provide evidence that programming will begin when the grant is awarded
4. Applicants must read and follow all application instructions and guidelines. Applications that do not comply with these instructions may be delayed or not accepted for review.

C. Application Submission

1. Grant funding cycles commence every two years. Announcements for grant proposals will be made in every odd-number of September years, and selected grantees will be announced shortly thereafter.
2. The GC confirms receipt of grant applications by email. Applications will only be accepted on, or prior to the due date. Late ~~and or~~ incomplete applications will be rejected.

D. Application Review and Selection Process

1. Funding consideration will be given to organizations that promote, provide, or support financial education or financial literacy initiatives. Successful applicants must demonstrate evidence-based programming that increases financial capacity and promotes asset building. Reimbursement allocations are to be funded semi-annually, based on performance and reporting compliance.
2. The application review and selection process consists of four steps:
 - (1) The GC will collect and ~~assess~~ review each application for eligibility. Eligible applications will be submitted to the GAC for evaluation.
 - ~~(2) The GC will recommend appropriate applications to the GAC~~
 - ~~(3)(2)~~ The GAC reviews will score each applications and selects recommend programs for funding consideration to the Audit Committee.
 - (a) GAC will determine recommended fund allocations ~~award amounts~~ based on the applicant's application and demonstration to meet program eligibility criteria.
 - (b) If two or more applicants receive the same score, the GAC will select an applicant using the following criteria: (1) ability to impact the most consumers, (2) stability of the funding structure, and (3) the needs based on the target population.
 - ~~(4)(3)~~ The Finance Commission will make the final selections of winning organizations to be awarded grant funds ~~award recipients and award amounts.~~
3. Upon completion of the competitive application and review process, successful grant applicants will be notified, in writing, no later than December of the grant funding cycle year. ~~of odd number years.~~

E. Public Records

Texas Public Information Act: All information, documentation, and other material submitted are subject to public disclosure under the *Texas Public Information Act*.

1. A full list of individuals and organizations selected for an award will be published on the TFEE website.
2. Information may be publicly available and published online (TFEE webpage, OCCC or Finance Commission website).

V. Post Award Requirements

A. Definitions

1. "Grantee" means applicant.

~~B.2.~~ “Grantor” means the Finance Commission of Texas and the Texas Financial Education Endowment. The Commission may authorize one or more persons, including the Grant Coordinator, to perform any action that the Commission is authorized to perform as Grantor under the Agreement.

~~C.B.~~ **Grant Agreements**

1. Once a grantee has been selected, and prior to initiating any grant funded activities, grantees and the Finance Commission appointed administrator, usually the OCCC Commissioner or the Commissioner’s designee, must sign the grant agreement.
2. The terms of the Grant will be defined in the Grant Agreement, and terminate either one or two years after the grant has been awarded, unless it is terminated earlier in accordance with another provision.
3. Expenses that were incurred before the beginning or after the termination of the Agreement are not eligible for reimbursement.
4. Grantees are expected to continue to report grant funded activities until the end of the term of the agreement.

~~D.C.~~ **TFEE’s (Grantor) Obligation**

1. Grantor will reimburse Grantee for actual, allowable, and allocable costs incurred by Grantee pursuant to Agreement up to the maximum amount of the grant award.
2. Grantor is not obligated to pay unauthorized costs. Prior written approval from Grantor is required if Grantee anticipates any of the following: (1) altering the scope of the Grant, (2) adding funds to previously unapproved budget categories, (3) changing funds in any awarded budget category by more than 10% of the total amount awarded, or (4) adding new line items to any awarded budget category.
3. Grantor’s maximum liability under the Agreement is the “Amount Awarded.”
4. Reimbursement of awarded funds is not an entitlement or right. Reimbursement depends, among other things, upon strict compliance with all terms, conditions, and provisions of the Grant Agreement.

~~E.D.~~ **Grantee’s Obligation**

1. Grantee may use the Grant only to create, deliver, or expand Grantee’s financial education, literacy, and capability building programs within the State of Texas.
2. Grantee must use the Grant in accordance with all of the following: (1) the terms of Agreement, (2) TFEE Grant Administration & Advisory Policy Manual as defined in the application guidelines and instructions, and (3) Grantee’s application.

3. The Uniform Grant Management Standards (UGMS) provides parameters by which the GC can work to ensure consistency with state practices.
4. Grantee must cooperate fully with Grantor.
5. Grantee must notify Grantor within 30 days of significant changes or events occurring during the term of Agreement that could potentially impact the progress or outcome of the Grant, including, but not limited to, the following changes: (1) Grantee's management personnel, (2) physical or mailing address, (3) loss of funding, and (4) changes to Grantee's status with the Internal Revenue Service.
6. Failure to submit the required 30-day notice of significant change or events will be grounds for termination of the Agreement.
7. The fiscal and programmatic management of the Grantee will include accountability for all funds and materials received from Grantor; compliance with Grantor's rules, policies, and procedures, as well as applicable federal and state laws and regulations; and correction of fiscal and program deficiencies identified through self-evaluation or Grantor's monitoring processes.
8. Grantee must develop, implement, and maintain all of the following: (1) financial management and control systems that include appropriate financial planning, including the development of budgets that adequately reflect all functions and resources necessary to carry out authorized activities and the adequate determination of costs; (2) financial management systems, including accurate and complete payroll, accounting, and financial reporting records; (3) cost source documentation; (4) effective internal and budgetary controls; (5) documentation regarding determination of reasonableness, allocation of costs, and timely and appropriate audits and resolution of any findings; and (6) annual financial statements, including statements of financial position, activities, and cash flows, prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP) or other recognized accounting principles.
9. The format for submitting ~~disbursement~~reimbursement requests will be provided in the grant report. Each ~~disbursement~~reimbursement request must contain supporting documentation or back-up documentation for all amounts shown on the request, including receipts for all materials and supplies, all Grantee staff time shown by number of hours worked and hourly rate, and all contractor or sub-contractor services, which can be identifiable to reconcile expenditures.
10. Grantees must comply with all laws, regulations, requirements, and guidelines applicable to a Grantee providing services to the State of Texas, as these laws, regulations, requirements, and guidelines currently exist and as they are amended throughout the term of the Agreement.
11. If a Grantee fails to use ~~Grant~~grant funds to create, deliver, or expand financial education, literacy, and capability building programs as described in Grantee's application, then Grantor may do one or more of the following: (1) terminate

the Agreement, (2) withhold the ~~Grant-grant~~ funds, (3) require that Grantee refund ~~Grant-grant~~ funds received, (4) submit an amended report to the GC, and (5) determine that Grantee is ineligible for future TFEF funds.

12. If the Texas Comptroller's Office forfeits a Grantee's right to transact business in Texas due to failure to pay a franchise tax or for any other reason, then Grantor may do one or more of the following: (1) terminate the Agreement, (2) suspend the Agreement until Grantee returns to good standing with the Comptroller's Office, or (3) take any other action described in paragraph 5.6 of the Agreement.

F.E. Grantee's Reporting Requirements

1. As part of a Grantee's proposed application, Grantees will provide the detailed measurable outcomes that Grantee expects to achieve through use of the ~~Grant-grant~~ funds during the Term of the Agreement. Grantees must submit to Grantor a report on or before each due date specified, and must use the standard TFEF grant report template. Grantee also agrees to submit a longitudinal report to assess changes in consumer behavior and program impact six months upon program completion.
2. For adult financial education programs, reimbursement reports will be considered incomplete if they do not include participant sign-in sheets and aggregate pre-and-post survey data. Grantee must retain copies of the pre-and-post surveys for a period of three years after the end of the ~~term of the Agreement~~grant cycle.
3. Grantee must provide a written explanation to Grantor for any variances on the periodic reports for any performance by Grantee that varies from projected performance. In addition to the written explanation, Grantee must promptly answer any questions by Grantor, whether in writing or otherwise, in connection with the periodic reports presented to Grantor.
4. If Grantee exhausts all funds prior to the completion of the grant term the Grantee is obligated to continue to track and report grant related activities for the remaining duration of the term outlined in the agreement.
5. If Grantee fails to comply with any of the reporting requirements, then Grantor may do one or more of the following: (1) terminate the Agreement, (2) withhold the ~~Grant-grant~~ funds, (3) require that Grantee refund ~~Grant-grant~~ funds received, (4) submit an amended report to the GC, and (5) determine that Grantee is ineligible for future TFEF funds.
6. Grantee shall request disbursement of grant funds by submitting a Grant Reimbursement Report to Grantor for ~~approved budget~~ work performed on the project. Disbursement is contingent upon approval of the disbursement request by Grantor.

VI. Recordkeeping and Monitoring

A. Duty to Maintain Records

Grantee must maintain adequate records to support its charges, procedures, and performances for all work related to the Agreement. Grantee must also maintain records that are deemed necessary by Grantor, the State Auditor's Office, other auditors of the State of Texas, or any other persons designated by Grantor, to ensure proper accounting for all costs and performances related to the Agreement.

B. Record Retention

For a period of three years after the end of the ~~term of the Agreement~~grant cycle, or until full and final resolution of all audit or litigation matters that arise after the expiration of the term, whichever is later, Grantee must maintain any records that are necessary to fully disclose the extent of services provided under the Agreement, including but not limited to any daily activity reports, time distribution and attendance records, and other records that may show the basis of the charges made or performances delivered.

C. Access by Grantor and State Auditor's Office

1. During the Term and for at least three years thereafter, Grantee must allow Grantor and the State Auditor's Office access to and the right to examine the organization, program, premises, books, accounts, records, files, and other papers or property belonging to or in use by Grantee and pertaining to the Agreement or the use of funds pursuant to the Agreement, in order to ascertain complete compliance with the provisions of the Agreement and with TFEF program guidelines.
2. Grantee must maintain these records at a location that is readily accessible to Grantor.
3. Grantor has the right to make a visual inspection of any assets, goods, or products purchased with Grant funds.

D. Audits or Investigations

Acceptance of ~~Grant~~grant funds under the Agreement acts as acceptance of the authority of the Grantor to conduct an audit or investigation in connection with ~~Grant~~grant funds. —Grantee further agrees to cooperate fully with the Grantor and the State Auditor's Office, or their successors, in the conduct of any audit or investigation, including providing all records requested. —Grantee will ensure that this clause concerning the authority to audit the funds received by Grantee is included in any subcontract it awards.

E. Location

Any audit of records may be conducted at Grantee's principal place of business or a location of Grantee's operations during Grantee's normal business hours.

F. Disallowance of Grant Funds

Grantee will be liable to the Grantor for any costs disallowed as a result of any audit or investigations, and must, upon demand, immediately reimburse the Grantor for disallowed costs.

VII. Use of Grant Funds and Property

A. Allowable Expenditures

1. Grantee may use the ~~Grant-grant~~ funds only for allowable expenditures as identified in Grantee's application and authorized pursuant to the Uniform Grant Management Standards for the State of Texas, as adopted by the Governor of the State of Texas pursuant to Chapter 783 of the Texas Government Code.
2. Grant funds may not be used for capital expenditures (land or any items over \$5,000).
3. Grantee must produce proof of payment (stamped paid invoices or receipts) of all allowable expenditures.
4. All costs must be directly attributable to the project that is the subject of the Agreement.
5. Grantee may not use ~~Grant-grant~~ funds for any of the following: (1) entertainment or alcoholic beverages, (2) to directly fund class action suits, lawsuits against governmental entities, or lobbying for or against any candidate or issue, or (3) to sue or otherwise support a cause of action, claim, or defense against Grantor or the State of Texas.

B. Salaries

Salary costs will be reimbursed for direct program activity. Any salary charged to grant must be accurately recorded. Grantee must submit timesheets with specific duties performed in relation to grant activity in order for salary to be considered for reimbursement. –This documentation must be submitted with grant reimbursement report.

C. Consultant Services

1. Grantees normally are expected to utilize the services of their own officers or employees to the maximum extent in managing and performing the activities supported by TFEE grant. Where it is necessary for a grantee to enter into a sub-award for the services of persons who are not its officers or employees, it is expected to do so in accordance with its own written organizational standards.
2. If the need for consultant services is anticipated, the proposal narrative should provide appropriate rationale, and the summary proposal budget

should estimate the amount of funds that may be required for this purpose. To the extent possible, consultant rates should show separate amounts for actual services and each of the components of the rate (such as fringe benefits, indirect costs, and other expenses).

3. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the performing organization are allowable when reasonable in relation to the services rendered. However, payment for a consultant's services may not exceed more than 30% of actual award.
4. In determining the allowable costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors, among others, are relevant:
 - a) The nature and scope of the service rendered in relation to the service required;
 - b) The necessity of issuing a sub award for the service considering the organization's capability in the particular area;
 - c) The past pattern of such costs, particularly in the years prior to the award of grant;
 - d) The impact of government contracts and grants on the organization's total activity (e.g., what new problems have arisen);
 - e) The service can be performed more economically by employment rather than by consulting;
 - f) The qualifications of the individual or concern rendering the service and the normal/customary fees charged and received by the individual for comparable services;
 - g) The adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation and termination provisions); or
 - h) Costs of legal or lobbying services are unallowable in the grant.

D. Allowable Travel Expenditures

1. Travel costs will be reimbursed for certain expenses at the rates authorized by the Agreement and limited by rules and rates promulgated by the Comptroller of Public Accounts.
2. All travel must be performed in conjunction with official TFEE business. It is the responsibility of each grantee to track and submit (with grant reports) the completed mileage log for travel reimbursement. Failure to comply with the travel guidelines will result in delay of payment or rejection of travel reimbursement. When tracking mileage grantees must use the Mileage Log included with the grant report.
3. Grantees should use online mapping tools to compare and compute point-to-point mileage. The allowable reimbursement is determined using the lower of

the actual miles driven or the mileage calculated, point to point. The Grantor is not required to reimburse grantees at the maximum rate. –The Grantor’s maximum mileage reimbursement rate for travel by grantees is in accordance with the Texas Comptroller of Public Accounts. Mileage to and from ordinary in-town errands will not be reimbursed.

4. Mileage is consistent with state reimbursement rates set by the State Comptroller and is subject to change. Refer to Uniform Grant Management Standards (UGMS) for conditions related to all travel, lodging, and food related reimbursement expenses. Refer to the State Comptroller for specific travel allowances, definitions, and restrictions.
5. Parking is eligible for reimbursement as long as it is incurred for official TFEF business.
6. Grantees are encouraged to compare airline costs and use the lesser amount. To be reimbursed for airline travel a Grantee must submit ~~the~~ receipts that contain the following information: grantee (employee) name, airline, cost of airfare, travel dates, destinations, ticket number, and seating class. Grantees must also show proof of payment for airfare.

E. Disbursement of Grant Funds

1. Payments are made on a reimbursement basis after Grantor receives Grantee’s Account and Report on Use of Grant Funds including receipts and invoices for all expenditures and accompanying reports.
2. Receipts and invoices must match the funds requested on Grantee’s initial budget, unless otherwise approved in writing by the Grantor.
3. Advance payments that have not been used must be returned to the Grantor within 30 days of termination of grant period.

F. Misuse of Grant Funds

1. Grantor may require a refund of ~~Grant-grant~~ funds already disbursed to Grantee if one or more of the following events occur: (1) Grant funds are misused, (2) Grant funds are used in an illegal manner, (3) Grant funds are used for non-allowable expenses, (4) Grantee violates the terms or conditions of the Agreement, or (5) Grantor discovers that Grantee made any misrepresentations to Grantor in obtaining the Grant.
2. This provision is not exclusive of other grounds for withholding or refunding of funds or any other remedy, civil or criminal, which may be available to Grantor.

G. Use of Property

During the Term of Agreement, any property acquired with ~~Grant-grant~~ funds must be used in accordance with the Agreement, to accomplish the purposes of the ~~g~~Grant and the ~~p~~Program.

H. Records of Property

Grantee must maintain appropriate records of goods or property purchased with ~~Grant~~ grant funds and must develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of these goods or property.

I. Purchase of Equipment; Title Upon Termination

1. Grantee may not give any security interest, lien or otherwise encumber any item of equipment purchased with funds.
2. Grantee must permanently identify all equipment purchased under this contract by appropriate tags or labels affixed to the equipment.
3. Grantee must maintain a current inventory of all equipment or assets, which is available to Grantor at all times upon request. Grantee must administer a program of maintenance, repair, and protection of equipment or assets under this contract so as to ensure the full availability and usefulness of the equipment or assets.
4. If Grantee is indemnified, reimbursed, or otherwise compensated for any loss of, destruction of, or damage to the assets provided under this contract, it must use the proceeds to repair or replace these equipment or assets. To the extent that Grantor reimburses Grantee for its purchase of equipment and supplies with funds from this contract. Upon termination of the contract, title to or ownership of all purchased equipment and supplies, at the sole option of Grantor, will remain with Grantor.

J. Intellectual Property

1. Where funds obtained under the Agreement may be used to produce original books, manuals, films, or other original material and intellectual property, Grantee may copyright such material subject to the royalty-free, non-exclusive, and irrevocable license that is reserved by Grantor.
2. Grantor has the unrestricted right to use, copy, modify, prepare derivative works, publish, and distribute, at no additional cost to Grantor, in any manner that Grantor deems appropriate at its sole discretion, any component of intellectual property which is the property of the grant project.

VIII. Grant Agreement Termination

A. Termination for Convenience

1. The Grantor or Grantee may terminate an Agreement before the end of the Term, without cause, by delivering a written notice of termination to the other party at least 30 days before the termination.

2. Early termination of an Agreement will not relieve Grantee from reporting requirements, recordkeeping requirements, or liability to refund Grant funds in the event of misuse.
3. If Grantee terminates the agreement after receiving reimbursements in an amount that exceeds a pro rata portion of the total awarded amount over the elapsed Term of the Agreement, then Grantee must refund the portion of the reimbursement that exceeds the pro rata portion of the total awarded amount.

B. Termination for Cause

- C. In the event that Grantee fails to perform or comply with an obligation of the terms, conditions, and provisions of the Agreement, Grantor may, upon written notice of the breach to Grantee, immediately terminate all or any part of the Agreement.

~~D.C.~~ No Reimbursement Upon Termination

1. In the event of termination of the Agreement, Grantor will make no further disbursement of ~~Grant~~ grant funds to Grantee beyond those already approved at the time of termination, and Grantee specifically waives all rights to any of these funds.
2. Grantee must refund the Grantor any unused funds at the time of termination.

IX. Dispute Resolution

A. Mediation; Noncompliance Actions

1. To the extent authorized by law, Grantor and Grantee may use a dispute resolution process before pursuing termination or litigation.
2. Grantor and Grantee may sign an amended Grant Agreement or Noncompliance Action Plan agreeing to the amended terms.
3. The Noncompliance Action Plan may include increased communications between Grantor and Grantee, site visits, audits, and additional reports.
4. The dispute may be mediated by a mutually acceptable third party.
5. If mediation occurs, Grantor and Grantee will pay all costs of any mediation equally.
6. Grantor's participation in any mediation or nonbinding dispute resolution process will not be construed as a waiver by Grantor of any of the following: (1) any rights, privileges, defenses, remedies, or immunities available to Grantor as an agency of the State of Texas or otherwise available to Grantor, (2) Grantor's termination rights, or (3) other termination provisions or expiration dates of the Agreement.

Appendices

1. ~~Grant Request Application Pre-Screen~~ Eligibility Checklist
2. Grant Program Guidelines & Instructions
- ~~2.3.~~ Grant Application
- ~~3.4.~~ Grant Agreement

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Proposed New Appointees to the Texas Financial Education Endowment

Grant Advisory Committee

Vince E. Puente, Sr. is co-owner and president of marketing and sales for Southwest Office Systems, Inc. He is a member of the board of directors for the YMCA of Metropolitan Dallas, Big Brothers Big Sisters Lone Star, Dallas Regional Chamber, North Dallas Chamber of Commerce and Tarrant County Christian Prayer Breakfast. He is a former board member of the Fort Worth Chamber of Commerce, Greater Irving Chamber of Commerce, North Texas Commission Board of Directors and the Texas Christian University Chancellor's Advisory Council. Additionally, he is the former chair of the Fort Worth Hispanic Chamber of Commerce Board of Directors and is a former delegate for the Texas Association of Mexican American Chamber of Commerce. Puente attended The University of Texas at Arlington.

Steven O'Shields is the Director of Licensing and Information Resources for the Texas Department of Savings and Mortgage Lending. He is a graduate of Corpus Christi State University and has more than 20 years of experience in the financial industry or its regulation. Steven has previously served on the boards of Jump\$tart and March of Dimes.

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May 11, 2017

Mr. Sami Chandli, Director of Administrative Services
Department of Banking
State Finance Commission Building
2601 N. Lamar Boulevard
Austin, TX 78705

Re: Audit Delegation Request 449-2017-001

Dear Mr. Chandli:

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 May 8, 2017.

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 2018.
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, policies, and procedures 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

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.texas.gov

Mr. Sami Chandli, Director of Administrative Services
Department of Banking
May 11, 2017
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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.

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.texas.gov 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 jacoordinator@sao.texas.gov or a hard copy may be sent to the attention of Internal Audit Coordinator. Please include the audit delegation request number 449-2017-001 with all submissions and related correspondence.

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

Sincerely,



Kelly Furgeson Linder, CGAP, CIA
Chief of Staff

cc: Mr. Charles G. Cooper, Commissioner, Department of Banking
Ms. Caroline Jones, Commissioner, Department of Savings and Mortgage Lending
Ms. Leslie L. Pettijohn, Commissioner, Office of Consumer Credit Commissioner